MICHIGAN ECONOMIC OUTLOOK

AND

HOUSE FISCAL AGENCY REVENUE ESTIMATES

FISCAL YEARS 1998-99 AND 1999-00

HOUSE FISCAL AGENCY

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TABLE OF CONTENTS

TABLES

FIGURES

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 initial estimates for Fiscal Year 1999-00. The estimates reported herein will be presented to the Consensus Revenue Estimating Conference on January 14, 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. Balance sheets are presented in the Appendix.

This report was prepared by Mitchell Bean, Senior Economist. Stephen Marasco, Economist, provided technical support and assisted in the analysis, and Jeanne Dee prepared the report for publication.

James J. Haag, Director

EXECUTIVE SUMMARY

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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 3.7% in 1998, remaining below the national average rate of 4.5%, and inflation in the U.S. was under control at approximately 1.6%. The House Fiscal Agency (HFA) expects the current economic expansion to slow but continue through FY 1999-00. Hence, the rate of growth will also slow through FY 1999-00. If the current expansion does continue, it will be the longest expansion on record. The most important aspects of the HFA forecast are summarized in the following.

U. S. Forecast

On a calendar-year basis:

- ♦ Real GDP growth will decrease from 3.7% in 1998 to 2.0% in 1999, and will decline to 1.8% in 2000.
- ♦ Inflation will decline somewhat to 1.4% in 1999, and increase to 2.0% in 2000.
- ♦ Light vehicle sales will total 15.0 million units in both 1999 and 2000.
- ♦ The national unemployment rate is expected to increase from 4.5% in 1998 to 4.7% in 1999 and 5.1% in 2000.
- ♦ Interest rates on three-month T-bills will average 4.3% in 1999 and 4.2% in 2000.

Michigan Forecast

On a calendar-year basis:

- ♦ Michigan personal income increased by 5.1% in 1998. The rate of growth will slow to 3.9% in 1999 and 3.4% in 2000.
- ♦ Michigan unemployment rates will average 3.7% in 1999 and increase somewhat to 4.1% in 2000.

- Inflation, as measured by the Detroit Consumer Price Index, will decrease from 2.2% in 1998 to 1.7% in 1999, and increase to 2.3% in 2000.

State Revenues

- Total baseline GF/GP and SAF revenues were $17.6 billion in FY 1997-98, and will increase 3.6% (to $18.2 billion) in FY 1998-99 and 3.6% (to $18.9 billion) in FY 1999-00. 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 $1.2 billion in both FY 1998-99 and FY 1999-00.

- Total state revenues will be below the state revenue limit by $637 million in FY 1998-99 and by $1,147 million in FY 1999-00.

Year-End Fund Balances

- The year-end GF/GP balance is expected to be $21.9 million in FY 1997-98 and $182.2 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 is expected to be $279.4 million in FY 1997-98 and $362.5 million in FY 1998-99.

- The Countercyclical Budget Stabilization Fund year-end balance is estimated to be $1,152.4 million in FY 1996-97, $1,027.3 million in FY 1997-98, and $1,208.4 million in FY 1998-99.

Table 1 reports GF/GP and SAF revenues in terms of baseline and actual revenues (any discrepancy in total amount is due to rounding).

- Baseline revenues do 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 revenues that are driven by changes in the economy.

- Actual GF/GP revenues capture the effects of all policy changes and year-end fund balances, and represent resources actually available.

- Actual SAF revenues for FY 1997-98 and FY 1998-99 also include transfers from the BSF of $212.0 million and $73.7 million, respectively, pursuant to 1997 PA 144. Actual SAF revenues do not include transfers from GF/GP.

Table 1

HFA REVENUE ESTIMATES (IN MILLIONS)			
	FY 1997-98	**FY 1998-99**	**FY 1999-00**
BASELINE			
GF/GP	$8,808.5	$9,151.9	$9,519.5
SAF	8,791.8	9,084.9	9,376.3
TOTAL	**$17,600.3**	**$18,236.8**	**$18,895.8**
ACTUAL			
GF/GP	$8,762.4	$8,989.9	$9,271.6
SAF	8,791.8	9,047.3	9,314.1
TOTAL	**$17,554.2**	**$18,037.2**	**$18,585.7**

ECONOMIC FORECAST

ECONOMIC FORECAST

This section discusses the economic assumptions used by the House Fiscal Agency to produce its updated revenue forecast for FY 1998-99 and initial revenue forecast for FY 1999-00.

U.S. Forecast

Fiscal Policy Assumptions:

- 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 $70 billion on a unified budget basis — a $100 billion improvement over 1997. While a small portion of the improvement was due to smaller-than-projected increases in spending on defense and transfer payments to individuals, most of the surplus was due to higher-than-anticipated increases in personal tax payments.

- Total federal current expenditures increased 1.8% in FY 1997-98, and are expected to increase 3.4% in FY 1998-99 and 2.3% in FY 1999-00.

- Non-defense consumption expenditures are expected to increase 5.1% in FY 1998-99 and 0.6% in FY 1999-00.

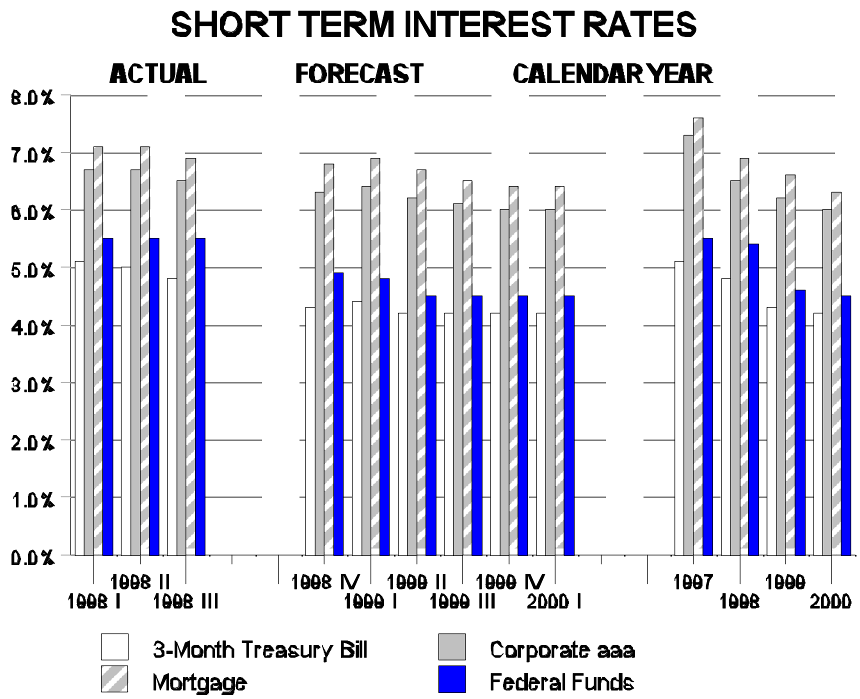
- Defense expenditures are expected to increase 3.2% in FY 1998-99 and 0.8% in FY 1999-00.

- The rate of growth of total federal transfer payments to individuals is expected to be 4.5% in FY 1998-99 and 4.6% in FY 1999-00.

- The rate of growth in federal grants-in-aid to state and local governments is expected to be 6.3% in FY 1998-99 and 4.6% in FY 1999-00.

- Federal receipts are expected to increase 2.5% in FY 1998-99 and (due to tax-cuts and slower economic growth) 1.0% in FY 1999-00.

