ECONOMIC OUTLOOK
AND
REVENUE ESTIMATES
FOR
MICHIGAN

FY 2006-07
AND
FY 2007-08

HOUSE FISCAL AGENCY

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This House Fiscal Agency (HFA) report has been prepared for members of the Michigan House of Representatives. The report presents final General Fund/General Purpose and School Aid Fund revenue estimates for fiscal year (FY) 2005-06, and revised revenue estimates for FY 2006-07 and FY 2007-08. Estimates reported herein will be presented to the Consensus Revenue Estimating Conference on May 18, 2007, and will be used to facilitate the consensus estimating process.

This report includes HFA analyses of important factors that will affect state and national economies through the year 2008, estimates of the Countercyclical Budget Stabilization Fund, state compliance with the Constitutional State Revenue Limit, and year-end balance estimates for General Fund/General Purpose (GF/GP) and the School Aid Fund (SAF).

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EXECUTIVE SUMMARY

The national economy has slowed over the last three quarters. It is expected to increase 1.9% in calendar year (CY) 2007—the slowest since 2002—and 2.7% in CY 2008. The delayed effects of interest rate increases, high oil/gasoline prices, a weakening housing market and a lower level of light motor vehicle sales were the primary factors that reduced economic growth in the last three quarters. National payroll employment added approximately 200,000 jobs per month in CY 2006, but that pace slowed to approximately 130,000 jobs per month in the January through April 2007 period.

Michigan's wage and salary employment has generally trended downward since mid-2000. In the first quarter of CY 2007, Michigan's wage and salary employment declined by 15,000 workers; over the past year, Michigan lost an average of 3,660 jobs per month.

U. S. Forecast

Real GDP growth is forecast to be 1.9% in CY 2007, down from 3.3% in CY 2006. Real GDP is forecast to grow 2.7% in CY 2008.

Inflation, as measured by the Consumer Price Index (CPI), is forecast to decline from 3.2% in CY 2006 to 2.4% in CY 2007 and 2.1% in CY 2008.

Light vehicle sales totaled 16.9 million units in CY 2005, declined to 16.5 million units in CY 2006, and are forecast to drop to 16.3 million units in CY 2007 before rising back to 16.5 million units in CY 2008. The import share of light vehicles is forecast to be 23.3% in CY 2007 and 22.9% in CY 2008.

The national unemployment rate is forecast to be 4.6% CY 2007, then increase to 4.8% in CY 2008.

Interest rates on three-month T-bills are forecast to average 4.9% in CY 2007 and 4.8% in CY 2008.

Michigan Forecast

Michigan personal income increased 3.1% in CY 2006; the rate of growth is expected to decelerate to 2.0% in CY 2007 and 2.5% in CY 2008.

Michigan's unemployment rate was 6.9% in CY 2006, and is forecast to be 7.2% in CY 2007 and 7.6% in CY 2008.

Inflation, as measured by the Detroit Consumer Price Index, for CY 2006 was 3.0%; it is forecast to be 2.3% in CY 2007 and 1.9% in CY 2008.

State Revenue

Final total baseline GF/GP and SAF revenue was $19.3 billion in FY 2005-06, and is forecast to increase by 0.2% to $19.3 billion in FY 2006-07 and by 0.8% to $19.5 billion in FY 2007-08.

Baseline revenue does not include the impact of partial-year policy changes or certain policy changes that have only recently occurred. Baseline estimates are comparable across fiscal years and demonstrate the changes to state revenue that are driven by changes in the economy.

Final total net GF/GP and SAF revenue was $19.3 billion in FY 2005-06; it is forecast to decrease $63.7 million or 0.3% in FY 2006-07. The FY 2007-08 total net GF/GP and SAF revenue is forecast to total $18.2 billion—a decrease of $1,122.7 million or 5.8%; $1.17 billion of this decrease is due to the repeal of the single business tax (SBT). If the SBT is replaced with a revenue neutral tax, then the total net GF/GP and SAF revenue would increase by $49.5 million or 0.3% in FY 2007-08. Net revenue captures the effects of all policy changes and represents resources available.

Table 1 reports GF/GP and SAF revenue in terms of baseline and actual revenue. Final FY 2005-06 estimates and the House Fiscal Agency's recommended revisions to estimates for FY 2006-07 and FY 2007-08 are reported in **Table 2 and Table 3**.

State Revenue Limit

Final total state revenue is expected to be below the state revenue limit by $4.9 billion in FY 2005-06; it is estimated to be under the limit by $5.6 billion in FY 2006-07, and $7.6 billion in FY 2007-08. Final calculation of the state revenue limit is performed by the Auditor General.

Fund Balances

Beginning GF/GP balance is estimated to be $5.4 million for FY 2006-07.

Beginning School Aid Fund balance is estimated to be zero for FY 2006-07.

Beginning Countercyclical Budget Stabilization Fund balance is estimated to be zero for FY 2006-07 and FY 2007-08.

