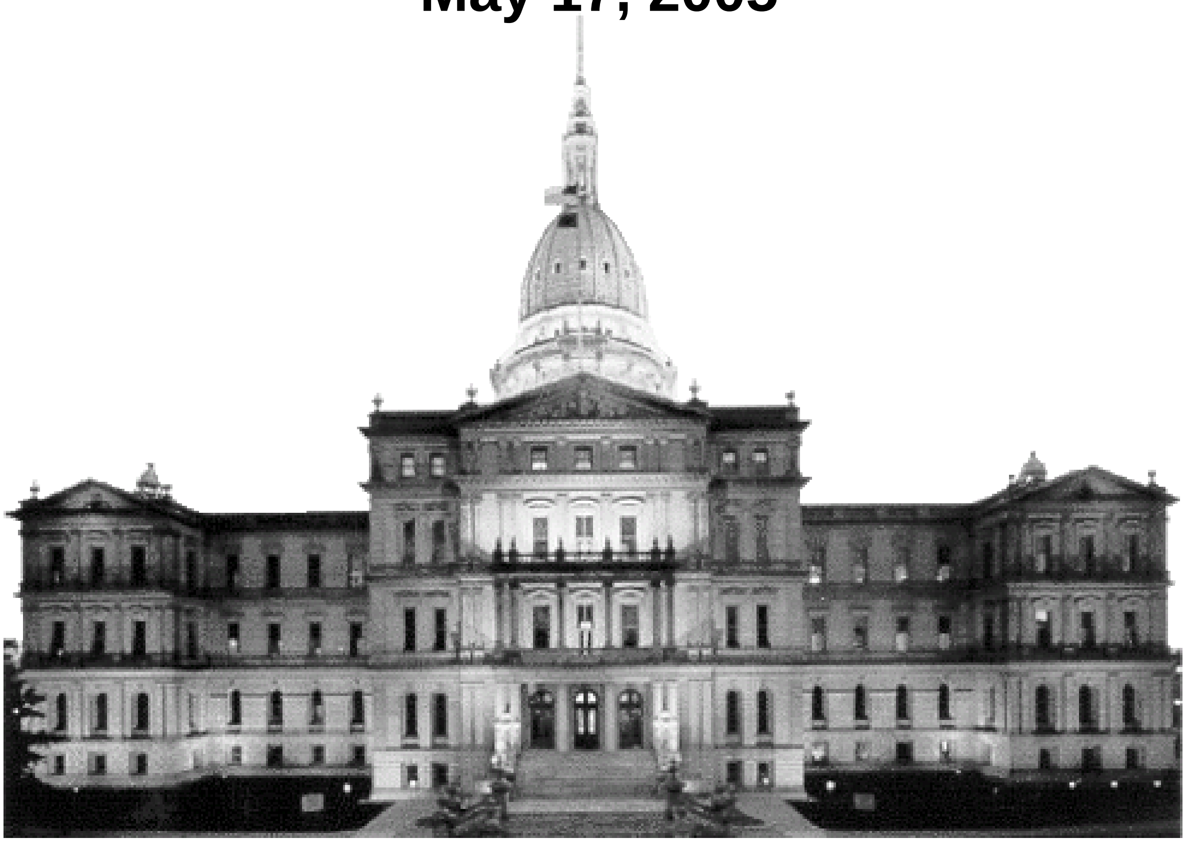
Senate Fiscal Agency

MICHIGAN'S ECONOMIC OUTLOOK AND BUDGET REVIEW

FY 2003-04, FY 2004-05 AND FY 2005-06

May 17, 2005



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www.senate.michigan.gov/sfa

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ACKNOWLEDGEMENT

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EXECUTIVE SUMMARY

ECONOMIC FORECAST

The U.S. economy, as measured by inflation-adjusted gross domestic product, will increase at an estimated rate of 3.3% in 2005 and 3.1% in 2006. Light vehicle sales will total 16.7 million units in 2005 and 16.8 million units in 2006. The unemployment rate will remain at 5.3% in both 2005 and 2006, while the consumer price index will rise 2.9% in 2005 and 2.7% in 2006. These estimates are essentially unchanged from the January 2005 consensus economic forecast.

The Michigan economy, as measured by inflation-adjusted personal income, will increase at an estimated rate of 1.9% in 2005 and 2.9% in 2006. Wage and salary employment will decline 0.2% in 2005, followed by a modest gain of 0.6% in 2006. These estimates are slightly lower than the January consensus economic forecast, primarily due to concerns relating to employment growth, productivity improvement, and weakness in the motor vehicle manufacturing sector.

REVENUE FORECAST

General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue will total an estimated $18.7 billion in FY 2004-05, which is up a modest 0.1% from FY 2003-04. This revised estimate is $64.1 million below the January consensus estimate. General Fund/General Purpose revenue will decline an estimated 2.4% to $7.9 billion, while SAF revenue will increase an estimated 2.1% to $10.8 billion. In FY 2005-06, GF/GP and SAF revenue will total an estimated $19.3 billion, representing an increase of 3.2% from FY 2004-05. Compared with the January consensus revenue estimate, this revised estimate is down $178.4 million. General Fund/General Purpose revenue will total an estimated $8.1 billion, up 2.7% from FY 2004-05, and SAF revenue will increase an estimated 3.5% to $11.2 billion. Revenue subject to the constitutional revenue limit will remain below the revenue limit by about $5.8 billion in both FY 2004-05 and FY 2005-06.

YEAR-END BALANCE ESTIMATES

Based on the Senate Fiscal Agency's (SFA's) revised estimates of FY 2004-05 revenue and actual and projected State appropriations, the SFA now believes that the FY 2004-05 GF/GP budget is in deficit by $76.4 million. A significant portion of this projected deficit can be attributed to spending pressures in the State Medicaid program. A comparison of the SFA's FY 2005-06 GF/GP revenue estimate with the Governor's recommended level of FY 2005-06 GF/GP appropriations and recommended tax policy changes leads to a $108.5 million deficit. This deficit is a result of downward revisions in the revenue estimate.

The revised SFA revenue estimate also alters the estimates of the projected FY 2004-05 and FY 2005-06 year-end School Aid Fund balances. The SFA is now estimating that the FY 2004-05 School Aid Fund budget is in deficit by $17.1 million. Pursuant to requirements of the State School Aid Act, this projected deficit could be eliminated by a $10 per pupil reduction in FY 2004-05 State aid payments to school districts. A comparison of the SFA's FY 2005-06 School Aid Fund revenue estimate with the appropriation recommendations of the Governor leads to a $105.5 million deficit.

EXECUTIVE SUMMARY

SENATE FISCAL AGENCY
ECONOMIC AND BUDGET SUMMARY

ECONOMIC PROJECTIONS
(Calendar Year)

	2003 Actual	2004 Actual	2005 Estimate	2006 Estimate
Real Gross Domestic Product (% change)	3.0%	4.4%	3.3%	3.1%
U.S. Consumer Price Index (% change)	2.3%	2.7%	2.9%	2.7%
Light Motor Vehicle Sales (millions of units)	16.6	16.9	16.7	16.8
U.S. Unemployment Rate (%)	6.0%	5.5%	5.3%	5.3%
Michigan Personal Income (% change)	4.2%	2.8%	4.3%	5.2%
Michigan Unemployment Rate (%)	7.3%	7.1%	7.4%	7.2%

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

	FY 2004-05 Estimate			FY 2005-06 Estimate		
	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available
Gen'l Fund/Gen'l Purpose	$8,094.6	$(247.9)	$7,846.7	$8,276.1	($216.6)	$8,059.6
% Change	1.3%	---	(2.4)%	2.2%	---	2.7%
School Aid Fund	$10,827.9	$10.0	$10,837.9	$11,202.6	$16.6	$11,219.1
% Change	2.8%	---	2.1%	3.5%	---	3.5%
Total GF/GP and SAF	$18,922.5	$(237.9)	$18,684.6	$19,478.7	$(200.0)	$19,278.7
% Change	2.1%	---	0.1%	2.9%	---	3.2%

	FY 2004-05 Estimate	FY 2005-06 Estimate
Revenue Limit - Under (Over):	$5,751.6	$5,832.1

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

	FY 2003-04 Actual	FY 2004-05 Estimate	FY 2005-06 Estimate
General Fund/General Purpose	$81.3	$(76.4)	$(108.5)
School Aid Fund	$74.1	$(17.1)	$(105.5)
Budget Stabilization Fund	$0.0	$2.4	$2.5

ECONOMIC REVIEW AND OUTLOOK

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

RECENT ECONOMIC HIGHLIGHTS

Although the United States economy has been growing for more than three years, since the trough of the 2001 recession in November of that year, employment growth has been hampered by sustained increases in productivity and a variety of other economic shocks, particularly in energy prices. Inflation-adjusted Gross Domestic Product (GDP) increased 4.4% in 2004, the third highest rate since 1984, while wage and salary employment rose 1.1%, less than in any year during the 1984-2000 period other than the recession years of 1991 and 1992. Details for selected economic indicators for the last few years are presented in Table 1 and Table 2.

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

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

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

Table 1

THE SENATE FISCAL AGENCY ECONOMIC FORECAST
(Calendar Years)

United States	**2002 Actual**	**2003 Actual**	**2004 Actual**	**2005 Estimate**	**2006 Estimate**
Nominal GDP					
(year-to-year growth)	3.5%	4.9%	6.6%	5.4%	5.5%
Inflation-adjusted GDP					
(year-to-year growth)	1.9%	3.0%	4.4%	3.3%	3.1%
Unemployment rate	5.8%	6.0%	5.5%	5.3%	5.3%
Inflation					
Consumer Price Index					
(year-to-year growth)	1.6%	2.3%	2.7%	2.9%	2.7%
GDP Implicit price deflator					
(year-to-year growth)	1.7%	1.8%	2.1%	2.2%	2.4%
Interest rates					
90-day Treasury bill	1.61%	1.01%	1.38%	3.14%	4.55%
Corporate Aaa bond	6.49%	5.66%	5.63%	5.62%	6.41%
Federal funds rate	1.67%	1.13%	1.35%	3.24%	5.66%
Light motor vehicle sales					
(millions of units)					
Auto	16.8	16.6	16.9	16.7	16.8
Truck	8.1	7.6	7.5	7.6	7.6
Import Share	8.7	9.0	9.4	9.1	9.2
	19.6%	19.9%	20.2%	20.6%	21.3%
Michigan					
Personal Income (millions)	$301,760	$314,346	$323,142	$337,142	$354,814
Year-to-year growth	0.7%	4.2%	2.8%	4.3%	5.2%
Inflation-adjusted personal					2.9%
income (year-to-year growth)	(1.8)%	2.1%	1.2%	1.9%	
Wage & salary income					$193,529
(millions)	$173,339	$176,493	$180,059	$185,987	
year-to-year growth	0.1%	1.8%	2.0%	3.3%	4.1%
Detroit Consumer Price Index					
(year-to-year growth)	2.6%	2.0%	1.6%	2.4%	2.3%
Wage & Salary Employment					
(thousands)	4,477.8	4,409.6	4,390.8	4,380.4	4,404.7
year-to-year growth	(1.7)%	(1.5)%	(0.4)%	(0.2)%	0.6%
Unemployment Rate	6.2%	7.3%	7.1%	7.4%	7.2%

Table 2

THE SENATE FISCAL AGENCY U.S. ECONOMIC FORECAST DETAIL (Calendar Years)	2002 Actual	2003 Actual	2004 Actual	2005 Estimate	2006 Estimate
Gross Domestic Product					
(billions of dollars)	$10,487.0	$11,004.0	$11,735.0	$12,374.1	$13,055.5
Year-to-year growth	3.5%	4.9%	6.6%	5.4%	5.5%
Inflation-Adjusted GDP and Components					
Gross Domestic Product					
(billions of 2000 dollars)	$10,074.8	$10,381.3	$10,841.9	$11,200.7	$11,545.5
Year-to-year growth	1.9%	3.0%	4.4%	3.3%	3.1%
Consumption					
(billions of 2000 dollars)	$7,123.4	$7,335.6	$7,632.5	$7,909.7	$8,178.1
Year-to-year growth	3.1%	3.35	3.8%	3.6%	3.4%
Business fixed investment					
(billions of 2000 dollars)	$1,075.6	$1,110.8	$1,228.6	$1,341.9	$1,439.1
Year-to-year growth	(8.9)%	3.3%	10.6%	9.2%	7.2%
Change in Business Inventories					
(billions of 2000 dollars)	$11.7	$(0.8)	$46.9	$57.8	$51.9
Residential investment					
(billions of 2000 dollars)	$470.0	$511.2	$560.7	$578.5	$554.6
Year-to-year growth	4.8%	8.8%	9.7%	3.2%	(4.1)%
Government spending					
(billions of 2000 dollars)	$1,857.9	$1,909.4	$1,946.5	$1,969.8	$1,993.3
Year-to-year growth	4.4%	2.8%	1.9%	1.2%	1.2%
Net Exports					
(billions of 2000 dollars)	$(472.1)	$(518.5)	$(583.7)	$(657.3)	$(659.1)
Exports (billions of 2000 dollars)	$1,012.3	$1,031.8	$1,120.3	$1,188.7	$1,274.7
Imports (billions of 2000 dollars)	$1,484.4	$1,550.3	$1,704.0	$1,845.9	$1,933.8
Personal income					
(year-to-year growth)	1.8%	3.2%	5.6%	5.7%	6.8%
Adjusted for Inflation	0.2%	0.9%	2.8%	2.7%	4.0%
Wage & salary income					
(year-to-year growth)	0.7%	2.6%	4.9%	5.4%	5.5%
Personal savings rate	2.0%	1.4%	1.2%	0.4%	1.1%
Capacity utilization rate	75.6%	74.8%	78.1%	79.8%	80.1%
Housing starts (millions of units)	1.705	1.848	1.956	2.020	1.866
Conventional mortgage rates	6.4%	5.8%	5.8%	6.1%	7.1%
Federal budget surplus					
(billions of dollars, NIPA basis)	$(254.5)	$(364.5)	$(375.6)	$(339.5)	$(381.5)

