MICHIGAN
ECONOMIC OUTLOOK

AND

HOUSE FISCAL AGENCY
REVENUE ESTIMATES

FISCAL YEARS
1998-99 AND 1999-2000

HOUSE FISCAL AGENCY

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FOREWORD

We are pleased to present this report to members of the Michigan House of Representatives. The purpose of the report is to inform members about the revised House Fiscal Agency General Fund/General Purpose and School Aid Fund revenue estimates for the current fiscal year and for Fiscal Year 1999-2000. The estimates reported herein will be presented to the Consensus Revenue Estimating Conference on September 24, 1999, and will be used to facilitate the consensus estimating process.

Included are our analyses of important factors that will affect the state and national economies through the year 2000, estimates of state compliance with the Constitutional State Revenue Limit, and year-end balance estimates for General Fund/General Purpose, the School Aid Fund, and the Countercyclical Budget Stabilization Fund.

This report was prepared by Mitchell E. Bean, Senior Economist and Interim Director. Jim Stansell, Economist, provided technical support and assisted with the analysis; Jeanne Dee prepared the report for publication.

EXECUTIVE SUMMARY

Michigan experienced robust economic growth throughout Fiscal Year (FY) 1997-98. Baseline General Fund/General Purpose (GF/GP) revenues and School Aid Fund (SAF) revenues (which do not include the effects of tax policy changes effective after FY 1996-97) each grew approximately 6.0% in FY 1997-98. Michigan's unemployment rate averaged about 3.8% in Calendar Year (CY) 1998, remaining below the national average rate of 4.5%, and inflation was under control at approximately 2.2%.

The House Fiscal Agency (HFA) expects the current economic expansion to continue through FY 1999-2000, but expects that the rate of growth will slow in FY 1999-2000. The most important aspects of the HFA forecast are summarized in the following.

U. S. Forecast

The inflation rate will increase 2.2% in 1999 before jumping to 2.7% in 2000.

Real GDP, which grew at a 3.7% rate in 1998, will grow 3.8% in 1999 before dropping to a 2.9% growth rate in 2000.

The national unemployment rate is expected to decrease from 4.5% in 1998 to 4.3% in both 1999 and 2000.

Light vehicle sales will total 16.3 million units in 1999 and 15.8 million units in 2000.

Interest rates on three-month T-bills will rise from 4.7% in 1999 to 5.6% in 2000 as the Fed continues to increase interest rates.

Michigan Forecast

Inflation, as measured by the Detroit Consumer Price Index, will increase from 2.2% in 1998 to 2.8% in 1999 and to 3.2% in 2000.

Michigan personal income increased by 4.0% in 1998. The rate of growth will increase to 4.7% in 1999 and 5.1% in 2000.

Michigan average yearly unemployment rates will remain at 3.8% in 1998 and 1999 and decrease to 3.7% in 2000.

State Revenues

Total baseline GF/GP and SAF revenues were $17.55 billion in FY 1997-98, and will increase 8.0% (to $18.97 billion) in FY 1998-99 and 4.0% (to $19.7 billion) in FY 1999-2000. Baseline revenues do not include prior-year fund balances or reflect the effects of recent tax policy changes.

The Countercyclical Budget Stabilization Fund (BSF) balance will be approximately $1.1 billion in FY 1998-99 and $1.2 billion FY 1999-2000.

Total state revenues will be below the state revenue limit by $204.3 million in FY 1998-99 and by $119.3 million in FY 1999-2000.

Year-End Fund Balances

The year-end GF/GP balance was $55.2 million in FY 1997-98 and is expected to be $47.2 million in FY 1998-99. Pursuant to Public Act 144 of 1997, all year-end balances for FY 1997-98 and each fiscal year thereafter are to be transferred to the Countercyclical Budget Stabilization Fund.

The School Aid Fund year-end balance was $193.9 million in FY 1996-97 and $274.3 million in FY 1997-98. It is expected to be $478.8 million in FY 1998-99.

