STATE BUDGET UPDATE

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SENATE FISCAL AGENCY

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

May 2007 Economic Forecast

- After increasing by 3.3% during 2006, the United States economy is expected to grow by 2.0% in 2007 and 2.8% in 2008.

- United States economic growth in 2007 and 2008 will be restrained by rising interest rates and the impact of these interest rate increases on the housing market and other consumer purchases.

- 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 8.3 million jobs or 6.4%. United States payroll employment has increased for 48 consecutive months.

- The Michigan economy has shown little improvement since the 2001 recession.

- Since the Michigan employment peak in June 2000, Michigan employment has declined by 400,500 jobs or 8.5%.

- During this same time period Michigan has lost 30.6% of its total manufacturing jobs and has lost 47.7% of its auto-related manufacturing jobs.

- Michigan employment is expected to continue to decline during 2007 by 1.5% and by 1.2% during 2008. The estimated decline in employment during 2008 will mark the eighth consecutive year of employment decline in Michigan.

Figure 1

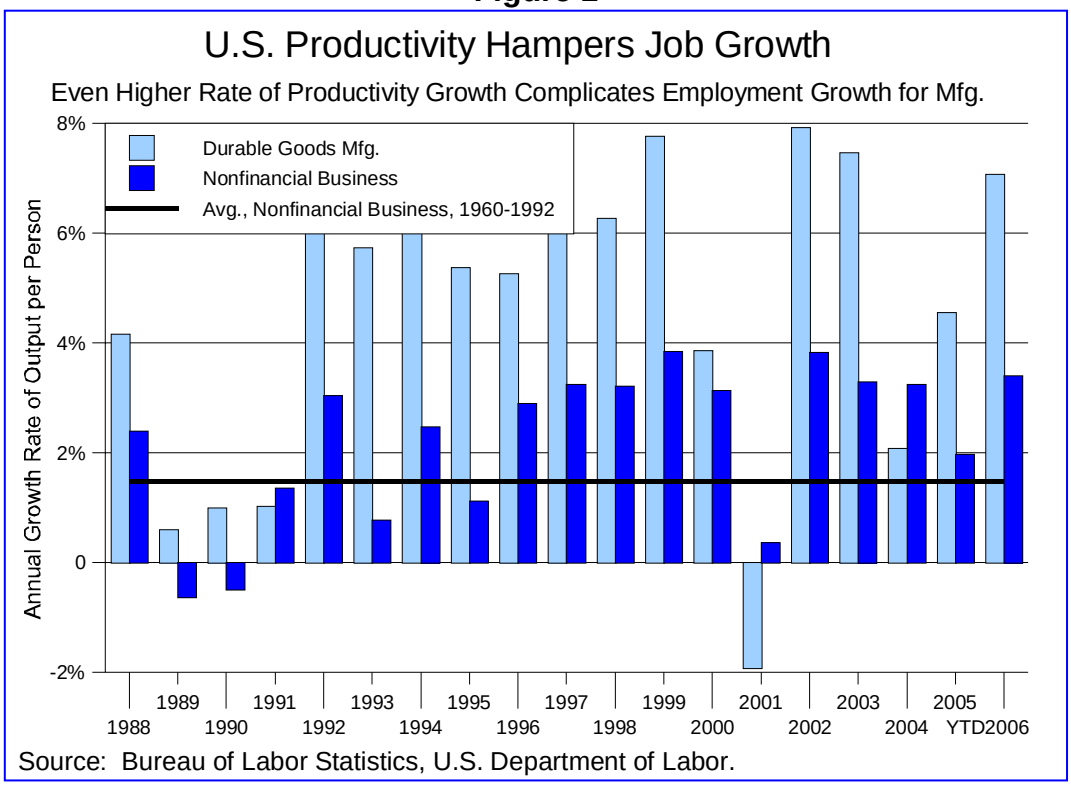


Figure 2

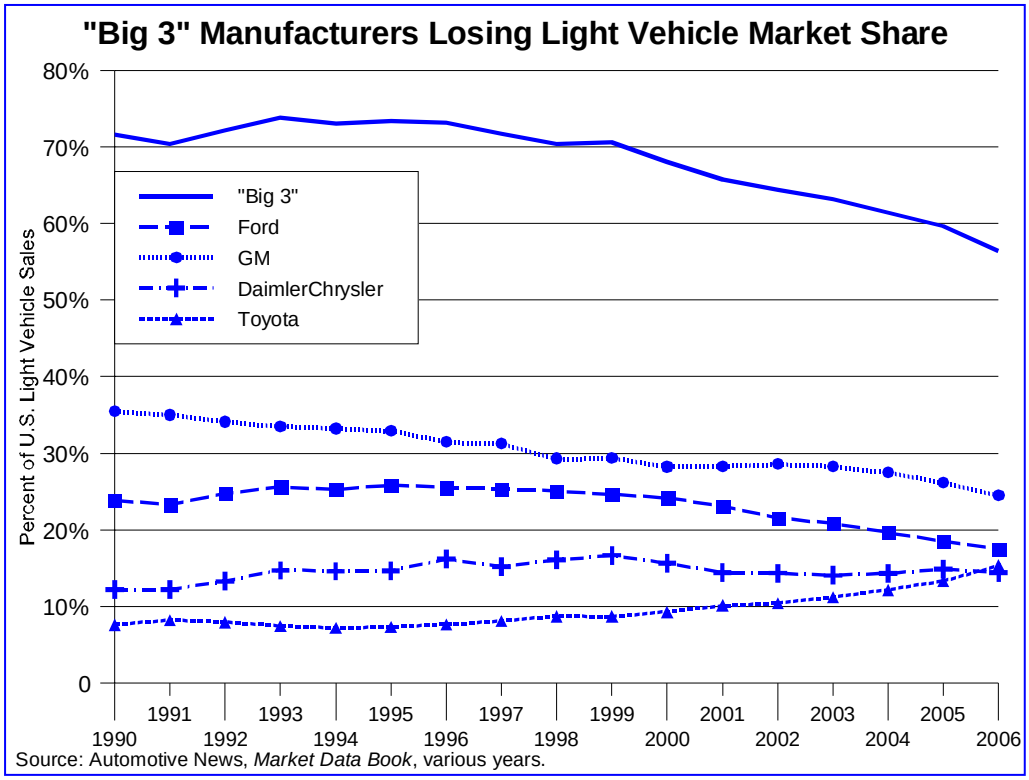


Figure 3

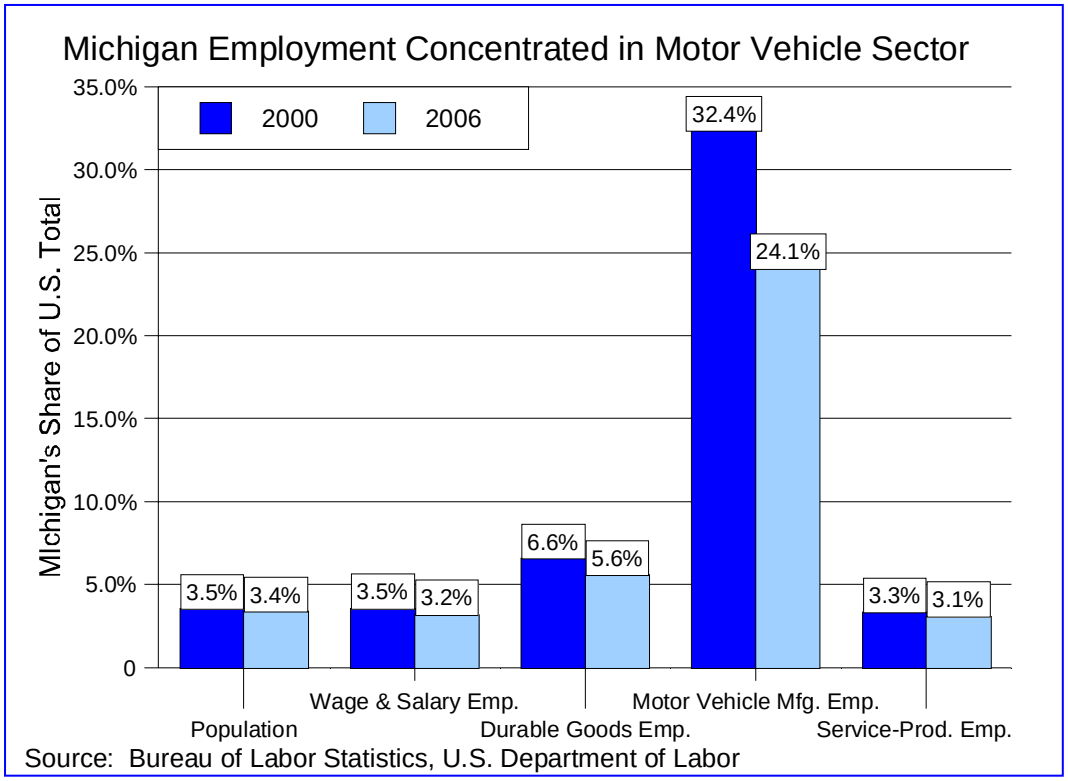


Figure 4

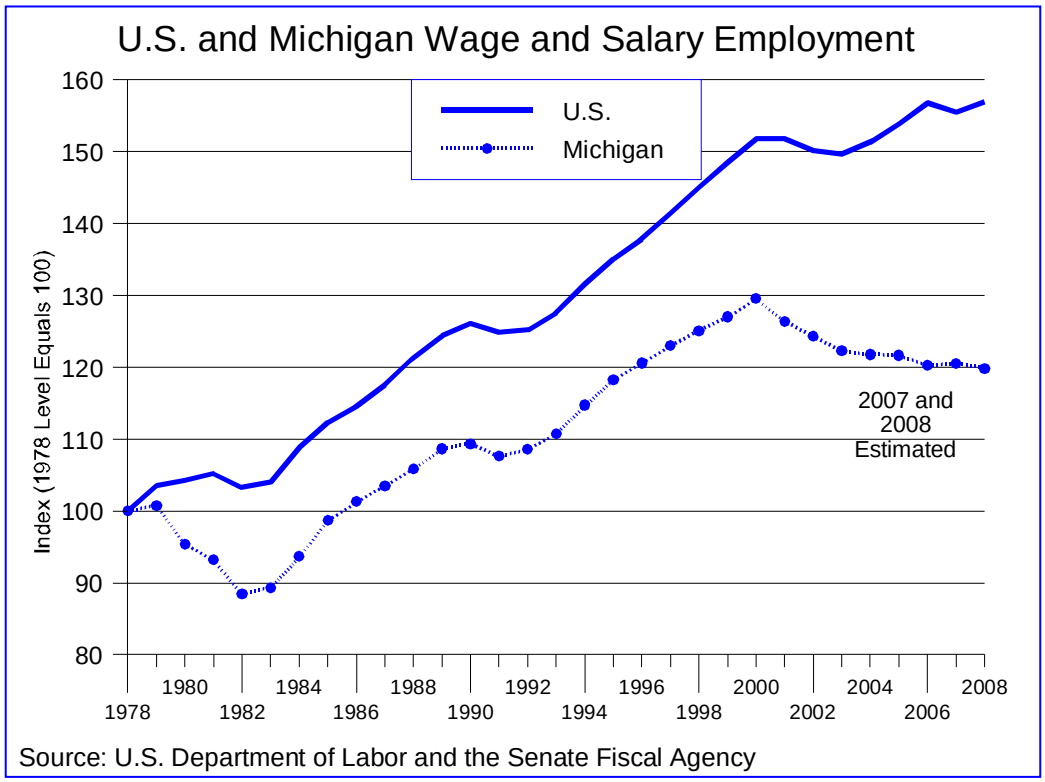


Figure 5

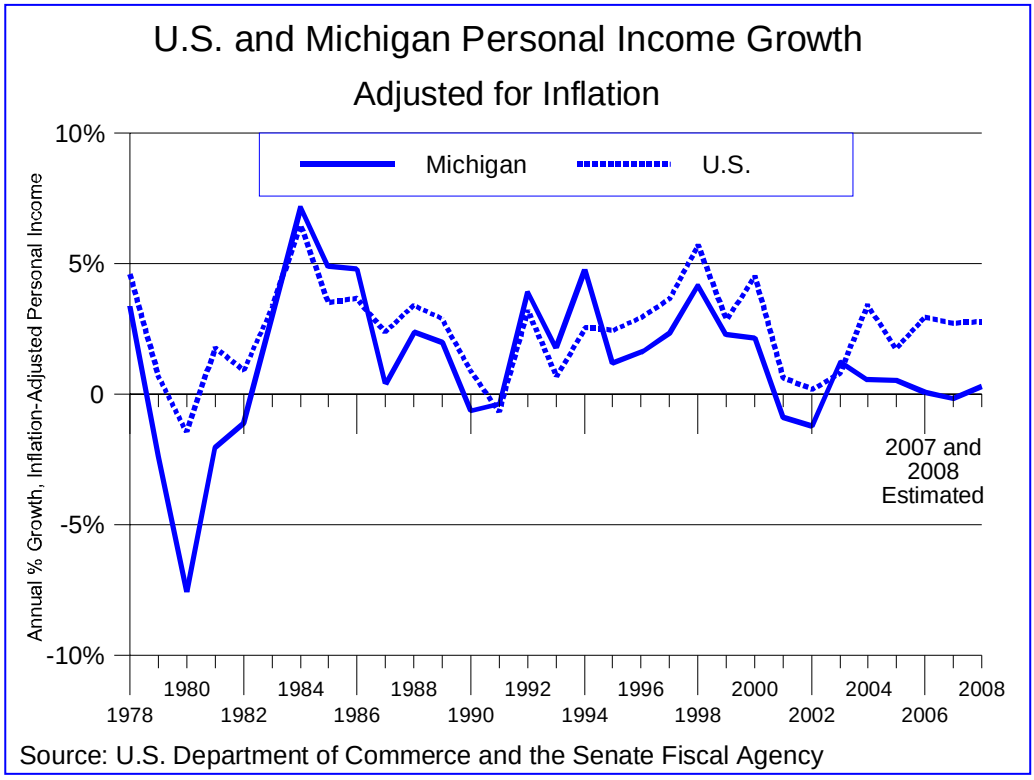


Figure 6

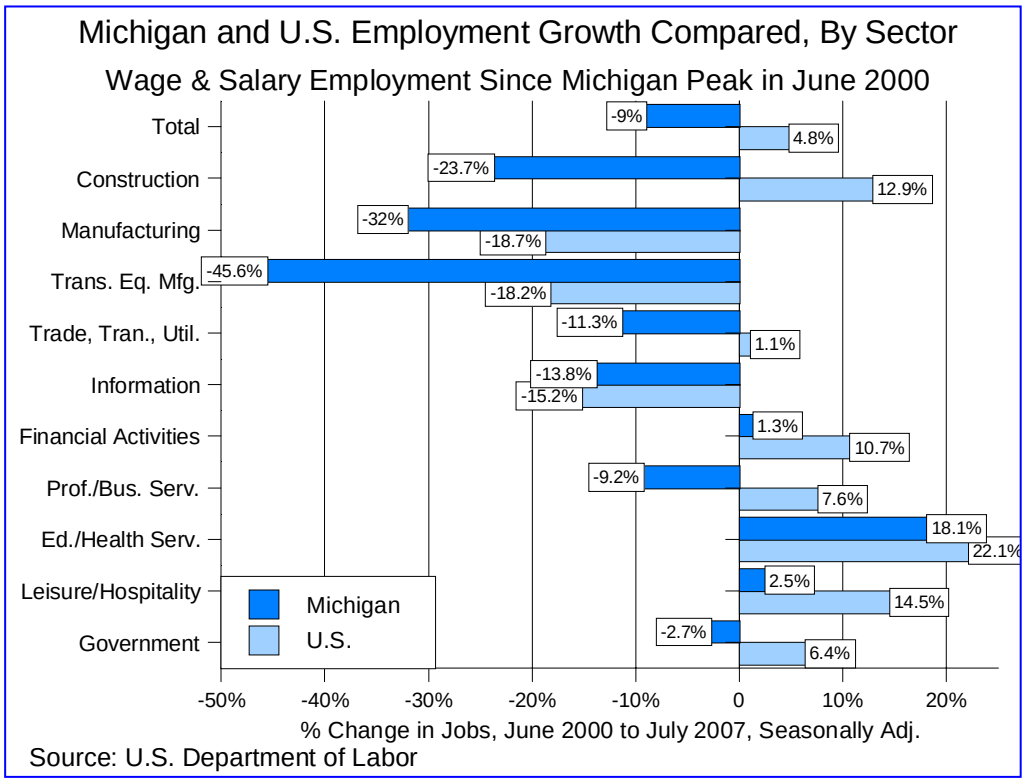
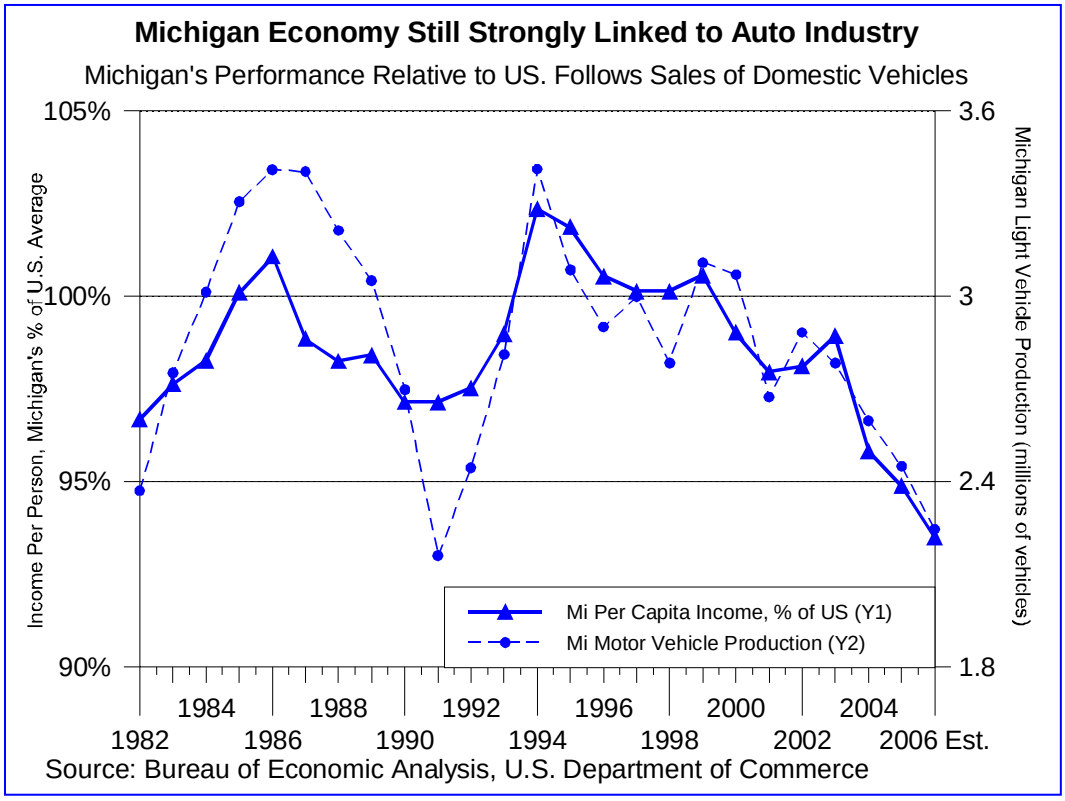


