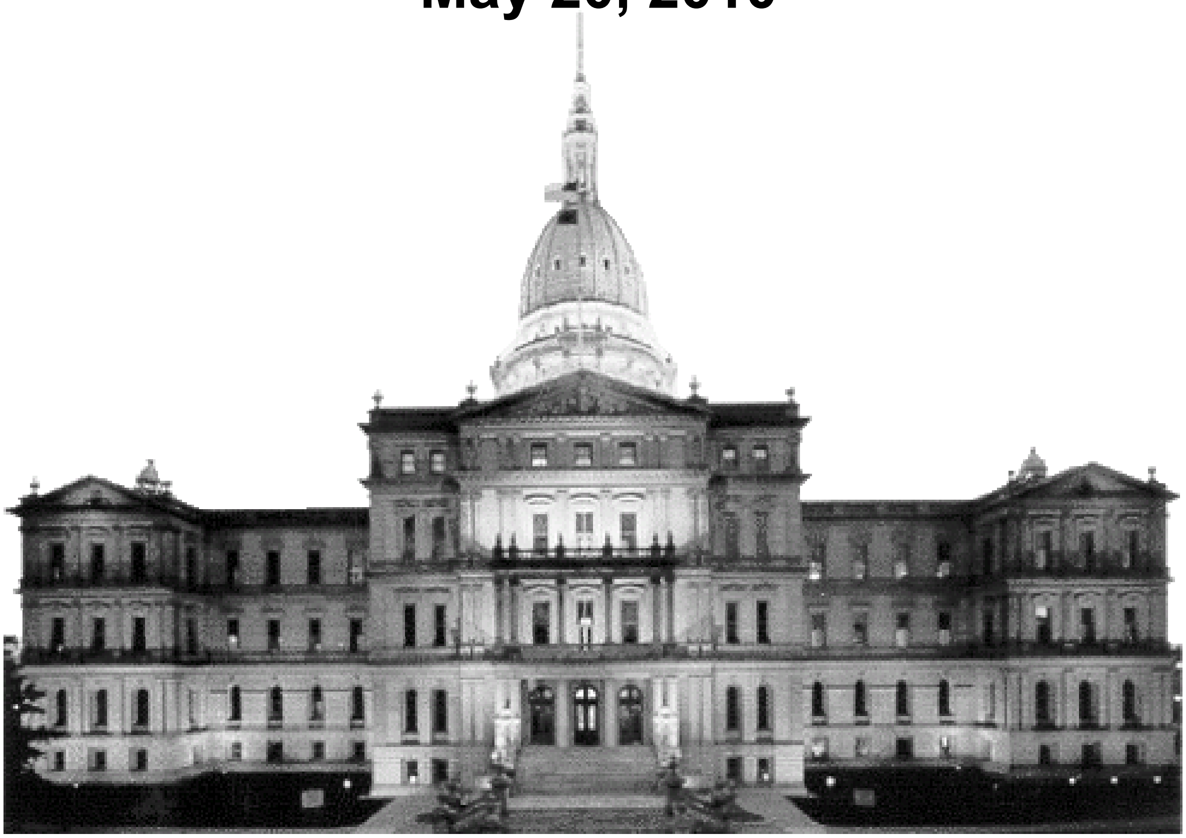
Senate Fiscal Agency

MICHIGAN'S ECONOMIC OUTLOOK AND BUDGET REVIEW

FY 2009-10 AND FY 2010-11

May 20, 2010



Gary S. Olson, Director – Lansing, Michigan – (517) 373-2768 – TDD (517) 373-0543
www.senate.michigan.gov/sfa

THE SENATE FISCAL AGENCY

The Senate Fiscal Agency is governed by a board of five members, including the majority and minority leaders of the Senate, the Chairperson of the Appropriations Committee of the Senate, and two other members of the Appropriations Committee of the Senate appointed by the Chairperson of the Appropriations Committee with the concurrence of the Majority Leader of the Senate, one from the minority party.

The purpose of the Agency, as defined by statute, is to be of service to the Senate Appropriations Committee and other members of the Senate. In accordance with this charge, the Agency strives to achieve the following objectives:

1. To provide technical, analytical, and preparatory support for all appropriations bills.
2. To provide written analyses of all Senate bills, House bills, and Administrative Rules considered by the Senate.
3. To review and evaluate proposed and existing State programs and services.
4. To provide economic and revenue analysis and forecasting.
5. To review and evaluate the impact of Federal budget decisions on the State.
6. To review and evaluate State issuance of long-term and short-term debt.
7. To review and evaluate the State's compliance with constitutional and statutory fiscal requirements.
8. To prepare special reports on fiscal issues as they arise and at the request of members of the Senate.

The Agency is located on the 8th floor of the Victor Office Center. The Agency is an equal opportunity employer.

Gary S. Olson, Director
Senate Fiscal Agency
P.O. Box 30036
Lansing, Michigan 48909-7536
Telephone (517) 373-2768; TDD (517) 373-0543
Internet Home Page http://www.senate.michigan.gov/sfa

ACKNOWLEDGEMENT

This Economic Outlook and Budget Review was prepared and written by Gary S. Olson, Director, Eric Scorsone, Senior Economist, and David Zin, Economist, of the Senate Fiscal Agency. Karen Hendrick, Executive Secretary, coordinated the production of this report.

TABLE OF CONTENTS

EXECUTIVE SUMMARY

ECONOMIC FORECAST

The U.S. economy, as measured by inflation-adjusted gross domestic product, is predicted to grow 3.1% in 2010 and 2.5% in 2011. Light vehicle sales are forecasted to increase from 10.4 million units in 2009 to 11.6 million units in 2010 and 12.7 million units in 2011. The unemployment rate is expected to increase from 9.3% in 2009 to 9.7% in 2010 before declining slightly to 9.6% in 2011, while the consumer price index is estimated to rise 2.1% in 2010 and 1.8% in 2011, after declining 0.4% in 2009.

The Michigan economy, as measured by inflation-adjusted personal income, after contracting 2.4% in 2009, is estimated to contract 0.7% in 2010 before growing 0.3% in 2011. Wage and salary employment, after falling 6.8% during 2009, is expected to decline 1.2% in 2010 and 0.8% in 2011.

REVENUE FORECAST

Fiscal year (FY) 2008-09 was one of the worst years on record for overall State revenue, which fell by over 13.0%. This represents one of the sharpest drops in State history. Overall State revenue in FY 2009-10 is projected to be down another 6.0% compared with FY 2008-09. In FY 2009-10, the May 2010 forecast has revenue projected to be down a further $247.0 million due to weakness in the Michigan Business Tax collections. As the economic recovery finally gets under way in 2010, State revenue is expected to recover from the lows experienced in FY 2008-09 and FY 2009-10. Projections are that State revenue will grow by 2.1% in FY 2010-11.

YEAR-END BALANCE ESTIMATES

Based on the revised Senate Fiscal Agency (SFA) revenue estimates and enacted and projected appropriations, the SFA is estimating that the FY 2009-10 General Fund/General Purpose (GF/GP) budget is in deficit by $466.6 million. This projected GF/GP budget deficit will have to be eliminated by action taken by the Governor and the Legislature. A comparison of the FY 2009-10 School Aid Fund (SAF) revenue estimates and enacted and projected SAF appropriations leads to a $348.6 million SAF budget surplus.

Comparing the SFA's FY 2010-11 revenue estimate with the appropriation bills as passed by the Senate, leads to a $277.6 million budget imbalance in the FY 2010-11 GF/GP budget. A comparison of the SFA's FY 2010-11 SAF revenue estimate with the Senate-passed SAF appropriation bill leads to a $563.7 million budget surplus.

EXECUTIVE SUMMARY

SENATE FISCAL AGENCY
ECONOMIC AND BUDGET SUMMARY

ECONOMIC PROJECTIONS (Calendar Year)	2008 Actual	2009 Actual	2010 Estimate	2011 Estimate
Real Gross Domestic Product (% change)	0.4%	(2.4)%	3.1%	2.5%
U.S. Consumer Price Index (% change)	3.8%	(0.4)%	2.1%	1.8%
Light Motor Vehicle Sales (millions of units)	13.2	10.4	11.6	12.7
U.S. Unemployment Rate (%)	5.8%	9.3%	9.7%	9.6%
Real Michigan Personal Income (% change)	(0.5)%	(2.4)%	(0.7)%	0.3%
Michigan Wage & Salary Employment (% change)	(2.6)%	(6.8)%	(1.2)%	(0.8)%

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

	FY 2009-10 Estimate			FY 2010-11 Estimate		
	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available
Gen'l Fund/Gen'l Purpose	$6,388.5	$7.8	$6,396.3	$6,775.3	($56.7)	$6,718.5
% Change	(10.0)%	---	(13.2)%	6.1%	---	5.0%
School Aid Fund	$10,713.2	0.0	$10,713.3	$10,736.4	$15.6	$10,752.0
% Change	(1.7)%	---	(1.9)%	0.2%	---	0.4%
Total GF/GP and SAF	$17,101.8	$7.8	$17,109.6	$17,511.6	($41.1)	$17,470.5
% Change	(5.0%)	---	(6.4)%	2.4%	---	2.1%

	FY 2009-10 Estimate	FY 2010-11 Estimate
Revenue Limit - Under (Over):	$9,639.0	$8,286.3

YEAR-END BALANCE ESTIMATES (Fiscal Year, Millions of Dollars)	FY 2008-09 Actual	FY 2009-10 Estimate	FY 2010-11 Estimate
General Fund/General Purpose	$177.2	($466.6)	($277.6)
School Aid Fund	238.2	348.6	563.7
Budget Stabilization Fund	2.2	2.3	2.4

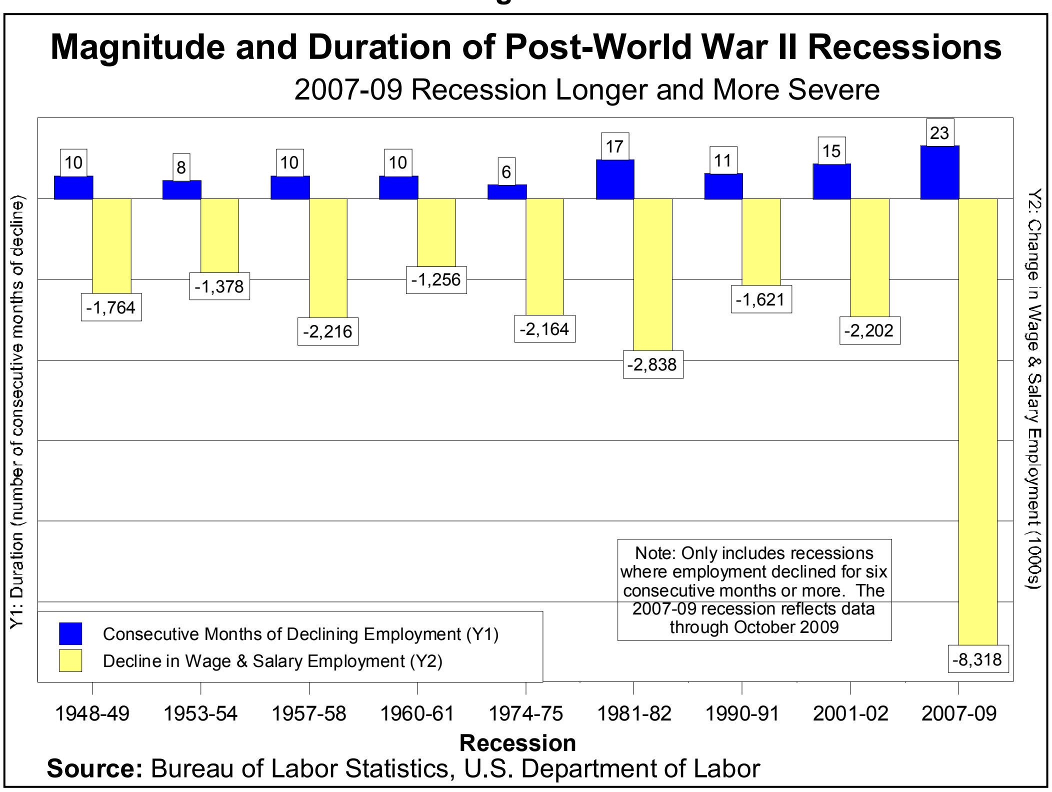
ECONOMIC REVIEW AND OUTLOOK

State revenue, particularly tax revenue, depends heavily on economic conditions. This section presents the Senate Fiscal Agency's latest economic forecast for 2010 and 2011.