Figure 1



♦ **Interest Rates**

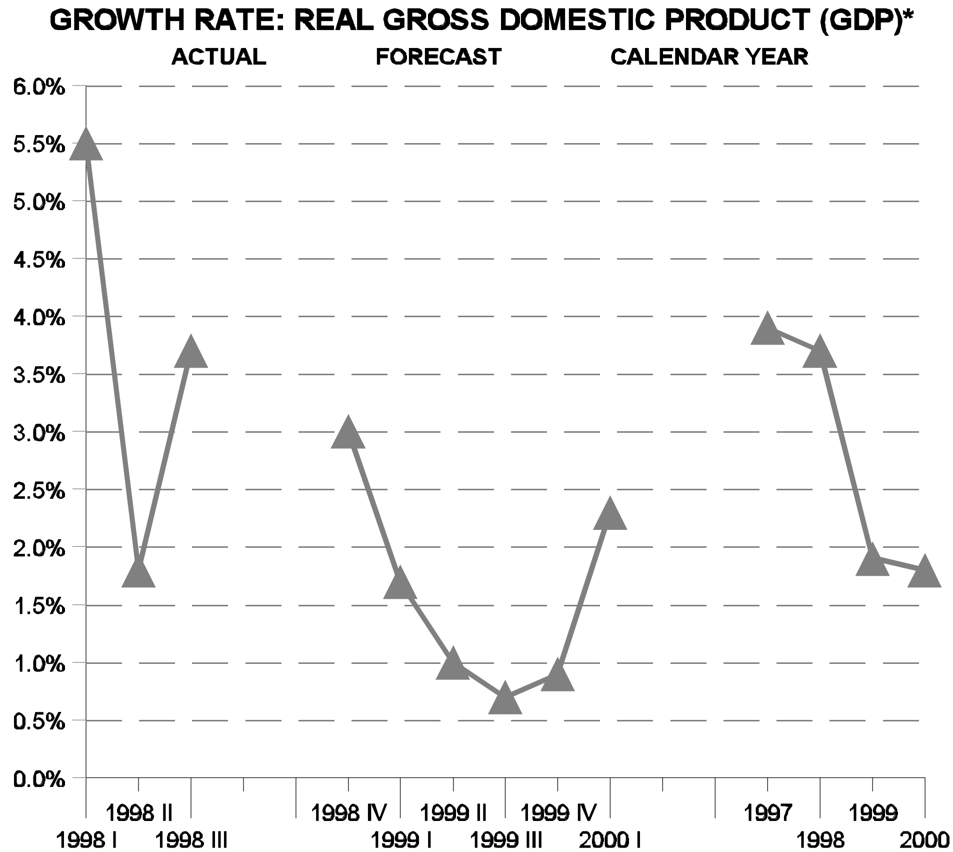
Concern about potential inflation has been a prominent theme among economists over the past two years in response to unusually strong growth in real GDP. Thus far, this concern has been needless as inflation has remained low and steady, and inflationary indicators generally look positive. Recently, inflationary concerns have been overridden by the volatility of the stock market and a moderate slowdown in economic growth in the past two quarters resulting in part from increasing weakness in foreign economies. These concerns contributed to a series of interest rate reductions by the Federal Reserve (Fed) totaling 75 basis points over the period September to December 1998 — lowering the federal funds rate from 5.5% to 4.75%.

The economy is now expected to continue to grow, but at a slower rate than in FY 1997-98. As a result, the Fed is expected to reduce the federal funds rate another 25 basis points in mid-year 1999. The rate is expected to remain constant at 4.5% throughout the rest 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 average 4.6% in 1999 and 4.5% in 2000.
- ➤ The three-month Treasury bill rate is forecast to average 4.3% in 1999 and 4.2% in 2000.
- ➤ The 30-year Treasury bond rate is expected to decrease from an average of 5.6% in 1998 to 5.2% in both 1999 and 2000.
- ➤ Conventional mortgage rates are expected to decrease from 6.9% in 1998 to 6.6% in 1999 and to 6.3% in 2000.
- ➤ Corporate aaa rates are expected to decrease from 6.5% in 1998 to 6.2% in 1999, and then to 6.0% in 2000.

Figure 2



**Seasonally Adjusted Annual Rate (SAAR)*

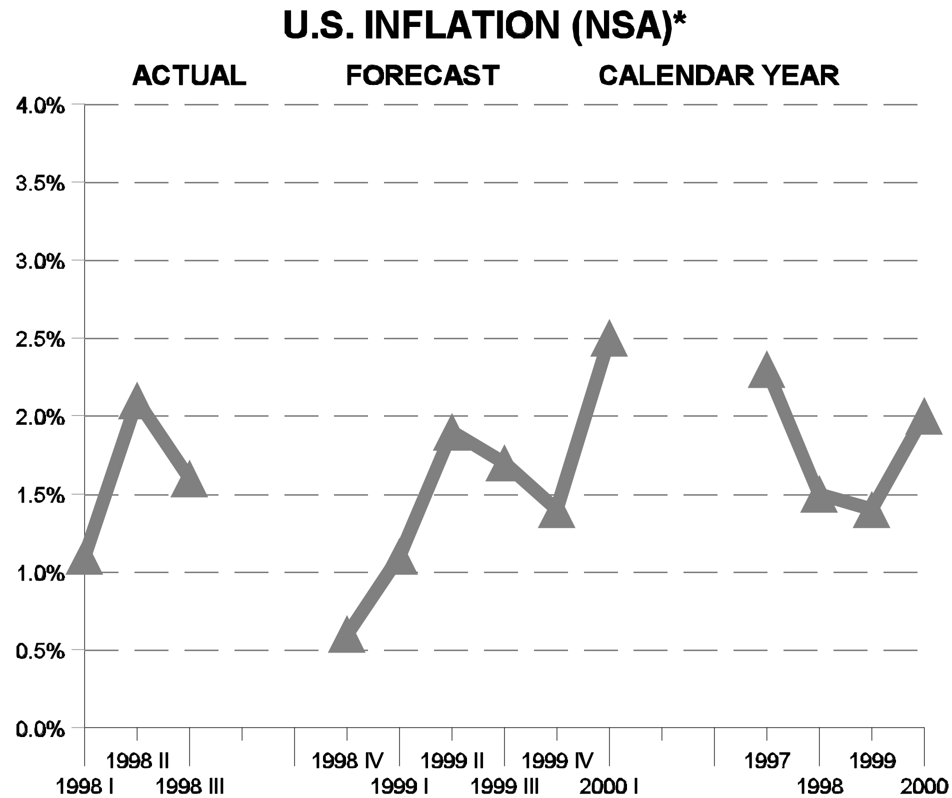
- **Real GDP**

  The economy has grown at an average annualized rate of approximately 3.5% during the last four quarters (last quarter of 1997 and first three quarters of 1998). This pace is not expected to continue, but neither is a contraction expected to occur. Economic growth indicators point to moderate but positive growth for the near term. The turmoil in Southeast Asia will hinder the growth rate of exports and this will contribute to a slowdown of economic growth for Calendar Year (CY) 1999.

  Lower interest rates in CY 1999 will help extend the current expansion through CY 2000.

  Real GDP increased by an estimated 3.7% in CY 1998, and is expected to grow 2.0% in CY 1999 and 1.8% in CY 2000.

Figure 3



**Not Seasonally Adjusted*

- **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 a decrease in the growth of consumer demand should help keep inflationary pressures low despite interest rate reductions. Inflation is expected to remain low through CY 2000.

  ➤ Worldwide crude oil stocks increased dramatically in the first half of 1998 as the demand decreased substantially due to the Asian crisis and a mild winter, and production persisted at relatively high levels. The price of benchmark West Texas intermediate crude, which averaged about $20 per barrel in 1997, declined to less than $14 per barrel in June 1998. Oil prices are expected to increase to about $15 per barrel in mid-1999 and increase at about a 2.0% rate through early 2000 and a 2.5% rate through 2001.

