



**MICHIGAN'S
ECONOMIC OUTLOOK
AND BUDGET REVIEW**

**FY 2011-12, FY 2012-13,
FY 2013-14, and FY 2014-15**

December 28, 2012



THE SENATE FISCAL AGENCY

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3. To review and evaluate proposed and existing State programs and services.
4. To provide economic and revenue analysis and forecasting.
5. To review and evaluate the impact of Federal budget decisions on the State.
6. To review and evaluate State issuance of long-term and short-term debt.
7. To review and evaluate the State's compliance with constitutional and statutory fiscal requirements.
8. To prepare special reports on fiscal issues as they arise and at the request of members of the Senate.

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Ellen Jeffries, Director
Senate Fiscal Agency
P.O. Box 30036
Lansing, Michigan 48909-7536
Telephone (517) 373-2768
Internet Home Page <http://www.senate.michigan.gov/sfa>

ACKNOWLEDGEMENT

This Economic Outlook and Budget Review was prepared and written by Ellen Jeffries, Director, and David Zin, Chief Economist, of the Senate Fiscal Agency. Karen Hendrick, Executive Secretary and Administrative Assistant, coordinated the production of this report.

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EXECUTIVE SUMMARY

ECONOMIC FORECAST

The U.S. economy, as measured by inflation-adjusted gross domestic product, after growing 2.2% during 2012, is predicted to expand 1.9% in 2013, 2.4% in 2014, and 2.5% in 2015. Light vehicle sales are forecasted to rise from 14.3 million units in 2012, to 14.8 million units in 2013, 15.1 million units in 2014, and 15.2 million units in 2015. The unemployment rate is expected to fall from 8.1% in 2012 to 7.9% in 2013, 7.8% in 2014, and 7.6% in 2015; while the consumer price index is estimated to increase 1.9% in 2013, 1.9% in 2014, and 2.7% in 2015.

The Michigan economy, as measured by inflation-adjusted personal income, is estimated to grow 0.4% in 2013, 2.1% in 2014, and 1.7% in 2015, after rising 1.8% in 2012. Wage and salary employment is predicted to continue growing, increasing 0.6% during 2013, 0.9% in 2014, and 0.5% in 2015. The wage and salary employment increases in 2011 and 2012 mark the first time since 2000 that employment has risen in two consecutive years.

REVENUE FORECAST

Preliminary final fiscal year (FY) 2011-12 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue totaled \$20.2 billion, up 0.4% from FY 2010-11. The increase reflects an improving economy, combined with a fundamental change in business taxes that lowered revenue, and is \$210.6 million above the May 2012 consensus estimate.

In FY 2012-13, the economy will grow more slowly than in FY 2011-12, resulting in slower revenue growth. General Fund/General Purpose and SAF revenue will total an estimated \$19.8 billion, down 1.9% from FY 2011-12 and \$372.4 million below the May 2012 consensus estimate. Reflecting tax changes enacted during 2011 and 2012, GF/GP revenue is expected to decrease 6.5% from the FY 2011-12 level to \$8.7 billion while SAF revenue is projected to increase 2.0% to \$11.1 billion.

In FY 2013-14, GF/GP and SAF revenue will total an estimated \$20.5 billion, up 3.5% from FY 2012-13 but \$275.6 million below the May 2012 consensus estimate. General Fund/General Purpose revenue will total an estimated \$9.1 billion, an increase of 4.9% from FY 2012-13 that largely reflects changes in tax policy, while SAF revenue will rise to an estimated \$11.4 billion, a 2.4% increase.

In FY 2014-15, GF/GP and SAF revenue will total an estimated \$21.0 billion. This initial estimate for FY 2014-15 is 2.6% higher than the revised estimate for FY 2013-14. General Fund/General Purpose revenue will total an estimated \$9.4 billion, an increase of 2.9% from FY 2013-14, while SAF revenue will rise to an estimated \$11.6 billion, a 2.3% increase.

YEAR-END BALANCE ESTIMATES

Based on the accounting of State revenue and expenditures as of December 20, 2012, the Senate Fiscal Agency (SFA) is estimating that the FY 2011-12 GF/GP budget will close the fiscal year with a \$1,042.1 million balance. The FY 2011-12 SAF budget will close the fiscal year with a \$240.3 million balance.

A comparison of the SFA's FY 2012-13 revenue estimates with enacted and projected appropriations leads to a \$146.0 million GF/GP balance. The SFA is now estimating that the FY 2012-13 SAF budget is in balance at \$0.0 million.

A look ahead at the FY 2013-14 budget, based on current SFA estimates, indicates a GF/GP projected ending balance of \$40.9 million and an SAF projected ending balance of a negative \$235.4 million, unless MPERS escrow funds are available to close the deficit.

EXECUTIVE SUMMARY

**SENATE FISCAL AGENCY
ECONOMIC AND BUDGET SUMMARY**

ECONOMIC PROJECTIONS (Calendar Year)					
	2011 Actual	2012 Actual	2013 Estimate	2014 Estimate	2015 Estimate
Real Gross Domestic Product (% change)	1.8%	2.2%	1.9%	2.4%	2.5%
U.S. Consumer Price Index (% change)	3.2%	2.1%	1.9%	1.9%	2.0%
Light Motor Vehicle Sales (millions of units)	12.7	14.3	14.8	15.1	15.2
U.S. Unemployment Rate (%)	8.9%	8.1%	7.9%	7.8%	7.6%
Real Michigan Personal Income (% change)	2.3%	1.8%	0.4%	2.1%	1.7%
Michigan Wage & Salary Employment (% chng)	1.9%	1.3%	0.6%	0.9%	0.5%

REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE (GF/GP) AND SCHOOL AID FUND (SAF) (Millions of Dollars)									
	FY 2012-13 Estimate			FY 2013-14 Estimate			FY 2014-15 Estimate		
	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available
GF/GP	\$8,863.3	(\$182.8)	\$8,680.5	\$9,047.3	\$56.9	\$9,104.1	\$9,241.1	\$129.9	\$9,371.0
% Change	(2.5%)	---	(6.5%)	2.1%	---	4.9%	2.1%	---	2.9%
School Aid Fund	\$11,809.0	(\$722.4)	\$11,086.5	\$12,079.9	(\$729.1)	\$11,350.8	\$12,359.9	(\$747.1)	\$11,612.8
% Change	1.9%	---	2.0%	2.3%	---	2.4%	2.3%	---	2.3%
Total GF/GP & SAF	\$20,672.3	(\$905.3)	\$19,767.0	\$21,127.2	(\$672.3)	\$20,454.9	\$21,601.0	(\$617.2)	\$20,983.8
% Change	0.0%	---	(1.9%)	2.2%	---	3.5%	2.2%	---	2.6%
Revenue Limit – Under (Over)		\$7,686.9			\$8,116.6			\$8,250.2	
	<u>FY 2011-12 Estimate</u>			<u>FY 2012-13 Estimate</u>			<u>FY 2013-14 Estimate</u>		
Revision from May Consensus		\$210.6			(\$372.4)			(\$275.6)	
GF/GP		\$220.2			(\$289.5)			(\$154.9)	
SAF		(\$9.6)			(\$82.9)			(\$120.7)	

YEAR-END BALANCE ESTIMATES (Fiscal Year, Millions of Dollars)			
	FY 2011-12 Estimate	FY 2012-13 Estimate	FY 2013-14 Estimate
General Fund/General Purpose.....	\$1,042.1	\$146.0	\$40.9
School Aid Fund	240.3	0.0	(235.4)
Budget Stabilization Fund.....	364.9	508.6	513.7

**ECONOMIC REVIEW
AND OUTLOOK**

ECONOMIC REVIEW AND OUTLOOK

State revenue, particularly tax revenue, depends heavily on economic conditions. This section presents the Senate Fiscal Agency's (SFA's) latest economic forecast for 2013, 2014, and 2015, as well as a summary of recent economic activity.

RECENT U.S. ECONOMIC HIGHLIGHTS

Since the 2008-2009 recession, generally regarded as the most severe economic contraction in more than 70 years, the economy has grown slowly and many fundamental elements of the economy remain well below their prerecession peaks, or even below historical averages. Inflation-adjusted Gross Domestic Product (GDP) in the third quarter of 2012 was only 2.3% above the level during the fourth quarter of 2007, when the recession began, and only 7.4% above the level in the second quarter of 2009, when the economy finished contracting. As a result, the economy has averaged only 2.2% annual growth since the end of the recession, compared with an average of 3.3% annual growth over the 1960-2007 period, and 3.8% average annual growth over the 1991-1999 period. Consumption has grown somewhat, averaging annual growth of 2.1%, but this growth has been offset by the contracting state and local government sector, which has declined at a slightly faster rate. Additionally, much of the growth in the economy has reflected increases in inventories: goods produced but not sold. While inventory accumulation is generally regarded as good, at least if it is intended, without increased consumption to support the additional production, inventory increases do not represent a sustainable way to expand the economy.

Consumption growth has remained weak for a variety of reasons, and many of the increases have reflected increased purchases of motor vehicles. Consumers have remained risk averse about spending, especially for big-ticket items and nonessential purchases, as employment growth has remained weak and wage increases have been negligible. Motor vehicle purchases have been an exception due to factors ranging from rising fuel costs' encouraging the purchase of more fuel-efficient vehicles to the marked increase in the age of the vehicle fleet. Compared with 2011, retail sales are growing more rapidly in sectors associated with housing, such as building materials, furniture and appliances, but less rapidly in sectors such as grocery stores, general merchandise, and personal care ([Figure 1](#)). Despite these shifts in the composition of consumer spending, spending is still rising at a faster rate than wage and salary income.

The housing market improved substantially in 2012, although it remains weak by almost any historical measure ([Figure 2](#)). Housing starts through October 2012 are 28.3% above the same period in 2011, and are projected to total 771,000 units in 2012, an increase of 26.6% from 2011. Despite the increases, 2012 will represent the fourth-weakest year of housing starts (based on data available back to 1959) and be 24.0% below the lowest year before the 2008-2009 recession. Furthermore, residential construction as a share of GDP continues to remain at record lows. Between 1995 and 2003, residential investment represented approximately 5.2% of inflation-adjusted GDP. At the recession low for housing starts, in the first quarter of 2009, residential construction comprised 2.8% of GDP. In the third quarter of 2012, residential construction comprised 2.7% of GDP, up from a low of 2.4% in the first quarter of 2011. Combined, these figures suggest that the housing starts that are occurring have lower inflation-adjusted values than those before the recession.

Despite the improvements in the economy, a number of fundamental indicators still exhibit limited, if any, improvement. Payroll employment continued to decline for months after the end of the recession in June 2009, falling by approximately 1.3 million jobs by February 2010. Despite gains during 2012, November 2012 employment remained 4.2 million jobs (3.0%) below the January

2008 peak, and employment has averaged only 1.3% annual growth since the February 2010 trough. While manufacturing employment increased 4.1% between February 2010 and March 2012, it has remained flat since March and is still down approximately 1.8 million jobs from the beginning of the recession in December 2007.

Figure 1

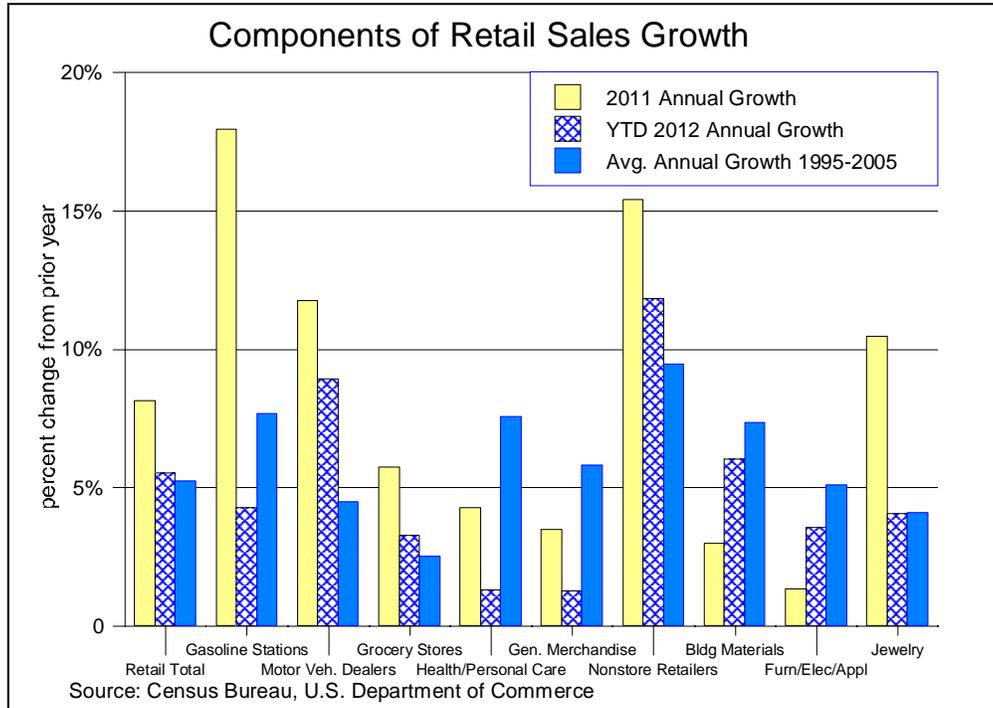
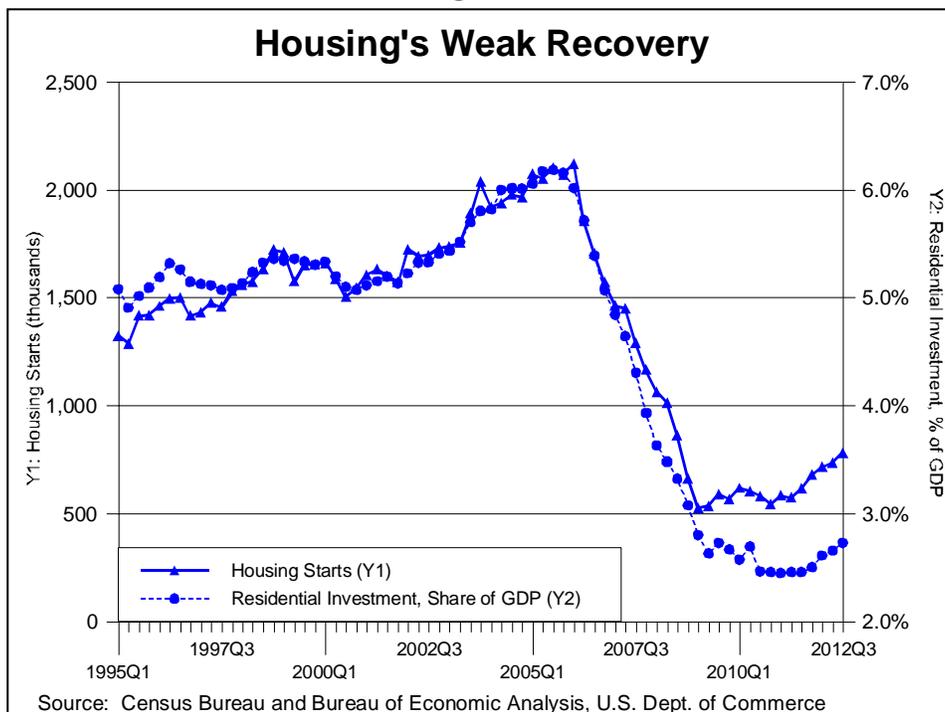
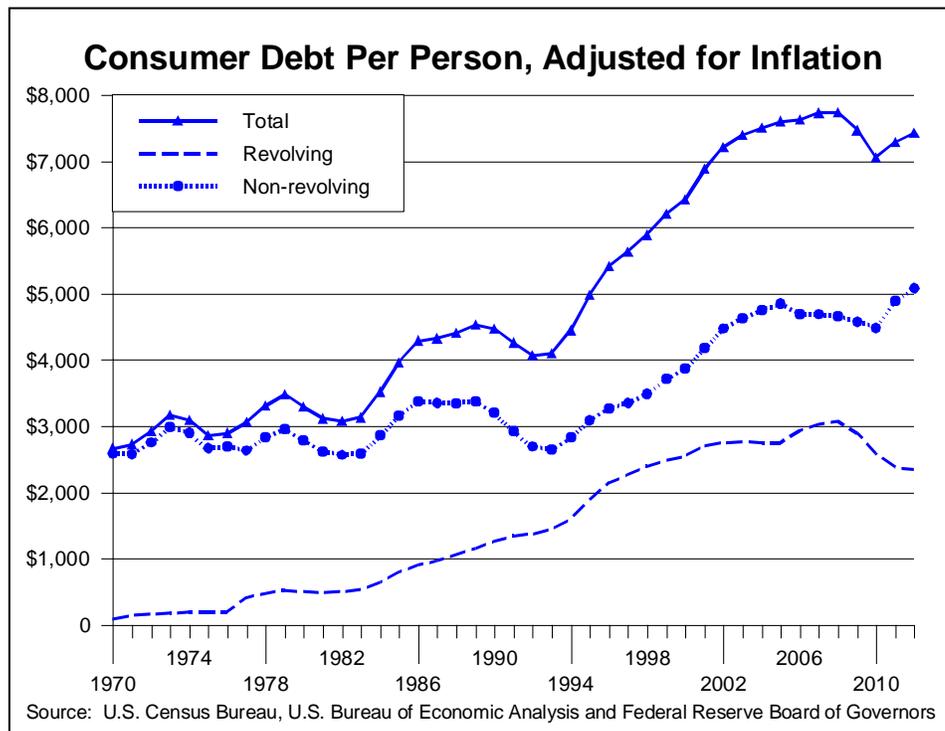


Figure 2



Personal income increased at a 4.0% annual rate between the second quarter of 2009 and the first quarter of 2012, but rose at only a 2.6% annual rate between the first and third quarters of 2012. However, personal saving as a share of disposable personal income (personal income after taxes) declined from 6.2% (the highest level in 18 years) in the second quarter of 2009 to 3.6% in the third quarter of 2012 -- only slightly above the levels of the last 15 years. Over the first three quarters of 2012, the saving rate averaged slightly less than 3.7%, down from more than 4.5% over the same period in 2011. While higher saving immediately after the recession reduced consumption, it also reduced household debt, which declined 3.7% between the second quarter of 2009 and the third quarter of 2011. Slower consumption and higher saving reduce the need for additional output and workers but improve the overall long-term financial health of consumers. Consumption growth since the end of 2011 appears to have been driven by increased borrowing, with outstanding consumer debt rising 5.6% since December 2011 and at an annual rate of 6.9% during August, September, and October 2012 (Figure 3). Inflation-adjusted consumer debt per person rose at an annual rate of 3.3% between the fourth quarter of 2011 and the third quarter of 2012, compared with growth in personal income per person of 1.4%.

Figure 3



Other indicators provide a mixed view of the economy. Orders for manufactured goods (excluding defense-related orders) rose in three of the four months between July and October and October 2012 orders were up 2.8% from the year-ago level. However, the Institute for Supply Management manufacturing index declined in four of the last six months and in November 2012 the level dropped below 50 for the fourth time in the last six months, indicating contraction in the manufacturing sector. In contrast, by November 2012, the index for the nonmanufacturing sector had both increased, and remained above 50, for 35 consecutive months. Business investment, which increased 4.4% in 2010 and 8.8% in 2011 and accounted for a significant portion of the economic growth over the period, declined by 2.2% in the third quarter of 2012 and is essentially unchanged from the first quarter of 2012. However, corporate profits increased 3.5% during the third quarter of 2012, were up 8.7% from one year ago, and were at the highest level on record.

Several economic indicators currently exhibit conditions that have both positive and negative implications, and exhibit strength for some aspects of the economy but not for others. Productivity, as measured by output per worker, rose at an average annual rate of 2.5% between the second quarter and third quarter of 2012, well above the 1.7% average during much of the latter half of the 20th century, and up from the 1.2% rate during 2011. Productivity gains increase output and income, but reduce the need for additional workers. Details for selected economic indicators are presented in [Table 1](#) and [Table 2](#).

