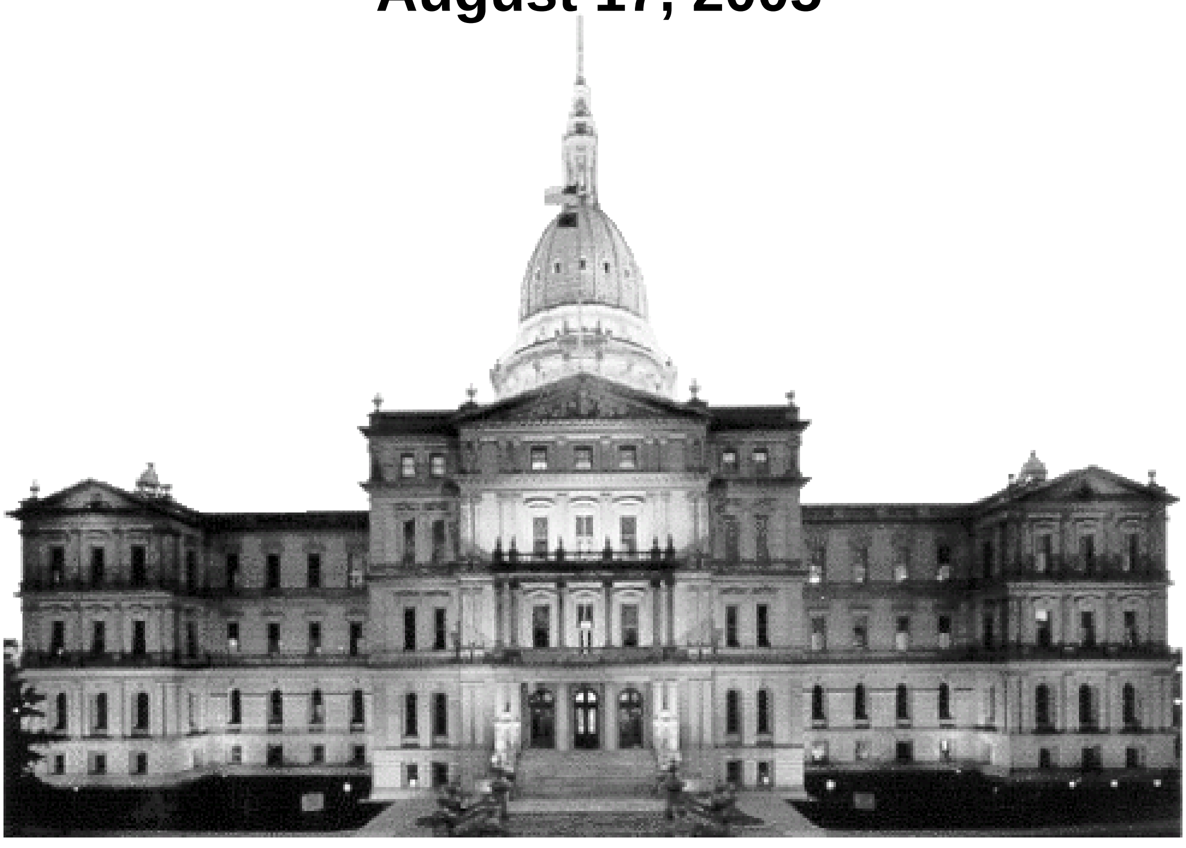
Senate Fiscal Agency

MICHIGAN'S ECONOMIC OUTLOOK AND BUDGET REVIEW

FY 2004-05 AND FY 2005-06 REVISED

August 17, 2005



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THE SENATE FISCAL AGENCY

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4. To provide economic and revenue analysis and forecasting.
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ACKNOWLEDGEMENT

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EXECUTIVE SUMMARY

ECONOMIC FORECAST

The U.S. economy, as measured by inflation-adjusted gross domestic product, will increase at an estimated rate of 3.8% in 2005 and 3.0% in 2006. Light vehicle sales will total 16.9 million units in 2005 and 16.7 million units in 2006. The unemployment rate will remain at 5.3% in both 2005 and 2006, while the consumer price index will rise 3.5% in 2005 and 3.0% in 2006.

The Michigan economy, as measured by inflation-adjusted personal income, will increase at an estimated rate of 1.9% in both 2005 and 2006. Wage and salary employment will decline 0.3% in 2005, followed by a modest gain of 0.3% in 2006.

REVENUE FORECAST

General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue will total an estimated $18.9 billion in fiscal year (FY) 2004-05, which is up 1.3% from FY 2003-04. In FY 2005-06, GF/GP and SAF revenue will total an estimated $19.5 billion, up 3.0% from FY 2004-05. Compared with the May consensus revenue estimates, the estimate for FY 2004-05 has been revised up $129 million and the estimate for FY 2005-06 has been increased $75 million.

General Fund/General Purpose revenue is expected to total $8.0 billion in FY 2004-05, which is a slight 0.1% decline from the FY 2003-04 level. In FY 2005-06, GF/GP revenue will increase an estimated 2.3% to $8.2 billion. Compared with the May consensus revenue estimates, these revised estimates are up $119.0 million for FY 2004-05 and $81.0 million for FY 2005-06.

School Aid Fund earmarked tax and lottery revenue will total an estimated $10.9 billion in FY 2004-05, which is up 2.3% from FY 2003-04 and up $9 million from the May consensus estimate. In FY 2005-06, SAF revenue will total an estimated $11.2 billion, representing an increase of 3.5% from FY 2004-05; however, this revised estimate is down $6.0 million from the May estimate.

YEAR-END BALANCE ESTIMATES

Based on the revised Senate Fiscal Agency (SFA) revenue estimates and enacted and projected State appropriations the SFA has revised its estimates of the FY 2004-05 GF/GP and SAF year-end balances. The projected FY 2004-05 GF/GP year-end balance is $91.0 million and the projected FY 2004-05 SAF year-end balance is $11.1 million. Pursuant to statutory requirements the actual levels of the FY 2004-05 GF/GP and SAF year-end balances will carry forward into FY 2005-06.

Based on the revised SFA revenue estimates and the Senate-passed appropriation bills, the SFA has revised its estimates of the FY 2005-06 GF/GP and SAF year-end balances. The projected FY 2005-06 GF/GP year-end balance is $113.5 million and the projected FY 2005-06 SAF year-end balance is $2.8 million.

EXECUTIVE SUMMARY

SENATE FISCAL AGENCY
ECONOMIC AND BUDGET SUMMARY

ECONOMIC PROJECTIONS
(Calendar Year)

	2003 Actual	2004 Actual	2005 Estimate	2006 Estimate
Real Gross Domestic Product (% change)	2.7%	4.2%	3.8%	3.0%
U.S. Consumer Price Index (% change)	2.3%	2.7%	3.5%	3.0%
Light Motor Vehicle Sales (millions of units)	16.6	16.9	16.9	16.7
U.S. Unemployment Rate (%)	6.0%	5.5%	5.3%	5.3%
Michigan Personal Income (% change)	4.2%	2.6%	5.0%	4.5%
Michigan Unemployment Rate (%)	7.3%	7.1%	7.4%	7.4%
Wage and Salary Employment (% change)	(1.5)%	(0.4)%	(0.3)%	0.3%

REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE (GF/GP) AND SCHOOL AID FUND (SAF)
(Millions of Dollars)

	FY 2004-05 Estimate			FY 2005-06 Estimate		
	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available
Gen'l Fund/Gen'l Purpose	$8,298.6	$(264.7)	$8,034.0	$8,449.6	($233.3)	$8,216.4
% Change	3.8%	---	(0.1)%	1.8%	---	2.3%
School Aid Fund	$10,868.8	$(8.8)	$10,860.1	$11,230.3	$7.9	$11,238.0
% Change	3.2%	---	2.3%	3.3%	---	3.5%
Total GF/GP and SAF	$19,167.4	$(273.5)	$18,893.9	$19,679.9	$(225.4)	$19,454.5
% Change	3.5%	---	1.3%	2.7%	---	3.0%

	FY 2004-05 Estimate	FY 2005-06 Estimate
Revenue Limit - Under (Over):	$5,336.4	$5,463.5

YEAR-END BALANCE ESTIMATES
(Fiscal Year, Millions of Dollars)

	FY 2003-04 Actual	FY 2004-05 Estimate	FY 2005-06 Estimate
General Fund/General Purpose	$ 0.0	$ 91.0	$113.5
School Aid Fund	$ 74.1	$ 11.1	$ 2.8
Budget Stabilization Fund	$ 81.3	$ 0.0	$ 0.0

THE ECONOMIC REVIEW AND OUTLOOK

State revenue, particularly tax revenue, depends heavily on economic conditions. This section presents the Senate Fiscal Agency's latest economic forecast for 2005 and 2006, as well as a summary of recent economic activity.

