ECONOMIC OUTLOOK

AND

REVENUE ESTIMATES

FOR

MICHIGAN

FY 2007-08

AND

FY 2008-09

HOUSE FISCAL AGENCY

Mitchell E. Bean, Director

January 2008

FOREWORD

This report presents final General Fund/General Purpose and School Aid Fund revenue estimates for fiscal year (FY) 2006-07, revised revenue estimates for FY 2007-08, and initial revenue estimates for FY 2008-09. These estimates will be presented at the Consensus Revenue Estimating Conference on January 11, 2008, and will be used to facilitate the consensus estimating process.

Included in this report are House Fiscal Agency (HFA) analyses of important factors that will affect state and national economies through the year 2009, estimates of the Countercyclical Budget Stabilization Fund, state compliance with the Constitutional State Revenue Limit, and year-end balance estimates for General Fund/General Purpose (GF/GP) and the School Aid Fund (SAF).

Rebecca Ross, Senior Economist, and Jim Stansell, Economist, are the authors of this report. Jeanne Dee, Administrative Assistant, prepared the report for publication.

TABLE OF CONTENTS

EXECUTIVE SUMMARY

The national economy slowed to 2.9% in calendar year (CY) 2006 and is expected to be 2.2% in CY 2007. High oil prices, a weakening housing market, and a lower level of light motor vehicle sales were the primary factors that reduced economic growth in 2007. National payroll employment grew 1.9% in CY 2006 and is expected to increase 1.3% in CY 2007.

Michigan's wage and salary employment has generally trended downward since mid-2000. In the third quarter of CY 2007, Michigan's wage and salary employment declined by 18,400 workers; for CY 2007 as a whole, Michigan is expected to lose 63,000 jobs or 1.5%—the worst performance since CY 2003.

U. S. Forecast

Real GDP growth is forecast to increase 1.8% in CY 2008, down from an estimated 2.2% in CY 2007. Real GDP is forecast to grow 2.8% in CY 2009.

Inflation, as measured by the Consumer Price Index (CPI), is forecast to decline from an estimated 2.8% in CY 2007 to 2.6% in CY 2008 and 2.3% in CY 2009.

Light vehicle sales, which totaled 16.5 million units in CY 2006, declined to an estimated 16.1 million units in CY 2007 and are forecast to drop to 15.8 million units (the lowest level since 1998) in CY 2008 before rising to 16.0 million units in CY 2009. The import share of light vehicles is forecast to be 23.9% in CY 2008 and 24.0% in CY 2009.

The national unemployment rate is forecast to be 4.6% in CY 2007, then increase to 5.1% in CY 2008 and 5.2% in CY 2009.

Interest rates on three-month T-bills are forecast to average 4.4% in CY 2007, then decrease to 3.2% in CY 2008 and 3.6% in CY 2009.

Michigan Forecast

Michigan personal income increased an estimated 3.4% in CY 2007; the rate of growth is expected to decelerate to 1.7% in CY 2008 and 2.9% in CY 2009.

Michigan's unemployment rate is estimated to be 7.2% in CY 2007, and is forecast to be 8.2% in CY 2008 and 8.5% in CY 2009.

Inflation (as measured by the Detroit Consumer Price Index) for CY 2007 is estimated to be 2.1%; it is forecast to increase 2.4% in CY 2008, then increase 2.1% in CY 2009.

State Revenue

Final total baseline GF/GP and SAF revenue was $19.4 billion in FY 2006-07; it is forecast to decrease 0.2% to $19.4 billion in FY 2007-08 and then increase 1.2% to $19.6 billion in FY 2008-09.

Baseline revenue does not include the impact of partial-year policy changes or certain policy changes that have only recently occurred. Baseline estimates are comparable across fiscal years and demonstrate the changes to state revenue that are driven by changes in the economy.

Final total net GF/GP and SAF revenue was $19.5 billion in FY 2006-07; it is forecast to increase $1,160.7 million or 6.0% in FY 2007-08. The FY 2008-09 total net GF/GP and SAF revenue is forecast to total $21.1 billion—an increase of $461.2 million or 2.2%. The income tax rate increase, replacement of the single business tax (SBT) with the Michigan Business Tax (MBT), and a surcharge on the MBT are estimated to generate $2.65 billion in FY 2007-08 and $3.83 billion in FY 2008-09. Net revenue captures the effects of all policy changes and represents resources available.

Table 1 reports GF/GP and SAF revenue in terms of baseline and actual revenue. Final FY 2006-07 estimates and the House Fiscal Agency's recommended revisions to estimates for FY 2007-08 are reported in **Table 2 and Table 3**.

State Revenue Limit

Total state revenue is expected to be below the state revenue limit by $5.4 billion in FY 2006-07; it is estimated to be under the limit by $5.0 billion in FY 2007-08 and $5.5 billion in FY 2008-09. Final calculation of the state revenue limit is performed by the Auditor General.

Fund Balances

Year-end GF/GP balance is $259.1 million for FY 2006-07.

Year-end SAF balance is $82.4 million for FY 2006-07.

The year-end Countercyclical Budget Stabilization Fund balance is $2.1 million for FY 2006-07; it is estimated to be $2.2 million for FY 2007-08 and $2.3 million for FY 2008-09.

Table 1

HFA REVENUE ESTIMATES

(Millions of Dollars)

	Final FY 2006-07	HFA Estimate FY 2007-08	HFA Estimate FY 2008-09
Baseline GF/GP	$8,257.8	$8,218.5	$8,302.9
Baseline SAF	$11,147.3	$11,140.0	$11,278.7
TOTAL BASELINE	**$19,405.0**	**$19,358.5**	**$19,581.6**
Actual GF/GP	$8,317.6	$9,289.3	$9,224.7
Actual SAF	$11,153.4	$11,342.3	$11,868.2
TOTAL ACTUAL	**$19,470.9**	**$20,631.6**	**$21,092.9**

NOTE: Numbers may not add due to rounding.

Table 2

FY 2006-07 HFA FINAL REVISIONS

(Millions of Dollars)

	May 2007 Consensus	January 2008 Final	Final Revision
Actual GF/GP	$8,187.5	$8,317.6	$130.1
Actual SAF	$11,077.2	$11,153.4	$76.2
TOTAL ACTUAL	**$19,264.7**	**$19,470.9**	**$206.2**

NOTE: Numbers may not add due to rounding.

Table 3

FY 2007-08 HFA RECOMMENDED REVISIONS

(Millions of Dollars)

	Adjusted May 2007 Consensus*	January 2008 Recommendation	HFA Recommended Revision
Actual GF/GP	$9,480.7	$9,289.3	$(191.4)
Actual SAF	$11,488.9	$11,342.3	$(146.6)
TOTAL ACTUAL	**$20,969.6**	**$20,631.6**	**$(338.0)**

NOTE: Numbers may not add due to rounding.