Table 1
HFA REVENUE ESTIMATES
(Millions of Dollars)

	Final FY 2005-06	HFA Estimate FY 2006-07	HFA Estimate FY 2007-08
Baseline GF/GP	$8,185.2	$8,188.9	$8,186.2
Baseline SAF	11,085.2	11,112.6	11,265.8
TOTAL BASELINE	**$19,270.4**	**$19,301.5**	**$19,452.0**
Actual GF/GP	$8,266.0	$8,168.7	$6,875.5
Actual SAF	11,082.0	11,115.6	11,286.1
TOTAL ACTUAL	**$19,348.0**	**$19,284.3**	**$18,161.6**

Table 2
FY 2006-07 HFA RECOMMENDED REVISIONS
(Millions of Dollars)

	January 2007 Consensus	May 2007 Recommendation	Recommended Revision
Baseline GF/GP	$8,265.2	$8,188.9	($76.3)
Baseline SAF	11,227.0	11,112.6	(114.4)
TOTAL BASELINE	**$19,492.2**	**$19,301.5**	**($190.7)**
Actual GF/GP	$8,230.0	$8,168.7	($61.3)
Actual SAF	11,230.0	11,115.6	(114.4)
TOTAL ACTUAL	**$19,460.0**	**$19,284.3**	**($175.7)**

Table 3
FY 2007-08 HFA RECOMMENDED REVISIONS
(Millions of Dollars)

	January 2007 Consensus	May 2007 Recommendation	Recommended Revision
Baseline GF/GP	$8,378.2	$8,186.2	($192.0)
Baseline SAF	11,512.6	11,265.8	(246.8)
TOTAL BASELINE	**$19,890.8**	**$19,452.0**	**($438.8)**
Actual GF/GP	$7,010.0	$6,875.5	($134.5)
Actual SAF	11,532.9	11,286.1	(246.8)
TOTAL ACTUAL	**$18,542.9**	**$18,161.6**	**($381.3)**

ECONOMIC REVIEW AND FORECAST

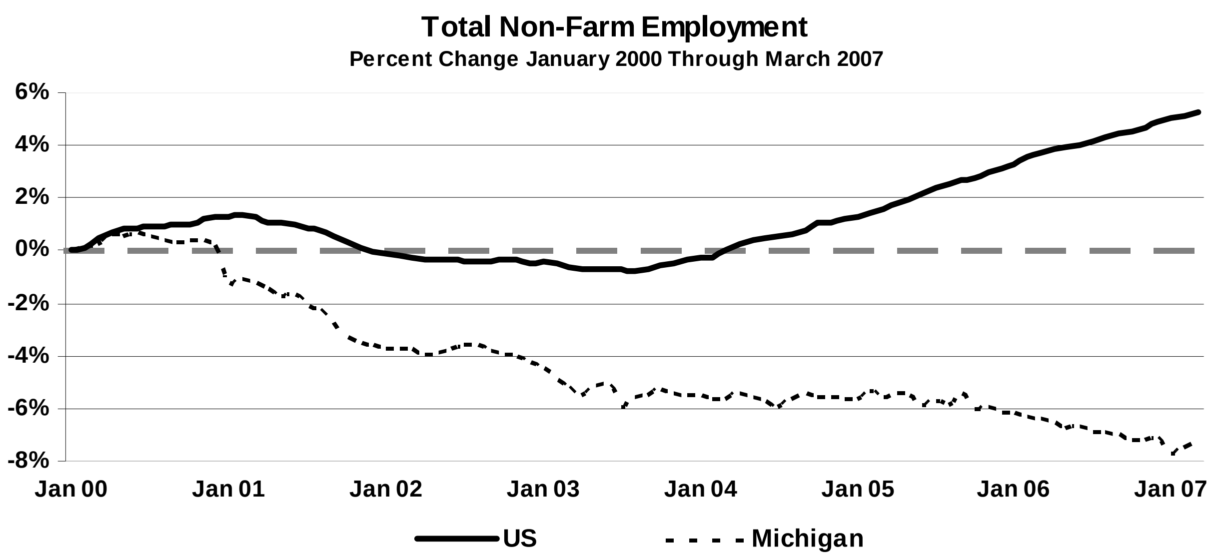
This section presents the economic forecast used by the House Fiscal Agency to produce its revenue forecasts for FY 2006-07 and FY 2007-08.

The eight-month national recession that ended in November 2001 was followed by weak economic growth throughout CY 2002 and the early part of CY 2003. At the national level, economic growth accelerated at the end of CY 2003 and continued through CY 2005. Job growth at the national level began to improve during the latter half of CY 2003, and has continued its upward trend. National job growth has continued in recent months, but at a slower rate.

Total Non-Farm Employment

Figure 1 shows the monthly percent change in total non-farm employment for both the U.S. and Michigan from January 2000 through March 2007.

Figure 1



U.S. Non-Farm Employment

After U.S. employment peaked in February 2001, it began a long slide that did not end until August 2003. During this 30-month period, the national economy lost more than 2.75 million jobs, or about 92,000 jobs per month on average. In the 43 months since August 2003, almost eight million jobs have been added.

Michigan Non-Farm Employment

Although employment has rebounded at the national level, conditions in Michigan are far less optimistic. Employment in Michigan peaked in June 2000, a full eight months before the national level peak in February 2001. Following the June 2000 peak, employment in Michigan dropped steadily until July 2003, resulting in a loss of more than 306,000 jobs—a 6.5% decline. For about the next two years, through October 2005, employment in Michigan fluctuated around the July 2003 level, with monthly job gains offset by subsequent monthly job losses. The total job loss over this 27-month period was about 4,400. However, in the 17 months following October 2005, job losses again started to mount. Between October 2005 and January 2007, an additional 60,300 jobs were lost, although two consecutive months of job gains in February and March helped to reduce the impact. Overall, Michigan non-farm employment has fallen 7.9% since the June 2000 peak.