RECENT ECONOMIC HIGHLIGHTS

Although the United States economy has been growing for more than three years, since the trough of the 2001 recession in November of that year, employment growth has been hampered by sustained increases in productivity and a variety of other economic shocks, particularly in energy prices. Inflation-adjusted Gross Domestic Product (GDP) increased 4.2% in 2004, the third highest rate since 1984, while wage and salary employment rose 1.1%, less than in any year during the 1984-2000 period other than the recession years of 1991 and 1992. Details for selected economic indicators for the last few years are presented in Table 1 and Table 2.

Michigan's gains in personal income and employment have lagged behind nearly every other state in the country. The reason Michigan has struggled so much compared with other states reflects the economic changes occurring in certain sectors of the economy combined with Michigan's industrial mix. Nationally, job losses during the recession were more severe, compared with the drop in inflation-adjusted GDP, than during previous recessions primarily because of substantial increases in productivity. Similarly, job growth during the recovery has been slowed by continued high productivity. As seen in Figure 1, productivity has been increasing rapidly in recent years, particularly in durable goods manufacturing, a sector in which Michigan industry is disproportionately concentrated (Figures 2 and 3).

Productivity gains provide a number of positive economic benefits, including lower product prices and greater income growth in the future. However, productivity offers a transitory negative economic effect with its impact on job growth. For example, with stable sales, an 8% increase in productivity in one year (such as experienced in durable goods manufacturing over the 2002-2003 period) means that a firm could reduce its labor force by 8% that year and still produce the output needed to meet demand. In the case of Michigan's largest industry--transportation equipment manufacturing--total sales of light vehicles have remained fairly flat (falling almost 3% between 2001 and 2003 and then rising 1.4% in 2004) and domestic vehicle sales have comprised a decreasing share of total sales (from 83.5% in 2000 to 79.8% in 2004). In 2001, the year the U.S. economy mostly spent in recession, Michigan represented 3.2% of the national economy, yet produced 5.2% of manufacturing goods and 6.9% of durable goods. Approximately one-half of Michigan's durable goods manufacturing employment is in transportation equipment manufacturing, and employment in Michigan's motor vehicle manufacturing employment comprises nearly one-third of the nation's motor vehicle manufacturing employment.

While more difficult to quantify, many of Michigan's nonmanufacturing sectors rely heavily, either directly or indirectly, on activity in the motor vehicle sector. Average wages in transportation equipment manufacturing are higher than in any other economic sector in Michigan, workers in the sector will purchase goods and services across the spectrum for their own consumption, and vehicle manufacturers are significant consumers of a variety of goods and services as well. As a result, economic downturns (either from declining employment or from declining business profits) in the vehicle sector are transmitted and multiplied throughout the Michigan economy, just as any national or local economic shock is transmitted through the affected economies.

The factors affecting job growth over the last few years are expected to continue to influence the economy over the forecast period. The primary factors affecting the economy, and which present risks to the forecast, are: 1) strong productivity growth; 2) inflationary pressures; 3) higher interest rates hampering consumption growth; 4) investment growth being slowed by higher interest rates and a significant amount of corporate debt that is under variable rate terms; and 5) weak growth in net exports.

Table 1

THE SENATE FISCAL AGENCY ECONOMIC FORECAST (Calendar Years)

United States	**2002 Actual**	**2003 Actual**	**2004 Actual**	**2005 Estimate**	**2006 Estimate**
Nominal GDP					
(year-to-year growth)	3.4%	4.8%	7.0%	6.5%	6.1%
Inflation-adjusted GDP					
(year-to-year growth)	1.6%	2.7%	4.2%	3.8%	3.0%
Unemployment rate	5.8%	6.0%	5.5%	5.3%	5.3%
Inflation					
Consumer Price Index					
(year-to-year growth)	1.6%	2.3%	2.7%	3.5%	3.0%
GDP Implicit price deflator					
(year-to-year growth)	1.7%	2.0%	2.6%	2.8%	3.0%
Interest rates					
90-day Treasury bill	1.61%	1.01%	1.38%	3.10%	4.45%
Corporate Aaa bond	6.49%	5.66%	5.63%	5.79%	6.52%
Federal funds rate	1.67%	1.13%	1.35%	3.24%	5.46%
Light motor vehicle sales					
(millions of units)	16.8	16.6	16.9	16.9	16.7
Auto	8.1	7.6	7.5	7.7	7.6
Truck	8.7	9.0	9.4	9.2	9.2
Import Share	19.6%	19.9%	20.2%	19.8%	22.0%
Michigan					
Personal Income (millions)	$301,760	$314,346	$322,636	$338,716	$353,890
Year-to-year growth	0.7%	4.2%	2.6%	5.0%	4.5%
Inflation-adjusted personal income (year-to-year growth)	(1.8)%	2.1%	1.0%	1.9%	1.9%
Wage & salary income (millions)	$173,425	$176,646	$180,007	$183,625	$189,581
year-to-year growth	0.2%	1.9%	1.9%	2.0%	3.2%
Detroit Consumer Price Index					
(year-to-year growth)	2.6%	2.0%	1.6%	3.0%	2.5%
Wage & Salary Employment					
(thousands)	$4,477.8	$4,409.6	$4,390.8	$3,377.3	$4,388.3
year-to-year growth	(1.7)%	1.5)%	(0.4)%	(0.3)%	0.3%
Unemployment Rate	6.2%	7.3%	7.1%	7.4%	7.4%

Table 2

THE SENATE FISCAL AGENCY U.S. ECONOMIC FORECAST DETAIL (Calendar Years)					
	2002 Actual	**2003 Actual**	**2004 Actual**	**2005 Estimate**	**2006 Estimate**
Gross Domestic Product					
(billions of dollars)	$10,469.9	$10,971.2	$11,734.3	$12,502.8	$13,264.4
Year-to-year growth	3.4%	4.8%	7.0%	6.5%	6.1%
Inflation-Adjusted GDP and Components					
Gross Domestic Product					
(billions of 2000 dollars)	$10,048.8	$10,320.6	$10,755.7	$11,167.4	$11,501.2
Year-to-year growth	1.6%	2.7%	4.2%	3.8%	3.0%
Consumption					
(billions of 2000 dollars)	$7,099.3	$7,306.6	$7,588.6	$7,867.4	$8,122.6
Year-to-year growth	2.7%	2.9%	3.9%	3.7%	3.2%
Business fixed investment					
(billions of 2000 dollars)	$1,071.5	$1,085.0	$1,186.7	$1,303.4	$1,415.2
Year-to-year growth	(9.2)%	1.3%	9.4%	9.8%	8.6%
Change in Business inventories					
(billions of 2000 dollars)	$12.5	$15.5	$52.0	$37.7	$57.1
Residential investment					
(billions of 2000 dollars)	$469.9	$509.4	$561.8	$594.8	$564.5
Year-to-year growth	4.8%	8.4%	10.3%	5.9%	(5.1)%
Government spending					
(billions of 2000 dollars)	$1,858.8	$1,911.1	$1,952.3	$1,979.8	$2,005.6
Year-to-year growth	4.4%	2.8%	2.2%	1.4%	1.3%
Net Exports					
(billions of 2000 dollars)	($471.3)	($521.4)	($601.3)	($626.7)	($660.0)
Exports (billions of 2000 dollars)	$1,013.3	$1,031.2	$1,117.9	$1,200.9	$1,291.5
Imports (billions of 2000 dollars)	$1,484.6	$1,552.6	$1,719.2	$1,827.5	$1,951.5
Personal income					
(year-to-year growth)	1.8%	3.2%	5.9%	7.9%	5.8%
Adjusted for Inflation	0.2%	0.9%	3.2%	4.2%	2.8%
Wage & salary income					
(year-to-year growth)	0.8%	2.6%	5.4%	5.7%	5.8%
Personal savings rate	2.4%	2.1%	1.8%	1.8%	1.6%
Capacity utilization rate	75.6%	74.8%	78.1%	80.9%	81.4%
Housing starts (millions of units)	1.705	1.848	1.952	2.071	1.862
Conventional mortgage rates	6.4%	5.8%	5.8%	6.2%	7.2%
Federal budget surplus					
(billions of dollars, NIPA basis)	$(247.9)	$(382.7)	$(406.5)	$(326.2)	$(327.3)