Figure 1

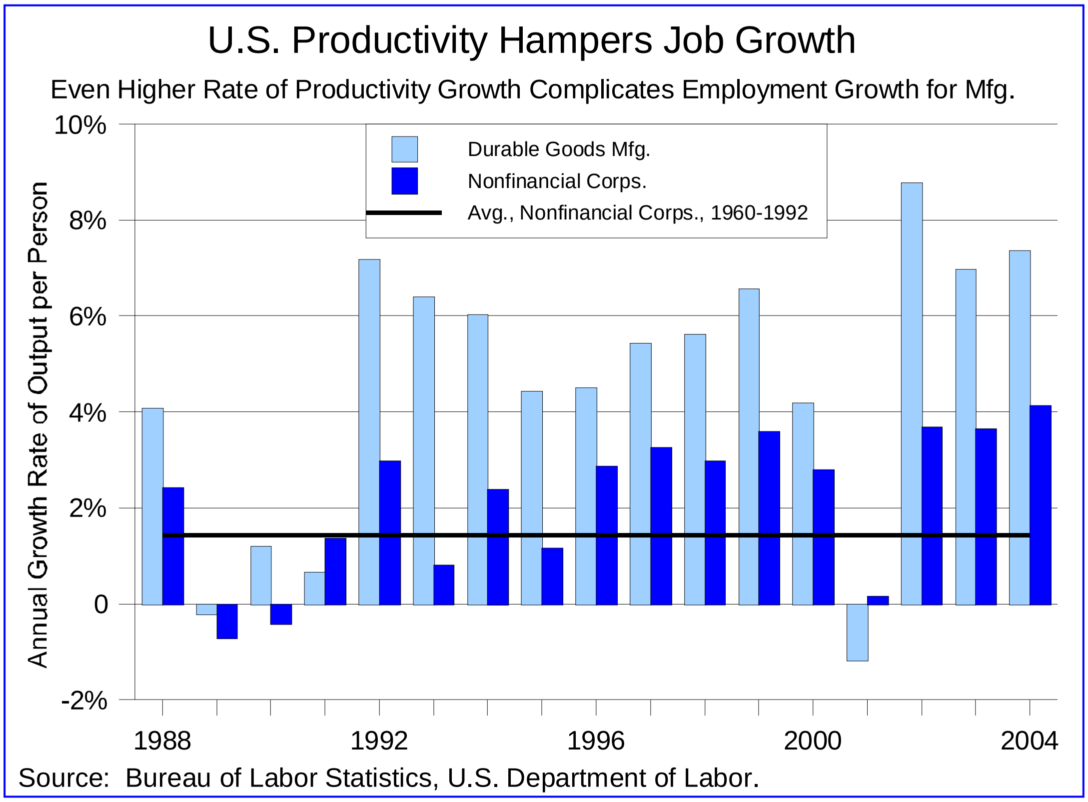


Figure 2

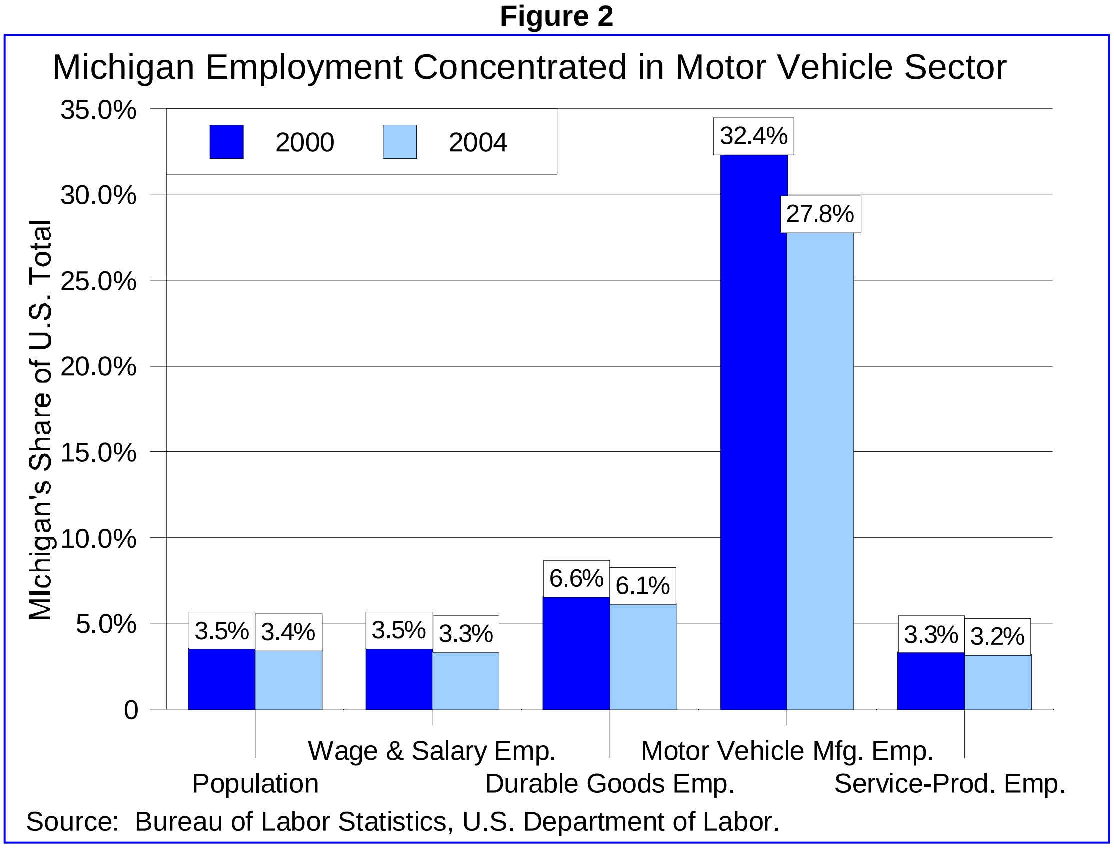
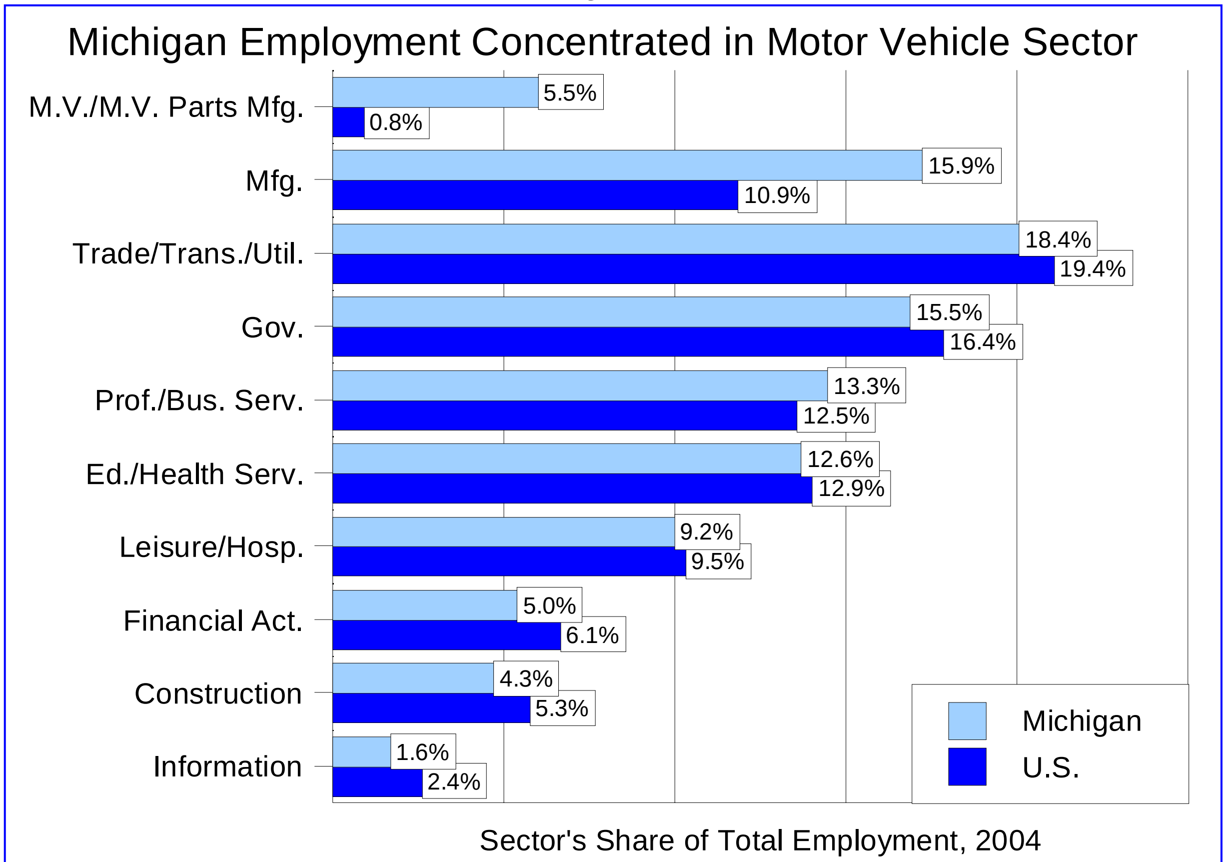


Figure 3



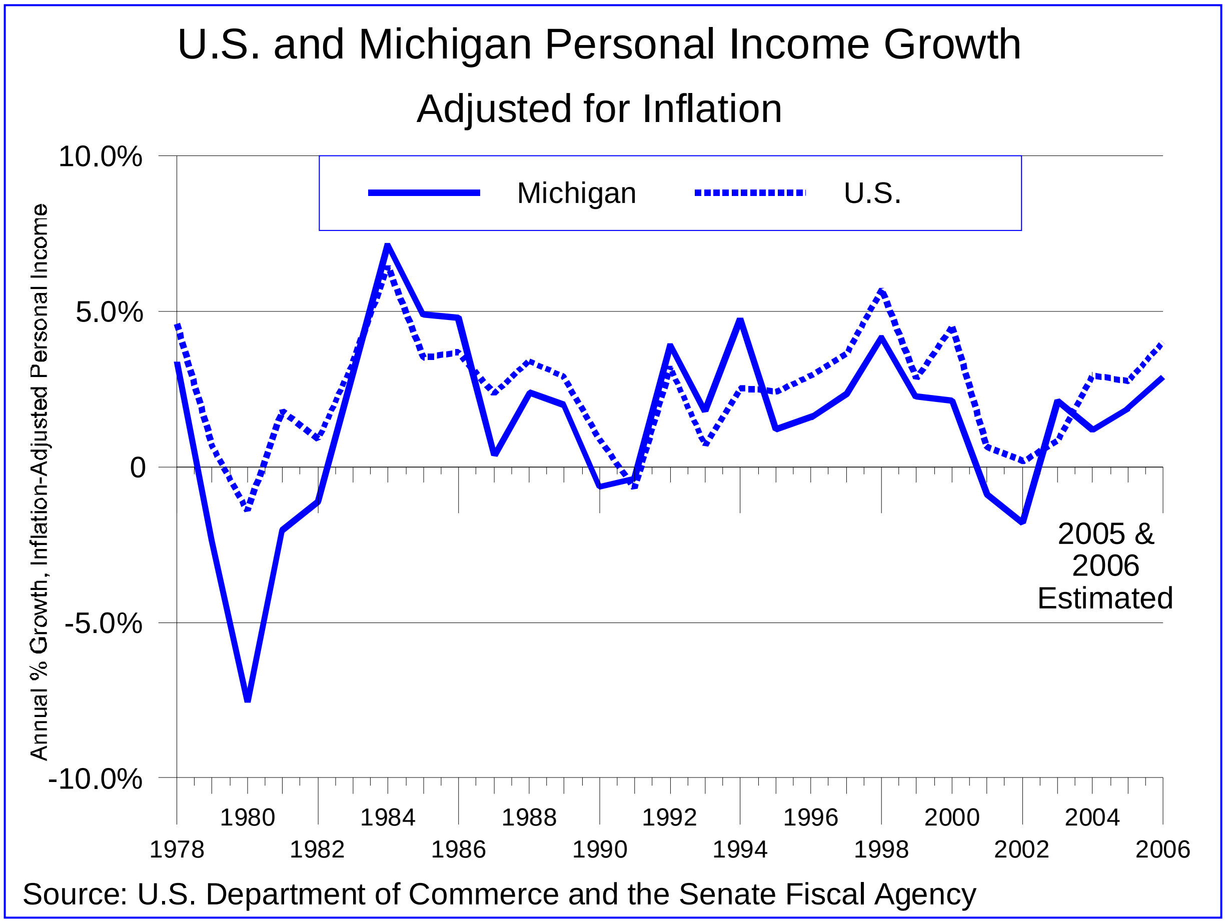
Source: Bureau of Labor Statistics, U.S. Department of Labor.

