



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

**FY 2009-10, FY 2010-11
AND FY 2011-12**

December 21, 2010



THE SENATE FISCAL AGENCY

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EXECUTIVE SUMMARY

ECONOMIC FORECAST

The U.S. economy, as measured by inflation-adjusted gross domestic product, is predicted to expand 2.8% in 2010, and to grow another 2.0% in 2011 and 2.3% in 2012. Light vehicle sales are forecasted to rise from 10.4 million units in 2009 to 11.5 million units in 2010, and continue increasing 12.7 million units in 2011 and 14.1 million units in 2012. The unemployment rate is expected remain stable, at 9.6% in 2010, 9.5% in 2011, and 9.6% in 2012; while the consumer price index is estimated to increase by 1.8% in 2010, and then rise 1.7% in 2011 and 2.0% in 2012.

The Michigan economy, as measured by inflation-adjusted personal income, is estimated to grow 0.9% in 2010, remain stable in 2011, and then rise 0.7% in 2012. Wage and salary employment is predicted to decline 0.8% during 2010, remain flat during 2011, and then increase 0.9% in 2012, the first increase in wage and salary employment since 2000.

REVENUE FORECAST

In FY 2009-10, General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue totaled \$17.60 billion, down 3.8% from FY 2008-09. Most of the decrease reflects the continuing weakness in the economy during the fiscal year. General Fund/General Purpose revenue fell 7.9% to \$6.78 billion and SAF revenue declined 1.0% to \$10.82 billion.

In FY 2010-11, the economy will fare better than during FY 2009-10 although it is expected to be a slow recovery with only a minor pickup in revenue. General Fund/General Purpose and SAF revenue will total an estimated \$18.0 billion, up 2.3% from FY 2009-10. This revised estimate is up \$77.6 million from the May 2010 consensus estimate. General Fund/General Purpose revenue is expected to increase 4.2% from the FY 2009-10 level to \$7.06 billion and SAF revenue is projected to increase 1.2% to \$10.94 billion.

In FY 2011-12, GF/GP and SAF revenue will total an estimated \$18.17 billion. This initial estimate for FY 2011-12 is 0.9% higher than the revised estimate for FY 2010-11. General Fund/General Purpose revenue will total an estimated \$7.03 billion, representing a decline of 0.5% from FY 2010-11, and SAF revenue will total an estimated \$11.14 billion, which is up 1.8%.

YEAR-END BALANCE ESTIMATES

Based on the accounting of State revenue and expenditures as of December 15, 2010, the Senate Fiscal Agency (SFA) is estimating that the FY 2009-10 GF/GP budget will close the fiscal year with a \$192.8 million balance. The FY 2009-10 SAF budget will close the fiscal year with a \$247.9 million balance.

A comparison of the SFA's FY 2010-11 revenue estimates with enacted and projected appropriations leads to a \$200.7 million balance. The SFA is now estimating that the FY 2010-11 SAF budget is in balance by \$430.0 million.

A look ahead at the issues facing Governor-Elect Snyder and the newly elected members of the Legislature leads to the conclusion that, absent significant tax increases, a very significant imbalance will exist in the FY 2011-12 GF/GP budget. This imbalance is a result of the decisions that were made in balancing the FY 2010-11 GF/GP budget. The outlook for the FY 2011-12 SAF budget is more favorable and a slight increase in the level of State-funded appropriations to local school districts is likely.

EXECUTIVE SUMMARY

**SENATE FISCAL AGENCY
ECONOMIC AND BUDGET SUMMARY**

ECONOMIC PROJECTIONS (Calendar Year)				
	2009 Actual	2010 Estimate	2011 Estimate	2012 Estimate
Real Gross Domestic Product (% change).....	(2.6)%	2.8%	2.0%	2.3%
U.S. Consumer Price Index (% change).....	(0.4)%	1.8%	1.7%	2.0%
Light Motor Vehicle Sales (millions of units).....	10.4	11.5	12.7	14.1
U.S. Unemployment Rate (%)	9.3%	9.6%	9.5%	9.6%
Real Michigan Personal Income (% change).....	(2.5)%	0.9%	0.0%	0.7%
Michigan Wage & Salary Employment (% change).....	(6.9)%	(0.8)%	0.0%	0.9%

REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE (GF/GP) AND SCHOOL AID FUND (SAF) (Millions of Dollars)						
	<u>FY 2010-11 Estimate</u>			<u>FY 2011-12 Estimate</u>		
	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available
Gen'l Fund/Gen'l Purpose.....	\$6,974.8	\$88.3	\$7,063.1	\$7,260.7	(\$230.5)	\$7,030.2
% Change	4.2%	---	4.2%	4.1%	---	(0.5)%
School Aid Fund.....	\$10,870.4	\$73.8	\$10,944.2	\$11,107.3	\$30.2	\$11,137.5
% Change	0.8%	---	1.2%	2.2%	---	1.8%
Total GF/GP and SAF	\$17,845.2	\$162.0	\$18,007.2	\$18,367.9	(200.2)	\$18,167.7
% Change	2.1%	---	2.3%	2.9%	---	0.9%
	<u>FY 2010-11 Estimate</u>			<u>FY 2011-12 Estimate</u>		
Revenue Limit - Under (Over):	\$8,032.0			\$8,499.2		

YEAR-END BALANCE ESTIMATES (Fiscal Year, Millions of Dollars)		
	<u>FY 2009-10 Estimate</u>	<u>FY 2010-11 Estimate</u>
General Fund/General Purpose	\$192.8	\$200.7
School Aid Fund	247.9	430.0

ECONOMIC REVIEW AND OUTLOOK

State revenue, particularly tax revenue, depends heavily on economic conditions. This section presents the Senate Fiscal Agency's latest economic forecast for 2011 and 2012, as well as a summary of recent economic activity and estimates for the rest of 2010.

RECENT U.S. ECONOMIC HIGHLIGHTS

On September 20, 2010, the National Bureau of Economic Research announced that the recession the U.S. economy had entered in December 2007 had ended in June 2009. Virtually every economic indicator identifies the 2008-2009 recession as the most severe economic contraction in more than 70 years. While the economy, particularly as measured by inflation-adjusted Gross Domestic Product (GDP), has grown since the second quarter of 2009, the gains have generally been modest. As of the third quarter of 2010, inflation-adjusted GDP was 3.6% above the level during the second quarter of 2009. Consumption has improved somewhat, but after five quarters of growth, personal consumption expenditures in the third quarter of 2010 were only 2.4% above the level in the second quarter of 2009. However, certain areas of consumer spending have shown more growth, with October 2010 retail sales up 9.3% from June 2009 and light vehicle sales 26.0% higher ([Figure 1](#)). Using annual averages, retail sales in 2010 are forecasted to be more than 6.0% above 2009 levels and light vehicles sales almost 10.5% higher.

Despite the improvements in the economy, a number of fundamental indicators show limited, if any, improvement. Payroll employment has remained weak, with a loss of almost 1.1 million jobs in the six months after June 2009, and November 2010 employment more than 101,000 jobs less than in June 2009. Housing starts, a key indicator of the factors that led to the 2008-2009 recession, remain at depressed levels, with October 2010 starts 11.0% below the level in June 2009. Since the expiration of the homebuyer credit earlier in 2010, housing starts have averaged 3.6% below the June 2009 level. In October 2010, consumer sentiment, measured by the University of Michigan's Consumer Sentiment Index, was 4.4% below the June 2009 level and down 10.9% from the June 2010 level. Business inventories have risen, and while some of the increase is likely intended, the increase means that production has exceeded consumption. Since the fourth quarter of 2009, inventories have increased by an inflation-adjusted \$224.4 billion, approximately 86.8% of the \$258.4 billion net increase in total inflation-adjusted GDP. In the light-vehicle sector, inventories have risen 8.1% over the last year, with inventories for the Detroit 3 rising from 69 days to 74 days, an increase of 7.2%.

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 has risen at an average annual rate of 4.4% since the second quarter of 2009, well above the 1.7% average during much of the latter half of the 20th century. Productivity gains have increased output and income, but have reduced the need for additional workers and thus kept unemployment higher than would otherwise be expected. Personal income increased by 3.3% between the second quarter of 2009 and the third quarter of 2010 (2.1% on a per-person basis), and personal saving as a share of disposable personal income (personal income after taxes) declined from 7.2% (the highest level in 18 years) in the second quarter of 2009 to 5.8% in the third quarter of 2010 but remains well above the levels of the last 15 years ([Figure 2](#)). Much of that increase in saving has reduced consumption but also reduced consumer debt, which declined 4.8% between the second quarter of 2009 and the third quarter of 2010. Slower consumption and higher saving reduce the need for additional output and workers but improve the overall long-term financial health of consumers. Details for selected economic indicators are presented in [Table 1](#) and [Table 2](#).

Figure 1

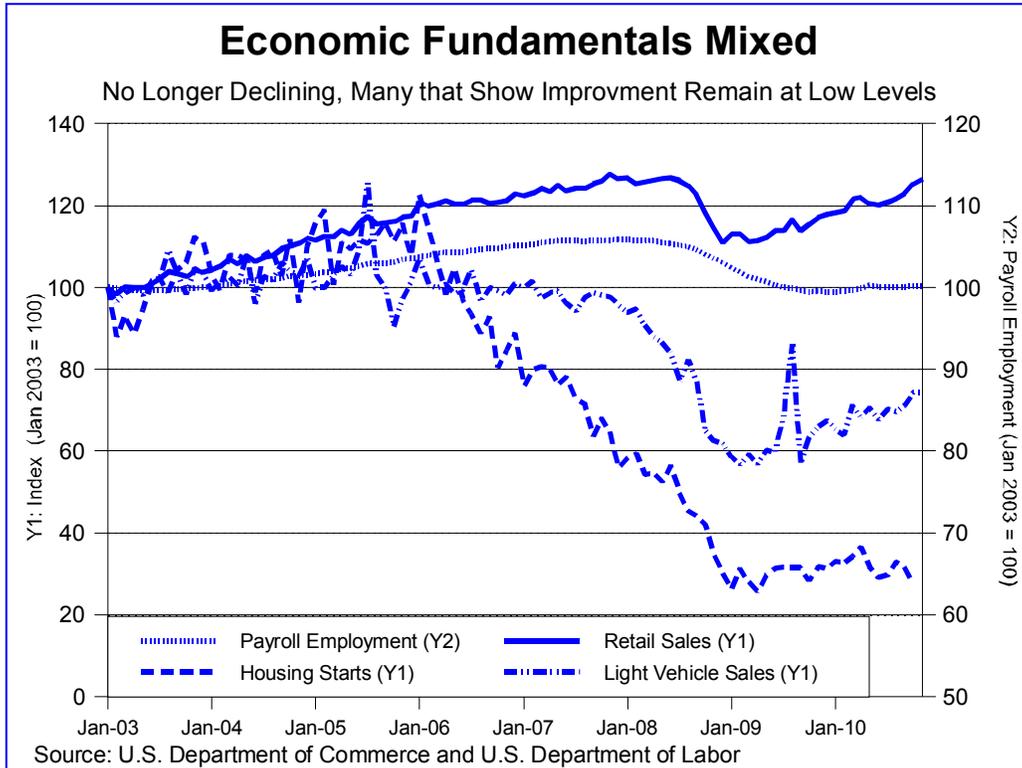


Figure 2

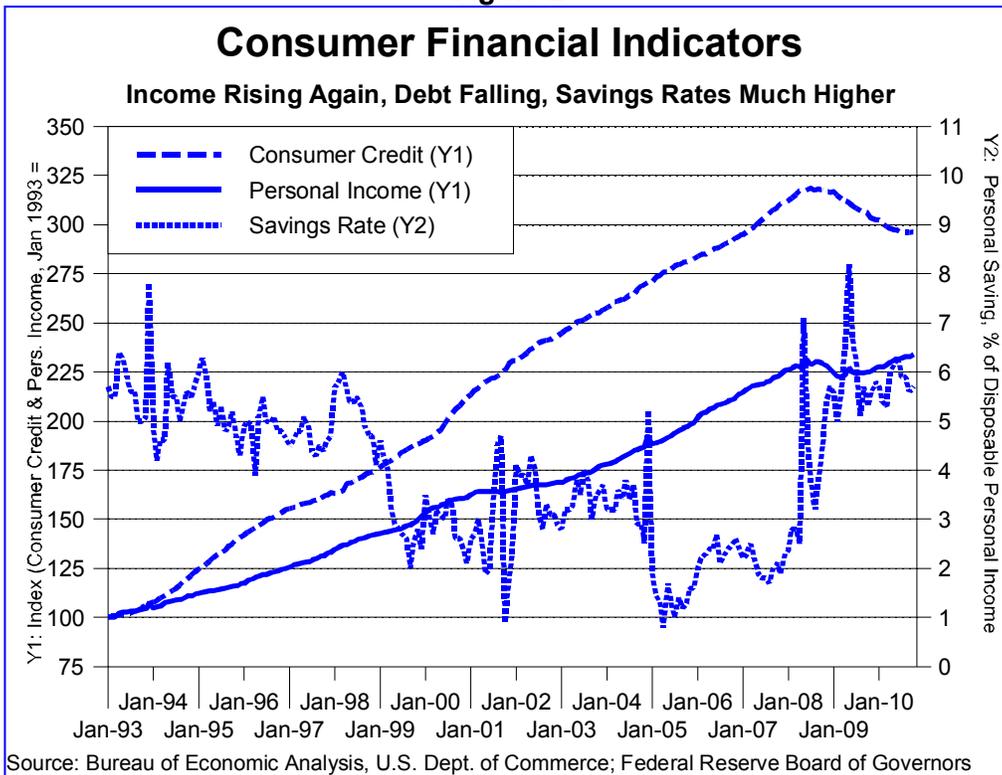


Table 1
THE SENATE FISCAL AGENCY ECONOMIC FORECAST
(Calendar Years)