Figure 1

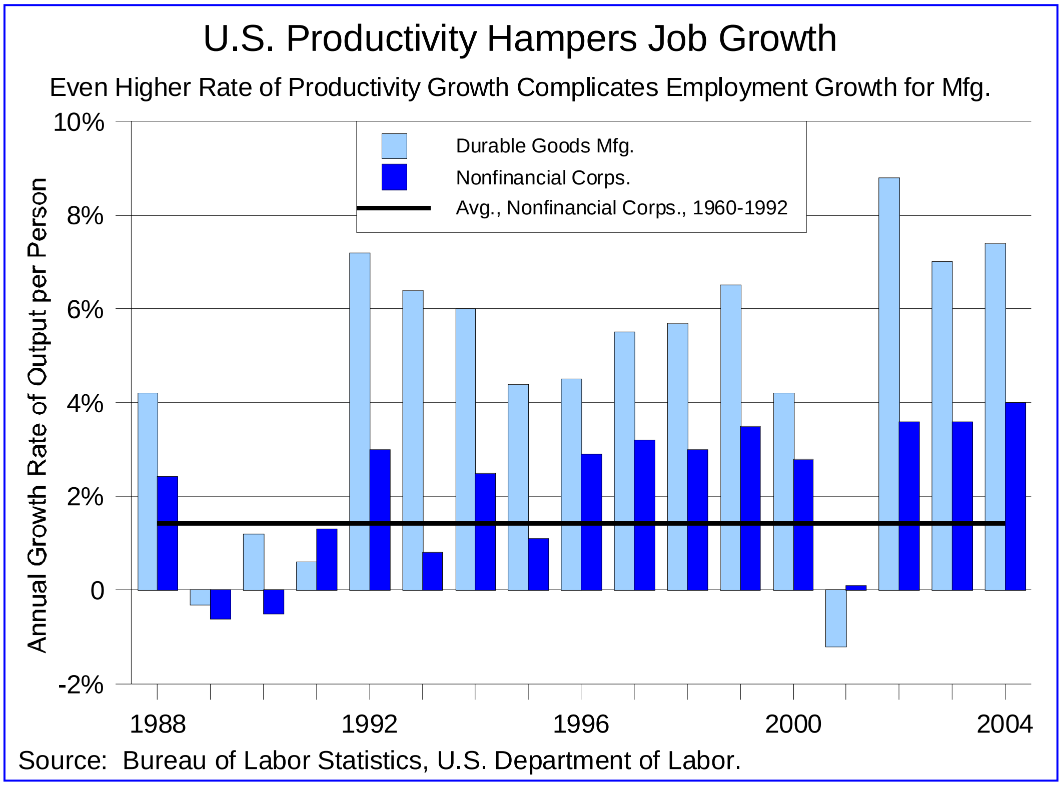


Figure 2

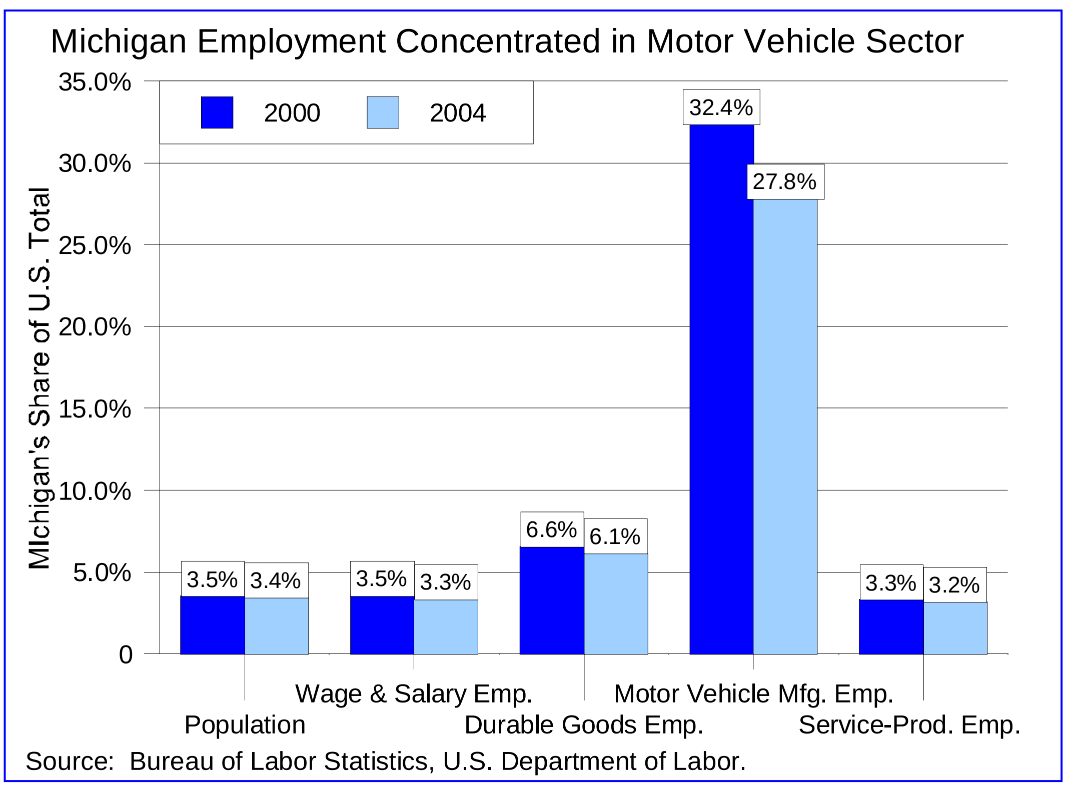
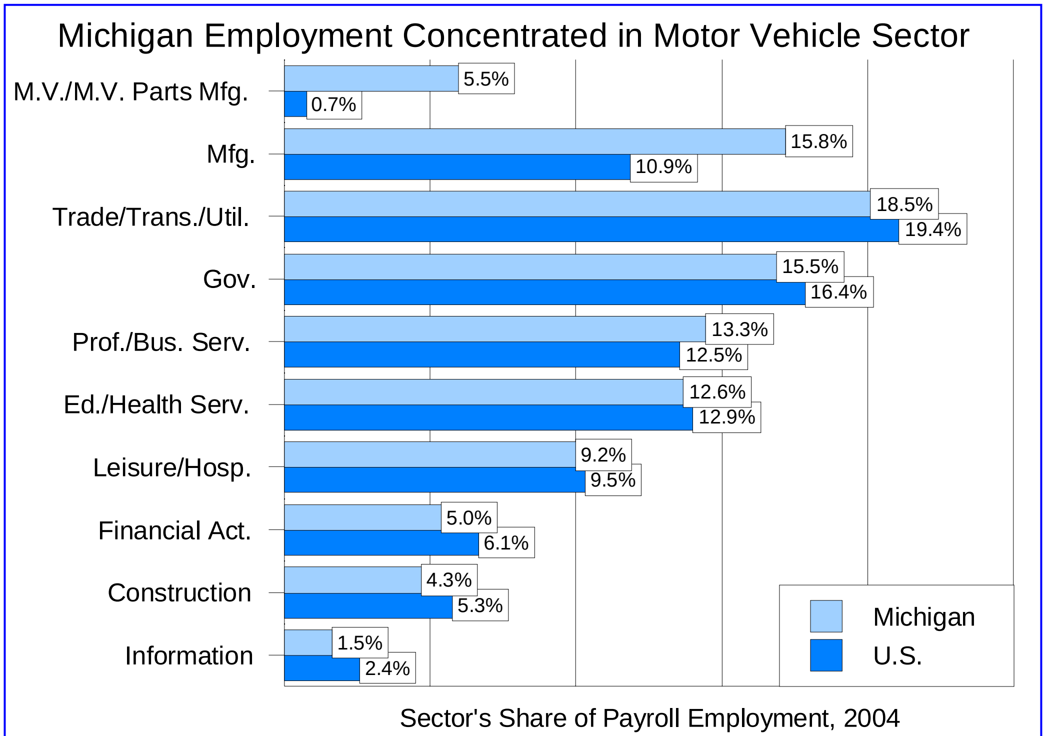


Figure 3



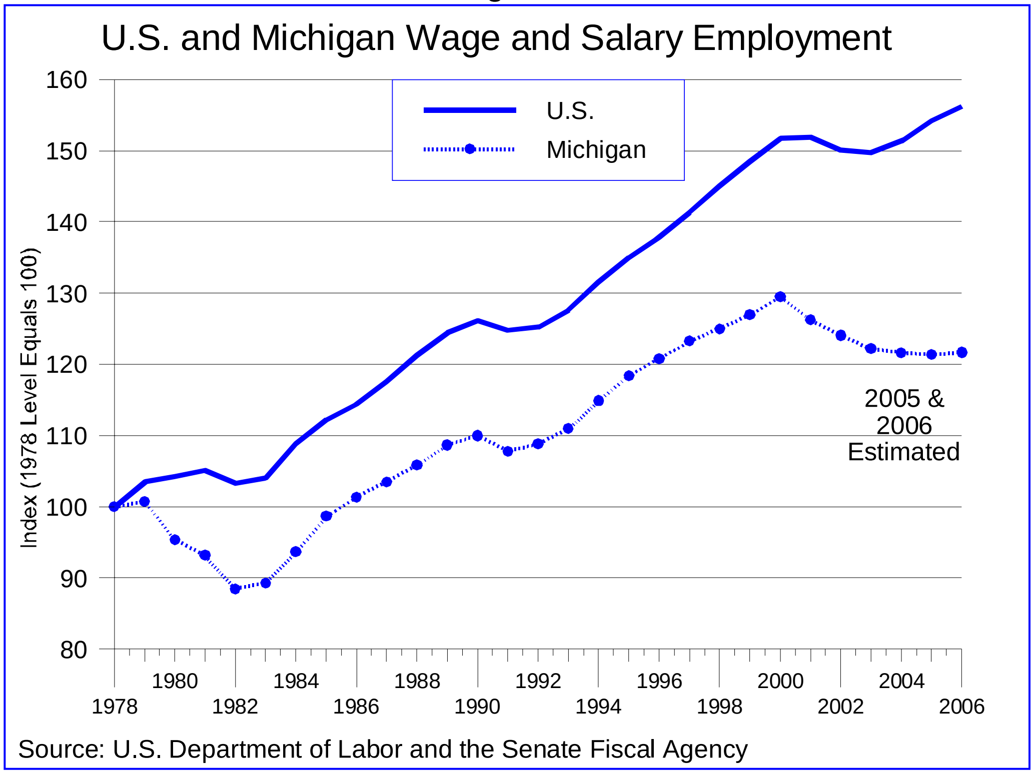
Source: Bureau of Labor Statistics, U.S. Department of Labor.