Table 1
THE SENATE FISCAL AGENCY ECONOMIC FORECAST
(Calendar Years)

	2011 Actual	2012 Actual	2013 Estimate	2014 Estimate	2015 Estimate
<u>United States</u>					
Nominal GDP (year-to-year growth)	4.0%	4.1%	3.7%	4.1%	4.3%
Inflation-Adjusted GDP (year-to-year growth)	1.8%	2.2%	1.9%	2.4%	2.5%
Unemployment Rate	8.9%	8.1%	7.9%	7.8%	7.6%
Inflation					
Consumer Price Index (year-to-year growth)	3.2%	2.1%	1.9%	1.9%	2.0%
GDP Implicit Price Deflator (year-to-year growth)	2.1%	1.9%	1.8%	1.7%	1.8%
Interest Rates					
90-day Treasury Bill	0.05%	0.09%	0.11%	0.17%	0.42%
10-year Treasury Bill	2.78%	1.82%	1.88%	2.13%	2.24%
Corporate Aaa Bond	4.64%	3.65%	3.56%	3.76%	3.97%
Federal Funds Rate	0.10%	0.14%	0.18%	0.29%	0.75%
Light Motor Vehicle Sales (millions of units)					
Auto	6.2	7.3	7.4	7.5	7.6
Truck	6.5	7.0	7.4	7.5	7.6
Import Share	23.0%	22.0%	21.7%	21.9%	21.9%
<u>Michigan</u>					
Personal Income (millions)	\$358,152	\$371,488	\$379,919	\$394,662	\$409,011
Year-to-year growth	5.6%	3.7%	2.3%	3.9%	3.6%
Inflation-Adjusted Personal Income (year-to-year growth)	2.3%	1.8%	0.4%	2.1%	1.7%
Wage & Salary Income (millions)	\$183,000	\$190,246	\$194,596	\$199,294	\$202,023
Year-to-year growth	5.5%	4.0%	2.3%	2.4%	1.4%
Detroit Consumer Price Index (year-to-year growth)	3.3%	1.9%	1.8%	1.8%	1.9%
Wage & Salary Employment (thousands)	3,935.7	3,987.3	4,012.0	4,047.5	4,066.0
Year-to-year growth	1.9%	1.3%	0.6%	0.9%	0.5%
Unemployment Rate	10.3%	8.9%	8.9%	8.4%	8.1%

Table 2

THE SENATE FISCAL AGENCY U.S. ECONOMIC FORECAST DETAIL					
(Calendar Years)					
	2011	2012	2013	2014	2015
	Actual	Actual	Estimate	Estimate	Estimate
Gross Domestic Product (billions of dollars)	\$15,075.7	\$15,690.3	\$16,278.6	\$16,951.5	\$17,685.6
Year-to-year growth	4.0%	4.1%	3.7%	4.1%	4.3%
<i><u>Inflation-Adjusted GDP and Components</u></i>					
Gross Domestic Product (billions of 2005 dollars)	\$13,299.1	\$13,588.2	\$13,848.1	\$14,182.5	\$14,537.9
Year-to-year growth	1.8%	2.2%	1.9%	2.4%	2.5%
Consumption (billions of 2005 dollars)	\$9,428.8	\$9,599.3	\$9,753.8	\$9,948.7	\$10,177.2
Year-to-year growth	2.5%	1.8%	1.6%	2.0%	2.3%
Business Fixed Investment (billions of 2005 dollars)	\$1,378.2	\$1,478.8	\$1,534.4	\$1,635.8	\$1,746.9
Year-to-year growth	8.6%	7.3%	3.8%	6.6%	6.8%
Change in Business Inventories (billions of 2005 dollars)	\$31.0	\$49.3	\$41.6	\$47.5	\$55.5
Residential Investment (billions of 2005 dollars)	\$327.6	\$367.9	\$449.4	\$520.5	\$544.5
Year-to-year growth	(1.4%)	12.3%	22.1%	15.8%	4.6%
Government Spending (billions of 2005 dollars)	\$2,523.9	\$2,486.4	\$2,467.8	\$2,457.8	\$2,464.0
Year-to-year growth	(3.1%)	(1.5%)	(0.7%)	(0.4%)	0.3%
Net Exports (billions of 2005 dollars)	(\$408.0)	(\$406.0)	(\$400.1)	(\$413.9)	(\$425.0)
Exports (billions of 2005 dollars)	\$1,776.9	\$1,842.4	\$1,921.4	\$2,029.0	\$2,147.0
Imports (billions of 2005 dollars)	\$2,184.9	\$2,248.4	\$2,321.5	\$2,443.0	\$2,572.1
Personal Income (year-to-year growth)	5.2%	3.2%	2.8%	4.6%	5.0%
Adjusted for Inflation	2.0%	1.1%	0.9%	2.6%	3.0%
Wage & Salary Income (year-to-year growth)	4.0%	3.1%	3.2%	4.0%	4.0%
Personal Saving Rate	4.2%	3.7%	2.8%	2.9%	3.2%
Capacity Utilization Rate	76.8%	78.9%	79.2%	79.3%	79.3%
Housing Starts (millions of units)	0.609	0.771	1.082	1.293	1.352
Conventional Mortgage Rates	4.5%	3.7%	3.5%	3.9%	4.2%
Federal Budget Surplus (billions of dollars, NIPA basis)	(\$1,237.4)	(\$1,107.6)	(\$878.5)	(\$761.9)	(\$725.9)

Michigan's economy spent the 2000-2010 period in recession, largely driven by the same fundamental restructuring that affected manufacturing globally. Manufacturing has experienced a significant surge in productivity, driven by increased competition in the economy. For Michigan, the effect of productivity improvements was substantial, particularly given that there was more room for improvement in the durable goods and motor vehicle manufacturing sectors than in many other sectors, that Michigan was, and remains, very disproportionately concentrated in motor vehicle manufacturing, and that the motor vehicle industries have become one of the most competitive sectors of the economy. For Michigan, those factors were complicated as General Motors, Ford, and Chrysler lost market share over most of the last decade, leaving Michigan to lose employment

from both productivity and reduced demand. The impact on the Michigan economy was exacerbated by the rapid and drastic decline in automobile sales in late 2008 and during 2009, reflecting national collapses in sectors such as construction, real estate, and finance.

However, the drag from the manufacturing sector on Michigan's economy appears to have bottomed out and the recovery in vehicle sales nationally has helped Michigan's economic situation. Manufacturing employment in Michigan rose by 87,900 jobs (20.0%) between June 2009, when the U.S. recession ended, and January 2012. However, Michigan manufacturing employment has essentially remained unchanged since January. Employment in the transportation equipment manufacturing sector increased by 32.1% between June 2009 and January 2012, accounting for 36,100 (41.1%) of the manufacturing jobs Michigan gained and 24.8% of the total jobs added in Michigan. Michigan payroll employment declined for 12 consecutive months between July 2008 and June 2009, but then rose in 19 of 25 months between April 2010 and April 2012. However, employment fell in five of the six months between May and October 2012, October 2012 employment was down 15,600 jobs from the April level, and employment in the transportation equipment manufacturing sector has remained unchanged since January.

The unemployment rate declined from a high of 14.2% in August 2009 to 8.3% in April 2012, although the decline was more attributable to the departure of more than 180,000 individuals from the labor force than to the employment gain of 108,000. Since April 2012, the unemployment rate has risen, reaching 9.1% in October, as employment has fallen by more than 12,000 jobs and the number of individuals in the labor force has increased by approximately 18,100.

FORECAST SUMMARY

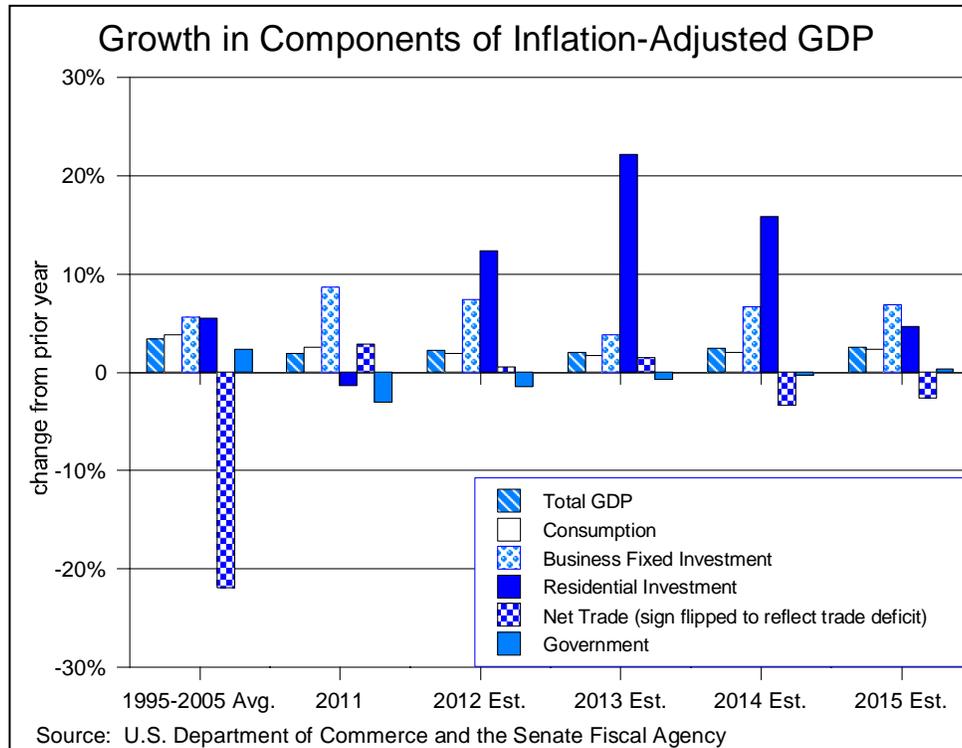
During 2013, both the U.S. and Michigan economies are expected to expand at a slightly slower rate than during 2012. Both the U.S. and Michigan economies are forecast to exhibit both income and employment growth during 2013, although Michigan is expected to grow more slowly than the nation as a whole. [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 rise 1.9% in 2013, a rate slightly less than the estimated 2.2% increase in 2012. The economy will begin to grow more rapidly, with inflation-adjusted GDP rising 2.4% during 2014 and 2.5% in 2015. The expansion over the forecast period primarily reflects improvements in business investment and residential investment that will more than offset the drag on the economy from a declining public sector ([Figure 4](#)).

Employment gains over the forecast period will be muted, particularly compared with prior recoveries, because while productivity growth is expected to be less than what was exhibited during the last decade, consumer demand is not likely to grow much more rapidly than productivity. Furthermore, business investment is expected to continue to focus on equipment and software, which generally replaces capital for labor, although investment in structures, which represents new facilities, is also expected to exhibit significant growth. The unemployment rate is expected decrease from 8.1% during 2012, to 7.9% in 2013, 7.8% in 2014, and 7.6% in 2015.

Inflation is not anticipated to be a concern over the forecast period, despite the assumption of high (but only slowly increasing) energy prices and a decline in the value of the dollar over the forecast period. The U.S. Consumer Price Index (CPI) is anticipated to increase 1.8% in 2013, followed by increases of 1.7% in 2014 and 1.8% in 2015. Export growth is expected to be tempered by slower economic growth overseas, particularly due to recessionary or near-recessionary growth in Europe, and slower growth in China. As foreign economies improve later in the forecast period, the twin gains of healthier export markets and continued declines in the value of the dollar will improve U.S.

exports. Productivity, weak domestic consumer demand, and substantial weakness in the labor market will help keep labor costs low, with unit labor costs expected to increase 0.9% in 2013, before rising 1.4% in 2014 and 1.6% in 2015.

Figure 4



In Michigan, both job growth and personal income growth are expected to remain below the national average (despite outperforming the national average in both 2010 and 2011) and the historical State average (Figures 5 and 6). Inflation-adjusted personal income is projected to increase only 0.4% in 2013, before growing by 2.1% in 2014 and 1.7% in 2015. Payroll employment is expected to increase 0.6% in 2013, after rising 1.3% during 2012, and then increase 0.9% in 2014 and 0.5% in 2015. Private sector gains in employment during 2013 and 2014 are expected to be partially offset by declines in public sector employment, as State and local governments experience continued budgetary problems (Figure 7). Nationally, light vehicle sales are expected to increase from 14.3 million units in 2012 to 14.8 million units in 2013, 15.1 million units in 2014, and 15.2 million units in 2015. In Michigan, higher vehicle sales, stability in the housing market, and an improved national economy are expected to allow the unemployment rate to slowly decline, from 8.9% in 2013 to 8.4% in 2014, and 8.1% in 2015.

Compared with the May 16, 2012, Consensus Economic Forecast, both the U.S. and Michigan forecasts are slightly weaker in both 2013 and 2014. Weak employment growth, weak income growth, and slowdowns in overseas economies will temper the pace of the U.S. and Michigan recoveries during the forecast period. Improved vehicle sales and stronger profitability in Michigan's vehicle sector will provide stability to the Michigan employment situation as the government sector contracts.

Figure 5

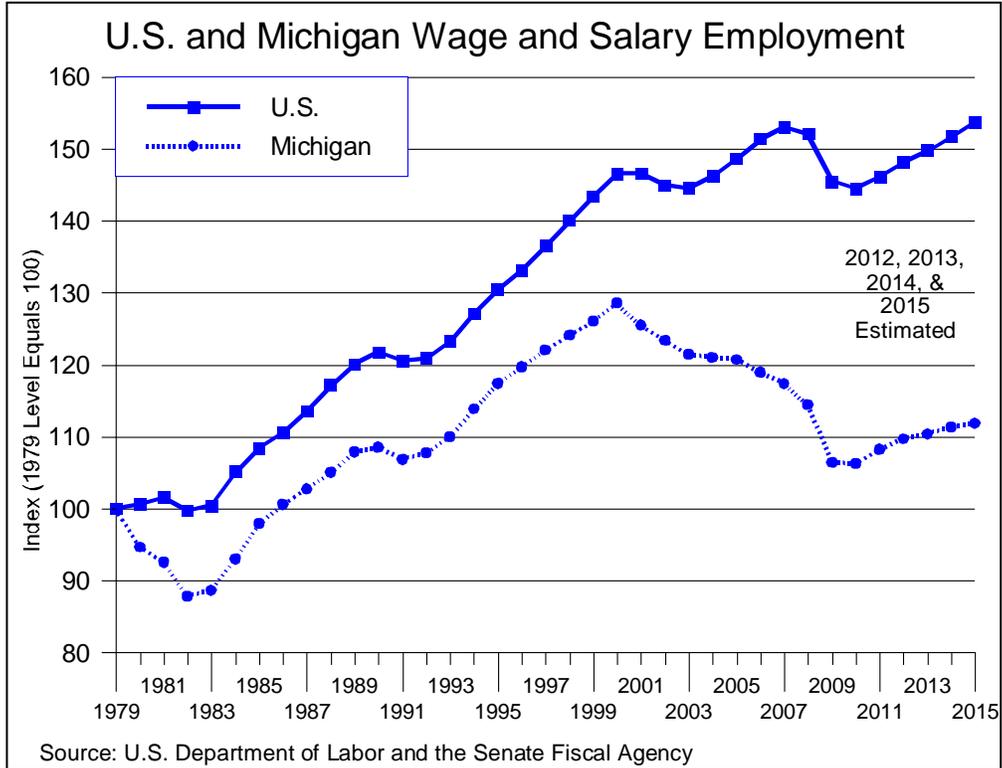


Figure 6

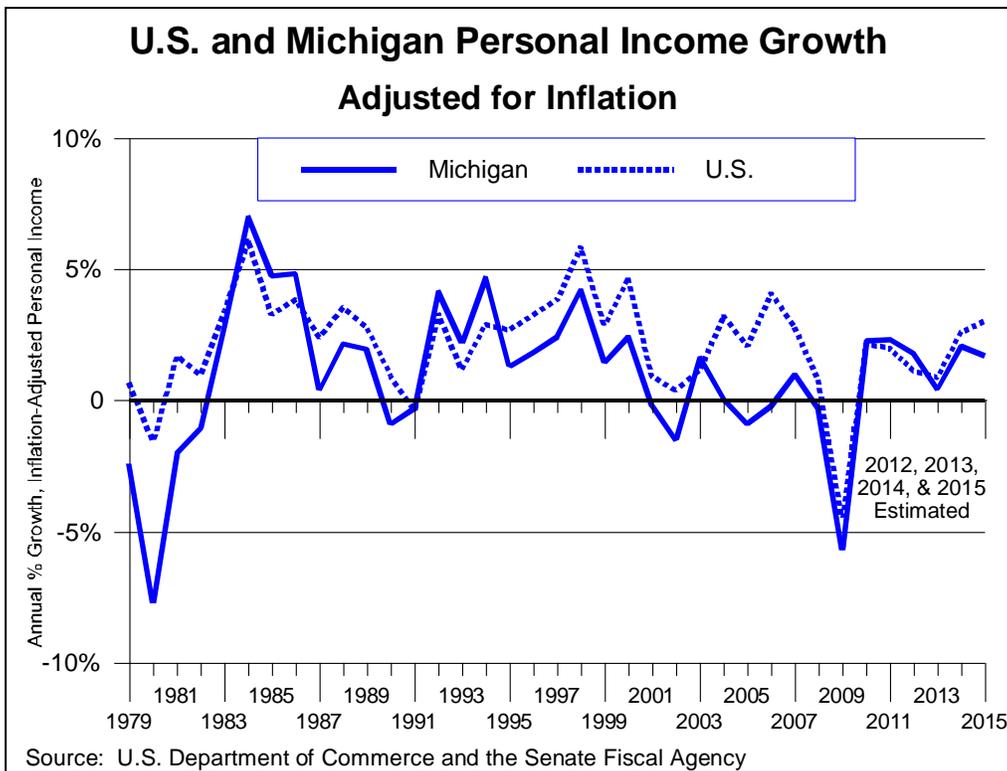
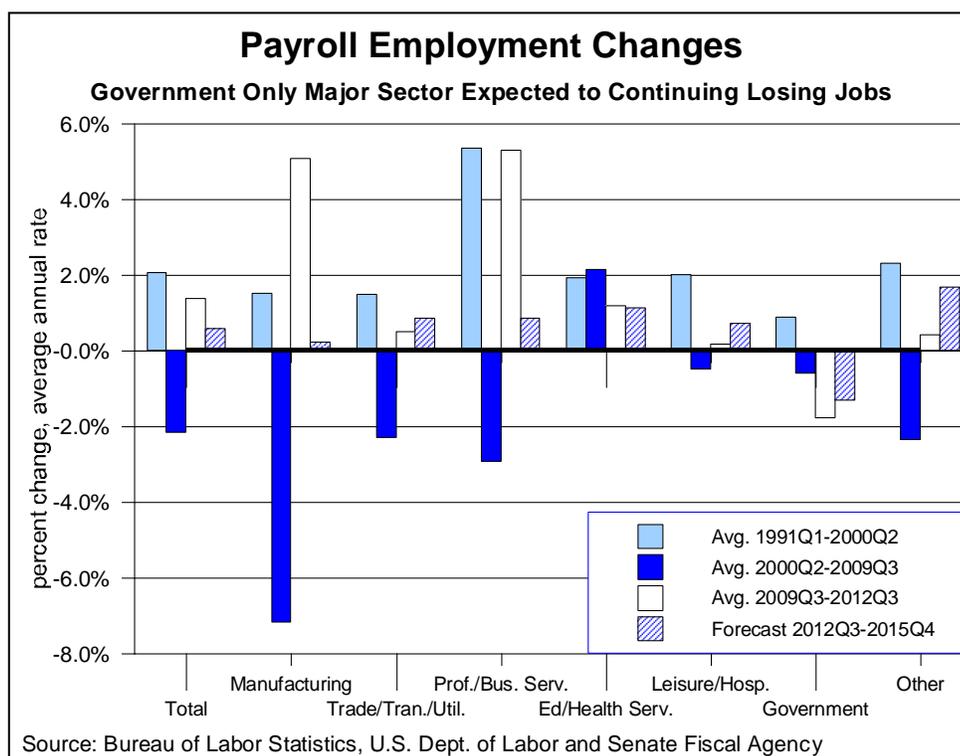


Figure 7



FORECAST RISKS

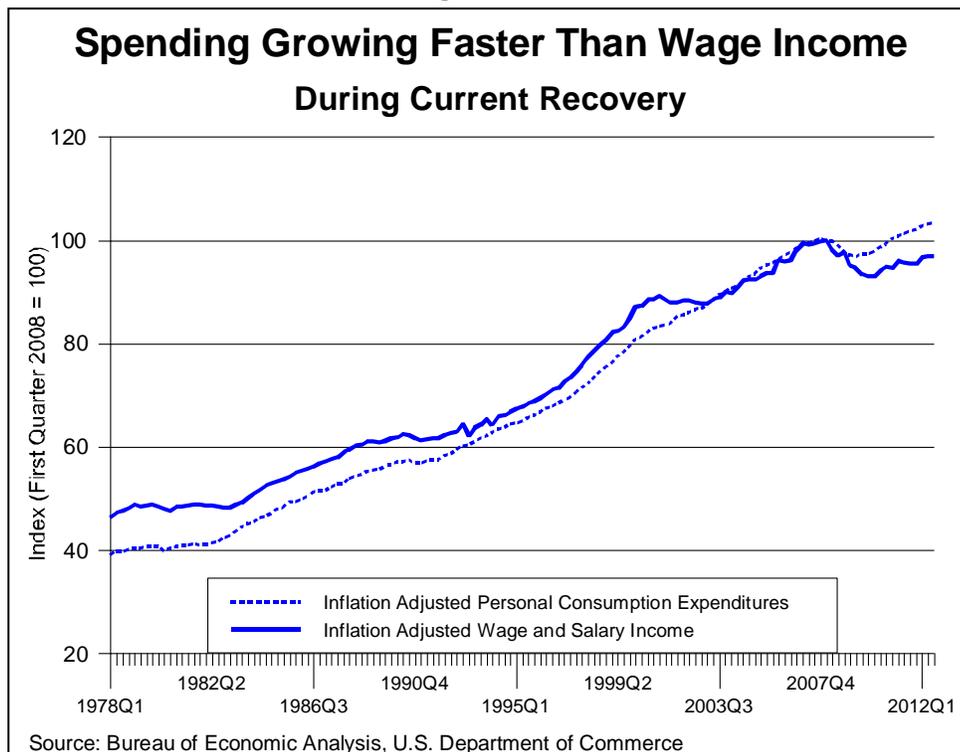
Forecasting the behavior of the economy requires making assumptions about the behavior of certain key economic variables. As a result, all forecasts carry a certain amount of error. However, unexpected changes in economic fundamentals often represent the greatest source of error. The challenge for the current forecast is to determine when the economy will complete the adjustments required to exhibit consistent economic growth. Such turning points are difficult to predict and adjustments after financial collapses such as occurred during the 2008-2009 recession often take longer than often occurs after recessions not associated with financial collapses.