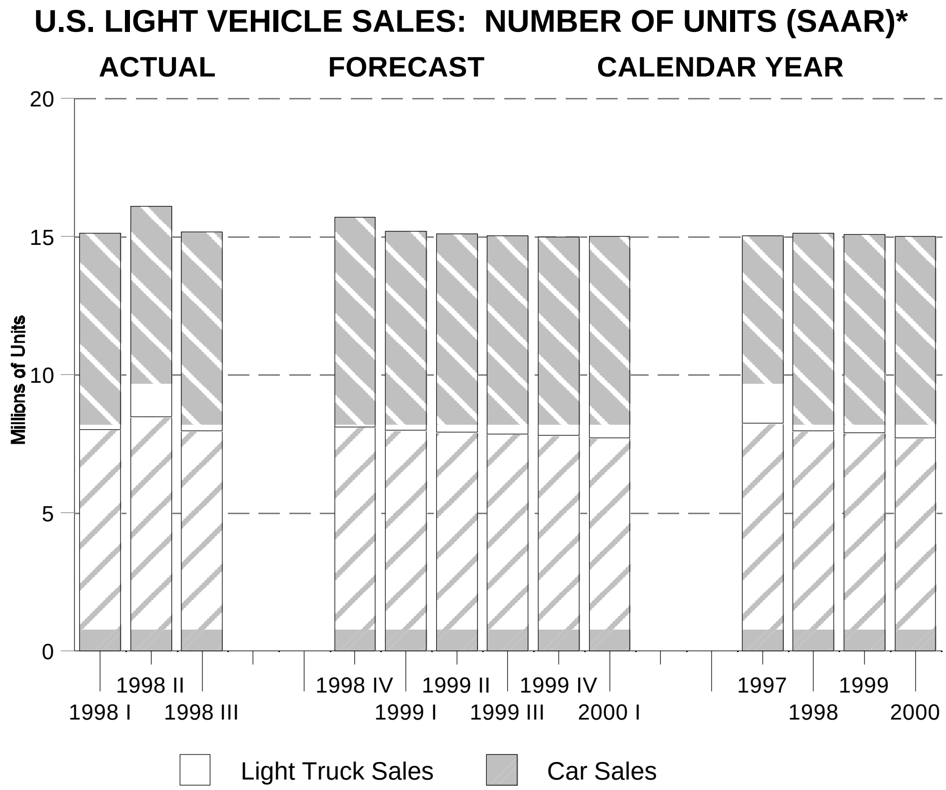
  ➤ Due to a decline in global production associated with the Asian financial crisis and the subsequent easing of demand for resources, non-oil materials prices have declined sharply since mid-1997. Between third quarter 1997 and third quarter 1998, the U.S. producer price index for non-oil materials declined 10%. Non-energy materials prices are expected to continue to decline until mid-1999.

This trend is expected to reverse itself in mid-1999 as Japan begins to recover and the European economies begin to accelerate in response to recent easing in interest rates. The rate of inflation in non-oil materials prices is expected to increase to a 1.9% annualized rate in late 1999 and between 2.0% and 2.5% in 2000.

➤ 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 both 1999 and 2000.

These factors are expected to lead to an average annual increase in the U.S. Consumer Price Index-Urban (CPI-U) of 1.4% in CY 1999, and 2.0% in CY 2000. The U.S. CPI-U increased 1.6% in CY 1998.

Figure 4



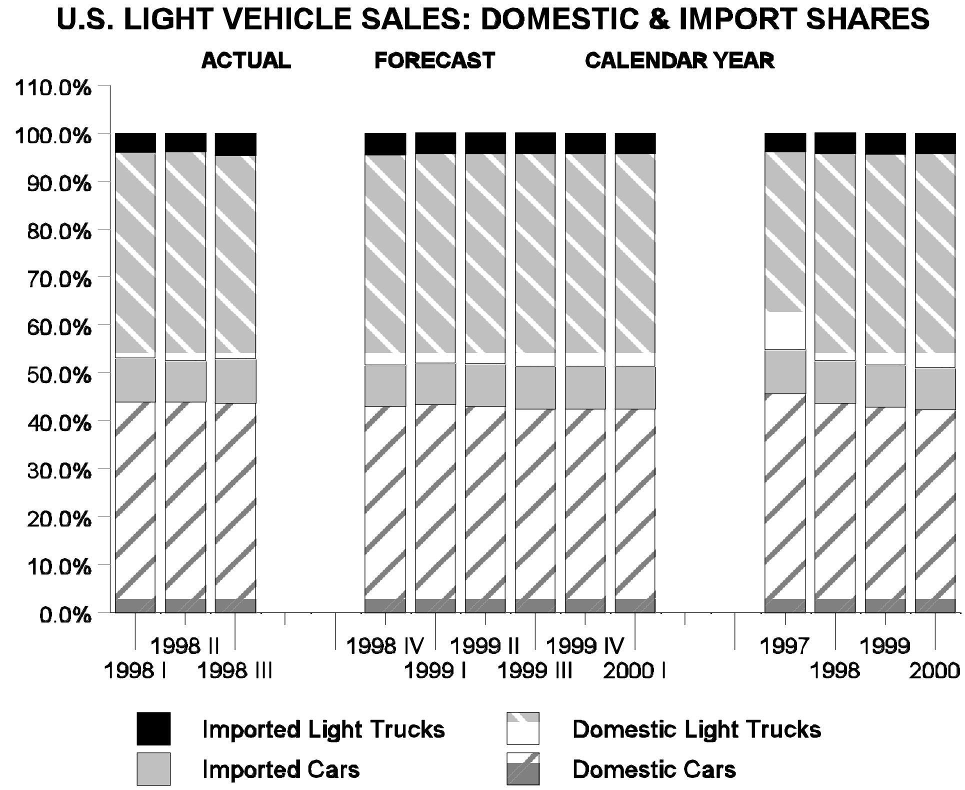
* *Seasonally Adjusted Annual Rate*

♦ **Light Vehicle Sales**

Third quarter 1998 sales of light vehicles declined dramatically from the second quarter (to 14.5 million units) largely because of the strike at General Motors. Sales should rebound in the last quarter of 1998 to about 15.7 million units. Light vehicle sales are estimated to be approximately 15.4 million units in CY 1998, and are anticipated to decline to 15.0 million units in both CY 1999 and 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 will account for approximately 47.4% of light vehicle sales in 1998 and are expected to account for 48.7% percent of total sales in 1999 and 49.0% in 2000.