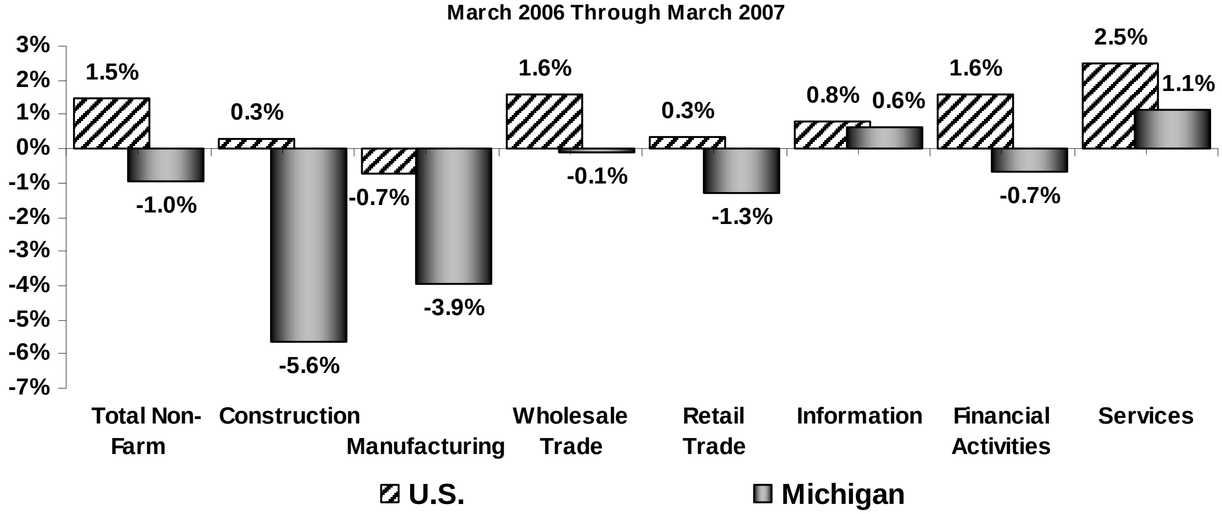
U.S. and Michigan Employment

Figure 2 shows the percentage change in employment over the past year for all non-farm workers and several important sectors of the economy for both the U.S. and Michigan. Although the U.S. gained almost two million jobs over this period, employment in Michigan fell by almost 41,000 jobs.

Figure 2

Percent Change in Employment

March 2006 Through March 2007



U.S. Employment

From March 2006 through March 2007, the U.S. experienced job gains in all sectors except manufacturing—which shed about 103,000 jobs. These job losses were more than offset by gains in all other sectors. The service sector, which grew by more than 1.3 million workers, experienced employment growth of 2.5%, while the financial activities and wholesale trade sectors each grew 1.6%.

Michigan Employment

Job losses in Michigan over the past year were concentrated in the manufacturing, construction, and retail trade sectors. Service sector growth of more than 1.1% over the past year was not enough to offset the loss of almost 26,000 manufacturing jobs. Over the past 12 months, Michigan's manufacturing employment losses have accounted for about a quarter of the total nationwide decline in manufacturing employment.

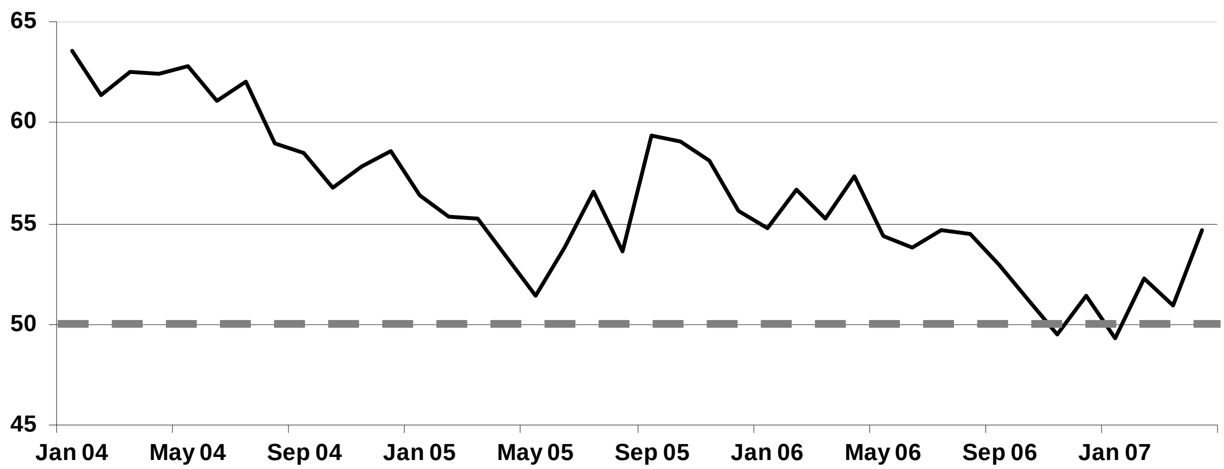
Institute for Supply Management (ISM) Index

Figure 3 shows the ISM Index, a composite index of five economic indicators used to measure economic vitality, beginning with January 2004. An index number above 50 indicates a growing manufacturing sector; a number below 50 suggests the manufacturing sector is contracting.

Figure 3

Institute for Supply Management (ISM) Index

January 2004 Through April 2007



The ISM index began January 2004 at a 20-year high of 63.3. This was followed by a 16-month slide that saw the index decline to 51.4 in May 2005. The index rose in three of the next four months, reaching a level of 59.4 in September 2005 before beginning a four-month decline to 54.8 in January 2006. With the exception of a brief increase in April, the index generally drifted downward in 2006. The index dipped below 50 in November (to 49.5), but ended the year with a slight upturn to 51.4. After another drop to 49.3 in January, the ISM has ratcheted upward to a level of 54.7 in April 2007.