Figure 7


Michigan Economy Still Strongly Linked to Auto Industry
Michigan's Performance Relative to US. Follows Sales of Domestic Vehicles
105%
100%
95%
90%
3.6
3
2.4
1.8
Income Per Person, Michigan's % of U.S. Average
Michigan Light Vehicle Production (millions of vehicles)
Mi Per Capita Income, % of US (Y1)
Mi Motor Vehicle Production (Y2)
1984
1988
1992
1996
2000
2004
1982
1986
1990
1994
1998
2002
2006 Est.
Source: Bureau of Economic Analysis, U.S. Department of Commerce

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	5,540.6

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	41,822.8	500.1	1.2
Change FY 2000-01 to FY 2006-07		4,869.5	13.2

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	27,892.5	188.5	0.7
Change FY 2000-01 to FY 2006-07		2,130.9	8.3

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	9,109.5	3.2	0.0
Change FY 2000-01 to FY 2006-07		(634.9)	(6.5)

Table 5

State Spending from State Resources Appropriations
Total Compared to Selected Budget Areas
(Millions of Dollars)

Budget Area	FY 2002-03 Appropriations	FY 2006-07 Appropriations	Dollar Change	Percent Change
Community Health	$3,259.4	$4,926.4	$1,667.0	51.1%
Corrections	1,655.6	1,939.7	284.1	17.2
Human Services	1,199.6	1,326.9	127.3	10.6
K-12 School Aid	11,334.6	11,597.0	262.4	2.3
Community Colleges	310.9	247.8	(63.1)	(20.3)
Higher Education	1,839.4	1,607.8	(231.6)	(12.6
Revenue Sharing[1)]	1,250.0	1,085.0	(165.0)	(13.2)
All Other Programs	5,171.0	5,161.9	(9.1)	(0.2)
Total State Spending	**$26,020.5**	**$27,892.5**	**$1,872.0**	**7.2%**
ADDENDUM:				
Federal Government Outlays (millions)	2,160,117	2,719,000		25.9%
Michigan Personal Income (millions)	310,463	346,508		11.6
Detroit Consumer Price Index	182.0	199.4		9.6

[1)] Excludes Revenue Sharing paid to counties in FY 2002-03.

Source: Senate Fiscal Agency, August 7, 2007

Table 6

K-12 School Aid, Higher Education, and Community Colleges
State-Funded Appropriations Versus Overall Budget
(Millions of Dollars)

Fiscal Year	K-12, Higher Ed, and Community Colleges	All Other	Total	Education as Percent of Total
2000-01	$12,964.0	$12,797.6	$25,761.6	50.3%
2001-02	13,481.7	12,605.1	26,086.8	51.7
2002-03	13,484.9	12,535.6	26,020.5	51.8
2003-04	12,985.3	12,817.2	25,802.5	50.3
2004-05	13,126.3	13,159.0	26,285.3	49.9
2005-06	13,320.6	14,383.4	27,704.0	48.1
2006-07	13,377.6	14,514.9	27,892.5	48.0

Balancing the
FY 2006-07 State Budget

And the Implications
For the
FY 2007-08 Budget

Table 7

FY 2006-07 Budget
General Fund/General Purpose
Revenue, Expenditures, and Year-End Balance
(millions of dollars)

	Initial Enacted	August 2007 SFA Est.	Dollar Difference
Revenue:			
Beginning Balance	$ 109.6	$ 2.5	$(107.1)
Ongoing Revenue Estimate	8,435.4	8,187.5	(247.9)
Revenue Sharing Freeze	585.0	544.6	(40.4)
Other Revenue Adjustments	93.1	77.3	(15.8)
Total Revenue	**$9,223.1**	**$8,811.9**	**$(411.2)**
Expenditures:			
Initial Enacted Appropriations	$9,222.8	$9,222.8	$ 0.0
Supplemental Appropriations:			
Supplemental Appropriations (PA 3 of 2007)	0.0	17.6	17.6
Supplemental Appropriations (PA 17 of 2007)	0.0	209.2	209.2
Supplemental Appropriations (PA 41 of 2007)	0.0	218.7	218.7
Subtotal Supplemental Appropriations	0.0	445.5	445.5
Total Appropriations	**$9,222.8**	**$9,668.3**	**$445.5**
Potential Year-End Deficit	**$0.3**	**$(856.4)**	**$(856.7)**