RECENT U.S. ECONOMIC HIGHLIGHTS

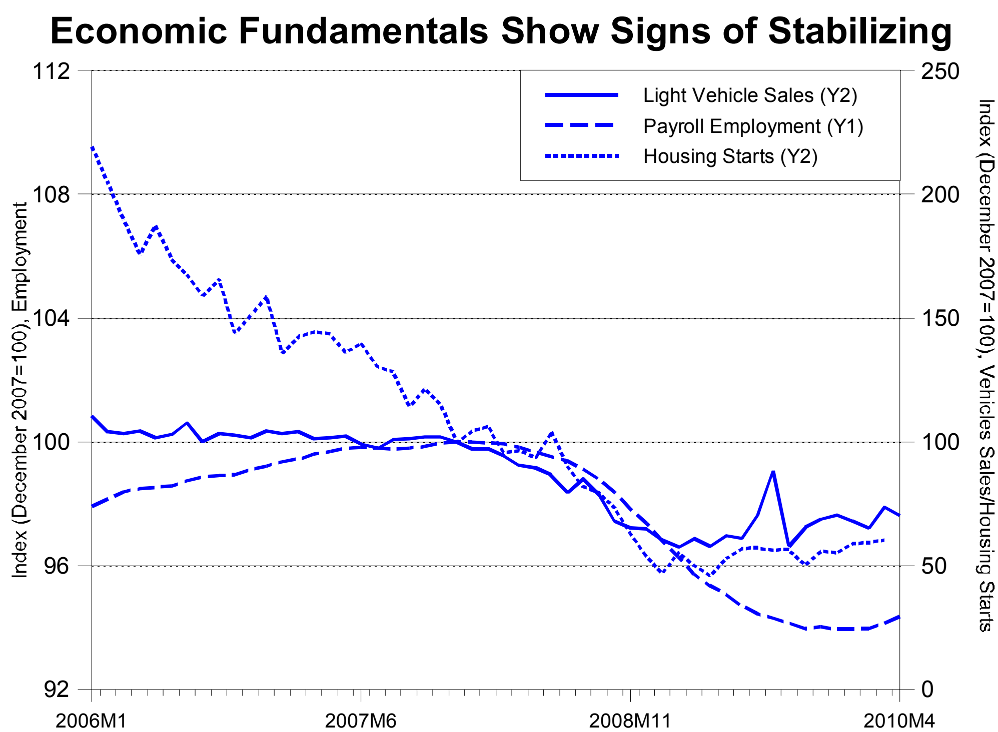
The National Bureau of Economic Research, the organization traditionally regarded as the authority for dating recessions, announced on November 28, 2008, that the U.S. economy had been in recession since December 2007. While debate remains on when the economy has turned (or will turn) around, virtually every economic indicator identifies the recession of 2008 and 2009 as the most severe economic contraction in more than 70 years (Figure 1). Light vehicle sales declined from an annual rate of 16.0 million units in December 2007 to 9.1 million units in February 2009. Three of the four worst months on record for vehicle sales occurred during February, April, and September 2009, driving 2009 to rank as the worst year of vehicle sales in modern records, which start in 1976. By April 2009, housing starts had fallen 78.9% from their January 2006 peak, to the lowest level since current records started in 1959. United States wage and salary employment peaked in December 2007, at 138.1 million workers, and then declined for 23 consecutive months (the longest string of consecutive declines since records began in 1939) between January 2008 and October 2009, a drop of approximately 8.3 million jobs, the largest decline on record. Consumer sentiment, measured by the University of Michigan's Consumer Sentiment Index, fell 33.7% between September 2007 and November 2008 and remained at historically low levels throughout much of 2009, with many components of the index exhibiting the lowest values ever recorded. Retail sales dropped 10.9% from November 2007 to September 2009.

Figure 1



However, since the second half of 2009, when the growth rate in inflation-adjusted Gross Domestic Product (GDP) turned positive (after declining for four consecutive quarters), the U.S. economy has shown signs of slow but steady improvement (Figure 2). As of the first quarter of 2010, inflation-adjusted GDP had risen for three consecutive quarters and surpassed the prerecession peak. Wage and salary employment rose for four consecutive months between January and April 2010, adding 573,000 payroll jobs since the December 2009 trough in employment. Housing starts were 9.2% higher in March 2010 than in December 2009 and 20.2% above the level in March 2009. Industrial production in April 2010 was up 2.0% from December 2009 and 6.8% from the June 2009 trough. After exceeding 650,000 initial claims for unemployment compensation per week at various points during 2009, initial claims have averaged 468,000 per week since late November 2009.

Figure 2



Source: U.S. Census Bureau, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics

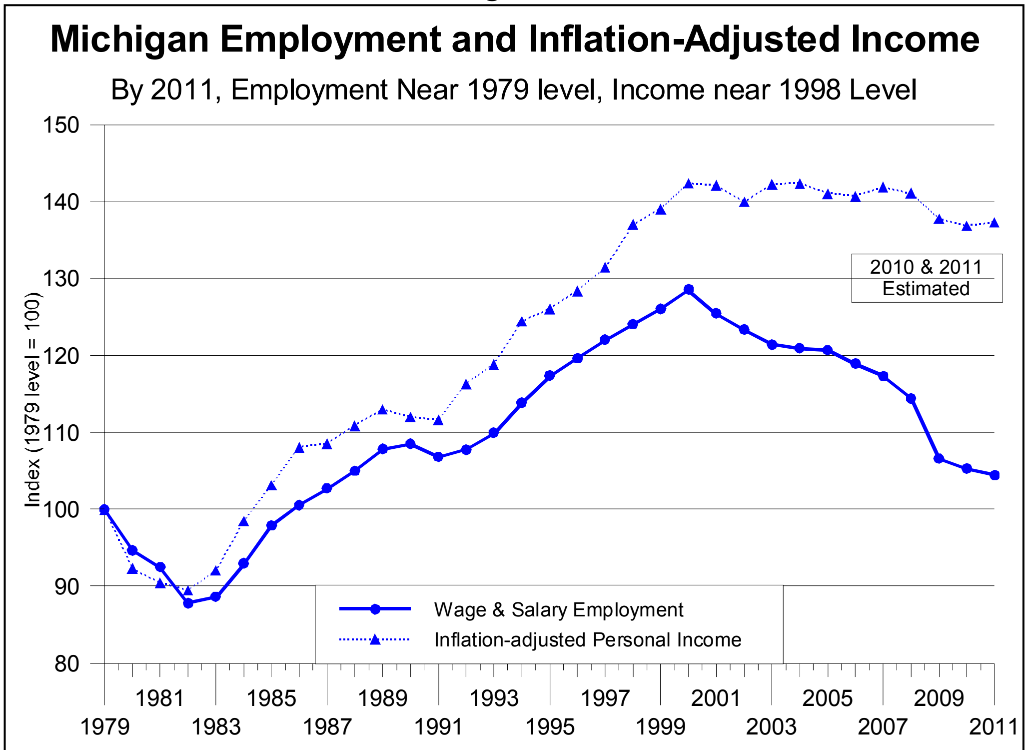
While the economy appears to be consistently improving, several areas of weakness persist. Approximately 54.2% of the growth of the last three quarters reflected increases in inventories. Unless consumption grows enough to support the higher inventory, such gains will not be sustainable. Federal spending accounted for another 6.6% of the growth in output over the same period. Historically, growth in consumption has accounted for more than 70.0% of the growth in inflation-adjusted GDP. Instead, over the last three quarters, more than 60.0% of the growth in the economy came from Federal spending and inventory accumulation.

Furthermore, despite the increase in industrial production, industrial capacity has continued to decline, with April 2010 representing the 16th consecutive month of declines and reflecting the 12.5% decline in noninventory business investment over the last three quarters. Consumer debt burdens remain high despite low interest rates, with financial obligations during the fourth quarter of 2009 still consuming more than 17.5% of disposable personal income, down less than

1.4% of income from the peak in the first quarter of 2008. Substantial numbers of homeowners still exhibit negative equity, owing more on the home than it is worth, with more than 24.0% of residential mortgages in negative equity at the end of 2009, and another 5.0% with near negative equity.

Michigan's economy spent the last nine 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, as the economy has become more competitive. For Michigan, the effect of productivity improvements has been substantial, particularly given that there was more room for improvements in the durable goods and motor vehicle manufacturing sectors to be implemented 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. Those factors have been complicated for Michigan as General Motors, Ford, and Chrysler also have lost market share, even as they have made productivity gains, leaving Michigan to lose employment from both productivity and reduced demand. The rapid and drastic decline in automobile sales in late 2008 and during 2009 exacerbated Michigan's economic difficulties, as sectors such as construction, real estate, and finance collapsed.

Figure 3



Source: Bureau of Economic Analysis, Bureau of Labor Staistics, & Senate Fiscal Agency

As the U.S. economy has improved in recent months, the Michigan economy also has shown improvement. Light vehicle sales rose from an average of 9.7 million units during much of 2009 to an average of 11.0 million units during the first four months of 2010. The improvement in vehicle sales has helped stabilize employment in Michigan, with wage and salary employment falling by an average of 6,300 jobs per month during the first three months of 2010, compared with an average monthly decline of 32,400 jobs per month between September 2008 and June 2009. However, despite some months of increases, employment overall has continued to decline and, as with the national forecast, several economic factors remain very negative. For example, it is estimated that, as of the end of 2009, approximately 39.0% of Michigan mortgages exhibited negative equity.

FORECAST SUMMARY

The U.S. economy is expected to exhibit relatively weak growth in 2010 and 2011, while the Michigan economy will remain in recession over the forecast period. 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 increase 3.1% in 2010 and 2.5% in 2011, after falling 2.4% in 2009. The expansion in 2010 primarily reflects increases in light vehicle sales, combined with modest growth in both residential and business investment. Light vehicle sales are expected to increase from 10.4 million units in 2009 to 11.6 million units in 2010 and 12.7 million units in 2011, while housing starts in 2010 are expected to exhibit the first annual increase since 2004. Despite these increases, many key economic variables will exhibit values far below the levels shown in 2007 and 2008. As a result, the U.S. unemployment rate is expected to remain stable, averaging 9.7% during 2010 and 9.6% in 2011.

In Michigan, both job growth and personal income growth are expected to remain below the national average and the historical State average and to spend the forecast period in recession (Figures 3, 4 and 5). Inflation-adjusted personal income is projected to fall 0.7% in 2010 and then rise a meager 0.3% in 2011. The rate of employment declines should begin tapering during 2010 with employment forecast to decline 1.2%, the slowest annual decline since 2005 and a substantial improvement from the 6.8% drop during 2009. Employment losses will be smaller in early 2011 and by the end of the year may exhibit some consistent gains, although on an annual basis employment in 2011 is expected to fall 0.8%. The declines in wage and salary employment will extend the period of employment declines to 11 consecutive years, the longest period on record. In Michigan, below-average vehicle sales and high productivity growth will help keep the unemployment rate above the national average, with the State's unemployment rate increasing from 13.6% in 2009 to 14.1% in 2010, before slightly declining to 14.0% in 2011.

Compared with the January 11, 2010, Consensus Economic Forecast, both the U.S. and Michigan forecasts for 2010 are somewhat stronger. The forecasted growth rates during 2011 for both the national and State economies are approximately the same as in January, but will be off a stronger 2010 base. Income and employment growth are stronger at both the State and national levels, and the unemployment rate in both years is less than was forecast in January.

Table 1

THE SENATE FISCAL AGENCY ECONOMIC FORECAST (Calendar Years)	2007 Actual	2008 Actual	2009 Actual	2010 Estimate	2011 Estimate
United States					
Nominal GDP					
(year-to-year growth)	5.1%	2.6%	-1.3%	3.9%	4.1%
Inflation-Adjusted GDP					
(year-to-year growth)	2.1%	0.4%	-2.4%	3.1%	2.5%
Unemployment Rate	4.6%	5.8%	9.3%	9.7%	9.6%
Inflation					
Consumer Price Index					
(year-to-year growth)	2.8%	3.8%	-0.4%	2.1%	1.8%
GDP Implicit Price Deflator					
(year-to-year growth)	2.9%	2.1%	1.2%	0.8%	1.5%
Interest Rates					
90-day Treasury bill	4.36%	1.37%	0.16%	0.23%	1.01%
Corporate Aaa bond	5.56%	5.63%	5.31%	5.27%	5.12%
Federal funds rate	5.02%	1.92%	0.16%	0.30%	1.20%
Light Motor Vehicle Sales					
(millions of units)	16.1	13.2	10.4	11.6	12.7
Auto	7.6	6.8	5.5	6.0	6.6
Truck	8.5	6.4	4.9	5.6	6.1
Import Share	23.3%	25.6%	26.2%	23.8%	24.3%
Michigan					
Personal Income (millions)	$343,585	$349,612	$339,219	$342,677	$349,147
Year-to-year growth	2.6%	1.8%	-3.0%	1.0%	1.9%
Inflation-Adjusted Personal Income (year-to-year growth)	0.8%	-0.5%	-2.4%	-0.7%	0.3%
Wage & Salary Income (millions)	$187,179	$186,197	$170,376	$169,428	$169,929
Year-to-year growth	1.6%	-0.5%	-8.5%	-0.6%	0.3%
Detroit Consumer Price Index					
(year-to-year growth)	1.8%	2.3%	-0.6%	1.7%	1.6%
Wage & Salary Employment					
(thousands)	4,268.4	4,159.2	3,876.1	3,828.9	3,799.4
Year-to-year growth	-1.4%	-2.6%	-6.8%	-1.2%	-0.8%
Unemployment Rate	7.1%	8.3%	13.6%	14.1%	14.0%

Table 2

THE SENATE FISCAL AGENCY U.S. ECONOMIC FORECAST DETAIL (Calendar Years)					
	2007 Actual	**2008 Actual**	**2009 Actual**	**2010 Estimate**	**2011 Estimate**
Gross Domestic Product					
(billions of dollars)	$14,077.6	$14,441.4	$14,256.3	$14,817.5	$15,419.8
Year-to-year growth	5.1%	2.6%	-1.3%	3.9%	4.1%
Inflation-Adjusted GDP and Components					
Gross Domestic Product					
(billions of 2000 dollars)	$13,254.1	$13,312.2	$12,987.4	$13,389.1	$13,728.4
Year-to-year growth	2.1%	0.4%	-2.4%	3.1%	2.5%
Consumption					
(billions of 2000 dollars)	$9,313.9	$9,290.9	$9,235.1	$9,441.2	$9,584.0
Year-to-year growth	2.6%	-0.2%	-0.6%	2.2%	1.5%
Business Fixed Investment					
(billions of 2000 dollars)	$1,544.3	$1,569.7	$1,291.0	$1,332.8	$1,450.8
Year-to-year growth	6.2%	1.6%	-17.8%	3.2%	8.9%
Change in Business Inventories					
(billions of 2000 dollars)	$19.5	($25.9)	($108.2)	$59.6	$56.7
Residential Investment					
(billions of 2000 dollars)	$585.0	$451.1	$358.7	$367.9	$465.7
Year-to-year growth	-18.5%	-22.9%	-20.5%	2.6%	26.6%
Government Spending					
(billions of 2000 dollars)	$2,443.1	$2,518.1	$2,564.6	$2,579.4	$2,573.3
Year-to-year growth	1.7%	3.1%	1.8%	0.6%	-0.2%
Net Exports					
(billions of 2000 dollars)	($647.7)	($494.2)	($355.6)	($389.6)	($380.8)
Exports (billions of 2000 dollars)	$1,546.1	$1,629.3	$1,472.4	$1,616.9	$1,748.8
Imports (billions of 2000 dollars)	$2,193.8	$2,123.5	$1,828.0	$2,006.6	$2,129.6
Personal Income					
(year-to-year growth)	5.5%	2.9%	-1.7%	3.1%	3.5%
Adjusted for Inflation	2.6%	-0.9%	-1.4%	1.0%	1.7%
Wage & Salary Income					
(year-to-year growth)	5.6%	2.1%	-4.0%	1.6%	3.2%
Personal Savings Rate	1.7%	2.7%	4.3%	3.3%	2.5%
Capacity Utilization Rate	80.6%	77.6%	70.1%	74.7%	77.6%
Housing Starts (millions of units)	1.355	0.906	0.554	0.668	1.160
Conventional Mortgage Rates	6.3%	6.0%	5.0%	5.2%	5.4%
Federal Budget Surplus					
(billions of dollars, NIPA basis)	($214.8)	($682.7)	($1,243.8)	($1,533.2)	($1,286.7)