Figure 5



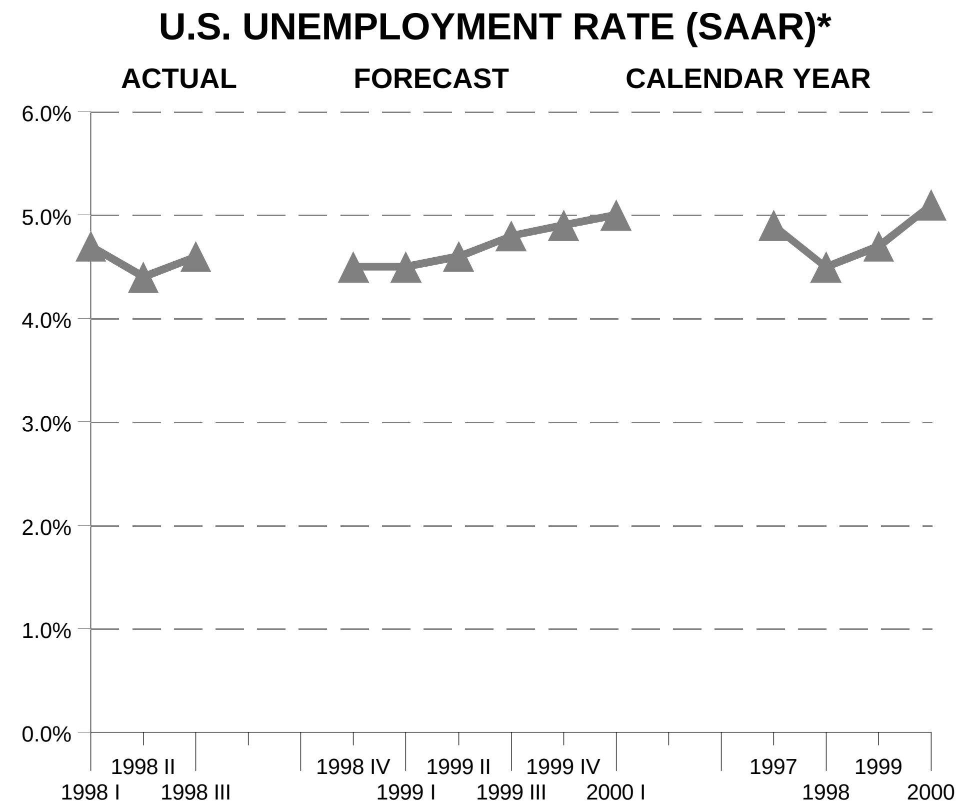
- **Import Share of Auto Sales**

  In CY 1998, the import share of the automobile market has been characterized by an estimated increase of 0.4 percentage points (to 8.8%) in the share of foreign light truck sales to total light truck sales and an increase of 0.5 percentage points (to 16.9%) in the share of foreign car sales to total car sales. This trend is expected to continue in the car market, but not in the light truck market.

  Calendar years 1999 and 2000 will see a slight increase in the share of foreign cars to total cars — to 16.9% in CY 1999, and to 17.1% in CY 2000. The share of foreign trucks to total trucks will decline to 8.7% in CY 1999, and to 8.4% in CY 2000. These factors will result in a slight overall decrease in the import share of total sales.

  The import automaker's share of the total market is estimated to be 13.0% in 1998, and is expected to decrease to 12.9% in CY 1999 and to 12.8% in CY 2000.

Figure 6



* *Seasonally Adjusted Annual Rate*

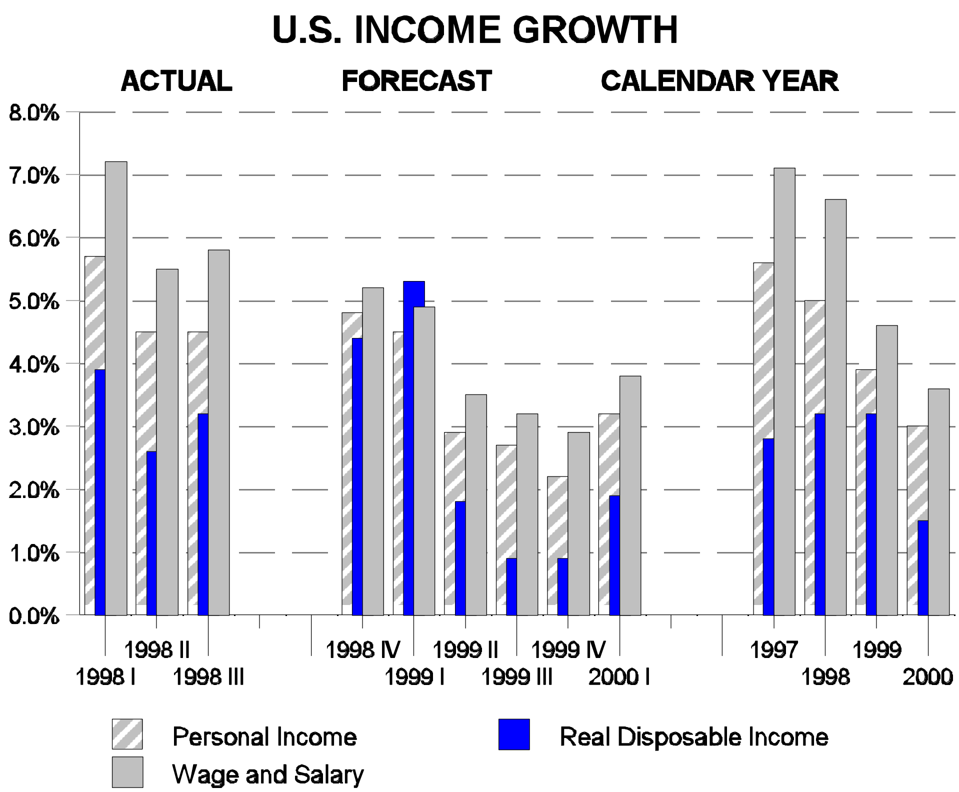
- **U.S. Unemployment Rate**

  Non-farm payroll employment increased steadily throughout CY 1998, but at a slightly slower pace than the previous year. (In November 1998, preliminary estimates indicated that non-farm employment increased by 267,000 — somewhat below the increase recorded in November of last year.)

  Steady economic growth through CYs 1999 and 2000 will allow the economy to continue to create jobs; hence, unemployment rates are expected to remain relatively low.

  The unemployment rate in CY 1998 is estimated to be approximately 4.5%. Unemployment rates are expected to average 4.7% in CY 1999 and 5.1% in CY 2000.

Figure 7

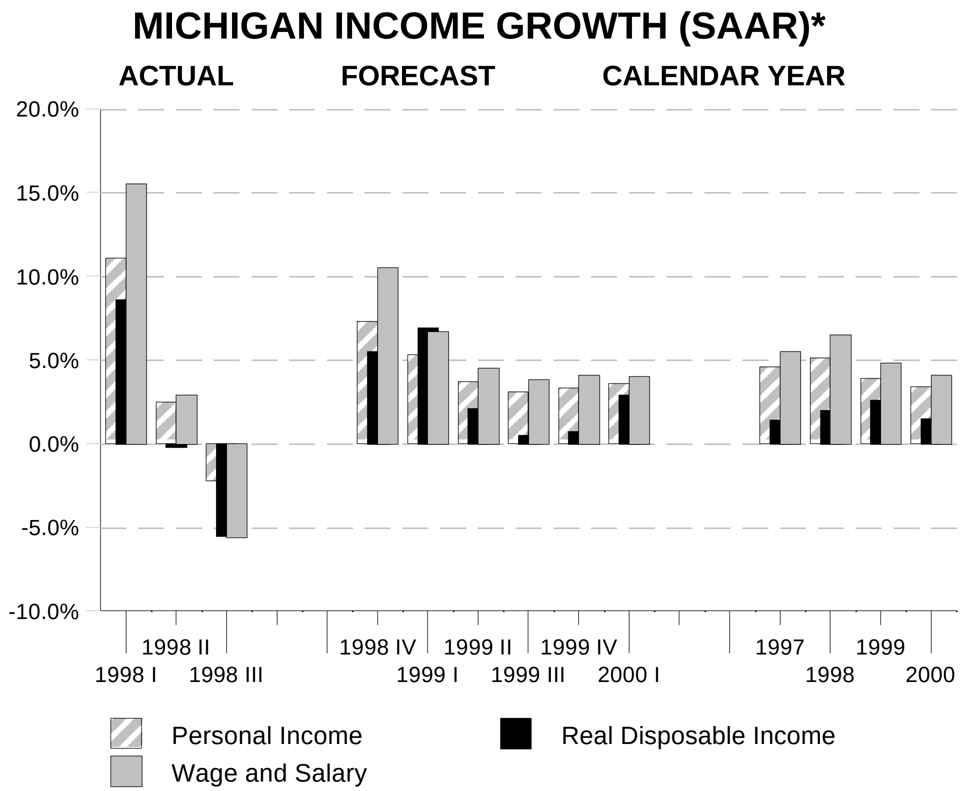


- **Personal Income Growth**

  Total U.S. personal income is estimated to grow 5.0% in CY 1998, and growth is expected to decrease to 3.9% in CY 1999. The average yearly growth in personal income will fall to 3.0% in CY 2000.