Table 8

FY 2006-07 Budget
General Fund/General Purpose
Actions Taken to Eliminate Potential Budget Deficit
(millions of dollars)

Potential Year-End Budget Deficit	**$(856.4)**
Actions Taken to Eliminate Potential Year-End Deficit:	
Tobacco Securitization Borrowing	207.2
Community College and Higher Education Funding Delays	164.6
Retirement Contribution Accounting Adjustments	104.1
Restricted Revenue Transfers to GF/GP:	
Higher Education Authority Transfer to General Fund	70.0
Refined Petroleum Fund Transfer to General Fund	90.0
21st Century Jobs Fund Transfer to General Fund	50.0
Conservation Corps Transfer to General Fund	20.0
Subtotal Restricted Revenue Transfers to GF/GP	230.0
Fund Source Shifts	47.7
Refinancing State Debt	15.1
Reductions in State Programs	90.0
Subtotal Actions Taken to Eliminate Deficit	**$858.7**
Projected Year-End Balance	**$2.3**

Table 9

FY 2006-07 Budget
School Aid Fund
Revenue, Expenditures, and Year-End Balance
(millions of dollars)

	Initial Enacted	August 2007 SFA Est.	Dollar Difference
Revenue:			
Beginning Balance	$ 95.2	$ 0.0	$ 95.2
Ongoing Revenue Estimate	11,552.4	11,077.2	(475.2)
GF/GP Grant	35.0	35.0	0.0
Federal Aid	1,411.2	1,411.2	0.0
Total Revenue	**$13,093.8**	**$12,523.4**	**$(570.4)**
Expenditures:			
Initial Enacted Appropriations	$13,093.8	$13,093.8	$ 0.0
Midland Property Tax Case Funding Adjustment	0.0	24.8	24.8
Projected Appropriation Lapses	0.0	(80.0)	(80.0)
Total Appropriations	**$13,093.8**	**$13,038.6**	**$(55.2)**
Potential Year-End Deficit	**$0.0**	**$(515.2)**	**$(515.2)**

Table 10

FY 2006-07 Budget
School Aid Fund
Actions Taken to Eliminate Potential Budget Deficit
(millions of dollars)

Potential Year-End Budget Deficit	**$(515.2)**
Actions Taken to Eliminate Potential Year-End Deficit:	
Retirement Contribution Accounting Adjustments	262.0
Tobacco Securitization Borrowing	207.8
Refinancing of Outstanding Debt (PA 6 of 2007)	40.4
Categorical Grant Funding Reductions (PA 6 of 2007)	5.0
Subtotal Actions Taken to Eliminate Deficit	**$515.2**
Projected Year-End Balance	**$0.0**

Table 11

FY 2006-07 Budget Balancing Summary
General Fund/General Purpose and School Aid Fund
(millions of dollars)

	August 2007 SFA Est.	Percent of Total Actions
Potential Year-End Deficits:		
General Fund/General Purpose	$ (856.4)	
School Aid Fund	(515.2)	
Combined Projected Year-End Deficit	**$(1,371.6)**	
Actions Taken to Eliminate Deficits:		
Tobacco Securitization Borrowing	$415.0	30.2%
Retirement Accounting Changes	366.1	26.6
Restricted Revenue Transfers to GF/GP	230.0	16.7
Funding Delays to Universities and Community Colleges	164.6	12.0
Programmatic Appropriation Reductions	95.0	6.9
Refinancing State Debt	55.5	4.0
Fund Source Shifts	47.7	3.5
Total Actions Taken to Eliminate Deficit	**$1,373.9**	**100.0%**

FY 2007-08
Current Services
Budget

Table 12

FY 2007-08 Current Services Appropriations Summary General Fund/General Purpose (millions of dollars)	
FY 2006-07 Year-to-Date Appropriations Base	**$9,134.5**
FY 2007-08 Current Services Adjustments:	
Departmental Base Spending Adjustments	$352.3
Revised Caseload Estimates	240.9
Employee Cost Adjustments	150.7
Higher Education Funding Delay Repayment	138.8
Community College Funding Delay Repayment	25.8
Higher Education Funding Increase (2.5%)	35.9
Community College Funding Increase (2.5%)	7.1
Subtotal Adjustments	$951.5
FY 2007-08 Current Services Spending Base	**$10,086.0**

Table 13

FY 2007-08 Current Services Appropriations
Major Departmental Base Spending Adjustments
(millions of dollars)