Both the U.S. and Michigan economies are expected to continue growing in 2005 and 2006 (see Figure 4). Table 1 and Table 2 provide a summary of key economic indicators from the SFA's economic forecast, with references to recent years. Inflation-adjusted GDP is projected to grow by 3.8% in 2005, and 3.0% in 2006. The modest decline in growth during 2006 reflects slightly slower growth in business investment and residential investment as interest rates continue to rise. The unemployment rate will fall slightly from 5.5% during 2004 to 5.3% in 2005 and 2006.

In Michigan, economic activity will mirror the national economy over the forecast period, although both job growth and personal income growth are expected to remain below average (Figure 4). Furthermore, the sectors expected to exhibit the largest gains in employment generally pay wages below those in the sectors with the slowest growth. Inflation-adjusted personal income increased 1.2% in 2004, and is expected to grow 1.9% in 2005 and 2006. On an annual basis, wage and salary employment is forecasted to fall by 0.3% in 2005, the fifth consecutive year of decline, although employment will post slight increases in both the first and third quarters of the year. Wage and salary employment is expected to rise by 0.3% in 2006. Such job growth represents an improvement from the 2.5%, 1.7%, 1.5%, and 0.4% declines in wage and salary employment experienced in 2001, 2002, 2003, and 2004, respectively. Despite the surge in light vehicle sales in mid-2005, vehicle sales will remain fairly flat on an annual basis and combine with productivity improvements to restrain employment growth, such that the unemployment rate will increase from 7.1% in 2004 to 7.4% in 2005 and 2006, keeping the Michigan unemployment rate above the national average.

Compared with the May 19, 2005, Consensus Economic Forecast, most key indicators in this revised economic forecast are higher during 2005, particularly at the national level, and lower in 2006, especially in Michigan. The most notable difference at the national level is that inflation is higher than expected in May and growth is notably higher, largely reflecting a significant improvement in net exports during the second quarter and some inventory rebuilding in the wake of higher vehicle sales during the summer. While inflation levels are expected to remain below levels experienced during much of the 1980s and 1990s, virtually all inflation measures are expected to be higher during 2005 and 2006 compared with the May forecast. The domestic share of light vehicle sales in 2006 also is expected to be lower than the level expected in May. Under the forecast of lower vehicle inventories and declining domestic vehicle share, the Michigan economy is expected to grow more slowly than was forecast in May. Although employment is expected to increase in most quarters of the forecast, the gains are so small that on an annual basis wage and salary employment will actually post another decline in 2005, and exhibit weaker performance than was predicted in May during both 2005 and 2006. Correspondingly, Michigan income measures are expected to grow at a slower rate than forecasted in May. Consumer prices in Michigan are expected to rise more rapidly, largely as a result of greater inflation at the national level and higher energy prices.

Figure 4



<u>FORECAST ASSUMPTIONS AND RISKS</u>

Forecasting the behavior of the economy requires making assumptions about the behavior of certain key economic variables. Two key assumptions underlying the current SFA forecast for 2005 and 2006 are:

Monetary Policy. The Federal funds rate target is currently 3.5%, up 250 basis points from May 2004. The forecast assumes that inflationary concerns will grow (as discussed in the assumptions for inflation), and that the Federal Reserve Board will act on those concerns. Furthermore, as the economy continues growing and Federal deficits remain high, competition for capital will increase. As a result, interest rates are anticipated to continue rising consistently through 2005 and 2006. Additional increases, and steeper increases, will increase the Federal funds rate to 4.5% at the end of 2005 and 6.5% by the end of 2006.

Oil and Energy Prices. In 2005 and 2006, the forecast expects oil prices to remain well above even recent historical averages, rising from about approximately $50 per barrel in the first half of 2005 to roughly $60 per barrel during the second half of the year. Oil prices are expected to decline slightly during 2006, although prices should still average $55 per barrel or more in the latter half of 2006. Other energy prices also are expected to follow a similar pattern over the forecast period, although natural gas prices are expected to post a seasonal spike during the first quarter of 2006. Prices are expected to remain above historical averages for a variety of reasons, ranging from political instability in the Mideast to limited domestic refining capacity (which is essentially already at maximum) to growing domestic and worldwide energy demands.

Risks to the Forecast

All forecasts carry a certain amount of error, but the chances that a forecast will err substantially depend upon certain risks to economic fundamentals upon which the forecast is built. The uncertain economic environment in 2005 causes the current economic forecast to face a number of risks, most suggesting that in inflation-adjusted terms, the economy could be weaker than forecasted. Three of the most notable risks are:

Consumer Behavior. As discussed in the Senate Fiscal Agency's May 2005 economic forecast, consumption growth remained moderate throughout the slowdown over the last three years, largely through increased borrowing and refinance activity. As a result, little, if any, pent-up demand exists in the consumer sector and higher interest rates are likely to worsen the burden of servicing consumer debt. The burden of servicing consumer debt reached an all-time high in the first quarter of 2005, and a significant portion of debt at this point is variable-rate debt -- meaning than the burden will increase if interest rates rise more rapidly than incomes grow. The current forecast expects that the personal savings rate will likely be driven lower in order to support the expected consumption levels. If savings rates improve more than expected and/or higher interest rates have a greater effect than forecasted, both consumption growth and economic growth will be lower. Similarly, if the weak employment situation causes consumers to loss confidence in the economy, consumer spending (and thus economic growth) may be lower than expected.

Inflation. While the forecast expects a noticeable increase in the rate of inflation, compared with recent years, the expected inflation rates are at or below the rates experienced during the 1990s and are below virtually every year's rates during the 1980s. While the forecast expects interest rates to rise, the rates, by historical standards, would still generally be considered expansionary over much of the forecast period. The dollar's value is expected to decline, increasing the price of imports and allowing domestic producers greater pricing power. Furthermore, higher growth also will create substantial demands for additional energy in virtually every sector of the economy. With the petroleum refining sector operating at nearly 100% capacity even during the slowdown, global energy demand rising, and oil production somewhat strained in the near future, energy prices may be substantially greater than forecasted even without external shocks.

Inflation is largely held down in the forecast by reasonably healthy growth in productivity, which may not be as strong as forecasted, and minimal wage growth or tightness in the labor market, which may be stronger than forecasted. These factors may combine to produce substantial inflationary pressures. Significant inflation could be particularly problematic for the economy, not only resulting in more rapid and larger interest rate increases from the Federal Reserve but also creating significant difficulties for the financial sectors that invested heavily in the refinancing boom of the last few years. These financial sectors are largely dependent upon interest payments locked in at low rates and inflation will result in those loans' being repaid with substantially devalued dollars. Furthermore, to the extent that the emphasis is on short-term inflation, the pattern seen in the forecast, where short-term interest rates rise much more rapidly than long-term rates, could be exacerbated and result in not only squeezing profits margins for banks and other financial intermediaries but also substantially reducing the willingness of lenders to lend. Should that happen, both consumption and investment could grow much more slowly than forecast, or even decline, given that borrowing has generally been fueling consumption gains in recent years and remains a significant source of funds for business investment. Such interest rate patterns are often viewed as a precursor to a recession.

Michigan's Dilemma. While over the last five years Michigan's employment situation has fared worse than the national average and, in some cases or time periods within that range, worse than any other state (Figure 5), Michigan's performance is not particularly inconsistent with other states when this State's economic composition is considered. Generally, states with higher manufacturing concentrations have experienced weaker job performance over the last five years, because of both the economic changes occurring in that sector and the dependence of other sectors within those states on manufacturing activity. As indicated earlier, productivity gains have made American manufacturing firms more profitable and more competitive, but have reduced the need for hiring additional employees to meet increased demand.