Figure 4

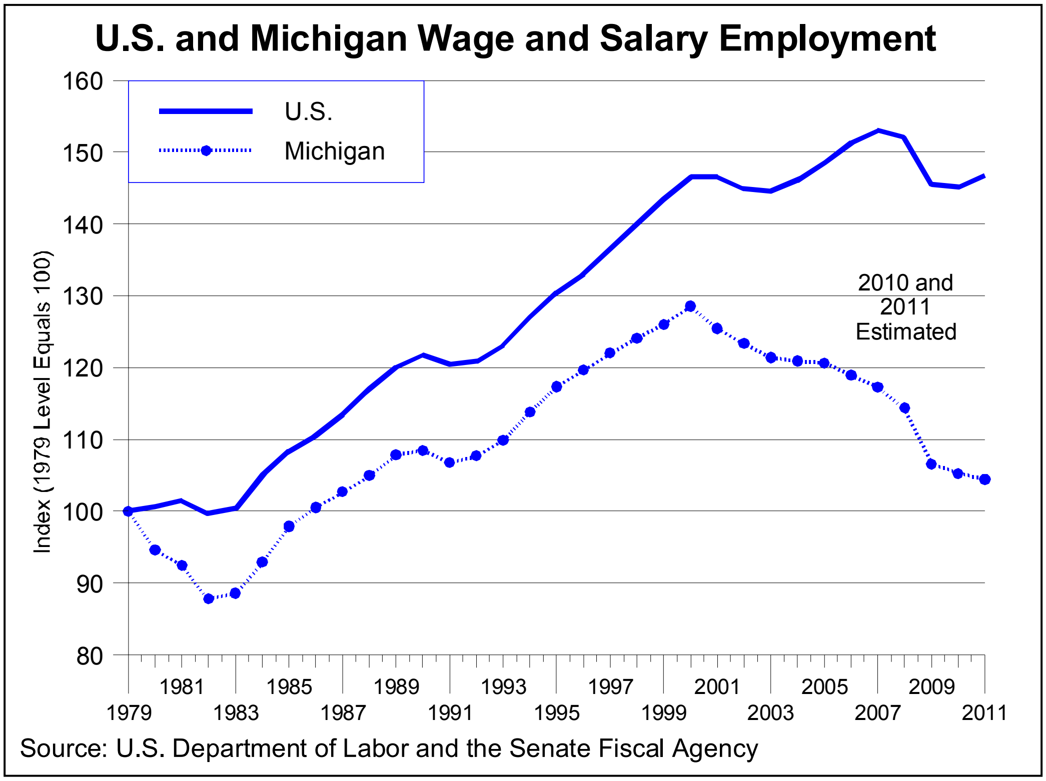
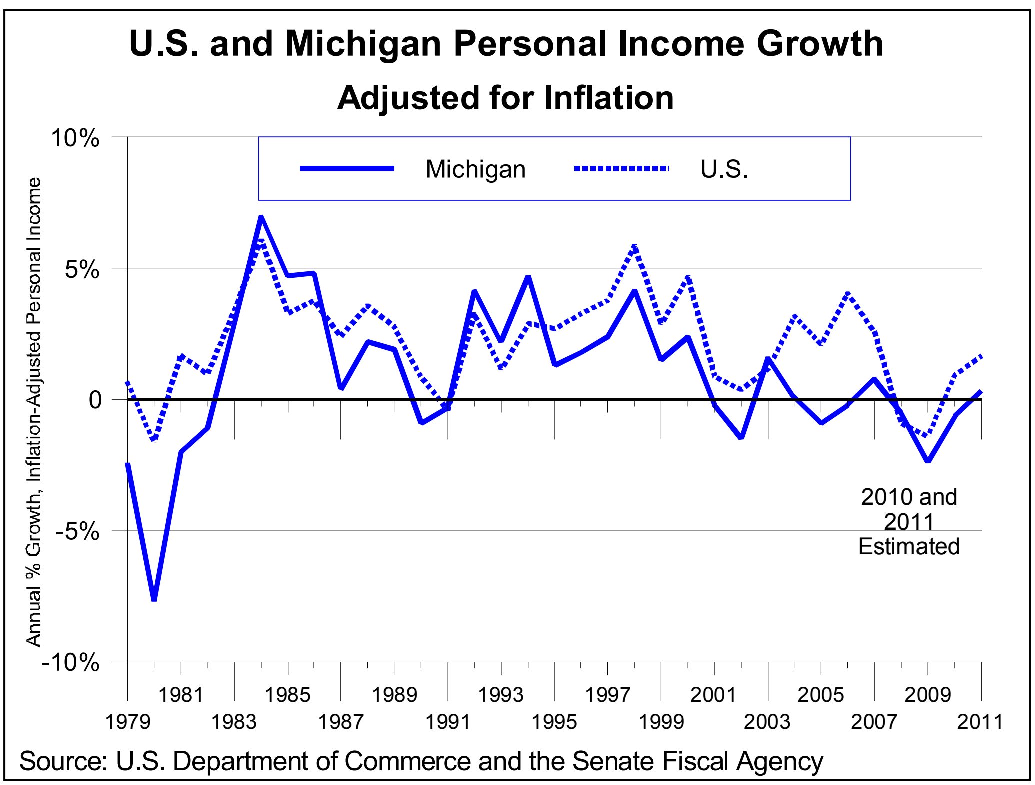


Figure 5

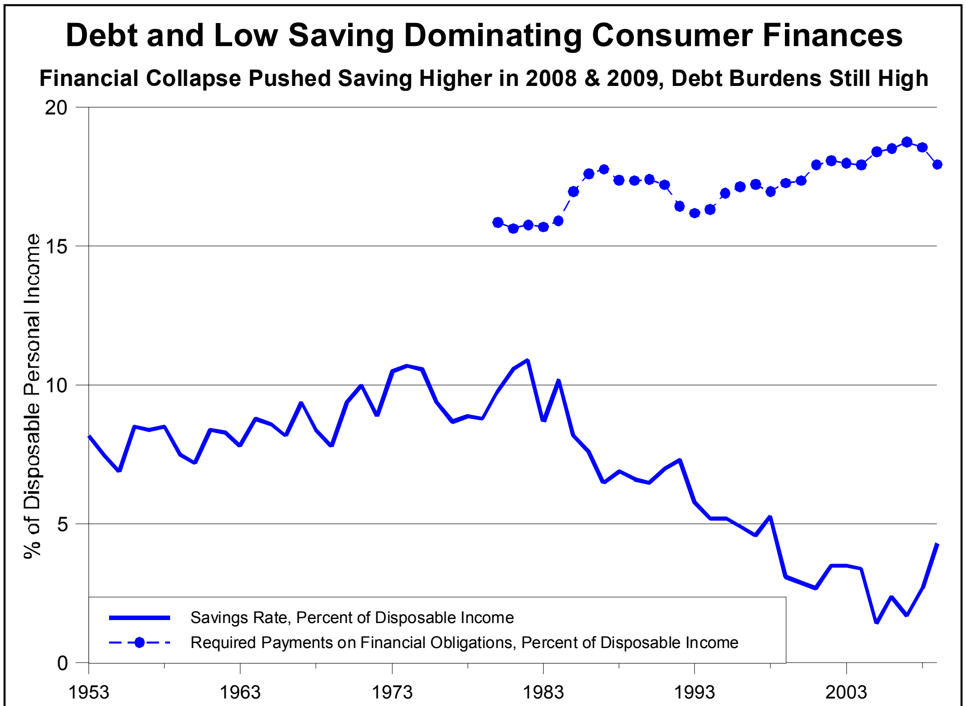


FORECAST RISKS

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 that in inflation-adjusted terms, the economy could be weaker than forecasted and the recession could last much longer than predicted.

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 (Figure 6). Tight credit markets and declining housing prices have induced consumers to rein in their spending. As a result, the saving rate is expected to remain above its recent near-zero levels. Under the forecast, the saving rate will fall slightly from 4.3% in 2009 to 3.3% in 2010. While the saving rate is expected to decline again in 2011, to 2.5%, this rate would be substantially above the level exhibited in several of the prerecession years and relatively consistent with saving rates exhibited at the beginning of the decade. However, consumers will need to save at a far-higher rate than this to offset their losses in home equity and 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. The lower revised saving rate in the forecast accounts for much of the increase in economic growth in the current forecast compared with the January 2010 forecast.

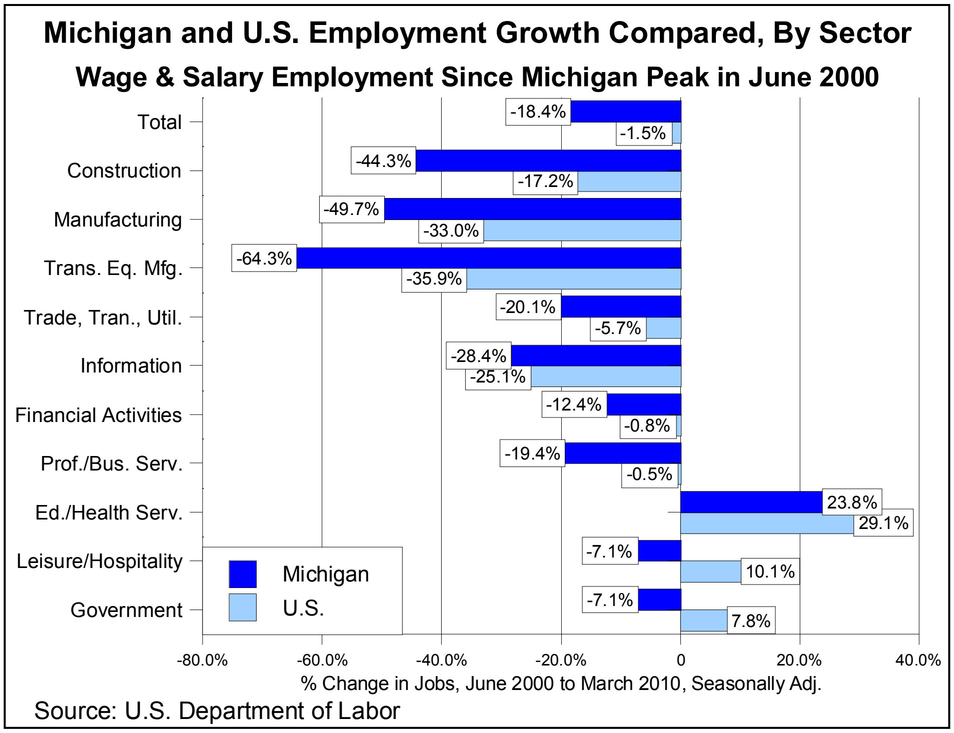
Figure 6



Source: Bureau of Econ. Analysis, U.S. Dept. of Commerce & Fed. Reserve Bd. of Governors

Michigan's Situation. While over the last nine 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's (Figure 7), 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 nine 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 7



Weak markets for housing, credit and employment, 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 (Figure 8), while the domestic share of the sales mix is expected to continue declining. Michigan's economic fortunes historically have been very closely linked with sales of domestically produced light vehicles (Figure 9), so it is unclear whether Michigan's employment situation would be much better even if productivity were not rising so rapidly in the motor vehicle sector. However, the combination of high productivity and declining market share has been particularly dramatic: On a seasonally adjusted basis, as of March 2010, Michigan had lost nearly two-thirds of the jobs (64.4%, a decline of nearly 227,500 jobs) in transportation equipment manufacturing that existed during the peak in July 2000. March 2010 represented a new trough in total employment, with total job losses since the June 2000 peak reaching 864,700 jobs, a decline of 18.4%. 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.