Department/Issue	
Community Health	
Caseload/Utilization Adjustments	$102.3
Medicaid Actuarial Funding	52.0
Medicaid Benefits Trust Fund Shortfall	45.4
Tobacco Settlement Fund Shortfall	13.9
Medicaid Assessment Adjustments	21.4
Federal Medicaid Match Rate Adjustment	(155.1)
Other Adjustments	(5.5)
Subtotal Community Health	**74.4**
Corrections	
Prisoner Re-Entry Expansion	20.6
Facility Prison Bed Expansions	10.1
Pharmaceutical Costs Adjustments	10.4
Minimum Security Bed Expansion	7.1
Macomb Prison Expansion	4.8
Other Adjustments	27.8
Subtotal Corrections	**80.8**
Human Services	
Caseload Adjustments	93.8
TANF Funding Shortfall	26.3
JET Expansion Statewide	16.1
Child Support Operations State Match	16.7
Assistance Payments Technology Project	9.3
Other Adjustments	(6.8)
Subtotal Human Services	**155.4**
Treasury	
General Obligation Bond Debt Service	19.8
Other Adjustments	(1.6)
Subtotal Treasury	**18.2**
All Other Departmental Base Spending Adjustments	23.5
Total Base Spending Adjustments	**$352.3**

Table 14

FY 2007-08 Current Services Budget Summary General Fund/General Purpose (millions of dollars)	
Revenue:	
Consensus Revenue Estimate (May 2007)	$6,919.7
Michigan Business Tax (Ongoing Revenue)	1,189.5
Revenue Sharing Freeze	555.9
Other Revenue Adjustments	37.8
Total Current Services Revenue	$8,702.9
Expenditures:	
Current Services Spending Base	$10,086.0
Projected Current Services Budget Imbalance	**$(1,383.1)**

Table 15

FY 2007-08 Current Services Appropriation Summary School Aid Fund (millions of dollars)	
FY 2006-07 Year-to-Date Appropriations	**$13,008.2**
FY 2007-08 Current Services Adjustments:	
Foundation Allowance Economic Increase of 2.5%	$289.7
Federal Funds Increase	68.1
Pupil Count and Taxable Value Adjustments	(192.7)
Restructured Debt Service Payments	(40.6)
Special Education Cost Adjustments	35.2
MEAP Testing Cost Increases	10.7
Renaissance Zone Cost Increases	3.0
Miscellaneous Adjustments	(0.8)
Subtotal of Adjustments	$172.6
FY 2007-08 Current Services Spending Base	**$13,180.8**

Table 16

FY 2007-08 Current Services Budget Analysis School Aid Fund (millions of dollars)	
	SFA Estimate
Revenue:	
Projected May 2007 Consensus Revenue Estimate	$11,285.0
Other Revenue Adjustments	15.0
Federal Revenue	1,479.3
GF/GP Grant to School Aid Fund	35.0
Total Current Services Revenue	**$12,814.3**
Expenditures:	
Base Spending Adjusted for Caseload and Other Costs	$12,891.1
Foundation Allowance Economic Increase of 2.5%	289.7
Total Current Services Spending Base	**$13,180.8**
Projected Current Services Budget Imbalance	**$(366.5)**

FY 2007-08 Budget Agreement

Table 17

FY 2007-08 State Budget Revenue Increases (millions of dollars)		
	FY 2007-08	**FY 2008-09**
Potential Revenue Adjustments:		
Income Tax Rate Increase 3.9% to 4.35% (10-1-07) ...	$744.8	$826.7
Sales and Use Tax on Selected Services (12-1-07).....	613.8	751.3
Total Revenue Adjustments	**$1,358.6**	**$1,578.0**

Table 18

Enrolled House Bill 5198
Estimated Fiscal Impact by Type of Service: FY 2007-08
(millions of dollars)

Services	Estimated New Revenue Effective 12-01-2007			
	Consumers	**Business**	**Total**	**Cumulative Total**
Business Service Centers.....	$0.0	$9.5	$9.5	$9.5
Carpet and Upholstery Cleaning.....	1.2	4.0	5.2	14.7
Mini-Warehouse/Self Storage.....	3.9	0.0	3.9	18.6
Security System Services	4.2	10.0	14.2	32.8
Investigation, Guard, and Armored Car	3.0	24.0	27.0	59.8
Investment Advice	12.6	4.2	16.8	76.5
Janitorial Services.....	5.2	38.7	43.8	120.3
Landscaping Services.....	24.3	16.2	40.5	160.8
Office Administration Services.....	0.0	79.2	79.2	240.0
Service Contracts	23.5	0.0	23.5	263.5
Personal Care (No Haircuts).....	14.1	0.0	14.1	277.6
Other Personal Services.....	48.2	0.0	48.2	325.8
Other Travel and Reservation.....	6.7	0.0	6.7	332.4
Scenic Transportation.....	0.6	0.0	0.6	333.0
Skiing.....	1.8	0.4	2.2	335.2
Tour Operators	2.6	0.0	2.6	337.8
Couriers and Messengers.....	0.0	3.1	3.1	340.8
Transit and Ground Passenger.....	4.2	6.3	10.5	351.3
Specialized Design (Interior Design).....	4.2	23.6	27.8	379.1
Consulting.....	0.0	188.2	188.2	567.3
Packaging and Labeling Service.....	0.0	20.8	20.8	588.1
Document Preparation Services	0.5	4.3	4.8	592.8
Warehousing and Storage	0.0	21.0	21.0	613.8
Total Selected Services @ 6%.....	**$160.5**	**$453.3**	**$613.8**	**---**