**Adjusted May 2007 consensus estimates are the figures on which the enacted FY 2007-08 budget was based. These estimates include May consensus estimates plus the income tax rate increase, the MBT, and the use tax on services; the estimates do not include the MBT surcharge or repeal of the use tax on service.*

ECONOMIC REVIEW AND FORECAST

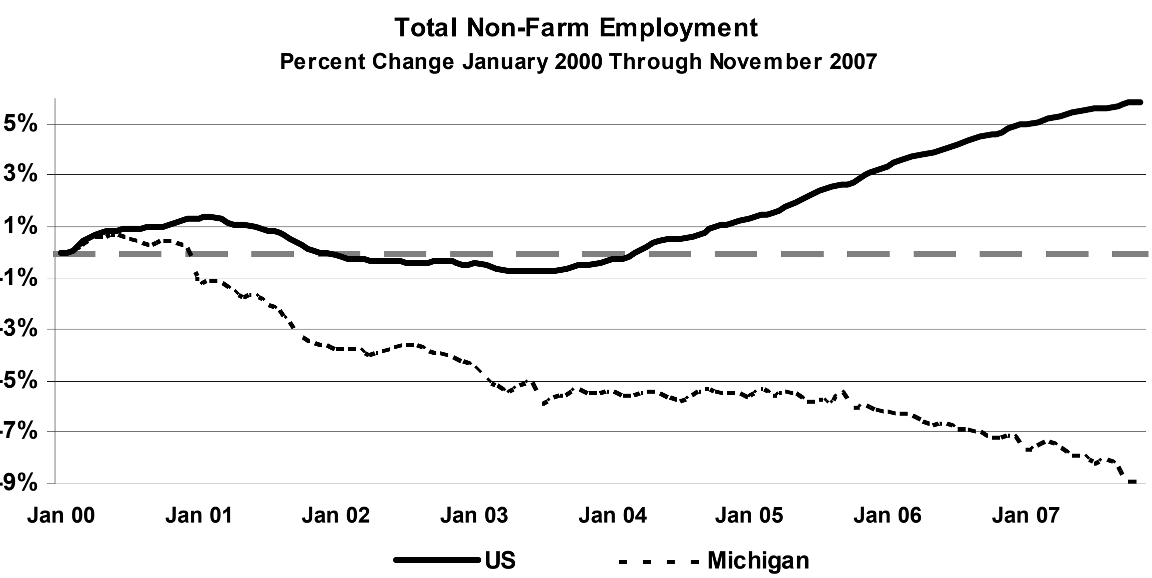
This section presents the economic forecast used by the House Fiscal Agency to produce its revenue forecasts for FY 2007-08 and FY 2008-09.

The eight-month national recession that ended in November 2001 was followed by weak economic growth throughout CY 2002 and the early part of CY 2003. As national economic growth improved, so did employment. Job growth at the national level began to improve during the latter half of CY 2003, and has continued its upward trend. However, employment growth has slowed recently and was essentially flat in December 2007.

Total Non-Farm Employment

Figure 1 shows the monthly percent change in total non-farm employment for both the U.S. and Michigan from January 2000 through November 2007.

Figure 1



U.S. Non-Farm Employment

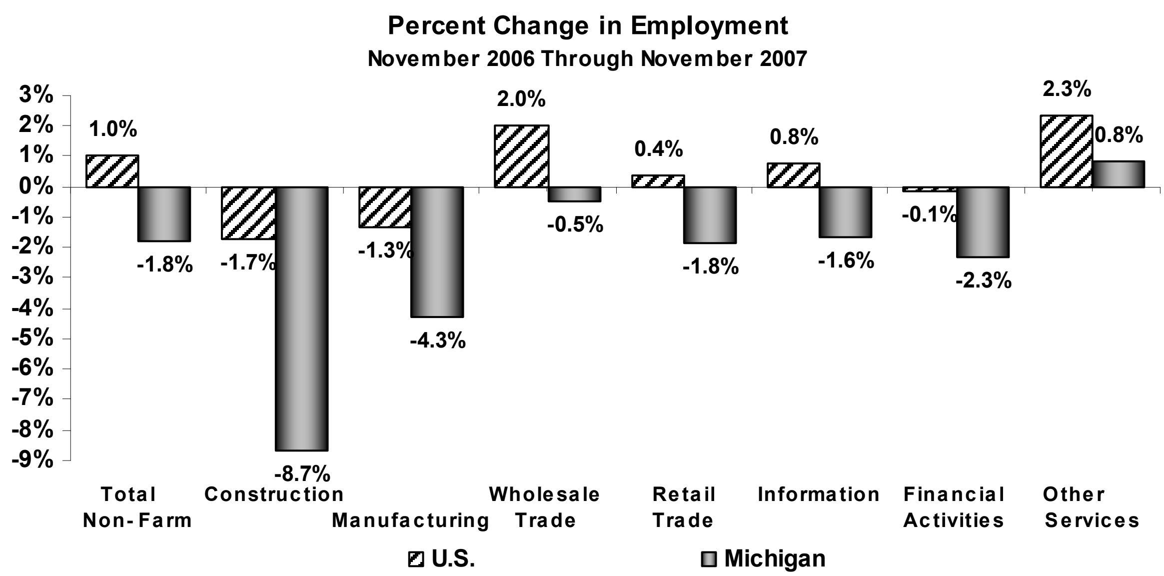
After U.S. employment peaked in February 2001, it began a long slide that did not end until August 2003. During this 30-month period, the national economy lost more than 2.7 million jobs, or about 91,800 jobs per month on average. In the 54 months since August 2003, more than eight million jobs have been added.

Michigan Non-Farm Employment
Although employment has rebounded at the national level, conditions in Michigan have been far less optimistic. Employment in Michigan peaked in June 2000, a full eight months before the national level peak in February 2001. Following the June 2000 peak, employment in Michigan dropped steadily until July 2003, resulting in a loss of more than 314,000 jobs—a 6.7% decline. For the next two years, employment in Michigan fluctuated around the July 2003 level, with monthly job gains offset by subsequent monthly job losses. Since then, job losses have accelerated. Over the past two years, more than 125,000 additional jobs have been lost.

U.S. and Michigan Employment

Figure 2 shows the percent change in employment over the past year for all private workers in several important sectors of the economy for both the U.S. and Michigan. Although the U.S. gained more than 1.44 million jobs over this period, employment in Michigan fell by 78,100 jobs.

Figure 2



U.S. Employment
From November 2006 through November 2007, the U.S. experienced job gains in all sectors except construction, manufacturing, and financial activities—which shed about 134,000, 191,000, and 12,000 jobs respectively. Although the manufacturing sector has been generally contracting for the past several years, job losses in construction and financial activities are the result of the declining housing sector. These job losses were more than offset by gains in all other sectors. The service sector, which grew by more than 1.2 million workers, experienced employment growth of 2.3%, while the wholesale trade sector grew 2.0%.