The Countercyclical Budget Stabilization Fund year-end balance was $1,152.4 million in FY 1996-97, and will be $1,000.5 million in FY 1997-98 and $1,119.2 million in FY 1998-99.

Baseline and Actual Revenue Estimates

Baseline revenues do not include the impact of partial-year tax policy changes or certain policy changes that have only recently occurred.

Baseline estimates are comparable across fiscal years and demonstrate the changes to state revenues that are driven by changes in the economy.

Actual GF/GP revenues capture the effects of all policy changes and represent resources actually available. Beginning balances are excluded.

Actual SAF revenues do not include transfers from GF/GP, transfers from the BSF, or beginning fund balances.

Table 1

FISCAL YEAR 1998-99 HFA RECOMMENDED REVISIONS (Millions of Dollars)	Adjusted May Consensus	HFA September Recommendation	HFA September Recommended Revision Amount
GF/GP			
Baseline	$9,638.0	$9,711.4	$73.4
Adjustments	(321.8)	(340.3)	(18.5)
Net GF/GP	**$9,316.2**	**$9,371.1**	**$54.9**
SAF			
Baseline	$9,210.2	$9,261.0	$50.8
Adjustments	7.0	6.9	(0.1)
Net SAF	**$9,217.2**	**$9,267.9**	**$50.7**

Table 2

FISCAL YEAR 1999-2000 HFA RECOMMENDED REVISIONS (Millions of Dollars)	Adjusted May Consensus	HFA September Recommendation	HFA September Recommended Revision Amount
GF/GP			
Baseline	$10,004.5	$10,104.2	$99.7
Adjustments	(538.9)	(555.9)	(17.0)
Net GF/GP	**$9,465.6**	**$9,548.3**	**$82.7**
SAF			
Baseline	$9,528.1	$9,602.6	$74.5
Adjustments	16.1	8.1	(8.0)
Net SAF	**$9,544.2**	**$9,610.7**	**$66.5**

ECONOMIC ASSUMPTIONS AND FORECASTS

This section discusses the economic assumptions used by the House Fiscal Agency to produce its updated revenue forecasts for FY 1998-99 and FY 1999-2000. Fiscal policy assumptions include:

U.S. Forecast

The projected federal budget incorporates the effects of the omnibus budget bill passed by Congress in October 1998. With the exception of approximately $20 billion in added spending, the budget bill reflected the spending restraints and tax reductions contained in the budget enacted in 1997.

There was a higher-than-expected federal budget surplus in 1998. The 1998 surplus reached $72.8 billion on a unified budget basis — almost $100 billion higher than the $27.2 billion budget deficit in 1997. A small portion of the improvement was due to smaller-than-projected increases in spending on defense and transfer payments to individuals, although most of the surplus can be attributed to higher-than-anticipated increases in personal tax payments. Projections for the 1999 unified budget suggest a surplus in excess of $100 billion.

Total federal current expenditures increased 1.9% in FY 1997-98, and are expected to increase 2.6% in FY 1998-99 and 2.9% in FY 1999-2000.

Non-defense consumption expenditures are expected to increase 7.1% in FY 1998-99 and 5.5% in FY 1999-2000.

Defense expenditures are expected to increase by 1.4% in FY 1998-99 and 3.5% in FY 1999-2000.

The rate of growth of total federal transfer payments to individuals is expected to be 2.8% in FY 1998-99 and 3.5% in FY 1999-2000.

The rate of growth in federal grants-in-aid to state and local governments is expected to be 5.9% in FY 1998-99 and 4.6% in FY 1999-2000.

Federal receipts are expected to increase 5.8% in FY 1998-99 and (due to tax cuts and slower economic growth) 5.3% in FY 1999-2000.

U Interest Rates

Concern about potential inflation has been a prominent theme among economists over the past two years in response to unusually strong growth in real GDP. Until recently, inflation remained low and steady and most inflationary indicators continued to be positive. However, by mid-year there were indications that the Fed might increase interest rates to ward off higher inflation.