	2008 Actual	2009 Actual	2010 Est.	2011 Est.	2012 Est.
<u>United States</u>					
Nominal GDP					
(year-to-year growth)	2.2%	(1.7)%	3.7%	2.8%	3.4%
Inflation-Adjusted GDP					
(year-to-year growth)	0.0%	(2.6)%	2.8%	2.0%	2.3%
Unemployment Rate	5.8%	9.3%	9.6%	9.5%	9.6%
Inflation					
Consumer Price Index					
(year-to-year growth)	3.8%	(0.4)%	1.8%	1.7%	2.0%
GDP Implicit Price Deflator					
(year-to-year growth)	2.2%	0.9%	0.9%	0.8%	1.1%
Interest Rates					
90-day Treasury Bill	1.37%	0.15%	0.13%	0.14%	0.18%
Corporate Aaa Bond	5.63%	5.31%	5.06%	4.76%	4.28%
Federal Funds Rate	1.92%	0.16%	0.18%	0.21%	0.27%
Light Motor Vehicle Sales					
(millions of units)	13.2	10.4	11.5	12.7	14.1
Auto	6.8	5.5	5.7	6.4	7.3
Truck	6.4	4.9	5.8	6.3	6.8
Import Share	25.6%	26.2%	25.2%	26.3%	26.5%
<u>Michigan</u>					
Personal Income (millions)	\$353,296	\$342,302	\$348,353	\$353,334	\$362,289
Year-to-year growth	2.7%	(3.1)%	1.8%	1.4%	2.5%
Inflation-Adjusted Personal Income (year-to-year growth)	0.4%	(2.5)%	0.9%	0.0%	0.7%
Wage & Salary Income (millions)	\$186,212	\$170,771	\$171,066	\$173,682	\$176,866
Year-to-year growth	(0.6)%	(8.3)%	0.2%	1.5%	1.8%
Detroit Consumer Price Index (year-to-year growth)	2.3%	(0.6)%	0.8%	1.4%	1.9%
Wage & Salary Employment (thousands)	4,161.7	3,876.1	3,843.6	3,845.1	3,878.8
Year-to-year growth	(2.5)%	(6.9)%	(0.8)%	0.0%	0.9%
Unemployment Rate	8.3%	13.6%	13.3%	12.4%	11.6%

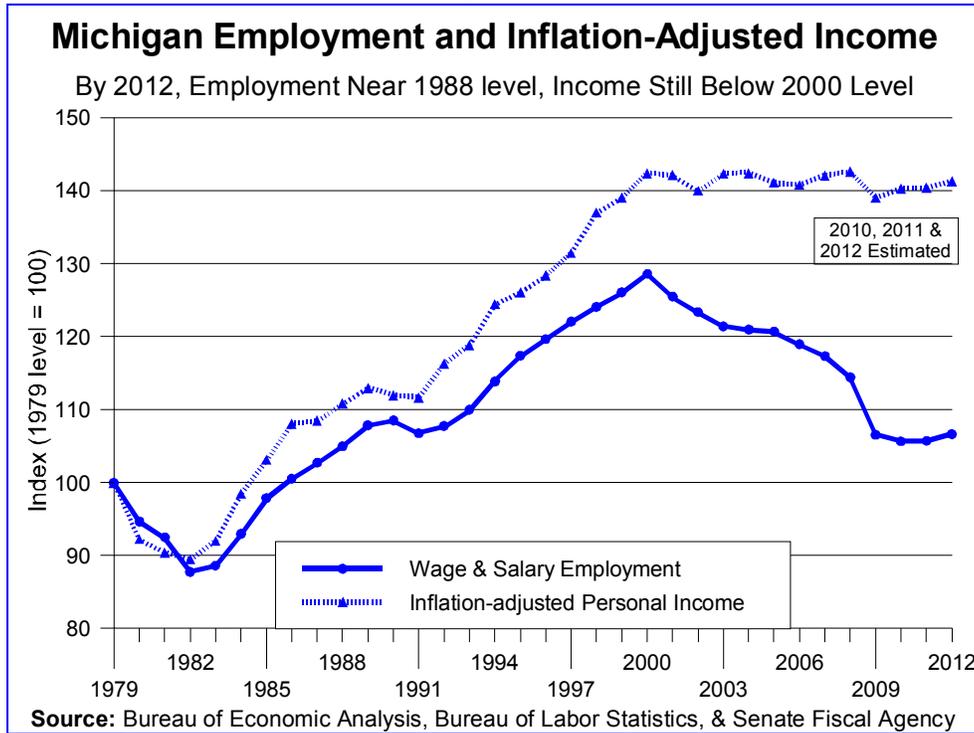
Table 2

THE SENATE FISCAL AGENCY U.S. ECONOMIC FORECAST DETAIL					
(Calendar Years)					
	2008	2009	2010	2011	2012
	Actual	Actual	Estimate	Estimate	Estimate
Gross Domestic Product (billions of dollars)	\$14,369.1	\$14,119.0	\$14,645.1	\$15,061.9	\$15,573.3
Year-to-year growth	2.2%	(1.7)%	3.7%	2.8%	3.4%
<i>Inflation-Adjusted GDP and Components</i>					
Gross Domestic Product (billions of 2000 dollars)	\$13,228.8	\$12,880.6	\$13,243.9	\$13,512.9	\$13,819.8
Year-to-year growth	0.0%	(2.6)%	2.8%	2.0%	2.3%
Consumption (billions of 2000 dollars)	\$9,265.0	\$9,153.9	\$9,310.0	\$9,503.2	\$9,652.8
Year-to-year growth	(0.3)%	(1.2)%	1.7%	2.1%	1.6%
Business Fixed Investment (billions of 2000 dollars)	\$1,556.6	\$1,290.8	\$1,368.4	\$1,526.8	\$1,668.1
Year-to-year growth	0.3%	(17.1)%	6.0%	11.6%	9.3%
Change in Business Inventories (billions of 2000 dollars)	(\$37.6)	(\$113.1)	\$83.5	\$49.2	\$37.1
Residential Investment (billions of 2000 dollars)	\$444.2	\$342.7	\$332.8	\$355.6	\$438.6
Year-to-year growth	(24.0)%	(22.9)%	(2.9)%	6.9%	23.3%
Government Spending (billions of 2000 dollars)	\$2,502.7	\$2,542.6	\$2,570.2	\$2,580.7	\$2,551.2
Year-to-year growth	2.8%	1.6%	1.1%	0.4%	(1.1)%
Net Exports (billions of 2000 dollars)	(\$504.0)	(\$363.1)	(\$451.2)	(\$516.8)	(\$518.0)
Exports (billions of 2000 dollars)	\$1,647.7	\$1,490.7	\$1,662.7	\$1,796.0	\$1,932.7
Imports (billions of 2000 dollars)	\$2,151.7	\$1,853.8	\$2,113.9	\$2,312.8	\$2,450.7
Personal Income (year-to-year growth)	4.0%	(1.7)%	3.0%	3.1%	2.4%
Adjusted for Inflation	0.2%	(1.4)%	1.2%	1.4%	0.4%
Wage & Salary Income (year-to-year growth)	2.1%	(4.4)%	1.4%	2.8%	2.0%
Personal Savings Rate	4.1%	5.9%	5.8%	5.5%	4.5%
Capacity Utilization Rate	77.9%	70.0%	74.5%	76.8%	77.1%
Housing Starts (millions of units)	0.906	0.554	0.600	0.702	0.922
Conventional Mortgage Rates	6.0%	5.0%	4.8%	4.5%	4.4%
Federal Budget Surplus (billions of dollars, NIPA basis)	(\$616.2)	(\$1,251.7)	(\$1,529.0)	(\$1,504.1)	(\$1,362.4)

Michigan's economy has spent the last 10 years in recession (Figure 3), largely driven by the same fundamental restructuring as that affecting 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 is 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.

Figure 3



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 33,100 jobs (7.6%) between June 2009, when the U.S. recession ended, and October 2010. Employment in the transportation equipment manufacturing sector increased by 18.2% over that period, accounting for 20,000 of the manufacturing jobs Michigan gained. Michigan payroll employment declined for 12 consecutive months between July 2008 and June 2009, but has risen in seven of the last 16 months (with manufacturing employment rising in nine of the last 19 months). The unemployment rate declined from a high of 14.5% in December 2009 to 12.8% in October 2010, although a portion of that decline represents the departure of individuals from the labor force.

FORECAST SUMMARY

During 2010, the U.S. economy is expected to have exhibited the strongest growth since 2004, while the Michigan economy is expected to finally finish contracting. Michigan's economy is forecast to exhibit both income and employment growth by 2012, although the improvements will be modest. 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 Gross Domestic Product is projected to have risen 2.8% in 2010, and to be followed by increases of 2.0% in 2011 and 2.3% in 2012. The expansion during 2010 primarily reflects increases in inventories, supplemented by moderate gains in business investment. The unemployment rate is expected to remain stable, averaging 9.6% during 2010, 9.5% in 2011, and 9.6% in 2012.

In Michigan, both job growth and personal income growth are expected to remain below the national average and the historical State average, although employment is expected to exhibit its strongest performance in more than a decade. (Figures 3, 4, and 5). Inflation-adjusted personal income is projected to have risen 0.9% in 2010, and then forecasted to remain stable in 2011 and increase 0.7% in 2012. Payroll employment is expected to remain flat in 2011, after declining 0.8% during 2010, and then increase 0.9% in 2012. The projected increase in Michigan wage and salary employment in 2012 would be the first increase since 2000. Nationally, light vehicle sales are expected to have increased from 10.4 million units in 2009 to 11.5 million units in 2010, and then are forecasted to grow to 12.7 million units in 2011 and 14.1 million units in 2012. In Michigan, higher vehicle sales, stability in the housing market, and an improved national economy are expected to allow the unemployment rate to continue to decline, from 13.6% in 2009 and 13.3% in 2010, to 12.4% in 2011 and 11.6% in 2012.

Compared with the May 21, 2010, Consensus Economic Forecast, the U.S. forecast is slightly weaker while the Michigan forecast is slightly stronger. Continued weakness in the housing and financial markets, combined with weak employment growth and stable savings rates will keep the pace of the U.S. recovery very slow, while improved vehicle sales and stronger profitability in Michigan's vehicle sector will allow Michigan's economy to grow more than was expected in May 2010.

Figure 4

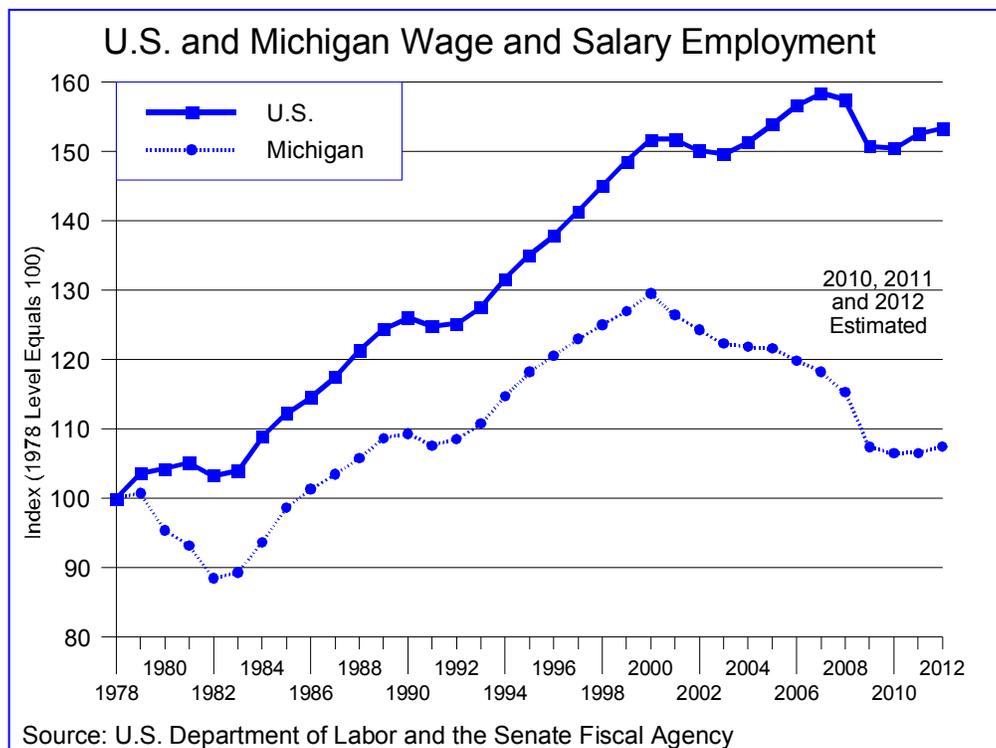
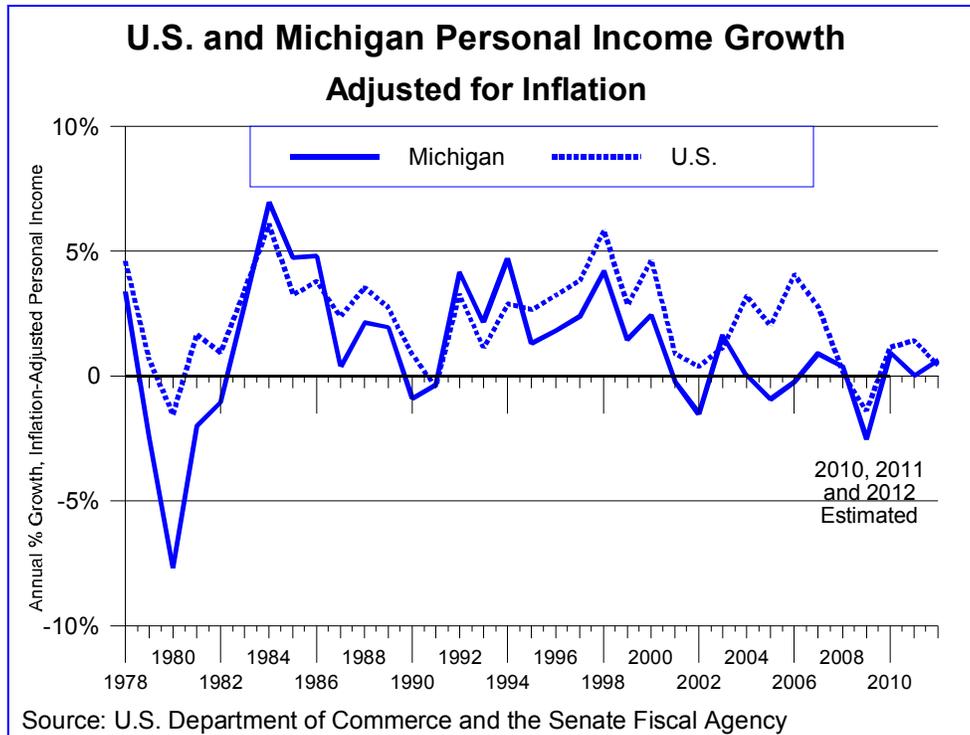


Figure 5



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 notoriously difficult to predict and the current economic forecast faces a number of risks, with many suggesting the economic recovery could be weaker than forecasted.