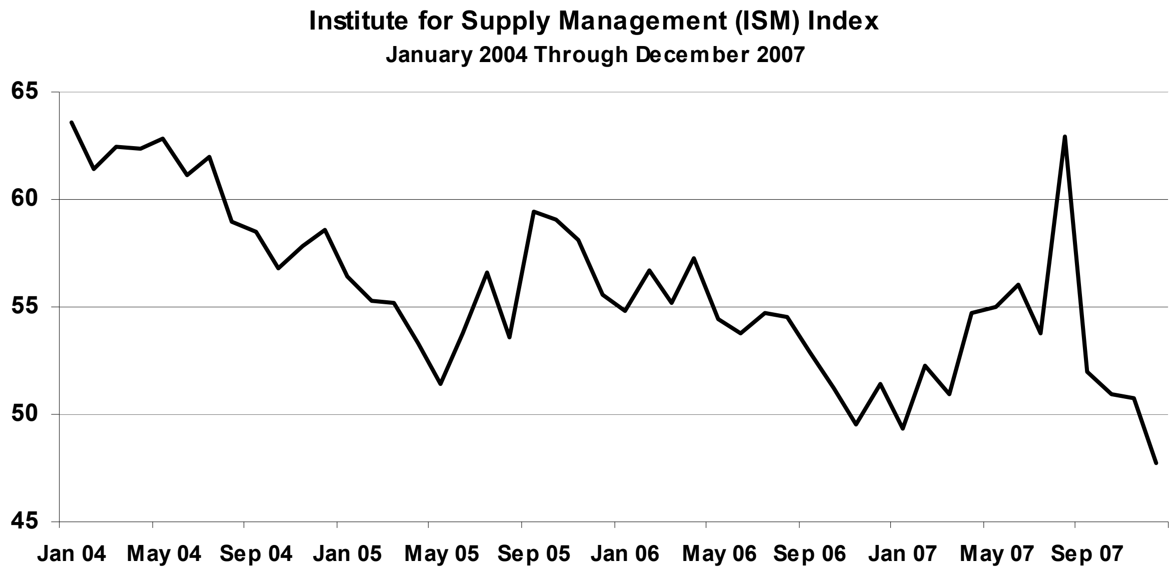
Michigan Employment
Job losses in Michigan over the past year were concentrated in the construction and manufacturing sectors, although the financial activities industry also experienced declining employment. Service sector growth of just 0.8% over the past year was not

enough to offset the loss of more than 27,000 manufacturing jobs. Michigan's manufacturing employment losses accounted for 14% of the total nationwide decline in manufacturing employment over the past 12 months.

Institute for Supply Management (ISM) Index

Figure 3 shows the ISM Index, a composite index of five economic indicators used to measure economic vitality beginning with January 2004. An index number above 50 indicates a growing manufacturing sector; a number below 50 suggests that the manufacturing sector is contracting.

Figure 3



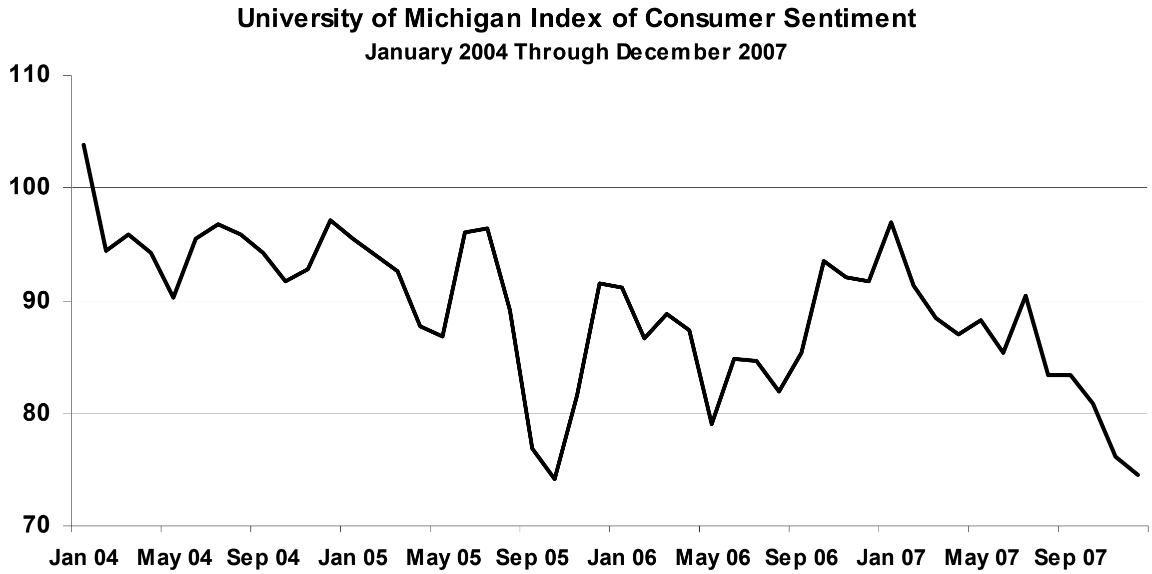
The ISM index began January 2004 at a 20-year high of 63.3. This was followed by a 16-month slide that saw the index decline to 51.4 in May 2005. The index rose in three of the next four months, reaching a level of 59.4 in September 2005, before beginning a four-month decline to 54.8 in January 2006. For the past two years, the index has generally remained between 50 and 55, although the December 2007 drop to 47.7 raises concerns about the overall strength of the manufacturing sector.

Index of Consumer Sentiment

Consumer sentiment can be a strong motivator of personal consumption expenditures, which comprise almost two-thirds of GDP. **Figure 4** shows the University of Michigan Index of Consumer Sentiment beginning with January 2004.

Although the Index of Consumer Sentiment began January 2004 at a level over 100 for the first time in more than three years, it dropped in February and remained in the low- to mid-90s before ending 2004 with two consecutive monthly increases. Following this brief uptick, consumer sentiment declined in each of the next five months due, in part, to concerns about high gas prices and the possibility that the economy may be weakening.

Figure 4

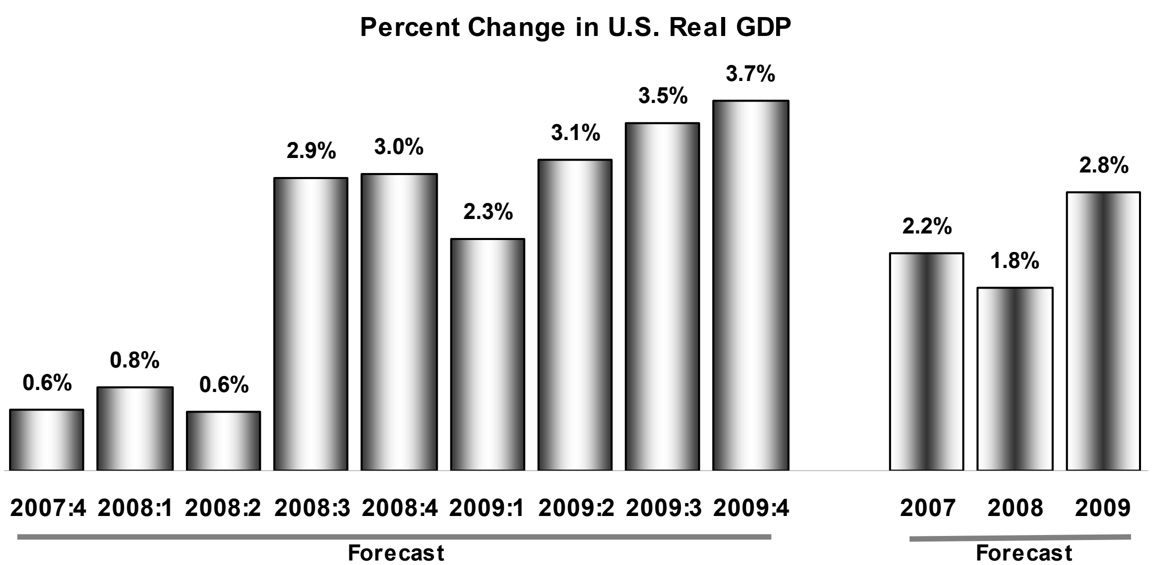


In the wake of hurricanes Katrina and Rita in 2005, the index plunged to 72.4 in October before rising to 91.5 in December. The index then dropped in six of the first eight months of 2006 as consumers expressed concerns over rising gas prices and interest rates. After reaching a low of 82.0 in August, the index concluded 2006 at 91.7. Consumer sentiment has declined steadily since then, and the index finished 2007 at 74.5—the second lowest level in the past nine years.