The impacts of this belief were seen most vividly on Wall Street where the meteoric rise in the Dow Jones Industrial Average that had been so evident during the first half of 1999 slowed dramatically.

The economy is expected to continue to grow throughout FY 1998-99, and then slow down somewhat in FY 1999-2000. In response to inflationary concerns, the Fed increased the discount rate by 25 basis points at the end of August, the first such increase in over a year. We expect additional increases. As a result, the federal funds rate is expected to rise to almost 6.0% by the end of the forecast horizon.

On a calendar year average basis:

The federal funds rate is expected to decline from an average of 5.4% in 1998 to 5.1% in 1999 before jumping to 5.9% in 2000.

The three-month Treasury bill rate is forecast to average 4.7% in 1999 and 5.6% in 2000.

The 30-year Treasury bond rate is expected to increase slightly from an average of 5.6% in 1998 to 5.9% in 1999 and to 6.5% in 2000.

Conventional mortgage rates are expected to increase from 6.9% in 1998 to 7.5% in 1999 and 8.3% in 2000.

Corporate aaa rates are expected to increase from 6.5% in 1998 to 7.1% in 1999, and 7.6% in 2000.

U Real GDP

The economy grew at a robust rate of 3.9% during 1997 and 3.7% in1998, a trend that continued through the first quarter of 1999. However, second quarter real GDP growth slumped to 1.8% after growing at a 4.3% pace during the first quarter of the year.

Contributing to this growth is a high rate of personal consumption. The recent growth in the stock market increased household wealth and encouraged higher spending levels. Although the rapid increase in stock prices seems to have tempered, at least for the immediate future, realization of capital gains should help to maintain a brisk rate of consumption throughout the forecast horizon.

For the current forecast period, real GDP is expected to grow 3.8% in CY 1999 before slowing to 2.9% in CY 2000.

U Inflation

Inflation is typically triggered when

producers attempt to exceed short-term capacity constraints in the economy and/or when input prices rise. Excess capacity coupled with continued increases in labor productivity should help to reduce the existing inflationary pressures despite some indications that input prices (such as oil prices, wages, and import prices) may be beginning to rise. Inflation is expected to increase somewhat through CY 2000, but remain low.

Crude oil prices soared in 1999 as oil-producing nations pledged to reduce the worldwide glut that existed in 1998. By early September, West Texas Intermediate Crude had risen to more than $23 per barrel, reaching a 22-month high. Consequently, energy prices have been on the rise.

The rate of inflation in core industrial prices, as measured by the private non-farm output deflator, is expected to increase approximately 1.5% in 1999 and 2.6% in 2000.

Combined, these factors are expected to lead to an average annual increase in the U.S. Consumer Price Index-Urban (CPI-U) of 2.2% in CY 1999, and 2.7% in CY 2000. The U.S. CPI-U increased at a 2.2% rate in CY 1998.

U Unemployment Rate

Non-farm payroll employment increased steadily throughout CY 1998 and the first part of 1999, but at a slightly slower pace than the previous year. As of September 1999, preliminary estimates indicated that non-farm employment increased at a 2.2% rate from the previous September.

Although the economic growth rate is expected to diminish in CY 2000, the economy will still continue to create jobs. Unemployment rates are expected to average 4.3% for both CY 1999 and CY 2000, dropping even lower than the 4.5% rate recorded in CY 1998.

U Personal Income Growth

Total U.S. personal income grew 5.0% in CY 1998, and the growth rate is expected to increase to 5.3% in CY 1999 and 5.6% in CY 2000.

Wage and salary income is expected to grow more quickly than total personal income in CY 1999. It is anticipated that wage and salary income growth will decline from 6.7% in CY 1998 to 6.3% in CY 1999 and continue falling to 5.9% in CY 2000. Moderate growth in inflation will result in real disposable income growing at the same 3.2% rate in CY 1999 as in CY 1998. Growth in real disposable income will decrease slightly to 2.8% in CY 2000.