Consumer Behavior. The economy of the last 30 years has been largely powered by strong growth in consumer spending. While saving rates fell and debt levels increased through the 1980s and 1990s, over much of the last decade those trends became even more magnified, despite flat or declining inflation-adjusted wages. Weak financial markets and declining housing prices during and after the 2008-2009 recession have induced consumers to rein in their spending, pushing the saving rate significantly higher. However, not only did consumers need to save at a far higher rate than exhibited to offset their losses in home equity and in the stock market, but over the last four quarters the saving rate has declined again and outstanding debt has begun increasing. Limited income growth and high debt burdens will impede consumers' ability to increase saving and/or significantly increase consumption. If the saving rate improves more than expected, such as to levels experienced during the 1980s, both consumption growth and economic growth will be substantially lower. Conversely, consumers could return to their spending habits of the late 2000s and if capital markets accommodated higher demands for additional credit, growth would be stronger than forecasted.

Historically, consumption has represented approximately 70.0% of GDP. As a result, even small deviations in consumption can have a significant impact on the economy. During the 2008-2009 recession, consumption dropped significantly: on an annual basis, the drop was the largest percentage decline since 1942, and the largest peacetime decline since 1938. However, personal income fell more slowly over that time period, indicating that consumers engaged in a large amount of precautionary saving: reducing consumption by more than accounted for by actual income changes. As consumption has improved, much of the increase is estimated to reflect delayed purchases, particularly for replacement purposes, that did not occur because of consumers' economic anxiety during the recession. As the job market has stabilized, consumers have renewed replacement consumption, but it is unclear how much real growth in the underlying consumption trend is actually occurring. If consumer spending primarily represents deferred purchases and consumers continue spending in the near future only at replacement rates, then as income grows, saving rates will rise and the economic recovery will be weaker than if consumers spent at a rate above what is necessary to meet replacement needs.

The durability of consumer spending represents the primary determinant of the accuracy of the forecast. Retail sales data indicate that a substantial portion of the gains in consumer spending during 2011 and early 2012 represented expenditures on gasoline and on motor vehicles. Gasoline prices were largely driven higher by events in the Middle East, such as the revolution in Libya, and vehicle sales have been below scrappage rates for several years. Expenditures have risen more rapidly than incomes for much of the past year ([Figure 8](#)), especially since mid-2011, and saving rates have fallen to their lowest levels since 2007. The forecast assumes that consumers will continue to reduce saving rates but that consumption will be limited by flat wages and limited access to additional increases in debt. To the extent that this perspective is not accurate and consumers assume more debt and accept lower saving rates, or that wages rise more rapidly than predicted, consumption is likely to be stronger than expected and the economy will grow more rapidly than expected.

Figure 8



The Labor Market. During 2011, Michigan experienced a marked decline in the unemployment rate, outpacing drops in the unemployment rate nationally. With Michigan posting the first annual job gains since 2000 during 2011 and 2012, the decline in the unemployment rate would appear to reflect rising employment levels. However, while job gains have helped reduce the unemployment rate, the primary factor causing the unemployment rate to decline over this period has been the withdrawal of individuals from the labor force. Individuals who have a job or are actively seeking work are counted as participating in the labor force, and the unemployment rate reflects the number of individuals who do not have a job and are actively seeking work divided by the size of the labor force.

Since the 2000 recession, labor force participation has fallen, with the steepest declines occurring in 2010 and 2011. Labor force participation can decline for a variety of reasons, ranging from individuals' choosing to permanently retire, to discouraged unemployed individuals' giving up searching for a job. Regardless of the reasons for their departure from the labor force, the withdrawal has implications for the economy. To the extent that such individuals remain out of the labor force, they generally face more limited income growth and reduce the pool of workers from which businesses can hire, potentially putting upward pressure on wages. On the other hand, to the extent that these individuals have only temporarily left the labor force, while they still face limited income growth, they represent a somewhat hidden group of unemployed individuals who will depress wages when the economy does begin to recover.

How those who are not part of the labor force behave over the forecast period has important implications for the economy and the forecast. To the extent these individuals face limited incomes and reduced income growth, consumption and investment are depressed, lowering economic growth and reducing tax revenue. To the extent that these individuals enter (or re-enter) the labor force, the unemployment rate is not likely to decrease much and may actually increase. To the extent these individuals find employment, the economy will improve, but at the expense of reducing the income gains that other workers might realize from an improving economy. As a result, both nationally and in Michigan, the large number of individuals who have left the labor force represent a factor that may exert a substantial slowing effect on the future growth of the economy.

Michigan's Situation. While over the last decade Michigan's employment situation fared worse than the national average, and, in some cases or time periods within that range, worse than any other state, Michigan's performance was not particularly inconsistent with other states' when Michigan's economic composition is considered. Generally, states with higher manufacturing concentrations (particularly in the transportation equipment manufacturing sector) experienced weaker job performance during the last decade, both because of the economic changes occurring in that sector and because of 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.

Weak markets for housing, credit, and employment, coupled with high energy prices and substantial debt burdens, are expected to exert a dragging force on any increases in demand over the forecast period. For Michigan, both employment gains and improvements in economic growth will be restrained by vehicle sales that are expected to remain substantially below the levels experienced over the last two decades, as little growth is expected beyond replacement demand, and the vehicle manufacturing sector is expected to continue to exhibit strong productivity gains. On the other hand, compared with the prior decade, the Detroit 3 share of the sales mix is expected to remain fairly stable ([Figure 9](#)). Michigan's economic fortunes historically have been very closely linked with sales of domestically produced light vehicles ([Figure 10](#)). Despite the improvement forecasted in vehicle sales, and the renewed profitability of domestic automobile manufacturers,

much of the additional demand can be met with existing employees, and low capital costs combined with meaningful productivity growth mean few incentives to increase hiring significantly. As a result, although as of June 2009, Michigan had lost more than two-thirds of the jobs (68.2%, a decline of approximately 241,300 jobs) in transportation equipment manufacturing that existed at the May 2000 peak, the majority of those jobs will never return and any gains in employment in the near future are likely to be muted. As identified in versions of this report prepared for earlier forecasts, even with something approximating normal employment growth in Michigan, it is unlikely that Michigan will reach the level of total employment reported in April 2000 (the precession peak) again for decades.

The forecast expects employment levels in the transportation equipment manufacturing sector to increase slightly through 2013 and 2014, but to decline slightly in 2015. Overall employment in Michigan is expected to grow slightly, with many of the employment gains over the forecast largely offset by declines in State and local government employment. However, for both the economy and State tax revenue to improve markedly, more substantial employment gains in the economy as a whole will need to occur. While increased profitability in the vehicle industry has stabilized much of the Michigan economy, significant and sustained growth is unlikely to occur until a meaningful recovery occurs in both the financial sector and the housing industry, and consumers have improved their debt-to-income ratios. These changes, which are expected to take years, will need to occur at both the national and statewide levels before Michigan will experience economic growth on a sustained basis.

Figure 9

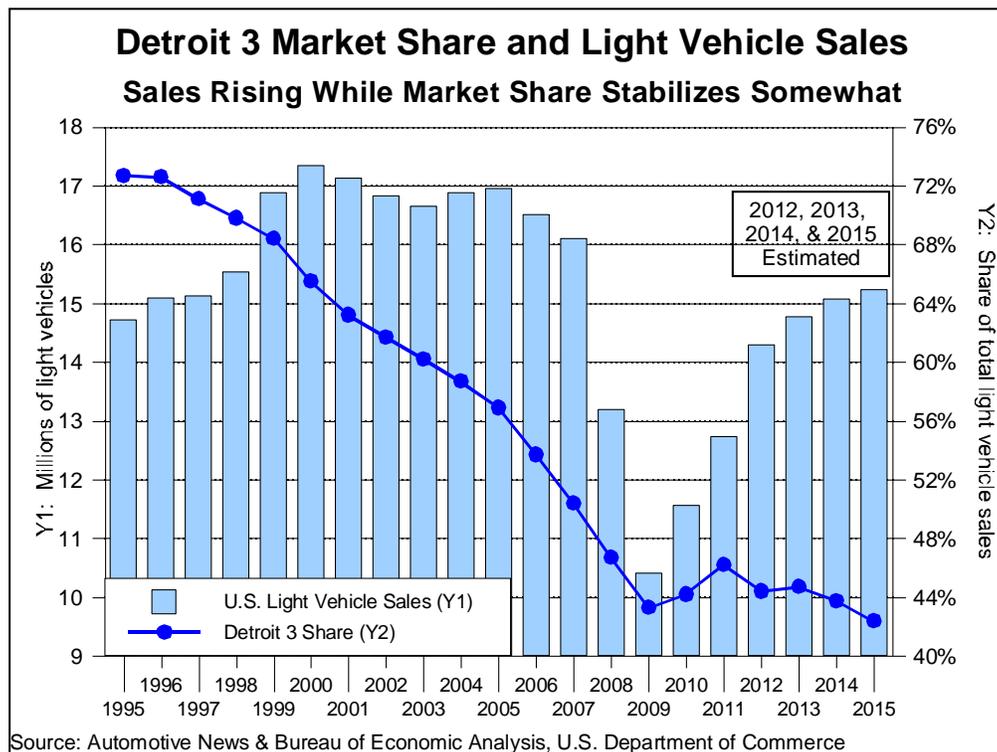
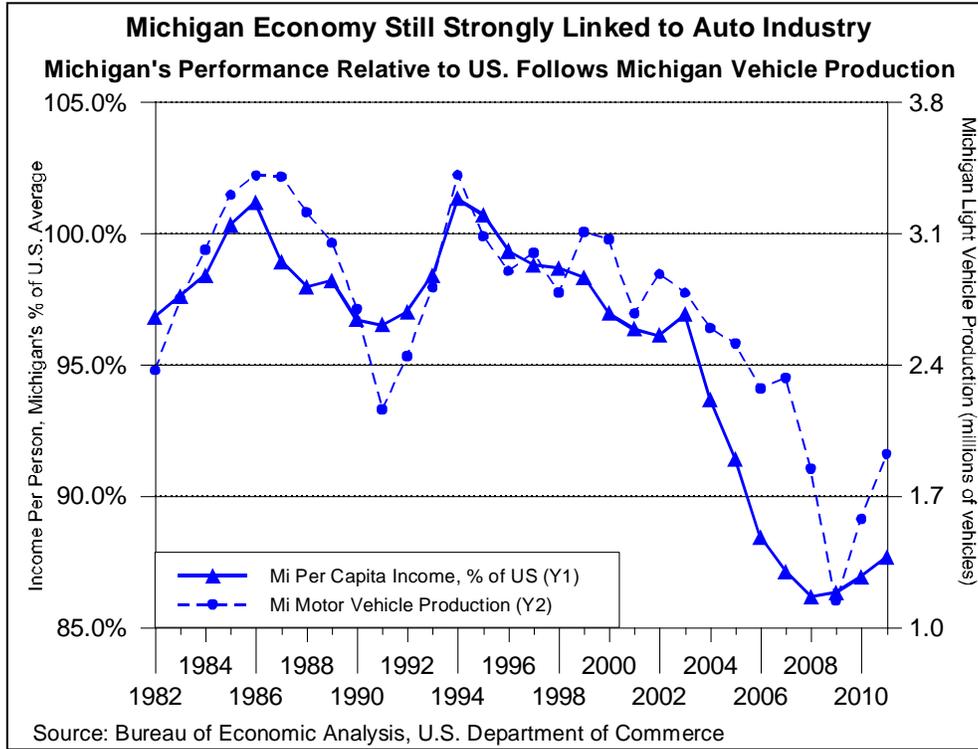


Figure 10



**FORECAST FOR
STATE REVENUE**

THE FORECAST FOR STATE REVENUE

This section of the Economic Outlook and Budget Review presents the Senate Fiscal Agency's (SFA's) estimates for General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue. The preliminary year-end revenue for FY 2011-12 is presented along with the revised estimates for FY 2012-13 and FY 2013-14 and the initial revenue estimates for FY 2014-15. The revenue estimates for each of these fiscal years include the estimates for baseline revenue, which measures what the revenue would be without any changes in the State's tax structure, and net revenue, which equals baseline revenue adjusted for the impact of all enacted tax changes. In addition, this revenue estimate represents the revenue generated from ongoing revenue sources and generally does not include any revenue included in the GF/GP or SAF budgets from one-time revenue adjustments, transfers, or other nonrecurring revenue items. The one-time revenue adjustments and transfers used to balance the GF/GP and SAF budgets in FY 2011-12 and FY 2012-13 are discussed in the last section of this report.

REVENUE OVERVIEW

The preliminary final GF/GP and SAF revenue for FY 2011-12, along with the revised estimates for FY 2012-13 and FY 2013-14, and the initial estimates for FY 2014-15 are presented in Table 3 and are summarized below.

FY 2011-12 Preliminary Final Revenue

- GF/GP and SAF revenue is expected to total \$20.2 billion in FY 2011-12.
- This revised estimate for FY 2011-12 is up 0.4% or \$90.2 million from FY 2010-11.
- In FY 2011-12, increased revenue from greater economic activity, as well as higher individual income tax revenue from the tax changes enacted in May 2011, is more than offset by negative impacts from changes in business taxes.
- Above-forecast revenue from repealed taxes, as well as certain one-time revenue sources, added more than \$100.3 million to FY 2011-12 revenue.
- The revised estimate for FY 2011-12 is \$210.6 million above the May 2012 consensus revenue estimate.

FY 2012-13 Revised Revenue Estimate

- GF/GP and SAF revenue is expected to total \$19.8 billion in FY 2012-13.
- This revised estimate for FY 2012-13 is down 1.9% or \$384.3 million from the revised estimate for FY 2011-12.
- In FY 2012-13, revenue growth from small gains in economic activity is more than offset by negative impacts from changes in business taxes and the absence of certain one-time revenue sources from FY 2011-12.
- The revenue projected for FY 2012-13 marks the first decrease in net revenue since FY 2009-10.
- The revised estimate for FY 2012-13 is \$372.4 million below the May 2012 consensus revenue estimate.

FY 2013-14 Revised Revenue Estimate

- GF/GP and SAF revenue is expected to total \$20.5 billion in FY 2013-14.

- This revised estimate for FY 2013-14 is up 3.5% or \$687.9 million from the revised estimate for FY 2012-13.
- While the revenue increase in FY 2013-14 reflects improvements in the level of economic activity, the negative impacts of changes in business taxes also are smaller.
- The revised estimate for FY 2013-14 is \$275.6 million below the May 2012 consensus revenue estimate.

FY 2014-15 Initial Revenue Estimate

- GF/GP and SAF revenue is expected to total \$21.0 billion in FY 2014-15.
- This initial estimate for FY 2014-15 is up 2.6% or \$528.9 million from the revised estimate for FY 2013-14.
- As in FY 2013-14, the revenue increase in FY 2014-15 reflects improvements in the level of economic activity, although substantial negative impacts from changes in business taxes still reduce revenue.

Historical Perspective

- Net GF/GP and SAF revenue increased 0.4% in FY 2011-12 and is forecasted to decline 1.9% in FY 2012-13 before growing 3.5% in FY 2013-14 and 2.6% in FY 2014-15. These changes compare with an average decline of 1.1% per year for the FY 1999-2000 to FY 2009-10 period and an 8.5% increase in FY 2010-11.
- The 0.4% increase in combined GF/GP and SAF revenue for FY 2011-12 is the weakest increase in combined GF/GP and SAF revenue in a nonrecession year since FY 2003-04.
- The 1.9% decrease in combined GF/GP and SAF revenue for FY 2012-13 is the first decrease in combined GF/GP and SAF revenue since FY 2009-10.
- The revised estimate for GF/GP revenue from ongoing sources in FY 2011-12 is 13.1% (\$1.4 billion) below the FY 1999-2000 level and 10.2% (\$1.1 billion) below the record peak reached in FY 2007-08. By FY 2013-14, ongoing GF/GP revenue will still be nearly 14.8% (\$1.6 billion) below the FY 1999-2000 level and 11.9% (\$1.2 billion) below the level in FY 2007-08. In FY 2014-15, ongoing GF/GP revenue will still be almost 12.3% (\$1.3 billion) less than in FY 1999-2000, without adjusting for inflation.
- In FY 2011-12, School Aid Fund revenue from ongoing sources is 5.6% (\$646.2 million) below the FY 2007-08 peak, but 9.9% (\$977.4 million) more than in FY 1999-2000. By FY 2013-14, ongoing SAF revenue will be 1.4% (\$162.1 million) below the FY 2007-08 peak, and 14.8% (\$1.5 billion) over the level in FY 1999-2000. In FY 2014-15, ongoing SAF revenue will surpass SAF revenue in FY 2007-08, without adjusting for inflation, by 0.9% (\$99.9 million).

Although baseline revenue growth in FY 2011-12 was approximately 4.1%, tax changes enacted in May 2011 helped lower net revenue growth to 0.4%. Figure 11 presents the percentage changes in baseline GF/GP and SAF revenue from FY 1986-87 through the initial estimate for FY 2014-15. During this 29-year period, GF/GP and SAF baseline revenue declined during three periods of time: FY 1990-91; three consecutive fiscal years beginning in FY 2000-01; and FY 2008-09 and FY 2009-10. The decline in FY 1990-91 was 2.7% and the total decline from FY 2000-01 through FY 2002-03 was about 3.8%. While these declines in baseline revenue caused serious budget problems, they represented relatively small revenue declines compared with the 9.1% decline in FY 2008-09 and additional 2.1% decline in FY 2009-10. It is estimated that GF/GP and SAF baseline revenue rose 4.1% in FY 2011-12, but will remain flat in FY 2012-13, before growing about 2.2% in FY 2013-14 and FY 2014-15.