Real GDP

Figure 5 shows the estimated percent change in U.S. Real GDP for CY 2007, CY 2008, and CY 2009.

Figure 5



After rising 4.9% during the third quarter of 2007, real GDP is anticipated to grow just 0.6% in the fourth quarter. Real GDP growth, which was 2.9% in CY 2006, is forecast to be 2.2% in CY 2007, 1.8% in CY 2008, and 2.8% in CY 2009.

GDP growth over the past year was fueled primarily by business investment, which is expected to remain strong in CY 2008. Due to the weak housing market, however, declines in residential investment are likely to more than offset increases in business investment. Gross private domestic investment is forecast to increase less than 1% in CY 2008 before rebounding to 5.8% in CY 2009 as housing starts begin to increase.

Personal consumption is expected to increase 2.9% during CY 2007. As the economy begins to slow, growth in personal consumption is predicted to decline to 1.4% in CY 2008 before increasing 2.6% in CY 2008.

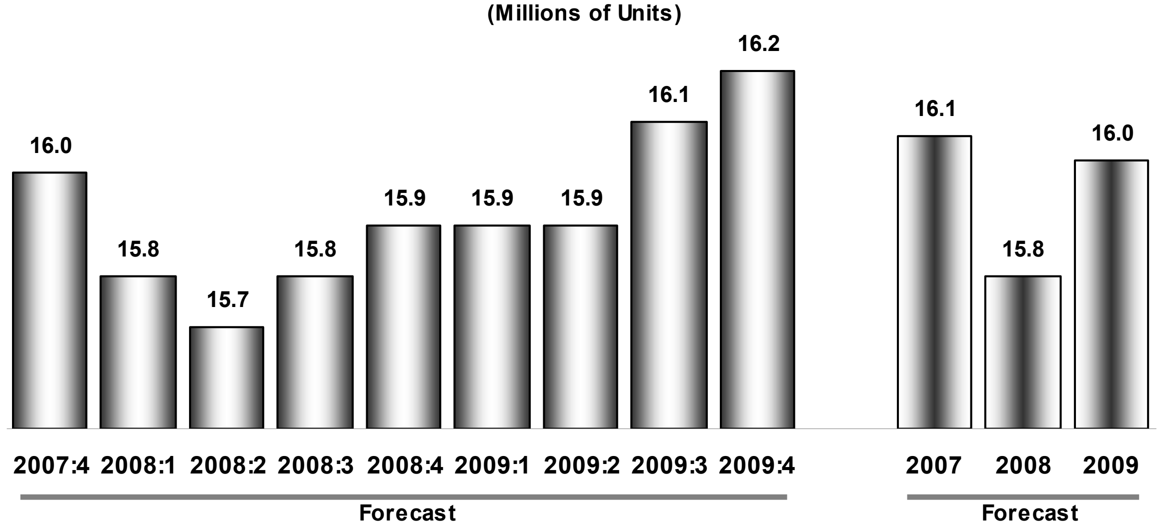
Light Vehicle Sales

Figure 6 shows estimated light vehicle sales for CY 2007, CY 2008, and CY 2009.

Figure 6

Light Vehicle Sales

(Millions of Units)



Sales of light motor vehicles are expected to total 16.1 million units in CY 2007 before dipping to 15.8 million units in CY 2008, then rising to 16.0 million units in CY 2009.

Over the past few years there has been a shift in vehicle sales away from light trucks and toward cars. Light truck sales, which accounted for 52.9% of total light vehicle sales in CY 2006, are expected to increase to 53.0% in CY 2007 before dropping to 52.5% in both CY 2008 and CY 2009.

The import share of total light vehicle sales was 22.4% in CY 2006; it is forecast to increase to 23.4% in CY 2007, 23.9% in CY 2008, and 24.0% in CY 2009.

Inflation

U.S. Inflation

Input prices (e.g., wages and import prices) have remained moderate and have held down production costs. Crude oil and natural gas prices, which are expected to remain above historical norms, could impact almost all sectors of the economy.

Benchmark West Texas intermediate crude, which averaged over $66 per barrel in CY 2006, began 2007 near $55 per barrel and reached a high of $95 in November. Although there is continued concern over the stability of the oil supply, world demand is expected to taper off somewhat as growth begins to slow. It is anticipated that oil prices will decline moderately throughout the forecast period and average about $83 per barrel during CY 2008 and $81 per barrel in CY 2009.

The annual rate of inflation, as measured by the percentage change in the U.S. Consumer Price Index-Urban (CPI-U), was 1.9% in CY 2006; it is expected to rise to 2.8% in CY 2007 before dropping to 2.6% in CY 2008 and 2.3% in CY 2009.

Michigan Inflation

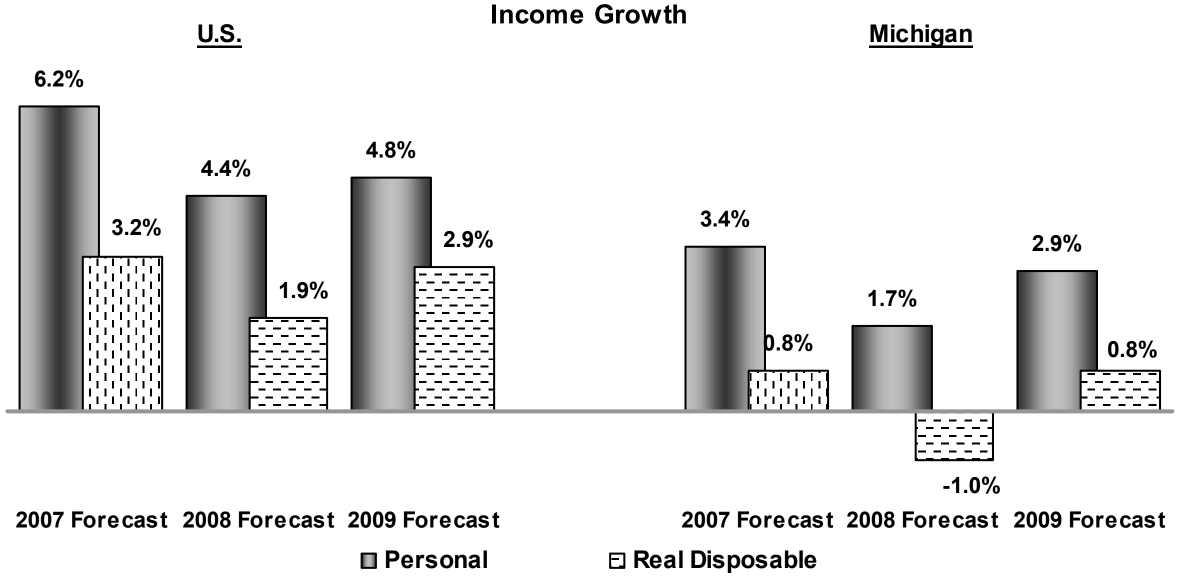
The cost of living in Michigan is measured by the Detroit Consumer Price Index for Urban Consumers (Detroit CPI-U). Michigan's average inflation rate was 3.0% in CY 2006, and inflation in Michigan should remain relatively low throughout the forecast period. The Detroit CPI-U is expected to increase 2.1% in CY 2007, 2.4% in CY 2008, and 2.1% in CY 2009.