U Light Vehicle Sales

Sales of light vehicles were strong in 1998, despite the strike at General Motors in mid-year 1998, coming in at 15.6 million units. Sales rebounded to about 16.2 million units in both the last quarter of 1998 and first quarter of 1999. Light vehicle sales are anticipated to increase to 16.3 million units in CY 1999 before falling to 15.8 million units in CY 2000.

For several years there has been a shift in sales away from cars and toward light trucks. That trend is expected to continue. Light trucks accounted for approximately 46.8% of light vehicle sales in 1998 and are expected to account for 48.5% percent of total light vehicle sales in 1999 and 49.2% in 2000.

U Import Share of Auto Sales

In CY 1998, the import share of the automobile market was characterized by an increase from 8.3% to 8.9% in the share of foreign light truck sales to total light truck sales. The share of foreign car sales to total car sales also rose from 16.4% to 17.1%. This trend is expected to continue through 1999 as the import share of cars rises to 18.8%.

Calendar year 2000 will see the import share of cars drop slightly to 18.5%, although the share of foreign truck sales to total truck sales will rise to 9.4% in CY 1999 and 10% in CY 2000. These factors will result in an overall increase in the import share of total sales.

Overall, the import automakers' share of the total market was 13.2% in 1998; it is expected to increase to 14.3% in both CY 1999 and CY 2000.

Michigan Forecast

U Personal Income Growth

The Michigan economy continues to expand, and income growth is expected to remain moderate through CYs 1999 and 2000.

Total state personal income grew by approximately 4.0% in CY 1998 (after growth of about 4.5% in CY 1997). State personal income growth will increase in CY 1999 to 4.7% and to 5.1% in CY 2000.

U Inflation

The cost of living in Michigan, as measured by the Detroit Consumer Price Index for Urban Consumers (Detroit CPI-U), increased by 2.2% in CY 1998 — similar to the national average. With the exception of 1994 and 1995 figures, which were skewed due to the increase in the sales tax rate, inflation since 1991 has been at or below 2.8% each year.

Inflation in Michigan is expected to increase moderately through 2000. In CY 1999, the Detroit CPI-U will average 2.8%. In CY 2000, inflation in Michigan will increase to 3.2%.

U Unemployment Rate

Although the job market is expected to remain somewhat tight and job growth in Michigan is expected to taper off slightly through CY 2000, the unemployment rate is expected to decrease slightly in CY 1999 and CY 2000.

Wage and salary employment in the manufacturing sector is expected to decline by 0.3% in CY 1999 and decrease 0.8% in CY 2000. Most of the job loss in manufacturing in CY 2000 will be in the durable goods sector.

The unemployment rate in Michigan in CY 1998 was approximately 3.8%. Unemployment rates are expected to remain at 3.8% in CY 1999 and drop to 3.7% CY 2000.

U Job Growth

The Michigan economy continued to create jobs in CY 1998, but the composition of jobs being created continues to change. In CY 1998, employment in the manufacturing sector is estimated to have stayed even with the previous year, whereas private nonmanufacturing employment grew by an estimated 2.1% and total wage and salary employment grew 1.6%.

Total wage and salary employment is expected to increase 1.2% in CY 1999 and 1.3% in CY 2000. However, almost all of the employment gains are expected to be in private nonmanufacturing.

Manufacturing employment will decline 0.3% in CY 1999 and 0.8% in CY 2000 (due to declines in durable goods employment).

Private nonmanufacturing employment, with expected growth rates of 1.8% in CY 1999 and 2.0% in 2000, will once again be fueled by the service sector, as well as by the construction and trade sectors.

Employment in services is anticipated to grow by 2.0% in CY 1999 and 2.6% in CY 2000.