Table 3

SENATE FISCAL AGENCY REVENUE ESTIMATES FOR FY 2011-12 THROUGH FY 2014-15				
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND				
(Millions of Dollars)				
	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15
	Prelim. Final	Revised Est.	Revised Est.	Initial Est.
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue	\$9,088.1	\$8,863.3	\$9,047.3	\$9,241.1
Tax Changes Not In Baseline	196.6	(182.8)	56.9	129.9
<u>Revenue After Tax Changes:</u>				
Net Income Tax	4,817.3	5,422.5	5,656.1	5,758.5
MBT, Corp. Income Tax, SBT & Insur. Tax	1,569.7	648.2	665.6	763.9
Other Taxes	2,334.8	2,265.1	2,452.2	2,517.2
Total Taxes	8,721.8	8,335.8	8,773.9	9,039.6
Nontax Revenue	562.9	344.7	330.2	331.4
TOTAL GF/GP REVENUE	\$9,284.7	\$8,680.5	\$9,104.1	\$9,371.0
SCHOOL AID FUND				
Baseline SAF	\$11,593.6	\$11,809.0	\$12,079.9	\$12,359.9
Tax Changes Not In Baseline	(726.9)	(722.4)	(729.1)	(747.1)
TOTAL SAF REVENUE	\$10,866.7	\$11,086.5	\$11,350.8	\$11,612.8
BASELINE GF/GP AND SAF REVENUE	\$20,681.7	\$20,672.3	\$21,127.2	\$21,601.0
Tax & Revenue Changes	(530.3)	(905.3)	(672.3)	(617.2)
GF/GP & SAF REV. AFTER CHANGES	\$20,151.3	\$19,767.0	\$20,454.9	\$20,983.8
SALES TAX	\$6,952.8	\$7,112.5	\$7,322.4	\$7,547.4
PERCENT CHANGE				
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue	13.0%	(2.5%)	2.1%	2.1%
<u>Revenue After Tax Changes:</u>				
Net Income Tax	8.4	12.6	4.3	1.8
MBT, Corp. Income Tax, SBT & Insur. Tax	(3.0)	(58.7)	2.7	14.8
Other Taxes	5.6	(3.0)	8.3	2.7
Total Taxes	5.4	(4.4)	5.3	3.0
Nontax Revenue	4.5	(38.8)	(4.2)	0.4
TOTAL GF/GP REVENUE	5.4%	(6.5%)	4.9%	2.9%
SCHOOL AID FUND				
Baseline SAF	3.9	1.9	2.3	2.3
TOTAL SAF REVENUE	(3.4%)	2.0%	2.4%	2.3%
BASELINE GF/GP AND SAF REVENUE	9.3	(0.0)	2.2	2.2
GF/GP & SAF REV. AFTER CHANGES	0.4%	(1.9%)	3.5%	2.6%
SALES TAX	3.6%	2.3%	3.0%	3.1%

Figure 11

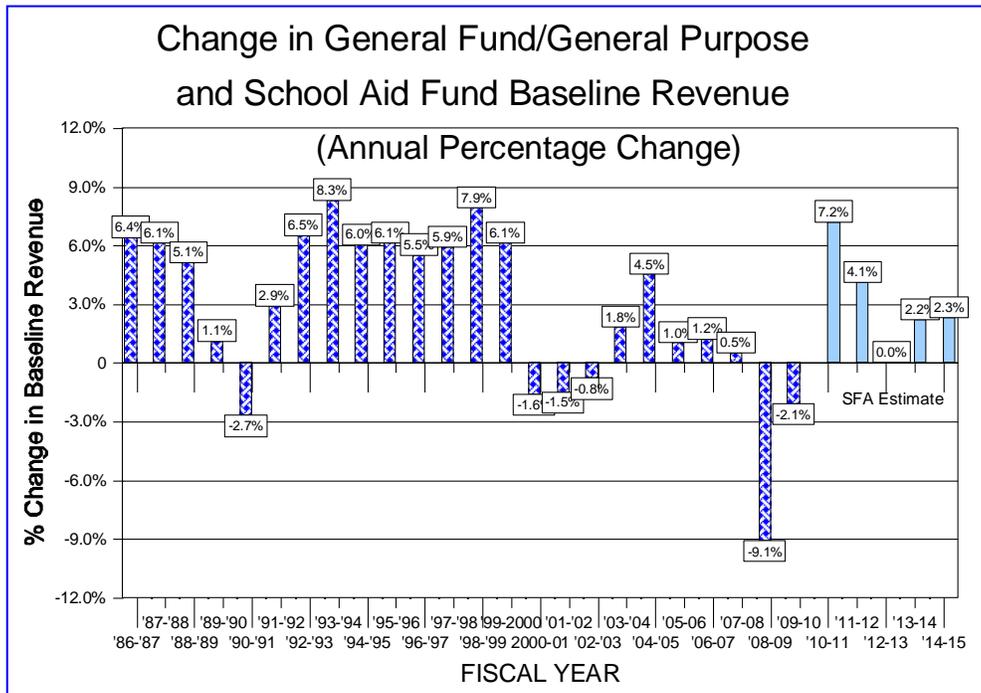


Figure 12 compares the FY 1995-96 through FY 2013-14 estimates for both the GF/GP and SAF revenue from ongoing sources with their respective levels for each of the fiscal years since the Proposal A school finance tax reforms were put in place. General Fund/General Purpose revenue peaked in FY 1999-2000 and then declined for three consecutive years due to a faltering economy and cuts to the income tax and the Single Business Tax (SBT). In FY 2007-08, GF/GP revenue jumped to \$9.3 billion due to the increase in the income tax rate and the adoption of, and subsequent increase in, the Michigan Business Tax (MBT). The significant decline in GF/GP revenue experienced during FY 2008-09 and FY 2009-10 reduced GF/GP revenue to its lowest level since FY 1987-88, as shown in Figure 13. Despite the growth estimated over most of the forecast period, ongoing GF/GP revenue in FY 2013-14 will be approximately 2.1% (or \$194.5 million) below the FY 1996-97 level (without accounting for inflation), and 7.7% (or \$693.4 million) below the FY 1967-68 level if adjusted for inflation. In sharp contrast to the path GF/GP revenue has taken during this period, SAF-earmarked revenue has been on a fairly smooth upward trend, even though the economic downturn reduced SAF revenue in FY 2008-09 and FY 2009-10. Ongoing SAF revenue is expected to grow consistently through the forecast period, except for a significant decline during FY 2011-12 due to tax policy changes. In FY 2013-14, SAF revenue is predicted to be approximately 36.4% above the revenue level in FY 1996-97 (without accounting for inflation) and 14.3% (or \$1.7 billion) below if adjusted for inflation, as shown in Figure 14.

Figure 12

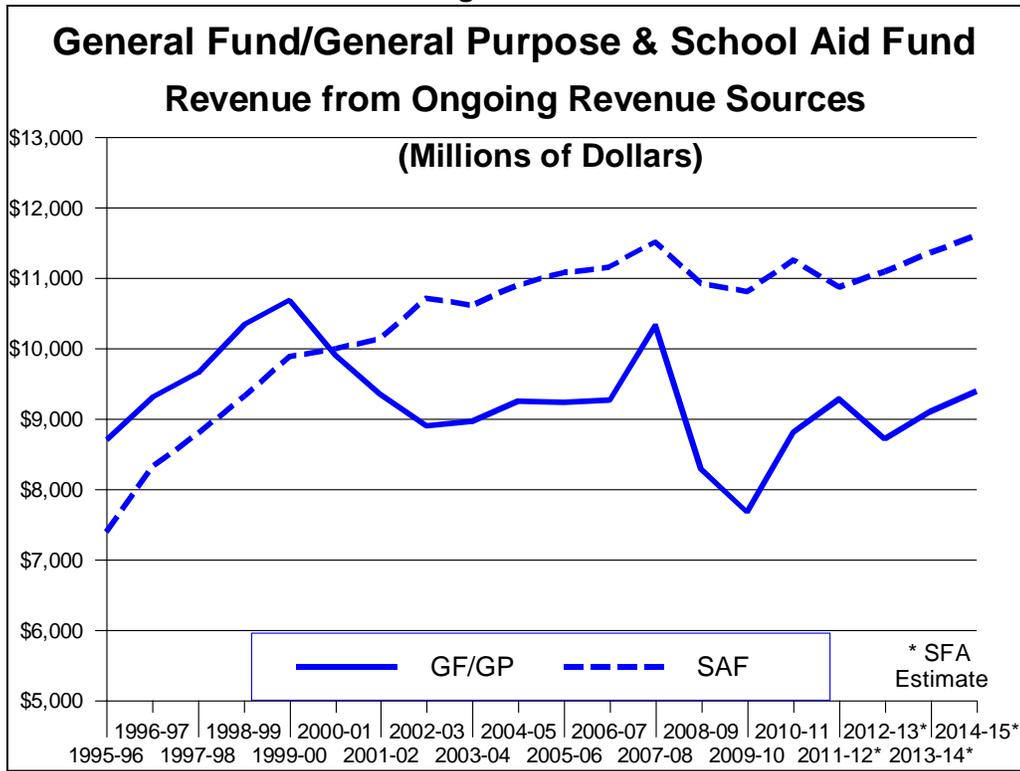
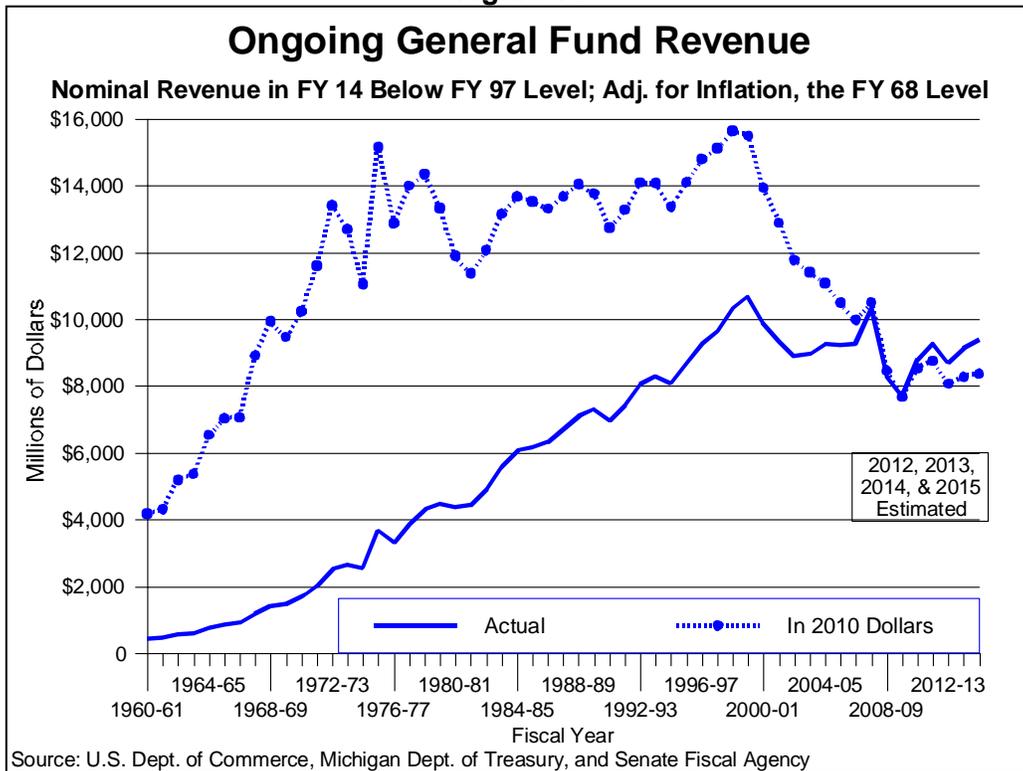
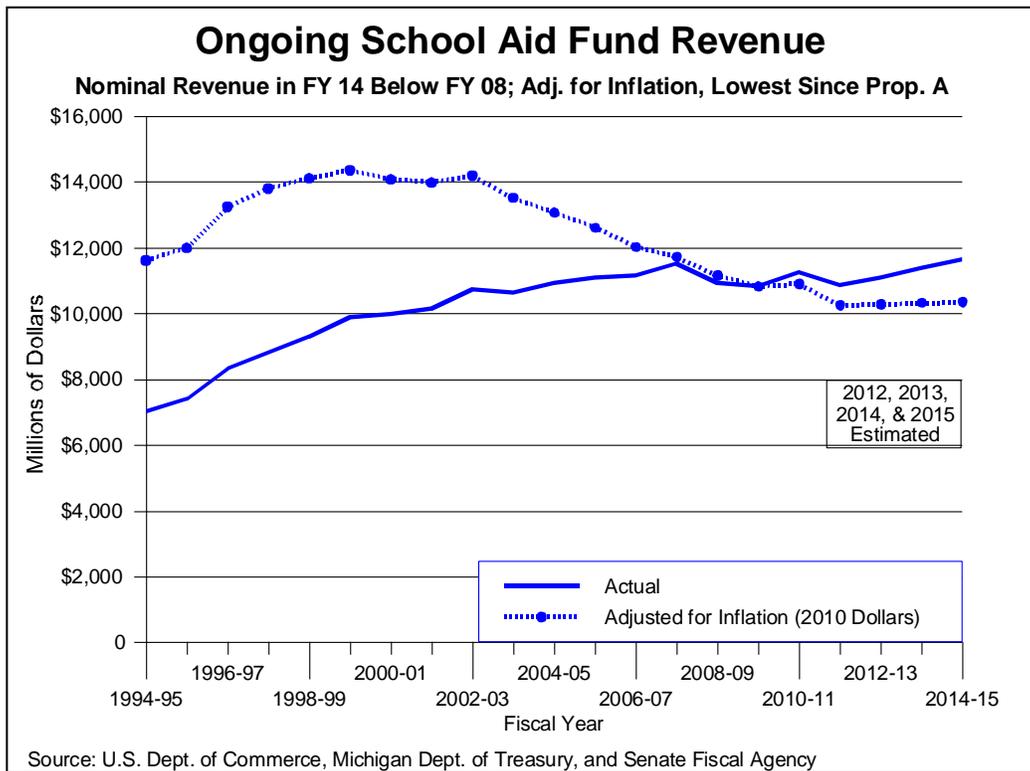


Figure 13



Source: U.S. Dept. of Commerce, Michigan Dept. of Treasury, and Senate Fiscal Agency

Figure 14



FY 2011-12 PRELIMINARY YEAR-END REVENUE

- General Fund/General Purpose and SAF revenue increased an estimated 0.4% in FY 2011-12 compared with FY 2010-11.
- The revenue increase in FY 2011-12 reflects an improved economic climate in Michigan, as well as some State and Federal tax policy changes.

Based on preliminary year-end book-closing revenue data, GF/GP and SAF revenue from ongoing revenue sources totaled \$20.2 billion in FY 2011-12, which is 0.4% above the FY 2010-11 revenue level, as presented in Table 4. While GF/GP and SAF revenue was expected to decline in FY 2011-12, due largely to tax changes enacted in May 2011, stronger business tax revenue and a number of one-time revenue sources boosted revenue above expected levels. The preliminary final revenue level is \$210.6 million above the May 2012 consensus revenue estimate. Most of the revenue increase from the May 2012 estimates reflects MBT and Corporate Income Tax (CIT) collections exceeding the estimates by a combined \$145.5 million and audits of firms that remit unclaimed property, which added another \$65.0 million. Baseline GF/GP and SAF revenue increased 4.1% in FY 2011-12.

Tax Policy Changes

Several tax policy changes adopted by the State in May 2011 exerted negative impacts on revenue in FY 2011-12. These tax policy changes included repealing the MBT and replacing it with a CIT that is expected to generate less revenue, and an increase in individual income taxes.

Income Tax Reform. Legislation adopted in May 2011 made fundamental changes to the Michigan individual income tax. The changes included postponing or eliminating scheduled rate reductions, expanding the tax base by eliminating many deductions and exemptions, and repealing or reducing a large number of credits. The combined effect of these changes is expected to increase individual income tax revenue by approximately \$523.1 million in FY 2011-12, of which \$473.0 million is expected to be directed to the General Fund.

Business Tax Changes. Coincidentally with the reforms adopted for the individual income tax, the legislation also eliminated the MBT effective January 1, 2012, and replaced it with a corporate income tax. The CIT taxes a narrower base and fewer firms, and thus is expected to generate substantially less revenue than the MBT. Consequently, revenue during FY 2011-12 was lowered by the loss of three quarters of a year of estimated MBT payments, and the three quarters of a year of CIT estimated payments replaced less than a third of the lost revenue.

The 2011 legislation also provided for certain credits that had been awarded under the MBT to continue to be claimed, under an "option" tax. This "option" allows taxpayers to continue to claim those credits if they continue to file under the MBT. This option reduces revenue significantly, beginning in FY 2011-12, because between 2008 and 2010, various special credits were enacted to subsidize certain types of manufacturing activity, including photovoltaic cells, polycrystalline silicon, and certain high-power energy batteries. During FY 2010-11, only the photovoltaic credit exhibited an impact, reducing MBT revenue by approximately \$1.5 million. The value of these credits is expected to increase, reducing revenue by an estimated \$47.5 million in FY 2011-12 and \$297.0 million per year for the rest of the forecast. As a result of preserving these credits, the MBT is expected to generate negative revenue over the forecast, reducing General Fund revenue by \$293.0 million in FY 2011-12, \$500.0 million in FY 2012-13, \$623.0 million in FY 2013-14, and \$608.4 million in FY 2014-15.

General Fund/General Purpose

- General Fund/General Purpose revenue totaled an estimated \$9.3 billion in FY 2011-12, which is up 5.4% or \$471.7 million from FY 2010-11.
- Compared with the May 2012 consensus estimate, GF/GP revenue for FY 2011-12 has been revised upward by \$220.2 million.

The increase in GF/GP revenue for FY 2011-12 reflects several factors: both tax changes and improvements in the Michigan economy that have had a positive impact on income tax revenue, improved business profits that boosted MBT and CIT revenue above expectations, and one-time revenue increases from certain audits and other administrative actions. A breakdown of the preliminary final GF/GP revenue estimate for FY 2011-12 is presented in [Table 4](#).

School Aid Fund

- School Aid Fund revenue from earmarked taxes and the lottery totaled \$10.9 billion in FY 2011-12, a decrease of 3.4% or \$381.4 million from FY 2010-11.
- The preliminary year-end SAF revenue estimate is \$9.6 million lower than the May 2012 consensus estimate.

School Aid Fund revenue totaled \$10.9 billion in FY 2011-12, down 3.4% from the FY 2010-11 revenue level. While improvements in home sales increased the revenue collected from the Real Estate Transfer Tax, weak growth in home values resulted in a 3.0% decline in State

Education Tax revenue. Improvements in the economy led to higher collections under the sales tax and individual income tax, although both the economic growth and the resulting collections were somewhat less than expected in May 2012. Sales tax collections earmarked to the SAF increased 3.6%, or \$176.7 million. Income tax collections earmarked to the SAF rose 6.5%, or \$127.7 million, in FY 2011-12 from the FY 2010-11 level, largely due to the tax changes enacted in 2011. In addition, the net revenue generated by the lottery increased \$51.2 million or 7.0% from FY 2010-11. The tax changes enacted in May 2011 eliminated the earmark of MBT revenue to the School Aid Fund, redirecting approximately \$759.1 million of MBT revenue to the General Fund and more than offsetting the revenue growth from other SAF revenue sources. The preliminary final SAF revenue for FY 2011-12 also is summarized in Table 4.