Index of Consumer Sentiment

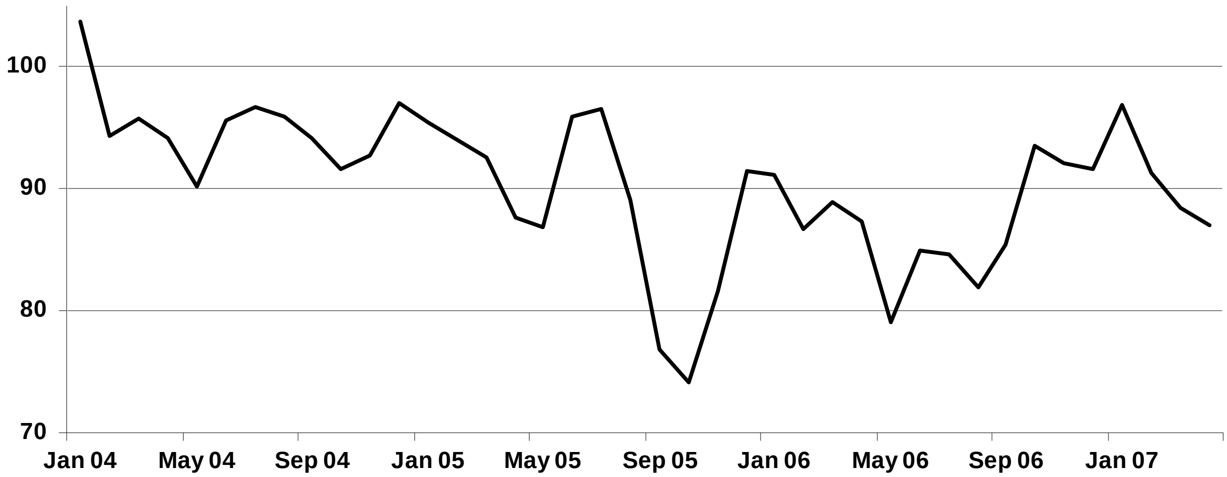
Consumer sentiment can be a strong motivator of personal consumption expenditures, which comprise almost two-thirds of GDP. **Figure 4** shows the University of Michigan Index of Consumer Sentiment beginning with January 2004.

Although the Index of Consumer Sentiment began January 2004 at a level over 100 for the first time in more than three years, it dropped in February and remained in the low- to mid-90s before ending 2004 with two consecutive monthly increases. Following this brief uptick, consumer sentiment declined in each of the next five months due, in part, to worries about high gas prices and concerns that the U.S. economy may be weakening.

Figure 4

University of Michigan Index of Consumer Sentiment

January 2004 Through April 2007



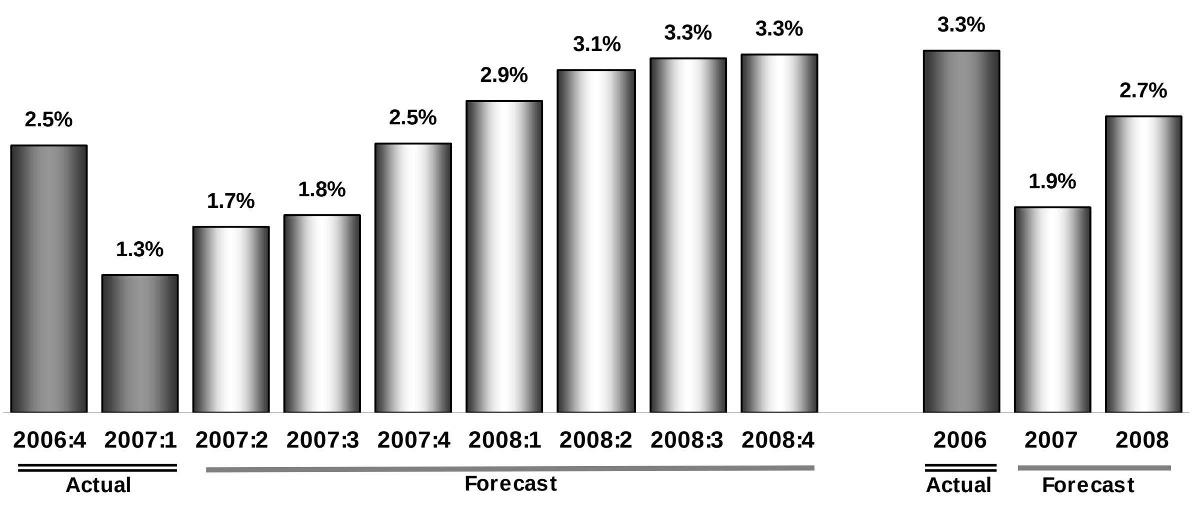
In the wake of the hurricanes in 2005, the index plunged to 72.4 in October before rising to a level of 91.5 in December. It dropped in six of the first eight months of 2006 as consumers expressed concerns over rising gas prices and interest rates. After reaching a three-year low of 82.0 in August, the index concluded 2006 at a level of 91.7. Following an increase in January, renewed concerns over gas and housing prices have again led to a sharp decline in consumer confidence.

Real GDP

Figure 5 shows the actual and estimated percent changes in U.S. Real GDP for CY 2006, CY 2007, and CY 2008.

Figure 5

Percent Change in U.S. Real GDP



After rising 2.5% during the fourth quarter of 2006, real GDP grew by 1.3% in the first quarter of 2007. Real GDP growth, which was 3.3% in CY 2006, is forecast to be just 1.9% in CY 2007 before increasing by 2.7% in CY 2008.