Retail trade employment will grow by 2.0% in CY 1999 and 1.5% in CY 2000.

Wholesale trade employment will grow by 0.9% in CY 1999 and by 2.5% in CY 2000.

Construction employment will grow by 3.5% in CY 1999 and by 1.4% in CY 2000.

Table 3

ECONOMIC VARIABLES

U.S. FORECAST

Variable	CY 1998	CY 1999	CY 2000
Rate of Interest, 3-Month Treasury Bill	4.8%	4.7%	5.6%
Real GDP Growth	3.7%	3.8%	2.9%
U.S. CPI-U -- Percentage Change	2.2%	2.2%	2.7%
Unemployment Rate	4.5%	4.3%	4.3%
U.S. Personal Income Growth	5.0%	5.3%	5.6%
Light Vehicle Sales (millions of units)	15.6	16.3	15.8
Import Share of Light Vehicle Sales	13.2%	14.3%	14.3%

MICHIGAN FORECAST

Variable	CY 1998	CY 1999	CY 2000
Michigan Personal Income Growth	4.0%	4.7%	5.1%
Detroit CPI-U -- Percentage Change	2.2%	2.8%	3.2%
Unemployment Rate	3.8%	3.8%	3.7%
Wage and Salary Employment Growth	1.6%	1.2%	1.3%

RISKS AND UNCERTAINTIES

International Economy
Michigan is one of the leading export states in the nation. Therefore, Michigan's economy is sensitive to events that affect international trade. This forecast assumes that there will be far less turmoil in international financial markets in 1999 and 2000 than was experienced in 1998. Recent reports point to a strengthening of the dollar on international currency markets, which could serve to promote exports in the future.

A related issue is the potential of an impending Y2K crisis. Most domestic computer networks (banking and financial, energy providers, etc.) appear to be Y2K compliant. However, if other nations have not achieved an acceptable degree of compliance within the next three months, world trade might be disrupted.

Monetary Policy
Perhaps the single most important factor in terms of the U.S. economic picture concerns the behavior of the Fed. To the extent that the economy continues its robust growth, a tightening labor market might begin to drive up wages and consumer prices.

The Fed reacted to the prospect of higher inflation by raising the discount rate by 25 basis points in late August. If the warning signs for an increase in the inflation rate persist, the Fed might well increase the discount rate by another 25 or 50 basis points over our forecast assumptions. The resulting increase in the federal funds (and other interest rates) could dampen investment and the overall rate of growth.

Consumer Spending
Consumer spending (consumption) represents about two-thirds of the value of GDP (which is expected to be almost $9.5 trillion by 2000). Strong consumer spending fueled the robust economic growth the U.S. experienced in 1998. Indeed, real consumption increased about 4.9% in 1998. To put this into perspective, growth in real consumption

was 3.4% in 1997, and averaged 2.6% per year from 1992 to 1997.

We expect consumption to continue its strong growth rate in 1999 before slowing somewhat in 2000. If there are more announcements of firms downsizing or turmoil in the stock markets, it may negatively affect consumer confidence and consumption could stall and negatively affect U.S. economic growth.

GF/GP AND SAF REVENUES

This section explains September 1999 House Fiscal Agency revenue estimates for GF/GP and School Aid Fund revenue by major revenue sources. Several important assumptions behind the revenue estimates are discussed in the following text. Revenue estimates are reported in Tables 4 and 5 on page 16. Also included in this section are state revenue limit calculations.

General Fund/General Purpose Revenue by Source

U Personal Income Tax

The jobs base is expected to continue to expand in 1999 and 2000 and unemployment rates will remain low. In addition, income growth from capital gains is very strong thus far in 1999. However, capital gains income and job growth will moderate. This will lead to somewhat slower growth in Michigan personal income and income tax revenues through FY 1999-2000.

Baseline GF/GP income tax revenues are expected to increase 11.1% (to $5,129.5 million) in FY 1998-99, and 4.0% in FY 1999-2000 (to $5,335.4 million).