Income Growth

Figure 7 shows personal and real disposable income growth for the U.S. and for Michigan.

Figure 7

Income Growth



U.S. Income Growth

Total U.S. personal income grew 6.6% in CY 2006. Personal income growth is forecast to increase 6.2% in CY 2007, 4.4% in CY 2008, and 4.8% in CY 2009.

Slightly higher inflation contributed to a modest 3.1% growth of U.S. real disposable income in CY 2006. U.S. real disposable income is forecast to grow 3.2% in CY 2007, 1.9% in CY 2008, and 2.9% in CY 2009.

Michigan Income Growth

Michigan's total state personal income growth was 3.2% in CY 2006. Michigan personal income is forecast to increase 3.4% in CY 2007, 1.7% in CY 2008, and 2.9% in CY 2009.

Michigan real disposable income declined 0.3% in CY 2006; it is forecast to increase 0.8% in CY 2007, fall 1.0% in CY 2008, and then rise 0.8% in CY 2009.

Employment

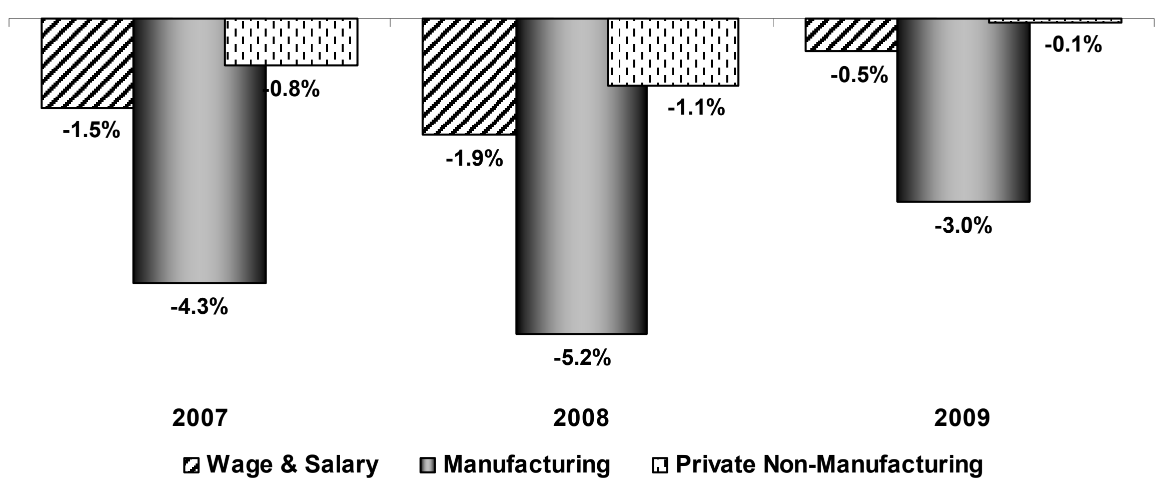
Figure 8 shows Michigan wage and salary, manufacturing, and private non-manufacturing employment growth.

U.S. Employment

One critical factor underscoring the difference in income growth between the U.S. and Michigan is overall job growth. Nationally, total non-farm employment posted average gains in excess of 118,000 per month during the first 11 months of 2007—a 1.1% overall growth rate. Total non-farm employment is projected to increase 1.3% in CY 2007, before growing just 0.6% in CY 2008 and 0.9% in CY 2009 as the economy slows.

Figure 8

Michigan Employment Growth



Michigan Employment

The Michigan economy has continued to endure a weak labor market. Michigan wage and salary employment declined by about 48,600 workers in CY 2006 and is estimated to decline in CY 2007 (by more than 63,000 workers), in CY 2008 (by

81,200 workers), and in CY 2009 (by 22,800 workers). The forecast calls for continued quarterly job losses through the second quarter of CY 2009.

Michigan wage and salary employment fell 1.1% in CY 2006, and is forecast to fall 1.5% in CY 2007, 1.9% in CY 2008, and 0.5% in CY 2009. Over the past 25 years, Michigan wage and salary employment has grown at an average annual rate of about 1.3%.

Michigan manufacturing employment dropped 4.2% in CY 2006, and is forecast to decrease 4.3% in CY 2007, 5.2% in CY 2008, and 3.0% in CY 2009. Although the most significant declines are concentrated in the motor vehicle industry, employment declines also appear throughout the entire manufacturing sector.

Michigan private non-manufacturing employment fell 0.5% in CY 2006; it is expected to decline 0.8% in CY 2007, 1.1% in CY 2008, and 0.1% in CY 2009.

Unemployment

U.S. Unemployment

As of November 2007, total non-farm employment has increased for 51 consecutive months, which has helped to hold down the unemployment rate. During this period, job growth has averaged about 170,000 workers per month. Although much of this growth has been in service-providing sectors, the goods-producing sector has also experienced some growth during the past year.

The U.S. unemployment rate was 4.7% in CY 2006; it is forecast to drop to 4.6% in CY 2007 before rising to 5.1% in CY 2008 and 5.2% in CY 2009.

Michigan Unemployment

Employment in Michigan remains a major concern as employment growth has fallen during each of the past six years. Michigan's wage and salary employment is forecast to continue declining throughout 2008 and 2009. As a result, the unemployment rate is expected to remain relatively high through 2009 as the labor force decreases and the number of unemployed workers increases.

Michigan's unemployment rate was 6.9% in CY 2006; it is expected to increase to 7.2% in CY 2007, 8.2% in CY 2008 and 8.5% in CY 2009.