Rising interest rates, a near-zero savings rate, inflationary pressures, and substantial debt burdens are expected to exert a dragging force on any increases in demand over the forecast period. Vehicle sales are expected to remain fairly flat, reflecting the lack of pent-up demand that usually occurs during recessions, while the domestic share of the sales mix is expected to decline. Michigan's economic fortunes have historically been very closely linked with sales of domestically produced light vehicles (Figure 6). The combination of high productivity and declining market share has been particularly dramatic: On a seasonally adjusted basis, as of June 2005, Michigan had lost one out of every three jobs (a decline of more than 114,000 jobs) in transportation equipment manufacturing that existed during the peak in June 2000.

Because of the number of individuals employed in transportation equipment manufacturing and the likelihood of continued double-digit gains in productivity in the vehicle sector, it is likely that absent any shocks, the Michigan economy will spend years adjusting to the change. Offsetting a 10% annual decline in employment in the transportation equipment manufacturing sector essentially requires nearly 0.7% annual employment growth in the rest of the Michigan economy. Between 1995 and 2000, overall employment in Michigan grew only an average of 1.8% per year (and transportation equipment manufacturing employment over that period increased an average of 1.4% per year). For overall employment in Michigan to rise 1.8%, despite such a decline in transportation equipment manufacturing employment, employment in the rest of the Michigan economy would need rise by more than 2.5%, which has occurred only in three years since 1986 (and only in six of the last 25 years).

The dilemma for Michigan is that for the economy to improve, employment gains need to occur. However, given Michigan's reliance on the automobile industry in particular and manufacturing in general, and the forecast for demand, employment gains are likely to occur only if productivity growth declines. However, lower productivity growth will impede the ability of Michigan businesses to compete. So Michigan is put in the dilemma that if productivity improves, there will be very little pressure to create additional jobs, although Michigan businesses will be better able to thrive; while if productivity growth falls, there will be a short-term improvement in employment that is likely to be lost as Michigan businesses find it more difficult to compete in the market with firms that are enjoying productivity improvements. The current forecast essentially assumes the State's economy attempts to walk a fine line between these extremes, although it will lean more to the high productivity/low employment growth end, generating minimal employment gains and maintaining modest profits and competitiveness.

Figure 5

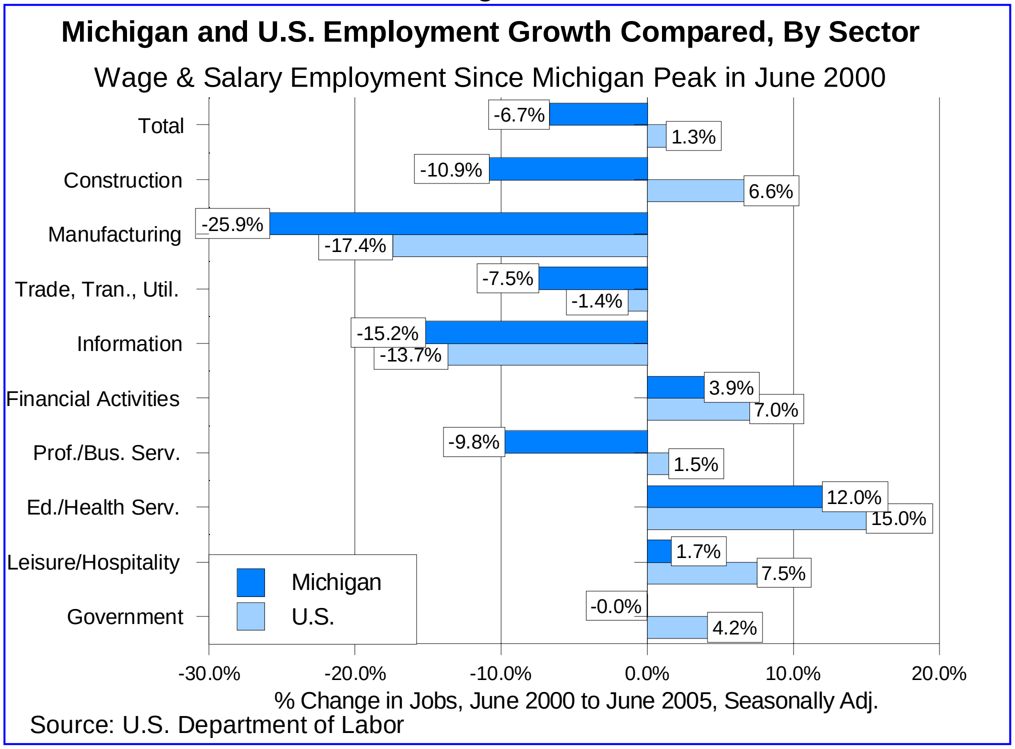
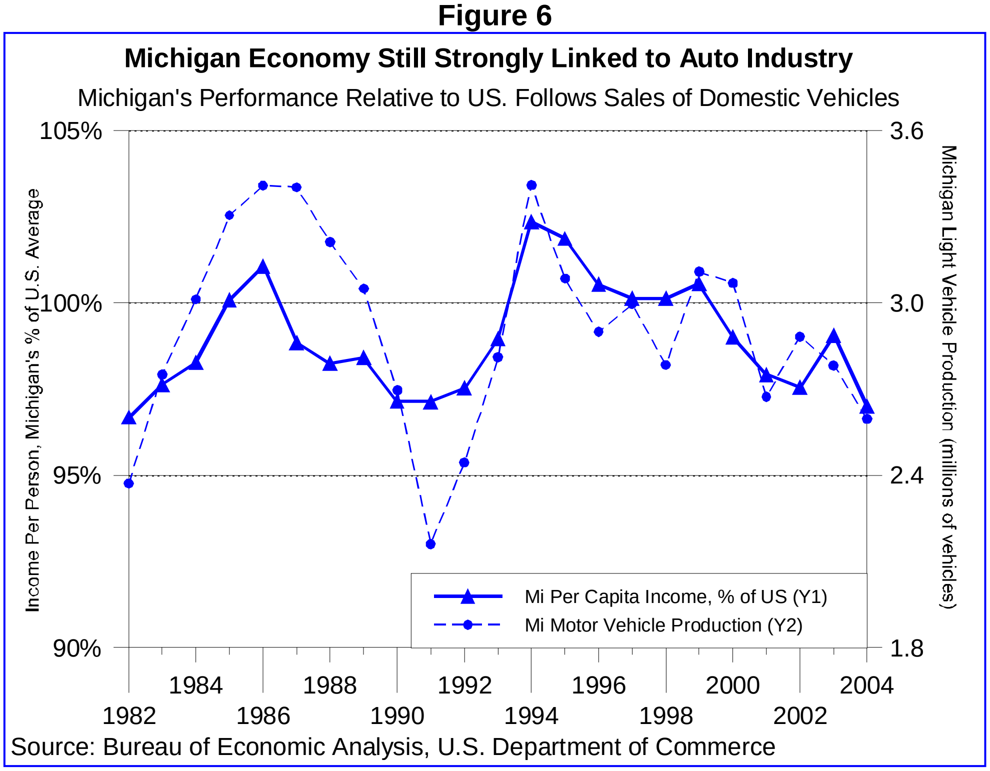


Figure 6



THE FORECAST FOR STATE REVENUE

This section of the Economic Outlook and Budget Review provides revised estimates of General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue for FY 2004-05 and FY 2005-06. In general, the revenue estimates have been revised upward compared with the May 2005 consensus estimates.

FY 2004-05

General Fund/General Purpose and SAF revenue will total an estimated $18.9 billion in FY 2004-05, which is up 1.3% from the FY 2003-04 level. Compared with the May 2005 consensus revenue estimates, total tax collections are up $94 million and nontax revenue is up $35 million, for a total upward revision of $129 million. The revised revenue estimates for FY 2004-05 are summarized in Table 3.

General Fund/General Purpose. Based on information available through the first week in August 2005, GF/GP revenue in FY 2004-05 will total an estimated $8.0 billion, which is down a slight 0.1% or $8.0 million from the FY 2003-04 level. Compared with the May 2005 consensus revenue estimates, the FY 2004-05 GF/GP revenue estimate has been revised upward by $119.3 million. Tax collections earmarked to GF/GP revenue have been revised upward by $89.3 million and nontax revenue has been increased by $30.0 million. Most of the upward revision is in the estimates for the income and single business taxes.

School Aid Fund. Based on actual collections through July 2005, SAF earmarked tax and lottery revenue will total an estimated $10.9 billion. This represents a 2.3% or $244.8 million increase from FY 2003-04. This increase is well distributed among the sales, income, State education property, and casino taxes. Compared with the May 2005 consensus estimate, the estimate of SAF earmarked revenue for FY 2004-05 has been revised upward by $9.4 million.