GDP growth is anticipated to be dampened by a slowdown in gross private domestic investment, which is forecast to decrease 4.6% in CY 2007 before growing by 4.8% in CY 2008. Non-residential investment, which is expected to grow just 1.9% in CY 2007, will not likely be sufficient to offset the projected 14.2% decline in residential construction.

Personal consumption advanced 2.7% during CY 2006. Even though the economy is expected to slow down, growth in personal consumption is predicted to increase to 3.1% in CY 2007 and 2.9% in CY 2008.

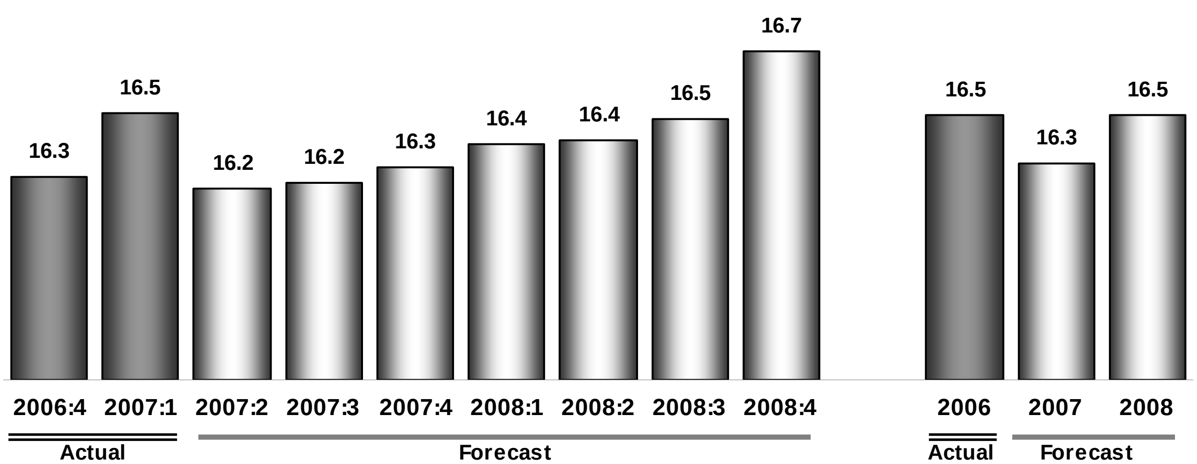
Light Vehicle Sales

Figure 6 shows light vehicle sales for CY 2006 and estimated light vehicle sales for CY 2007 and CY 2008.

Figure 6

Light Vehicle Sales

(Millions of Units)



Sales of light motor vehicles in CY 2006 totaled 16.5 million units—well below the CY 2000 record level of 17.2 million units. Light vehicle sales are anticipated to be 16.3 million units in CY 2007 and 16.5 million units in CY 2008.

Although there has been a shift in sales away from light trucks and toward cars over the past two years, the share of light trucks is expected to grow somewhat before stabilizing over the next two years. Light truck sales, which accounted for 52.9% in CY 2006, are expected to rise to 54.1% in CY 2007 and remain nearly constant at 54.0% in CY 2008.

The import share of total light vehicle sales was 22.3% in CY 2006; it is forecast to increase slightly to 23.3% in CY 2007 before dipping slightly to 22.9% in CY 2008.

Inflation

U.S. Inflation

Input prices (e.g., wages and import prices) have remained moderate and have held down production costs. Crude oil and natural gas prices, which are expected to remain above historical norms, could impact several sectors of the economy.

Benchmark West Texas intermediate crude began 2006 near $64 per barrel and reached a high of $74 per barrel in July before dropping back to $62 per barrel by the end of the year. After dropping to about $55 per barrel in January 2007, oil prices have risen consistently to almost $64 per barrel in April. Because of continued concern over the stability of the oil supply and increased world demand, it is anticipated that oil prices will remain at this level throughout the forecast period—averaging about $64 per barrel during both CY 2007 and CY 2008.

The annual rate of inflation, as measured by the percentage change in the U.S. Consumer Price Index-Urban (CPI-U), was 3.2% in CY 2006; it is expected to drop to 2.4% in CY 2007 and 2.1% in CY 2008.

Michigan Inflation

The cost of living in Michigan is measured by the Detroit Consumer Price Index for Urban Consumers (Detroit CPI-U). Michigan's average inflation rate was 3.0% in CY 2006. Inflation in Michigan should remain relatively low throughout the forecast period. The Detroit CPI-U is expected to be 2.3% in CY 2007 and 1.9% in CY 2008.

Income Growth

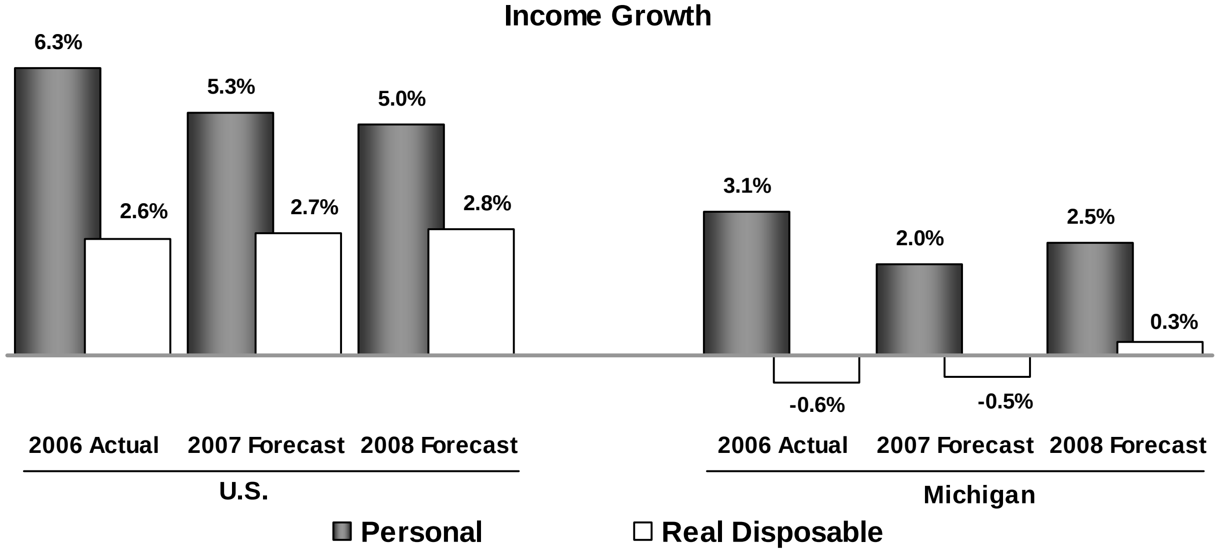
Figure 7 shows personal and real disposable income growth for the U.S. and for Michigan.