  Wage and salary income growth (6.6% in CY 1998) is expected to grow more quickly than total personal income in CY 1999. It is anticipated that wage and salary income growth will decline to 4.6% in CY 1999, and fall to 3.6% in CY 2000. Moderate growth in inflation will result in constant growth of real disposable income in CY 1999 (3.2%), following a 3.2% growth rate in CY 1998. Growth in real disposable income will slow to 1.5% in CY 2000.

Figure 8



**Seasonally Adjusted Annual Rate*

Michigan Forecast

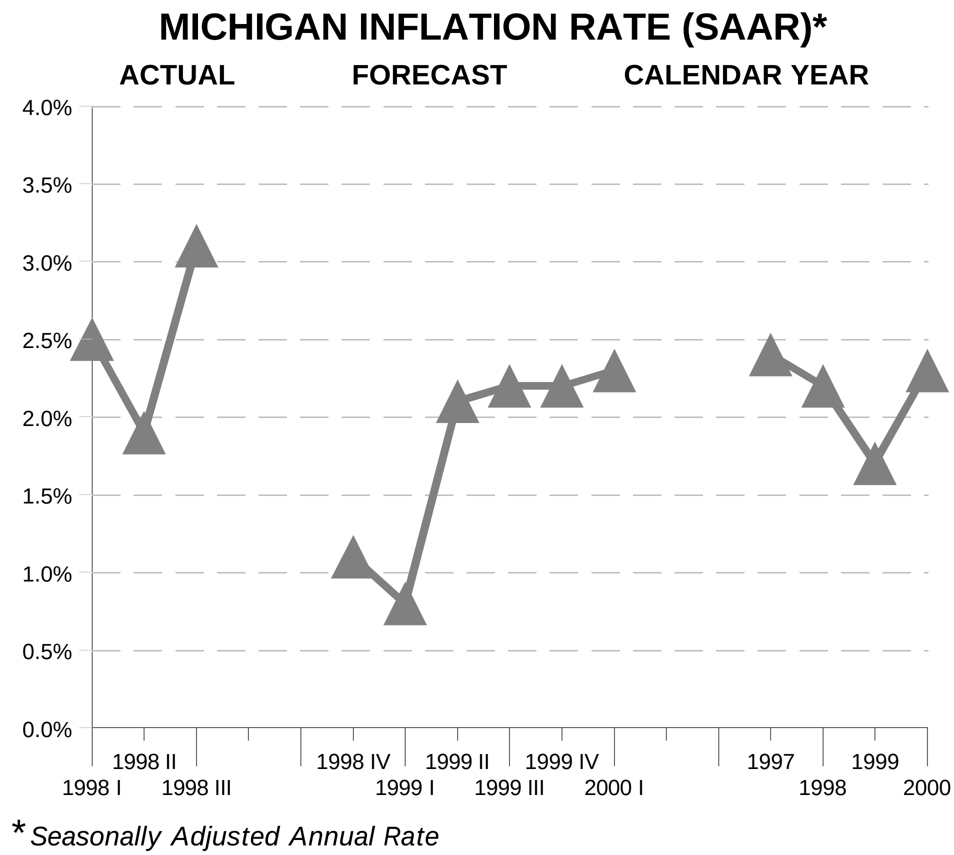
♦ **Michigan Personal Income Growth**

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

➤ Total Michigan personal income is estimated to have grown by approximately 5.1% in CY 1998 (after growth of about 4.6% in CY 1997).

➤ State personal income growth will decrease in CY 1999 to 3.9%, and will decelerate to 3.4% in CY 2000.

Figure 9

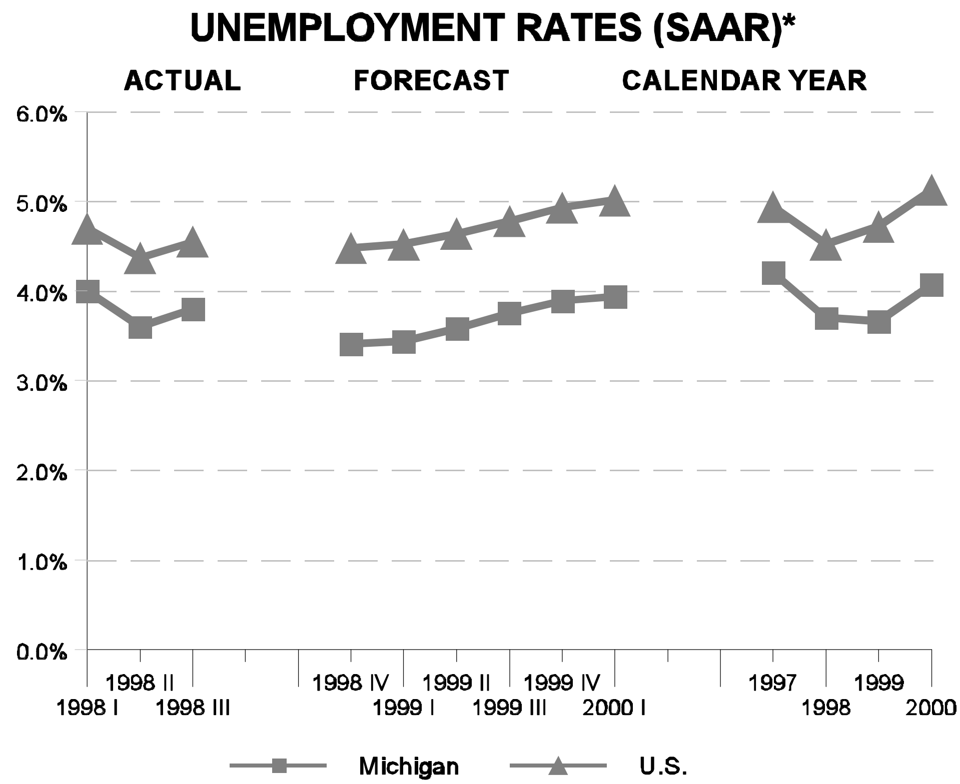


- **Inflation**

  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 — moderately higher than 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 remain subdued through 2000. In CY 1999, the Detroit CPI-U will increase by 1.7%. In CY 2000, inflation in Michigan will increase by 2.3%.