Prepared by Senate Fiscal Agency based on data from Michigan Department of Treasury, October 1, 2007

Table 19

DESCRIPTION OF SERVICES TAXED UNDER ENROLLED HOUSE BILL 5198		
Service	**NAICS Code**	**Description**
Business Service Centers	56143	Mailbox rental, copy centers, office support (mailing, copying, on-site PC rental)
Carpet and Upholstery Cleaning	56174	Cleaning and dyeing used rugs, carpets, and upholstery
Mini-Warehouse/Self Storage	53113	Renting/Leasing space for self-storage
Security System Services	56162	Services related to selling security systems and remote monitoring of electronic alarm systems
Investigation, Guard, and Armored Car	56161	Providing investigation and detective services
Investment Advice	52393	Providing customized investment advice to clients on a fee basis
Janitorial Services	56172	Cleaning building interiors, interiors of transportation equipment, or windows
Landscaping Services	56173	Provides landscape care/maintenance along with design/construction of landscaped exteriors
Office Administration Services	5611	Provides day-to-day administrative services (billing/recordkeeping, personnel, financial planning)
Service Contracts	---	Optional warranties sold with tangible personal property
Personal Care (No Haircuts)	8121	Appearance care services except hair cutting and styling (nails, diet, and weight management)
Other Personal Services	---	See footnote below.
Other Travel and Reservation	56159	Travel arrangements and reservation services provided other than travel agents/tour operators
Scenic Transportation	487	Utilize transportation to provide recreation and entertainment (steam trains/charter boats)
Skiing	71392	Operating downhill, cross-country, or related skiing areas, and ski lifts and tows
Tour Operators	56152	Arranging and assembling tours sold through travel agencies or tour operators
Couriers and Messengers	482	Provide intercity and/or local delivery of parcels
Transit and Ground Passenger	4853	Taxi and limousine services
Specialized Design (Interior Design)	5414	Planning, designing, and administering projects in interior spaces
Consulting	5416	Providing assistance on management, financial, marketing, environmental, scientific and technical issues
Packaging and Labeling Services	56191	Packaging client-owned materials and labeling and/or imprinting the package.
Document Preparation Services	56141	Letter/resume writing, editing/proofreading, typing/word processing, transcription
Warehousing and Storage	4931	Operating warehousing and storage facilities for general items/refrigerated goods/other products
Services included in **Other Personal Services** are astrology, baby shoe bronzing, bail bonding, balloon-o-grams, coin-operated personal service machines, comfort station operations, concierge, consumer buying, credit card notification, dating, discount buying, social escort, fortune telling, genealogical investigation, house sitting, social introduction, coin-operated rental lockers, numerology, palm reading, party planning, pay telephone, personal fitness trainer, personal shopping, coin-operated photographic machines, phrenology, porter, psychic, restroom operations, shoeshine, signing telegram, wedding chapel (not churches), and wedding planning services.		

Senate Fiscal Agency, October 2, 2007

Table 20

FY 2007-08 General Fund/General Purpose Current Services Analysis (millions of dollars)	
	SFA Estimate
Revenue:	
May 2007 Consensus Revenue Estimate	$6,919.7
Revenue Sharing Freeze	558.3
Ongoing Revenue from Michigan Business Tax	1,189.5
Income Tax Rate Increase (PA 94 of 2007)	744.8
Sales Tax on Services (PA 93 of 2007)	409.2
Shift Short-Term Borrowing Costs to School Aid Fund	22.8
Transportation Economic Development to General Fund	13.0
Financial Institutions Fund Shift to General Fund	2.0
Total Revenue	**$9,856.4**
Expenditures:	
Current Services Appropriation Base	**$10,086.0**
Remaining Current Service Imbalance	**$(229.6)**

Table 21

FY 2007-08 School Aid Fund Current Services Analysis (millions of dollars)	
	SFA Estimate
Revenue	
Projected May 2007 Consensus Revenue Estimate	$11,285.0
Other Revenue Adjustments	15.0
Sales Tax on Services (PA 93 of 2007)	204.6
Federal Revenue	1,479.3
GF/GP Grant to School Aid Fund	35.0
Total Revenue	**$13,018.9**
Expenditures:	
Base Spending Adjusted for Caseload and Other Costs	$12,887.9
Foundation Allowance Economic Increase of 2.5%	289.7
Current Services Appropriation Base	**$13,177.6**
Projected Year-End Balance	**$(158.7)**