Table 4
ECONOMIC FORECAST VARIABLES

	Calendar 2006 Actual	Calendar 2007 Estimated	% Change from Prior Year	Calendar 2008 Estimated	% Change from Prior Year	Calendar 2009 Estimated	% Change from Prior Year
United States							
Real Gross Domestic Product (Billions of 2000 dollars)	$11,319.4	$11,567.3	2.2%	$11,778.6	1.8%	$12,107.8	2.8%
Implicit Price Deflator GDP (2000 = 100)	116.6	119.6	2.6%	122.1	2.2	125.0	2.4%
Consumer Price Index (1982-84 = 100)	201.6	207.3	2.8%	212.7	2.6%	217.6	2.3%
Personal Consumption Deflator (2000 = 100)	114.7	117.5	2.5%	120.0	2.1%	122.2	1.8%
3-month Treasury Bills Interest Rate (Percent)	4.7%	4.4%		3.2%		3.6%	
Aaa Corporate Bonds Interest Rate (Percent)	5.6%	5.6%		5.5%		5.7%	
Unemployment Rate—Civilian (Percent)	4.6%	4.6%		5.1%		5.2%	
Light Vehicle Sales (Millions of units)	16.5	16.1	-2.6%	15.8	-1.7%	16.0	1.4%
Passenger Car Sales (Millions of units)	7.8	7.6	-2.6%	7.5	-1.0%	7.6	1.7%
Light Truck Sales (Millions of units)	8.7	8.5	-2.3%	8.3	-2.7%	8.4	1.5%
Import Share of Light Vehicles (Percent)	22.4%	23.4%		23.9%		24.0%	
Personal Income (Billions of current dollars)	$10,983.4	$11,665.5	6.2%	$12,177.7	4.4%	$12,759.7	4.8%
Real Disposable Income (Billions of 2000 dollars)	$8,397.0	$8,662.7	3.2%	$8,827.2	1.9%	$9085.5	2.9%
Michigan							
Wage and Salary Employment (Thousands)	4,341.7	4,278.7	-1.5%	4,197.5	-1.9%	4,174.7	-0.5%
Unemployment Rate (Percent)	6.9%	7.2%		8.2%		8.5%	
Personal Income (Millions of current dollars)	$341,075	$352,510	3.4%	$358,591	1.7%	$368,851	2.9%
Real Personal Income (Millions of 1982-84 dollars)	$173,487	$175,618	1.2%	$174,476	-0.7%	$175,748	0.7%
Real Disposable Income (Millions of 1982-84 dollars)	$153,134	$154,372	0.8%	$152,796	-1.0%	$154,042	0.8%
Wage and Salary Income (Millions of current dollars)	$185,174	$188,473	1.8%	$188,698	0.1%	$192,147	1.8%
Detroit Consumer Price Index (1982-84 = 100)	196.6	200.7	2.1%	205.5	2.4%	209.9	2.1%
Detroit CPI (FY) (1982-84 = 100)	195.9	199.3	1.7%	204.5	2.6%	208.7	2.1%

RISKS AND UNCERTAINTIES

An economic forecast is based on the best information available at the time the forecast is made. Because information and foresight are not perfect, risks and uncertainties are inherent in any forecast. Key risks in this forecast stem predominantly from uncertainties surrounding energy prices, consumer and household finances, the housing market, and Michigan's motor vehicle industry.

Energy Prices

The average West Texas Intermediate crude oil price was $58 per barrel in the first quarter of 2007—a $5 drop from the year-ago quarter. More recently, oil prices have hovered around $95 per barrel and gasoline prices have exceeded $3 per gallon. Oil prices are forecast to average $83 per barrel throughout CY 2008 and $81 per barrel throughout CY 2009; the downward path is anticipated due to a weakening economy.

Energy prices affect the economy primarily through disposable income allocation—because more income is used for energy-related goods, less is used for all other items. Energy prices could fall below the estimated level and cause economic growth to be stronger than anticipated, or they may be higher than estimated—resulting in economic growth below the forecasted level.

Consumer and Household Finances

Close-to-zero savings rates (savings divided by disposable income), declining or weakening home values, and high debt levels have strained consumer and household finances. Future consumption will have to rely more on growth in employment and income. National employment growth is expected to slow over the forecast period.

The historically-low savings rate is due largely to mortgage equity withdrawals, which increased the level of national consumption in recent years. The savings rate averaged 2.2% between CY 2000 and CY 2004; it is expected to average 0.5% between CY 2005 and CY 2007. The household debt service ratio—an estimate of debt payments (mortgage and consumer) and disposable personal income—rose to a peak of 14.5% in the second half of CY 2006. It has since declined to 14.3% in the first three quarters of CY 2007.

National real disposable income growth is forecast to decelerate to an average of 2.4% over the next two years—down from 3.2% in CY 2007. Consumption is forecast to grow 1.4% in CY 2008 and 2.6% in CY 2009.

Housing Market

Low mortgage rates, increasingly creative financing, and speculative buying have—until CY 2005—helped support a strong housing market. In turn, the vibrant housing market supported strong consumption growth and allowed for a low savings rate. National employment and income growth has been supplemented with mortgage equity withdrawals, which allowed consumers to spend more than income alone would allow. As the housing market continues to shrink, consumption growth will slow as consumers rebuild savings and mortgage equity withdrawals decline.

New and existing home sales decreased approximately 9% in CY 2006 and are expected to decline 14% in CY 2007. The housing market is expected to continue contracting. Housing starts are forecast to decline 14.% in CY 2008 then increase 13% in CY 2009. Consumer spending is expected to slow as the housing market cools in home sales and in refinancing activity.

Michigan's Motor Vehicle Industry

The level and composition of light motor vehicle sales is a key component of Michigan's economy. Light vehicle sales were 16.1 million units in CY 2007 and are forecast to be 15.8 million units in CY 2008 before increasing to 16.0 million units in CY 2009. The import share of light vehicles was 23.4% in CY 2007; it is forecast to be 23.9% in CY 2008 and 24.0% in CY 2009.

The market share of the Big 3 auto manufacturers declined to an all-time low of 50.4% in CY 2007, down from 53.0% in CY 2006. Imports and vehicles with a foreign nameplate that are made in the U.S. (transplants) have steadily gained in market share over the past several years. The extent to which domestic nameplates can hold on to market share will have a direct impact on Michigan's economy. This forecast assumes that the Big 3 market share will decline to 48.8% in CY 2008 and 47.6% in CY 2009.

After a decline of 9.5% in CY 2007, Michigan transportation employment is forecast to decline 10.0% in CY 2008 and 4.8% in CY 2009. If the Michigan-produced market share of motor vehicles is more than anticipated, Michigan's economy and revenue growth will be higher than estimated.

GF/GP AND SAF REVENUE

Revenue estimates are based on economic performance of the components of national and state economies discussed in the previous section. This section explains January 2008 House Fiscal Agency revenue estimates for GF/GP (**Table 5**) and SAF (**Table 6**) revenue by major revenue sources. It provides revenue estimates, year-end balances for the major funds and the budget stabilization fund, and the state revenue limit calculation.

Table 5

GF/GP REVENUE ESTIMATES
(Millions of Dollars)

	Final			Fiscal Year 2008-09 over 2007-08	
	FY 2006-07	FY 2007-08	FY 2008-09	$ Change	% Change
Personal Income Taxes	$4,330.3	$4,274.8	$4,309.7	$34.9	0.8%
Sales and Use Taxes	1,003.0	997.0	1,022.0	25.0	2.5%
SBT and Insurance Taxes	2,039.9	2,079.8	2,112.8	33.0	1.6%
Other Taxes	556.3	544.7	536.2	(8.6)	-1.6%
GF/GP Baseline Tax Revenue	**$7,929.6**	**$7,896.3**	**$7,980.7**	**$84.3**	**1.1%**
Non-Tax Revenue	328.2	322.2	322.2	0.0	0.0%
Total GF/GP Baseline Revenue	**$8,257.8**	**$8,218.5**	**$8,302.9**	**$84.3**	**1.0%**
Adjustments to Baseline	59.8	1,070.8	921.8	(149.0)	-13.9%
Actual GF/GP Revenue	**$8,317.6**	**$9,289.3**	**$9,224.7**	**($64.7)**	**-0.7%**

NOTE: Numbers may not add due to rounding.