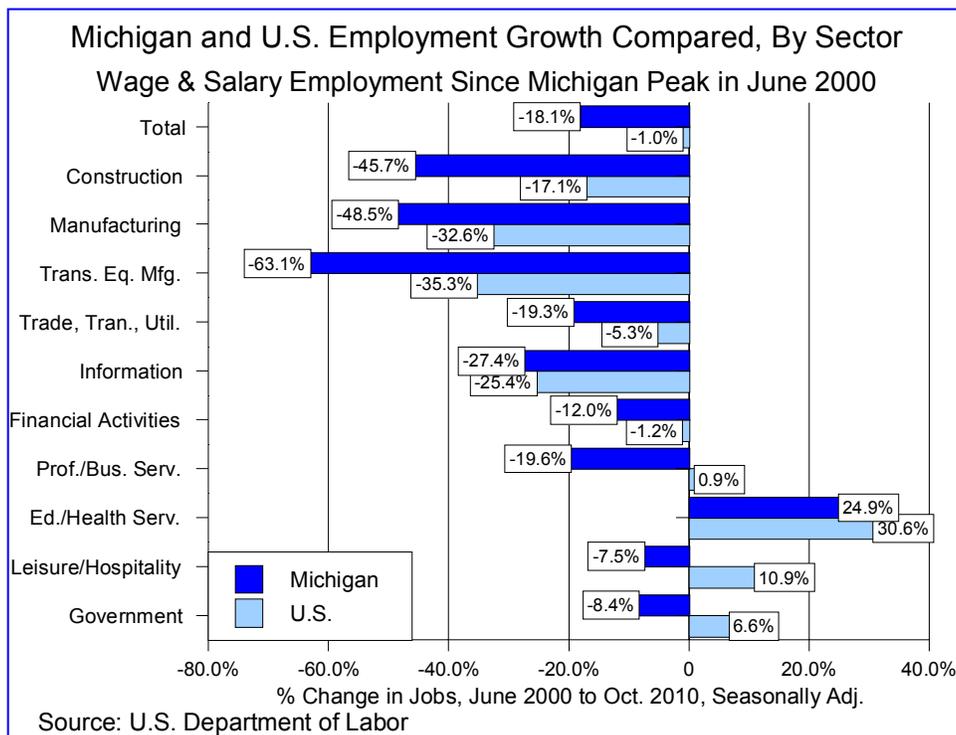
Consumer Behavior. The economy of the last 30 years has been largely powered by strong growth in consumer spending. While saving rates fell and debt levels increased through the 1980s and 1990s, over much of the last decade those trends became even more magnified, despite flat or declining inflation-adjusted wages. Weak financial markets and declining housing prices over the last three years have induced consumers to rein in their spending. As a result, the savings rate has been significantly higher over the last eight quarters and is expected to remain at those levels over the forecast. However, consumers will need to save at a far higher rate than this to offset their losses in home equity and in the stock market. Limited income growth and high debt burdens will impede consumers in their ability to increase saving. 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 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, it was the largest percentage decline since 1942, and the largest peacetime decline since 1938. From peak to trough, inflation-adjusted consumption spending fell 2.4% between the fourth quarter of 2007 and the second

quarter of 2009, as the economy shed 6.7 million jobs. However, personal income actually rose 0.5% over that time period, indicating that consumers engaged in a large amount of precautionary savings: reducing consumption by more than accounted for by actual income changes. As consumption has improved over the last five quarters, 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 actual growth in the underlying consumption trend is actually occurring. For example, despite five quarters of growth in consumption, personal consumption expenditures in the third quarter of 2010 remained below the level in the fourth quarter of 2007. Despite more than 18 months of consistent growth in retail sales, October 2010 retail sales levels were more than 1.1% below the level in January 2008 (Figure 1). As a result, another way of looking at the question of consumer saving behavior is to examine the nature of consumer spending. If consumers make their deferred purchases and only continue spending in the near future 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.

Michigan's Situation. While over the last 10 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 6), Michigan's performance is 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) have experienced weaker job performance over the last 10 years, 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.

Figure 6



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. Vehicle sales are expected to remain substantially below the levels experienced over the last two decades, although the Detroit 3 share of the sales mix is expected to remain fairly stable (Figure 7). Michigan's economic fortunes historically have been very closely linked with sales of domestically produced light vehicles (Figure 8). 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 the low cost of capital means there will be few incentives to increase hiring significantly. As a result, although as of October 2010, Michigan had lost nearly two-thirds of the jobs (63.1%, a decline of nearly 223,100 jobs) in transportation equipment manufacturing that existed during the peak in July 2000, 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 employment reported in June 2000 again until some time near the year 2035.

The forecast expects employment levels in the transportation equipment manufacturing sector to remain fairly stable through 2011 and 2012 and overall employment levels in the State to increase slightly. 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, meaningful growth is unlikely to occur until a meaningful recovery is experienced 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 likely need to occur at both the national and statewide levels before Michigan will experience economic growth on a sustained basis.

Figure 7

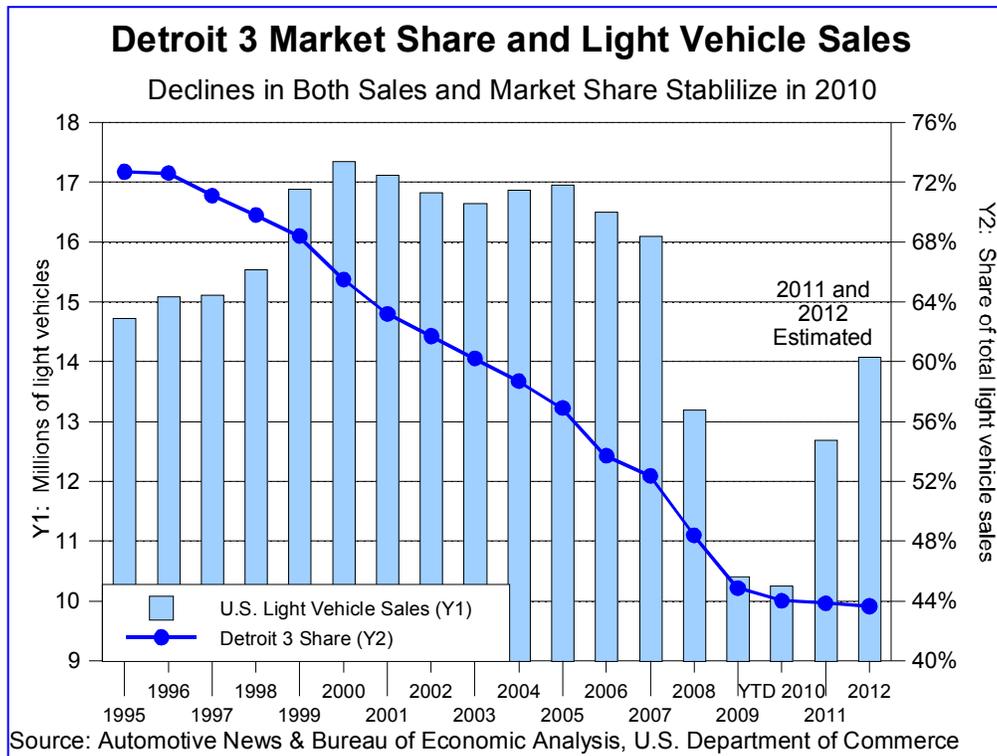
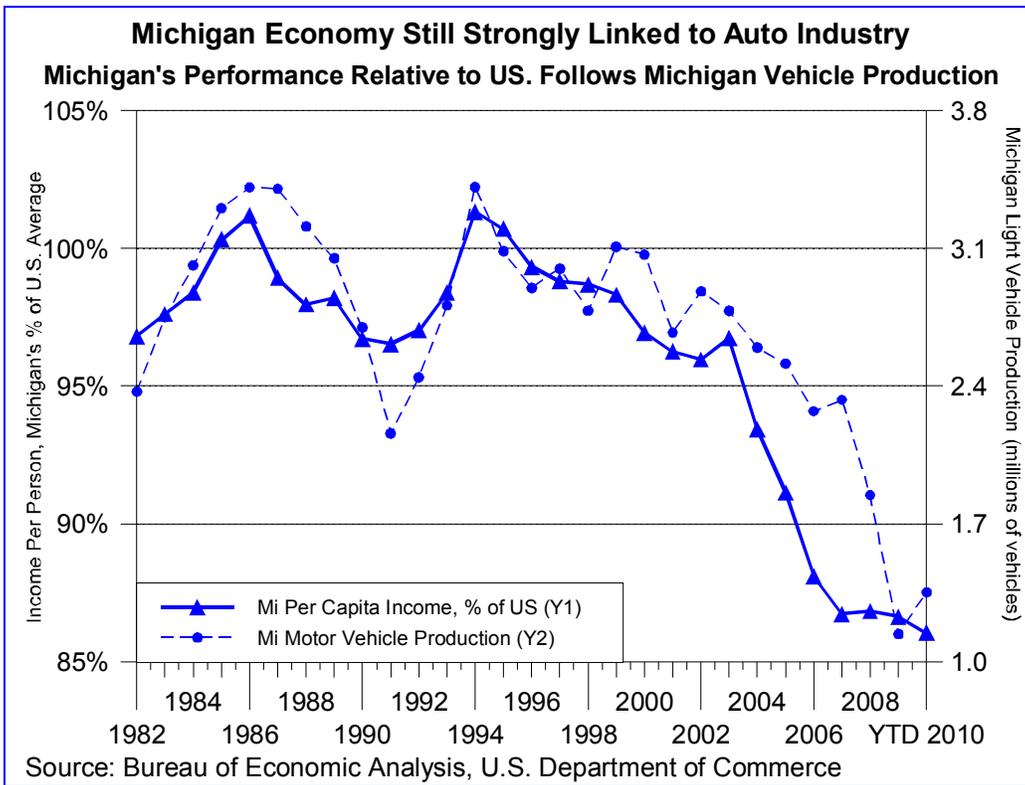


Figure 8



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 2009-10 is presented along with the revised estimates for FY 2010-11 and the initial revenue estimates for FY 2011-12. 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 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 2009-10 and FY 2010-11 are discussed in the last section of this report.

REVENUE OVERVIEW

The preliminary final GF/GP and SAF revenue for FY 2009-10, along with the revised estimates for FY 2010-11 and the initial estimates for FY 2011-12 are presented in [Table 3](#) and are summarized below.

FY 2009-10 Preliminary Final Revenue:

- GF/GP and SAF revenue totaled \$17.6 billion, down 3.8% from FY 2008-09.
- Most of this decrease was due to the continuing declines in economic activity during late 2009 and a very slow pickup in 2010.
- On a baseline basis, GF/GP and SAF revenue was down 2.9% in FY 2009-10.
- GF/GP and SAF revenue exceeded the consensus revenue estimate adopted in May 2010 by \$190.8 million.

FY 2010-11 Revised Revenue Estimate:

- GF/GP and SAF revenue will total an estimated \$18.0 billion in FY 2010-11, an increase of 2.3% (\$400.0 million) from FY 2009-10.
- This projected increase in revenue is due primarily to a slowly recovering economy.
- Compared with the May 2010 consensus revenue estimate, the revised estimate for FY 2010-11 is up \$77.6 million.

FY 2011-12 Initial Revenue Estimate:

- GF/GP and SAF revenue is expected to total \$18.2 billion in FY 2011-12, up 0.9% (\$160.5 million) from the revised estimate for FY 2010-11.
- The slow, but improving economy is expected to increase revenue; however, some tax policy changes will contribute to constrained growth in revenue.

Historical Perspective

The percentage changes in baseline GF/GP and SAF revenue for FY 2009-10 through FY 2011-12 are compared with the actual growth rates experienced during the preceding 20 years in [Figure 9](#). The increases in baseline revenue estimated for FY 2010-11 and FY 2011-12 represent the first such increases in several years. Following two consecutive years of severe revenue declines, the

State revenue picture has turned slightly positive along with slow improvements in the economy. The projected increase in baseline revenue reflects the fact that the current economic recovery is under way, albeit at a slow rate. However, tax policy changes are placing a constraint on revenue growth being forward.

Table 3

SENATE FISCAL AGENCY REVENUE ESTIMATES FOR FY 2010-11 AND FY 2011-12 GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (Millions of Dollars)			
	FY 2009-10	FY 2010-11	FY 2011-12
	Preliminary Final	Revised Estimate	Initial Estimate
GENERAL FUND/GENERAL PURPOSE			
Baseline Revenue	\$6,693.4	\$6,974.8	\$7,260.7
Tax Changes Not In Baseline	87.1	88.3	(230.5)
<u>Revenue After Tax Changes:</u>			
Net Income Tax	3,694.5	3,733.3	3,602.5
MBT, SBT, & Insurance Tax	1,393.4	1,556.3	1,567.0
Other Taxes	1,320.4	1,375.5	1,446.9
Total Taxes	6,408.2	6,665.1	6,616.4
Nontax Revenue	372.3	398.0	413.8
TOTAL GF/GP REVENUE	\$6,780.5	\$7,063.1	\$7,030.2
SCHOOL AID FUND			
Baseline SAF	\$10,780.8	\$10,870.4	\$11,107.3
Tax Changes Not In Baseline	34.6	73.8	30.2
TOTAL SAF REVENUE	\$10,815.5	\$10,944.2	\$11,137.5
BASELINE GF/GP & SAF REVENUE	\$17,474.2	\$17,845.2	\$18,368.0
Tax & Revenue Changes	121.7	162.0	(200.2)
GF/GP & SAF REV. AFTER CHANGES	\$17,595.9	\$18,007.2	\$18,167.7
<u>ADDENDUM:</u>			
Sales Tax	\$6,167.8	\$6,255.9	\$6,413.7
PERCENT CHANGE			
GENERAL FUND/GENERAL PURPOSE			
Baseline Revenue	(3.8)%	4.2%	4.1%
<u>Revenue After Tax Changes:</u>			
Net Income Tax	(6.7)	1.1	(3.5)
MBT, SBT, & Insurance Tax	(23.3)	11.7	0.7
Other Taxes	9.6	4.2	5.2
Total Taxes	(8.2)	4.0	(0.7)
Nontax Revenue	(3.7)	6.9	4.0
TOTAL GF/GP REVENUE	(7.9)%	4.2%	(0.5)%
SCHOOL AID FUND			
Baseline SAF	(0.8)%	0.8%	2.2%
TOTAL SAF REVENUE	(1.0)%	1.2%	1.8%
BASELINE GF/GP & SAF REVENUE	(2.0)%	2.1%	2.9%
GF/GP & SAF REV. AFTER CHANGES	(3.8)%	2.3%	0.9%
SALES TAX	1.3%	1.4%	2.5%