Figure 8

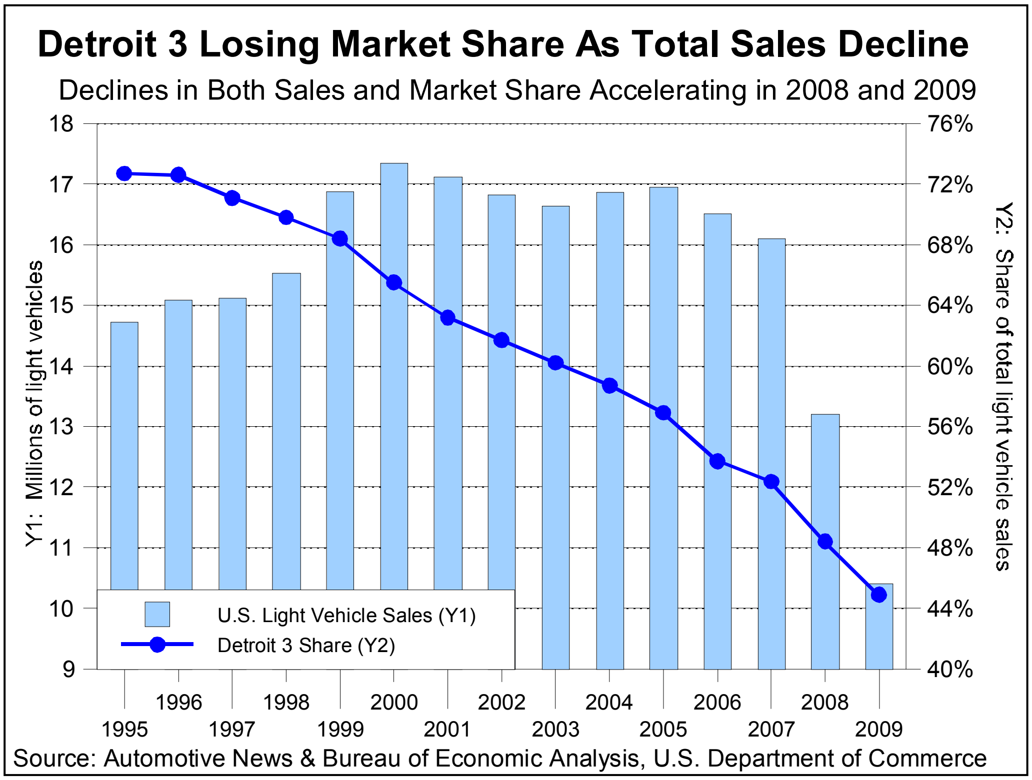
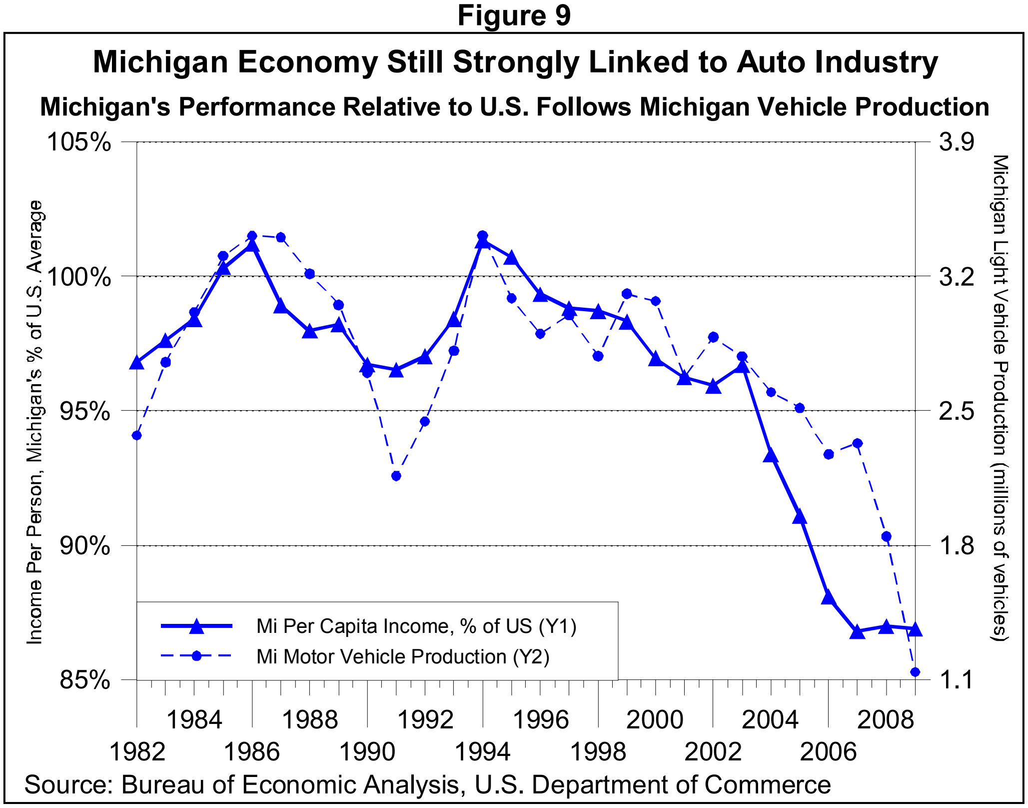


Figure 9



The bankruptcy of Chrysler Corporation and General Motors during 2009 did not change the level of employment these companies will likely be able to sustain once the economy has stabilized, but it did change the rate at which the companies can adjust to the economy. The forecast expects the transportation equipment manufacturing sector to continue to shed jobs through 2010 and 2011, finally reaching a sustainable size late in 2011. However, for both the economy and State tax revenue to improve, employment gains in the economy as a whole will need to occur. If the manufacturing sector adjusts to a sustainable level more slowly, the recession in Michigan employment will last even longer. Similarly, if vehicle sales are even less than forecasted or if market shares for Michigan-based vehicle manufacturers fall more rapidly than predicted, the Michigan economy will take longer to recover. For nine years, the fundamental changes occurring in manufacturing across the globe combined with falling market shares for Michigan manufacturers to keep Michigan in an employment recession. The aftermath of the U.S. and world economies' experiencing the most substantial recession in decades has reduced Michigan's opportunities to emerge from its own recession. The speed at which Michigan will emerge from the employment recession will depend upon the markets for Michigan goods and services and how rapidly Michigan producers transform their businesses. The more rapid the transformation and the slower the national and international economy, the weaker Michigan employment will be in the near term.

THE FORECAST FOR STATE REVENUE

This section of the Budget Status Report presents the Senate Fiscal Agency's (SFA's) estimates for General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue. The revised estimates for both FY 2009-10 and FY 2010-11 are presented. 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 represents the revenue generated from ongoing revenue sources and does not include any revenue included in the GF/GP or SAF budget from one-time revenue adjustments, transfers, or other nonrecurring revenue items. Any one-time revenue adjustments and transfers included in the GF/GP and SAF budgets for FY 2009-10 and FY 2010-11 are discussed in the last section of this report.

REVENUE OVERVIEW

The revised estimates for FY 2009-10 and FY 2010-11 are presented in Table 3 and are summarized below.

FY 2009-10 Revised Revenue Estimate

- GF/GP and SAF revenue will total an estimated $17.1 billion in FY 2009-10.
- This revised estimate represents a decline of 6.4% or $1.2 billion from FY 2008-09.
- This projected decline in revenue is due primarily to very weak economic activity, but also is due in part to the negative repercussions from some new tax credits that are having their initial negative fiscal impacts in FY 2009-10.
- Compared with the January 2010 consensus revenue estimate, the revised estimate for FY 2009-10 is down $247.2 million.
- The revised estimate for the School Aid Fund is up $255.2 million and the revised estimate for the General Fund is down $502.4 million. These changes reflect a combination of improved economic activity along with some downward revisions due to tax collection and administration issues.

FY 2010-11 Revised Revenue Estimate

- GF/GP and SAF revenue is expected to total $17.5 billion in FY 2010-11.
- This revised estimate for FY 2010-11 is up 2.1% or $361.0 million from the revised estimate for FY 2009-10.
- This increase in revenue is primarily due to the ongoing national and State economic recovery.
- The revenue projected for FY 2010-11 marks the first revenue growth in two years.

Historical Perspective

- Baseline GF/GP and SAF revenue will fall an estimated 5.0% in FY 2009-10 and then will rise by 2.4% in FY 2010-11. These changes in baseline revenue reflect the ongoing economic recession in 2009 and the recovery in economic activity beginning at the end of 2009 and accelerating in 2010.
- In FY 2009-10, GF/GP revenue from ongoing sources will fall below its peak level reached in FY 1999-2000 by $3.4 billion or 34.7%.
- School Aid Fund revenue from ongoing sources will fall slightly in FY 2009-10, and will be $800.0 million or nearly 7.0% below the level reached in FY 2007-08.

Table 3

SENATE FISCAL AGENCY REVENUE ESTIMATES FOR FY 2008-09 AND FY 2009-10 GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (Millions of Dollars)			
	FY 2008-09 Final	**FY 2009-10 Revised Estimate**	**FY 2010-11 Revised Estimate**
GENERAL FUND/GENERAL PURPOSE			
Baseline Revenue	$7,097.2	$6,388.5	$6,775.3
Tax Changes Not In Baseline	268.5	7.8	(56.7)
Revenue After Tax Changes:			
Net Income Tax	3,959.2	3,445.1	3,549.7
MBT, SBT, & Insurance Tax	1,815.7	1,307.9	1,533.0
Other Taxes	1,204.2	1,254.0	1,280.5
Total Taxes	6,979.1	6,007.0	6,363.2
Nontax Revenue	386.5	389.3	355.3
TOTAL GF/GP REVENUE	**$7,365.6**	**$6,396.3**	**$6,718.5**
SCHOOL AID FUND			
Baseline SAF	$10,896.2	$10,713.2	$10,736.4
Tax Changes Not In Baseline	26.0	0.0	15.6
TOTAL SAF REVENUE	**$10,922.1**	**$10,713.3**	**$10,752.0**
BASELINE GF/GP & SAF REVENUE	17,993.4	17,101.8	17,511.6
Tax & Revenue Changes	294.4	7.8	(41.1)
GF/GP & SAF REV. AFTER CHANGES	**$18,287.8**	**$17,109.6**	**$17,470.5**
ADDENDUM:			
Sales Tax	$6,089.1	$6,151.1	$6,212.6
		PERCENT CHANGE	
GENERAL FUND/GENERAL PURPOSE			
Baseline Revenue	(13.1)%	(10.0)%	6.1%
Revenue After Tax Changes:			
Net Income Tax	(22.5)	(13.0)	3.0
MBT, SBT, & Insurance Tax	(22.7)	(28.0)	17.2
Other Taxes	(21.3)	4.1	2.1
Total Taxes	(22.3)	(13.9)	5.9
Nontax Revenue	3.7	0.7	(8.7)
TOTAL GF/GP REVENUE	**(21.3)%**	**(13.2)%**	**5.0%**
SCHOOL AID FUND			
Baseline SAF	(3.1)	(1.7)	0.2
TOTAL SAF REVENUE	**(5.1)%**	**(1.9)%**	**0.4%**
BASELINE GF/GP & SAF REVENUE	(7.3)	(5.0)	2.4
GF/GP & SAF REV. AFTER CHANGES	**(12.4)%**	**(6.4)%**	**2.1%**
ADDENDUM:			
Sales Tax	(10.1)	1.0	1.0

While a consistent history of GF/GP and SAF revenue measured in terms of both baseline revenue and revenue from ongoing sources goes back only to the mid-1980s, given the magnitude of the fall in revenue experienced during FY 2008-09 and expected in FY 2009-10, it is probably accurate to say that the current revenue contraction is unprecedented in modern times. The projected modest increase in FY 2010-11 represents an important turning point compared with the serious revenue retrenchment of the past two years. Given the ongoing economic recovery in the United

States and the slowly improving Michigan economy, it is expected that GF/GP and SAF baseline revenue will improve slightly. These improvements will be partially offset by growth in tax expenditures.

Figure 10 provides a view of changes in GF/GP and SAF baseline revenue since FY 1986-87. The large declines in FY 2008-09 and FY 2009-10 can be seen along with the recovery in FY 2010-11. Figure 11 depicts GF/GP and SAF ongoing revenue. Again, the recovery in FY 2010-11 can be noted although the base from which the growth is occurring is far lower than FY 2007-08.