U.S. Income Growth

Total U.S. personal income grew by 6.3% in CY 2006. Personal income growth is forecast to increase 5.3% in CY 2007 and 5.0% in CY 2008.

Figure 7

Income Growth



Slightly higher inflation contributed to a 2.6% growth of U.S. real disposable income in CY 2006. It is forecast that U.S. real disposable income will grow by 2.7% in CY 2007 and 2.8% in CY 2008.

Michigan Income Growth

Michigan's total state personal income growth was 3.1% in CY 2006. Michigan personal income is forecast to increase just 2.0% in CY 2007 and 2.5% in CY 2008.

Michigan real disposable income declined 0.6% in CY 2006; it is forecast to fall by 0.5% in CY 2007 before increasing 0.3% in CY 2008.

Employment

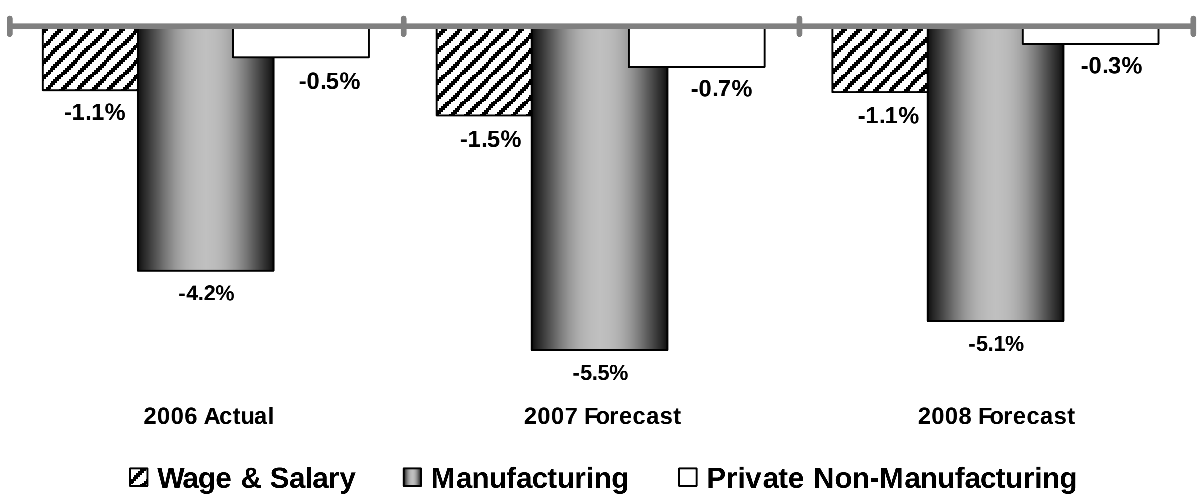
Figure 8 shows Michigan wage and salary, manufacturing, and private non-manufacturing employment growth.

U.S. Employment

One critical factor underscoring the difference in income growth between the U.S. and Michigan is overall job growth. Nationally, total non-farm employment has posted average gains of 130,000 per month during the first four months of 2007. Total non-farm employment increased by 1.9% in CY 2006; it is forecast to grow by 1.2% in CY 2007 and 1.0% in CY 2008 as the economy begins to slow.

Figure 8

Michigan Employment Growth



Michigan Employment

The Michigan economy has continued to endure a weak labor market; wage and salary employment declined by about 49,000 workers in CY 2006, and is expected to decline by an additional 67,000 workers in CY 2007 and 48,000 workers in CY 2008. The forecast calls for continued quarterly job losses through the fourth quarter of CY 2008.

Michigan wage and salary employment fell 1.1% in CY 2006, and is forecast to fall 1.5% in CY 2007 and 1.1% in CY 2007. Over the past 25 years, Michigan wage and salary employment has grown at an average annual rate of about 1.0%.

Michigan manufacturing employment dropped 4.2% in CY 2006, and is forecast to decrease 5.5% in CY 2007 and 5.1% in CY 2008. Although the most significant declines are concentrated in the motor vehicle industry, employment declines also appear throughout the entire manufacturing sector.

Michigan private non-manufacturing employment declined 0.5% in CY 2006; it is expected to decrease 0.7% in CY 2007 and 0.3% in CY 2008.

Unemployment

U.S. Unemployment

As of March 2007, total non-farm employment increased in each of the past 43 months, which has helped to hold down the unemployment rate. During this period, job growth has averaged almost 182,000 workers per month. Although much of this growth has been in service-providing sectors, the wholesale trade sector has also experienced growth during the past year. Only the manufacturing sector continues to shed jobs.