The factors affecting job growth over the last few years are expected to continue to influence the economy over the forecast period. The primary factors affecting the economy, and which present risks to the forecast, reflect: 1) strong productivity growth; 2) little growth in business and consumer confidence, particularly with regard to current high expectations for the economy that are unlikely to be realized; 3) consumption growth being hampered as interest rates increase due to effects of high debt burdens and significant incentives to increase saving; 4) investment growth reduced by higher interest rates and the significant amount of corporate debt that is under variable rate terms; and 5) weak growth in net exports, as exports struggle to make significant gains but import growth remains strong.

FORECAST SUMMARY

Both the U.S. and Michigan economies are expected to continue growing in 2005 and 2006 (Figure 4). Table 1 and Table 2 provide a summary of key economic indicators from the SFA's economic forecast, with references to recent years. Inflation-adjusted GDP is projected to grow by 3.3% in 2005, and 3.1% in 2006. The modest decline in growth during 2006 reflects slightly slower growth in business investment and residential investment as interest rates continue to rise. The unemployment rate will fall slightly from 5.5% during 2004 to 5.3% in 2005 and 2006.

Figure 4



In Michigan, economic activity will mirror the national economy over the forecast period, although both job growth and personal income growth are expected to remain below average (Figures 4 and 5). Furthermore, the sectors expected to exhibit the largest gains in employment generally pay wages below those in the sectors with the slowest growth (Figures 6 and 7). Inflation-adjusted personal income increased 1.2% in 2004, and is expected to grow 1.9% in 2005 and 2.9% in 2006. On an annual basis, wage and salary employment is forecasted to fall by 0.2% in 2005, the fifth consecutive year of decline, although employment will post slight increases in each of the last three quarters of the year. Wage and salary employment is expected to rise by 0.6% in 2006. Such job growth represents an improvement from the 2.5%, 1.7%, 1.5%, and 0.4% declines in wage and salary employment experienced in 2001, 2002, 2003, and 2004, respectively. Relatively flat auto sales will combine with productivity improvements to restrain employment growth, such that the unemployment rate will increase from 7.1% in 2004 to 7.4% in 2005, before falling to 7.2% in 2006, keeping the Michigan unemployment rate above the national average.

Compared with the January 13, 2005, Consensus Economic Forecast, most key indicators are relatively unchanged at the national level while the Michigan economy is expected to grow more slowly. The most notable difference at the national level is that inflation is higher than was expected in January. While inflation levels are expected to remain below levels during much of the 1980s and 1990s, virtually all inflation measures are expected to be higher during 2005 and 2006. As a result of higher inflation pressures, interest rates also are largely expected to be above those forecasted in January. The domestic share of light vehicle sales also is expected to be lower than the level expected in January. Primarily as a result of slightly higher than expected productivity and declining domestic vehicle share, the Michigan economy is expected to grow more slowly than was forecast in January. Although employment is expected to increase in most quarters of the forecast, the gains are so small that on an annual basis wage and salary employment actually will post another decline in 2005, compared with a small increase expected in January. Correspondingly, Michigan income measures are expected to grow at a slower rate than forecasted in January and consumer prices are expected to rise a bit more slowly.

Figure 5

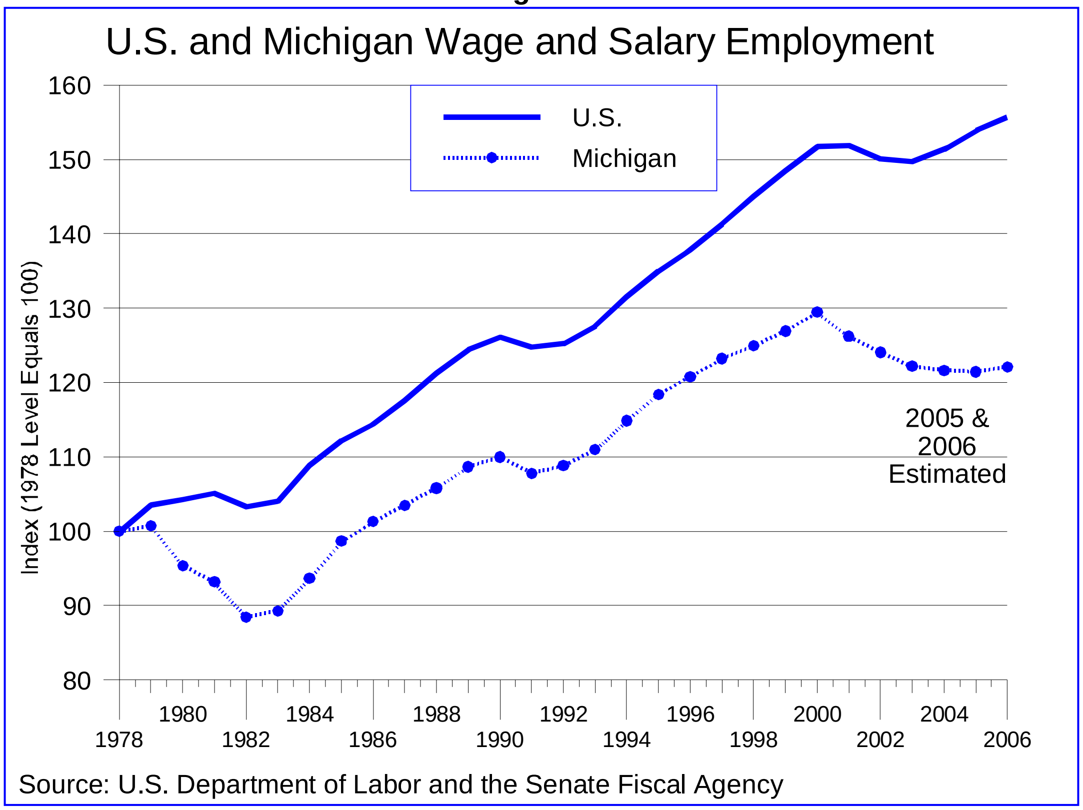


Figure 6

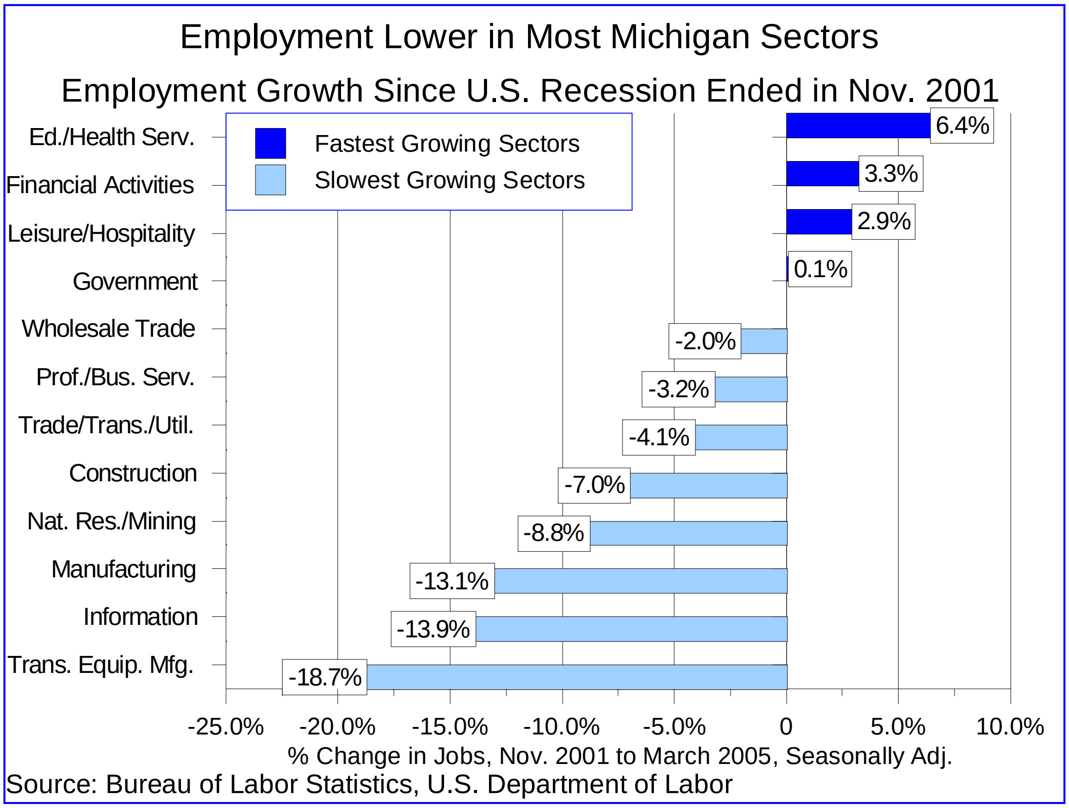
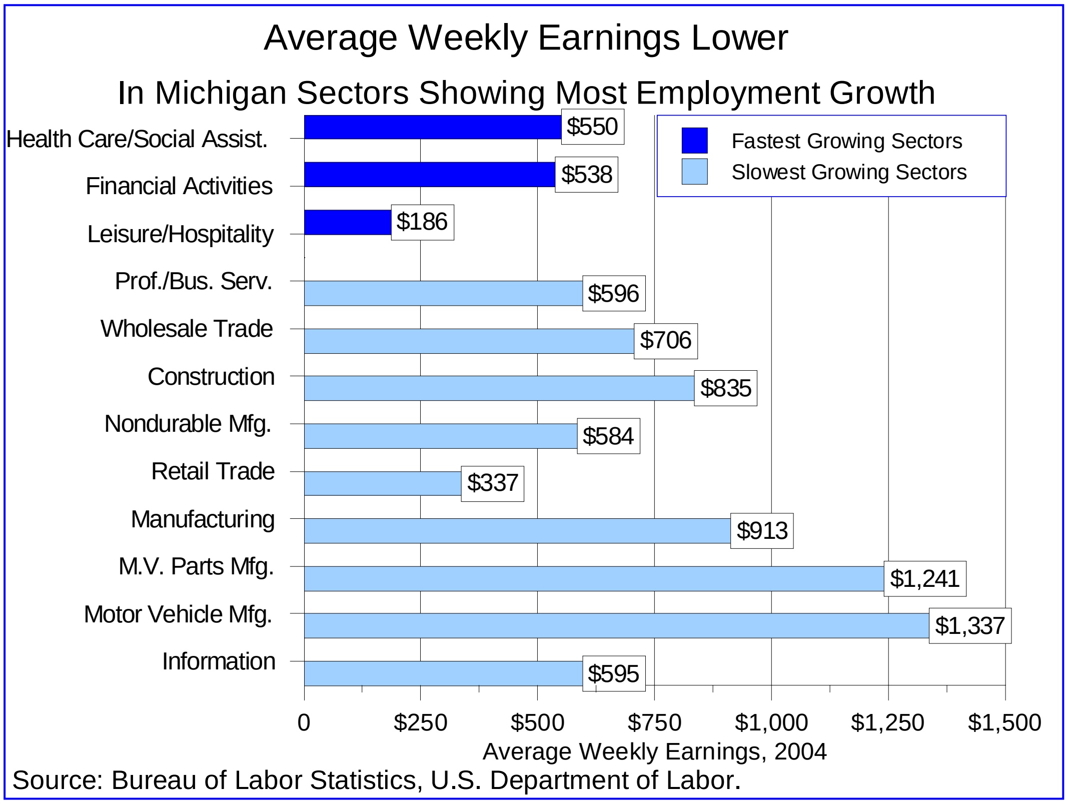


Figure 7



FORECAST ASSUMPTIONS AND RISKS

Forecasting the behavior of the economy requires making assumptions about the behavior of certain key economic variables. The current SFA forecast for 2005 and 2006 is based upon the following assumptions:

Monetary Policy. The Federal funds rate is currently 3.0%, up 200 basis points from May 2004. The forecast assumes that inflationary concerns are rising (discussed in the assumptions for inflation), and the Federal Reserve Board will act on those concerns. Furthermore, as the economy continues growing and Federal deficits remain high, competition for capital will increase. As a result, interest rates are anticipated to continue rising consistently through 2005 and 2006. Additional increases, and steeper increases, will raise the Federal funds rate to 4.5% at the end of 2005 and 6.75% by the end of 2006.

Foreign Economies. Many of the U.S.'s key trading partners' economies are expected to grow slightly more slowly than the U.S. economy during most of the forecast period. The dollar is expected to continue declining in value, falling 4.6% in 2005, and 5.4% in 2006. Combined with tepid economic growth for the U.S.'s major trading partners, the net effect will be that the dollar's value is forecasted to continue to restrain export growth and encourage imports, although by less than in recent years. As a result, the forecast predicts that the trade deficit will continue to increase in both years, although the increase will be more rapid in 2005, when the gap between U.S. economic growth and the growth for key trading partners will be more significant.