GF/GP Revenue by Source

GF/GP Baseline Tax Revenue

Baseline GF/GP tax revenue totaled $7,929.6 million in FY 2006-07; it is estimated to decrease by $33.2 million or 0.4% to $7,896.3 million in FY 2007-08, and increase by $84.3 million or 1.1% to $7,980.7 million in FY 2008-09.

Total GF/GP Baseline Revenue

Total baseline GF/GP revenue includes baseline tax revenue and non-tax revenue such as federal aid, licenses and permits, and transfers from the liquor purchase revolving fund. Total GF/GP baseline revenue was $8,257.8 million in FY 2006-07; it is estimated to decrease by 0.5% to $8,218.5 million in FY 2007-08, and increase by $84.3 million or 1.0% to $8,302.9 million in FY 2008-09.

Net GF/GP Revenue

Net GF/GP revenue takes tax changes into account and is available for expenditure each year. Net GF/GP revenue was $8,317.6 million in FY 2006-07; it is forecast to increase by $971.8 million or 11.7% to $9,289.3 million in FY 2007-08, and decrease by $64.7 million or 0.7% to $9,224.7 million in FY 2008-09. As previously noted, much of the increase from FY 2006-07 to FY 2007-08 and FY 2008-09 is due to income tax rate increase, the MBT, and the MBT surcharge; these tax changes increased GF/GP FY 2007-08 revenue by an estimated $2.45 billion and FY 2008-09 revenue by an estimated $3.24 billion.

Table 6

SCHOOL AID FUND REVENUE ESTIMATES

(Millions of Dollars)

	Final			Fiscal Year 2008-09 over 2007-08	
	FY 2006-07	FY 2007-08	FY 2008-09	$ Change	% Change
Sales and Use Tax	$5,229.0	$5,208.8	$5,268.8	60.0	1.2%
Income Tax Earmark	2,110.4	2,116.4	2,152.2	35.8	1.7%
State Education Tax	2,091.2	2,145.7	2,205.7	60.0	2.8%
Lottery/Casino Wagering	855.6	843.8	846.0	2.1	0.3%
Tobacco Taxes	450.4	442.1	432.4	(9.7)	-2.2%
Real Estate Transfer Tax	237.5	210.0	200.0	(10.0)	-4.8%
Other Taxes	173.2	173.2	173.6	0.4	0.2%
Baseline SAF Revenue	**$11,147.3**	**$11,140.0**	**$11,278.7**	**$138.7**	1.2%
Adjustments to Baseline	6.1	202.3	589.5	387.2	191.4%
Actual SAF Revenue	**$11,153.4**	**$11,342.3**	**$11,868.2**	**$525.9**	4.6%

NOTE: Numbers may not add due to rounding.

SAF Revenue by Source

Total SAF Baseline Revenue

Total SAF baseline revenue was $11,147.3 million in FY 2006-07; it is forecast to be $11,140.0 million in FY 2007-08 (decrease of $7.3 million or 0.1%), and $11,278.7 million in FY 2008-09 (increase of $138.7 million or 1.2%).

Net SAF Revenue

Net SAF revenue takes tax changes into account. Net SAF revenue totaled $11,153.4 million in FY 2006-07; it is forecast to be $11,342.3 million in FY 2007-

08 (increase of $188.9 million or 1.7%), and $11,868.2 million in FY 2008-09 (increase of $525.9 million or 4.6%).

Much of the increase from FY 2006-07 to FY 2007-08 and FY 2008-09 is due to MBT-related property tax changes and the MBT surcharge; these tax changes increased FY 2007-08 SAF revenue by an estimated $204.6 million and FY 2008-09 SAF revenue by an estimated $592.0 million. Although personal property tax cuts reduce local revenue for schools, the SAF earmark from the MBT will hold the schools harmless from state and local school property tax cuts. In FY 2007-08, there is an increased expenditure of $341.6 million to reimburse schools for the 18/12 mill personal property tax reduction.

HFA Estimates of Year-End Balances

Table 7 reports House Fiscal Agency estimates of year-end balances for GF/GP, the SAF, and the BSF.

Fiscal Year 2007-08 estimates are based on year-to-date appropriations and HFA revenue estimates. Final FY 2005-06 and FY 2006-07 figures are included.

Budget Stabilization Fund estimates are based on current balance estimates provided by the Michigan Department of Treasury and HFA estimates of future deposits and interest earned.

Table 7

YEAR-END BALANCE ESTIMATES

(Millions of Dollars)

	Final FY 2005-06	Final FY 2006-07	Estimated FY 2007-08
General Fund/General Purpose	$2.5	$259.1	$225.4
School Aid Fund	$0.0	$82.4	$61.5
Budget Stabilization Fund	$2.0	$2.1	$2.2

School Aid Fund revenues are restricted; any year-end balance is carried forward to the subsequent year.

BSF Year-End Balance

The Counter-Cyclical Budget and Economic Stabilization Fund (BSF), the state's rainy day fund, is a reserve of cash to contribute to or withdraw from throughout economic and budget cycles. **Table 8** details deposits, withdrawals, interest earnings, and the year-end balance from FY 1990-91 through FY 2008-09. **Figure 9** shows the BSF fund balance and the BSF fund balance as a percent of total GF/GP and SAF revenue.

The BSF ending fund balance for FY 2006-07 was estimated at $2.1 million. The BSF trigger calculation—based on Michigan personal income less transfer payments adjusted for inflation and actual or net GF/GP revenue—indicates a $114.7 million withdrawal for FY 2007-08 and no pay-in or withdrawal for FY 2008-09. The estimated BSF ending fund balance for FY 2007-08 is $2.2 million; the estimated BSF ending fund balance for FY 2008-09 is $2.3 million.

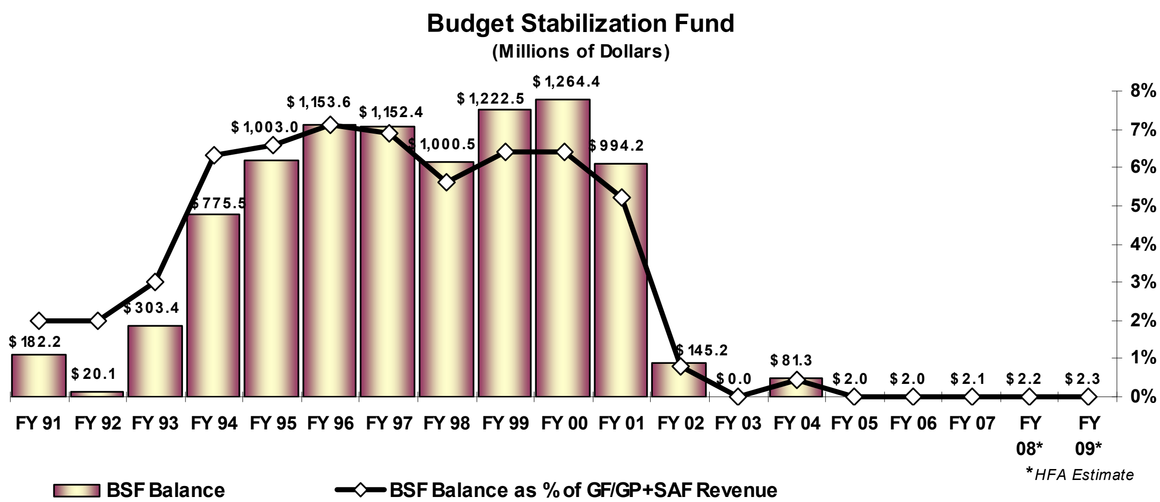
Table 8
BUDGET STABILIZATION FUND HISTORY
(Millions of Dollars)