Figure 10

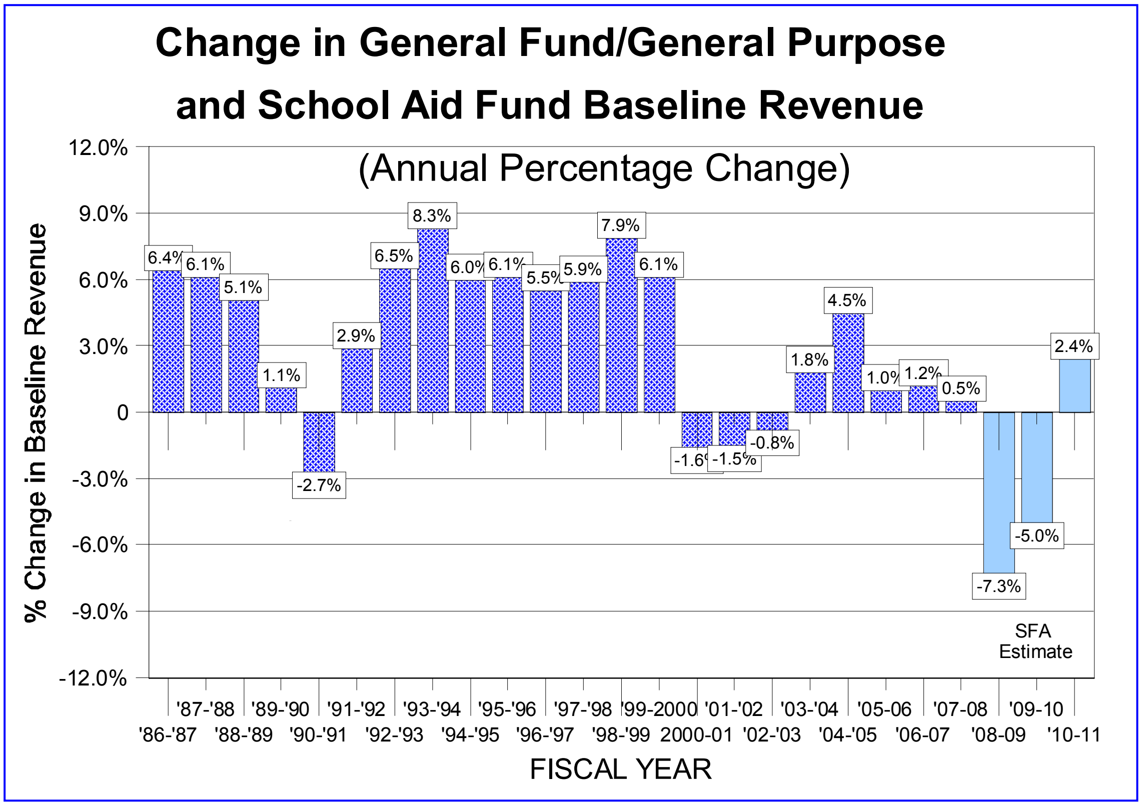
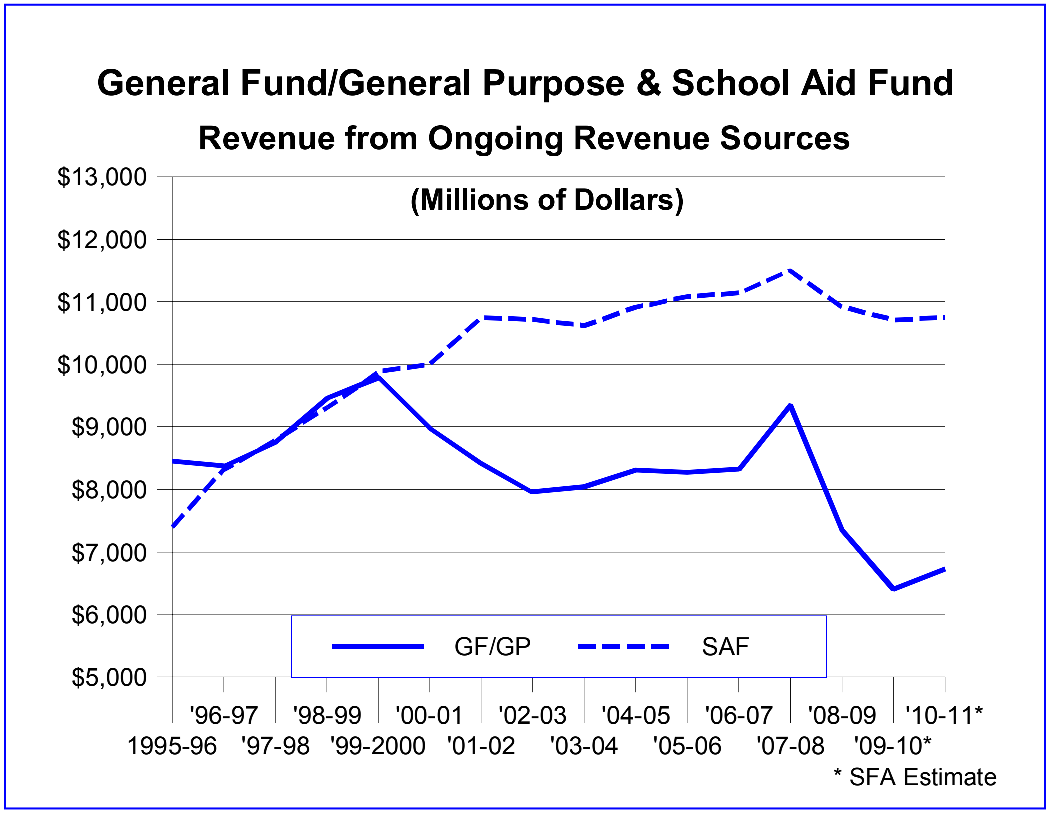


Figure 11



FY 2009-10 REVISED REVENUE ESTIMATES

- General Fund/General Purpose and SAF revenue will decline an estimated 6.4% in FY 2009-10 compared with FY 2008-09.
- Most of this decline will be due to the economic recession, but some State and Federal tax policy changes also will pull down revenue in FY 2009-10.

The 6.4% reduction in GF/GP and SAF revenue projected for FY 2009-10 reflects the continuing economic stress facing Michigan. Sales and use taxes have begun a turnaround compared with their performance last year. This corresponds to the nearly seven-month increase in national retail sales. However, individual income tax and Michigan Business Tax (MBT) revenue collections are weaker compared with their poor performance in FY 2008-09. This is due to the continuing problem of job losses in Michigan and decline in business activity in manufacturing.

This revised estimate of GF/GP and SAF revenue for FY 2009-10 is down $247.2 million from the January 2010 consensus estimate. On a baseline basis, GF/GP and SAF revenue is projected to have fallen 5.0% in FY 2008-09. The revised GF/GP and SAF revenue estimates for FY 2009-10 are summarized in Table 4.

Table 4

FY 2009-10 REVISED REVENUE ESTIMATES
GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
(Millions of Dollars)

	FY 2008-09 Final	FY 2009-10 Revised Est.	Change from FY 2008-09: Dollar Change	Change from FY 2008-09: Percent Change	$ Change from 01/10 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue[1]	$7,097.2	$6,388.5	($708.7)	(10.0)%	($502.3)
Tax Changes Not In Baseline	268.5	7.8	(260.7)	---	0.0
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	8,098.4	7,657.8	(440.6)	(5.4)	9.6
Less: Refunds	(2,242.8)	(2,431.6)	(188.8)	8.4	(56.7)
Net Income Tax Collections	5,855.6	5,226.2	(629.4)	(10.7)	(47.1)
Less: Earmarking to SAF	(1,895.3)	(1,779.6)	115.7	(6.1)	(2.2)
Campaign Fund	(1.1)	(1.5)	(0.4)	36.4	0.0
Net Income Tax to GF/GP	$3,959.2	$3,445.1	($514.1)	(13.0)%	($49.3)
Other Taxes					
Single Business Tax	24.1	(16.4)	(40.5)	(168.0)	3.6
Michigan Business Tax	1,530.6	1,053.4	(477.2)	(31.2)	(448.3)
Sales	4.2	76.6	72.4	939.5	17.7
Use	744.0	774.2	30.2	4.1	12.2
Cigarette	208.4	200.4	(8.0)	(4.9)	3.4
Insurance Company Premiums	261.0	271.0	10.0	3.8	0.0
Telephone & Telegraph	63.0	55.0	(8.0)	(12.7)	(7.0)
Oil & Gas Severance	47.2	55.0	7.8	16.5	0.0
Casino Wagering	11.6	0.0	(11.6)	(100.0)	0.0
All Other	125.8	92.7	(33.1)	(26.3)	(30.6)
Subtotal Other Taxes	$3,019.9	$2,561.9	($458.0)	(15.2)%	($449.0)
Total Nontax Revenue	386.5	389.3	2.8	0.7	(4.0)
GF/GP REV. AFTER TAX CHANGES	**$7,365.6**	**$6,396.3**	**($969.3)**	**(13.2)%**	**($502.4)**
SCHOOL AID FUND:					
Baseline Revenue[1]	$10,896.2	$10,713.2	($182.9)	(1.7)%	$255.3
Tax Changes Not In Baseline	26.0	0.0	(25.9)	---	0.0
Revenue After Tax Changes					
Sales Tax	4,424.7	4,470.0	45.3	1.0	188.2
Lottery Revenue	724.5	732.8	8.3	1.1	24.7
State Education Property Tax	2,040.6	1,878.9	(161.7)	(7.9)	3.9
Real Estate Transfer Tax	125.3	136.1	10.8	8.6	9.1
Michigan Business Tax	729.0	726.6	(2.4)	(0.3)	(0.1)
Income Tax	1,895.5	1,779.7	(115.8)	(6.1)	2.2
Casino Tax	108.1	108.4	0.3	0.3	(1.2)
Other Revenue	874.4	880.8	6.4	0.7	28.4
SAF REV. AFTER TAX CHANGES	**$10,922.1**	**$10,713.3**	**($208.8)**	**(1.9)%**	**$255.2**
BASELINE GF/GP AND SAF	**$17,993.4**	**$17,101.8**	**($891.6)**	**(5.0)%**	**($247.0)**
Tax & Revenue Changes	294.4	7.8	(286.6)	---	0.0
GF/GP & SAF REV. AFTER CHNGS	**$18,287.8**	**$17,109.6**	**($1,178.1)**	**(6.4)%**	**($247.2)**
SALES TAX	$6,089.1	$6,151.1	$62.0	1.0%	$256.6

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

Tax Policy Changes

New tax policy changes by both the State and Federal governments will have negative impacts on revenue in FY 2009-10. These major new tax policy changes include the State's earned income tax credit and film tax credits, the Federal increase in tobacco taxes and the State smoking ban, and 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 that the credit reduced income tax revenue $140.0 million in FY 2008-09 and all of this loss was incurred by GF/GP revenue. The impact of the earned income tax credit will rise to $325.0 million in FY 2009-10 and $338.0 million in FY 2010-11.

Film 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 $107.5 million in FY 2008-09, although some of the revenue loss would be offset by new income, sales, and MBT receipts from the business activity these credits attract. Due to timing issues related to when the credits are issued and may be claimed, actual credits claimed during FY 2008-09 were $52.0 million less than was expected. At this time, the film credit net impact is expected to be $107.8 million in FY 2009-10 and rise to $132.3 in FY 2010-11.

Federal Tobacco Tax Increase and Statewide Smoking Ban. 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 $29.3 million in FY 2008-09. The Federal tax on other tobacco products also was increased effective April 1, 2009; however, because Michigan's tax on other tobacco product is 32.0% of the wholesale price, the Federal tax increase is estimated to have boosted Michigan's tax revenue $1.2 million in FY 2008-09. Therefore, it is estimated that Michigan's tobacco tax revenue declined a net $28.1 million in FY 2008-09 due to the increase in the Federal tobacco tax. The impacts will grow in FY 2009-10 because the changes will be in effect for the entire year. As a result, the Federal changes are expected to result in a net loss of $54.6 million in revenue during FY 2009-10. The net loss in FY 2009-10 revenue will affect the following budget areas: School Aid Fund revenue will decline $23.8 million, GF/GP revenue will fall $10.7 million, and most of the remaining loss in tobacco tax revenue will reduce the Medicaid Trust Fund. In terms of the recently passed statewide smoking ban, it is expected that the net impact will be a reduction of $15.0 million in FY 2009-10 spread across both the GF/GP and SAF budgets and a $33.0 million reduction in FY 2010-11 spread across the two funds.

Federal Stimulus Tax Changes. The American Recovery and Reinvestment Act of 2009 included a number of tax reductions, some of which affected Michigan tax revenue. These changes include such items as an increase in the earned income tax credit, increasing unemployment compensation, and an income tax exemption for the first $2,400 in unemployment compensation. These various tax changes increased Michigan's tax revenue in FY 2009-10 by $7.6 million and a $1.5 million decrease in revenue in FY 2010-11.

General Fund/General Purpose

- General Fund/General Purpose revenue will total an estimated $6.4 billion in FY 2009-10, which is down 13.2% or $969.3 billion from FY 2008-09.
- Compared with the January 2010 consensus estimate, GF/GP revenue for FY 2009-10 has been revised down by $502.4 million.

The significant 13.2.% decline in GF/GP revenue forecast for FY 2009-10 is primarily due to the severe economic recession, which is expected to have a negative impact on the revenue collections for almost all of the GF/GP earmarked taxes. Another major factor in the decline in GF/GP revenue relates to the significant increase in MBT refunds and the subsequent reduction in overall MBT revenue. Despite the economic recovery now under way, the administration of the MBT has encountered some refund processing issues. Due to delayed refund processing issues, it is anticipated that refunds will significantly increase in FY 2009-10. These refund issues, combined with weak quarterly and annual payments, are expected to lower MBT revenue by $448.0 million compared with the January 2010 estimates. In addition, all of the $325.0 million that is expected to be refunded to taxpayers through the new earned income tax credit will reduce GF/GP revenue and the new film credit will lower GF/GP revenue an estimated $107.8 million in FY 2009-10. The revised GF/GP revenue estimate for FY 2009-10 is summarized in Table 4.

School Aid Fund

- School Aid Fund revenue from earmarked taxes and the lottery is expected to total $10.7 billion in FY 2009-10, which represents a decline of 1.9% or $208.9 million from FY 2008-09.
- This revised SAF revenue estimate is up $255.2 million from the January 2010 consensus estimate.

Due to the economic recovery under way, SAF revenue is expected to decline only slightly by 1.9% in FY 2009-10. In particular, sales and use taxes have begun to show signs of growth and recovery over the past six months. The declines in the MBT, reported in the General Fund section, will not impact the School Aid Fund. Given inflation during FY 2008-09, statute specifies the MBT earmarking will decrease to $726.6 million from the $729.0 million transferred in FY 2008-09. The MBT revenue earmarked to the SAF is designed to reimburse the SAF for increased school aid payments that have to be made to local school districts due to personal property tax exemptions adopted with the MBT. The revised SAF revenue estimate for FY 2009-10 is summarized in Table 4.

FY 2010-11 REVISED REVENUE ESTIMATES

- General Fund/General Purpose and SAF revenue will total an estimated $17.5 billion in FY 2010-11, which is up 2.1% or $361.0 million from the revised estimate for FY 2009-10.
- This revised estimate is up $21.6 million from the January 2010 consensus estimate.