Figure 10

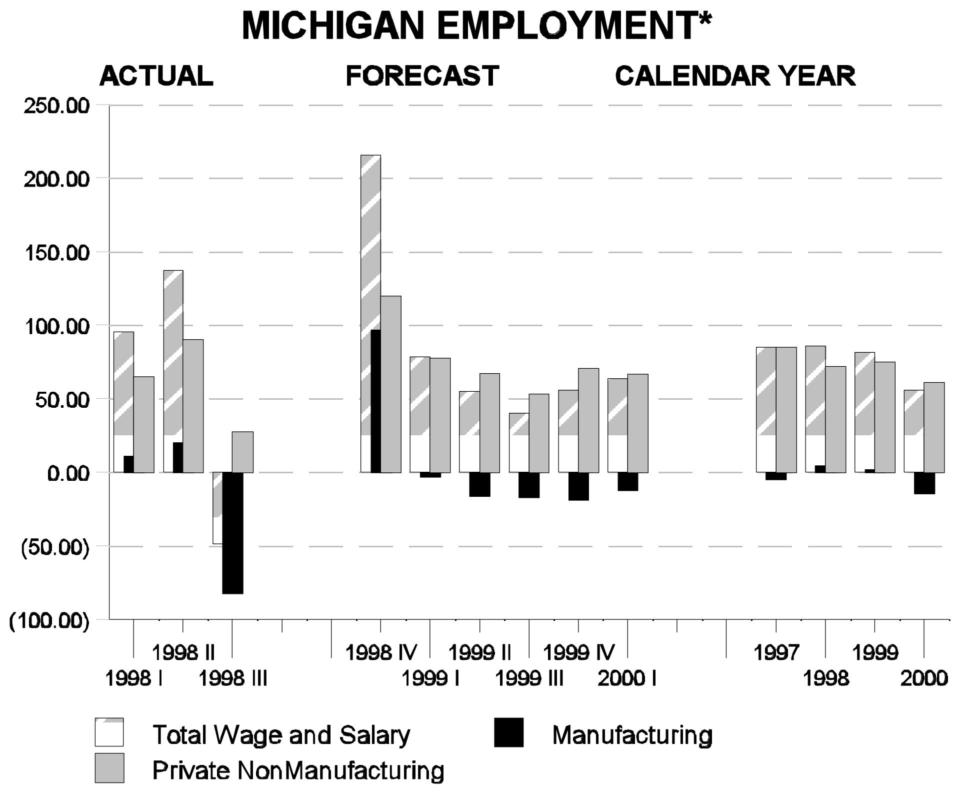


**Seasonally Adjusted Annual Rate*

- **Michigan Unemployment Rates**
  Although the job market is expected to remain somewhat tight, job growth in Michigan is expected to be moderate through CY 2000, and the unemployment rate is expected to increase slightly through CY 2000. Wage and salary employment in the manufacturing sector is expected to increase slightly by 0.2% in CY 1999 and decrease 1.5% in CY 2000. Most of the job loss in manufacturing in CY 2000 will be in the motor vehicle sector.

  The average unemployment rate in Michigan was 3.7% in CY 1998; this will hold steady in CY 1999 and inch up to 4.1% in CY 2000.

Figure 11



* *Composition of Changes (Annual Rate)*

♦ **Job Growth in Michigan**

The Michigan economy continued to create jobs in CY 1998, but the composition of jobs created is changing. In CY 1998, employment in the manufacturing sector is estimated to have grown by a scant 0.5%, whereas private nonmanufacturing employment grew by an estimated 2.5%, and total wage and salary employment grew 1.9%.

➤ Total wage and salary employment is expected to increase 1.8% in CY 1999 and moderate to 1.2% in CY 2000. However, almost all of the employment gains are expected to be in private nonmanufacturing.

➤ Manufacturing employment will increase 0.2% in CY 1999 (with job losses in the motor vehicle sector) and decline 1.2% in CY 2000 (in large part due to declines in durable goods employment).

- Private nonmanufacturing employment, with expected growth rates of 2.6% in CY 1999 and 2.1% in 2000, will once again be fueled by the service sector, as well as by the construction and wholesale trade sectors.

- Employment in services is estimated to have grown approximately 3.4% in CY 1998, and is anticipated to grow by 3.7% in CY 1999 and 3.4% in CY 2000.

- Retail trade employment grew by 1.8% in CY 1998, and will grow by 2.2% in CY 1999 and 0.9% in CY 2000.

- Wholesale trade employment will grow by 2.3% in CY 1999 and by 1.2% in CY 2000.

- Construction employment will grow by 0.5% in CY 1999 and by 0.4% in CY 2000.

Table 2

ECONOMIC VARIABLES U.S. FORECAST Variable	CY 1998	CY 1999	CY 2000
Rate of Interest, 3-Month Treasury Bill	4.8%	4.3%	4.2%
Real GDP Growth	3.7%	2.0%	1.8%
U.S. CPI-U -- Percentage Change	1.6%	1.4%	2.0%
Light Vehicle Sales (in millions)	15.4	15.0	15.0
Import Share of Light Vehicle Sales	13.0%	12.9%	12.8%
Unemployment Rate	4.5%	4.7%	5.1%
U.S. Personal Income Growth	5.0%	3.9%	3.0%

MICHIGAN FORECAST Variable	CY 1998	CY 1999	CY 2000
Michigan Personal Income Growth	5.1%	3.9%	3.4%
Detroit CPI-U -- Percentage Change	2.2%	1.7%	2.3%
Unemployment Rate	3.7%	3.7%	4.1%
Wage and Salary Employment Growth	1.9%	1.8%	1.2%

RISKS & UNCERTAINTIES

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. The forecast also assumes that the Japanese economy will begin to stabilize mid-year and begin to grow again in mid- to late-1999. If a Japanese recession persists and/or if there is further turmoil in international capital markets, there will be a negative impact on the U.S. economy. A potential bright spot in the international economy is the European Economic Community (EEC). If the EEC experiences a more robust economic expansion than expected, it will stimulate world economic growth and the U.S. economy will likely benefit.

Monetary Policy

Recent interest rate reductions in Europe bode well for a continuation of the European economic expansion. In the U.S., the Fed has lowered the Fed funds rate 75 basis points since September 1998. We expect another downward movement of 25 basis points. If the Fed believes that there is too much underlying weakness in the economy, it will reduce rates even more than expected. If, on the other hand, the Fed believes that economic growth is likely to be much stronger than 2.0% in 1999 and 2000, it is less likely to ease any further.

Consumer Spending

Consumer spending (consumption) represents about two-thirds of the value of GDP (which is expected to be almost $9 trillion in 2000). Strong consumer spending fueled the robust economic growth the U.S. experienced in 1998. Indeed, real consumption increased about 5.0% in 1998. To put this into perspective, growth in real consumption was 3.7% in 1997, and averaged 2.6% per year from 1992 to 1997. We expect consumption to slow to about a 2.0% rate in 1999. If consumption continues at a much stronger (say a 3.0%) rate, we will have underestimated the strength of the economy. If there are more announcements of firms downsizing; more turmoil in the stock markets; or if there is more bad news in Asia, Russia, and South America that negatively affects consumer confidence, consumption could stall and negatively affect U.S. economic growth.

GF/GP & SAF REVENUES

GF/GP AND SCHOOL AID FUND REVENUES

This section explains January 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 3 and 4** on pages 33 and 36. Also included are year-end balance estimates and state revenue limit calculations.

General Fund/General Purpose Revenue by Source

- **Personal Income Tax**

  The jobs base is expected to continue to expand but at a slower rate in 1999 and 2000. Unemployment rates will remain low. This will lead to moderately slower growth in Michigan personal income and income tax revenues through FY 1999-00.

  Baseline GF/GP income tax revenues are expected to increase 4.9% (to $4,937.2 million) in FY 1998-99, and 3.6% in FY 1999-00 (to $5,115.1 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 1998, or the impact of increasing the tuition tax credit in 1998.

- **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 $828.8 million in FY 1997-98 to $861.8 million in FY 1998-99, and by 5.5% (to $909.2 million) in FY 1999-00.

  Baseline sales tax revenues in each fiscal year are adjusted to reflect changes in the percent of gross sales tax revenue dedicated to local revenue sharing beginning in FY 1996-97.

- **Single Business and Insurance Taxes**

  All Single Business Tax (SBT) revenues accrue to the GF/GP. Net baseline business taxes (SBT plus insurance taxes) were $2,514.1 million in FY 1997-98 and will increase 3.3% (to $2,596.1 million) in FY 1998-99, and by 4.9% (to $2,723.8 million) in FY 1999-00.

Baseline Single Business Tax revenues alone were $2,334.0 million in FY 1997-98; they are expected to increase 2.7% (to $2,398.0 million) in FY 1998-99, and by 4.5% (to $2,505.9 million) in FY 1999-00.

Baseline estimates do not include the impact of SBT apportionment changes, the full effects of the new apprenticeship credit, or Capital Acquisition Deduction changes that will affect FY 1998-99 and FY 1999-00 revenue collections.