Figure 9

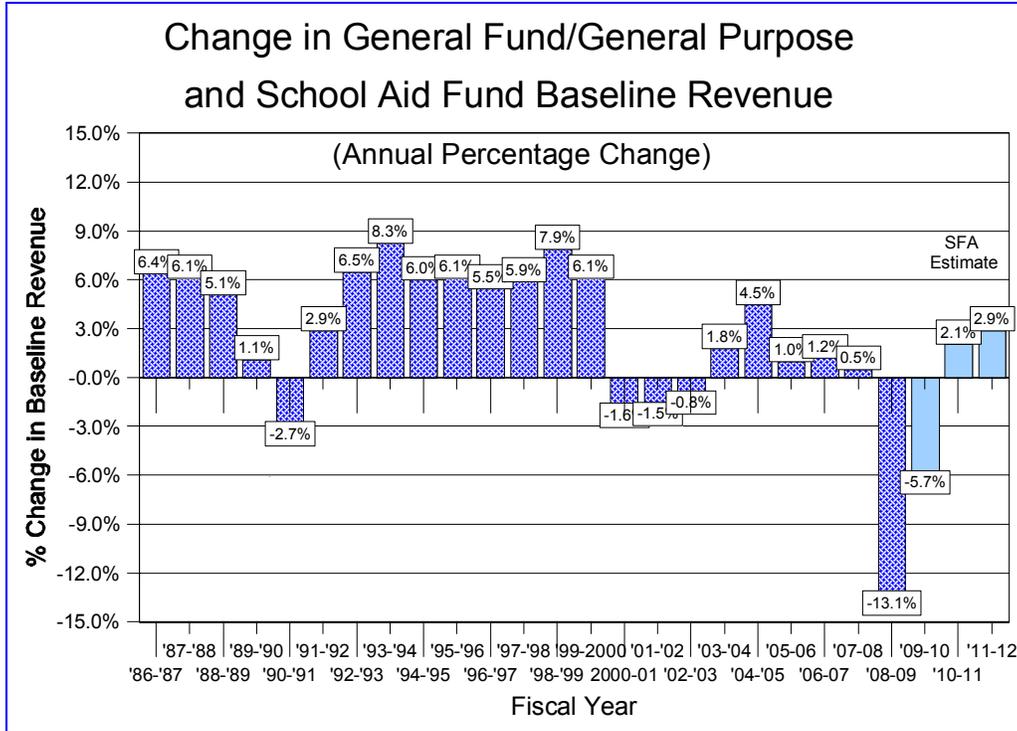


Figure 10 compares the FY 1995-96 through FY 2011-12 estimates for both the GF/GP and SAF revenue from ongoing sources with their respective levels for each of the fiscal years since the Proposal A school finance tax reforms were put in place. General Fund/General Purpose revenue peaked in FY 1999-2000 and then declined for three consecutive years due to a faltering economy and cuts to the income tax and the SBT. As a result, GF/GP revenue fell to about \$8.0 billion in both FY 2002-03 and FY 2003-04. After remaining at about \$8.3 billion from FY 2004-05 through FY 2006-07, GF/GP revenue jumped to \$9.3 billion in FY 2007-08 due to the increase in the income tax rate and the adoption of, and subsequent increase in, the MBT. The significant decline in GF/GP revenue experienced during FY 2008-09 reduced GF/GP revenue to its lowest level since before Proposal A in 1995. The additional decline estimated for FY 2009-10 will lower GF/GP revenue to its lowest level during this 15-year period, and approximately 22.5% below the FY 1995-96 level (without accounting for inflation), see Figure 11. 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 is expected to lower it again during FY 2009-10. In FY 2010-11, there is expected to be a slight increase in SAF revenue. Without adjusting for inflation, by the end of FY 2010-11, SAF revenue is expected to about equal with the revenue level in FY 2000-01.

Figure 10

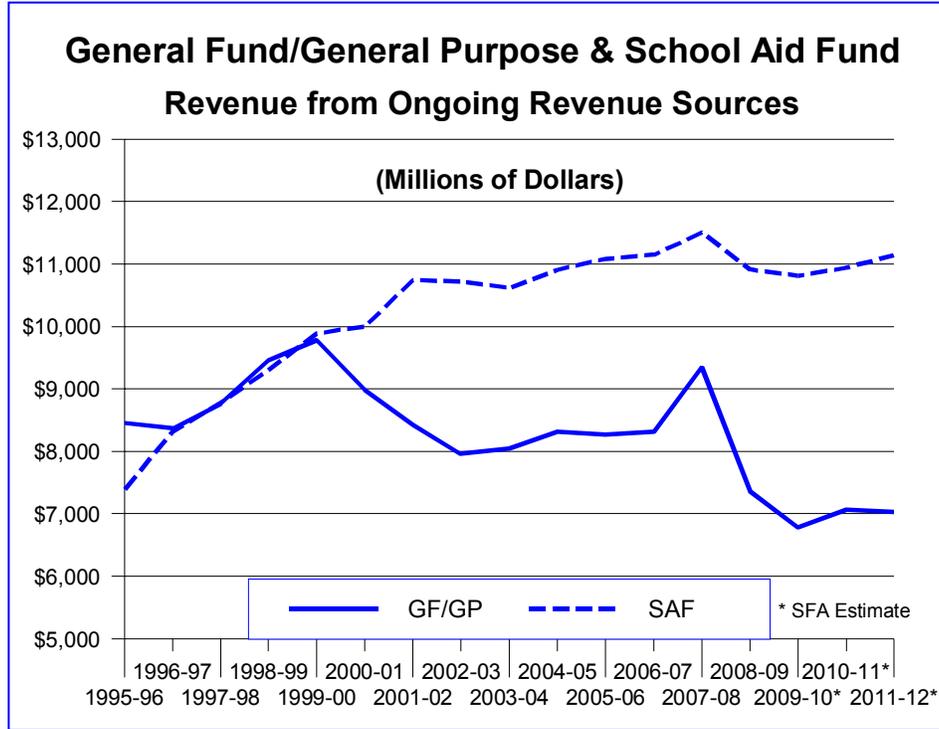
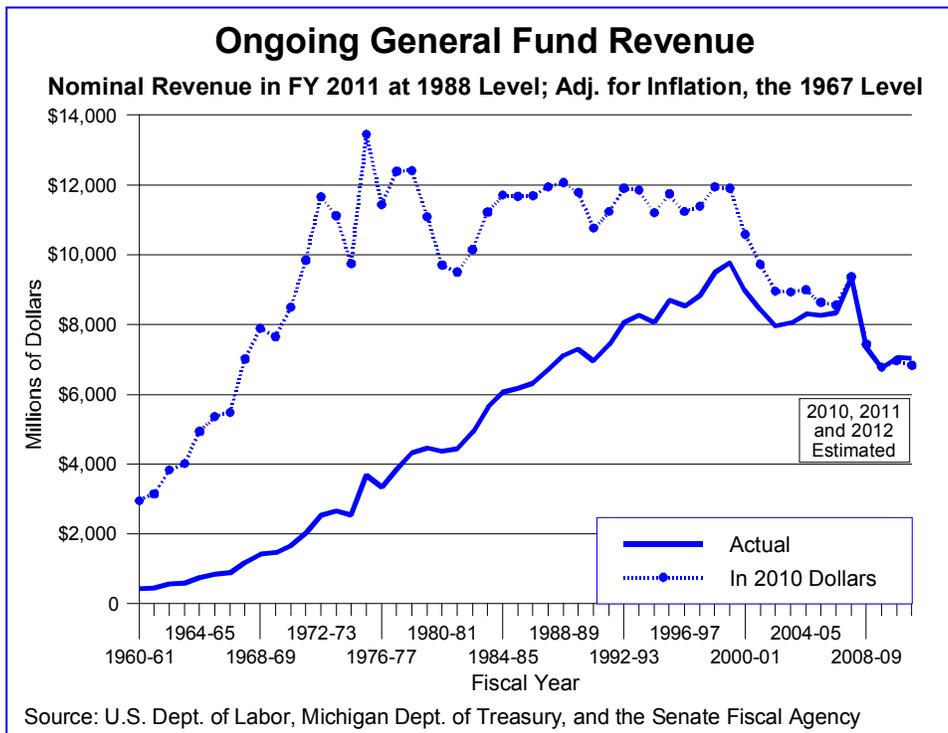


Figure 11



FY 2009-10 PRELIMINARY YEAR-END REVENUE

Based on preliminary year-end book-closing revenue data, GF/GP and SAF revenue from ongoing revenue sources totaled \$17.6 billion in FY 2009-10, which is down 3.8% from the FY 2008-09

revenue level, as presented in Table 4. While GF/GP and SAF revenue was expected to be down significantly in FY 2009-10 due largely to the weak economy, a slow economic recovery began in late 2009 and 2010. This modest recovery began boosting revenue above expected levels, especially through the middle and latter half of 2010. The preliminary final revenue level is above the May 2010 consensus revenue estimate by \$190.8 million. Most of the revenue increase from the May 2010 estimates came from the income tax and sales tax. Adjusting for the tax changes and the other enacted revenue adjustments, revenue declined 3.8% in FY 2009-10.

Tax Policy Changes

Tax policy changes enacted in recent years by both the State and Federal governments produced negative impacts on revenue in FY 2009-10. Among the major new tax policy changes were the State's earned income tax credit and film tax credits, the Federal increase in tobacco taxes, and Federal tax changes included in the Federal American Recovery and Reinvestment Act (ARRA) of 2009.

Earned Income Tax Credit. A new earned income tax credit, administered through the income tax, went into effect for the 2008 tax year; therefore, eligible taxpayers claimed this credit for the first time when they filed their 2008 tax returns in 2009. The Michigan earned income tax credit equaled 10.0% of the Federal earned income tax credit for the 2008 tax year and increased to 20.0% of the Federal credit beginning in 2009. It is estimated the credit reduced income tax revenue by \$325.0 million in FY 2009-10; all of this loss will be incurred by GF/GP revenue.

Motion Picture-Related Credits. Three MBT credits related to film industry activity were enacted in 2008. Film production companies may claim 1) a production credit, which allows the companies to receive a refundable credit equal to 40.0% or 42.0% of their direct production expenditures in Michigan, 2) a job training credit equal to 50.0% of qualified expenses incurred in training workers for film industry jobs, and 3) an infrastructure credit equal to 25.0% of the cost to construct a film-related production facility. An additional MBT credit may be granted by the Michigan Economic Growth Authority (MEGA). These credits were expected to reduce MBT revenue directly by \$72.4 million in FY 2009-10, although some of the revenue loss would be offset by new income, sales, and MBT receipts from the business activity affected by these credits.

Federal Tobacco Tax Increase. On April 1, 2009, the Federal government increased its cigarette tax by \$0.61 per pack and the resulting increase in the price of cigarettes was forecasted to reduce Michigan's cigarette tax revenue by approximately \$51.7 million in FY 2009-10. The Federal tax on other tobacco products also was increased effective April 1, 2009; however, due to the fact that Michigan's tax on other tobacco product is 32.0% of the wholesale price, the Federal tax increase is expected to boost Michigan's tax revenue an estimated \$2.5 million in FY 2009-10. Therefore, it is estimated that Michigan's tobacco tax revenue declined a net \$53.8 million in FY 2009-10 due to the increase in the Federal tobacco tax. The net loss in revenue affected the following budget areas: School Aid Fund revenue declined \$23.7 million, GF/GP revenue fell \$10.5 million, and most of the remaining loss in tobacco tax revenue reduced the Medicaid Trust Fund.

Federal Stimulus Tax Changes. The American Recovery and Reinvestment Act of 2009 included a number of tax reductions, some of which had an impact on Michigan tax revenue. These changes include such items as an increase in the earned income tax credit and an income tax exemption for the first \$2,400 in unemployment compensation. These various tax changes increased Michigan's tax revenue an estimated \$31.6 million in FY 2009-10 and most of the changes improved General Fund revenue.

Table 4

**FY 2009-10 PRELIMINARY FINAL REVENUE
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(Millions of Dollars)**

	FY 2008-09 Final	FY 2009-10 Prelim. Final	Change from FY 2008-09		\$ Change from 05/10 Consensus
			Dollar Change	Percent Change	
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue¹⁾	\$7,097.2	\$6,830.2	(\$267.0)	(3.8)%	---
Tax Changes Not In Baseline Revenue After Tax Changes	268.5	(49.9)	(318.3)	---	---
<u>Personal Income Tax</u>					
Gross Collections	8,098.4	7,932.5	(165.9)	(2.0)	\$121.3
Less: Refunds	(2,242.8)	(2,400.8)	(158.0)	7.0	29.1
Net Income Tax Collections	5,855.6	5,531.7	(324.0)	(5.5)	150.4
Less: Earmarking to SAF Campaign Fund	(1,895.3) (1.1)	(1,836.2) (1.0)	59.1 0.1	(3.1) (9.1)	(20.9) 0.5
Net Income Tax to GF/GP	\$3,959.2	\$3,694.5	(\$264.7)	(6.7)%	\$130.0
<u>Other Taxes</u>					
Single Business Tax	24.1	2.3	(21.8)	(90.5)	2.3
Michigan Business Tax	1,530.6	1,133.7	(396.9)	(25.9)	(1.0)
Sales	4.2	73.8	69.6	1,647.2	(10.8)
Use	744.0	818.2	74.2	10.0	49.5
Cigarette	208.4	200.9	(7.5)	(3.6)	1.9
Insurance Company Premiums	261.0	257.4	(3.6)	(1.4)	(15.6)
Telephone & Telegraph	63.0	60.8	(2.2)	(3.5)	0.8
Oil & Gas Severance	47.2	58.5	11.3	23.9	(1.5)
Casino Wagering	11.6	0.0	(11.6)	(100.0)	0.0
All Other	125.8	108.0	(17.8)	(14.1)	0.8
Subtotal Other Taxes	\$3,019.9	\$2,713.7	(\$306.2)	(10.1)%	\$26.4
Total Nontax Revenue	386.5	372.3	(14.2)	(3.7)	(31.0)
GF/GP REV. AFTER TAX CHANGES	\$7,365.6	\$6,780.5	(\$585.1)	(7.9)%	\$125.3
SCHOOL AID FUND:					
Baseline Revenue¹⁾	\$10,896.2	\$10,813.1	(\$83.1)	(0.8)%	---
Tax Changes Not In Baseline Revenue After Tax Changes	26.0	2.5	(23.5)	---	---
Sales Tax	4,424.7	4,488.9	64.2	1.5	\$7.4
Use Tax	368.5	405.6	37.1	10.1	21.3
Lottery Revenue	724.5	701.3	(23.2)	(3.2)	(21.6)
State Education Property Tax	2,040.6	1,930.5	(110.1)	(5.4)	37.5
Real Estate Transfer Tax	125.3	121.6	(3.7)	(3.0)	(5.4)
Michigan Business Tax	729.0	726.8	(2.2)	(0.3)	0.1
Income Tax	1,895.3	1,836.2	(59.1)	(3.1)	20.9
Casino Tax	108.1	101.8	(6.3)	(5.8)	(7.8)
Other Revenue	506.1	502.8	(3.3)	(0.7)	13.2
SAF REV. AFTER TAX CHANGES	\$10,922.2	\$10,815.5	(\$106.7)	(1.0)%	\$65.6
BASELINE GF/GP AND SAF	\$17,993.4	\$17,643.3	(\$353.1)	(1.9)%	---
Tax & Revenue Changes	294.4	(47.4)	(341.8)	---	---
GF/GP & SAF REV. AFTER CHNGS	\$18,287.8	\$17,595.9	(\$691.9)	(3.8)%	\$190.9
SALES TAX	\$6,089.1	\$6,167.8	\$78.7	1.3%	\$1.1

¹⁾ FY 2008-09 is the base year for baseline revenue.