Table 4

FY 2011-12 PRELIMINARY FINAL REVENUE
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(Millions of Dollars)

	FY 2010-11 Final	FY 2011-12 Prelim. Final	Change from FY 2010-11		\$ Change from 05/12 Consensus
			Dollar Change	Percent Change	
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue¹⁾	\$8,604.1	\$9,280.7	\$676.6	7.9%	\$135.8
Tax Changes Not In Baseline Revenue After Tax Changes	208.9	3.9	(205.0)	---	---
<u>Personal Income Tax</u>					
Gross Collections	8,545.4	9,052.9	507.6	5.9	(16.1)
Less: Refunds	(2,127.1)	(2,134.6)	(7.5)	0.4	(31.5)
Net Income Tax Collections	6,418.3	6,918.4	500.1	7.8	(47.6)
Less: Earmarking to SAF Campaign Fund	(1,972.5) (1.0)	(2,100.2) (0.9)	(127.7) 0.1	6.5 (10.0)	3.2 0.1
Net Income Tax to GF/GP	\$4,444.8	\$4,817.3	\$372.4	8.4%	(\$44.2)
<u>Other Taxes</u>					
Michigan Business Tax	1,344.0	797.6	(546.4)	(40.7)	84.0
Corporate Income Tax	---	547.1	547.1	---	61.5
Sales Use	1,066.7	1,082.9	16.2	1.5	(27.8)
Cigarette	734.0	803.4	69.4	9.5	15.3
Insurance Company Premiums	195.7	193.7	(2.0)	(1.0)	0.4
Telephone & Telegraph	271.2	291.2	20.0	7.4	(8.8)
Oil & Gas Severance	56.1	59.2	3.1	5.5	2.2
All Other	59.8	53.6	(6.2)	(10.4)	(7.1)
	102.0	75.7	(26.2)	(25.7)	9.0
Subtotal Other Taxes	\$3,829.5	\$3,904.5	\$75.0	2.0%	\$128.7
Total Nontax Revenue	538.7	562.9	24.2	4.5	135.7
GF/GP REV. AFTER TAX CHANGES	\$8,813.0	\$9,284.7	\$471.7	5.4%	\$220.2
SCHOOL AID FUND:					
Baseline Revenue¹⁾	\$11,260.5	\$11,605.1	\$344.6	3.1%	(\$9.6)
Tax Changes Not In Baseline Revenue After Tax Changes	(12.4)	(738.6)	(726.2)	---	---
Sales Tax	4,878.6	5,055.3	176.7	3.6	(52.1)
Use Tax	367.0	401.6	34.6	9.4	7.6
Lottery Revenue	727.2	778.4	51.2	7.0	28.4
State Education Property Tax	1,845.0	1,789.5	(55.5)	(3.0)	(17.6)
Real Estate Transfer Tax	123.1	150.1	27.0	21.9	25.2
Michigan Business Tax	739.2	0.0	(739.2)	(100.0)	0.0
Income Tax	1,972.5	2,100.2	127.7	6.5	(3.2)
Casino Tax	114.0	115.8	1.8	1.6	1.1
Other Revenue	481.5	475.8	(5.7)	(1.2)	1.0
SAF REV. AFTER TAX CHANGES	\$11,248.1	\$10,866.7	(\$381.4)	(3.4%)	(\$9.6)
BASELINE GF/GP AND SAF	\$19,864.6	\$20,885.9	\$1,021.3	5.1%	\$126.2
Tax & Revenue Changes	196.5	(734.6)	(931.1)	---	---
GF/GP & SAF REV. AFTER CHNGS	\$20,061.1	\$20,151.3	\$90.2	0.4%	\$210.6
SALES TAX	\$6,709.0	\$6,952.8	\$243.8	3.6%	(\$71.1)

¹⁾ FY 2010-11 is the base year for baseline revenue.

FY 2012-13 REVISED REVENUE ESTIMATES

- General Fund/General Purpose and SAF revenue will total an estimated \$19.8 billion in FY 2012-13, which is down 1.9% or \$384.3 million from the revised estimate for FY 2011-12.
- The revised estimate for FY 2012-13 is \$372.4 million below the May 2012 consensus estimate.

Economic activity in Michigan is expected grow more slowly during FY 2012-13, and the loss of certain revenue from non-tax GF/GP revenue, will result in no baseline GF/GP and SAF growth during FY 2012-13, compared with the 4.1% growth experienced during FY 2011-12. In addition, several reductions in revenue due to tax policy changes will reduce FY 2012-13 revenue, as discussed below. The revised estimates for FY 2012-13 GF/GP and SAF revenue are summarized in [Table 5](#).

Tax Policy Changes

As mentioned earlier, both the tax legislation enacted in May 2011 and several MBT credits enacted in earlier years will reduce GF/GP and SAF revenue over the forecast period. Furthermore, the magnitude of those reductions will increase through FY 2013-14. In addition, a number of bills were enacted in 2012, after the May 2012 Consensus conference, that will have a negative impact on FY 2012-13 revenue.

Business and Income Tax Reform. Legislation adopted in May 2011 made fundamental changes to the Michigan individual income tax and business taxes. Subsequent modifications of those changes to the individual income tax, adopted in June 2012, reduced combined GF/GP and SAF revenue by approximately \$103.0 million in FY 2012-13. Combined with the earlier legislation, the individual income tax changes are expected to increase income tax revenue by \$1.2 billion in FY 2012-13. The net effect of the business tax changes is expected to reduce combined MBT/CIT revenue by \$1.0 billion in FY 2012-13, despite estimated growth in the respective bases of both taxes.

Sales Tax Redirection. Public Acts 225 and 226 of 2012 redirect a portion of sales tax revenue that would otherwise be deposited into the General Fund to transportation-related funds. The revenue associated with Public Act 225 was redirected in order to generate adequate revenue to fully match available Federal revenue for road and bridge construction. The redirections apply only to FY 2012-13 and reduce GF/GP revenue by \$110.0 million.

Miscellaneous Tax Changes. Late in 2012, the Legislature adopted a number of bills that individually exhibit a minimal negative impact on revenue, ranging from \$0.2 million to \$8.0 million, but collectively reduce State tax revenue by \$46.3 million in FY 2012-13.

General Fund/General Purpose Revenue

- General Fund/General Purpose revenue will total an estimated \$8.7 billion in FY 2012-13, a decrease of 6.5% or \$604.2 million from FY 2011-12.
- The revised GF/GP estimate is \$289.5 million below the May 2012 consensus revenue estimate.

Weak economic growth during 2013 will result in minimally higher tax collections during FY 2012-13. Income tax revenue is expected to increase 12.6%, but the baseline growth is expected to amount to a 0.6% decline. The net increase reflects an expected reduction in homestead property tax credits, as a result of the tax legislation adopted in May 2011. Tax credits are paid from GF/GP revenue rather than SAF revenue, so this change will not benefit School Aid Fund revenue. Despite substantial growth in CIT revenue, reflecting the first full year of CIT collections, the loss of revenue from the MBT repeal and the preservation of refundable credits under the "option" tax will more than offset those gains. Combined MBT/CIT revenue is expected to decline more than \$1.0 billion in FY 2012-13, pushing a 2.5% decline in baseline to a 6.5% decline in net revenue. The revised GF/GP revenue estimate for FY 2012-13 is summarized in [Table 5](#).

School Aid Fund

- School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$11.1 billion in FY 2012-13, which is up 2.0% or \$219.8 million from the revised estimate for FY 2011-12.
- This revised SAF revenue estimate for FY 2012-13 is \$82.9 million below the May 2012 consensus revenue estimate.

The projected 2.0% increase in SAF revenue in FY 2012-13 reflects stronger revenue from the sales tax, the individual income tax, and the Real Estate Transfer Tax. The income tax increase primarily reflects the tax reform legislation enacted in 2011. Continued weakness in the housing market is also expected to result in State Education Tax revenue growth of only 0.3% in FY 2012-13. However, revenue from the Real Estate Transfer Tax is expected to rise by 11.9%. The revised SAF revenue estimate for FY 2012-13 is summarized in [Table 5](#).

Table 5
FY 2012-13 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(Millions of Dollars)

	FY 2011-12 Prelim. Final	FY 2012-13 Revised Est.	Change from FY 2011-12		\$ Change from 05/12 Consensus
			Dollar Change	Percent Change	
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue¹⁾	\$9,088.1	\$8,863.3	(\$224.8)	(2.5%)	(\$136.9)
Tax Changes Not In Baseline Revenue After Tax Changes	196.6	(182.8)	(379.4)	---	(152.5)
<u>Personal Income Tax</u>					
Gross Collections	9,053.0	9,187.7	134.7	1.5	(271.8)
Less: Refunds	(2,134.6)	(1,576.6)	558.0	(26.1)	(24.6)
Net Income Tax Collections	6,918.3	7,611.1	692.7	10.0	(296.4)
Less: Earmarking to SAF Campaign Fund	(2,100.2)	(2,187.6)	(87.4)	4.2	51.5
	(0.9)	(1.0)	(0.1)	11.1	0.0
Net Income Tax to GF/GP	\$4,817.3	\$5,422.5	\$605.2	12.6%	(\$244.9)
<u>Other Taxes</u>					
Michigan Business Tax	797.6	(570.8)	(1,368.4)	(171.6)	(18.4)
Corporate Income Tax	547.1	914.0	366.9	67.1	75.1
Sales Use	1,082.9	1,003.8	(79.1)	939.5	(130.9)
Cigarette	803.4	849.3	45.9	5.7	14.7
Insurance Company Premiums	193.7	190.0	(3.7)	(4.9)	0.5
Telephone & Telegraph	291.2	305.0	13.8	4.7	(6.4)
Oil & Gas Severance	59.2	60.5	1.3	2.2	3.2
All Other	53.6	55.0	1.4	2.6	(6.0)
	75.7	106.5	30.8	40.6	13.9
Subtotal Other Taxes	\$3,904.5	\$2,913.3	(\$991.2)	(25.4%)	(\$54.3)
Total Nontax Revenue	562.9	344.7	(218.2)	(38.8)	9.7
GF/GP REV. AFTER TAX CHANGES	\$9,284.7	\$8,680.5	(\$604.2)	(6.5%)	(\$289.5)
SCHOOL AID FUND:					
Baseline Revenue¹⁾	\$11,593.6	\$11,809.0	\$215.4	1.9%	(\$49.7)
Tax Changes Not In Baseline Revenue After Tax Changes	(726.9)	(722.4)	4.5	---	(33.2)
Sales Tax	5,055.3	5,172.4	117.1	2.3	(59.8)
Use Tax	401.6	424.7	23.1	5.8	7.3
Lottery Revenue	778.4	769.7	(8.7)	(1.1)	25.0
State Education Property Tax	1,789.5	1,795.6	6.1	0.3	(33.8)
Real Estate Transfer Tax	150.1	168.0	17.9	11.9	34.4
Michigan Business Tax	0.0	0.0	0.0	---	0.0
Income Tax	2,100.2	2,187.8	87.4	4.2	(51.5)
Casino Tax	115.8	107.3	(8.5)	(7.3)	1.0
Other Revenue	475.8	461.2	(14.6)	(3.1)	(5.5)
SAF REV. AFTER TAX CHANGES	\$10,866.7	\$11,086.5	\$219.8	2.0%	(\$82.9)
BASELINE GF/GP AND SAF	\$20,681.7	\$20,672.3	(\$9.4)	(0.0%)	(\$186.6)
Tax & Revenue Changes	(530.3)	(905.3)	(374.9)	---	(185.7)
GF/GP & SAF REV. AFTER CHNGS	\$20,151.3	\$19,767.0	(\$384.3)	(1.9%)	(\$372.4)
SALES TAX	\$6,952.8	\$7,112.5	\$159.7	2.3%	(\$81.6)

¹⁾ FY 2011-12 is the base year for baseline revenue.

FY 2013-14 REVISED REVENUE ESTIMATES

The level of economic activity in Michigan is expected to increase more rapidly in FY 2013-14 than during FY 2012-13. Total GF/GP and SAF revenue will reach an estimated \$20.5 billion in FY 2013-14, an increase of 3.5% or \$687.9 million from the revised estimate for FY 2012-13. On a baseline basis, GF/GP and SAF revenue is expected to increase 2.2% in FY 2013-14, reflecting the stronger level of State economic activity. The initial estimate of GF/GP and SAF revenue for FY 2013-14 is summarized in Table 6.

Tax Policy Changes

As in FY 2012-13, tax policy changes are expected to reduce revenue during FY 2013-14, with the most significant reductions coming from another substantial increase in business tax credits and the miscellaneous legislation enacted in 2012.

Business and Income Tax Reform. The legislation adopted in May 2011 is expected to increase individual income tax revenue by \$1.5 billion in FY 2013-14, despite the subsequent changes enacted in 2012 that will reduce revenue by \$36.0 million. The net effect of the business tax changes is expected to lower combined MBT/CIT revenue by \$0.8 million in FY 2013-14, compared with FY 2012-13, as increases in CIT revenue are offset by higher MBT credits.

Miscellaneous Tax Changes. Late in 2012, the Legislature adopted a number of bills that individually exhibit a minimal negative impact on revenue, ranging from \$0.2 million to \$8.0 million, but collectively reduce State tax revenue by \$34.2 million in FY 2013-14.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated \$9.1 billion in FY 2013-14, an increase of 4.9% or \$423.6 million from the revised estimate for FY 2012-13. Baseline GF/GP revenue is expected to increase 2.1%, but the elimination of the earmark redirecting sales tax revenue from the General Fund to transportation funds adds \$110.0 million to net revenue. The initial GF/GP revenue estimates for FY 2013-14 are summarized in Table 6.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$11.4 billion in FY 2013-14, an increase of \$264.3 million, or 2.4%, from the revised estimate for FY 2012-13. The forecasted increase in SAF revenue reflects growth in every major revenue source other than the Lottery. Because the tax reform legislation's negative impact on the SAF was primarily experienced during FY 2011-12 (and FY 2012-13 if the impact on income tax refunds is also included), SAF revenue in FY 2013-14 will largely reflect economic fundamentals and the improving economy. The initial SAF revenue estimates for FY 2013-14 are summarized in Table 6.

Table 6
FY 2013-14 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(Millions of Dollars)

	FY 2012-13 Revised Est.	FY 2013-14 Revised Est.	Change from FY 2012-13		\$ Change from 05/12 Consensus
			Dollar Change	Percent Change	
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue¹⁾	\$8,863.3	\$9,047.3	\$184.0	2.1%	(\$60.7)
Tax Changes Not In Baseline Revenue After Tax Changes	(182.8)	56.9	239.7	---	(94.2)
<u>Personal Income Tax</u>					
Gross Collections	9,187.7	9,480.0	292.3	3.2	(281.0)
Less: Refunds	(1,576.6)	(1,561.1)	15.5	(1.0)	(4.7)
Net Income Tax Collections	7,611.1	7,918.9	307.8	4.0	(285.7)
Less: Earmarking to SAF Campaign Fund	(2,187.6) (1.0)	(2,261.8) (1.0)	(74.2) 0.0	3.4 0.0	66.3 0.0
Net Income Tax to GF/GP	\$5,422.5	\$5,656.1	\$233.6	4.3%	(\$219.4)
<u>Other Taxes</u>					
Michigan Business Tax	(570.8)	(618.9)	(48.1)	8.4	(5.0)
Corporate Income Tax	914.0	961.3	47.3	5.2	48.9
Sales Use	1,003.8	1,149.5	145.7	14.5	(20.0)
Cigarette	849.3	882.0	32.7	3.9	17.3
Insurance Company Premiums	190.0	186.5	(3.5)	(1.8)	1.1
Telephone & Telegraph	305.0	323.2	18.2	6.0	4.0
Oil & Gas Severance	60.5	63.3	2.8	4.6	6.0
All Other	55.0	58.0	3.0	5.5	(6.2)
	106.5	112.9	6.4	6.0	15.6
Subtotal Other Taxes	\$2,913.3	\$3,117.8	\$204.5	7.0%	\$61.7
Total Nontax Revenue	344.7	330.2	(14.5)	(4.2)	2.8
GF/GP REV. AFTER TAX CHANGES	\$8,680.5	\$9,104.1	\$423.6	4.9%	(\$154.9)
SCHOOL AID FUND:					
Baseline Revenue¹⁾	\$11,809.0	\$12,079.9	\$270.9	2.3%	(\$104.7)
Tax Changes Not In Baseline Revenue After Tax Changes	(722.4)	(729.1)	(6.7)	---	(16.0)
Sales Tax	5,172.4	5,325.5	153.1	3.0	(53.3)
Use Tax	424.7	441.0	16.3	3.8	(8.7)
Lottery Revenue	769.7	758.0	(11.7)	(1.5)	11.0
State Education Property Tax	1,795.6	1,814.3	18.7	1.0	(54.6)
Real Estate Transfer Tax	168.0	184.0	16.0	9.5	36.7
Michigan Business Tax	0.0	0.0	0.0	---	---
Income Tax	2,187.8	2,261.8	74.2	3.4	(66.3)
Casino Tax	107.3	112.0	4.7	4.4	2.6
Other Revenue	461.2	454.2	(7.0)	(1.5)	(5.5)
SAF REV. AFTER TAX CHANGES	\$11,086.5	\$11,350.8	\$264.3	2.4%	(\$120.7)
BASELINE GF/GP AND SAF	20,672.3	21,127.2	454.9	2.2	(165.4)
Tax & Revenue Changes	(905.3)	(672.3)	233.0	---	(110.2)
GF/GP & SAF REV. AFTER CHNGS	\$19,767.0	\$20,459.4	\$687.9	3.5%	(\$275.6)
SALES TAX	\$7,112.5	\$7,322.4	\$209.9	3.0%	(\$72.7)

¹⁾ FY 2010-11 is the base year for baseline revenue.

FY 2014-15 INITIAL REVENUE ESTIMATES

Michigan's economy is expected to continue growing during FY 2014-15, with both personal income and employment rising, but by slightly less than in FY 2013-14. Tax policy changes will still affect both GF/GP and SAF revenue during FY 2013-14, but the incremental impact relative to prior fiscal years is expected to be minimal. Total GF/GP and SAF revenue will reach an estimated \$21.0 billion in FY 2014-15, an increase of 2.6% or \$528.9 million from the revised estimate for FY 2013-14. On a baseline basis, GF/GP and SAF revenue is expected to increase 2.2% in FY 2014-15, reflecting continued improvements in State economic activity. The initial estimate of GF/GP and SAF revenue for FY 2014-15 is summarized in Table 7.

Tax Policy Changes

Tax policy changes are expected to continue affecting revenue during FY 2013-14, with the most significant impact reflecting the tax reform legislation and additional increases in business tax credits. However, the year-over-year change in the impacts of these provisions will be less than in previous years.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated \$9.4 billion in FY 2014-15, an increase of 2.9% or \$266.9 million from the revised estimate for FY 2013-14. Baseline GF/GP revenue is expected to increase 2.1%, but increases in income tax revenue from the tax reform legislation of 2011 are expected to dominate the negative revenue impacts of the business tax changes. The initial GF/GP revenue estimates for FY 2014-15 are summarized in Table 7.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$11.6 billion in FY 2014-15, an increase of \$262.0 million, or 2.3%, from the revised estimate for FY 2013-14. The forecasted increase in SAF revenue reflects growth in every major revenue source other than lottery revenue. Despite several consecutive years of growth, total SAF revenue in FY 2014-15 is projected to remain below the peak reached in FY 2007-08, by \$162.1 million. The initial SAF revenue estimates for FY 2014-15 are summarized in Table 7.