Fiscal Year	Deposits	Withdrawals	Interest Earned	Balance
1990-91	$0.0	$230.0	$27.1	$182.2
1991-92	$0.0	$170.1	$8.1	$20.1
1992-93	$282.6	$0.0	$0.7	$303.4
1993-94	$460.2	$0.0	$11.9	$775.5
1994-95	$260.1	$90.4	$57.7	$1,003.0
1995-96	$91.3	$0.0	$59.2	$1,153.6
1996-97	$0.0	$69.0	$67.8	$1,152.4
1997-98	$0.0	$212.0	$60.1	$1,000.5
1998-99	$244.4	$73.7	$51.2	$1,222.5
1999-2000	$100.0	$132.0	$73.9	$1,264.4
2000-01	$0.0	$337.0	$66.7	$994.2
2001-02	$0.0	$869.8	$20.8	$145.2
2002-03	$0.0	$156.1	$10.9	$0.0
2003-04	$81.3	$0.0	$0.0	$81.3
2004-05	$0.0	$81.3	$2.0	$2.0
2005-06	$0.0	$0.0	$0.0	$2.0
2006-07	$0.0	$0.0	$0.1	$2.1
2007-08*	$0.0	$0.0	$0.1	$2.2
2008-09*	$0.0	$0.0	$0.1	$2.3

** HFA Estimates*

NOTE: Numbers may not add due to rounding.

Figure 9



Compliance With the State Revenue Limit

Article IX, Section 26 of the *Michigan Constitution,* which was approved by the vote of the people in 1978, sets a limit on the amount of revenue collected by the state in any fiscal year. As provided for in the Constitution, the revenue limit is calculated as 9.49% of total state personal income (which is the broadest measure of state economic activity) in the previous full calendar year prior to the fiscal year in which the revenues are measured.

The revenue to be considered in the revenue limit includes not only state taxes, but also fees, licenses, and interest earned. Federal aid is not included in the revenue limit calculation. Article IX, Section 26, *Constitution of the State of Michigan*, provides that:

> . . . For any fiscal year in the event that Total State Revenues exceed the limit established in this section by 1% or more, the excess revenues shall be refunded pro rata based on the liability reported on the Michigan income tax and single business tax (or its successor tax or taxes) annual returns filed following the close of such fiscal year. If the excess is less than 1%, this excess may be transferred to the State Budget Stabilization Fund . . . .

Furthermore, the state is prohibited from spending any current-year revenue in excess of the limit established in Section 26 by Article IX, Section 28.

As shown in **Table 9, Table 10,** and **Figure 10**, the preliminary final FY 2006-07 revenue limit calculation indicated that state revenue collections were $5.37 billion below the revenue limit. For FY 2007-08 and FY 2008-09, state revenue is estimated to be substantially below the revenue limit—by $5.04 billion and $5.53 billion, respectively.

Table 9
COMPLIANCE WITH THE STATE REVENUE LIMIT
(Millions of Dollars)

Revenue Limit Calculations	Final FY 2005-06	Estimated FY 2006-07	Estimated FY 2007-08	Estimated FY 2008-09
Personal Income				
Calendar Year	CY 2004	CY 2005	CY 2006	CY 2007
Amount	$324,134	$331,304	$341,075	$352,530
X Limit Ratio	9.49%	9.49%	9.49%	9.49%
State Revenue Limit	$30,760.3	$31,440.7	$32,368.0	$33,455.1
Total Revenue Subject to Revenue Limit	$25,822.0	$26,071.0	$27,327.5	$27,921.1
Amount (Under) Over State Revenue Limit	$4,938.3	$5,369.7	$5,040.5	$5,534.0

NOTE: Numbers may not add due to rounding.

Table 10

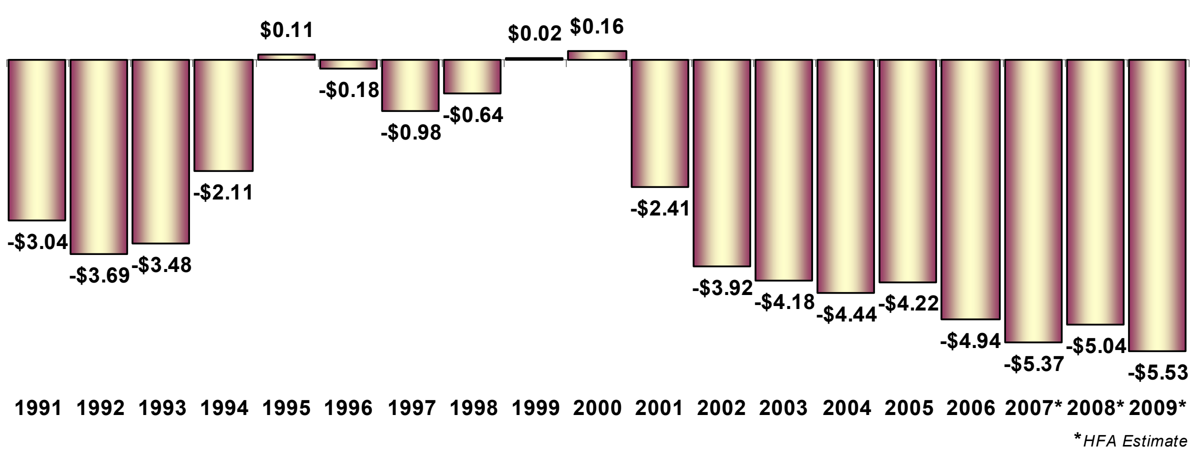
CONSTITUTIONAL REVENUE LIMIT HISTORY
(Billions of Dollars)

Fiscal Year	(Under) or Over Limit
1990-91	($3.04)
1991-92	($3.69)
1992-93	($3.48)
1993-94	($2.11)
1994-95	$0.11
1995-96	($0.18)
1996-97	($0.98)
1997-98	($0.64)
1998-99	$0.02
1999-2000	$0.16
2000-01	($2.41)
2001-02	($3.92)
2002-03	($4.18)
2003-04	($4.44)
2004-05	($4.22)
2005-06	($4.94)
*2006-07	($5.37)
*2007-08	($5.04)
*2008-09	($5.53)

**HFA Estimate*

Figure 10

Constitutional Revenue Limit
Amount Under or Over Limit (Billions of Dollars)



Additional copies of this report can be obtained from:
House Fiscal Agency
P.O. Box 30014
Lansing, MI 48909-7514
(517) 373-8080
FAX (517) 373-5874
www.house.mi.gov/hfa