General Fund/General Purpose

General Fund/General Purpose revenue totaled \$6.8 billion in FY 2009-10, down 7.9% from FY 2008-09, but \$125.3 million above the May 2010 consensus revenue estimate. This increase from the May consensus revenue estimate primarily reflected higher-than-expected income tax and use tax collections. In particular, withholding payments were higher than expected. A breakdown of GF/GP revenue for FY 2009-10 is presented in Table 4.

School Aid Fund

The tax and lottery revenue earmarked to the SAF totaled \$10.8 billion in FY 2009-10, down 1.0% from the FY 2008-09 revenue level. The decrease primarily reflected lower revenue from the State Education Tax, income tax, and lottery. Compared with the May 2010 consensus revenue estimate, SAF revenue was up \$65.5 million, due largely to better performance than expected in the State Education Tax, income tax, use tax, and several smaller taxes. The casino tax and real estate transfer tax were weaker than expected. The preliminary final SAF revenue for FY 2009-10 also is presented in Table 4.

REVISED REVENUE ESTIMATES FOR FY 2010-11

General Fund/General Purpose and SAF revenue is expected to total \$18.0 billion in FY 2010-11, an increase of 2.3% from FY 2009-10. A slowly recovering economy is driving much of the growth in expected tax revenue across the board. Almost every major tax earmarked to the GF/GP budget and/or the SAF budget, including the income, sales, State Education, and tobacco taxes, is expected to experience an increase in revenue during FY 2010-11 compared with FY 2009-10. The revised estimate of GF/GP and SAF revenue for FY 2010-11 is \$77.6 million above the May 2010 consensus estimate, on which the enacted budgets were based. On a baseline basis, GF/GP and SAF revenue is projected to increase 2.1% in FY 2010-11. The revised GF/GP and SAF revenue estimates for FY 2010-11 are summarized in Table 5.

Tax Policy Changes

While few new tax policy changes go into effect in FY 2010-11, the fiscal impacts of the earned income tax credit, film tax credits, and the State ban on smoking in public establishments are all expected to increase in FY 2010-11 compared with their impacts in FY 2009-10. The FY 2010-11 estimated fiscal impacts of several important tax policy changes are discussed below.

Earned Income Tax Credit. The earned income tax credit increased from 10.0% of the Federal earned income tax credit to 20.0% beginning in the 2009 tax year, so earned income tax credits claimed for the 2009 tax year on the income tax returns that were filed in FY 2009-10 were much larger than in FY 2008-09. This 20.0% credit carries forward into FY 2010-11. As a result, the earned income tax credit is expected to reduce income tax revenue an estimated \$338.0 million in FY 2010-11, slightly more than the \$325.0 million cost estimated for FY 2009-10.

Film Credits. The cost of the film credits also is expected to increase significantly in FY 2010-11. The credits are expected to continue to grow rapidly. As a result, it is estimated that the net revenue loss due to Michigan's film credits will increase from the \$64.5 million net cost estimated for FY 2009-10, to \$105.3 million in FY 2010-11.

Federal Tobacco Tax Increase. In FY 2009-10, Michigan's tobacco tax collections reflected the full-year negative impact of the increase in the Federal tobacco tax, which went into effect on April 1, 2009. As a result, in FY 2009-10, Michigan's tobacco tax collections were lower than they otherwise would have been by an estimated \$57.1 million. As cigarette consumption continues to fall, this

impact will drop to \$48.3 million in FY 2010-11. General Fund/General Purpose revenue will be down \$9.5 million, SAF revenue will be down \$20.1 million, and various other funds will be down \$18.7 million.

Smoking Ban. In late 2009, Michigan enacted legislation that significantly restricts smoking in public places such as restaurants and bars. In FY 2010-11, the legislation will affect the full fiscal year and this impact is predicted to reduce cigarette tax revenue by approximately \$33.0 million, lowering both GF/GP and SAF revenue as well as other fund revenue.

General Fund/General Purpose

General Fund/General Purpose revenue will total an estimated \$7.1 billion in FY 2010-11, up \$282.6 million or 4.2% from FY 2009-10. This increase is a significant contrast to the major declines experienced in the previous two fiscal years and primarily reflects a turnaround in income and consumption taxes as well as several other smaller taxes. The slow return to growth in employment and income in Michigan has helped stabilize the GF/GP revenue picture. However, several tax policy changes will have a significant impact on these revenue sources in the future. This revised estimate for GF/GP revenue is actually \$33.7 million below the May 2010 consensus revenue estimate. The reason for this decline is that the forecast for the U.S. economy is slightly lower, especially in regard to light vehicle sales. The forecast expects slightly weaker personal income growth as well, reflecting slower wage growth and slower growth in transfer payments. Additionally, the estimate for MBT has been lowered significantly, reflecting slower economic growth, reduced profitability for many Michigan firms during 2010, and the impact of the recently enacted early retirement plan for State employees on tax audits. However, income tax collections are estimated to be approximately \$54.1 million more than previously expected.

School Aid Fund

School Aid Fund revenue from earmarked taxes and the lottery is expected to total \$10.9 billion in FY 2010-11, an increase of \$128.7 million or 1.2% from the FY 2009-10 level. The revenue derived from most of the major earmarked taxes is expected to increase in FY 2010-11 due to the full-year impact of several lottery games introduced during FY 2009-10, higher-than-expected State Education Tax during FY 2009-10 improving the base for FY 2010-11 growth, and the upward revision in use tax revenue. On the baseline basis, SFA revenue is expected to be 0.8% in FY 2010-11. This revised estimate for SAF-earmarked revenue is \$111.2 million above the May 2010 consensus revenue estimate, and the major upward revisions occurred in the use tax and State Education Tax. The revised SAF revenue estimates for FY 2010-11 are summarized in [Table 5](#).

Table 5

**FY 2010-11 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(Millions of Dollars)**

	FY 2009-10 Prelim. Final	FY 2010-11 Revised Est.	Change from FY 2009-10		\$ Change from 05/10 Consensus
			Dollar Change	Percent Change	
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue ¹⁾	\$6,693.4	\$6,974.8	\$281.5	4.2%	---
Tax Changes Not In Baseline	87.1	88.3	1.2	---	---
<u>Revenue After Tax Changes</u>					
<u>Personal Income Tax</u>					
Gross Collections	7,932.5	8,079.1	146.7	1.8	\$58.5
Less: Refunds	(2,400.8)	(2,466.8)	(66.0)	2.7	15.8
Net Income Tax Collections	5,531.7	5,612.3	80.7	1.5	74.3
Less: Earmarking to SAF	(1,836.2)	(1,877.5)	(41.3)	2.2	(20.2)
Campaign Fund	(1.0)	(1.5)	(0.5)	50.0	0.0
Net Income Tax to GF/GP	\$3,694.5	\$3,733.3	\$38.9	1.1%	\$54.1
<u>Other Taxes</u>					
Single Business Tax	2.3	0.0	(2.3)	(100.0)	0.0
Michigan Business Tax	1,133.7	1,280.3	146.6	12.9	(169.1)
Sales	73.8	74.0	0.2	939.5	(14.4)
Use	818.2	869.3	51.2	6.3	89.3
Cigarette	200.9	194.6	(6.3)	(4.9)	2.5
Insurance Company Premiums	257.4	276.0	18.6	7.2	(10.6)
Telephone & Telegraph	60.8	62.0	1.2	2.0	(1.0)
Oil & Gas Severance	58.5	64.0	5.5	9.4	0.0
Casino Wagering	0.0	0.0	0.0	---	0.0
All Other	108.1	111.5	3.5	3.2	(0.0)
Subtotal Other Taxes	\$2,713.7	\$2,931.8	\$218.1	8.0%	(\$103.4)
Total Nontax Revenue	372.3	398.0	25.7	6.9	15.7
GF/GP REV. AFTER TAX CHANGES	\$6,780.5	\$7,063.1	\$282.6	4.2%	(\$33.7)
SCHOOL AID FUND:					
Baseline Revenue ¹⁾	\$10,780.8	\$10,870.4	\$89.6	0.8%	---
Tax Changes Not In Baseline	34.6	73.8	39.1	---	---
<u>Revenue After Tax Changes</u>					
Sales Tax	4,488.9	4,546.1	57.2	1.3	\$(4.2)
Use Tax	405.6	434.7	29.0	7.2	44.7
Lottery Revenue	701.3	740.9	39.6	5.6	0.9
State Education Property Tax	1,930.5	1,883.0	(47.5)	(2.5)	50.0
Real Estate Transfer Tax	121.6	130.0	8.4	6.9	(10.0)
Michigan Business Tax	726.8	739.8	13.0	1.8	(2.2)
Income Tax	1,836.2	1,877.5	41.3	2.2	20.2
Casino Tax	101.8	112.0	10.2	10.0	0.0
Other Revenue	502.8	480.2	(22.6)	(4.5)	11.9
SAF REV. AFTER TAX CHANGES	\$10,815.5	\$10,944.2	\$128.7	1.2%	\$111.2
BASELINE GF/GP AND SAF	\$17,474.2	\$17,845.2	\$371.1	2.1%	---
Tax & Revenue Changes	121.7	162.0	40.3	---	---
GF/GP & SAF REV. AFTER CHNGS	\$17,595.9	\$18,007.2	\$411.3	2.3%	\$77.6
SALES TAX	\$6,167.8	\$6,255.9	\$88.1	1.4%	\$(4.9)

¹⁾ FY 2009-10 is the base year for baseline revenue.

FY 2011-12 INITIAL REVENUE ESTIMATES

The level of economic activity in Michigan is expected to increase again in FY 2011-12, albeit at a slow rate. In fact, FY 2011-12 will see the first sustained job growth in the State in over a decade. However, these stronger economic fundamentals will be offset by several expected tax policy changes for FY 2011-12, which will reduce GF/GP and SAF revenue in FY 2011-12. Total GF/GP and SAF revenue will reach an estimated \$18.2 billion in FY 2011-12, an increase of 0.9% or \$160.5 million from the revised estimate for FY 2010-11. On a baseline basis, GF/GP and SAF revenue is expected to increase 2.9% in FY 2011-12, reflecting the stronger level of State economic activity. The initial estimate of GF/GP and SAF revenue for FY 2011-12 is summarized in [Table 6](#).

Tax Policy Changes

Several important tax policy changes are expected to affect FY 2011-12 baseline revenue, as discussed below.

Income Tax Rate Reduction. Based on legislation passed in 2007, the income tax rate increased from 3.9% to 4.35%. Under the same legislation, this rate increase is scheduled to fall by 0.1% starting on October 1, 2011. The rate will continue falling by 0.1% annually until it returns to the 3.9% level in 2015. This 0.1% rate reduction will result in a loss \$162.0 million in FY 2011-12.

Film Credits. The cost of the film credits also is expected to continue to increase significantly in FY 2011-12, consistent with the experience of other states. As a result, the net revenue loss due to Michigan's film credits will increase nearly 40.0% in FY 2011-12, to \$142.1 million, up from the \$105.3 million cost estimated for FY 2010-11.

Smoking Ban. In late 2009, Michigan enacted legislation that significantly restricts smoking in public places such as restaurants and bars. In FY 2010-11, the legislation will have an impact on the full fiscal year. This impact will carry through in FY 2011-12 and is predicted to reduce cigarette tax revenue by approximately \$32.3 million, lowering both GF/GP and SAF revenue.

General Fund/General Purpose Revenue

General Fund/General Purpose revenue will total an estimated \$7.0 billion in FY 2011-12, a decline of 0.5% or \$32.9 million from the revised estimate for FY 2010-11. As shown in [Figure 10](#), the initial estimate for FY 2011-12 is essentially flat with the previous fiscal year. The very minor decline in GF/GP revenues represents an important change from the previous two fiscal years. It reflects the slowly improving economic situation in Michigan as compared with the past two years. However, revenue remains at historically low levels as shown in [Figure 11](#). The initial GF/GP revenue estimates for FY 2010-11 are summarized in [Table 6](#).

School Aid Fund

School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated \$11.1 billion in FY 2011-12, an increase of \$193.4 million or 1.8% from the revised estimate for FY 2010-11 and the largest increase since FY 2007-08. The forecasted increase in SAF revenue reflects growth in several major revenue sources, such as the State Education Tax, the real estate transfer tax, and the casino tax, coupled with very stable sales and income tax revenue. The SAF also will receive a boost from the earmarked revenue from the MBT, which is indexed to inflation in the preceding year, and unlike in 2009, inflation is expected to be positive during 2010. The initial SAF revenue estimates for FY 2011-12 are summarized in [Table 6](#).