FY 2005-06

In FY 2005-06, GF/GP and SAF revenue will total an estimated $19.5 billion, which represents a 3.0% or $560.6 million increase from the FY 2004-05 revised estimate. Compared with the May 2005 consensus estimate, this revised estimate for FY 2005-06 is up $75.3 million. This upward revision is due to two major factors: 1) the upward revision in FY 2004-05 GF/GP and SAF revenue means FY 2005-06 will be growing from a higher base, and 2) the rate of growth in the Michigan economy in 2006 is expected to be slightly slower than forecast in May 2005, which will somewhat offset the impact of growing from higher FY 2004-05 levels. These revised revenue estimates for FY 2005-06 are summarized in Table 4.

General Fund/General Purpose. It is estimated that GF/GP revenue will total $8.2 billion in FY 2005-06, which represents growth of $182.4 million or 2.3% from the revised estimate for FY 2004-05. Compared with the May 2005 consensus revenue estimate, this revised estimate for FY 2005-06 is up $81.2 million. Most of this upward revision is due to expected increases in the revenue generated by the income, single business, and insurance taxes.

School Aid Fund. School Aid Fund earmarked tax and lottery revenue will total an estimated $11.2 billion in FY 2005-06. This revised estimate represents an increase of $377.9 million or 3.5% from the revised estimate for FY 2004-05; however, compared with the estimate adopted at the May 2005 Consensus Revenue Estimating Conference, this revised estimate is down $6 million. This slight overall downward revision is due to downward revisions in the revenue estimates for the sales, tobacco, industrial facilities, and real estate transfer taxes, which are offset in part by upward revisions in the revenue estimates for the lottery and State education and use taxes.

Table 3

FY 2004-05 REVISED REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (Millions of Dollars)					
			Change From FY 2003-04		
	FY 2003-04 Final	**FY 2004-05 Revised Est.**	**Dollar Change**	**Percent Change**	**$ Change from 05/05 Consensus**
GENERAL FUND/GENERAL PURPOSE					
Baseline Revenue	$7,992.9	$8,298.6	$305.7	3.8%	$120.9
Tax Changes Not In Baseline	49.3	(264.7)	(314.0)	---	(1.7)
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	7,467.0	7,684.4	217.4	2.9	54.0
Less: Refunds	(1,594.2)	(1,630.7)	(36.5)	2.3	30.0
Net Income Tax Collections	5,872.8	6,053.7	180.9	3.1	84.0
Less: Earmarking to SAF	(1,893.5)	(1,994.4)	(100.9)	5.3	(13.8)
Campaign Fund	(1.5)	(1.5)	0.0	0.0	0.0
Net Income Tax to GF/GP	3,977.8	4,057.8	80.0	2.0	70.2
Other Taxes					
Single Business Tax	1,827.6	1,858.7	31.1	1.7	13.0
Sales	102.1	108.3	6.2	6.0	(5.7)
Use	877.4	927.7	50.3	5.7	4.0
Cigarette	242.7	115.8	(126.9)	(52.3)	(3.3)
Insurance Company Premiums	230.3	238.3	8.0	3.5	9.0
Telephone & Telegraph	101.3	98.3	(3.0)	(3.0)	3.0
Estate	75.5	30.0	(45.5)	(60.3)	(6.0)
Oil & Gas Severance	57.1	65.0	7.9	13.8	2.0
Casino	3.2	42.5	39.3	1,228.1	0.0
All Other	110.6	117.0	6.4	5.8	3.0
Subtotal Other Taxes	3,627.8	3,601.6	(26.3)	(0.7)	19.0
Total Nontax Revenue	436.4	374.5	(61.9)	(14.2)	30.0
GF/GP REVENUE AFTER TAX CHNGS	**$8,042.0**	**$8,034.0**	**$(8.0)**	**(0.1)%**	**$119.3**
SCHOOL AID FUND					
Baseline Revenue	$10,533.6	$10,868.8	$335.2	3.2%	$18.0
Tax Changes Not In Baseline	81.7	(8.8)	(90.5)	(110.8)	(8.6)
Revenue After Tax Changes					
Sales Tax	4,716.7	4,828.5	111.8	2.4	(4.9)
Lottery Revenue	644.9	643.0	(1.9)	(0.3)	5.0
State Education Property Tax	1,824.5	1,864.6	40.1	2.2	13.0
Real Estate Transfer Tax	317.5	318.0	0.5	0.2	(2.0)
Income Tax	1,893.5	1,994.4	100.9	5.3	13.8
Casino Tax	95.8	98.4	2.6	2.7	0.0
Other Revenue	1,122.4	1,113.3	(9.2)	(0.8)	(15.5)
SAF REVENUE AFTER TAX CHNGS	**$10,615.3**	**$10,860.1**	**$244.8**	**2.3%**	**$9.4**
BASELINE GF/GP AND SAF	18,526.5	19,167.4	640.9	3.5	139.0
Tax & Revenue Changes	130.9	(273.5)	(404.4)	(308.9)	(10.3)
GF/GP & SAF REV. AFTER CHNGS	**$18,657.4**	**$18,893.9**	**$236.5**	**1.3%**	**$128.7**
SALES TAX	$6,473.5	$6,630.5	$157.0	2.4%	$(6.3)

Note: Baseline revenue in this table is based on FY 2003-04 to provide an accurate comparison of the revenue in these two fiscal years.

Table 4

FY 2005-06 REVISED REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (Millions of Dollars)					
			Change From FY 2004-05		
	FY 2004-05 Revised Est.	FY 2005-06 Revised Est.	Dollar Change	Percent Change	$ Change from 05/05 Consensus
GENERAL FUND/GENERAL PURPOSE					
Baseline Revenue	$8,298.6	$8,449.6	$151.0	1.8%	$81.2
Tax Changes Not In Baseline	(264.7)	(233.3)	31.4	(11.9)	0.0
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	7,684.4	7,876.4	192.0	2.5	(9.0)
Less: Refunds	(1,630.7)	(1,710.0)	(79.3)	4.9	25.0
Net Income Tax Collections	6,053.7	6,166.4	112.7	1.9	16.0
Less: Earmarking to SAF	(1,994.4)	(2,044.5)	(50.1)	2.5	2.3
Campaign Fund	(1.5)	(1.5)	0.0	0.0	0.0
Net Income Tax to GF/GP	4,057.8	4,120.4	62.6	1.5	18.3
Other Taxes					
Single Business Tax	1,858.7	1,907.8	49.1	2.6	24.0
Sales	108.3	111.7	3.4	3.1	(3.1)
Use	927.7	967.0	39.3	4.2	3.3
Cigarette	115.8	227.8	112.1	96.8	(3.3)
Insurance Company Premiums	238.3	249.0	10.7	4.5	17.0
Telephone & Telegraph	98.3	82.3	(16.0)	(16.3)	3.0
Estate	30.0	8.0	(22.0)	(73.3)	0.0
Oil & Gas Severance	65.0	61.0	(4.0)	(6.2)	5.0
Casino	42.5	43.1	0.6	1.4	0.0
All Other	117.0	116.5	(0.5)	(0.4)	2.0
Subtotal Other Taxes	3,601.6	3,774.2	172.6	4.8	47.9
Total Nontax Revenue	374.5	321.8	(52.7)	(14.1)	15.0
GF/GP REVENUE AFTER TAX CHNGS	**$8,034.0**	**$8,216.4**	**$182.4**	**2.3%**	**$81.2**
SCHOOL AID FUND					
Baseline Revenue	$10,868.8	$11,230.3	$361.5	3.3%	$(6.0)
Tax Changes Not In Baseline	(8.8)	7.9	16.7	(189.4)	0.0
Revenue After Tax Changes					
Sales Tax	4,828.5	5,028.1	199.6	4.1	(7.9)
Lottery Revenue	643.0	656.3	13.3	2.1	5.0
State Education Property Tax	1,864.6	1,964.1	99.5	5.3	15.0
Real Estate Transfer Tax	318.0	318.0	0.0	0.0	(2.0)
Income Tax	1,994.4	2,044.5	50.1	2.5	(2.3)
Casino Tax	98.4	99.7	1.3	1.3	0.0
Other Revenue	1,113.3	1,127.3	14.1	1.3	(13.8)
SAF REVENUE AFTER TAX CHANGES	**$10,860.1**	**$11,238.0**	**$377.9**	**3.5%**	**$(6.0)**
BASELINE GF/GP AND SAF	19,167.4	19,679.9	512.5	2.7	75.3
Tax & Revenue Changes	(273.5)	(225.4)	48.1	---	0.0
GF/GP & SAF REV. AFTER CHANGES	**$18,893.9**	**$19,454.5**	**$560.6**	**3.0%**	**$75.3**
SALES TAX	$6,630.5	$6,905.0	$274.5	4.1%	$(10.0)

Note: Baseline revenue in this table is based on FY 2003-04 to provide an accurate comparison of the revenue in these two fiscal years.