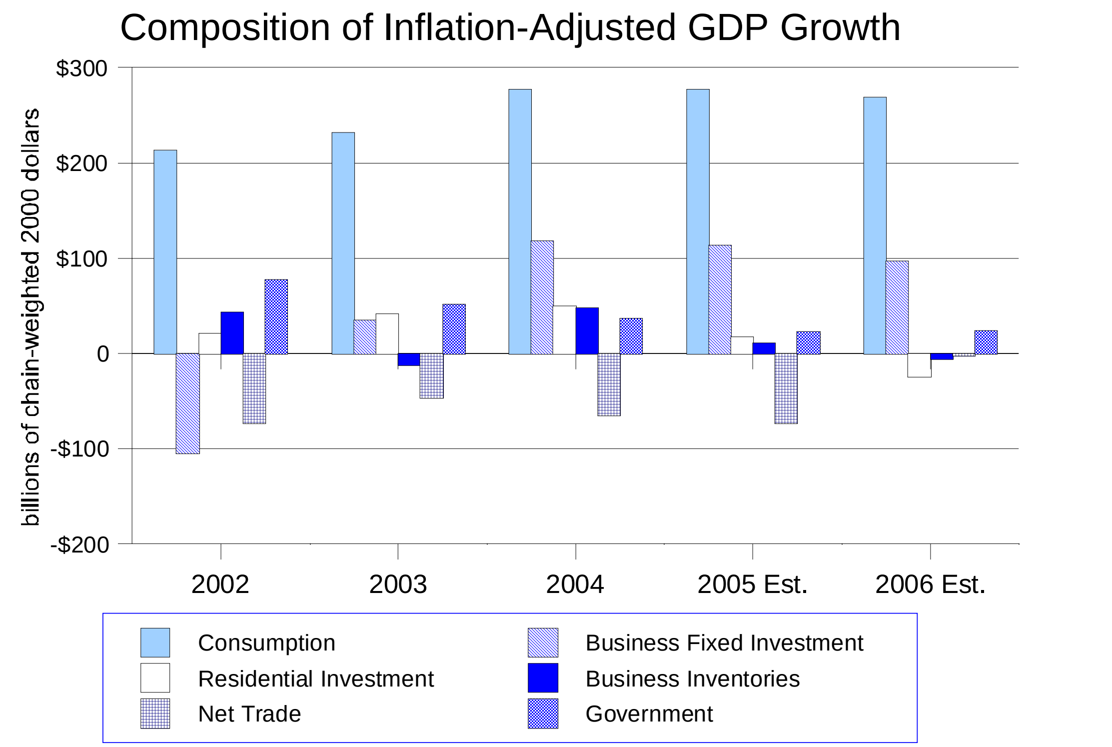
Oil and Energy Prices. The forecast expects oil prices to decline slightly in 2005 and 2006, from about approximately $50 per barrel in the first half of 2005 to roughly $41 per barrel by the end of 2006. Other energy prices also are expected to follow a similar pattern over the forecast period, although natural gas prices are expected to post a seasonal spike during the first quarter of 2006. Prices are expected to remain above historical averages for a variety of reasons, ranging from political instability in the Mideast to limited domestic refining capacity (which is essentially already at maximum) to growing domestic and worldwide energy demands.

Risks to the Forecast

All forecasts carry a certain amount of error, but the chances that a forecast will err substantially depend upon certain risks to economic fundamentals upon which the forecast is built. The uncertain economic environment in 2004 causes the current economic forecast to face a number of risks, most suggesting that in inflation-adjusted terms, the economy could be weaker than forecasted.

Monetary and Fiscal Stimulus. The forecast assumes that the Federal Reserve will steadily increase rates over the forecast period in an effort to return rates to levels consistent with historical averages and to take a proactive approach to inflationary pressures, which are expected to be significant and are discussed later in this section. The forecast that assumes much of the stimulus effect of fiscal policy has been exhausted and any growth in Federal spending will be restrained, particularly compared with historical levels (Figure 8). Government is expected to add only approximately 0.2 percentage points to economic growth in 2006. However, a significant risk exists that Federal spending will be higher than forecasted, which would increase economic growth above the forecasted level but also likely result in interest rates' also being higher than forecasted. Such events could weaken both investment, particularly among firms that have borrowed heavily under variable rates, and export growth.

Figure 8



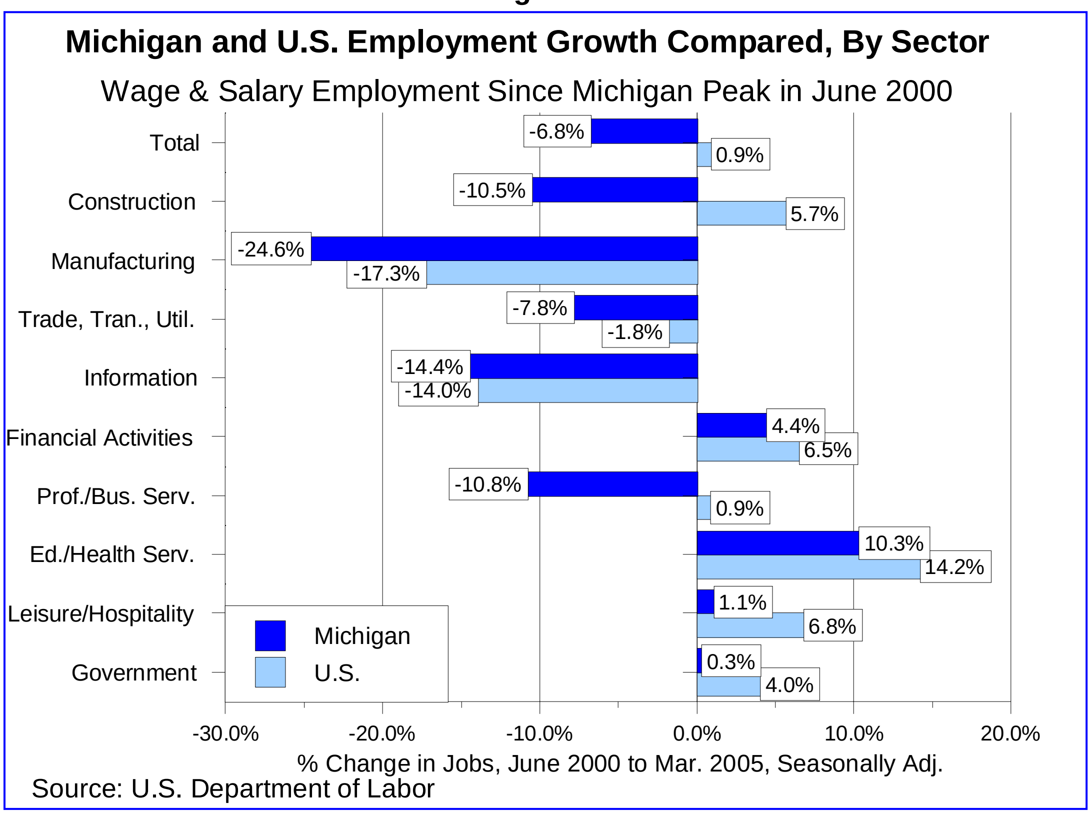
Source: U.S. Department of Commerce and the Senate Fiscal Agency

Consumer Behavior. Consumption growth remained moderate throughout the slowdown over the last three years, largely through increased borrowing and refinance activity. As a result, little, if any, pent-up demand exists in the consumer sector. While the economy is expected to improve, much of the growth in GDP will reflect productivity improvements and improving investment rather than employment gains and stronger consumption growth. As a result, higher interest rates are likely to worsen the burden of servicing consumer debt and, when combined with slow job growth and modest personal income growth, will keep consumption growth from rising significantly more rapidly than in recent years. The current forecast expects that the personal savings rate will likely be driven lower, particularly in 2005, in order to support the expected consumption levels. If savings rates improve more than expected and/or higher interest rates have a greater effect than forecasted, both consumption growth and economic growth will be lower. Similarly, if the weak employment situation causes consumers to lose confidence in the economy, consumer spending (and thus economic growth) may be lower than expected.

Inflation. While the forecast expects a noticeable increase in the rate of inflation, compared with recent years, the expected inflation rates are at or below the rates experienced during the 1990s and are below virtually every year during the 1980s. As indicated above, both the Federal government and the Federal Reserve Board have provided a significant amount of fiscal and monetary stimulus to the economy, and while the forecast expects interest rates to rise, the rates, by historical standards, still would be generally considered expansionary. The dollar's value is expected to decline, increasing the price of imports and allowing domestic producers greater pricing power. Furthermore, higher growth also will put substantial demands for additional energy in virtually every sector of the economy. With the petroleum refining sector operating at nearly 100% capacity even during the slowdown, global energy demand rising, and oil production somewhat strained in the near future, energy prices may be substantially greater than forecasted even without external shocks. Inflation is largely held down in the forecast by reasonably healthy growth in productivity, which may not be as strong as forecasted, and minimal wage growth, which may be stronger than forecasted. These factors may combine to produce substantial inflationary pressures. Significant inflation could be particularly problematic for the economy, not only resulting in more rapid and larger interest rate increases from the Federal Reserve but creating significant difficulties for the financial sectors that invested heavily in the refinancing boom of the last few years. These financial sectors are largely dependent upon interest payments locked in at low rates and inflation will result in those loans' being repaid with substantially devalued dollars.

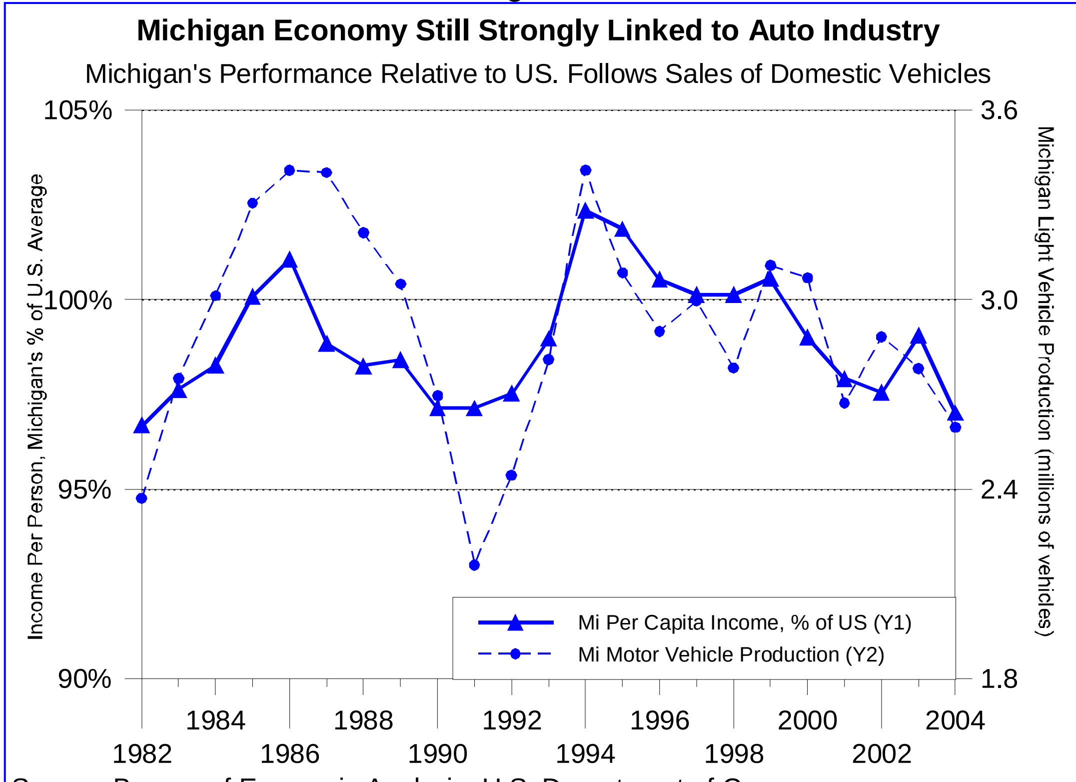
Michigan's Dilemma. While over the last five years Michigan's employment situation has fared worse than the national average, and, in some cases or time periods within that range, worse than any other state (Figure 9), Michigan's performance is not particularly inconsistent with other states when this State's economic composition is considered. Generally, states with higher manufacturing concentrations have experienced weaker job performance over the last five years, because of both the economic changes occurring in that sector and the dependence of other sectors within those states on manufacturing activity. As indicated earlier, productivity gains have made American manufacturing firms more profitable and more competitive, but have reduced the need for hiring additional employees to meet increased demand.

Figure 9



Following the mild reduction in consumption during the economic slowdown, rising interest rates, a savings rate that is almost zero, inflationary pressures, and substantial debt burdens are expected to exert a dragging force on any increases in demand over the forecast period. Vehicle sales are expected to remain fairly flat, while the domestic share of the sales mix is expected to decline. Michigan's economic fortunes have historically been very closely linked with sales of domestically produced light vehicles (Figure 10). Thus, it is unclear whether Michigan's employment situation would be much better even if productivity were not rising so rapidly in the motor vehicle sector.

Figure 10



Source: Bureau of Economic Analysis, U.S. Department of Commerce

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

THE FORECAST FOR STATE REVENUE

SENATE FISCAL AGENCY REVENUE ESTIMATES

This section of the Budget Status Report presents the Senate Fiscal Agency's (SFA's) estimates for General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue. The revised estimates for FY 2004-05 and FY 2005-06 are presented. The revised revenue estimates for both of these fiscal years include the estimates for baseline revenue, which measures what revenue would be without any changes in the State's tax structure from the previous fiscal year, and net revenue, which reflects the impact of enacted tax changes.

REVENUE OVERVIEW

As presented in the first section of this report, Michigan's economic performance so far in 2005 has been sluggish at best and earlier projections that economic activity would improve in the second half of 2005 have been scaled back due to growing concerns about the level of activity in the motor vehicle industry and other manufacturing industries. This downward revision in the rate of economic growth will be particularly evident in slower growth in the revenue generated by the sales and single business taxes. As a result, baseline GF/GP and SAF revenue is expected to increase 2.1% in FY 2004-05. The full-year impact of reducing the income tax rate to 3.9% on July 1, 2004, along with the final phase of the elimination of the estate tax and a reduction in the amount of tobacco tax revenue earmarked to the General Fund, will slow the growth in net GF/GP and SAF revenue to an estimated 0.1% in FY 2004-05, to $18.68 billion. This represents a $64.1 million downward revision in the GF/GP and SAF revenue estimate compared with the January 2005 consensus revenue estimate.