Table 6

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

	FY 2010-11 Rev. Est.	FY 2011-12 Initial Est.	Change from FY 2010-11	
			Dollar Change	Percent Change
GENERAL FUND/GENERAL PURPOSE:				
Baseline Revenue:	\$6,974.8	\$7,260.7	\$285.8	4.1%
Tax Changes Not In Baseline:	88.3	(230.5)	(318.7)	---
Revenue After Tax Changes:				
<u>Personal Income Tax</u>				
Gross Collections	8,079.1	8,067.4	(11.7)	(0.1)
Less: Refunds	(2,466.8)	(2,542.1)	(75.3)	3.1
Net Income Tax Collections	5,612.3	5,525.3	(87.0)	(1.5)
Less: Earmarking to SAF Campaign Fund	(1,877.5) (1.5)	(1,921.3) (1.5)	(43.8) 0.0	2.3 0.0
Net Income Tax to GF/GP	\$3,733.3	\$3,602.5	(\$130.8)	(3.5)%
<u>Other Taxes</u>				
Single Business Tax	0.0	0.0	0.0	0.0
Michigan Business Tax	1,280.3	1,272.0	(8.3)	(0.6)
Sales	74.0	81.8	7.8	10.5
Use	869.3	929.3	60.0	6.9
Cigarette	194.6	191.2	(3.5)	(1.8)
Insurance Company Premiums	276.0	295.0	19.0	6.9
Telephone & Telegraph	62.0	64.0	2.0	3.2
Oil & Gas Severance	64.0	66.0	2.0	3.1
Casino Wagering	0.0	0.0	0.0	0.0
All Other	111.5	114.6	3.0	2.7
Subtotal Other Taxes	\$2,931.8	\$3,013.9	\$82.0	2.8%
Total Nontax Revenue	398.0	413.8	15.8	4.0
GF/GP REVENUE AFTER TAX CHANGES	\$7,063.1	\$7,030.2	(\$32.9)	(0.5)%
SCHOOL AID FUND:				
Baseline Revenue:	\$10,870.4	\$11,107.3	\$236.9	2.2%
Tax Changes Not In Baseline:	73.8	30.2	(43.5)	---
Revenue After Tax Changes:				
Sales Tax	4,546.1	4,661.0	114.9	2.5
Use Tax	434.7	464.7	30.0	6.9
Lottery Revenue	740.9	736.6	(4.3)	(0.6)
State Education Property Tax	1,883.0	1,865.0	(18.0)	(1.0)
Real Estate Transfer Tax	130.0	145.0	15.0	11.5
Michigan Business Tax	739.8	752.6	12.8	1.7
Income Tax	1,877.5	1,921.3	43.8	2.3
Casino Tax	112.0	116.5	4.5	4.0
Other Revenue	480.2	474.9	(5.3)	(1.1)
SAF REVENUE AFTER TAX CHANGES	\$10,944.2	\$11,137.5	\$193.4	1.8%
BASELINE GF/GP AND SAF	\$17,845.2	\$18,367.9	\$522.7	2.9%
Tax & Revenue Changes	162.0	(200.2)	(362.2)	---
GF/GP & SAF REV. AFTER TAX CHANGES	\$18,007.2	\$18,167.7	\$160.5	0.9%
SALES TAX	\$6,255.9	\$6,413.7	\$157.8	2.5%

Note: FY 2009-10 is the base year for baseline revenue.

MAJOR GENERAL FUND AND SCHOOL AID FUND TAXES IN FY 2010-11 AND FY 2011-12

Income Tax

The income tax will generate an estimated \$5.6 billion in FY 2010-11, an increase of 1.5% from FY 2009-10. Income tax revenue will fall by 1.5% in FY 2011-12 to an estimated \$5.5 billion. The increase in FY 2010-11 reflects the stronger level of earnings in the overall State economy as manufacturing in particular has improved. The decline in FY 2011-12 reflects tax policy changes. On a baseline basis, the income tax in FY 2011-12 will actually grow by 2.4% or \$145.3 million. However, the rate of the income tax will fall due to policy changes enacted in 2007. Combined with other changes, the tax policy adjustments will result in a nearly \$561.7 million reduction in income tax revenue compared with baseline income tax revenue. After accounting for these changes, income tax collections are expected to fall \$87.0 million in FY 2011-12, to \$5.5 billion. The SAF receives 23.3% of the gross income tax collections (withholding, quarterly, and annual payments), assuming a tax rate of 4.4%, while the GF/GP budget receives 76.7% of gross collections, plus the negative impact of all income tax refunds, including the cost of income tax credits paid out in refunds.

Sales Tax

The slowly recovering economy will result in modest improvements in consumer and business spending in 2011 and 2012. As a result, sales tax receipts will rise an estimated 1.4% in FY 2010-11 to \$6.26 billion and increase again in FY 2011-12 at a 2.5% rate to \$6.41 billion. 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 both constitutional and statutory earmarkings, but over the past several years a significant portion of the amount earmarked statutorily has been diverted to the General Fund. This is discussed further in the last section of this report.

Use Tax

Use tax collections will increase an estimated 13.0% in FY 2010-11, to \$1.30 billion and increase approximately 6.9% in FY 2011-12 to an estimated \$1.39 billion due to the recovering economy. 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 \$897.7 million in FY 2010-11, a decrease of 4.6% from FY 2009-10. In FY 2011-12, tobacco tax revenue is expected to decline 2.3%, to \$877.3 million. Tobacco tax revenue is earmarked to several different funds including the General Fund and the SAF.

Casino Tax

The State's tax on casinos equals an 8.1% tax on gross gaming receipts. All of the revenue generated from the tax goes to the SAF. After totaling \$101.8 million in FY 2009-10, casino tax revenue will increase to an estimated level of \$112.0 million in FY 2010-11 and \$116.5 million in FY 2011-12.

State Education Property Tax

After declining 5.4% in FY 2009-10, State education property tax revenue is expected to decline 2.5% in FY 2010-11 as continued weakness in the housing sector is expected to further reduce property values. These negative economic forces will ease somewhat in FY 2011-12, allowing State education property tax revenue to drop by 1.0% in FY 2011-12, to \$1.86 billion.

Lottery

The economic downturn also has had a negative impact on lottery revenue. The introduction of several new games during FY 2010-11 is expected to help offset some of these pressures. After totaling \$701.3 million in FY 2009-10, net lottery revenue is expected to increase 5.7% to \$740.9 million in FY 2010-11 and then remain essentially flat, at \$736.6 million, in FY 2011-12. All of the net revenue generated by the lottery is earmarked to the SAF.

Michigan Business Tax

The Michigan Business Tax generated \$1.86 billion in FY 2009-10. In FY 2010-11, MBT revenue will total an estimated \$2.02 billion, reflecting the slightly stronger economy during the latter half of 2010 and 2011. According to the law, the SAF received \$729.0 million of this business tax revenue in FY 2008-09 and then, in subsequent years, this earmarking is indexed to the percentage change in the U.S. Consumer Price Index, which will push the earmarking to the SAF to \$739.8 million in FY 2010-11 and to an estimated \$752.6 million in FY 2011-12.

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 2009-10 and FY 2010-11 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. In addition, in order to provide an accurate comparison, all of the previous baseline estimates made for FY 2009-10 and FY 2010-11 have been adjusted to reflect a common base year.

The initial GF/GP and SAF baseline consensus revenue estimate for FY 2009-10 was made in January 2009 at \$18.62 billion, as shown in Table 7. This estimate was lowered by \$1,312.3 million at the May 2009 Consensus Revenue Estimating Conference and another \$250.7 million at the January 2010 Consensus Revenue Estimating Conference. In May 2010, the estimate was revised up by \$123.9 million. The preliminary final estimate equals \$17.47 billion, up \$170.6 million or 1.0% from the May 2009 estimate. Compared with the SFA's initial estimate made in December 2008, FY 2009-10 GF/GP and SAF baseline revenue is down \$1.14 billion, or 6.1%.

The initial GF/GP and SAF baseline revenue consensus estimate for FY 2010-11 of \$17.25 billion was made in January 2010, as shown in Table 8. At the May 2010 Conference the estimate was increased by \$509.6 million. Based on the revised outlook, the SFA has increased the GF/GP and SAF baseline estimate \$81.7 million to \$17.85 billion. This latest revision to the FY 2010-11 GF/GP and SAF baseline revenue estimate is \$855.5 million or 5.0% above the SFA's original estimate made in December 2009.

Table 7

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2009-10 (Millions of Dollars)			
Forecast Date	GF/GP	SAF	Total
December 18, 2008	\$7,492.0	\$11,127.2	\$18,619.1
January 9, 2009 ^{a)}	7,508.7	11,234.1	18,742.7
May 13, 2009	6,577.7	10,318.0	16,895.6
May 15, 2009 ^{a)}	6,899.3	10,531.2	17,430.4
December 18, 2009	6,661.1	10,427.1	17,088.1
January 11, 2010 ^{a)}	6,754.0	10,425.8	17,179.7
May 14, 2010	6,251.7	10,681.0	16,932.6
May 21, 2010 ^{a)}	6,602.7	10,701.0	17,303.6
Preliminary Final	6,693.4	10,780.8	17,474.2
<u>Change From Previous Estimate:</u>			
Dollar Change	\$90.7	\$79.8	\$170.6
Percent Change	1.4%	0.7%	1.0%
<u>Change From Initial Estimate:</u>			
Dollar Change	(\$798.6)	(\$346.4)	(\$1,144.9)
Percent Change	(10.7)%	(3.1)%	(6.1)%
^{a)} Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2009-10.			

Table 8

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2010-11 (Millions of Dollars)			
Forecast Date	GF/GP	SAF	Total
December 18, 2009	\$6,504.6	\$10,485.1	\$16,989.7
January 11, 2010 ^{a)}	6,818.4	10,435.5	17,253.9
May 14, 2010	6,568.5	10,707.0	17,275.5
May 21, 2010 ^{a)}	7,012.9	10,750.6	17,763.5
December 17, 2010	6,974.8	10,870.4	17,845.2
<u>Change From Previous Estimate:</u>			
Dollar Change	(\$38.1)	\$119.8	\$81.7
Percent Change	(0.5)%	1.1%	0.5%
<u>Change From Initial Estimate:</u>			
Dollar Change	\$470.2	\$385.3	\$855.5
Percent Change	7.2%	3.7%	5.0%
^{a)} Consensus estimate between the Senate Fiscal Agency, House Fiscal Agency, and Department of Treasury.			
Note: Baseline base year equals FY 2009-10.			

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 9 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 2008-09. Also presented in this table are the SFA's estimates for FY 2009-10, FY 2010-11, and FY 2011-12. The BSF year-end balance as a percentage of GF/GP and SAF revenue is shown in Figure 12, and the estimated economic stabilization trigger calculations for FY 2010-11 and FY 2011-12 are presented in Table 10.

FY 2009-10

In FY 2009-10, the BSF had a beginning balance of \$2.2 million. During the fiscal year there were no payments into or out of the Fund, and nearly no interest was earned, leaving an ending balance of \$2.2 million.

FY 2010-11 AND FY 2011-12

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 out of the Fund for FY 2010-11 and FY 2011-12, as shown in Table 10.

Table 9

BUDGET AND ECONOMIC STABILIZATION FUND TRANSFERS, EARNINGS AND FUND BALANCE FY 1998-99 TO FY 2011-12 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
Senate Fiscal Agency estimates:				
2009-10	0.0	0.0	0.0	2.2
2010-11	0.0	0.1	0.0	2.3
2011-12	0.0	0.1	0.0	2.3

Figure 12

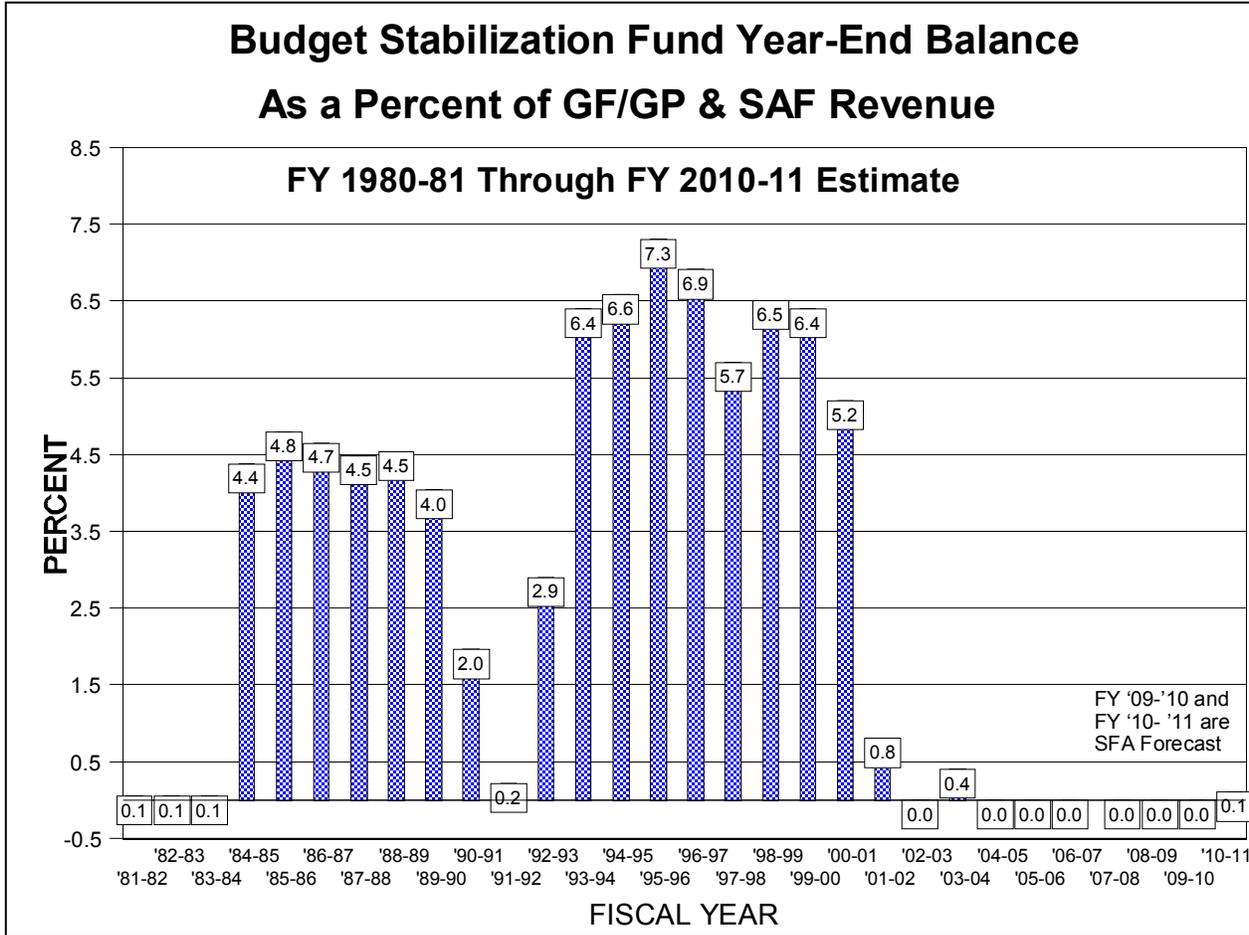


Table 10

ESTIMATED ECONOMIC AND BUDGET STABILIZATION FUND TRIGGER FY 2010-11 AND FY 2011-12 (Millions of Dollars)			
	CY 2010	CY 2011	CY 2012
Michigan Personal Income (MPI)	\$348,353	\$353,334	\$362,289
Less: Transfer Payments	81,587	82,567	84,681
Subtotal	\$266,766	\$270,767	\$277,608
Divided by: Detroit CPI, 12 months average ending June 30 (1982-84=1)			
Equals: Real Adjusted MPI	2.046	2.066	2.096
Percent Change from Prior Year	\$130,384	\$131,059	\$132,447
Excess Over 2.0%		0.52%	1.06%
		FY 2010-11	FY 2011-12
Multiplied by: Estimated GF/GP Revenue		\$6,780.5	\$7,063.1
Equals: Transfer to the BSF		\$0.0	\$0.0
OR Transfer from the BSF		\$0.0	\$0.0

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

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 2009-10 through FY 2010-12.