The U.S. unemployment rate was 4.6% in CY 2006; it is forecast to remain at 4.6% in CY 2007 before rising slightly to 4.8% in CY 2008.

Michigan Unemployment

Employment in Michigan remains a major concern as employment growth has fallen during each of the past five years. Michigan's wage and salary employment is forecast to continue declining throughout 2007 and 2008. As a result, the unemployment rate is expected to remain relatively high through 2008 as the labor force remains relatively flat while unemployment increases.

Michigan's unemployment rate was 6.9% in CY 2006, and is expected to rise to 7.2% in CY 2007 and 7.6% in CY 2008.

Table 4
ECONOMIC FORECAST VARIABLES

	Calendar 2005 Actual	Calendar 2006 Estimated	% Change from Prior Year	Calendar 2007 Estimated	% Change from Prior Year	Calendar 2008 Estimated	% Change from Prior Year
United States							
Real Gross Domestic Product (Billions of 2000 dollars)	$11,048.6	$11,415.3	3.3%	$11,629.9	1.9%	$11,945.3	2.7%
Implicit Price Deflator GDP (2000 = 100)	112.7	116.0	2.9%	119.3	2.8%	122.3	2.5%
Consumer Price Index (1982-84 = 100)	195.3	201.6	3.2%	206.3	2.4%	210.7	2.1%
Personal Consumption Deflator (2000 = 100)	111.5	114.5	2.7%	117.0	2.2%	119.1	1.8%
3-month Treasury Bills Interest Rate (Percent)	3.1%	4.7%		4.9%		4.8%	
Aaa Corporate Bonds Interest Rate (Percent)	5.2%	5.6%		5.6%		6.0%	
Unemployment Rate—Civilian (Percent)	5.1%	4.6%		4.6%		4.8%	
Light Vehicle Sales (Millions of units)	16.9	16.5	-2.6%	16.3	-1.1%	16.5	1.1%
Passenger Car Sales (Millions of units)	7.7	7.8	1.4%	7.5	-3.7%	7.6	1.4%
Light Truck Sales (Millions of units)	9.3	8.7	-6.0%	8.8	1.2%	8.9	1.0%
Import Share of Light Vehicles (Percent)	20.1%	22.3%		23.3%		22.9%	
Personal Income (Billions of current dollars)	$10,239.2	$10,883.4	6.3%	$11,463.1	5.3%	$12,041.4	5.0%
Real Disposable Income (Billions of 2000 dollars)	$8,105.0	$8,313.2	2.6%	$8,535.9	2.7%	$8,772.9	2.8%
Michigan							
Wage and Salary Employment (Thousands)	4,390.3	4,341.7	-1.1%	4,274.9	-1.5%	4,226.5	-1.1%
Unemployment Rate (Percent)	6.8%	6.9%		7.2%		7.6%	
Personal Income (Millions of current dollars)	$331,348	$341,710	3.1%	$348,550	2.0%	$357,225	2.5%
Real Personal Income (Millions of 1982-84 dollars)	$173,633	$173,816	0.1%	$173,391	-0.2%	$174,438	0.6%
Real Disposable Income (Millions of 1982-84 dollars)	$154,000	$153,097	-0.6%	$152,380	-0.5%	$152,886	0.3%
Wage and Salary Income (Millions of current dollars)	$183,670	$186,405	1.5%	$186,204	-0.1%	$187,884	0.9%
Detroit Consumer Price Index (1982-84 = 100)	190.8	196.6	3.0%	201.0	2.3%	204.8	1.9%
Detroit CPI (FY) (1982-84 = 100)	189.1	195.9	3.6%	199.6	1.9%	203.8	2.1%

RISKS AND UNCERTAINTIES

An economic forecast is based on the best information available at the time the forecast is made. Because information and foresight are not perfect, risks and uncertainties are inherent in any forecast. Key risks in this forecast stem predominantly from uncertainties surrounding energy prices, consumer and household finances, the housing market, and Michigan's motor vehicle industry.

Energy Prices

The average West Texas Intermediate crude oil price was $58 per barrel in the first quarter of 2007—a $5 drop from the year-ago quarter; more recently, oil prices have hovered around $64 per barrel. Gasoline prices have exceeded $3 per gallon due to the cost of oil and refinery shutdowns. Oil prices are forecast to average $64 per barrel throughout CY 2007 and CY 2008.

Energy prices affect the economy primarily through disposable income allocation—because more income is used for energy-related goods, less is used for all other items. Energy prices could fall below the estimated level and cause economic growth to be stronger than anticipated, or they may be higher than estimated—resulting in economic growth below the forecasted level.

Consumer and Household Finances

Negative savings rates (the first since the 1930s depression) in 2005 and 2006, declining or weakened home values, and high debt levels have strained consumer and household finances. Future consumption will have to rely more on growth in employment and income. National employment growth is expected to slow over the forecast period.

The negative savings rate is due largely to mortgage equity withdrawals, which increased the level of consumption in recent years. The savings rate averaged 2.1% between CY 2000 and CY 2004; in CY 2005 it declined 0.4% and declined 1.1% in CY 2006. The household debt service ratio—an estimate of debt payments (mortgage and consumer) and disposable personal income—rose to a new peak of 14.5% for the last two quarters of CY 2006.

National real disposable income growth is forecast to accelerate to an average of 2.8% over the next two years—up from 2.6% in CY 2006. Consumption is forecast to grow 3.1% in CY 2007 and 2.9% in CY 2008.