- **GF/GP Baseline Tax Revenues**
  Preliminary estimates indicate that GF/GP baseline tax revenues totaled $8,657.9 million in FY 1997-98. General Fund/General Purpose baseline tax revenues are expected to increase by 4.1% (to $9,016.1 million) in FY 1998-99 and by 4.1% (to $9,383.7 million) in FY 1999-00. Total GF/GP baseline tax revenues include the category labeled "Other Taxes" in **Table 3**.

- **Total GF/GP Baseline Revenues**
  Total baseline GF/GP revenues include baseline tax revenues and non-tax revenues. Total GF/GP baseline revenues were $8,808.5 million in FY 1997-98. General Fund/General Purpose baseline revenues are expected to increase by 3.9% (to $9,151.9 million) in FY 1998-99 and by 4.0% (to $9,519.5 million) in FY 1999-00.

- **Actual GF/GP Revenues**
  Actual GF/GP revenues represent revenues available for expenditure each year. Actual GF/GP revenues are expected to be $8,989.9 million in FY 1998-99 and are expected to increase 3.1% (to $9,271.6 million) in FY 1999-00. Additional detail on year-end balances and adjustments is provided in the Balance Sheet on page 45.

Table 3

GF/GP REVENUE ESTIMATES (In Millions of Dollars and Fiscal Years)				1999-00 over 1998-99	
	1997-98	1998-99	1999-00	%Change	$Change
Personal Income Taxes @ 23% SAF Dedication	$4,704.9	$4,937.2	$5,115.1	3.6%	$177.9
Sales and Use Taxes	828.8	861.8	909.2	5.5%	47.4
SBT and Insurance Taxes	2,514.1	2,596.1	2,723.8	4.9%	127.7
Other Taxes	610.1	621.0	635.6	2.4%	14.6
GF/GP Baseline Tax Revenues	**$8,657.9**	**$9,016.1**	**$9,383.7**	**4.1%**	**$367.6**
Non-Tax Revenue	150.6	135.8	135.8	0.0%	0.0
Total GF/GP Baseline Revenues	**$8,808.5**	**$9,151.9**	**9,519.5**	**4.0%**	**$367.6**
Adjustments to Baseline	(46.1)	(162.0)	(247.9)		
Actual GF/GP Revenues	**$8,762.4**	**$8,989.9**	**$9,271.6**	**3.1%**	**$281.7**

School Aid Fund Revenue by Source

- **Sales and Use Taxes**
  Baseline sales tax revenues will increase by 3.7% in FY 1998-99 and by 3.5% in FY 1999-00; baseline use tax revenue will increase by 4.0% in FY 1998-99 and by 3.9% in FY 1999-00. Combined sales and use tax revenue dedicated to the School Aid Fund (SAF) equaled $4,488.7 million in FY 1997-98 and will increase by 3.7% (to $4,654.5 million) in FY 1998-99, and by 3.5% (to $4,819.4 million) in FY 1999-00.

- **Income Tax**
  Twenty-three percent of gross income tax revenue is dedicated to the School Aid Fund. Dedicated income tax revenue was $1,714.3 million in FY 1997-98, and will increase 4.9% (to $1,797.7 million) in FY 1998-99, and by 3.7% (to $1,863.8 million) in FY 1999-00.

- **State Education Tax**
  The 6-mill state education tax (SET) is dedicated to the SAF. Revenues from the SET were $1,234.0 million in FY 1997-98. State Education Tax revenues are expected to increase 2.9% (to $1,270.0 million) in FY 1998-99, and 4.0% (to $1,321.0 million) in FY 1999-00.

- **Lottery**
  Lottery revenues contributed approximately $608.6 million to the SAF in FY 1997-98. Baseline lottery revenues to the SAF are projected to be $608.0 million in FY 1998-99 and FY 1999-00.

  Baseline revenue estimates do not include the impact of Detroit Casinos. Additional Casino revenues are not likely to accrue to the SAF until FY 1999-00.

- **Tobacco Taxes**
  Approximately 64.0% of gross tobacco tax revenue is dedicated to the School Aid Fund. The School Aid Fund received approximately $364.7 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 tobacco tax revenues are expected to decrease to $360.0 million in both FY 1998-99 and FY 1999-00.

- **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 $229.0 million to the SAF in FY 1997-98 and will contribute $238.2 million to the SAF in FY 1998-99 and $247.7 million in FY 1999-00.

- **Total SAF Baseline Revenues**
  Total SAF baseline revenues were $8,791.9 million in FY 1997-98. Baseline revenues are expected to increase 3.3% (to $9,084.9 million) in FY 1998-99 and 3.2% (to $9,376.4 million) in FY 1999-00.

- **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 are expected to be $8,791.9 million in FY 1997-98 and are expected to increase by 2.9% to $9,047.3 million in FY 1998-99 and by 3.0% to $9,314.2 million in FY 1999-00. More detail on year-end balances and adjustments, including GF/GP transfers to SAF, is reported in the Balance Sheet on page 46.

Table 4

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

Revenues	1997-98	1998-99	1999-00	1999-00 over 1998-99 % Change	1999-00 over 1998-99 $ Change
Sales and Use Tax	$4,488.7	$4,654.5	$4,819.4	3.5%	164.9
Income Tax Earmark (23%)	1,714.3	1,797.7	1,863.8	3.7%	66.1
State Education Tax	1,234.0	1,270.0	1,321.0	4.0%	51.0
Lottery	608.6	608.0	608.0	0.0%	0.0
Tobacco Taxes	364.7	360.0	360.0	0.0%	0.0
Transfer Tax	229.0	238.2	247.7	4.0%	9.5
Liquor Excise and Specific Taxes	152.6	156.5	156.5	0.0%	0.0
Baseline SAF Revenues	**$8,791.9**	**$9,084.9**	**$9,376.4**	**3.2%**	**$291.5**
Adjustments to Baseline	0.0	(37.6)	(62.2)		
Actual SAF Revenues (less GF/GP Transfer)	**$8,791.9**	**$9,047.3**	**$9,314.2**	**3.0%**	**$266.9**

HFA Estimates of Year-End Balances

Table 5 reports House Fiscal Agency estimates of year-end balances for GF/GP, the SAF, and the BSF. Year-end balances for the SAF and GF/GP are derived in the Balance Sheets located in the Appendix to this report.

- 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.

Table 5

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

	1996-97	1997-98	1998-99
General Fund/General Purpose	$53.3	$21.9	$182.2
School Aid Fund	193.9	279.4	362.5
Budget Stabilization Fund	1,152.4	1,027.3	1,208.4

Budget Stabilization Fund Year-End Balances

Table 6 and **Figure 12** show a history of the BSF balance. **Table 6** shows deposits, withdrawals, and interest earnings from FY 1989-90 to FY 1996-97. It also includes HFA estimates of deposits, expected interest earnings, and year-end balances for FYs 1997-98, 1998-99, and 1999-00.