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 2008-09, State government revenue may not exceed 9.49% of personal income for calendar year 2007. Given that Michigan personal income for 2007 equaled \$343,585 million, the revenue limit for FY 2008-09 is \$32,824.5 million.

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 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 the SFA's revised revenue estimates for FY 2010-11 and FY 2011-12, it is estimated that revenue subject to the constitutional revenue limit will remain well below the revenue limit for each of these fiscal years. The SFA's estimates of the State's compliance with the revenue limit for FY 2010-11 and FY 2011-12 are presented in Table 11.

FY 2009-10

In FY 2009-10, the revenue limit equaled 9.49% of Michigan's personal income in calendar year 2008. According to the U.S. Department of Commerce's Bureau of Economic Analysis, Michigan personal income for 2008 was \$353.3 billion, so the revenue limit equaled \$33.5 billion. Based on the final revenue for FY 2009-10, revenue subject to the limit totaled \$24.1 billion. As a result, revenue subject to the limit fell below the revenue limit by \$9.4 billion, or 28.2%. This gap between the revenue limit and revenue subject to the limit is larger than it has ever been, despite the enacted increases in the income and Michigan business taxes in FY 2007-08, as a result of the weak economy and significant tax policy changes that have reduced revenue.

FY 2010-11

In FY 2010-11, the revenue limit will equal 9.49% of Michigan's personal income in calendar year 2009. The U.S. Department of Commerce's Bureau of Economic Analysis' initial estimate of Michigan personal income in calendar 2009 equaled \$342.3 billion, so the revenue limit is estimated at \$32.5 billion for FY 2010-11. Based on the SFA's revised revenue estimates for FY 2010-11, revenue subject to the revenue limit will equal an estimated \$24.5 billion. As a result, it is estimated that revenue subject to the limit will fall below the limit by \$8.0 billion, or 24.7%, in FY 2010-11. The decline in the gap between estimated revenue and the limit during FY 2010-11 does not reflect an increase in revenue subject to the limit but a decrease in personal income during 2009. Revenue subject to the limit in FY 2010-11 is estimated to increase approximately 1.5% from the FY 2009-10 level, while personal income is expected to have fallen 3.1% between 2008 and 2009. The 2009 decline in personal income lowers the FY 2010-11 revenue limit by \$1.1 billion.

FY 2011-12

The Senate Fiscal Agency estimates that personal income in Michigan during 2010 will equal \$337.3 billion, and as a result, the revenue limit will equal \$33.1 billion in FY 2011-12. Based on the SFA's initial revenue estimates for FY 2011-12, revenue subject to the revenue limit will equal an estimated \$24.6 billion. As a result, revenue subject to the revenue limit will fall below the revenue by an estimated \$8.5 billion, or 25.7% in FY 2011-12.

Table 11

**COMPLIANCE WITH CONSTITUTIONAL REVENUE LIMIT
SECTION 26 OF ARTICLE IX OF THE STATE CONSTITUTION
FY 2008-09 THROUGH FY 2011-12 ESTIMATE
(Millions of Dollars)**

	FY 2008-09 Final	FY 2009-10 Estimate	FY 2010-11 Estimate	FY 2011-12 Estimate
Revenue Subject to Limit				
<u>Revenue:</u>				
General Fund/General Purpose (baseline)	\$7,097.2	\$6,830.3	\$7,124.9	\$7,420.4
Revenue Sharing (baseline)	1,568.3	1,522.6	1,544.8	1,578.9
School Aid Fund (baseline)	10,896.2	10,813.1	10,915.4	11,124.7
Transportation Funds	1,999.0	2,011.9	2,015.6	2,019.3
Other Restricted Non-Federal Aid Revenue	3,014.5	2,984.4	2,909.8	2,822.5
<u>Adjustments:</u>				
GF/GP Federal Aid	(31.2)	(31.1)	(25.0)	(29.0)
GF/GP Balance Sheet Adjustments	268.5	(49.9)	(61.8)	(390.2)
SAF Balance Sheet Adjustments	26.0	2.5	28.8	12.9
Total Revenue Subject to Limit	\$24,838.5	\$24,083.8	\$24,452.4	\$24,559.5
Revenue Limit				
<u>Personal Income:</u>				
Calendar Year	CY 2007	CY 2008	CY 2009	CY 2010
Amount	\$345,885	\$353,296	\$342,302	\$348,353
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$32,824.5	\$33,527.8	\$32,484.5	\$33,058.7
1.0% of Limit	328.2	335.3	324.8	330.6
Amount Under (Over) Limit	\$7,985.9	\$9,444.1	\$8,032.0	\$8,499.2
Percent Below Limit	24.3%	28.2%	24.7%	25.7%

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 2009-10 and FY 2010-11. This section of the report also provides an outlook as to the issues that the newly elected Governor and the newly elected members of the Michigan Legislature will face in developing an FY 2011-12 State budget.

Table 12 provides a summary of the estimated year-end balances for the FY 2009-10 and FY 2010-11 GF/GP and SAF budgets. The good news is that in both fiscal years, the GF/GP and SAF budgets are in balance. The final accounting of FY 2009-10 revenue and appropriations has not been completed, but the SFA is estimating that when the final accounting is completed, the GF/GP budget will have a \$192.8 million balance and the SAF budget will have a \$247.9 million balance. A comparison of the SFA estimate of FY 2010-11 revenue with actual and projected appropriations leads to a \$200.7 million GF/GP balance and a \$430.0 million SAF balance.

Table 12

GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND ESTIMATED YEAR-END BALANCES (Millions of Dollars)		
	FY 2009-10 Estimate	FY 2010-11 Estimate
General Fund/General Purpose	\$192.8	\$200.7
School Aid Fund	\$247.9	\$430.0

The outlook for the FY 2011-12 GF/GP budget points to significant imbalance between current law revenue and appropriations. This projected budget imbalance is a result of the elimination of temporary Federal funds used to support the FY 2010-11 GF/GP budget, the elimination of one-time revenue sources and the scheduled reduction in the rate of the State income tax on October 1, 2011. The outlook for the FY 2011-12 SAF budget points to a situation in which the level of State-funded appropriations to school districts could be slightly increased from the FY 2008-09 funding levels.

FY 2009-10 YEAR-END BALANCE

The State Budget Office (SBO) is expected to complete the preliminary accounting of the FY 2009-10 State revenue and expenditures by December 31, 2010. The final accounting of FY 2009-10 revenue and expenditures will be completed by March 2011. Once the final accounting is completed, the State will publish the FY 2009-10 Comprehensive Annual Financial Report.

Based on the year-to-date accounting of FY 2009-10 GF/GP revenue and expenditures, the SFA is now estimating that the GF/GP budget will close the fiscal year with a \$192.8 million balance. The SFA is now estimating that the FY 2009-10 SAF budget will close the fiscal year with a \$247.9 million balance.

Table 13 provides a summary of the current SFA estimate of a \$192.8 million year-end balance in the FY 2009-10 GF/GP budget. Pursuant to statutory requirements, the actual level of the year-end balance will carry forward and be available as an FY 2010-11 revenue source.

On the revenue side of the FY 2009-10 GF/GP budget ledger, the SFA is now estimating that revenue will total \$7.9 billion. This represents a \$727.6 million or 8.4% decline from the final level of FY 2008-09 GF/GP revenue. The current SFA estimate of ongoing consensus revenue represents a \$125.4 million increase from the May 2010 consensus revenue estimate.

Table 13
FY 2009-10
GENERAL FUND/GENERAL PURPOSE
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance.....	\$177.2
Ongoing Revenue:	
SFA Revenue Estimate.....	6,780.5
Revenue Sharing Savings-Cities, Villages and Townships.....	583.7
County Revenue Sharing-Payments Restoration.....	(55.3)
Shift of Short-Term Borrowing Costs to School Aid Fund.....	20.0
Use Tax on HMOs (PA 440 of 2008).....	357.7
Subtotal Ongoing Revenue.....	\$7,686.6
One-Time Revenue:	
FY 2008-09 Book-Closing MBT Transfer to SAF Budget.....	(\$7.9)
Transportation Economic Development Fund Transfer to General Fund....	12.0
Railroad Improvement Fund Transfer to General Fund.....	5.8
Liquor Purchase/Corporate Fees Transfer to General Fund.....	1.9
State Services Fee Fund Transfer to General Fund.....	1.6
Use Tax for Travel Promotion-PA 36 of 2010.....	(9.5)
21st Century Jobs Fund Transfer to General Fund.....	37.5
Subtotal One-Time Revenue.....	\$41.4
Total Estimated Revenue.....	\$7,905.2
Expenditures:	
Initial Appropriations.....	\$8,128.0
Appropriation Adjustments:	
Enacted Supplemental Appropriations.....	(340.6)
Projected Year-End Appropriation Lapses.....	(75.0)
Subtotal Appropriation Adjustments.....	(\$415.6)
Total Estimated Expenditures.....	\$7,712.4
Projected Year-End Balance.....	\$192.8

On the expenditure side of the FY 2009-10 GF/GP budget ledger, the SFA is now estimating that expenditures will total \$7.7 billion. This represents a \$743.2 million or 8.8% decline from the final level of FY 2008-09 GF/GP expenditures.

The major component of the FY 2009-10 GF/GP expenditure total includes the initial appropriations of \$8.1 billion. A total of 19 enacted supplemental appropriation bills resulted in \$340.6 million of GF/GP appropriation reductions. Year-end appropriation lapses are now estimated at \$75.0 million.

The final level of FY 2009-10 GF/GP expenditures was greatly influenced by the appropriation of temporary Federal funds that became available to help balance the overall budget under provisions of the American Recovery and Reinvestment Act of 2009 (ARRA). During FY 2009-10, GF/GP appropriations were offset with Federal ARRA funding of \$1.1 billion. This provided for a substitution of GF/GP fund sources with ARRA funding and played a significant role in ensuring a balanced GF/GP budget at the close of the fiscal year. The FY 2009-10 appropriated ARRA funding in the GF/GP budget included \$1.0 billion in the Department of Community Health budget for an enhanced Federal Medicaid match rate and \$68.2 million in the Higher Education budget used to support the operational appropriations for universities.

Table 14 provides a summary of the FY 2009-10 SFA estimate of a \$247.9 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 2010-11 revenue source.

Table 14
FY 2009-10
SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	\$238.2
SFA Estimate of Restricted SAF Revenue	10,815.5
GF/GP Grant	30.2
Federal Aid	1,612.3
ARRA-State Fiscal Stabilization Fund	450.0
FY 2008-09 Book-Closing MBT Transfer from GF/GP	7.9
FY 2008-09 Book-Closing Greektown Casino Adjustment	(9.3)
Total Estimated Revenue	\$13,144.8
Expenditures:	
Enacted Appropriation	\$12,823.6
<u>Enacted Supplemental Appropriations:</u>	
Fund Source Shift to Community Colleges (PA 158 of 2010)	208.4
Public Act 110 of 2010	(116.1)
Public Act 217 of 2100	30.0
Projected Year-End Appropriation Lapses	(49.0)
Total Appropriations	\$12,896.9
Projected Year-End Balance	\$247.9

On the revenue side of the FY 2009-10 SAF budget ledger, the SFA is now estimating the revenue will total \$13.1 billion. This represents a \$218.4 million or 1.6% decline from the final level of FY 2008-09 SAF revenue. The current SFA estimate of ongoing consensus revenue represents a \$65.5 million increase from the May 2010 consensus revenue estimate.

On the expenditure side of the FY 2009-10 SAF budget ledger, the SFA is now estimating that expenditures will total \$12.9 billion. This represents a \$228.1 million or 1.7% decline from the final level of FY 2008-09 SAF expenditures. The final level of SAF expenditures includes the enacted appropriations throughout the fiscal year and an estimate that \$49.0 million of enacted appropriations will lapse to the SAF budget at the close of the fiscal year.

As was the case in the FY 2009-10 GF/GP budget, the FY 2009-10 SAF budget depended on the appropriation of temporary Federal ARRA funding to help ensure a balance between revenue and appropriations. During FY 2009-10, a total of \$450.0 of ARRA funding helped balance the SAF budget.

FY 2010-11 YEAR-END BALANCE ESTIMATES

On September 29, 2010, the Michigan Legislature completed action on the initial set of FY 2010-11 appropriation bills. The FY 2010-11 enacted budget was balanced with a combination of appropriation reductions, the appropriation of temporary Federal funds, and one-time revenue sources. The enacted budget did not include increases in State taxes or fees. At the time of the enactment of the original budget, based on the May 2010 consensus revenue estimate, the SFA was projecting a \$33.9 million year-end balance in the GF/GP budget. The current SFA estimate

of the FY 2010-11 GF/GP year-end balance is \$200.7 million. At the time of the enactment of the original budget, based on the May 2010 consensus revenue estimate, the SFA was projecting a \$46.4 million year-end balance in the SAF budget. The current SFA estimate of the FY 2010-11 SAF year-end balance is \$318.7 million.

Table 15 provides a summary of the current SFA estimate of a \$200.7 million year-end balance in the FY 2010-11 GF/GP budget. The increase in the projected level of the FY 2010-11 GF/GP year-end balance results from a larger carry-forward balance from FY 2009-10 than the level assumed in the initial budget.

Table 15
FY 2010-11
GENERAL FUND/GENERAL PURPOSE
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	\$192.8
Ongoing Revenue:	
SFA Revenue Estimate	7,063.1
Shift of Short-Term Borrowing Costs to School Aid Fund.....	45.0
Revenue Sharing Freeze-Cities, Villages and Townships	602.3
County Revenue Sharing- Payment Restoration	(114.7)
Use Tax on Health Maintenance Organizations	377.3
Enhanced Tax Enforcement Revenue	15.0
Liquor Reforms.....	9.1
Subtotal Ongoing Revenue	<u>\$7,997.1</u>
One-Time Revenue:	
Tax Amnesty	\$61.8
Unclaimed Property Reforms	168.0
Convention Facilities Transfer to General Fund	5.0
Lapse of Secretary of State Work Project to General Fund.....	6.0
Subtotal One-Time Revenue	<u>\$240.8</u>
Total Estimated Revenue	<u>\$8,430.7</u>
Expenditures:	
Initial Appropriations	\$8,311.0
State Employees Retirement Savings	(81.0)
Total Proposed Expenditures	<u>\$8,230.0</u>
Projected Year-End Balance.....	<u>\$200.7</u>

On the revenue side of the FY 2010-11 GF/GP budget ledger, the SFA is now estimating that revenue will total \$8.4 billion. This estimate includes a projected \$192.8 million balance carried forward from FY 2009-10, \$8.0 billion of revenue from ongoing sources, and \$240.8 million of revenue from one-time sources. This represents a \$525.5 million or 6.6% increase over the FY 2009-10 estimate. The current SFA estimate of ongoing consensus revenue represents a \$33.7 million decrease from the May 2010 consensus revenue estimate.