The pace of economic growth is expected to improve in 2006, but not as much as was forecast earlier; as a result, GF/GP and SAF baseline revenue will increase an estimated 2.9% in FY 2005-06. No additional reductions in the income tax rate are scheduled during FY 2005-06, the estate tax will be fully phased out, and the portion of the tobacco tax earmarked to the General Fund is scheduled to increase. As a result, net GF/GP and SAF revenue after tax changes will be up 3.2%, to an estimated $19.28 billion. This revised estimate is $178.0 million below the January 2005 consensus estimate. The revised revenue estimates for FY 2004-05 and FY 2005-06 are summarized in Table 3.

Historical Perspective

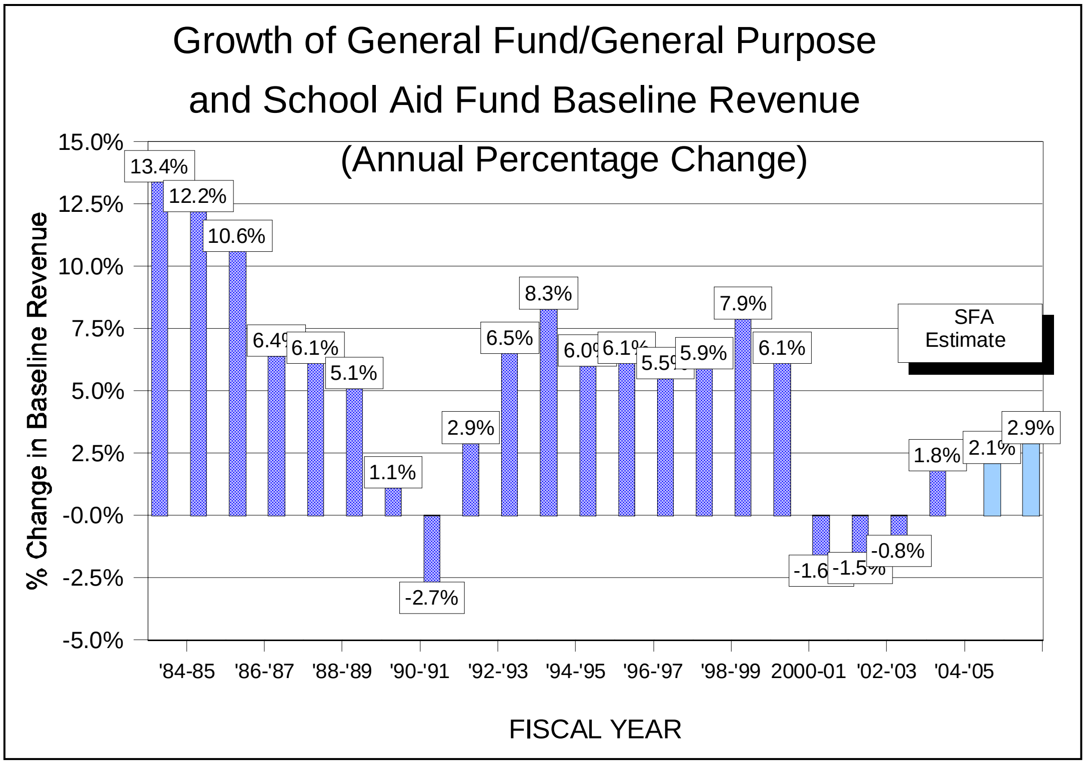
Baseline Revenue Growth. Figure 11 presents an historical overview of the percentage change in baseline GF/GP and SAF revenue since FY 1982-83. From FY 1982-83 to FY 1999-2000, baseline GF/GP and SAF revenue increased at an average annual rate of 6.2%. The period from FY 1992-93 to FY 1999-2000 marked a phase of unprecedented steady growth as baseline revenue growth did not fall below 5.5% during these eight years. This remarkable period of fairly strong, consistent revenue growth came to an abrupt end as the recession hit Michigan in the latter half of 2000. As a result, baseline revenue fell for three consecutive years: by 1.6% in FY 2000-01, 1.5% in FY 2001-02, and 0.8% in FY 2002-03. In FY 2003-04, GF/GP and SAF baseline revenue once again experienced positive growth of 1.8%. It is estimated that baseline GF/GP and SAF revenue will continue to grow at rates of 2.1% in FY 2004-05 and 2.9% in FY 2005-06.

Table 3

SENATE FISCAL AGENCY REVENUE ESTIMATES
FY 2004-05 AND FY 2005-06
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(Millions of Dollars)

	FY 2003-04 Final	FY 2004-05 Revised Est.	FY 2005-06 Revised Est.
GENERAL FUND/GENERAL PURPOSE			
Baseline Revenue	$7,992.9	$8,094.6	$8,276.1
Tax Changes Not In Baseline	49.3	(247.9)	(216.6)
Revenue After Tax Changes:			
Net Income Tax	3,977.8	3,994.8	4,072.1
Single Business Tax & Insurance Tax	2,057.9	1,994.5	2,036.4
Other Taxes	1,569.9	1,487.5	1,598.3
Total Taxes	7,605.6	7,476.8	7,706.8
Nontax Revenue	436.4	369.9	352.8
TOTAL GF/GP REVENUE	**$8,042.0**	**$7,846.7**	**$8,059.6**
SCHOOL AID FUND			
Baseline SAF	10,533.6	10,827.9	11,202.6
Tax Changes Not In Baseline	81.7	10.0	16.6
TOTAL SAF REVENUE	**$10,615.3**	**$10,837.9**	**$11,219.1**
BASELINE GF/GP AND SAF REVENUE	18,526.5	18,922.5	19,478.7
Tax & Revenue Changes	130.9	(237.9)	(200.0)
GF/GP & SAF REV. AFTER CHANGES	**$18,657.4**	**$18,684.6**	**$19,278.7**
ADDENDUM			
Sales Tax	6,473.5	6,615.8	6,894.0
		PERCENT CHANGE	
GENERAL FUND/GENERAL PURPOSE			
Baseline Revenue	1.6%	1.3%	2.2%
Revenue After Tax Changes:			
Net Income Tax	0.4	0.4	1.9
Single Business Tax & Insurance Tax	(0.8)	(3.1)	2.1
Other Taxes	(0.4)	(5.3)	7.4
Total Taxes	(0.1)	(1.7)	3.1
Nontax Revenue	26.0	(15.2)	(4.6)
TOTAL GF/GP REVENUE	**1.1%**	**(2.4)%**	**2.7%**
SCHOOL AID FUND			
Baseline SAF	2.7	2.8	3.5
TOTAL SAF REVENUE	**(0.9)**	**2.1**	**3.5**
BASELINE GF/GP AND SAF REVENUE	1.8	2.1	2.9
GF/GP & SAF REV. AFTER CHANGES	**(0.1)%**	**0.1%**	**3.2%**
ADDENDUM			
Sales Tax	0.8%	2.2%	4.2%

Figure 11



GF/GP and SAF Revenue Trends. Figure 12 presents the actual level of GF/GP and SAF revenue from ongoing sources during the period from FY 1996-97 through FY 2005-06 based on the revised estimate. During this time period, there has been a dramatic change in GF/GP revenue. From FY 1996-97 to FY 1999-2000, GF/GP revenue and SAF revenue were at very similar levels and funds were increasing. This changed beginning in FY 2000-01 due primarily to cuts in the income and single business tax rates, and the phased repeal of the estate tax. Revenue from the single business tax and the estate tax is earmarked to GF/GP revenue, while income tax revenue is earmarked to both GF/GP and SAF revenue; however, the SAF portion of the income tax was held harmless from the impact of the tax rate reductions. As a result, GF/GP revenue fell from $9.8 billion in FY 1999-2000 to $8.1 billion by FY 2002-03, a decline of 17.6% or $1.7 billion. In FY 2003-04, GF/GP revenue edged up slightly and it is expected to continue to increase modestly in FY 2004-05 and FY 2005-06 due to the completion of the scheduled tax cuts in 2004 and some anticipated improvement in the level of economic activity in 2005 and 2006. Despite these projected increases, GF/GP revenue from ongoing sources in FY 2005-06 will remain below the GF/GP revenue level in FY 1997-98. During the same time period, SAF earmarked revenue has been steadily increasing, as shown in Figure 12.

Income and Single Business Tax Revenue Declines. Much of the reduction in GF/GP revenue cited above is due to reductions in the income and single business tax revenue over the past five or six years. These revenue declines are due primarily to cuts in the income and single business tax rates, as well as the recent economic slowdown. The income tax rate was phased down from 4.4% in 1999 to 3.9% in 2004 and the single business tax rate was phased down from 2.3% in 1998 to 1.9% in 2002. As shown in Table 4, these tax cuts lowered income tax receipts from a peak level of $7.1 billion in FY 1999-2000 to $5.8 billion in FY 2002-03. Based on the revised estimates presented in this report, income tax revenue in FY 2005-06 is expected to total $6.1 billion, which is up from FY 2002-03, but is still $1.0 billion or 14.4% below the peak level in FY 1999-2000. Similarly, single business tax revenue peaked in FY 1998-99 at $2.4 billion and then fell steadily to $1.78 billion by FY 2004-05. Single business tax revenue is expected to edge up slightly to $1.8 billion in FY 2005-06. Compared with the peak level in FY 1998-99, single business tax revenue in FY 2005-06 will be down an estimated $551 million or 23.4%.

Figure 12

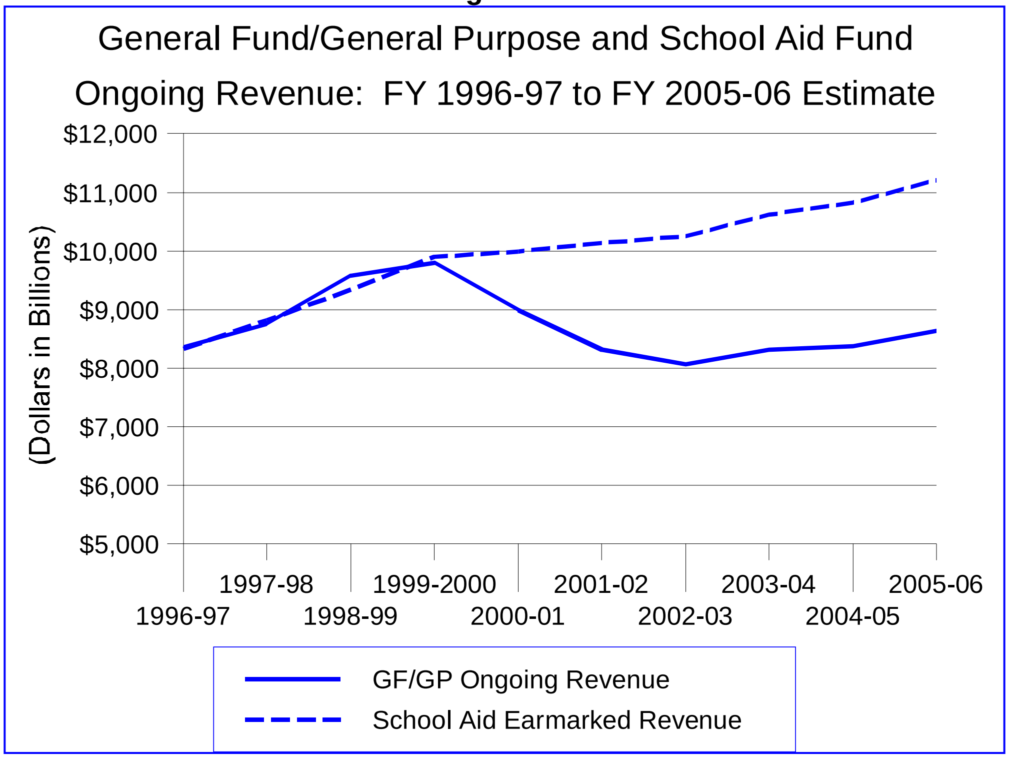


Table 4

MICHIGAN INCOME TAX AND SINGLE BUSINESS TAX REVENUE FY 1998-99 TO FY 2005-06 ESTIMATE (Millions of Dollars)		
Fiscal Year	**Net Income Tax**	**Single Business Tax**
1998-99	$6,904.9	$2,360.5
1999-00	7,135.6	2,324.9
2000-01	6,748.3	2,022.9
2001-02	6,095.2	1,983.8
2002-03	5,810.6	1,843.1
2003-04	5,872.8	1,827.6
2004-05	5,979.2	1,770.7
2005-06	6,110.3	1,809.2
Change: Peak Year to FY 2005-06	$(1,025.3)	($551.3)

REVISED REVENUE ESTIMATES FOR FY 2004-05

General Fund/General Purpose and SAF revenue is expected to total $18.68 billion in FY 2004-05, which is up a slight 0.1% from FY 2003-04. Compared with the January 2005 consensus estimate, this revised estimate is down $64.1 million. The revised GF/GP and SAF revenue estimates for FY 2004-05 are presented in Table 5.