Baseline revenues do not include the impact of indexing the personal exemption, the final phase-in of the interest and dividend exemption for seniors, the impact of increasing the personal exemption in 2000, or the impact of decreasing the income tax rate from 4.4% to 4.3% in 2000.

U Sales and Use Taxes

Sustained growth in wage and salary income and sustained low unemployment will combine to increase baseline sales and use tax revenue from $861.9 million in FY 1997-98 to $990.5 million in FY 1998-99, and by 4.3% (to $1,033.1 million) in FY 1999-2000.

U Single Business

and Insurance Taxes

All Single Business Tax (SBT) revenues accrue to GF/GP. Net baseline business taxes (SBT plus insurance taxes) were $2,512.4 million in FY 1997-98. As a result of very strong corporate profits, baseline business tax revenues will increase by 8.3% (to $2,721.3 million) in FY 1998-99, and by 4.5% (to $2,844.8 million) in FY 1999-2000.

Baseline Single Business Tax (SBT) revenues alone were $2,320.6 million in FY 1997-98; they are expected to increase 8.6% (to $2,520.0 million) in FY 1998-99, and by 4.5% (to $2,633.4 million) in FY 1999-2000.

Baseline estimates do not include the impact of SBT apportionment changes, the full effects of the new apprenticeship credit, or SBT rate cuts that will affect FY 1998-99 and FY 1999-2000 revenue collections.

U GF/GP Baseline Tax Revenues

Baseline GF/GP tax revenues totaled $8,587.3 million in FY 1997-98. General Fund/General Purpose baseline tax revenues are expected to increase by 10.4% (to $9,482.9 million) in FY 1998-99 and by 4.1% (to $9,875.7 million) in FY 1999-2000. Total GF/GP baseline tax revenues include the category labeled "Other Taxes" in Table 4.

U Total GF/GP Baseline Revenues

Total baseline GF/GP revenues include baseline tax revenues and non-tax revenues. Total GF/GP baseline revenues were $8,755.8 million in FY 1997-98. General Fund/General Purpose baseline revenues are expected to increase by 10.9% (to $9,711.4 million) in FY 1998-99 and by 4.0% (to $10,104.2 million) in FY 1999-2000.

U Actual GF/GP Revenues

Actual GF/GP revenues represent revenues available for expenditure each year. Actual GF/GP revenues are expected to be $9,371.1 million in FY 1998-99 and are expected to increase 1.9% (to $9,548.3 million) in FY 1999-2000.

School Aid Fund Revenue by Source

U Sales and Use Taxes

Baseline sales tax revenues will increase by 5.8% in FY 1998-99 and by 4.2% in FY 1999-2000; baseline use tax revenue will increase by 13.9% in FY 1998-99 and by 2.4% in FY 1999-2000. Combined sales and use tax revenue dedicated to the School Aid Fund (SAF) equaled $4,480.6 million in FY 1997-98 and will increase by 6.1% (to $4,769.8 million) in FY 1998-99, and by 4.2% (to $4,971.3 million) in FY 1999-2000.

U Income Tax

Twenty-three percent of gross income tax revenue is dedicated to the School Aid Fund. Dedicated income tax revenue was $1,699.3 million in FY 1997-98, and will increase 8.7% (to $1,846.4 million) in FY 1998-99, and by 4.9% (to $1,936.1 million) in FY 1999-2000.

U State Education Tax

The 6-mill state education tax (SET) is dedicated to the SAF. Revenues from the SET were $1,259.4 million in FY 1997-98. State Education Tax revenues are expected to increase 3.4% (to $1,302.0 million) in FY

1998-99, and 4.7% (to $1,363.4 million) in FY 1999-2000.

U Lottery

Lottery revenues contributed approximately $616.1 million to the SAF in FY 1997-98. Baseline lottery revenues to the SAF are projected to increase slightly to $620.0 million in both FY 1998-99 and FY 1999-2000.