Michigan economic activity is expected to show modest renewed growth by the second half of FY 2010-11, leading to continued improvements in revenue particularly in income tax as job losses turn to job gains in 2011. At the same time, baseline revenue increases are offset partially by losses due to tax policy changes. The revised estimates for FY 2010-11 GF/GP and SAF revenue 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 Revised Est.	FY 2010-11 Revised Est.	Change from FY 2009-10: Dollar Change	Change from FY 2009-10: Percent Change	$ Change from 01/10 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue[1]	$6,388.5	$6,775.3	$386.7	6.1%	($249.9)
Tax Changes Not In Baseline	7.8	(56.7)	(64.5)	---	0.0
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	7,657.8	7,867.5	209.7	2.7	81.2
Less: Refunds	(2,431.6)	(2,494.6)	(63.0)	2.6	(58.0)
Net Income Tax Collections	5,226.2	5,372.9	146.7	2.8	23.2
Less: Earmarking to SAF	(1,779.6)	(1,821.7)	(42.1)	2.4	(18.9)
Campaign Fund	(1.5)	(1.5)	0.0	0.0	0.0
Net Income Tax to GF/GP	$3,445.1	$3,549.7	$104.6	3.0%	$4.3
Other Taxes					
Single Business Tax	(16.4)	0.0	16.4	(100.0)	0.0
Michigan Business Tax	1,053.4	1,253.0	199.6	18.9	(237.4)
Sales	76.6	74.6	(2.0)	(2.6)	(4.7)
Use	774.2	786.7	12.5	1.6	13.3
Cigarette	200.4	193.0	(7.4)	(3.7)	3.5
Insurance Company Premiums	271.0	284.6	13.6	5.0	0.0
Telephone & Telegraph	55.0	56.0	1.0	1.8	(7.0)
Oil & Gas Severance	55.0	61.0	6.0	10.9	1.0
Casino Wagering	0.0	0.0	0.0	---	0.0
All Other	92.7	104.6	11.9	12.8	(15.9)
Subtotal Other Taxes	$2,561.9	$2,813.5	$251.6	9.8%	($247.2)
Total Nontax Revenue	389.3	355.3	(34.0)	(8.7)	(7.0)
GF/GP REV. AFTER TAX CHANGES	**$6,396.3**	**$6,718.5**	**$322.2**	**5.0%**	**($249.9)**
SCHOOL AID FUND:					
Baseline Revenue[1]	$10,713.2	$10,736.4	$23.1	0.2%	$271.4
Tax Changes Not In Baseline	0.0	15.6	15.6	---	0.0
Revenue After Tax Changes					
Sales Tax	4,470.0	4,515.2	45.2	1.0	194.3
Lottery Revenue	732.8	747.2	14.4	2.0	25.0
State Education Property Tax	1,878.9	1,805.0	(73.9)	(3.9)	5.0
Real Estate Transfer Tax	136.1	140.0	3.9	2.9	5.0
Michigan Business Tax	726.6	741.7	15.1	2.1	(4.6)
Income Tax	1,779.7	1,821.7	42.0	2.4	18.9
Casino Tax	108.4	111.0	2.6	2.4	(1.0)
Other Revenue	880.8	870.2	(10.6)	(1.2)	28.8
SAF REV. AFTER TAX CHANGES	**$10,713.3**	**$10,752.0**	**$38.7**	**0.4%**	**$271.4**
BASELINE GF/GP AND SAF	**$17,101.8**	**$17,511.6**	**$409.8**	**2.4%**	**$21.6**
Tax & Revenue Changes	7.8	(41.1)	(48.9)	---	0.0
GF/GP & SAF REV. AFTER CHNGS	**$17,109.6**	**$17,470.5**	**$360.8**	**2.1%**	**$21.6**
SALES TAX	$6,151.1	$6,212.6	$61.5	1.0%	$265.0

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

General Fund/General Purpose Revenue

- General Fund/General Purpose revenue will total an estimated $6.7 billion in FY 2010-11, which is up 5.0% or $322.2 million from FY 2009-10.
- Compared with the January 2010 consensus revenue estimate, this revised GF/GP estimate is down $249.9 million.

This 1.0% increase represents the first time in several years that GF/GP revenue is projected to increase, albeit modestly, from the year before. These FY 2010-11 GF/GP revised estimates include the changes explained earlier regarding the MBT. It is expected that annual and quarterly payments will continue to be lower than forecasted in January 2010. At the same time, these losses will be partially mitigated by an increasing level of economic activity. Michigan Business Tax revenue is also expected to rise due to increased MBT auditing. Other taxes are expected to increase slowly through FY 2010-11. The revised GF/GP revenue estimate for FY 2010-11 is summarized in Table 5.

School Aid Fund

- School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $10.8 billion in FY 2010-11, which is up 0.4% or $38.7 million from the revised estimate for FY 2009-10.
- This revised SAF revenue estimate for FY 2010-11 is up $271.4 million from the January 2010 consensus revenue estimate.

The increase in SAF revenue represents the first time in several years that higher revenue is expected. The modest increase of 0.4% is due to significant improvements in sales and use tax revenue primarily. Some offsetting declines that are bringing down the overall growth rate include ongoing weakness in the State Education Tax and income taxes. The SAF benefits by being the recipient of a share of gross income taxes prior to refunds. The improvements in sales and use taxes exceed any declines in State Education Tax or other revenue sources. The revised SAF revenue estimate for FY 2010-11 is summarized in Table 5.

Major General Fund and School Aid Fund Taxes in FY 2009-10 and FY 2010-11

Income Tax. The income tax will generate an estimated $7.7 billion in FY 2009-10, which represents a decline of 5.4% from FY 2008-09, and in FY 2010-11 it is estimated that income tax revenue will rise $209.7 million to $7.9 billion. This increase will be due to the continuing economic recovery and job creation in Michigan that is expected to occur in the second half of 2011. It is also expected that potential Federal tax changes will spur realization of some capital gains and associated income tax liability in FY 2009-10 and FY 2010-11. Income tax revenue growth will be negatively affected by an increase in refunds of nearly $63.0 million between FY 2009-10 and FY 2010-11. These projected changes in income tax revenue will slightly increase revenue for both the GF/GP and SAF budgets. The SAF receives 23.3% of gross income tax collections (withholding, quarterly, and annual payments), while the GF/GP budget receives 76.7% of gross collections, and incurs the negative impact of all income tax refunds, including the refund payments for the homestead property tax credit and the new earned income tax credit

Michigan Business Tax. In the case of the MBT, several tax administration issues are causing a major downward revision in revenue. In particular, estimates of MBT refunds are being significantly raised. This refund increase is due to the fact that as the new tax is being collected, businesses are finding that they overpaid relative to actual liability for both the 2008 and 2009 tax years. These refunds are now being processed and this has caused a significant upward revision in estimated refunds, resulting in a loss of revenue. Further, businesses also are lowering their annual and quarterly payments due to a combination of lower liability and decreased economic activity in some sectors such as manufacturing and professional services. The combination of these factors leads to a nearly $448.2 million decrease in estimated FY 2009-10 MBT revenue.

Sales Tax. The ongoing economic recovery will cause both consumers and businesses to slightly increase their spending and this will have a positive impact on sales tax receipts. In FY 2009-10, sales tax revenue will total an estimated $6.2 billion, which is up 1.0% from FY 2008-09. In FY 2008-09, sales tax revenue totaled $6.1 billion and was down over 10.1% from FY 2007-08. In FY 2010-11, sales tax collections are expected to increase again by 1.0% to $6.2 billion. These increases in sales tax collections forecast are coming off the very steep decline in FY 2008-09. Since FY 1978-79, sales tax collections have declined only in three fiscal years and the steepest of these declines was a drop of 1.5% in FY 1981-82. Compared with January 2010 consensus revenue estimates, the revised sales tax estimate for FY 2009-10 is up $256.6 million and the revised estimate for FY 2010-11 is up $265.0 million. Most of the sales tax revenue is earmarked to the SAF (73.3%) and most of the remainder goes to local government revenue sharing payments, the Comprehensive Transportation Fund, and the General Fund. The amount going to revenue sharing includes 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. The economic recovery also is having a positive impact on use tax collections, as spending is slowly rising in such areas as hotels and motels, telephone service (both residential and business), and business equipment purchased in other states for use in Michigan. In FY 2010-11, spending will continue to grow modestly on the key items taxed under the use tax. As a result, use tax receipts will total an estimated $1.2 billion in FY 2010-11, representing an increase of 1.6% from the revised estimate for FY 2009-10. Compared with the January consensus revenue estimates, the estimate for use tax collections has been revised up by $18.3 million in FY 2009-10 and $20.0 million in FY 2010-11. 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 $998.6 million in FY 2009-10, which represents a decrease of 4.4% from FY 2008-09. In FY 2010-11, tobacco tax revenue is expected to decline another 3.9% to $959.5 million. These estimated declines reflect the ongoing steady decline in tobacco consumption, plus the more abrupt downward shift in consumption over the next two years due to the recent increase in the Federal tobacco tax and the statewide smoking ban, which is discussed in more detail earlier in this section. 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% permanent tax on gross gaming receipts plus a temporary rate of 4.0% that each of the three Detroit casinos must pay until they begin operating in their new permanent casinos. As of FY 2009-10, the temporary tax is expected to have ceased to be applicable and casino revenue will no longer provide revenue for the General Fund. As a result, casino tax revenue will total an estimated $108.4 million in FY 2009-10 and $111.0 million in FY 2010-11, all of it directed to the School Aid Fund.

Lottery Taxes. While the economic downturn has exhibited a somewhat negative impact on lottery revenue, new games and large jackpots have largely offset those effects. After totaling $724.5 million in FY 2008-09, net lottery revenue is expected to increase 1.1% to $732.8 million in FY 2009-10 and $747.2 million in FY 2010-11. All of the net revenue generated by the lottery is earmarked to the SAF.

State Education Tax. After a decline in FY 2008-09, revenue from the State Education Tax on property is expected to decline another 7.9% to $1.9 billion in FY 2009-10 as continued weakness in the housing sector is expected to further reduce property values. These negative economic forces will continue to erode property values in 2011 and, as a result, State Education Tax revenue is expected to decline slightly less than 3.9% in FY 2010-11 to $1.8 billion as the housing market begins the process of recovery. All of the revenue generated by the State Education Tax is earmarked to the SAF.

Michigan Business Tax. The MBT generated $2.3 billion in FY 2008-09. Fiscal Year 2009-10 collections are excepted to decline significantly by approximately 21.2% due to falling annual and quarterly payments and much larger refunds, as discussed earlier. Total MBT collections will fall to an estimated $1.8 billion in FY 2009-10. This revised estimate is down $448.4 million from the January 2010 consensus estimate. In FY 2010-11, MBT revenue will total an estimated $2.0 billion, up 12.1% from the revised estimate for FY 2009-10. This increase is due to enhanced auditing processes and a general improvement in the economy. 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 will be indexed to the percentage change in the U.S. Consumer Price Index (CPI) during the previous fiscal year. The U.S. CPI declined 0.3% in FY 2008-09, so the amount of the MBT that will be earmarked to the SAF will decline to an estimated $726.6 million in FY 2009-10 before rising to $741.7 million in FY 2010-11. All remaining MBT revenue goes to the General Fund.

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 6 and 7. 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 for a particular fiscal year after the initial revenue estimates have been calculated for that fiscal year. In addition, in order to provide an accurate comparison, all of the previous baseline estimates made for FY 2009-10 and FY 2010-11 have been adjusted to reflect a common base year.

The Senate Fiscal Agency's initial GF/GP and SAF baseline revenue estimate for FY 2009-10 of $18.0 billion was made in December 2008, as shown in Table 6. The estimate adopted at the January 2009 Consensus Revenue Estimating Conference (CREC) was $123.6 million above the SFA's estimate, and then at the May 2009 CREC the estimate was raised another $534.8 million to $18.9 billion relative to the initial SFA estimate. At the January 2010 CREC, the estimate was raised again by $827.0 million to $17.3 billion compared with the SFA estimate. Based on the revised economic outlook and actual tax collections through April 2010 and some important refund issues related to the MBT, the SFA has substantially lowered the GF/GP baseline by $502.3 million. These MBT refund issues do not affect the SAF, and the SAF baseline estimate has been raised by $255.2 million to $10.7 billion. The net impact is reduction of total revenue by $247.1 million to $17.1 billion or 1.4% below the SFA's original estimate made in December 2008.

The initial GF/GF and SAF baseline revenue estimate for FY 2010-11 was made in December 2009 at $17.2 billion, as shown in Table 7. This estimate was raised by $276.0 million to $17.4 billion at the January 2010 Consensus Revenue Estimating Conference. The Senate Fiscal Agency's revised estimate for FY 2010-11 presented in this report raises the baseline estimate by $21.6 million from the January 2010 consensus estimate, to $17.5 billion.

Table 6

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2009-10 (Millions of Dollars)			
Forecast Date	**GF/GP**	**SAF**	**Total**
December 18, 2008	$6,893.4	$11,159.4	$18,052.8
January 9, 2009[a)]	6,910.1	11,266.3	18,176.4
May 13, 2009	5,979.1	10,350.2	16,329.3
May 15, 2009 [a)]	6,300.7	10,563.4	16,864.1
December 18, 2009	6,062.5	10,459.3	16,521.8
January 11, 2010 [a)]	6,890.8	10,458.0	17,348.8
May 14, 2010	6,388.5	10,713.2	17,101.7
Change From Previous Estimate:			
Dollar Change	($502.3)	$255.2	($247.1)
Percent Change	(7.9)%	2.4%	(1.4)%
Change From Initial Estimate:			
Dollar Change	($504.9)	($446.2)	($951.1)
Percent Change	(7.3)%	(4.0)%	(5.3)%

Note: Baseline base year equals FY 2008-09.

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

Table 7

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2010-11 (Millions of Dollars)			
Forecast Date	**GF/GP**	**SAF**	**Total**
December 18, 2009	$6,642.9	$10,530.1	$17,172.9
January 11, 2010[a)]	6,968.4	10,480.5	17,448.9
May 14, 2010	6,718.5	10,752.0	17,470.5
Change From Previous Estimate:			
Dollar Change	($249.9)	$271.5	$21.6
Percent Change	(3.7)%	2.5%	0.1%
Change From Initial Estimate:			
Dollar Change	$75.6	$222.0	$297.6
Percent Change	1.1%	2.1%	1.7%

Note: Baseline base year equals FY 2008-09.

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

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 8 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 and FY 2010-11. 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 2009-10 and FY 2010-11 are presented in Table 9.

FY 2008-09

In FY 2008-09, the BSF had a beginning balance of $2.2 million. During the fiscal year there were no payments into or out of the Fund, but only $23,000 of interest was earned, leaving an ending balance of $2.2 million.

FY 2009-10 AND FY 2010-11

Based on the SFA's revised estimates of personal income, transfer payments, and the Detroit Consumer Price Index (CPI), the budget stabilization formula triggers a payment out of the Fund equal to $24.7 million in FY 2009-10 and no payment in FY 2010-11, as shown in Table 9. Given that there is only $2.2 million in the BSF, and given that no additional transfers into the Fund were appropriated as part of the FY 2009-10 enacted budget, no transfers out of the BSF are anticipated in either FY 2009-10 or FY 2010-11.