Table 5

FY 2004-05 REVISED REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (Millions of Dollars)			Change from FY 2003-04		
	FY 2003-04 Final	**FY 2004-05 Revised Est.**	**Dollar Change**	**Percent Change**	**$ Change from Jan. 05 Consensus**
GEN'L FUND/GEN'L PURPOSE					
Baseline Revenue	$7,992.9	$8,094.6	$101.7	1.3%	$(29.0)
Tax Changes Not In Baseline	49.3	(247.9)	(297.1)	---	6.0
Revenue After Tax Changes:					
Personal Income Tax					
Gross Collections	7,467.0	7,639.9	172.9	2.3	101.8
Less: Refunds	(1,594.2)	(1,660.7)	(66.5)	4.2	0.0
Net Income Tax Collections	5,872.8	5,979.2	106.4	1.8	101.8
Less: Earmarking to SAF	(1,893.5)	(1,982.9)	(89.4)	4.7	(26.0)
Campaign Fund	(1.5)	(1.5)	0.0	0.0	0.0
Net Income Tax to GF/GP	$3,977.8	$3,994.8	$17.0	0.4%	$75.8
Other Taxes					
Single Business Tax	1,827.6	1,770.7	(56.9)	(3.1)	(85.0)
Sales	102.1	96.2	(5.9)	(5.8)	(20.9)
Use	877.4	920.1	42.7	4.9	7.3
Cigarette	242.7	119.1	(123.6)	(50.9)	(3.7)
Insurance Company Premiums	230.3	223.8	(6.5)	(2.8)	(15.5)
Telephone & Telegraph	101.3	95.3	(6.0)	(5.9)	0.0
Estate	75.5	36.0	(39.5)	(52.3)	(3.0)
Oil & Gas Severance	57.1	64.0	6.9	12.1	9.0
Casino	3.2	42.8	39.6	1,237.5	(0.1)
All Other	110.6	114.0	3.4	3.1	0.0
Subtotal Other Taxes	$3,627.8	$3,482.0	$(145.8)	(4.0)%	$(111.9)
Total Nontax Revenue	436.4	369.9	(66.5)	(15.2)	13.0
GF/GP REV. AFTER TAX CHNGS	**$8,042.0**	**$7,846.7**	**$(195.3)**	**(2.4)%**	**$(23.1)**
SCHOOL AID FUND					
Baseline Revenue	$10,533.6	$10,827.9	$294.3	2.8%	$(40.9)
Tax Changes Not In Baseline	81.7	10.0	(71.7)	(87.8)	(0.0)
Revenue After Tax Changes:					
Sales Tax	4,716.7	4,820.4	103.7	2.2	(67.5)
Lottery Revenue	644.9	639.0	(5.9)	(0.9)	(10.9)
State Education Property Tax	1,824.5	1,846.0	21.5	1.2	0.0
Real Estate Transfer Tax	317.5	323.0	5.5	1.7	13.0
Income Tax	1,893.5	1,982.9	89.4	4.7	26.0
Casino Tax	95.8	99.1	3.3	3.4	1.1
Other Revenue	1,122.4	1,127.6	5.1	0.5	(2.7)
SAF REV. AFTER TAX CHNGS	**$10,615.3**	**$10,837.9**	**$222.6**	**2.1%**	**$(41.0)**
BASELINE GF/GP AND SAF	**$18,526.5**	**$18,922.5**	**$396.0**	**2.1%**	**$(70.0)**
Tax & Revenue Changes	130.9	(237.9)	(368.8)	(281.7)	5.9
GF/GP & SAF REV. AFTER CHNGS	**$18,657.4**	**$18,684.6**	**$27.2**	**0.1%**	**$(64.1)**
SALES TAX	6,473.5	6,615.8	142.3	2.2	(92.0)

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

General Fund/General Purpose

General Fund/General Purpose revenue in FY 2004-05 will total an estimated $7.85 billion, which is down 2.4% from FY 2003-04. Most of this decrease from the FY 2003-04 revenue level will be due to three major factors: 1) a $120.0 million decline in the amount of tobacco tax revenue earmarked to the General Fund; 2) a $40.0 million decline in estate tax revenue due to the ongoing phased repeal of this tax; and 3) a $60.0 million decline in income tax revenue due primarily to the full-year impact of reducing the income tax rate to 3.9% on July 1, 2004. In addition, the single business tax revenue estimate is being revised downward by $85.0 million and the estimate of the portion of sales tax revenue going to GF/GP revenue is being lowered by $21.0 million. Partially offsetting these revenue declines will be a $40.0 million increase in casino wagering tax revenue due to the recent increase in the tax rate and an upward revision of $76.0 million in the GF/GP share of income tax revenue. Most of this increase in income tax revenue will be due to a large upward revision in income tax annual payments. This revised GF/GP revenue estimate is $23.1 million below the January 2005 consensus revenue estimate.

School Aid Fund

School Aid Fund revenue from earmarked taxes and the lottery is expected to total $10.84 billion in FY 2004-05, which is up 2.1% from FY 2003-04. This revised estimate is $41.0 million below the January 2005 consensus estimate. Most of this downward revision is due to a $92.0 million reduction in the estimate for total sales tax revenue. Given that the SAF receives 73.3% of total sales tax revenue, this downward revision in sales tax revenue will reduce SAF revenue by $68.0 million. In addition, the estimate of net lottery revenue is being reduced by $11.0 million. Partially offsetting these revenue reductions will be an upward revision of $26.0 million in the SAF share of gross income tax revenue, and an upward revision of $13.0 million in real estate transfer tax revenue. The SAF revenue estimate for FY 2004-05 is summarized in Table 5.

REVISED REVENUE ESTIMATES FOR FY 2005-06

The modest improvement in the level of economic activity forecast for Michigan's economy in 2005 and 2006, coupled with the completion of the major scheduled tax reductions, will help boost revenue collections in FY 2005-06. It is estimated that GF/GP and SAF revenue will total $19.28 billion in FY 2005-06. This estimate represents an increase of 3.2%, or $594.0 million from the FY 2004-05 revised estimate, as presented in Table 6. Total GF/GP and SAF baseline revenue will increase at a projected rate of 2.9%, which will mark its strongest increase since FY 1999-2000.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated $8.06 billion in FY 2005-06, which is up 2.7%, or $213.0 million from the revised estimate for FY 2004-05. This increase will be due to revenue gains in the income, single business, tobacco, and use taxes. These increases will be offset in part by anticipated declines in the estate and utility property taxes, as well as the revenue generated from nontax sources. This revised estimate for FY 2005-06 is down $96.7 million from the January consensus estimate. On a baseline basis, GF/GP revenue is expected to increase 2.2% in FY 2005-06.

Table 6

FY 2005-06 REVISED REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (Millions of Dollars)			Change From FY 2004-05		
	FY 2004-05 Revised Est.	FY 2005-06 Revised Est.	Dollar Change	Percent Change	$ Change from Jan. 05 Consensus
GEN'L FUND/GEN'L PURPOSE					
Baseline Revenue	$8,094.6	$8,276.1	$181.5	2.2%	$(98.4)
Tax Changes Not In Baseline	(247.9)	(216.6)	31.3	(12.6)	1.7
Revenue After Tax Changes:					
Personal Income Tax					
Gross Collections	7,639.9	7,845.3	205.4	2.7	(1.0)
Less: Refunds	(1,660.7)	(1,735.0)	(74.3)	4.5	0.0
Net Income Tax Collections	5,979.2	6,110.3	131.1	2.2	(1.0)
Less: Earmarking to SAF	(1,982.9)	(2,036.7)	(53.9)	2.7	0.3
Campaign Fund	(1.5)	(1.5)	0.0	0.0	0.0
Net Income Tax to GF/GP	$3,994.8	$4,072.1	$77.2	1.9%	$(0.7)
Other Taxes					
Single Business Tax	1,770.7	1,809.2	38.5	2.2	(96.0)
Sales	96.2	100.1	3.9	4.1	(12.7)
Use	920.1	960.0	39.9	4.3	9.7
Cigarette	119.1	232.2	113.2	95.0	(1.4)
Insurance Company Premiums	223.8	227.2	3.4	1.5	(15.8)
Telephone & Telegraph	95.3	79.3	(16.0)	(16.8)	0.0
Estate	36.0	10.0	(26.0)	(72.2)	0.0
Oil & Gas Severance	64.0	58.0	(6.0)	(9.4)	9.0
Casino	42.8	44.1	1.3	3.0	1.2
All Other	114.0	114.5	0.5	0.4	0.0
Subtotal Other Taxes	$3,482.0	$3,634.7	$152.7	4.4%	$(106.0)
Total Nontax Revenue	369.9	352.8	(17.1)	(4.6)	10.0
GF/GP REV. AFTER TAX CHNGS	**$7,846.7**	**$8,059.6**	**$212.8**	**2.7%**	**$(96.7)**
SCHOOL AID FUND					
Baseline Revenue	10,827.9	11,202.6	374.6	3.5	(81.6)
Tax Changes Not In Baseline	10.0	16.6	6.6	66.3	(0.1)
Revenue After Tax Changes:					
Sales Tax	4,820.4	5,023.4	203.0	4.2	(85.3)
Lottery Revenue	639.0	645.0	6.0	0.9	(10.9)
State Education Property Tax	1,846.0	1,943.9	97.9	5.3	0.0
Real Estate Transfer Tax	323.0	325.0	2.0	0.6	13.0
Income Tax	1,982.9	2,036.7	53.9	2.7	(0.3)
Casino Tax	99.1	102.1	3.0	3.0	2.1
Other Revenue	1,127.6	1,143.0	15.5	1.4	(0.3)
SAF REV. AFTER TAX CHNGS	**$10,837.9**	**$11,219.1**	**$381.2**	**3.5%**	**$(81.7)**
BASELINE GF/GP AND SAF	**$18,922.5**	**$19,478.7**	**$556.2**	**2.9%**	**$(180.0)**
Tax & Revenue Changes	(237.9)	(200.0)	37.9	---	1.6
GF/GP & SAF REV. AFTER CHNGS	**$18,684.6**	**$19,278.7**	**$594.0**	**3.2%**	**$(178.4)**
SALES TAX	6,615.8	6,894.0	278.2	4.2	(116.0)

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

Income Tax. Income tax revenue going to the General Fund will total an estimated $4.07 billion, which represents an increase of 1.9% from the FY 2004-05 level. This increase will be due to modest improvements in earnings and employment, along with the fact that the income tax rate will not be reduced from the previous year's level for the first time in six years. This estimate for income tax revenue also reflects an increase in the personal exemption, which is indexed to changes in the consumer price index. Based on the estimate for the consumer price index, it is estimated that the personal exemption will increase $100 to $3,300 on January 1, 2006. This will reduce income tax revenue about $25.0 million in FY 2005-06. Compared with the January consensus revenue estimate, this revised estimate for GF/GP income tax revenue is practically unchanged.

Single Business Tax. The major components of the single business base, which includes compensation paid to workers, business profits, and gross receipts, all are expected to improve in FY 2005-06 due to the forecasted modest increase in the pace of economic activity. As a result, single business tax revenue is expected to increase 2.2% to $1.81 billion in FY 2005-06; however, this represents a $96.0 million downward revision from the January 2005 consensus revenue estimate.

Estate Tax. The estate tax was totally repealed for deaths occurring after December 31, 2004, but because the tax is due nine months after the date of death, estate tax revenue will continue to be collected through FY 2004-05, and to the extent that some returns are filed late or need to be amended, it is expected that a small amount of about $10 million also will be collected in FY 2005-06. This estimate is unchanged from the January estimate.

Tobacco Taxes. GF/GP tobacco tax revenue is expected to total $232.2 million in FY 2005-06, which represents a 95.0% increase from the FY 2004-05 level. This increase will result from a scheduled increase in the portion of the tax earmarked to GF/GP revenue, which will generate an estimated $113.2 million increase in GF/GP revenue.

School Aid Fund

School Aid Fund revenue from all earmarked taxes and net lottery revenue will total an estimated $11.22 billion in FY 2005-06. This represents a 3.5%, or $381 million increase from the revised estimate for FY 2004-05. This increase reflects a general improvement in most of the taxes that are earmarked to the SAF. Compared with the January 2005 consensus revenue estimate, this revised estimate of SAF revenue is down $81.7 million. Most of this downward revision is due to anticipated slower growth in sales tax revenue.

Sales Tax. Sales tax collections will total an estimated $6.89 billion in FY 2005-06, which represents an increase of 4.2% from the revised estimate for FY 2004-05. Given that 73.3% of total sales tax revenue is earmarked to the SAF, sales tax revenue going to the SAF will total $5.0 billion in FY 2005-06. This revised estimate for SAF sales tax revenue is $85.3 million below the January consensus revenue estimate.

State Education Property Tax. The State education property tax is expected to generate $1.95 billion in FY 2005-06, representing an increase of 5.3%. This estimate is unchanged from the January consensus revenue estimate.

Lottery. The Club Keno lottery game is expected to continue to account for a larger percentage of total lottery sales, but given that this game retains a smaller share of its sales in net earnings for the SAF compared with all other games, it is estimated that lottery revenue will total $645 million in FY 2005-06, which is down $11.0 million from the January 2005 consensus revenue estimate.

SENATE FISCAL AGENCY BASELINE REVENUE FORECAST HISTORY

The history of the Senate Fiscal Agency's and consensus estimates for GF/GP and SAF baseline revenue for FY 2004-05 and FY 2005-06 is presented in Tables 7 and 8. Baseline estimates are used to track the forecast history for these two fiscal years in order to avoid the wide swings in revenue estimates that occur when tax changes are enacted. Additionally, in order to provide an accurate comparison, all of the previous baseline estimates made for FY 2004-05 and FY 2005-06 have been adjusted to reflect a baseline based on the FY 2003-04 tax structure.