Baseline revenue estimates do not include the impact of Detroit Casinos. The net impact of casinos on the School Aid Fund is expected to be approximately $3 million in FY 1998-99 and $20 million in FY 1999-2000; this impact is included in the adjustments to baseline revenues.

U Tobacco Taxes

Approximately 64.0% of gross tobacco tax revenue is dedicated to the School Aid Fund. The School Aid Fund received approximately $362.9 million from tobacco taxes in FY 1997-98.

The demand for tobacco products is expected to decline slowly over the duration of the forecast. Total baseline tobacco tax revenues are expected to decrease to $329.2 million in FY 1998-99 and to $324.9 million FY 1999-2000.

U Transfer Tax

A tax based on 0.75% of the value of real estate transferred in Michigan took effect on January 1, 1995. Revenues are dedicated to the School Aid Fund. The transfer tax contributed $227.8 million to the SAF in FY 1997-98 and will contribute $240.1 million to the SAF in FY 1998-99 and $232.9 million in FY 1999-2000.

U Total SAF Baseline Revenues

Total SAF baseline revenues were $8,799.0 million in FY 1997-98. Baseline revenues are expected to increase 5.3% (to $9,261.0 million) in FY 1998-99 and 3.7% (to $9,602.6 million) in FY 1999-2000.

U Actual SAF Revenues

Actual SAF revenues represent own-source revenues available for expenditure each year, excluding prior year-end balances and GF/GP transfers to SAF. Actual SAF revenues were $8,799.0 million in FY 1997-98 and are expected to increase by 5.3% to $9,267.9 million in FY 1998-99 and by 3.7% to $9,610.7 million in FY 1999-2000.

Table 4

GF/GP REVENUE ESTIMATES (Millions of Dollars and Fiscal Years)	1997-98	1998-99	1999-2000	1999-2000 over 1998-99 %Change	1999-2000 over 1998-99 $Change
Personal Income Taxes	$4,615.1	$5,129.5	$5,335.4	4.0%	$205.9
Sales and Use Taxes	861.9	990.5	1,033.1	4.3%	42.6
SBT and Insurance Taxes	2,512.4	2,721.3	2,844.8	4.5%	123.5
Other Taxes	597.9	641.6	662.4	3.2%	20.8
GF/GP Baseline Tax Revenues	**$8,587.3**	**$9,482.9**	**$9,875.7**	**4.1%**	**$392.8**
Non-Tax Revenue	168.5	228.5	228.5	0.0%	0.0
Total GF/GP Baseline Revenues	**$8,755.8**	**$9,711.4**	**10,104.2**	**4.0%**	**$392.8**
Adjustments to Baseline	(46.1)	(340.3)	(555.9)		($215.6)
Actual GF/GP Revenues	**$8,709.7**	**$9,371.1**	**$9,548.3**	**1.9%**	**$177.2**

Table 5

SCHOOL AID FUND REVENUE ESTIMATES
(Millions of Dollars and Fiscal Years)

Revenues	1997-98	1998-99	1999-2000	1999-00 over 1998-99 % Change	1999-00 over 1998-99 $ Change
Sales and Use Tax	$4,480.6	$4,769.8	$4,971.3	4.2%	201.5
Income Tax Earmark	1,699.3	1,846.4	1,936.1	4.9%	89.7
State Education Tax	1,259.4	1,302.0	1,363.4	4.7%	61.4
Lottery	616.1	620.0	620.0	0.0%	0.0
Tobacco Taxes	362.9	329.2	324.9	-1.3%	(4.3)
Transfer Tax	227.8	240.1	232.9	-3.0%	(7.2)
Liquor Excise & Specific Taxes	152.9	153.5	154.0	0.3%	0.5
Baseline SAF Revenues	**$8,799.0**	**$9,261.0**	**$9,602.6**	**3.7%**	**$341.6**
Adjustments to Baseline	0.0	6.9	8.1		$1.2
Actual SAF Revenues (less Transfers)	**$8,799.0**	**$9,267.9**	**$9,610.7**	**3.7%**	**$342.8**

HFA Estimates of Year-End Balances

Table 6 reports House Fiscal Agency estimates of year-end balances for GF/GP, the SAF, and the BSF.