Table 7

FY 2014-15 INITIAL REVENUE ESTIMATES				
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND				
(Millions of Dollars)				
	FY 2013-14 Revised Est.	FY 2014-15 Initial Est.	Change from FY 2013-14	
			Dollar Change	Percent Change
GENERAL FUND/GENERAL PURPOSE:				
Baseline Revenue¹⁾	\$9,047.3	\$9,241.1	\$193.8	2.1%
Tax Changes Not In Baseline	56.9	129.9	73.0	---
<u>Revenue After Tax Changes</u>				
<u>Personal Income Tax</u>				
Gross Collections	9,480.0	9,666.2	186.2	2.0
Less: Refunds	(1,561.1)	(1,607.1)	(46.0)	2.9
Net Income Tax Collections	7,918.9	8,059.1	140.2	1.8
Less: Earmarking to SAF	(2,261.8)	(2,299.6)	(37.8)	1.7
Campaign Fund	(1.0)	(1.0)	0.0	0.0
Net Income Tax to GF/GP	\$5,656.1	\$5,758.5	\$102.4	1.8%
<u>Other Taxes</u>				
Michigan Business Tax	(618.9)	(590.6)	28.3	(4.6)
Corporate Income Tax	961.3	1,005.3	44.0	4.6
Sales	1,149.5	1,209.5	60.0	5.2
Use	882.0	902.7	20.7	2.3
Cigarette	186.5	182.7	(3.8)	(2.0)
Insurance Company Premiums	323.2	349.2	26.0	8.0
Telephone & Telegraph	63.3	65.5	2.2	3.5
Oil & Gas Severance	58.0	61.0	3.0	5.2
All Other	112.9	95.8	(17.1)	(15.1)
Subtotal Other Taxes	3,117.8	3,281.1	163.3	5.2
Total Nontax Revenue	330.2	331.4	1.2	0.4
GF/GP REV. AFTER TAX CHANGES	\$9,104.1	\$9,371.0	\$266.9	2.9%
SCHOOL AID FUND:				
Baseline Revenue¹⁾	\$12,079.9	\$12,359.9	\$280.0	2.3%
Tax Changes Not In Baseline	(729.1)	(747.1)	(18.0)	---
<u>Revenue After Tax Changes</u>				
Sales Tax	5,325.5	5,490.5	165.0	3.1
Use Tax	441.0	451.3	10.3	2.3
Lottery Revenue	758.0	755.0	(3.0)	(0.4)
State Education Property Tax	1,814.3	1,861.0	46.7	2.6
Real Estate Transfer Tax	184.0	192.0	8.0	4.3
Michigan Business Tax	0.0	0.0	0.0	---
Income Tax	2,261.8	2,299.6	37.8	1.7
Casino Tax	112.0	116.0	4.0	3.6
Other Revenue	454.2	447.4	(6.8)	(1.5)
SAF REV. AFTER TAX CHANGES	\$11,350.8	\$11,612.8	\$262.0	2.3%
BASELINE GF/GP AND SAF	\$21,127.2	\$21,601.0	\$473.8	2.2%
Tax & Revenue Changes	(672.3)	(617.2)	55.1	---
GF/GP & SAF REV. AFTER CHNGS	\$20,454.9	\$20,983.8	\$528.9	2.6%
SALES TAX	\$7,322.4	\$7,547.4	\$225.0	3.1%

¹⁾ FY 2010-11 is the base year for baseline revenue.

MAJOR GENERAL FUND AND SCHOOL AID FUND TAXES IN FY 2011-12 THROUGH FY 2014-15

Individual Income Tax. The income tax will generate an estimated \$7.6 billion in FY 2012-13, which represents an increase of 10.0% from FY 2011-12 and reflects the impact of modest increases in economic activity with the impact of tax reform legislation and fewer income tax refunds. By FY 2013-14, faster year-over-year growth in individual income tax revenue attributable to the tax reform legislation will have dissipated, but slow economic growth is expected to result in net collections' rising by only 4.0%. Compared with May 2012 consensus revenue estimates, the revised individual income tax estimate for FY 2012-13 is down \$296.4 million and the revised estimate for FY 2013-14 is down \$285.7 million. These changes in income tax revenue will affect both GF/GP revenue and SAF revenue. The School Aid Fund receives 23.3% of gross income tax collections (withholding, quarterly, and annual payments), while the GF/GP budget receives 76.7% of gross collections, and incurs the negative impact of all income tax refunds (or the positive impact of reduced refunds), including the refund payments for the homestead property tax credit and the earned income tax credit (both of which are reduced substantially by the tax reform legislation).

Sales Tax. As employment has stabilized and the economy has continued to grow, consumers and businesses have become less cautious, increasing spending on items subject to the sales tax. However, as outlined earlier in this report, the forecast expects consumers to continue to face substantial budget constraints that may dampen spending increases (and the associated increase in sales tax revenue). As a result, in FY 2012-13 sales tax revenue will total an estimated \$7.1 billion, which is 2.3% above the level in FY 2011-12. Sales tax collections are expected to continue growing at roughly the rate of inflation, rising 3.0% in FY 2013-14, to \$7.3 billion, and 3.1% in FY 2014-15, to \$7.5 billion. Generally, these increases are below the average growth experienced during the 1990s, but are substantially above the growth rates experienced during much of the last decade. Compared with May 2012 consensus revenue estimates, the revised sales tax estimate for FY 2012-13 is \$81.6 million lower and the revised estimate for FY 2013-14 is down \$72.7 million. Most of the sales tax revenue is earmarked to the SAF (73.3%) and most of the remainder goes to local government revenue sharing payments, the Comprehensive Transportation Fund, and the General Fund. The amount going to revenue sharing includes only constitutional revenue sharing earmarks; to reflect the significant portion of sales tax revenue earmarked statutorily to revenue sharing that has been diverted to the General Fund, this report allocates all of the statutory revenue sharing earmark to the General Fund and shows the appropriation for statutory revenue sharing as a revenue reduction on the balance sheet, as discussed in the last section of this report.

Use Tax. Use tax collections, which reflect the taxes levied on a variety of activities ranging from spending at hotels and motels, telephone service (both residential and business), and the purchase of business equipment in other states for use in Michigan, can be volatile. Baseline use tax revenue is expected to increase 3.9% in FY 2012-13, but net revenue is expected to increase 5.7%, almost entirely reflecting the absence of a large refund paid during FY 2011-12. In later fiscal years, improvements in economic activity and business investment will result in growing use tax revenue. In FY 2013-14, use tax receipts will total an estimated \$1.3 billion, an increase of 3.8% from the revised estimate for FY 2012-13, and \$1.4 billion in FY 2014-15, an increase of 2.3%. Compared with the May 2012 consensus revenue estimates, the FY 2012-13 estimate for use tax collections has been revised upward by \$22.0 million and the FY 2013-14 estimate is up \$26.0 million. The GF/GP budget receives two-thirds of use tax revenue and the remaining one-third goes to the SAF.

Tobacco Taxes. Tax collections from the cigarette and other tobacco products taxes will total an estimated \$943.1 million in FY 2012-13, which represents a decrease of 2.1% from FY 2011-12. In FY 2013-14, tobacco tax revenue is expected to decline another 2.0%, to \$924.6 million, before falling 2.1% in FY 2014-15, to \$905.1 million. The decline in total tobacco tax revenue masks a change in the composition of tobacco tax revenue that is expected to continue, as cigarette tax revenue declines more rapidly than total tobacco tax revenue, and revenue from taxes on other tobacco products actually increases.

Casino Tax. The State's tax on casinos equals 8.1% of gross gaming receipts and is directed to the SAF. In FY 2011-12, casino tax revenue will total an estimated \$114.5 million, an increase of 0.4% from FY 2010-11. Baseline casino tax revenue is expected to increase 4.4% during FY 2011-12, but the opening of new casinos in northern Ohio is expected to reduce revenue in late 2012 and early 2013. As the economy improves and the novelty of the Ohio casinos declines, a portion of the lost casino tax revenue will be recovered. As a result, casino tax revenue is expected to decline in FY 2012-13, falling 7.3% to \$107.3 million, despite 2.5% baseline growth, and then rebound in FY 2013-14, rising 4.4% to \$112.0 million.

State Education Property Tax. Weakness in the housing sector has driven State Education Tax revenue down since FY 2006-07. Few housing starts and declining home values will continue to depress State Education Tax revenue in FY 2012-13, with collections expected to rise only 0.3%, to \$1.8 billion. As the housing market improves in later years, State Education Tax revenue is expected to increase 1.0% in FY 2013-14 and 2.6% in FY 2014-15. All of the revenue generated by the State Education Tax is earmarked to the SAF.

Lottery. Net lottery revenue is expected to decline slightly over the forecast period, varying as tepid income growth trades off with increased competition from other types of gaming activity and few significant new games. As a result, lottery revenue is expected to decrease 1.1% in FY 2012-13, to \$769.7 million, 1.5% in FY 2013-14, 0.4% in FY 2014-15. All of the net revenue generated by the lottery is earmarked to the SAF.

Michigan Business Tax/Corporate Income Tax. Legislation adopted in May 2011 repealed the MBT for most taxpayers beginning January 1, 2012. Corporate taxpayers began paying a CIT that is expected to generate less than one-third of the revenue of the MBT. Under the CIT, unincorporated businesses and "pass-through" entities such as S-corporations, partnerships, and many limited liability companies (LLCs) will not pay any separate business tax to the State. Those businesses that continue to pay the MBT will do so largely to claim substantial refundable credits awarded in previous years. As a result, over much of the forecast period, MBT revenue will be negative, reflecting refund payments. The CIT is expected to grow over the forecast period, as profits improve, although the CIT is expected to be a more volatile tax than the MBT.

Business taxes, representing the combination of MBT and CIT revenue, are expected to decline 74.5% in FY 2012-13, from \$1.3 billion to \$343.2 million. In FY 2013-14, the second full year under the CIT, Corporate Income Tax revenue is expected to increase 5.2%, but increased MBT credits will cause net business tax revenue to decline another 0.2% to \$342.4 million. The revised estimate for business taxes in FY 2012-13 is \$56.7 million above the May 2012 consensus estimate, while the revised estimate for FY 2013-14 is \$43.9 million higher.

According to the law, the SAF received \$729.0 million of MBT revenue in FY 2008-09, with that amount indexed in future years to the percentage change in the U.S. Consumer Price Index (CPI) during the previous fiscal year. In FY 2010-11, MBT revenue earmarked to the SAF totaled \$739.2 million. The tax reform legislation repealed the earmark along with the MBT, so

no revenue from the MBT will be directed to the SAF in FY 2011-12 or later, lowering SAF by an estimated \$759.1 million in FY 2011-12, \$777.5 million in FY 2012-13, \$792.0 million in FY 2013-14, and \$807.4 million in FY 2014-15. All remaining MBT revenue, and all of the CIT revenue, goes to the General Fund.

REVENUE TRENDS

Revenue collections depend on both tax laws and economic conditions. Over time, different taxes tend to exhibit certain average growth rates, although these growth rates are often affected substantially by changes in the law. As a result, the forecast attempts to examine baseline revenue growth, which reflects the growth in revenue that would occur absent any changes to the law. However, the tax law assumed when computing a baseline is updated every year. Maintaining a common baseline over a long period of time could quickly become unwieldy and the difference between baseline and actual net collections would become so large that it would be difficult to estimate the revenue or even compare the two measures.

In any given year, actual revenue from any tax will generally deviate from the average growth rates and the strength of forecasts largely depends on the ability to estimate these deviations. The inherent uncertainty of the future means that longer-term trend growth rates are less accurate than the more detailed forecast data for earlier fiscal years. Furthermore, history indicates that not only will the economy likely deviate from trends over this period but the Legislature is likely to enact various changes to the State's tax laws.

Based on a longer term view of Michigan's economy for FY 2014-15 and FY 2015-16, net GF/GP revenue is expected to increase 4.2% in FY 2015-16, to \$9.8 billion, while SAF revenue will increase 4.0%, to \$12.1 billion. In FY 2016-17, net GF/GP revenue is expected to increase 3.7%, to \$10.1 billion, while SAF revenue will increase 3.6%, to \$12.5 billion.

SENATE FISCAL AGENCY BASELINE REVENUE FORECAST HISTORY

Tables 8, 9, and 10 present the history of the Senate Fiscal Agency's and consensus estimates for GF/GP and SAF baseline revenue for FY 2011-12, FY 2012-13, and FY 2013-14. Baseline estimates are used to track the forecast history for these fiscal years in order to avoid the wide swings in revenue estimates that occur when tax changes are enacted for a particular fiscal year after the initial revenue estimates have been calculated for that fiscal year. In addition, in order to provide an accurate comparison, all of the previous baseline estimates made for FY 2011-12, FY 2012-13, and FY 2013-14 have been adjusted to reflect a common base year.

The Senate Fiscal Agency's initial GF/GP and SAF baseline revenue estimate for FY 2011-12 of \$18.9 billion was made in December 2010, as shown in Table 8. The estimate adopted at the January 2011 Consensus Revenue Estimating Conference was \$96.6 million below the SFA's estimate, and then at the May 2011 conference the estimate was increased \$580.5 million to \$19.4 billion. At the January 2012 consensus conference, the estimate was increased again by \$152.5 million, and then by another \$178.5 million in May 2012. Preliminary final revenue for FY 2011-12 equals \$19.9 billion, up \$126.2 million from the May 2012 estimate. Compared with the SFA's initial estimate in December 2010, preliminary final 2011-12 GF/GP and SAF baseline revenue is up \$941.1 million, or 5.0%.

The initial GF/GP and SAF baseline revenue estimate for FY 2012-13 was made in May 2011 at \$20.1 billion, as shown in Table 9. This estimate was lowered by \$143.3 million at the May 2011 Consensus Revenue Estimating Conference, but that revised estimate was increased by

\$147.7 million at the January 2012 Consensus Revenue Estimating Conference. The May 2012 Consensus Revenue Estimating Conference then lowered the estimate for FY 2012-13 revenue by \$49.6 million. The Senate Fiscal Agency's revised estimate for FY 2012-13 presented in this report lowers the baseline estimate \$186.6 million below the May 2012 consensus estimate, to \$20.0 billion.

Table 8
CHANGES IN SENATE FISCAL AGENCY
BASELINE REVENUE ESTIMATES FOR FY 2011-12
(Millions of Dollars)

Forecast Date	GF/GP	SAF	Total
December 17, 2010	\$7,816.5	\$11,127.3	\$18,943.8
January 14, 2011 ^{a)}	7,663.2	11,184.0	18,847.2
May 13, 2011	8,206.5	11,330.8	19,537.3
May 16, 2011 ^{a)}	8,105.3	11,322.4	19,427.7
December 28, 2011	8,153.4	11,414.6	19,568.0
January 14, 2012 ^{a)}	8,087.4	11,492.8	19,580.2
May 9, 2012	8,335.9	11,652.4	19,988.3
May 16, 2012 ^{a)}	8,144.0	11,614.7	19,758.7
Preliminary Final	8,279.8	11,605.1	19,884.9
<u>Change From Previous Estimate:</u>			
Dollar Change	\$135.8	(\$9.6)	\$126.2
Percent Change	1.7%	(0.1%)	0.6%
<u>Change From Initial Estimate:</u>			
Dollar Change	\$463.3	\$477.8	\$941.1
Percent Change	5.9%	4.3%	5.0%
^{a)} Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2010-11; baseline revenue reflects full earmark of sales tax revenue to revenue sharing.			

Table 9
CHANGES IN SENATE FISCAL AGENCY
BASELINE REVENUE ESTIMATES FOR FY 2012-13
(Millions of Dollars)

Forecast Date	GF/GP	SAF	Total
May 13, 2011	\$8,439.9	\$11,694.8	\$20,134.7
May 16, 2011 ^{a)}	8,350.2	11,641.2	19,991.4
December 28, 2011	8,406.2	11,645.7	20,051.9
January 14, 2012 ^{a)}	8,429.8	11,769.8	20,199.6
May 9, 2012	8,400.6	11,852.6	20,253.2
May 16, 2012 ^{a)}	8,324.8	11,878.8	20,203.6
December 20, 2012	8,198.8	11,818.1	20,016.9
<u>Change From Previous Estimate:</u>			
Dollar Change	(\$126.0)	(\$60.6)	(\$186.6)
Percent Change	(1.5%)	(0.5%)	(0.9%)
<u>Change From Initial Estimate:</u>			
Dollar Change	(\$241.1)	\$123.3	(\$117.7)
Percent Change	(2.9%)	1.1%	(0.6%)
^{a)} Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2010-11; baseline revenue reflects full earmark of sales tax revenue to revenue sharing.			

The initial GF/GP and SAF baseline revenue estimate for FY 2013-14 was made in December 2011 at \$20.6 billion, as shown in Table 10. This estimate was increased by \$193.0 million at the January 2012 Consensus Revenue Estimating Conference, but then lowered by \$37.1 million at the May 2012 Consensus Revenue Estimating Conference. The Senate Fiscal Agency's revised estimate for FY 2013-14 presented in this report lowers the baseline estimate \$253.4 million below the May 2012 consensus estimate, to \$20.6 billion.

Table 10
CHANGES IN SENATE FISCAL AGENCY
BASELINE REVENUE ESTIMATES FOR FY 2013-14
(Millions of Dollars)

Forecast Date	GF/GP	SAF	Total
December 28, 2011	\$8,700.4	\$11,913.5	\$20,613.9
January 14, 2012 ^{a)}	8,732.8	12,074.0	20,806.9
May 9, 2012	8,797.5	12,135.2	20,932.7
May 16, 2012 ^{a)}	8,711.1	12,184.5	20,895.6
December 20, 2012	8,552.6	12,089.6	20,642.2
<u>Change From Previous Estimate:</u>			
Dollar Change	(\$158.5)	(\$94.9)	(\$253.4)
Percent Change	(1.8%)	(0.8%)	(1.2%)
<u>Change From Initial Estimate:</u>			
Dollar Change	(\$147.8)	\$176.1	\$28.3
Percent Change	(1.7%)	1.5%	0.1%
^{a)} Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2010-11; baseline revenue reflects full earmark of sales tax revenue to revenue sharing.			

**BUDGET
STABILIZATION FUND**

BUDGET STABILIZATION FUND

The Counter-Cyclical Budget and Economic Stabilization Fund (BSF) was established by Public Act 76 of 1977. The BSF is a cash reserve to which the State, in years of economic growth, adds revenue, and from which, in years of economic recession, the State withdraws revenue. The Fund's purposes are to mitigate the adverse effects on the State budget of downturns in the business cycle and to reserve funds that can be available during periods of high unemployment for State projects that will increase job opportunities.

The requirements for contributions to and withdrawals from the BSF are established in State law. By statute, revenue may be added to the BSF when Michigan personal income, less transfer payments and adjusted for inflation, increases by more than 2.0%. When the growth in real personal income less transfer payments is over 2.0%, the pay-in to the BSF is equal to the percentage growth in excess of 2.0% multiplied by the total General Fund/General Purpose (GF/GP) revenue.

Funds may be transferred out of the BSF for budget stabilization purposes when Michigan personal income less transfer payments, adjusted for inflation, decreases on a calendar-year basis. The withdrawal equals the percentage decline in adjusted real personal income multiplied by the annual GF/GP revenue. Thus, funds contributed to the BSF in growth years are used to supplement current revenue during a recession, reducing the need either to increase taxes or to reduce State services in a time of poor economic conditions.

Withdrawals from the BSF also are permitted for State job creation programs in times of high unemployment. When the State's unemployment rate averages between 8.0% and 11.9% during a calendar quarter, 2.5% of the balance in the BSF may be withdrawn during the subsequent quarter and appropriated for projects that will create job opportunities. If the unemployment rate averages 12.0% or higher for a calendar quarter, up to 5.0% of the BSF balance may be withdrawn.

In order for any payment into or out of the BSF actually to occur under either the personal income or the unemployment rate formula described above, the payment must be appropriated by the Legislature. In addition, the Legislature may appropriate transfers into or out of the BSF even if the formulas do not trigger a transfer. For example, in FY 1998-99, the Legislature appropriated a transfer into the BSF of \$55.2 million in response to the personal income formula; however, the Legislature also appropriated to the BSF the ending balance of the General Fund/General Purpose budget, which equaled \$189.2 million. Also in FY 1998-99, the Legislature appropriated the transfer of \$73.7 million from the BSF to the School Aid Fund to finance scheduled payments to K-12 school districts required under the *Durant* court case.

Table 11 presents the recent history of the BSF in terms of actual transfers into and out of the Fund, interest earnings, and year-end balances from FY 1998-99 through FY 2011-12. Also presented in this table are the SFA's estimates for FY 2012-13, FY 2013-14, and FY 2014-15. The BSF year-end balance as a percentage of GF/GP and SAF revenue is shown in Figure 15, and the estimated economic stabilization trigger calculations for FY 2012-13, FY 2013-14, and FY 2014-15 are presented in Table 12.

FY 2011-12

The BSF ended FY 2010-11 with a balance of \$2.2 million. During FY 2011-12, \$362.7 million was appropriated into the Fund and there were no payments out of the Fund. Interest rates have been at historic lows, thus generating very little interest earnings, and resulting in an estimated ending balance of \$364.9 million.