The initial GF/GF and SAF baseline revenue estimate for FY 2004-05 was made in January 2004 at $19.26 billion, as shown in Table 7. This estimate was left essentially unchanged in May 2004, but in December 2004, the estimate was lowered to $18.96 billion. In January 2005, the estimate was increased $35 million to $18.99 billion. The Senate Fiscal Agency's revised estimates, presented in this report, decreased GF/GP and SAF baseline revenue $70.0 million or 0.4%; however, compared with the initial estimate made in December 2002, the revised estimate of GF/GP and SAF baseline revenue for FY 2004-05 is down $339.0 million, or 1.8%.

The SFA's initial estimate of baseline GF/GP and SAF revenue for FY 2005-06, made in January 2005, was $19.64 billion, as shown in Table 8. The estimate was then raised $20.0 million to $19.66 billion at the January 2005 Consensus Revenue Estimating Conference. The SFA's revised estimate presented in this report lowered the GF/GP and SAF baseline revenue estimate by $180.0 million to $19.48 billion. Compared with the initial estimate of GF/GP and SAF revenue for FY 2005-06, the SFA's latest revised estimate is down $160.0 million, or 0.8%.

Table 7
CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2004-05 (Millions of Dollars)

Forecast Date	GF/GP	SAF	Total
January 10, 2004	$8,212.7	$11,048.3	$19,261.0
January 14, 2004[a)]	8,241.5	11,013.3	19,254.9
May 14, 2004	8,283.5	10,984.2	19,267.7
May 18, 2004[a)]	8,289.4	10,969.6	19,259.0
December 1, 2004	8,053.9	10,785.0	18,838.9
December 3, 2004[a)]	8,095.1	10,862.8	18,957.9
January 7, 2005	8,125.4	10,866.8	18,992.0
January 13, 2005[a)]	8,123.6	10,868.8	18,992.4
May 16, 2005	8,094.6	10,827.9	18,922.5
Change From Previous Estimate:			
Dollar Change	$(29.0)	$(40.9)	$(69.9)
Percent Change	(0.4)%	(0.4)%	(0.4)%
Change From Initial Estimate:			
Dollar Change	$(118.1)	$(220.4)	$(338.5)
Percent Change	(1.4)%	(2.0)%	(1.8)%

a) Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.
Note: Baseline base year equals FY 2003-04.

Table 8

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2005-06 (Millions of Dollars)			
Forecast Date	**GF/GP**	**SAF**	**Total**
January 7, 2005	$8,367.2	$11,271.5	$19,638.7
January 13, 2005[a)]	8,374.5	11,284.1	19,658.6
May 16, 2005	8,276.1	11,202.6	19,478.7
Change From Previous Estimate:			
Dollar Change	$(98.4)	$(81.5)	$(179.9)
Percent Change	(1.2)%	(0.7)%	(0.9)%
Change From Initial Estimate:			
Dollar Change	$(91.1)	$(68.9)	$(160.0)
Percent Change	(1.1)%	(0.6)%	(0.8)%

a) Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.

Note: Baseline base year equals FY 2003-04.

BUDGET STABILIZATION FUND

The Counter-Cyclical Budget and Economic Stabilization Fund (BSF) was established by Public Act (P.A.) 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% or higher for a calendar quarter, up to 5% of the BSF 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 9 presents the recent history of the BSF in terms of transfers into and out of the Fund, interest earnings, and year-end balances. Also presented in this table are the estimates for FY 2004-05 and FY 2005-06. The BSF year-end balance as a percentage of GF/GP and SAF revenue is shown in Figure 13, and the estimated economic stabilization trigger calculations for FY 2004-05 and FY 2005-06 are presented in Table 10.

FY 2003-04

The BSF began FY 2003-04 with a zero balance. Public Act 309 of 2004 required that any balance in the General Fund/General Purpose budget at the end of FY 2003-04 be transferred to the BSF. Based on the final budget figures for FY 2003-04, the GF/GP budget ended with a balance of $81.3 million and this amount was transferred to the BSF.

Table 9

ECONOMIC AND BUDGET STABILIZATION FUND
TRANSFERS, EARNINGS, AND FUND BALANCE
FY 1977-78 TO FY 2005-06 ESTIMATE
(Millions of Dollars)

Fiscal Year	Pay-In	Interest Earned	Pay-Out	Fund Balance
1977-78	$108.7	$6.2	$0.0	$114.9
1978-79	104.1	22.1	0.0	241.1
1979-80	0.0	32.1	263.7	9.5
1980-81	0.0	9.2	16.3	2.4
1981-82	0.0	0.6	0.0	3.0
1982-83	0.0	0.2	0.0	3.2
1983-84	0.0	0.2	0.0	3.4
1984-85	340.9	30.8	34.2	340.9
1985-86	30.6	28.2	14.7	385.1
1986-87	0.0	24.1	24.8	384.4
1987-88	0.0	29.2	20.4	393.1
1988-89	0.0	38.0	11.9	419.2
1989-90	0.0	35.8	69.9	385.1
1990-91	0.0	27.1	230.0	182.2
1991-92	0.0	8.1	170.1	20.1
1992-93	282.6	0.7	0.0	303.4
1993-94	460.2	11.9	0.0	775.5
1994-95	260.1	57.7	90.4	1,003.0
1995-96	91.3	59.2	0.0	1,153.6
1996-97	0.0	67.8	69.0	1,152.4
1997-98	0.0	60.1	212.0	1,000.5
1998-99	244.4	51.2	73.7	1,222.5
1999-00	100.0	73.9	132.0	1,264.4
2000-01	0.0	66.7	337.0	994.2
2001-02	0.0	20.8	869.8	145.2
2002-03	9.1	1.8	156.1	0.0
2003-04	81.3	0.0	0.0	81.3
Estimates:				
2004-05	0.0	2.4	81.3[a)]	2.4
2005-06	0.0	0.1	0.0	2.5

a) Transfer to General Fund is component of current budget agreement that is being implemented through S.B. 438.

Figure 13

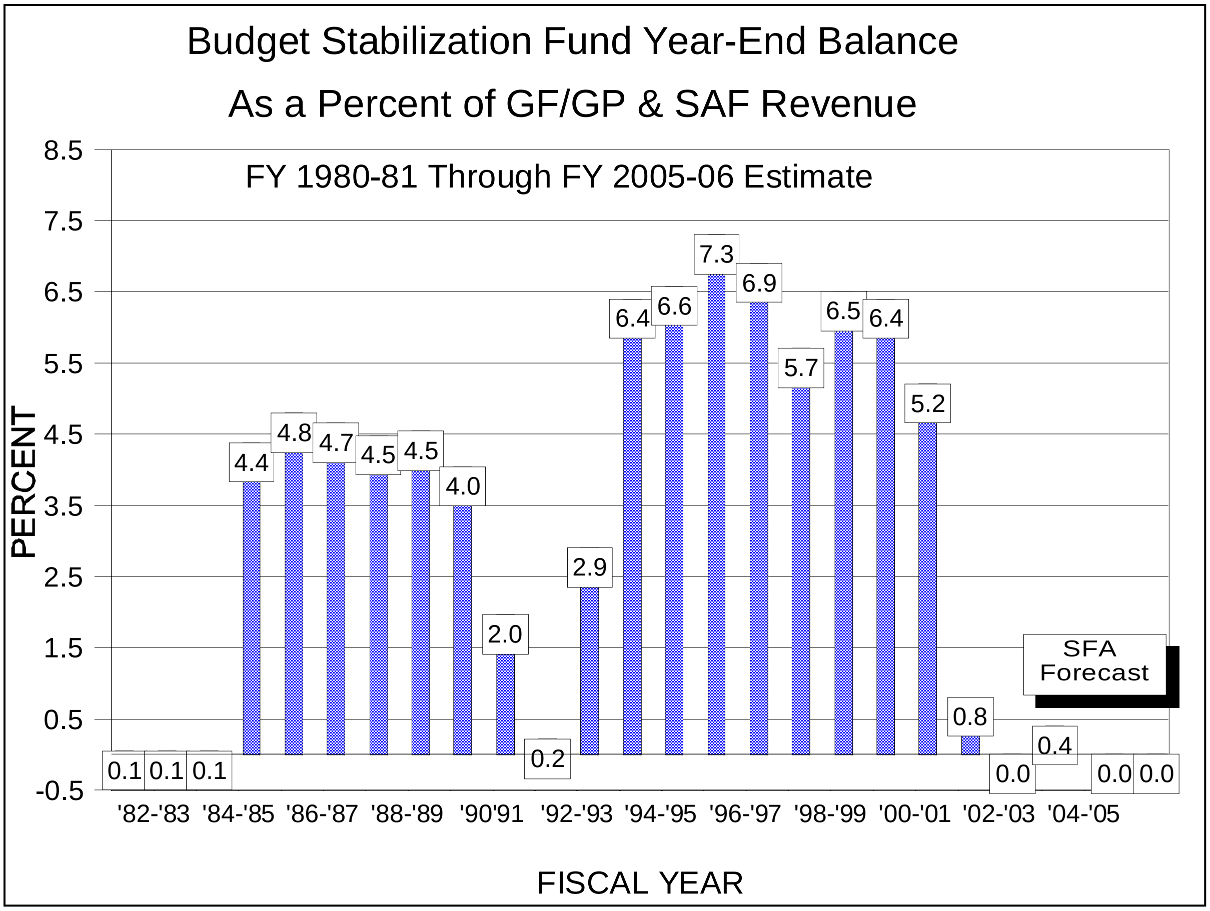


Table 10

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

	CY 2003	CY 2004	CY 2005
Michigan Personal Income (MPI)	$314,346	$323,142	$337,142
Less: Transfer Payments	46,901	49,101	52,089
Subtotal	$267,445	$274,041	$285,053
Divided by: Detroit CPI, 12 months average ending June 30 (1982-84=1)	1.814	1.837	1.877
Equals: Real Adjusted MPI	$147,434	$149,179	$151,907
Percent Change from Prior Year		1.18%	1.83%
Excess Over 2%		0.00%	0.00%
		FY 2003-04	**FY 2004-05**
Multiplied by: Estimated GF/GP Revenue		$8,042	$7,847
		FY 2004-05	**FY 2005-06**
Equals: Transfer to the BSF		$0	$0

FY 2004-05

Based on the SFA's revised estimates for personal income, transfer payments, and the Detroit Consumer Price Index, it is estimated that the BSF budget stabilization formula will not trigger any pay in to or pay out from the BSF in FY 2004-05, as shown in Table 10 According to the budget agreement currently being implemented, the $81.3 million deposited into the BSF in FY 2003-04 will be withdrawn from the BSF at the end of FY 2004-05 and deposited into the General Fund. This withdrawal from the BSF has been proposed in Senate Bill 438. It is estimated, however, that $2.4 million will be realized in interest earnings on the $81.3 million during FY 2004-05. Therefore, after the $81.3 million is transferred out of the BSF at the end of FY 2004-05, there will be a remaining balance in the BSF equal to an estimated $2.4 million, as shown in Table 10.

FY 2005-06

For calendar year 2005, the SFA estimates that real Michigan personal income less transfer payments will be less than 2.0%, so this formula will indicate that no transfer should be made into the BSF. Therefore, it is estimated that the BSF will end FY 2005-06 with a balance of $2.5 million, which equals the beginning balance of $2.4 million plus interest earnings of $0.1 million, as shown in Table 10.

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 2002-03, when State revenue was $4.2 billion below the revenue limit. In FY 1994-95, State revenue exceeded the revenue limit, for the first time, by $109.6 million, as a result of the new State revenue generated as part of the school financing reform that was enacted in 1994. In FY 1995-96, FY 1996-97, and 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 2002-03, revenue fell well below the revenue limit. Based on the SFA's latest economic forecast and revenue estimates, it is estimated that revenue subject to the revenue limit remained well below the limit in FY 2003-04, and will continue to remain well below the revenue limit in FY 2004-05 and FY 2005-06.

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. This calculation equals 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 instance, in FY 2002-03, State government revenue could not exceed 9.49% of personal income for calendar year 2001. Given that Michigan personal income for 2001 equaled $297,609 million, the revenue limit for FY 2002-03 was $28,243 million.

State government revenue subject to the limit includes total State government tax revenue and all other State government revenue, such as fees, licenses, 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%, the excess revenue must be deposited into the Budget Stabilization Fund. If the revenue limit is exceeded by 1% or more, the excess revenue must be refunded to income tax and single business tax (SBT) payers, on a pro rata basis. These refunds would be given to taxpayers who file an annual income tax or SBT 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 final revenue for FY 2003-04, and the SFA's revised revenue estimates for FY 2004-05 and FY 2005-06, Table 11 provides a summary of the estimates of the State's compliance with the revenue limit for each of these fiscal years.

FY 2003-04

While FY 2003-04 has ended and many of the final accounting reports have been released, the report detailing the State's situation regarding compliance with the constitutional revenue limit has not yet been released. Therefore, based on final State government revenue for FY 2003-04, it is estimated that revenue subject to the revenue limit equaled $24,087.8 million. Based on data from the U.S. Department of Commerce, Michigan's personal income in 2002 equaled $303,745 million, which means that the revenue limit equaled $28,825.4 million. As a result, it is estimated that revenue subject to the revenue limit fell below the revenue limit by $4.7 billion, or 16.4%, in FY 2003-04.

FY 2004-05

Based on the SFA's revised revenue estimates for FY 2004-05, it is estimated that revenue subject to the revenue limit will total $24,090.7 million. The revenue limit will equal an estimated $29,842.3 million, based on the U.S. Department of Commerce's estimate of Michigan personal income in 2003. As a result, revenue is expected to fall below the revenue limit by almost $5.8 billion, or 19.3%, in FY 2004-05.