Fiscal Year 1997-98 estimates for GF/GP and the SAF are based on year-to-date appropriations, projected year-end adjustments, and preliminary year-end revenue estimates.

Fiscal Year 1998-99 estimates are based on year-to-date appropriations and HFA revenue estimates.

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.

The Management and Budget Act requires that any unreserved year-end balance in GF/GP for FY 1997-98 and thereafter will be transferred to the BSF.

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

Budget Stabilization Fund Year-End Balances

Table 7 shows a history of the BSF balance, noting deposits, withdrawals, and interest earnings from FY 1989-90 to FY 1997-98. It also includes HFA estimates of deposits, expected interest earnings, and year-end balances for FYs 1998-99 and 1999-2000.

A complete list of BSF historical data is available from the HFA upon request.

Table 6

YEAR-END BALANCE ESTIMATES
(Millions of Dollars and Fiscal Years)

	1996-97	1997-98	1998-99
General Fund/General Purpose	$53.3	$55.2	$47.2
School Aid Fund	193.9	274.3	478.8
Budget Stabilization Fund	1,152.4	1,000.5	1,119.2

Table 7

BUDGET STABILIZATION FUND (Millions of Dollars)				
Fiscal Year	**Deposits**	**Withdrawals**	**Interest Earned**	**Balance**
1989-90	$0.0	$69.9	$35.8	$385.1
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	0.8	303.5
1993-94	460.2	0.0	11.9	775.6
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*	130.2	73.7	62.2	1,119.2
1999-2000*	37.1	32.0	63.6	1,187.9

* *Estimates*

Compliance with the State Revenue Limit

Table 8 reports HFA estimates of the state revenue limit provided for in Article IX, Section 26, *Constitution of the State of Michigan*, and estimates of total state revenue collections subject to the state revenue limit. As provided for in the *Constitution*, the revenue limit is calculated as 9.49% of total state personal income in the previous full calendar year prior to the fiscal year in which the revenues are measured, as estimated by the Bureau of Economic Analysis, United States Department of Commerce.

Implications of Exceeding the State Revenue Limit

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.

Table 9 provides historical information on Michigan's state revenue limit.

Table 8

COMPLIANCE WITH THE STATE REVENUE LIMIT
(Millions of Dollars and Fiscal Years)

Revenue Limit Calculations	**1997-98**	**1998-99**	**1999-2000**
Personal Income	*CY 1996*	*CY 1997*	*CY 1998*
Amount	$239,330	$244,329	$253,841
X Limit Ratio	9.49%	9.49%	9.49%
State Revenue Limit	**$22,712.4**	**$23,186.8**	**$24,089.5**
Total Revenues Subject to Revenue Limit	22,039.0	22,982.5	23,970.2
Amount Under (Over) State Revenue Limit	**$673.4**	**$204.3**	**$119.3**

Table 9

CONSTITUTIONAL REVENUE LIMIT Amount (Under) or Over Limit in Billions of Dollars			
Fiscal Year	Amount (Under) or Over	Fiscal Year	Amount (Under) or Over
1980	($0.53)	1991	($3.04)
1981	($1.17)	1992	($3.69)
1982	($1.41)	1993	($3.48)
1983	($1.32)	1994	($2.11)
1984	($0.24)	1995	$0.11
1985	($0.01)	1996	($0.18)
1986	($0.37)	1997	($0.98)
1987	($0.84)	1998*	($0.67)
1988	($1.35)	1999*	($0.20)
1989	($1.03)	2000*	($0.40)
1990	($1.76)		

**HFA Estimates*

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