Table 8

BUDGET AND ECONOMIC STABILIZATION FUND
TRANSFERS, EARNINGS AND FUND BALANCE
FY 1998-99 TO FY 2009-10 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	0.1	0.0	2.3
2010-11	0.0	0.1	0.0	2.4

Figure 12

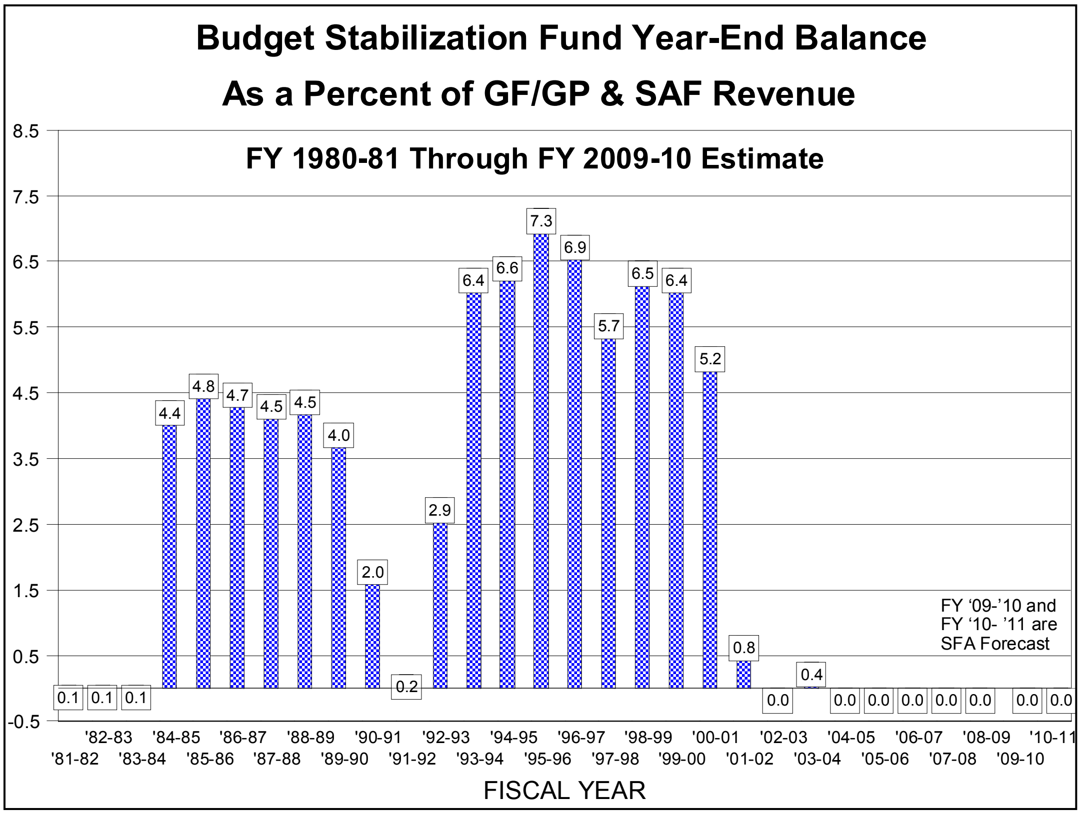


Table 9

ESTIMATED ECONOMIC AND BUDGET STABILIZATION FUND TRIGGER
FY 2009-10 AND FY 2010-11
(Millions of Dollars)

	CY 2009	CY 2010	CY 2011
Michigan Personal Income (MPI)	$339,219	$342,677	$349,147
Less: Transfer Payments	75,389	77,544	78,819
Subtotal	$263,830	$265,133	$270,328
Divided by: Detroit CPI, 12 months average ending June 30 (1982-84=1)	2.037	2.055	2.084
Equals: Real Adjusted MPI	$129,519	$129,018	$129,716
Percent Change from Prior Year		-0.39%	0.54%
Excess Over 2.0%		0.00%	0.00%
		FY 2009-10	**FY 2010-11**
Multiplied by: Estimated GF/GP Revenue		$6,396.3	$6,718.5
Equals: Transfer to the BSF		$0.0	$0.0
OR Transfer from the BSF		$24.7	$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. Until FY 2008-09, the largest gap between revenue and the limit occurred in FY 2006-07, when State revenue was $5.3 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. Revenue fell well below the revenue limit in FY 2000-01 through FY 2006-07, and then remained well below the 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 remained well below the limit in FY 2008-09 and will continue to remain well below the revenue limit in FY 2009-10 and FY 2010-11.

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 2009-10, State government revenue may not exceed 9.49% of personal income for calendar year 2008. Given that Michigan personal income for 2008 equaled $349,612 million, the revenue limit for FY 2009-10 is $33,178 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 2009-10 and FY 2010-11, 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 2009-10 and FY 2010-11 are presented in Table 10.

FY 2008-09

In FY 2008-09, the revenue limit equaled 9.49% of Michigan's personal income in calendar year 2007. According to the U.S. Department of Commerce's Bureau of Economic Analysis, Michigan personal income for 2007 was $343.6 billion, so the revenue limit equaled $32.6 billion. Based on the final revenue for FY 2008-09, revenue subject to the limit totaled $24.8 billion. As a result, revenue subject to the limit fell below the revenue limit by $7.8 billion, or 23.9%. 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 2009-10

In FY 2009-10, the revenue limit will equal 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 in calendar 2008 equaled $349.6 billion, so the revenue limit is estimated at $33.2 billion for FY 2009-10. Based on the SFA's revised revenue estimates for FY 2009-10, revenue subject to the revenue limit will equal an estimated $23.5 billion. As a result, it is estimated that revenue subject to the limit will fall below the limit by $9.6 billion, or 29.1%, in FY 2009-10.

FY 2010-11

The U.S. Department of Commerce's Bureau of Economic Analysis' initial estimate of personal income in Michigan during 2009 equals $339.2 billion, and as a result, the revenue limit will equal $32.2 billion in FY 2010-11. Based on the Senate Fiscal Agency's initial revenue estimates for FY 2010-11, revenue subject to the revenue limit will equal an estimated $23.9 billion. As a result, revenue subject to the revenue limit will fall below the limit by an estimated $8.3 billion, or 25.7% 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 reflects a decrease in personal income during 2009. Revenue subject to the limit in FY 2010-11 is estimated to rise approximately 1.6% from the FY 2009-10 level, while personal income is expected to have fallen 3.0% between 2008 and 2009. The 2009 decline in personal income lowers the FY 2010-11 revenue limit by $1.0 billion.

Table 10

COMPLIANCE WITH CONSTITUTIONAL REVENUE LIMIT SECTION 26 OF ARTICLE IX OF THE STATE CONSTITUTION FY 2007-08 THROUGH FY 2010-11 ESTIMATE (Millions of Dollars)				
	FY 2007-08 Final	**FY 2008-09 Final**	**FY 2009-10 Estimate**	**FY 2010-11 Estimate**
Revenue Subject to Limit				
Revenue:	$8,168.2	$7,097.2	$6,388.5	$6,775.3
General Fund/General Purpose (baseline)	1,665.5	1,568.3	1,518.5	1,534.7
Revenue Sharing (baseline)	11,248.6	10,896.2	10,713.2	10,736.4
School Aid Fund (baseline)	2,068.4	1,999.0	2,000.8	2,004.5
Transportation Funds	3,124.4	2,999.4	2,939.4	2,924.7
Other Restricted Non-Federal Aid Revenue				
Adjustments:	(14.8)	(31.2)	(29.0)	(29.0)
GF/GP Federal Aid	1,191.4	268.5	7.8	(56.7)
GF/GP Balance Sheet Adjustments	264.6	26.0	0.0	15.6
SAF Balance Sheet Adjustments	$27,716.3	$24,823.5	$23,539.2	$23,905.5
Total Revenue Subject to Limit	**$8,168.2**	**$7,097.2**	**$6,388.5**	**$6,775.3**
Revenue Limit				
Personal Income:				
Calendar Year	**CY 2006**	**CY 2007**	**CY 2008**	**CY 2009**
Amount	$334,770	$343,585	$349,612	$339,219
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%
Revenue Limit	$31,769.6	$32,606.2	$33,178.2	$32,191.9
1.0% of Limit	317.7	326.1	331.8	321.9
Amount Under (Over) Limit	**$4,053.3**	**$7,782.8**	**$9,639.0**	**$8,286.3**
Percent Below Limit	12.8%	23.9%	29.1%	25.7%

ESTIMATE OF YEAR-END BALANCES

Based on the economic and revenue forecasts outlined earlier in this report, along with enacted and projected State appropriations, the Senate Fiscal Agency (SFA) has revised its estimates of the FY 2009-10 and FY 2010-11 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) year-end balances. This section of the report discusses the year-end balances and addresses the issues the members of the Legislature are facing as they attempt to complete action on the FY 2010-11 State budget.

On February 11, 2010, Governor Jennifer Granholm presented her FY 2010-11 State budget recommendation to the Legislature. The numbers contained in the Governor's budget recommendation were based on the consensus revenue estimates agreed to on January 11, 2010, recommended increases in State taxes and fees, adjustments to both GF/GP and SAF appropriations, and key assumptions regarding the receipt of Federal funds. The Governor's budget recommendation was balanced between estimated revenue and recommended appropriations pursuant to constitutional requirements.

Since the Governor introduced the FY 2010-11 State budget to the Legislature in February 2010, several factors have changed that will have a direct impact on the final decisions to be made by the Legislature on the State budget. The recent performance of the United States and Michigan economies has generally exceeded the levels assumed at the January 2010 Consensus Revenue Estimating Conference. Taken alone, this fact should result in increases in the estimates of GF/GP and SAF revenue. The upward revenue adjustments related to economic performance, however, were offset by a significant downward revision in the estimate of revenue to be generated from the Michigan Business Tax (MBT). This downward revision of the MBT revenue is attributable to a combination of a revision in the base of the new tax and timing issues involving payments.

The downward revision of the estimate of the MBT affects the GF/GP revenue estimates for both FY 2009-10 and FY 2010-11. Therefore, as stated in the revenue estimate section of this report, the revised SFA revenue estimates result in a significant decline in GF/GP revenue that is almost offset by a significant increase in SAF revenue. These adjustments will result in a projected deficit in the FY 2009-10 GF/GP budget and a projected surplus in the FY 2009-10 SAF budget. The same adjustments to the GF/GP and SAF budgets will occur as the year-end balances for the FY 2010-11 are reviewed.

The second major factor that is influencing the final decisions on the FY 2010-11 State budget is that the Governor's budget recommendation was based on a tax proposal that would result in increased revenue to the FY 2010-11 SAF budget. To date, there has been no action in the Legislature on the Governor's tax proposal and the Senate has been approving FY 2010-11 appropriation bills that do not assume passage of this tax proposal.

Table 11 provides a summary of the SFA's estimates of the FY 2009-10 and FY 2010-11 year-end balances of the GF/GP and SAF budgets. Based on current SFA revenue estimates along with enacted and projected State appropriations, the FY 2009-10 GF/GP budget is in deficit by $466.6 million. Based on current SFA revenue estimates along with enacted and projected State appropriations, the FY 2009-10 SAF budget has a surplus of $348.6 million. A comparison of the SFA's estimate of FY 2010-11 current-law revenue and the Senate-passed FY 2010-11 appropriation bills leads to a projected $277.6 million FY 2010-11 GF/GP budget deficit. A comparison of the SFA's estimate of FY 2010-11 current-law revenue and the Senate-passed FY 2010-11 SAF appropriation bills leads to a $563.7 million FY 2010-11 SAF budget surplus.

Table 11

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	($466.6)	($277.6)
School Aid Fund	$348.6	$563.7

FY 2009-10 YEAR-END BALANCE

During October 2009, the Michigan Legislature approved FY 2009-10 GF/GP budgets that were balanced between estimated revenue and enacted appropriations. The initial budget approved by the Legislature was based on a May 2009 consensus revenue estimate. The revisions to the consensus revenue estimates agreed to in January 2010 were relatively modest and the enacted FY 2009-10 GF/GP and SAF budgets were still in balance. The current SFA revenue estimates, which result in a large decline in GF/GP revenue and a large increase in SAF revenue, result in a situation in which the FY 2009-10 GF/GP budget is now in deficit and a surplus now exists in the FY 2009-10 SAF budget. The Governor and the Legislature will be forced to take action to eliminate this projected FY 2009-10 GF/GP budget deficit.

Table 12 provides the details of the SFA's estimate of a $466.6 million FY 2009-10 GF/GP budget deficit. On the revenue side of the FY 2009-10 GF/GP budget ledger, the SFA now believes that GF/GP revenue will total $7.5 billion. This projected level of FY 2009-10 GF/GP revenue represents a $1.1 billion or 12.8% decline from the final level of FY 2008-09 GF/GP revenue. The May 2010 SFA estimate of current law GF/GP revenue is down $502.4 million from the January 2010 consensus revenue estimate. The FY 2009-10 GF/GP revenue total includes $177.2 million of surplus revenue carried forward from FY 2008-09, $7.3 billion of ongoing revenue, and $58.4 million of revenue from one-time sources.

On the expenditure side of the FY 2009-10 GF/GP budget ledger, the SFA now believes that final GF/GP expenditures will total $8.0 billion. This projected level of FY 2009-10 GF/GP expenditures reflects a $459.3 million or 5.4% decline from the final level of FY 2008-09 GF/GP expenditures. The projected level of GF/GP expenditures includes enacted appropriations, pending supplemental appropriations, projected caseload and cost estimates in the Departments of Community Health and Human Services, the appropriation of surplus tobacco settlement and Medicaid Trust Fund revenue, and assumed year-end appropriation lapses. These year-end appropriation lapses result from salary and benefit concessions by State employees, administrative savings in the Department of Corrections, and general year-end departmental appropriation lapses.