FY 2005-06

In FY 2005-06, it estimated that revenue subject to the revenue limit will total $24,834.1 million, based on the SFA's revised revenue estimates. The revenue limit will equal an estimated $30,666.2 million, based on the SFA's estimate of personal income in 2004. As a result, it is estimated that revenue subject to the revenue limit will fall below the revenue limit by $5.8 billion, or 19.0%, in FY 2005-06.

Table 11

STATE'S COMPLIANCE WITH CONSTITUTIONAL REVENUE LIMIT SECTION 26 OF ARTICLE IX OF THE STATE CONSTITUTION (Millions of Dollars)	FY 2002-03 Final	FY 2003-04 Estimate	FY 2004-05 Estimate	FY 2005-06 Estimate
Revenue Subject to Limit:				
Revenue:				
General Fund/General Purpose (baseline)	$7,943.6	$7,992.9	$8,094.6	$8,276.1
Revenue Sharing (baseline)	1,598.0	1,580.6	1,622.3	1,680.5
School Aid Fund (baseline)	10,255.6	10,533.6	10,827.9	11,202.6
Transportation Funds	2,243.3	2,279.3	2,216.2	2,307.3
Other Restricted Non-Federal Aid Revenue	1,600.2	1,602.6	1,602.6	1,602.6
Adjustments:				
GF/GP Federal Aid	(47.2)	(32.0)	(35.0)	(35.0)
GF/GP Balance Sheet Adjustments	8.9	49.3	(247.9)	(216.6)
SAF Balance Sheet Adjustments	459.2	81.5	10.0	16.6
Total Revenue Subject to Limit:	$24,061.6	$24,087.8	$24,090.7	$24,834.1
Revenue Limit:				
Personal Income:				
Calendar Year	**CY 2001**	**CY 2002**	**CY 2003**	**CY 2004**
Amount	$297,609	$303,745	$314,460	$323,142
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%
Revenue Limit	$28,243.1	$28,825.4	$29,842.3	$30,666.2
1% of Limit	282.4	288.3	298.4	306.7
Amount Under (Over) Limit	$4,181.5	$4,737.6	$5,751.6	$5,832.1

ESTIMATE OF YEAR-END BALANCES

Based on the economic and revenue estimates outlined earlier in this report, along with enacted and projected State appropriations, the Senate Fiscal Agency (SFA) has revised its estimates of the FY 2004-05 and FY 2005-06 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) year-end balances. This section of the report discusses the year-end balances, and addresses the issues that members of the Legislature are facing as they attempt to complete action on the FY 2005-06 State budget.

Table 12 provides a summary of the SFA's estimates of the FY 2004-05 and FY 2005-06 year-end balances of the GF/GP and SAF budgets. Based on the current SFA revenue estimates and SFA assumptions concerning appropriations, the FY 2004-05 GF/GP budget is in deficit by $76.4 million and the FY 2004-05 SAF budget is in deficit by $17.1 million. Assuming passage of the FY 2005-06 appropriations and tax policy changes as recommended by the Governor on February 10, 2005, the FY 2005-06 GF/GP budget is in deficit by $108.5 million and the FY 2005-06 SAF budget is in deficit by $105.5 million. These projected FY 2004-05 and FY 2005-06 budget deficits mean that action will have to be taken by the Governor and the Legislature to eliminate the projected deficits.

Table 12

GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND ESTIMATED YEAR-END BALANCES (Millions of Dollars)

	FY 2004-05 Estimate	FY 2005-06 Estimate
General Fund/General Purpose	$(76.4)	$(108.5)
School Aid Fund	$(17.1)	$(105.5)

FY 2004-05 YEAR-END BALANCE

During March 2005, Governor Granholm and the Legislature developed and approved a comprehensive proposal to eliminate a projected $380.6 million FY 2004-05 GF/GP budget deficit. This budget balancing plan included appropriation reductions, revenue shifts from GF/GP revenue to available Federal and State Restricted revenue, and increased revenue from a transfer from the Budget Stabilization Fund. The enactment of this proposal eliminated the projected GF/GP budget deficit. Based on the revised SFA revenue estimates and projections of additional supplemental appropriation needs in the State Medicaid program and appropriation lapses, both the FY 2004-05 GF/GP and SAF budgets are now back in deficit. These projected deficits are modest in size, but will have to be addressed by the Governor and the Legislature in the weeks ahead.

Table 13 provides a detailed summary of the SFA estimate of a $76.4 million FY 2004-05 GF/GP budget deficit. There are three factors that contribute to this budget deficit. The first is the fact that the SFA current estimate of ongoing GF/GP revenue has been reduced by $23.1 million below the January 2005 consensus revenue estimate upon which the March 2005 budget-balancing proposal was based. The second factor is that the SFA has reduced the estimate of the amount of FY 2004-05 GF/GP revenue that will be generated from the sale of surplus State property from the prior estimate of $83.4 million to a revised estimate of $53.0 million. This change results from revised estimates concerning the sale of surplus State property in Northville and the amount of revenue to be generated from the sale of surplus local school district forestland. The third factor is a projected GF/GP supplemental appropriation of $70.0 million for the State Medicaid program. This supplemental will be needed to fully fund the unexpected growth in the Medicaid caseloads above what has been built into the Department of Community Health budget to date. These three factors are somewhat offset by the assumption of $50.0 million of net FY 2004-05 GF/GP appropriation lapses.

Table 13
FY 2004-05
GENERAL FUND/GENERAL PURPOSE
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	May 2005 SFA Estimate
Revenue	
Beginning Balance	$ 0.0
Ongoing Revenue:	
Revised Revenue Estimate	7,846.7
Revenue Sharing Adjustments	508.5
Adjustment of Interfund Borrowing Costs	20.0
Pharmaceutical Tax Credit Adjustment	10.0
Subtotal Ongoing Revenue	$8,385.2
Non-ongoing Revenue:	
Sale of Surplus State Property	
Northville	40.0
Fairlawn Center	2.0
Macomb/Oakland Center	3.4
Detroit Plaza Building	6.3
Detroit Labor Building	1.3
Surplus School District Forestland	0.0
Subtotal Sale of Surplus Property	53.0
Restricted Fund Transfers to General Fund	15.5
Withdrawal from Budget Stabilization Fund (S.B. 438)	81.3
Escheats Enforcement	2.5
Subtotal Non-ongoing Revenue	152.3
Total Revenue	**$8,537.5**
Expenditures	
Initial Enacted Appropriations	$8,699.4
Supplemental Appropriations (PA 352 of 2004)	43.0
Supplemental Appropriations (PA 358 of 2004)	8.5
Supplemental Appropriations (PA 518 of 2004)	99.5
Supplemental Appropriations (PA 468 of 2004)	0.2
Supplemental Appropriations (PA 10 of 2005)	0.003
Supplemental Appropriations (PA 11 of 2005)	40.0
Executive Order 2005-7 (GF/GP Reductions)	(284.1)
Executive Order 2005-7 (Lapses/Revenue Shifts)	(11.9)
Projected Medicaid Supplemental	70.0
Lapse from Building Occupancy Charges	(0.7)
Projected Year-End Appropriation Lapses	(50.0)
Total Expenditures	**$8,613.9**
Year-End Balance	**$(76.4)**

The FY 2004-05 GF/GP budget deficit of $76.4 million will have to be addressed by the Governor and the Legislature in the weeks ahead. The actual level of the deficit will be determined once the FY 2004-05 GF/GP consensus revenue estimate is agreed to on May 19, 2005, and there is agreement on the final level of the Medicaid supplemental appropriation. The SFA estimate of a $76.4 million GF/GP budget deficit equals 0.9% of projected GF/GP expenditures.

Table 14 provides a summary of the SFA estimate of a $17.1 million FY 2004-05 SAF budget deficit. This deficit results from a $41.0 million downward revision in the estimate of SAF revenue from the January 2005 consensus revenue estimate. This revenue estimate revision turned a projected $23.8 million FY 2004-05 SAF budget surplus into a $17.1 million SAF budget deficit.

Table 14

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

	May 2005 SFA Estimate
Revenue	
Beginning Balance	$ 74.1
Ongoing Estimated Restricted Revenue	10,837.9
Other Revenue Adjustments:	
GF/GP Grant	165.2
GF/GP Grant (PA 518 of 2004)	99.5
GF/GP Grant (EO 2005-03)	(99.5)
Federal Aid	1,353.6
Payment in Lieu of Taxes	(2.0)
Subtotal Other Revenue Adjustments	1,516.8
Total Estimated Revenue	**$12,428.8**
Expenditures	
Enacted Appropriations	$12,527.4
School Bond Loan Fund Reform Lapse	(41.1)
Reduction of Homestead Audit Savings	26.6
Reduction of Personal Property Tax Audit Savings	14.5
Special Education Cost Shift	0.0
Enhanced Tax Enforcement Savings	(3.5)
Appropriation Lapse (Pupils/Taxable Value)	(78.0)
Total Estimated Expenditures	**$12,445.9**
Projected Year-End Balance	**$(17.1)**

Based on provisions of the State School Aid Act, this projected SAF budget deficit would be automatically eliminated by a pro-rata reduction of $10 per pupil in State School Aid payments to local school districts, public school academies, and intermediate school districts. The Governor and the Legislature could take alternative action to eliminate this projected deficit that would not involve this automatic pro-rata reduction of $10 per pupil. This alternative action could include increased revenue appropriated in the SAF or specific reductions in other SAF appropriations.

FY 2005-06 BUDGET BALANCES

On February 10, 2005, Governor Granholm presented her recommendations to the Legislature for the FY 2005-06 GF/GP and SAF budgets. The Legislature is currently in the process of acting on these budget recommendations. This process is expected to be completed by July 1, 2005. The Governor's budget recommendations were based on the consensus revenue estimate agreed to in January 2005. The Governor's budget also included revenue generated from proposed State tax increases and proposed fee increases. The Legislature has yet to take action on these revenue increases included in the Governor's budget. Due to downward revisions in the estimates of FY 2005-06 GF/GP and SAF revenue, the Governor's budget recommendations will have to be adjusted by the

Legislature to ensure that an FY 2005-06 budget is balanced between estimated revenue and enacted appropriations.

Table 15 provides a summary of the SFA's estimate of a $108.5 million FY 2005-06 GF/GP budget deficit. This estimate assumes that the Legislature enacts FY 2005-06 GF/GP appropriations recommended by the Governor and that the Legislature enacts all of the revenue increases proposed by the Governor. This deficit results from a $96.7 million reduction in the GF/GP revenue estimate and a $15.6 million revenue reduction resulting from a revision in savings from freezing revenue sharing payments at the current-year level. The SFA estimate of a $108.5 million FY 2005-06 GF/GP budget deficit equals 1.2% of recommended GF/GP appropriations.

Table 15

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

	May 2005 SFA Estimate
Revenue	
Beginning Balance	$ 0.0
Revised Revenue Estimate	8,059.6
Other Revenue Adjustments:	
Revenue Sharing Freeze	380.5
County Revenue Sharing Suspension	182.3
Interfund Borrowing Rates Cap	20.0
Nonuse of SBT Pharmaceutical Credit	10.0
Land Sales	10.0
Escheats Revenue	10.0
Subtotal Revenue	$8,672.4
Governor's Recommended Revenue Adjustments:	
Tax Policy Changes	64.0
Agriculture Equine Industry Fund Transfer	6.1
Comprehensive Transportation Fund Transfer	11.1
Liquor License Fee Increase	13.0
Subtotal Governor's Recommended Revenue Adjustments	94.2
Total Estimated Revenue	**$8,766.6**
Expenditures	
Governor's Appropriation Recommendations	**$8,875.1**
Projected Year-End Balance	**$(108.5)**

Table 16 provides a summary of the SFA's estimate of a $105.5 million FY 2005-06 SAF budget deficit. This estimate assumes that the Legislature enacts the FY 2005-06 SAF appropriations recommended by the Governor and that the Legislature enacts all of the SAF revenue increases included in the Governor's budget. This deficit results from the combination of an $81.7 million reduction in the SAF revenue estimate and the elimination of an assumed $23.7 million SAF balance carried forward from FY 2004-05. The SFA estimate of a $105.5 million FY 2005-06 SAF budget deficit equals 0.8% of recommended SAF appropriations.

Table 16

FY 2005-06 BUDGET SCHOOL AID FUND REVENUE, EXPENDITURES, AND YEAR-END BALANCE (Millions of Dollars)	May 2005 SFA Estimate
Revenue	
Beginning Balance	$ 0.0
Revised Revenue Estimate	11,219.1
Other Revenue Adjustments:	
Payments in Lieu of Taxes	(2.0)
GF/GP Grant	20.2
Governor's Recommended Tax Policy Changes	47.9
School Bond Loan Fund Reform Proposal	44.5
Federal Revenue	1,374.1
Subtotal Other Revenue Adjustments	1,484.7
Total Estimated Revenue	**$12,703.8**
Expenditures	
Governor's Appropriation Recommendation	**$12,809.3**
Projected Year-End Balance	**$(105.5)**

The final legislative action on the FY 2005-06 State budget over the next few weeks is likely to hinge on several key decisions. The first is what action that the Legislature takes on any of the revenue and fee increases included in the Governor's budget. These revenue and fee increases total $141.0 million between the GF/GP and SAF budgets. The second decision involves restoration of any of the recommended appropriation reductions included in the Governor's budget. The final decision will likely involve additional appropriation reductions beyond the reductions included in the Governor's budget. The Legislature will face many major decisions over the next few weeks as it attempts to meet its constitutional obligation of passing a balanced FY 2005-06 State budget.