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

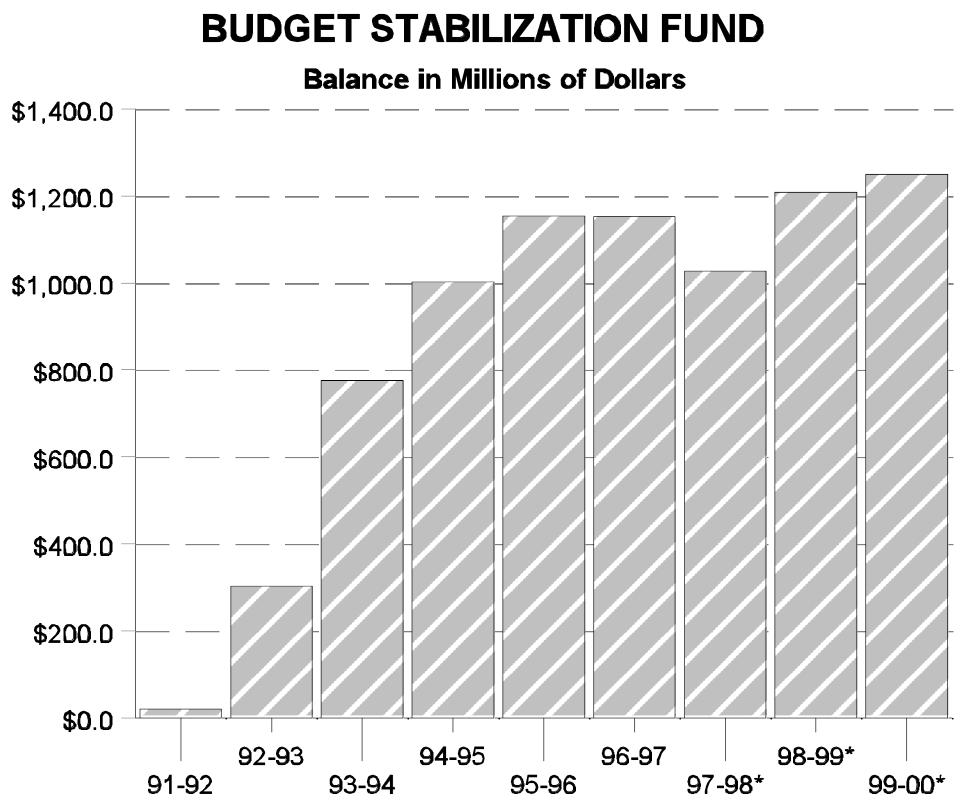
Table 6

BUDGET STABILIZATION FUND
(In 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*	21.9	212.0	65.0	1,027.3
1998-99*	182.2	73.7	72.6	1,208.4
1999-00*	0.0	32.0	72.5	1,248.9

* *Estimates*

Figure 12



*Estimates

Compliance with the State Revenue Limit

Table 7 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.

Table 7

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

Revenue Limit Calculations	1997-98	1998-99	1999-00
Personal Income			
Calendar Year	CY 1996	CY 1997	CY 1998
Amount	$239,330	$244,329	$256,836
X Limit Ratio	9.49%	9.49%	9.49%
State Revenue Limit	**$22,712.4**	**$23,186.8**	**$24,373.7**
Total Revenues Subject to Revenue Limit	21,935.6	22,549.8	23,226.3
Amount Under (Over) State Revenue Limit	**$776.8**	**$637.0**	**$1,147.4**

Implications of Exceeding the State Revenue Limit

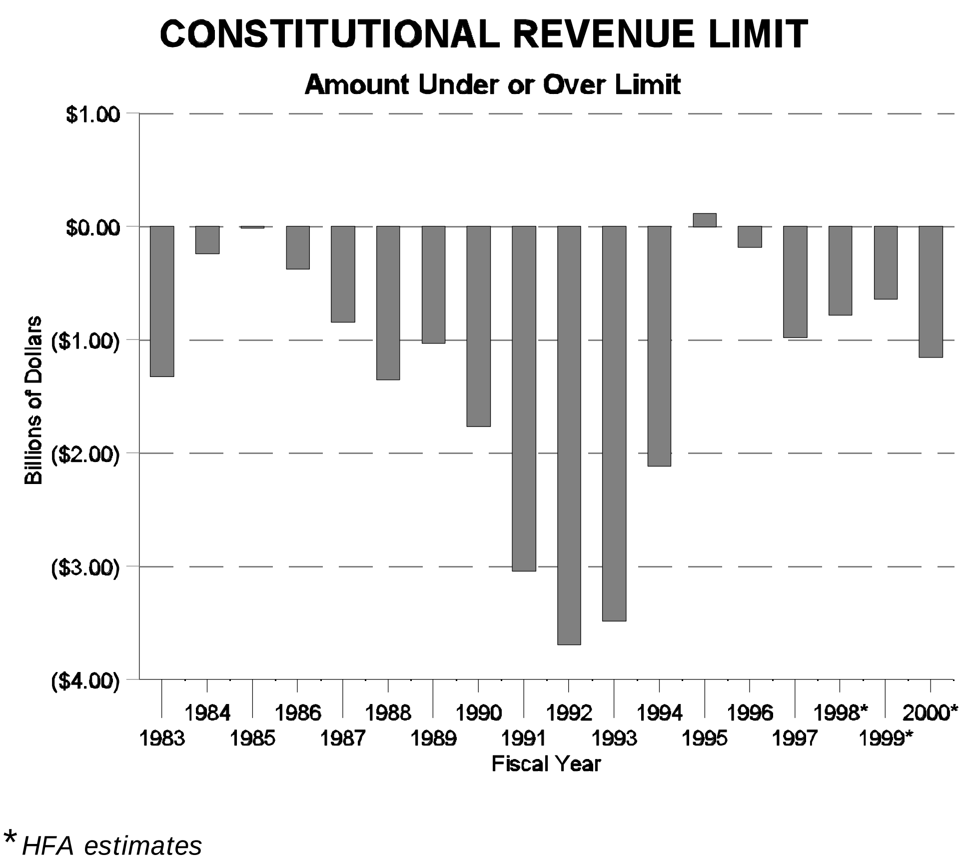
Article IX, Section 26, *Constitution of the State of Michigan*, provides that:

> . . .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.

Figure 13 and **Table 8** provide historical information on Michigan's state revenue limit.

Figure 13



*HFA estimates

Table 8

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*	($0.78)
1988	($1.35)	1999*	($0.64)
1989	($1.03)	2000*	($1.15)
1990	($1.76)		

**HFA Estimates*

APPENDIX

Table 9

House Fiscal Agency
General Fund/General Purpose Balance Sheet
(In Millions of Dollars)

	FY 1997-98	FY 1998-99	FY 1999-00
Beginning Balance	$53.3	$0.0	$0.0
Baseline Estimate	8,808.5	9,151.9	9,519.5
Tax Changes and Adjustments	(46.1)	(162.0)	(247.9)
ESTIMATED RESOURCES	**$8,815.7**	**$8,989.9**	**$9,271.6**
Enacted Appropriations	$8,647.8	$8,807.7	
Supplemental and/or Contingency Appropriations	103.3	0.0	
Projected Lapses	42.7	0.0	
ESTIMATED EXPENDITURES	**$8,793.8**	**$8,807.7**	
YEAR-END BALANCE	**$21.9**	**$182.2**	
BSF TRANSFER	**$21.9**	**$182.2**	

NOTE: Any discrepancy in totals is due to rounding.

Table 10

House Fiscal Agency
School Aid Fund Balance Sheet
(In Millions of Dollars)

	FY 1997-98	**FY 1998-99**	**FY 1999-00**
Beginning Balance	$193.9	$279.4	$362.5
Baseline Estimate	8,791.8	9,084.9	9,376.3
Tax Changes	0.0	(37.6)	(62.2)
Own-Source Resources	$8,985.7	$9,326.7	$9,676.6
GF/GP Transfer	377.9	420.6	420.6
Federal Aid	95.9	120.0	120.0
BSF Transfer	212.0	73.7	32.0
TOTAL RESOURCES	**$9,671.5**	**$9,941.0**	**$10,249.2**
ESTIMATED EXPENDITURES	**$9,392.1**	**$9,578.5**	**$9,939.0**
YEAR-END BALANCE	**$279.4**	**$362.5**	**$310.2**

NOTE: Any discrepancy in totals is due to rounding.

HOUSE FISCAL AGENCY

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