FY 2012-13, FY 2013-14, AND FY 2014-15

Based on the SFA's revised estimates of personal income, transfer payments, and the Detroit Consumer Price Index (CPI), the budget stabilization formula does not trigger any payments into or out of the Fund for FY 2012-13, although a deposit of \$140.0 million has been appropriated. No payments or withdrawals are calculated in either FY 2013-14 or FY 2014-15, and none are currently appropriated, although the Fund balance is expected to earn interest. Any transfer out of the BSF would need to be approved by the Legislature. Calculated transfers out of, or into, the BSF are shown in Table 12, as well as year-end projected balances.

Table 11

BUDGET AND ECONOMIC STABILIZATION FUND TRANSFERS, EARNINGS AND FUND BALANCE FY 1998-99 TO FY 2014-15 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	0.0	1.8	147.0	0.0
2003-04	81.3	0.0	0.0	81.3
2004-05	0.0	2.0	81.3	2.0
2005-06	0.0	0.0	0.0	2.0
2006-07	0.0	0.1	0.0	2.1
2007-08	0.0	0.1	0.0	2.2
2008-09	0.0	0.0	0.0	2.2
2009-10	0.0	0.0	0.0	2.2
2010-11	0.0	0.0	0.0	2.2
Senate Fiscal Agency estimates:				
2011-12	\$362.7	\$0.1	\$0.0	\$364.9
2012-13	140.0	3.6	0.0	508.6
2013-14	0.0	5.1	0.0	513.7
2014-15	0.0	6.4	0.0	520.1

Figure 15

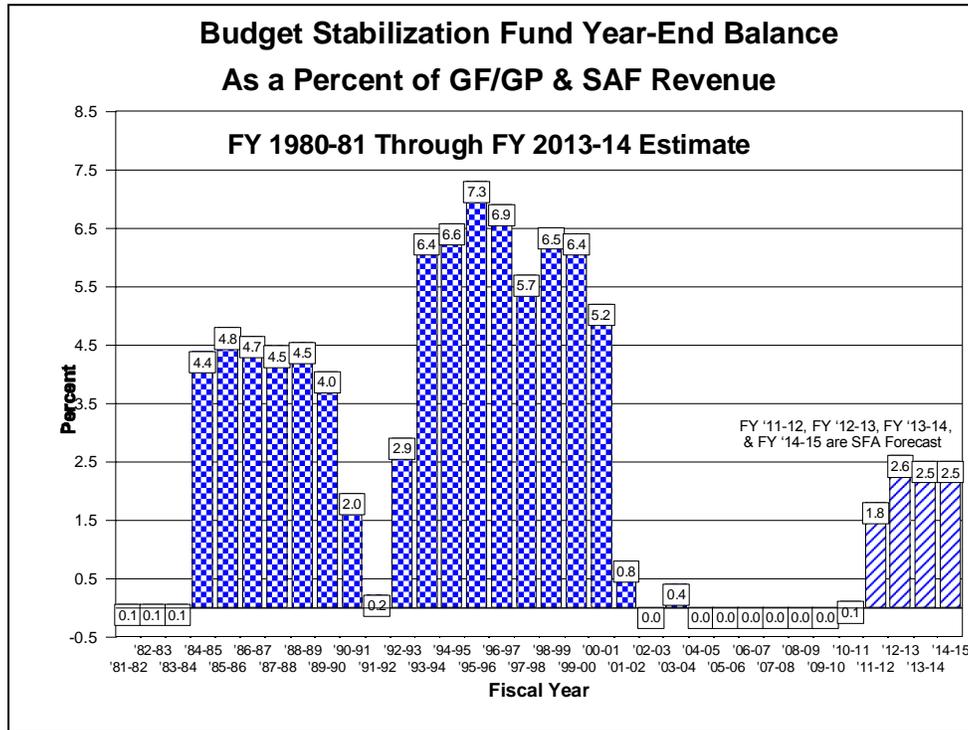


Table 12

**ESTIMATED ECONOMIC AND BUDGET STABILIZATION FUND TRIGGER
FY 2012-13, FY 2013-14, and FY 2014-15
(Millions of Dollars)**

	CY 2012	CY 2013	CY 2015	CY 2015
Michigan Personal Income (MPI)	\$371,488	\$379,919	\$394,662	\$409,011
Less: Transfer Payments	83,443	86,214	91,184	96,387
Subtotal	\$288,045	\$293,705	\$303,478	\$312,624
Divided by: Detroit CPI, 12 months average ending June 30 (1982-84=1)	2.144	2.179	2.217	2.258
Equals: Real Adjusted MPI	\$134,381	\$134,820	\$136,881	\$138,482
Percent Change from Prior Year		0.33%	1.53%	1.17%
Excess Over 2.0%		0.00%	0.00%	0.00%
		FY 2012-13	FY 2013-14	FY 2014-15
Multiplied by: Estimated GF/GP Revenue		\$9,088.3	\$8,928.4	\$9,156.8
Equals: Transfer to the BSF		\$0.0	\$0.0	\$0.0
OR Transfer from the BSF		\$0.0	\$0.0	\$0.0

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

**COMPLIANCE WITH
STATE REVENUE LIMIT**

COMPLIANCE WITH STATE REVENUE LIMIT

Article IX, Section 26 of the Michigan Constitution establishes a limit on the amount of revenue State government may collect in any fiscal year. This section of the Constitution was adopted by a vote of the people in 1978 and the limit was first applicable in FY 1979-80. In the first 15 years this revenue limit was in effect (FY 1979-80 to FY 1993-94), the revenue limit was never exceeded. The largest gap between revenue and the limit occurred in FY 2008-09, when State revenue was \$8.0 billion below the revenue limit. In FY 1994-95, State revenue exceeded the revenue limit, for the first time, by \$109.6 million. This was due to new State revenue being generated as part of the school financing reform that was enacted in 1994. In FY 1995-96 through FY 1997-98, revenue fell below the revenue limit again. In FY 1998-99 and FY 1999-2000, revenue exceeded the limit, but not by enough to require refunds to be paid to taxpayers. In FY 2000-01 through FY 2006-07, revenue fell well below the revenue limit and then remained well below the revenue limit in FY 2007-08 despite increases in the income and Michigan business tax rates. Based on the SFA's latest economic forecast and revenue estimates, it is estimated that revenue subject to the revenue limit will continue to remain well below the revenue limit in FY 2011-12 through FY 2014-15.

THE REVENUE LIMIT

The revenue limit specifies that for any fiscal year, State government revenue may not exceed a certain percentage of Michigan personal income. The Constitution requires that the limit be calculated each year using the percentage that State government revenue in FY 1978-79 was of Michigan personal income in calendar year 1977, which equaled 9.49%. Therefore, for any fiscal year, State government revenue may not exceed 9.49% of Michigan total personal income for the calendar year prior to the calendar year in which the fiscal year begins. For example, in FY 2009-10, State government revenue could not exceed 9.49% of personal income for calendar year 2008. Given that Michigan personal income for 2008 equaled \$349.6 billion at the time compliance was determined, the revenue limit for FY 2009-10 was \$33.2 billion.

State government revenue subject to the limit includes total State government tax revenue and all other State government revenue, such as license fees, and interest earnings. For purposes of the limit, State government revenue does not include Federal aid. Personal income is a measure of the total income received by individuals, including wages and salaries, proprietors' income, interest and dividend income, rental income, and transfer payments. It is the broadest measure of overall economic activity for the State of Michigan and is estimated by the U.S. Department of Commerce's Bureau of Economic Analysis.

REQUIREMENTS IF REVENUE LIMIT IS EXCEEDED

If final revenue exceeds the revenue limit, the Constitution and State law provide procedures to deal with this event. If revenue exceeds the limit by less than 1.0%, the excess revenue must be deposited into the Budget Stabilization Fund. If the revenue limit is exceeded by 1.0% or more, the excess revenue must be refunded to income tax and business taxpayers, on a pro rata basis. These refunds would be given to taxpayers who file an annual income tax return or a Michigan Business Tax or Corporate Income Tax return in the following fiscal year, because these taxpayers would have made withholding and quarterly estimated payments during the fiscal year when the revenue limit was exceeded. The law requires that these refunds occur in the fiscal year following the filing of the report which determines that the limit was exceeded. This report for any particular fiscal year is typically issued in the spring following the end of the fiscal year.

REVENUE LIMIT COMPLIANCE PROJECTIONS

Based on preliminary final revenue for FY 2011-12 and the SFA's revenue estimates for FY 2012-13, FY 2013-14, and FY 2014-15, revenue subject to the constitutional revenue limit is estimated to remain well below the limit for each of these fiscal years. The SFA's estimates of the State's compliance with the revenue limit are presented in Table 13.

FY 2011-12

In FY 2011-12, the revenue limit equaled 9.49% of Michigan's personal income in calendar year 2010. According to the U.S. Department of Commerce's Bureau of Economic Analysis, Michigan personal income for 2010 was \$339.0 billion, so the revenue limit equaled \$32.2 billion. Based on the final revenue for FY 2011-12, revenue subject to the limit totaled \$26.5 billion. As a result, revenue subject to the limit fell below the revenue limit by \$5.6 billion, or 17.5%. The gap between the revenue limit and revenue subject to the limit increased in FY 2011-12 because personal income grew more rapidly between 2009 and 2010 than revenue grew between FY 2010-11 and FY 2011-12.

FY 2012-13

In FY 2012-13, the revenue limit will equal 9.49% of Michigan's personal income in calendar year 2011. The Bureau of Economic Analysis' estimate of Michigan personal income in calendar year 2011 equals \$358.2 billion, resulting in a revenue limit of \$34.0 billion for FY 2012-13. Based on the SFA's revised revenue estimates for FY 2012-13, revenue subject to the revenue limit will equal an estimated \$26.3 billion, and will fall below the limit by \$7.7 billion, or 22.6%, in FY 2012-13. The increase in the gap between estimated revenue and the limit during FY 2012-13 reflects the 0.9% decrease in revenue subject to the limit combined with the 5.6% increase in personal income during 2011. The 2011 increase in personal income increases the FY 2012-13 revenue limit by \$1.8 billion.

FY 2013-14

The estimate for Michigan personal income during 2012 equals \$371.5 billion, suggesting the revenue limit will equal \$35.3 billion in FY 2013-14. Based on the SFA's revised revenue estimates for FY 2013-14, revenue subject to the revenue limit will equal an estimated \$27.1 billion. As a result, revenue subject to the revenue limit will fall below the limit by an estimated \$8.1 billion, or 23.0%, in FY 2013-14. The additional increase in the gap between estimated revenue and the limit during FY 2013-14 reflects factors similar to those affecting the increase during FY 2012-13. Revenue subject to the limit is estimated to increase 3.2% in FY 2013-14, compared to the 3.7% increase in personal income during 2012, which increases the revenue limit by \$1.3 billion.

FY 2014-15

The Senate Fiscal Agency estimates that personal income in Michigan during 2013 will equal \$380.0 billion, and as a result, the revenue limit will equal \$36.1 billion in FY 2014-15. Based on the SFA's initial revenue estimates for FY 2014-15, revenue subject to the revenue limit will equal an estimated \$27.8 billion and revenue subject to the revenue limit will fall below the limit by an estimated \$8.3 billion, or 22.9%, in FY 2014-15.

Table 13

**COMPLIANCE WITH CONSTITUTIONAL REVENUE LIMIT
SECTION 26 OF ARTICLE IX OF THE STATE CONSTITUTION
FY 2010-11 THROUGH FY 2014-15 ESTIMATE
(Millions of Dollars)**

	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15
	Final	Estimate	Estimate	Estimate	Estimate
Revenue Subject to Limit					
<u>Revenue:</u>					
Gen'l Fund/Gen'l Purpose (baseline)	\$8,604.1	\$9,088.1	\$8,863.3	\$9,047.3	\$9,241.1
Constitutional Revenue Sharing (baseline)	664.7	707.5	723.9	743.8	766.0
School Aid Fund (baseline)	11,260.5	11,593.6	11,809.0	12,079.9	12,359.9
Transportation Funds	2,028.9	2,105.9	2,094.8	2,110.7	2,110.7
Other Restricted Non-Federal Aid Revenue	3,595.9	3,631.9	3,740.8	3,853.0	3,968.6
<u>Adjustments:</u>					
GF/GP Federal Aid	(17.3)	(54.8)	(25.0)	(25.0)	(25.0)
GF/GP Balance Sheet Adjustments	208.9	196.6	(182.8)	56.9	129.9
SAF Balance Sheet Adjustments	(12.4)	(726.9)	(722.4)	(729.1)	(747.1)
Total Revenue Subject to Limit	\$26,333.3	\$26,541.9	\$26,301.7	\$27,137.6	\$27,804.1
Revenue Limit					
<u>Personal Income:</u>					
Calendar Year	CY 2009	CY 2010	CY 2011	CY 2012	CY 2013
Amount	\$328,942	\$339,044	\$358,152	\$371,488	\$379,919
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$31,216.6	\$32,175.3	\$33,988.6	\$35,254.2	\$36,054.3
1.0% of Limit	312.2	321.8	339.9	352.5	360.5
Amount Under (Over) Limit	\$4,883.3	\$5,633.4	\$7,686.9	\$8,116.6	\$8,250.2
Percent Below Limit	15.6%	17.5%	22.6%	23.0%	22.9%

**ESTIMATE OF
YEAR-END BALANCES**

ESTIMATE OF YEAR-END BALANCES

This section of the Senate Fiscal Agency's (SFA's) report provides details of the estimated year-end balances of the General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) budgets for FY 2011-12 and FY 2012-13. This section also outlines an outlook for the FY 2013-14 State budget.

Table 14 provides a summary of the estimated year-end balances for the FY 2011-12, FY 2012-13, and FY 2013-14 GF/GP and SAF budgets. The good news is that there are significant year-end balances in both the GF/GP and SAF budgets for FY 2011-12, but FYs 2012-13 and 2013-14 are less robust, with lower projected ending balances for both budgets in FY 2012-13, and a negative projected ending balance for the SAF budget in FY 2013-14. The final accounting of FY 2011-12 revenue and appropriations has not been completed, but the SFA is estimating that when the final book-closing occurs, the GF/GP budget will have a \$1.0 billion balance and the SAF budget will have a \$240.3 million balance. A comparison of the SFA estimate of FY 2012-13 revenue with actual and projected appropriations leads to a \$146.0 million GF/GP balance and a zero year-end SAF balance.

The outlook for the FY 2013-14 GF/GP budget points to an ending balance of \$40.9 million and a negative SAF ending balance of \$235.4 million.

Table 14

GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND ESTIMATED YEAR-END BALANCES (Millions of Dollars)			
	FY 2011-12 Estimate	FY 2012-13 Estimate	FY 2013-14 Estimate
General Fund/General Purpose	\$1,042.1	\$146.0	\$40.9
School Aid Fund	\$240.3	\$0.0	(\$235.4)

FY 2011-12 YEAR-END BALANCE ESTIMATES

Pursuant to provisions of the Management and Budget Act (Public Act 431 of 1984), the State Budget Director is required to publish preliminary, unaudited financial statements for the State General Fund and the School Aid Fund within 120 days after the end of the fiscal year. A comprehensive annual financial report (commonly referred to as the CAFR) is required within six months after the end of the fiscal year. This means that preliminary financial statements are not due until the end of January, and the final financial report is not due until the end of March.

Neither of these financial reports is currently available, but based on year-to-date accounting reports of FY 2011-12 GF/GP revenue and expenditures from the State Budget Office (SBO) and the Department of Treasury, the SFA is estimating that the GF/GP budget will close the fiscal year with a \$1.0 billion balance. The SFA is estimating that the FY 2011-12 SAF budget will close the fiscal year with a \$240.3 million balance.

Table 15 provides a summary of the current SFA estimate of a \$1.0 billion balance in the FY 2011-12 GF/GP budget. Pursuant to statutory requirements, the actual level of the year-end balance will carry forward and be available as an FY 2012-13 revenue source. In fact, during the development of the FY 2012-13 budget, an estimated FY 2011-12 carry-forward amount of \$743.2 million in GF/GP revenue was built into the budget for FY 2012-13.

Table 15
FY 2011-12
GENERAL FUND/GENERAL PURPOSE
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	\$553.7
Ongoing Revenue:	
Senate Fiscal Agency Revenue Estimate.....	\$9,284.7
Revenue Sharing Payments	(300.0)
One-Time Appropriation for Revenue Sharing	(40.0)
Contingency Plan Restricted Revenue Transfer to GF	0.9
Shift of Short-Term Borrowing Costs to School Aid Fund	2.1
Subtotal Ongoing Revenue	\$8,947.7
Non-Ongoing Revenue:	
Use Tax on Health Maintenance Organizations (includes enrolled HB 5267).....	\$127.5
Total Estimated GF/GP Revenue	\$9,628.9
Expenditures:	
Initial Ongoing Appropriations	\$8,275.1
Auditor General Boilerplate Appropriation	0.4
Initial One-Time Appropriations.....	171.6
Enacted Supplementals:	
Public Act 38 of 2011: Tax Plan Implementation	1.0
Public Act 264 of 2011: SERS Reform Implementation	0.0
Public Act 267 of 2011: UI Bonding, Michigan Finance Authority	1.0
Public Act 275 of 2011: Heating Assistance	10.0
Public Act 278 of 2011: Multiple Departments.....	169.4
Public Act 53 of 2012: Michigan Employment Relations Commission	0.0
Public Act 64 of 2012: Other Post-Employment Benefits (OPEB).....	144.5
Public Act 89 of 2012: Multiple Departments/DCH Fund Shift	(73.4)
Public Act 192 of 2012: Capital Outlay Construction Authorizations.....	0.0
Public Act 236 of 2012: Multiple Departments.....	11.7
Public Act 296 of 2012: Mortgage Settlement/Other	0.9
Enrolled Senate Bill 931: Contingency Savings Plans	(87.8)
Enrolled House Bill 5267: Community College Fund Shift to School Aid Fund.....	(63.7)
Other Adjustments:	
Savings from One-Time OPEB Appropriation	(17.1)
Caseload and Cost Adjustments for DCH (Consensus Estimate May 2012).....	(103.8)
Caseload and Cost Adjustments for DHS (Consensus Estimate May 2012)	(75.7)
Reduce General Fund Grant to School Aid	(40.0)
Estimate of Year-End Lapses	(100.0)
Total Estimated GF/GP Expenditures	\$8,224.1
One-Time Appropriations to Budget Stabilization Fund (\$255.8M + \$106.9M)	\$362.7
Projected Year-End GF/GP Balance	\$1,042.1

On the revenue side of the FY 2011-12 GF/GP budget ledger, the SFA is now estimating that revenue will total \$9.3 billion. This represents a \$471.6 million or 5.4% increase from the final level of FY 2010-11 GF/GP revenue. The current SFA estimate of ongoing GF/GP revenue represents a \$220.2 million increase from the May 2012 consensus revenue estimate.

On the expenditure side of the FY 2011-12 GF/GP budget ledger, the SFA is now estimating that expenditures will total \$8.6 billion, which includes appropriations to the Budget Stabilization Fund of \$362.7 million. The \$8.6 billion of expenditures represents a \$370.2 million or 4.5% increase from the final level of FY 2010-11 GF/GP expenditures. It should be noted that in FY 2010-11, \$528.0

million of Federal American Recovery and Reinvestment Act (ARRA) funds was available to offset GF/GP expenditures and none of these ARRA replacement funds were available for FY 2011-12.

As Table 15 indicates, there were 13 supplemental appropriation bills enacted for FY 2011-12. The largest GF/GP supplemental increase, of \$169.4 million, was in Public Act 278 of 2011 and was essentially a technical adjustment to reflect the continuation of the use tax on Medicaid health maintenance organizations for the first two quarters of the fiscal year. Among the negative supplemental appropriations for FY 2011-12 was Public Act 89 of 2012, which reduced GF/GP funding in the Department of Community Health by \$106.9 million, and replaced it with \$106.9 million of Medicaid Benefits Trust Fund revenue; the \$106.9 million in GF/GP savings was appropriated to the State Budget Stabilization Fund. Enrolled Senate Bill 931 contains \$87.8 million of GF/GP reductions to reflect employee concessions and other departmental contingency plan savings. Other adjustments to the budget included caseload and cost savings of \$179.5 million in the Departments of Community Health and Human Services, and estimated year-end lapses of \$100.0 million.