General Fund and School Aid Fund Major Taxes

Revisions made in some of the major taxes earmarked to the GF/GP and/or SAF are described below.

Income Tax. Net income tax revenue will increase an estimated 3.1% to $6.1 billion in FY 2004-05. This represents an improvement from the 1.1% increase experienced in FY 2003-04. While FY 2004-05 marked the first year since FY 1999-2000 that the income tax rate was not lowered, the average tax rate nonetheless edged down from 3.98% in FY 2003-04 to 3.9% in FY 2004-05 due to the fact that the rate fell from 4.0% to 3.9% on July 1, 2004. It is estimated that without this decline in the average tax rate, along with an increase in the personal exemption and some Federal tax changes that negatively affected Michigan's income tax base, income tax receipts would have been up an additional $154 million in FY 2004-05. Ongoing weakness in Michigan's job market continues to have a negative impact on income tax collections, but this will be partially offset by strong growth in income tax annual payments in FY 2004-05, which reflects growth in the stock market in 2004. Compared with the May 2005 consensus estimate, the FY 2004-05 net income tax revenue estimate has been revised upward by $84.0 million. In FY 2005-06, income tax revenue will total an estimated $6.2 billion, which represents a 1.9% increase from the revised estimate for FY 2004-05. This expected slowdown in the rate of growth of income tax revenue in FY 2005-06 compared with FY 2004-05 will be due to estimates of no increase in annual payments and slightly faster growth in refunds. Compared with the May 2005 consensus estimate, this revised estimate for net income tax collections in FY 2005-06 is up $16.0 million. In both FY 2004-05 and FY 2005-06, the SAF will receive approximately 26% of gross income tax collections and the remaining income tax revenue will go to the General Fund.

Sales Tax. Sales tax collections will total an estimated $6.6 billion in FY 2004-05, which represents an increase of 2.4% or $157.0 million from FY 2003-04. This revised estimate is down $6.3 million from the estimate adopted in May 2005. In FY 2005-06, sales tax collections are expected to increase 4.1% or $274.5 million from the FY 2004-05 level, to $6.9 billion; however, compared with the May 2005 consensus estimate, this revised sales tax revenue estimate is down $10.0 million.

Single Business Tax. The single business tax, Michigan's major tax on businesses, will generate an estimated $1.86 billion in FY 2004-05. This represents a 1.7% or $31.1 million increase from the FY 2003-04 level. This would mark the first increase in single business tax revenue since FY 1998-99. Compared with the May 2005 consensus estimate, this revised estimate is up $13.0 million. In FY 2005-06, single business tax revenue will increase an estimated 2.6% or $49.1 million to $1.9 billion. This revised estimate for FY 2005-06 is up $24.0 million from the May 2005 consensus estimate.

State Education Property Tax. The State education property tax is the third largest revenue source for the SAF, behind the sales and income taxes. In FY 2004-05, the State education property tax is expected to generate $1.86 billion, which is up 2.2% or $40.1 million from the FY 2003-04 level. In FY 2005-06, State education property tax revenue is expected to grow an additional 5.3% or $99.5 million to $2.0 billion. Compared with the May 2005 consensus estimates, these revised estimates represent upward revisions of $13.0 million in FY 2004-05 and $15.0 million in FY 2005-06.

BUDGET STABILIZATION FUND

Based on the Senate Fiscal Agency's revised economic forecast, it is estimated that the statutory formula based on the percentage change in inflation-adjusted personal income less transfer payments, suggests that a payment equal to $34.0 million be made into the Budget Stabilization Fund (BSF) in FY 2005-06 as shown in Table 5. This formula pay-in is not binding, because any payment into the BSF must be appropriated by the Legislature and approved by the Governor. Based on current law and the ongoing budget negotiations, it appears that the current balance of $82.9 million in the BSF will be withdrawn and transferred to the General Fund at the end of FY 2004-05 in order to help balance the GF/GP budget, as shown in Table 6.

Table 5

ESTIMATED ECONOMIC AND BUDGET STABILIZATION FUND TRIGGER
FY 2004-05 AND FY 2005-06
(Millions of Dollars)

	CY 2003	**CY 2004**	**CY 2005**
Michigan Personal Income (MPI)	$314,346	$323,142	$339,246
Less: Transfer Payments	46,901	49,101	52,003
Subtotal	$267,445	$274,041	$287,243
Divided by: Detroit CPI, 12 months average ending June 30 (1982-84=1)	1.814	1.837	1.880
Equals: Real Adjusted MPI	$147,434	$149,179	$152,789
Percent Change from Prior Year		1.18%	2.42%
Excess Over 2%		0.00%	0.42%
		FY 2003-04	**FY 2004-05**
Multiplied by: Estimated GF/GP Revenue		$8,042	$8,034
		FY 2004-05	**FY 2005-06**
Equals: Transfer to the BSF		$0	$34

Note: Numbers may not add due to rounding.
CY = Calendar Year; FY = Fiscal Year

Table 6

ECONOMIC AND BUDGET STABILIZATION FUND
TRANSFERS, EARNINGS, AND FUND BALANCE
FY 1989-99 TO FY 2005-06 ESTIMATE
(Millions of Dollars)

Fiscal Year	Pay-In	Interest Earned	Pay-Out	Fund Balance
1998-99	$244.4	$51.2	$73.7	$1,222.5
1999-00	100.0	73.9	132.0	1,264.4
2000-01	0.0	66.7	337.0	994.2
2001-02	0.0	20.8	869.8	145.2
2002-03	9.1	1.8	156.1	0.0
2003-04	81.3	0.0	0.0	81.3
Estimates:				
2004-05	0.0	1.6	82.9[a)]	0.0
2005-06	0.0	0.0	0.0	0.0

a) Current budget agreement, not yet enacted.

COMPLIANCE WITH STATE REVENUE LIMIT

Based on the SFA's revised revenue estimates for FY 2004-05 and FY 2005-06, it is estimated that revenue subject to the constitutional revenue limit will remain well below the revenue limit for both of these fiscal years. The revised estimates of the State's compliance with the revenue limit for FY 2004-05 and FY 2005-06 are presented in Table 7.

FY 2004-05

In FY 2004-05, revenue subject to the revenue limit will total an estimated $24.5 billion. The revenue limit will equal 9.49% of Michigan personal income in calendar year 2002, which equals $28.8 billion. As a result, it is estimated that revenue will fall below the revenue limit by $5.3 billion in FY 2004-05.

FY 2005-06

Based on the SFA's revised revenue estimates for FY 2005-06, it is estimated that revenue subject to the revenue limit will total $25.2 billion. Michigan's personal income for 2003 generates a revenue limit for FY 2005-06 equal to $29.8 billion. Based on these estimates for the revenue limit and revenue subject to the limit, it is estimated that revenue will fall below the limit by $5.5 billion in FY 2005-06.

Table 7

STATE'S COMPLIANCE WITH CONSTITUTIONAL REVENUE LIMIT
SECTION 26 OF ARTICLE IX OF THE STATE CONSTITUTION
(Millions of Dollars)

	FY 2002-03 Final	FY 2003-04 Final	FY 2004-05 Estimate	FY 2005-06 Estimate
Revenue Subject to Limit:				
Revenue:				
General Fund/General Purpose (baseline)	$7,943.6	$7,992.9	$8,298.6	$8,449.6
Revenue Sharing (baseline)	1,598.0	1,580.6	1,618.3	1,678.2
School Aid Fund (baseline)	10,255.6	10,533.6	10,868.8	11,230.3
Transportation Funds	2,243.3	2,279.3	2,216.2	2,285.0
Other Restricted Non-Federal Aid Revenue	1,600.2	1,899.5	1,800.0	1,800.0
Adjustments:				
GF/GP Federal Aid	(47.2)	(32.0)	(35.0)	(35.0)
GF/GP Balance Sheet Adjustments	8.9	49.3	(252.2)	(213.3)
SAF Balance Sheet Adjustments	459.2	81.5	(8.8)	7.9
Total Revenue Subject to Limit:	$24,061.6	$24,384.7	$24,505.9	$25,202.7
Revenue Limit:				
Personal Income:				
Calendar Year	**CY 2001**	**CY 2002**	**CY 2003**	**CY 2004**
Amount	$297,609	$303,745	$314,460	$323,142
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%
Revenue Limit	$28,243.1	$28,825.4	$29,842.3	$30,666.2
1% of Limit	282.4	288.3	298.4	306.7
Amount Under (Over) Limit	$4,181.5	$4,440.7	$5,336.4	$5,463.5

ESTIMATE OF YEAR-END BALANCES

Based on the economic and revenue estimates outlined earlier in this report, along with enacted and projected State appropriations, the Senate Fiscal Agency (SFA) has revised its estimates of the FY 2004-05 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) year-end balances. The SFA also has revised its estimates of the FY 2005-06 GF/GP and SAF year-end balances based on the revenue and appropriation assumptions contained in the Senate-passed budget approved in June 2005. Modest improvements in State revenue collections since the May 2005 consensus revenue estimates have resulted in improvements in the estimates of GF/GP and SAF year-end balances. The SFA is now estimating that the FY 2004-05 GF/GP year-end balance is $91.0 million and the FY 2004-05 SAF year-end balance is $11.1 million. Based on the Senate-passed budget proposal, the FY 2005-06 GF/GP year-end balance is $113.5 million and the FY 2005-06 SAF budget is in balance by $2.8 million.