The one-time revenue included in the FY 2010-11 GF/GP budget includes \$61.8 million from a tax amnesty program that will occur in the spring of 2011 and \$168.0 million from enacted statutory changes in the accounting of unclaimed property turned over to the State of Michigan. These policy changes provide additional temporary revenue during FY 2010-11, but will reduce revenue in later fiscal years.

On the expenditure side of the FY 2010-11 GF/GP budget ledger, the SFA is now estimating that expenditures will total \$8.2 billion. This total includes \$8.3 billion of appropriations in the enacted initial appropriation bills for the fiscal year and \$81.0 million unallocated GF/GP appropriation savings related to the recently enacted enhanced State employee retirement program. The savings related to the State employee retirement program will primarily occur as a result of a tentative decision to replace only two out of three State employees who retired under this program. The total level of FY 2010-11 GF/GP projected expenditures is a \$517.9 million or 6.7% increase from the final level of FY 2009-10 year-end expenditures.

As in the past two fiscal years, the appropriation of temporary Federal funds related to ARRA played a critical role in ensuring a balanced FY 2010-11 GF/GP budget. A total of \$919.0 million of temporary Federal funds are supporting the budget. These temporary Federal funds include funding for an enhanced Medicaid match rate, one-time Medicaid Federal funds resulting from a recalculation of the level of Michigan personal income in prior fiscal years, and funding for programs in the Department of Human Services. The use of these temporary Federal funds will have an impact on the FY 2011-12 GF/GP budget.

While it is a significant accomplishment to have a projected \$200.7 million year-end balance in the FY 2010-11 GF/GP budget, a pending Federal issue could severely affect this projection. The U.S. Centers for Medicare and Medicaid Services have verbally informed the Department of Community Health of possible disallowances in Medicaid funding claimed by the State of Michigan. These disallowances could total up to \$215.0 million of GF/GP revenue assumed in the budget. The largest portion of the potential Federal disallowances involves Medicaid claims made by the State at the Center for Forensic Psychiatry between FY 2000-01 and FY 2008-09. The Federal government has informed Michigan that it will disallow these Medicaid payments due to the lack of Medicare certification of this facility. Other potential Federal disallowances include payments to the Huron Valley Center, reimbursement for the Family Planning Waiver, and a settlement related to special pharmaceutical services. The State of Michigan is currently in discussion with the Centers for Medicare and Medicaid Services on these issues. The outcome of these discussions could have a large impact on the status of the FY 2010-11 GF/GP budget.

Table 16 provides a summary of the current SFA estimate of a \$430.0 million year-end balance in the FY 2010-11 SAF budget. The increase in the projected level of the FY 2010-11 SAF year-end balance results from a larger carry-forward balance from FY 2009-10, an increase in the estimate of Restricted SAF revenue, and projected year-end appropriation lapses.

On the revenue side of the FY 2010-11 SAF budget ledger, the SFA is now estimating that revenue will total \$13.4 billion. This estimate includes a \$247.9 million balance carried forward from FY 2009-10, \$10.9 billion of Restricted SAF revenue, an \$18.6 million GF/GP grant to the SAF budget, \$1.7 billion of ongoing Federal aid, \$184.3 million of Federal ARRA funding, \$316.3 million of Federal funding related to the Education Jobs Fund of 2010, and modest amounts of additional SAF revenue from enhanced tax enforcement, tax amnesty, lottery reform, and liquor reforms. The current SFA estimate of total FY 2010-11 SAF revenue represents a \$278.6 million or 2.1% increase over the projected level of FY 2009-10 SAF revenue. The current estimate of FY 2010-11 Restricted SAF revenue is \$111.2 million higher than the May 2010 consensus estimate.

On the expenditure side of the FY 2010-11 SAF budget ledger, the SFA is now estimating that expenditures will total \$13.0 billion. This expenditure estimate includes the initial SAF appropriations enacted at the beginning of the schools' fiscal year, three enacted supplemental appropriations, and projected year-end appropriation lapses. The projected level of FY 2010-11 SAF expenditures represents a \$96.5 million or 0.7% increase from the projected level of FY 2009-10 SAF expenditures.

Table 16
FY 2010-11
SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	\$247.9
SFA Estimate of Restricted SAF Revenue	\$10,944.2
Revenue Adjustments:	
GF/GP Grant to School Aid Fund.....	18.6
Ongoing Federal Aid	1,677.8
American Recovery and Reinvestment Act Funding	184.3
Federal Education Jobs Fund of 2010	316.3
Enhanced Tax Enforcement Revenue	2.3
Lottery Reform.....	5.0
Tax Amnesty	26.1
Liquor Reforms.....	0.9
Subtotal Revenue Adjustments.....	\$2,231.3
Total Estimated School Aid Fund Revenue	\$13,423.4
Expenditures:	
Enacted Initial Appropriations - PA 110 of 2010	\$12,838.7
Race to the Top State Funding - PA 110 of 2010.....	26.2
Supplemental Appropriations - PA 204 of 2010.....	(46.8)
Supplemental Appropriations - PA 205 of 2010.....	70.3
Supplemental Appropriations - PA 217 of 2010.....	246.0
Projected Year-End Appropriation Lapses	(141.0)
Total Projected Expenditures	\$12,993.4
Projected Year-End School Aid Fund Balance	\$430.0

The original FY 2010-11 SAF appropriations were contained in Public Act 110 of 2010. This Public Act also included the authorization to spend an additional \$26.2 million of SAF revenue if the State of Michigan was not successful in obtaining a Federal grant under the Federal Race to the Top education reforms. Michigan was not awarded this Race to the Top funding. Public Act 204 of 2010 adjusted SAF appropriations for savings from refinancing Debt Service and eliminating reimbursement to the SAF for lost Renaissance Zone revenue, and made other adjustments. Supplemental appropriations in Public Act 205 of 2010 and Public Act 217 of 2010 provided for the appropriation of new temporary Federal funding available as a result of the Education Jobs Fund Act of 2010. This temporary Federal funding was used to provide one-time funding increases to local and intermediate school districts, partially or fully restoring funding to individual school districts that was cut during FY 2009-10 and continued in FY 2010-11. The SFA is now estimating that the SAF budget will lapse \$141.0 million at the close of the fiscal year to reflect actual expenditures versus appropriations.

As is the case in the FY 2010-11 GF/GP budget, the FY 2010-11 SAF budget has as a major funding component temporary Federal funds. Between the temporary Federal funding from ARRA and the temporary Federal funding from the Education Jobs Fund Act, a total of \$500.6 million of temporary Federal funds is used to balance the FY 2010-11 SAF budget. The use of these temporary Federal funds will have an impact on the FY 2011-12 SAF budget.

FY 2011-12 STATE BUDGET OUTLOOK

During January 2011, newly elected Governor Rick Snyder will begin the task of developing a State budget recommendation for the fiscal year beginning on October 1, 2011. Pursuant to statutory requirements, the new Governor will have to submit a detailed FY 2011-12 State budget recommendation to the Legislature no later than March 12, 2011. This State budget recommendation by the Governor will begin the debate on the FY 2011-12 State budget.

The parameters of the FY 2011-12 State budget recommendation of the Governor are not known today. What is known is that due to a variety of factors related to the enacted FY 2010-11 State budget, the new Governor and the newly elected members of the Legislature will face difficult decisions in developing and enacting the FY 2011-12 State budget. This is especially true in light of the issues surrounding the FY 2011-12 GF/GP budget.

The enacted FY 2010-11 GF/GP budget is balanced with a combination of temporary Federal funds and one-time revenue from several previously discussed statutory changes. The FY 2011-12 GF/GP budget situation will be further complicated by the statutory requirement that will lower the rate of the State income tax from 4.35% to 4.25% on October 1, 2011. This change will reduce FY 2011-12 GF/GP revenue by \$162.0 million.

The combination of the elimination of \$919.0 million of temporary Federal funds, the elimination of \$240.8 million of one-time revenue sources, the income tax rate reduction, and current law spending pressures creates a sizeable imbalance between projected current law FY 2011-12 GF/GP revenue and current law GF/GP appropriations. Table 17 provides a summary of the SFA's outlook of the FY 2011-12 GF/GP budget.

On the revenue side of the FY 2011-12 budget ledger, the SFA is projecting current law revenue will equal \$7.8 billion. This estimate includes the assumed carry forward of a \$200.7 million balance in the FY 2010-11 GF/GP budget estimated by the SFA. As previously discussed, the actual level of this potential carry-forward balance could be affected by pending Federal action regarding the Medicaid program. The SFA estimate of FY 2011-12 current law revenue is \$7.0 billion. This estimate reflects the impact of the income rate reduction and several other enacted tax changes. The estimate also assumes a continuation of the FY 2010-11 freeze in revenue sharing payments to cities, villages, and townships. The estimate assumes that the State continues funding county revenue sharing payments at the statutorily required level.

On the appropriation side of the FY 2011-12 budget ledger, the SFA estimate is built off the enacted level of FY 2010-11 GF/GP appropriations. Adjustments then are made to reflect the elimination of temporary Federal funds that were an important component of the FY 2010-11 GF/GP budgets in the Department of Community Health and the Department of Human Services. Additional adjustments factored into this analysis include Medicaid caseload and cost increases, a change in the base Medicaid match rate, full-year funding for new staff in the Department of Human Services, debt service funding increases, funding increases in State Police due to the elimination of one-time revenue sources, and funding for the projected current law cost increases for State employee health care and retirement. These assumptions lead to an FY 2011-12 GF/GP appropriation base of \$9.6 billion. This assumption is based on a freeze in such major GF/GP programs as operations aid to universities and community colleges.

Therefore, a comparison of projected FY 2011-12 GF/GP current law revenue and a continuation type of appropriation base leads to a \$1.8 billion projected imbalance between estimated revenue and appropriations. This projected funding imbalance equals 19.2% of projected current law appropriations. This projected funding imbalance could be affected further by any efforts by the new Governor to reduce business taxes in current law.

Table 17
FY 2011-12
STATE BUDGET OUTLOOK
GENERAL FUND/GENERAL PURPOSE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance.....	\$200.7
SFA Revenue Estimate	7,030.2
<u>Other Revenue Adjustments:</u>	
Revenue Sharing Freeze-Cities, Villages, and Townships.....	630.6
County Revenue Sharing Payments.....	(152.0)
Shift of Short-Term Borrowing Costs to School Aid Fund	45.0
Tax Amnesty	(29.9)
Unclaimed Property Reforms.....	35.0
Subtotal Other Revenue Adjustments	528.7
Current Law GF/GP Revenue	\$7,759.6
Appropriations:	
FY 2010-11 Enacted GF/GP Appropriations	\$8,230.0
<u>Appropriation Adjustments:</u>	
Enhanced Medicaid Match Rate.....	520.0
Human Services Emergency TANF Funds.....	239.0
Medicaid One-Time VEBA Payment.....	160.0
Medicaid Caseload/Costs	210.0
Federal Medicaid Match Rate	(35.0)
Human Services Caseload/Costs/Full-Year Staffing Levels.....	91.0
General Obligation Bond Debt Restructuring	83.3
State Police One-Time Revenue Adjustments	5.8
State Employee Economic Costs	103.7
Subtotal Funding Adjustments.....	1,377.8
Adjusted FY 2011-12 GF/GP Appropriation Base.....	\$9,607.8
Potential Funding Imbalance.....	\$(1,848.2)

While the outlook for the FY 2011-12 GF/GP budget presents a sizeable imbalance between current law revenue and appropriations, the outlook for the FY 2011-12 SAF budget is more favorable. The FY 2010-11 SAF budget is less reliant on temporary Federal funding and the SAF revenue base is held harmless from the impact of the scheduled reduction in the rate of the State income tax.

Table 18 provides a summary of the SFA's outlook for the FY 2011-12 SAF budget. A comparison of current law SAF revenue and restoration of SAF appropriations to the FY 2008-09 per-pupil funding levels leads to a \$192.4 million balance. If this projected SAF funding balance were appropriated to school districts on a per-pupil basis, it would equate to a funding increase of \$123 per pupil.

On the revenue side of the FY 2011-12 SAF budget outlook, the SFA is estimating that revenue will total \$13.3 billion. This estimate includes \$430.0 million of surplus SAF revenue carried forward from FY 2010-11, the SFA estimate of Restricted SAF revenue, a continuation in the level of ongoing Federal revenue, a continuation in the level of the GF/GP grant to the SAF budget, and revenue from enhanced tax enforcement, lottery reforms, tax amnesty, and liquor reforms.

On the appropriation side of the FY 2011-12 SAF budget outlook, the SFA is estimating that a continuation appropriation level of funding would equal \$13.1 billion. This funding level assumes that the level of State-funded appropriations per student for local school districts is restored to the

FY 2008-09 funding levels. During FY 2010-11, the level of State funding per student is \$170 below the FY 2008-09 funding level. A significant amount of the \$170 per-student funding reduction has been restored during FY 2010-11 with temporary Federal funds under provisions of the Education Jobs Fund Act. If the Legislature and the Governor choose to restore per-pupil funding to the FY 2008-09 levels, this would not represent an increase in school districts' funding for FY 2011-12, but rather would replace any expiring Federal funds with State SAF.

The SFA estimate of an FY 2011-12 continuation appropriation level of funding takes into account preliminary estimates as to the number of students in local school districts and preliminary estimates of local property tax valuations.

Table 18
FY 2011-12
SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	\$430.0
SFA Estimate of Restricted SAF Revenue	11,137.5
Ongoing Federal Funds	1,677.8
GF/GP Grant to SAF	18.6
Enhanced Tax Enforcement Revenue	2.3
Lottery Reforms.....	5.0
Liquor Reforms.....	0.9
Tax Amnesty	(6.7)
Current Law SAF Revenue	\$13,265.4
Expenditures:	
Continuation Appropriation Level.....	\$13,073.0
Potential Year-End Balance	\$192.4