Table 16 provides a summary of the FY 2011-12 SFA estimate of a \$240.3 million year-end balance in the SAF budget. Pursuant to statutory requirements, the actual level of the year-end balance will carry forward and be available as an FY 2012-13 revenue source. As mentioned previously, the FY 2012-13 budget was developed assuming that funds carried forward from FY 2011-12 would be used for FY 2012-13 one-time appropriations.

Table 16
FY 2011-12
SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	\$724.7
Ongoing Revenue:	
Senate Fiscal Agency Revenue Estimate	\$10,866.7
General Fund/General Purpose Grant	78.6
Federal Ongoing Aid.....	<u>1,819.0</u>
Subtotal Ongoing Revenue	\$12,764.3
Non-Ongoing Revenue:	
Use Tax on Health Maintenance Organizations (Enrolled HB 5267)	\$63.7
Total Estimated School Aid Fund Revenue.....	<u>\$13,552.7</u>
Expenditures:	
Initial Ongoing K-12 Appropriations	\$12,203.6
Public Act 29 of 2012 Adjustments	68.4
Cost Adjustments (Consensus Estimate May 2012).....	2.9
Partially Fund Community Colleges with School Aid Fund (includes enrolled HB 5267) ..	259.6
Partially Fund Higher Education with School Aid Fund	200.0
Federal Expenditures Adjustment.....	161.0
One-Time Appropriations:	
Public School Employees Retirement System (MPERS) Payments	\$155.0
K-12 Best Practices	154.0
MPERS Retirement Obligation Reform Reserve Fund.....	133.0
Partially Restore K-12 Small Class Size Grants.....	13.5
Public Act 29 of 2012 (Kindergarten assessments/grants)	<u>16.5</u>
Subtotal One-Time Appropriations.....	\$472.0
Estimate of Year-End Lapses	(\$55.1)
Total Estimated School Aid Fund Expenditures.....	<u>\$13,312.4</u>
Projected Year-End School Aid Fund Balance	<u>\$240.3</u>

On the revenue side of the FY 2011-12 SAF budget ledger, the SFA is now estimating that revenue will total \$10.9 billion. This represents a \$381.5 million or 3.4% reduction from the final level of FY 2010-11 SAF revenue. The current SFA estimate of SAF revenue represents a \$9.6 million decrease from the May 2012 consensus revenue estimate.

On the expenditure side of the FY 2011-12 SAF budget ledger, the SFA is now estimating that expenditures will total \$13.3 billion. This represents a \$329.4 million or 2.5% increase from the final level of FY 2010-11 SAF expenditures. However, the estimated final level of FY 2011-12 SAF expenditures includes \$459.6 million of appropriations to the Community Colleges and Higher Education budgets and there were no FY 2010-11 appropriations for that purpose. The final level of FY 2011-12 SAF expenditures includes the initial ongoing K-12 appropriation of \$12.2 billion, \$472.0 million in one-time K-12 appropriations, K-12 cost adjustments of \$71.3 million, and estimated K-12 year-end lapses of \$55.1 million. It should also be noted that the FY 2010-11 SAF budget included \$316.2 million in Federal Education Jobs Fund support and \$184.3 million in Federal ARRA funds and neither of these fund sources was available for FY 2011-12.

FY 2012-13 YEAR-END BALANCE ESTIMATES

On June 5, 2012, the Michigan Legislature completed action on the initial set of FY 2012-13 appropriation bills. The FY 2012-13 enacted budget was balanced based on the May 2012 consensus estimates. After the passage of the FY 2012-13 budget, the State enacted amendments to various tax and revenue laws that reduced available FY 2012-13 GF/GP revenue by \$238.2 million and SAF revenue by \$23.7 million. The enacted budget did not include any increases in State taxes and included only \$300,000 in new fee revenue. At the time of the enactment of the initial budget, based on the May 2012 consensus revenue estimate, the SFA was projecting an \$18.6 million year-end balance in the GF/GP budget. The current SFA estimate of the FY 2012-13 GF/GP year-end balance is \$146.0 million. At the time of the enactment of the initial budget, based on the May 2012 consensus revenue estimate, the SFA was projecting a \$3.5 million year-end balance in the SAF budget. The current SFA estimate of the FY 2012-13 SAF year-end balance is zero.

Table 17 provides a summary of the current SFA estimate of a \$146.0 million year-end balance in the FY 2012-13 GF/GP budget. The increase in the projected level of the FY 2012-13 GF/GP year-end balance results primarily from a larger carry-forward balance from FY 2011-12 (\$298.9 million more than expected) while revenue is estimated to decline by \$289.5 million from the amount estimated at the May 2012 consensus revenue conference.

On the revenue side of the FY 2012-13 GF/GP budget ledger, the SFA is now estimating that revenue will total \$9.3 billion. This estimate includes a projected \$1.0 billion balance carried forward from FY 2011-12, \$8.7 billion of revenue from ongoing sources, and \$2.0 million in one-time lost revenue from a lower Liquor Purchase Revolving Fund lapse to the General Fund. The GF/GP revenue estimate of \$8.7 billion represents a \$604.2 million or 6.5% decrease from the FY 2011-12 estimate. The current SFA estimate of GF/GP revenue represents a \$289.5 million decrease from the May 2012 consensus revenue estimate.

On the expenditure side of the FY 2012-13 GF/GP budget ledger, the SFA is now estimating that expenditures will total \$9.2 billion. This total includes \$8.6 billion of ongoing appropriations in the initial appropriation bills, \$365.7 million in one-time appropriations in the initial appropriation bills, a projected lapse of \$16.2 million from the refinancing of State Building Authority bonds, a one-time appropriation of \$140.0 million to the Budget Stabilization Fund, caseload and cost savings of \$72.8 million in the Departments of Community Health and Human Services, and an estimated \$130.0 million to offset the estimated revenue shortfall from the Health Insurance Claims

Assessment (HICA). Since the initial budget was enacted, there have been two supplemental appropriation bills passed by the Legislature totaling \$20.2 million in GF/GP revenue: \$15.0 million for the Agriculture Loan Program, \$3.0 million for indigent burial services provided by the Department of Human Services, and \$2.2 million for payments in lieu of taxes distributed by the Department of Treasury.

The remaining \$7.8 million in FY 2012-13 GF/GP supplemental funding to date includes a \$2.0 million appropriation to the Department of Licensing and Regulatory Affairs for administration of the recently enacted "right to work" laws and \$5.8 million to the Department of Treasury for implementation of the new revised State emergency manager law.

Table 17
FY 2012-13
GENERAL FUND/GENERAL PURPOSE
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	\$1,042.1
Ongoing Revenue:	
Senate Fiscal Agency Revenue Estimate	\$8,680.5
Revenue Sharing Payments.....	(350.6)
One-Time Appropriation for Revenue Sharing.....	(20.0)
Shift of Short-Term Borrowing Costs to School Aid Fund.....	3.2
Regulation of Charitable Gaming	(4.0)
Subtotal Ongoing Revenue	\$8,309.1
Non-Ongoing Revenue:	
Reduce Liquor Purchase Revolving Fund Lapse to General Fund.....	(2.0)
Subtotal Non-Ongoing Revenue	(\$2.0)
Total Estimated GF/GP Revenue	\$9,349.2
Expenditures:	
Initial Ongoing Appropriations	\$8,628.5
Initial One-Time Appropriations.....	365.7
Subtotal Initial Ongoing and One-Time Appropriations.....	\$8,994.2
Other Adjustments:	
Estimated Debt Service Savings-Refinancing of SBA Bonds	(\$16.2)
One-Time Appropriation to Budget Stabilization Fund.....	140.0
Caseload and Cost Adjustments for DCH (SFA Estimate)	(70.0)
Health Insurance Claims Assessment Revenue Shortfall.....	130.0
Caseload and Cost Adjustments for DHS (SFA Estimate)	(2.8)
Public Act 305 of 2012 (Agriculture Loan Program).....	15.0
Public Acts 348 and 349 of 2012 (Right-to-Work).....	2.0
Enrolled House Bill 5367 (Indigent Burial/PILT).....	5.2
Enrolled Senate Bill 865 (Emergency Manager)	5.8
Subtotal Other Adjustments	\$209.0
Total Estimated GF/GP Expenditures	\$9,203.2
Projected Year-End GF/GP Balance	\$146.0

Table 18 provides a summary of the current SFA estimate of a zero year-end balance in the FY 2012-13 SAF budget. The projected level of the FY 2012-13 SAF year-end balance results from a larger carry-forward balance from FY 2011-12 (\$45.7 million more than expected) but an estimated decrease in revenue from the May 2012 consensus of \$82.9 million. Additional cost adjustments, combined with a pending supplemental, offset some of the revenue changes, and a recommended

transfer from the Michigan Public School Employees' Retirement System (MPERS) reforms reserve fund would result in a projected ending balance of zero. Without a transfer from the MPERS reforms reserve fund, the SFA would estimate the FY 2012-13 SAF balance to be a negative \$20.6 million.

Table 18
FY 2012-13
SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	\$240.3
Senate Fiscal Agency Revenue Estimate	\$11,086.5
<u>Other Revenue Adjustments:</u>	
General Fund/General Purpose Grant.....	282.4
Federal Ongoing Aid	1,701.0
MPERS Retirement Obligation Reform Reserve Fund	20.6
Subtotal Ongoing Revenue	\$13,090.5
Total Estimated School Aid Fund Revenue.....	\$13,330.8
Expenditures:	
<u>Ongoing Appropriations:</u>	
Initial Ongoing K-12 Appropriations (Public Act 201 of 2012)	\$12,750.2
Cost Adjustments (SFA Estimate)	(55.0)
Additional MPERS Rate Cap Costs (Granny Clause, Election Extension)	43.0
Partially Fund Community Colleges with School Aid Fund.....	197.6
Partially Fund Higher Education with School Aid Fund	200.5
Enrolled House Bill 5267 (PILT Supplemental)	0.2
Subtotal Ongoing Appropriations	\$13,136.5
<u>One-Time Appropriations:</u>	
Best Practices Grants	\$80.0
Technology Grants.....	50.0
Consolidation Innovation Grants.....	10.0
MPERS Retirement Obligation Reform Reserve Fund	41.0
Class-Size Grants	13.3
Subtotal One-Time Appropriations.....	\$194.3
Total Estimated School Aid Fund Expenditures.....	\$13,330.8
Projected Year-End School Aid Fund Balance	\$0.0

On the revenue side of the FY 2012-13 SAF budget ledger, the SFA is now estimating that revenue will total \$13.3 billion. This estimate includes a \$240.3 million balance carried forward from FY 2011-12, \$11.1 billion of State Restricted SAF revenue, a \$282.4 million GF/GP grant to the SAF budget, and \$1.7 billion of ongoing Federal aid. The estimate also includes \$20.6 million transferred from the MPERS reforms reserve fund necessary to balance the FY 2012-13 SAF budget. (There is \$174.0 million available in the MPERS reforms reserve fund.) The current SFA estimate of total FY 2012-13 SAF revenue represents a \$221.9 million or 1.6% decline from the projected level of FY 2011-12 SAF revenue. The current estimate of FY 2012-13 State Restricted SAF revenue is \$82.9 million lower than the May 2012 consensus estimate.

On the expenditure side of the FY 2012-13 SAF budget ledger, the SFA is now estimating that expenditures will total \$13.3 billion. This expenditure estimate includes \$12.8 billion of ongoing K-12 appropriations in the initial appropriation bill, \$194.3 million in one-time appropriations in the initial appropriation bill, negative K-12 foundation allowance cost adjustments of \$55.0 million,

increased cost adjustments for the MPSERS rate cap of \$43.0 million, and funding of \$197.6 million and \$200.5 million for community colleges and universities, respectively. House Bill 5267, a pending \$0.2 million FY 2012-13 supplemental appropriation for payments in lieu of taxes (PILT) that was ordered enrolled on December 13, 2012, is included as an expenditure item. The projected level of FY 2012-13 SAF expenditures represents an \$18.4 million or 0.1% increase from the projected level of FY 2011-12 SAF expenditures.

FY 2013-14 STATE BUDGET OUTLOOK

Pursuant to statutory requirements, the Governor must submit a detailed FY 2013-14 State budget recommendation to the Legislature no later than February 8, 2013. This State budget recommendation will continue the debate on the FY 2013-14 State budget. On February 9, 2012, Governor Snyder presented his FY 2012-13 budget and his projections for FY 2013-14. The Legislature subsequently enacted an FY 2012-13 State budget and included language within that budget expressing intent to provide FY 2013-14 appropriations that would be the same as those for FY 2012-13, with adjustments for caseload, costs, economic factors, and available revenue.

The estimated FY 2012-13 GF/GP revenue and expenditures produce a projected ending balance of \$146.0 million. If this balance is carried forward into FY 2013-14, and if the Governor's FY 2013-14 budget projections are assumed, with adjustments for caseload and costs, there will be an FY 2013-14 projected year-end GF/GP balance of \$40.9 million. Table 19 outlines these assumptions.

Table 19
FY 2013-14
GENERAL FUND/GENERAL PURPOSE
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	\$146.0
Ongoing Revenue:	
Senate Fiscal Agency Revenue Estimate	\$9,104.1
Revenue Sharing Payments	(350.6)
Shift of Short-Term Borrowing Costs to School Aid Fund.....	3.6
Regulation of Charitable Gaming	(4.0)
Subtotal Ongoing Revenue	\$8,753.1
Total Estimated GF/GP Revenue	\$8,899.1
Expenditures:	
Governor's Recommendation Ongoing Appropriations (February 2012)	\$8,881.9
Governor's Recommendation One-Time Appropriations (February 2012)	13.6
Subtotal Ongoing and One-Time Appropriations	\$8,895.5
Other Adjustments:	
Caseload and Cost Adjustments for DCH (SFA Estimate)	(\$123.1)
Caseload and Cost Adjustments for DHS (SFA Estimate)	(55.2)
Decrease in Federal Medicaid Match Rate.....	7.0
Health Insurance Claims Assessment Revenue Shortfall	120.0
Cost Adjustment for Dual Enrollment (SFA Estimate)	5.0
Estimated Increase for Debt Service Payments	9.0
Subtotal Other Adjustments	(\$37.3)
Total Estimated GF/GP Expenditures	\$8,858.2
Projected Year-End GF/GP Balance	\$40.9

On the revenue side of the FY 2013-14 budget ledger, the SFA is projecting that current law revenue will equal \$8.9 billion. This estimate includes the assumed carry-forward from FY 2012-13 of \$146.0 million and ongoing revenue of \$9.1 billion, as estimated by the SFA. This current law revenue estimate also assumes that State revenue sharing payments will continue at the FY 2012-13 ongoing level of \$350.6 million.

On the appropriation side of the FY 2013-14 budget ledger, the SFA estimate is built from the Governor's February 2012 projected recommendations for FY 2013-14 ongoing and one-time GF/GP appropriations. Adjustments are then made to include SFA estimates for: Department of Community Health and Department of Human Services caseload and cost increases that would reduce spending by \$178.3 million; a decrease in the Federal Medicaid match rate that would increase State costs by \$7.0 million; a recognition of a \$120.0 million HICA revenue shortfall for FY 2013-14; additional K-12 dual enrollment costs of \$5.0 million; and an increase in debt service payments of \$9.0 million. These assumptions lead to total estimated FY 2013-14 GF/GP expenditures of \$8.8 billion and a projected year-end GF/GP balance of \$40.9 million.

Table 20 provides a summary of the SFA's outlook for the FY 2013-14 SAF budget. A comparison of current law SAF revenue and a continuation of FY 2012-13 ongoing funding levels, adjusted for estimated pupils and costs, leads to a negative \$235.4 million FY 2013-14 projected year-end balance.

Table 20
FY 2013-14
SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance.....	\$0.0
Senate Fiscal Agency Revenue Estimate	\$11,350.8
<u>Other Revenue Adjustments:</u>	
General Fund/General Purpose Grant	18.6
Federal Ongoing Aid	1,701.0
MPERS Retirement Obligation Reform Reserve Fund.....	<u>153.4</u>
Subtotal Ongoing Revenue	<u>\$13,223.8</u>
Total Estimated School Aid Fund Revenue	\$13,223.8
Expenditures:	
<u>Ongoing Appropriations:</u>	
FY 2012-13 K-12 Appropriations.....	\$12,750.2
Cost Adjustments (SFA Estimate).....	310.9
Partially Fund Community Colleges with School Aid Fund	197.6
Partially Fund Higher Education with School Aid Fund.....	<u>200.5</u>
Subtotal Ongoing Appropriations.....	<u>\$13,459.2</u>
Total Estimated School Aid Fund Expenditures	\$13,459.2
Projected Year-End School Aid Fund Balance.....	(\$235.4)

On the revenue side of the FY 2013-14 SAF budget outlook, the SFA is estimating that revenue will total \$13.2 billion. This estimate assumes no carry-forward of funds from FY 2012-13, a decline in the level of School Aid Fund baseline revenue of \$120.7 million from the May 2012 consensus forecast, a decline in the level of the GF/GP grant from \$282.4 million to \$18.6 million (the Governor's FY 2013-14 budget projection), an increased transfer from the MPERS reforms reserve fund to

\$153.4 million (thereby using the remaining assets in the fund), and estimated Federal aid of \$1.7 billion.

On the appropriation side of the FY 2013-14 SAF budget outlook, the SFA is estimating that a continuation appropriation level of ongoing funding will equal \$13.5 billion. This funding level assumes that SAF appropriations of \$398.1 million for community colleges and universities are continued and that one-time K-12 appropriations of \$194.3 million are removed. The FY 2012-13 one-time K-12 appropriations equate to, on average, approximately \$125 per pupil. The SFA estimate of a continuation level of K-12 funding takes into account preliminary estimates as to the number of students in local school districts and preliminary estimates of local property tax valuations.

A comparison of projected FY 2013-14 SAF current law revenue and a continuation of ongoing appropriations leads to a projected ending balance of a negative \$235.4 million, which would equate to a per-pupil reduction of about \$150. It should be noted that if FY 2012-13 one-time SAF appropriations of \$194.3 million are not removed from the spending base, the FY 2013-14 projected year-end SAF balance would be a negative \$429.7 million.

One revenue source that may be available to appropriate in the K-12 budget to cover the projected \$235.4 million deficit is the MPSERS escrow account that has accumulated since July 1, 2010. This account received employee 3.0% contributions as prescribed under Public Act 75 of 2010, and today totals more than \$500.0 million. During discussions of calculations related to prefunding retiree health care in the MPSERS plan, it was noted that in order to keep a structurally balanced K-12 budget, appropriations from the escrow account likely would be necessary. However, a clarification from the courts may be necessary as to the availability of the funds in this account, before their expenditure.

CONCLUSION

Although the FY 2011-12 estimated GF/GP and SAF year-end balances appear to be quite healthy, at \$1.0 billion and \$240.3 million, respectively, those funds will be needed to balance the FY 2012-13 GF/GP and SAF budgets. The GF/GP budget is in better shape, with estimated positive ending balances for both FY 2012-13 and FY 2013-14. The SAF budget is estimated to end at a zero balance in FY 2012-13, with a projected FY 2013-14 negative ending balance of \$235.4 million.

The FY 2011-12 estimated ending balances may change when the State's final comprehensive annual financial report is published, which is not required by law until the end of March 2013. To the extent that the FY 2011-12 numbers change due to pending accruals or other issues, the ending balances for FYs 2012-13 and 2013-14 will be affected. Also, to the extent that policy changes are enacted during 2013, such as the reintroduction of legislation to resolve the HICA revenue shortfall, and the use of escrow funds for prefunding of MPSERS costs in the School Aid budget, the projected ending balances could be improved.

All of the estimated year-end balances in this report are based on the Senate Fiscal Agency's revenue projections, which the SFA will take to the January 11, 2013 Consensus Revenue Estimating Conference. At that time, a consensus will be reached among the SFA, the House Fiscal Agency, and the State Treasurer regarding the revenue estimates to be used for the development of the FY 2013-14 State budget, as well as for subsequent fiscal years.