GENERAL FUND/GENERAL PURPOSE YEAR-END BALANCES

The State's FY 2004-05 fiscal year will officially end on September 30, 2005. Based on year-to-date revenue collections, the SFA estimate of revenue to be collected in the balance of the fiscal year, year-to-date appropriations, pending supplemental appropriations, and projected appropriation lapses, the SFA estimates that the FY 2004-05 GF/GP year-end balance will be $91.0 million. Table 8 provides a summary of this year-end balance estimate. The current SFA estimate of total FY 2004-05 GF/GP revenue is $99.3 million above the May 2005 consensus revenue estimate. This year-end balance estimate includes three pending supplemental appropriation items. The first is a $38.7 million GF/GP appropriation for the Medicaid program to meet projected expenditure needs. The second supplemental appropriation is a $1.9 million GF/GP supplemental for the Department of State to ensure that the State has the matching funds available to secure $33.7 million of Federal election reform funding. The third supplemental appropriation is $13.5 million allocated to community colleges and universities to offset funding reductions contained in Executive Order 2005-7. Finally, the SFA is estimating that year-end GF/GP appropriation lapses will total $50.0 million. Based on current law, the actual level of the FY 2004-05 GF/GP year-end balance will carry forward into FY 2005-06.

During June 2005, the Senate passed a series of FY 2005-06 appropriation bills that, combined with a series of revenue assumptions, was the Senate-passed FY 2005-06 GF/GP budget. This Senate passed budget was balanced using the May 2005 consensus revenue estimate. Table 9 provides an updated summary of the FY 2005-06 GF/GP budget using the new SFA revenue estimates. The SFA now estimates that a $113.5 million FY 2005-06 GF/GP year-end balance will exist based on the Senate-passed budget. The major changes from the estimate of the year-end GF/GP balance in the budget passed by the Senate in June 2005 include a $91.0 million beginning balance carried forward from FY 2004-05, an $81.2 million increase in the estimate of FY 2005-06 GF/GP revenue from the May 2005 consensus revenue estimate, and adjustments to the projected caseloads that need to be funded in the Community Health budget for the Medicaid program and the Human Services budget for the cash welfare program. These caseload adjustments will increase GF/GP appropriations by $60.2 million. The combination of these changes leads to the SFA estimate of a FY 2005-06 GF/GP year-end balance of $113.5 million.

Table 8

FY 2004-05
GENERAL FUND/GENERAL PURPOSE
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue	
Beginning Balance	$0.0
Ongoing Revenue:	
SFA Revenue Estimate	8,034.0
Revenue Sharing Adjustments	506.3
Pharmaceutical Tax Credit Adjustment	10.0
Subtotal Ongoing Revenue	$8,550.3
Non Ongoing Revenue:	
Sale of Surplus State Property	55.5
Merit Award Trust Fund Transfer (PA 360 of 2004)	5.2
Tobacco Settlement Trust Fund Transfer (PA 360 of 2004)	1.8
Restricted Fund Transfers to General Fund	16.4
Withdrawal from Budget Stabilization Fund (SB 438)	82.9
Escheats Enforcement	2.5
Subtotal Non-Ongoing Revenue	164.3
Total GF/GP Revenue	**$8,714.6**
Expenditures	
Initial Enacted Appropriations	$8,699.4
Supplemental Appropriations (PA 352 of 2004)	43.0
Supplemental Appropriations (PA 358 of 2004)	8.5
Supplemental Appropriations (PA 518 of 2004)	99.5
Supplemental Appropriations (PA 468 of 2004)	0.2
Supplemental Appropriations (PA 11 of 2005)	40.0
Higher Education and Community Colleges Supplemental (PA 11 of 2005)	16.5
Pending Higher Education/Community Colleges Supplemental (PA 11 of 2005)	13.5
Pending Medicaid Supplemental	38.7
Pending Secretary of State Supplemental	1.9
Executive Order 2005-7 (GF/GP Reductions)	(284.1)
Executive Order 2005-7 (Lapses/Revenue Shifts)	(11.9)
Medicaid Benefits Trust Fund Shortfall	2.9
Tobacco Settlement Trust Fund Shortfall	6.2
Lapse from Building Occupancy Charges	(0.7)
Projected Year-End Appropriation Lapses	(50.0)
Total GF/GP Expenditures	**$8,623.6**
Year-End Balance	**$91.0**

Table 9

FY 2005-06 BUDGET
GENERAL FUND/GENERAL PURPOSE
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue	
Beginning Balance	$91.0
Other Revenue Adjustments:	
SFA Revenue Estimate	8,216.4
Revenue Sharing Adjustments	562.1
Non-Use of SBT Pharmaceutical Credit	10.0
Cap on Interfund Borrowing Rates	20.0
Escheats Revenue	10.0
Land Sales (DNR Lands)	10.0
Subtotal	$8,919.5
Other Recommended Revenue Adjustments:	
Comprehensive Transportation Fund Transfer	21.1
Financial Institutions Fund Transfer to GF/GP	15.0
Cell Phone Fee Transfer to GF/GP	5.0
Enhanced Tax Enforcement	56.0
Subtotal Other Recommended Revenue Adjustments	97.1
Total Estimated Revenue	**$9,016.6**
Expenditures	
Senate Target Recommendation	$8,875.0
Medicaid Caseload Adjustment	51.2
Human Services Caseload Adjustment	9.0
Contract and IT Purchase Reductions	(32.1)
Total Estimated Expenditures	**$8,903.1**
Projected Year-End Balance	**$113.5**

SCHOOL AID FUND YEAR-END BALANCES

Based on the current SFA estimate of FY 2004-05 SAF revenue and enacted appropriations, the SFA is now estimating that the FY 2004-05 SAF budget will close the year with an $11.1 million balance. Table 10 provides a summary of this estimate. This projected year-end balance results from a $9.4 million increase in the estimate of FY 2004-05 SAF revenue from the May 2005 consensus revenue estimate. The actual level of the FY 2004-05 SAF year-end balance will carry forward into FY 2005-06.

During June 2005 the Senate passed an FY 2005-06 K-12 School Aid appropriation bill that was based on the May 2005 consensus revenue estimates. Table 11 provides a summary of the SFA's current estimate of a $2.8 million year-end balance in the FY 2005-06 SAF budget. This balance results from a combination of an $11.1 million revenue increase from the year-end balance carried forward from FY 2004-05 and a $6.0 million downward revision in FY 2005-06 SAF revenue from the May 2005 consensus revenue estimate.

Table 10
FY 2004-05
SCHOOL AID FUND BUDGET
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue	
Beginning Balance	$ 74.1
SFA Revenue Estimate	10,860.0
Other Revenue Adjustments:	
GF/GP Grant	165.2
GF/GP Grant (PA 518 of 2004)	99.5
GF/GP Grant (EO 2005-7)	(99.5)
Federal Aid	1,353.6
School Bond Loan Fund Reform Proposal	41.1
Write-Off of FY 2003-04 Revenue	(13.8)
Payments in Lieu of Taxes	(2.0)
Subtotal Other Revenue Adjustments	1,540.1
Total Estimated Revenue	**$12,478.2**
Expenditures	
Enacted Appropriations	$12,527.5
Reduction of Homestead Audit Savings	26.6
Reduction of Personal Property Tax Audit Savings	13.6
Special Education Cost Shift	0.0
Enhanced Tax Enforcement Savings	(3.5)
Appropriation Lapse (Pupils/Taxable Value)	(97.1)
Total Estimated Expenditures	**$12,467.1**
Projected Year-End Balance	**$11.1**

Table 11

FY 2005-06 BUDGET
SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue	
Beginning Balance	$ 11.1
SFA Revenue Estimate	11,238.1
Other Revenue Adjustments:	
Payments in Lieu of Taxes	(2.0)
GF/GP Grant	52.1
School Bond Loan Fund Reform Proposal	44.5
FY 2003-04 Revenue Receivable	6.0
Federal Revenue	1,389.6
Subtotal Other Revenue Adjustments	1,490.2
Total Estimated Revenue	**$12,739.4**
Expenditures	
Governor's Appropriation Recommendation	$12,809.3
Senate Target Appropriation Reductions	(72.2)
Increased Federal Revenue	15.5
Revised Pupil Count/Taxable Values	(16.0)
Total Estimated Expenditures	**$12,736.6**
Projected Year-End Balance	**$2.8**