The Governor and the Legislature will be forced to develop options to eliminate this projected FY 2009-10 GF/GP budget deficit. The deficit will have to be eliminated by revenue increases, appropriation reductions, or any combination of these two options. It is likely that the Governor and the Legislature will begin discussions regarding the elimination of this projected budget deficit as soon as the Consensus Revenue Estimating Conference is completed on May 21, 2010.

Table 12

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	$6,396.3
Revenue Sharing Savings	525.0
Shift of Short-Term Borrowing Costs to School Aid Fund	30.0
Use Tax on HMOs (PA 440 of 2008)	342.8
Subtotal Ongoing Revenue	7,294.1
One-Time Revenue:	
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	1.5
State Services Fee Fund Transfer to General Fund	1.6
21st Century Jobs Fund Transfer to General Fund	37.5
Subtotal One-Time Revenue	58.4
Total Estimated Revenue	**$7,529.7**
Expenditures:	
Initial Appropriations	$8,128.0
Enacted Supplemental Appropriations:	
Public Act 140 of 2009	0.0
Public Act 145 0f 2009	0.0
Public Act 1 of 2010	0.0
Public Act 2 of 2010	0.0
Public Act 27 of 2010	0.0
Public Act 36 of 2010	9.5
Public Act 40 of 2010	0.0
Public Act 47 of 2010	0.5
Public Act 66 of 2010	0.0
Subtotal Enacted Supplemental Appropriations	10.0
Pending Supplemental Appropriations:	
Community Health Caseload and Costs	64.5
Human Services Caseload and Costs	49.0
Human Services Other Adjustments	3.6
Medicaid Tobacco/Trust Fund Shifts	(147.0)
Higher Education/Human Services Fund Source Shift	0.0
State-Help America Vote State Match	0.3
County Jail Reimbursement Program Supplemental	2.2
Treasury-General Obligation Bond Debt Service	(12.5)
Subtotal Pending Supplemental Appropriations	(39.9)
Other Expenditure Adjustments:	
Employee Concessions	(27.5)
Corrections Administrative Efficiencies	(20.0)
Savings from Employee Benefit Reforms	(4.3)
Projected Year-End Appropriation Lapses	(50.0)
Subtotal Other Expenditure Adjustments	(101.8)
Total Projected Expenditures	**$7,996.3**
Projected Year-End Balance	**($466.6)**

Table 13 provides a summary of the SFA estimate of a $348.6 million FY 2009-10 SAF budget surplus. This surplus estimate is based on a comparison of estimated revenue, enacted appropriations, and projected final SAF expenditures.

On the revenue side of the FY 2009-10 SAF budget ledger, the SFA now believes that SAF revenue will total $13.0 billion. This projected level of total SAF revenue represents a $313.9 million or 2.3% decline from the final level of FY 2008-09 SAF revenue. The May 2010 SFA estimate of current-law SAF revenue is up $255.2 million from the January 2010 consensus revenue estimate. The FY 2009-10 SAF revenue total includes $238.2 million of surplus revenue carried forward from FY 2008-09, $10.7 billion of restricted SAF revenue, a $30.2 million GF/GP grant, $1.6 billion of ongoing Federal aid, and $450.0 million of temporary Federal aid appropriated as part of the American Recovery and Reinvestment Act of 2009.

On the expenditure side of the FY 2009-10 SAF budget ledger, the SFA now believes that final SAF expenditures will total $12.7 billion. This projected level of FY 2009-10 SAF expenditures reflects a $424.3 million or 3.2% decline from the final level of FY 2008-09 SAF expenditures. The $12.7 billion of projected SAF expenditures includes $12.8 billion of funding in the original enacted appropriation bill and adjustments based on increased Federal funds, adjustments to SAF borrowing costs, expenditure adjustments based on updated pupil counts, and updated estimates of local property taxes used to support the SAF budget.

Table 13

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

	SFA Estimate
Revenue:	
Beginning Balance	$238.2
Restricted SAF Revenue	10,713.3
GF/GP Grant	30.2
Federal Aid	1,617.6
ARRA-State Fiscal Stabilization Fund	450.0
Total Estimated Revenue	**$13,049.3**
Expenditures:	
Enacted Appropriation	$12,823.5
Expenditure Adjustments:	
Formula Cost Adjustments	(123.7)
Additional CEPI Federal Funding	15.9
Lower SAF Borrowing Cost from General Fund	(15.0)
Total Appropriations	**$12,700.7**
Projected Year-End Balance	**$348.6**

FY 2010-11 YEAR-END BALANCE

The Legislature has been considering Governor Granholm's FY 2010-11 State budget recommendation since the budget was presented to the Legislature on February 11, 2010. To date, the Senate has acted on all of the appropriation bills necessary to implement the budget. The House of Representatives has acted on fewer than one-half of the appropriation bills. The Senate-passed appropriation bills reflect the Senate policy position on the FY 2010-11 budget. This policy position does not include the tax or fee increases recommended by the Governor. Using the Senate-passed appropriation bills as the basis of the budget, it now is clear that adjustments will have to be made to the FY 2010-11 GF/GP budget to ensure a balance between estimated revenue and appropriations. The FY 2010-11 SAF budget will contain a surplus if the Senate-passed SAF appropriation bill is implemented.

Table 14 provides a summary of the $277.6 million projected imbalance in the FY 2010-11 GF/GP budget. This projected imbalance is based on current-law revenue, revenue adjustments that are part of the Senate-passed appropriation bills, and the Senate-passed appropriation levels.

Table 14

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

	SFA Estimate
Beginning Balance	**$0.0**
Ongoing Revenue:	
SFA Revenue Estimate	$6,718.5
Shift of Short-Term Borrowing Costs to School Aid Fund	45.0
Proposed Revenue Sharing Freeze	572.4
County Revenue Sharing-Payment Restoration	(53.7)
Use Tax on Health Maintenance Organizations	354.6
Enhanced Tax Enforcement Revenue	15.0
Subtotal Ongoing Revenue	7,651.8
Proposed Revenue Adjustments:	
College Tuition Tax Credit Elimination	8.8
Angel and Venture Capital Investor Tax Credit	(5.0)
Revenue Sharing Target Reduction	41.2
21st Century Jobs Fund Transfer	48.5
Secretary of State IT Work Project Transfer	6.0
State Services Fee Fund Transfer	5.0
Subtotal Proposed Revenue Adjustments	104.5
Total Estimated Revenue	**$7,756.3**
Expenditures:	
Senate Appropriation Targets	$8,045.5
Community Health Caseload/Costs	80.8
Human Services Caseload/Costs	(12.4)
Savings from Proposed State Employee Retirement Changes	(80.0)
Total Recommended Expenditures	**$8,033.9**
Projected Year-End Balance	**($277.6)**

On the revenue side of the FY 2010-11 GF/GP budget ledger, the SFA now believes that GF/GP revenue will total $7.8 billion. This projected level of FY 2010-11 GF/GP revenue reflects a $226.6 million or 3.0% increase from the estimated level of FY 2009-10 GF/GP revenue. The May 2010 SFA estimate of ongoing revenue represents a $249.9 million decline from the January 2010 consensus revenue estimate. The Senate-passed GF/GP appropriation bills assume an additional $104.5 million of GF/GP revenue from proposed revenue adjustments. These revenue adjustments include a $41.2 million reduction in the level of revenue sharing payments, a $48.5 million reduction in the level of tobacco settlement revenue deposited into the 21st Century Jobs Fund, and several other small revenue adjustments.

On the expenditure side of the FY 2010-11 GF/GP budget ledger, the Senate-passed appropriation bills total $8.0 billion. Based on revised SFA estimates, caseload and cost increases in the

Department of Community Health will lead to $80.8 million of GF/GP appropriation increases and caseload and cost adjustments in the Department of Human Services will reduce GF/GP appropriations by $12.4 million. The Senate-passed budget also assumes $80.0 million of savings from the implementation of the Governor's proposal to increase the share of retirement costs borne by State employees. This proposal is pending before the Legislature. Table 15 provides a summary of the Governor's FY 2010-11 GF/GP budget recommendations with the Senate-passed appropriation bills. Including the savings from revenue sharing and the 21st Century Jobs Fund, the Senate-passed appropriation bills are $30.9 million below the Governor's recommendations.

Table 15

FY 2010-11 GF/GP APPROPRIATIONS
GOVERNOR'S RECOMMENDATION VERSUS SENATE PROPOSAL
(Actual Dollars)

Department/Budget Area	Governor's Recommendation	Senate-Passed	Dollar Difference
Agriculture	$28,828,700	$30,297,100	$1,468,400
Attorney General	29,168,000	28,580,100	(587,900)
Civil Rights	11,279,100	10,988,100	(291,000)
Community Colleges	299,100,500	289,940,500	(9,160,000)
Community Health	2,016,461,800	1,920,421,400	(96,040,400)
Corrections	1,875,904,500	1,908,576,700	32,672,200
Education	20,011,900	19,795,700	(216,200)
Energy, Labor, and Economic Growth	45,426,700	47,807,900	2,381,200
Executive	4,630,800	4,630,800	0
Higher Education	1,543,378,500	1,527,238,500	(16,140,000)
Human Services	959,205,300	915,456,100	(43,749,200)
Judiciary	152,731,100	151,573,100	(1,158,000)
Legislative Auditor General	11,155,000	11,155,000	0
Legislature	100,574,300	100,574,300	0
Military and Veterans Affairs	36,951,100	36,432,900	(518,200)
Natural Resources and Environment	42,104,300	41,341,500	(762,800)
School Aid	30,206,200	225,606,200	195,400,000
State	14,179,200	13,950,900	(228,300)
State Police	258,930,500	258,193,400	(737,100)
Technology, Management, and Budget	304,346,000	301,381,300	(2,964,700)
Transportation	0	0	0
Treasury (Debt Service)	119,394,700	119,394,700	0
Treasury (Operations)	59,647,200	58,474,400	(1,172,800)
Treasury (Revenue Sharing)	0	0	0
Treasury (Strategic Fund Agency)	23,088,200	23,681,500	593,300
Total Appropriations	**$7,986,703,600**	**$8,045,492,100**	**$58,788,500**
Restricted Revenue Adjustments:			
Statutory Revenue Sharing Payments	$429,062,400	387,862,400	(41,200,000)
21st Century Jobs Fund	75,000,000	26,500,000	(48,500,000)
Subtotal Restricted Revenue Adjustments	**$504,062,400**	**$414,362,400**	**($89,700,000)**
Total GF/GP and Restricted Revenue	**$8,490,766,000**	**$8,459,854,500**	**($30,911,500)**

Table 16 provides the details of the SFA estimate of a $563.7 million balance in the FY 2010-11 SAF budget. This projected budget balance is based on current-law revenue and the Senate-passed K-12 School Aid appropriation bill. This projected budget balance will provide flexibility as final decisions in the Legislature are made regarding this budget.

On the revenue side of the FY 2010-11 SAF budget, the SFA now believes that SAF revenue will total $13.2 billion. This projected level of FY 2010-11 SAF revenue is $148.7 million or 1.1% above the estimated level of FY 2009-10 SAF revenue. The May 2010 SFA estimate of restricted SAF revenue represents a $271.4 million increase from the January 2010 consensus revenue estimate. This estimate of total SAF revenue includes $348.6 million of surplus SAF revenue carried forward from FY 2009-10, a $225.7 million GF/GP grant to the SAF budget, $1.7 billion of ongoing Federal aid, $184.3 million of temporary Federal aid appropriated as part of the American Recovery and Reinvestment Act of 2009, and two small revenue items related to proposed reforms in tax collection activities in the Department of Treasury and proposed lottery reforms.

On the expenditure side of the FY 2010-11 SAF budget ledger, the Senate-passed K-12 School Aid appropriation bill totals $12.7 billion. Formula funding cost adjustments of $22.0 million will occur as a result of revised pupil estimates. The FY 2010-11 Senate-passed K-12 appropriation bill assumes a freeze in most categorical grants at the current-year levels and a $118-per-pupil reduction in the base per-pupil funding level from the current fiscal year.

Table 16

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

	SFA Estimate
Beginning Balance	$348.6
SFA Revenue Estimate	10,752.0
Revenue Adjustments:	
GF/GP Grant to School Aid Fund	225.7
Federal Aid	1,680.1
American Recovery and Reinvestment Act Funding	184.3
Treasury Reform	2.3
Lottery Reform	5.0
Subtotal Tax Policy Proposals	2,097.4
Total Estimated School Aid Fund Revenue	**$13,198.0**
Expenditures:	
Senate Appropriation Target	$12,656.3
Funding Formula Cost Adjustments	(22.0)
Total Projected Expenditures	**$12,634.3**
Projected Year-End Balance	**$563.7**

FY 2011-12 BUDGET OUTLOOK

While the Governor and the Legislature work on eliminating a projected FY 2009-10 GF/GP budget deficit and work on the final details of the FY 2010-11 State budget, it is important not to lose sight of the challenges that the State budget likely will face during FY 2011-12. The FY 2010-11 GF/GP budget relies heavily on one-time Federal funds that are available under provisions of the American Recovery and Reinvestment Act of 2009 (ARRA). The Senate-passed GF/GP budget assumes $847.6 million of GF/GP appropriation reductions related to ARRA funding. These Federal fund sources will not be available to support the FY 2011-12 GF/GP budget. In addition to the loss of temporary Federal funds, the FY 2011-12 GF/GP budget will be affected by enacted tax reductions. Specifically, the rate of the State income tax will decline from 4.35% to 4.25% on October 1, 2011. This income tax rate reduction will reduce FY 2011-12 GF/GP revenue by approximately $150.0 million. Taken together, the loss of temporary ARRA funds and the income tax rate reduction will leave a $997.6 million hole in the FY 2011-12 GF/GP budget. This potential FY 2011-12 GF/GP budget hole equates to 12.4% of FY 2010-11 GF/GP appropriations.