Housing Market

Low mortgage rates, increasingly more creative financing, and speculative buying have—until recently—helped support a strong housing market. In turn, the vibrant housing market supported strong consumption growth and allowed for a low or even negative savings rate. National employment and income growth has been supplemented with mortgage equity withdrawals, which has allowed consumers to spend more than just their incomes would allow. As the housing market shrinks, consumption growth will slow as consumers rebuild their savings and mortgage equity withdrawals lessen.

New and existing home sales decreased 10% in CY 2006. For the first two months of 2007, new home sales decreased 23% and existing home sales decreased 4% from a year ago.

The housing market is expected to continue contracting. Housing starts are forecast to decline 20.3% in CY 2007 then increase 6.7% in CY 2008. Consumer spending is expected to slow as the housing market cools in home sales and in refinancing activity.

Michigan's Motor Vehicle Industry

The level and composition of light motor vehicle sales is a key component of Michigan's economy. Light vehicle sales were 16.5 million units in CY 2006 and are forecast to be 16.3 million in CY 2007 before increasing to 16.5 million in CY 2008. The import share of light vehicles was 22.3% in CY 2006, and is forecast to be 23.3% in CY 2007 and 22.9% in CY 2008.

The market share of the big three auto manufacturers declined to an all-time low of 53.6% in CY 2006, down from 56.9% in CY 2005. Imports and vehicles with a foreign nameplate that are made in the U.S. (transplants) have steadily gained in market share over the past several years. The extent to which the domestic nameplates can hold on to market share will have a direct impact on Michigan's economy. This forecast assumes that the big three market share will decline by 2.6% in CY 2007 and by 1.6% in CY 2008.

After a decline of 7.7% in CY 2006, Michigan transportation employment is forecast to decline 12.4% in CY 2007 and 11.4% in CY 2008. If the Michigan-produced market share of motor vehicles is more than anticipated, Michigan's economy and revenue growth will be higher than estimated.

GF/GP AND SAF REVENUE

Revenue estimates are based on economic performance of the components of national and state economies discussed in the previous section. This section explains May 2007 House Fiscal Agency revenue estimates for GF/GP (**Table 5**) and SAF (**Table 6**) revenue by major revenue sources. It provides revenue estimates, year-end balances for the major funds and the budget stabilization fund, and the state revenue limit calculation.

GF/GP Revenue by Source

GF/GP Baseline Tax Revenue

Baseline GF/GP tax revenue totaled $7,969.2 million in FY 2005-06; it is estimated to decrease by $10.4 million or 0.1% to $7,958.8 million in FY 2006-07, and increase by $4.3 million or 0.1% to $7,963.1 million in FY 2007-08.

Total GF/GP Baseline Revenue

Total baseline GF/GP revenue includes baseline tax revenue and non-tax revenue such as federal aid, licenses and permits, and transfers from the liquor purchase revolving fund. Total GF/GP baseline revenue was $8,185.2 million in FY 2005-06; it is estimated to increase slightly to $8,188.9 million in FY 2006-07, and decrease slightly to $8,186.2 million in FY 2007-08.

Net GF/GP Revenue

Net GF/GP revenue takes tax changes into account and is available for expenditure each year. Net GF/GP revenue was $8,266.0 million in FY 2005-06; it is forecast to decrease by $97.3 million or 1.2% to $8,168.7 million in FY 2006-07, and decrease by $1,293.2 million or 15.8% to $6,875.5 million in FY 2007-08. As previously noted, $1.17 billion of the decrease from FY 2006-07 to FY 2007-08 is due to the SBT repeal. Without the SBT repeal, net GF/GP revenue would decrease $121.0 million or 1.5% for FY 2007-08.

SAF Revenue by Source

Total SAF Baseline Revenue

Total SAF baseline revenue was $11,085.2 million in FY 2005-06; it is forecast to increase $27.4 million or 0.2% to $11,112.6 million in FY 2006-07, and increase $153.2 million or 1.4% to $11,265.8 million in FY 2007-08.

Net SAF Revenue

Net SAF revenue takes tax changes into account. Net SAF revenue totaled $11,082.0 million in FY 2005-06; it is forecast to increase by $33.6 million or 0.3% to $11,115.6 million in FY 2006-07, and by $170.5 million or 1.5% to $11,286.1 million in FY 2007-08.

Table 5

GF/GP REVENUE ESTIMATES

(Millions of Dollars)

	Final FY 2005-06	FY 2006-07	FY 2007-08	Fiscal Year 2007-08 over 2006-07 %Change	$Change
Personal Income Taxes	$4,184.0	$4,262.8	$4,206.8	-1.3%	($56.0)
Sales and Use Taxes	1,016.7	1,031.3	1,045.7	1.4%	14.3
SBT and Insurance Taxes	2,198.3	2,128.5	2,177.7	2.3%	49.2
Other Taxes	570.2	536.2	532.9	-0.6%	(3.3)
GF/GP Baseline Tax Revenue	**$7,969.2**	**$7,958.8**	**$7,963.1**	**0.1%**	**$4.3**
Non-Tax Revenue	216.0	230.1	223.1	-3.0%	(7.0)
Total GF/GP Baseline Revenue	**$8,185.2**	**$8,188.9**	**$8,186.2**	**0.0%**	**($2.7)**
Adjustments to Baseline	80.8	(20.2)	(1,310.7)	-6,388.6%	(1,290.5)
Actual GF/GP Revenue	**$8,266.0**	**$8,168.7**	**$6,875.5**	**-15.8%**	**($1,293.2)**

NOTE: Numbers may not add due to rounding.

Table 6

SCHOOL AID FUND REVENUE ESTIMATES

(Millions of Dollars)

	Final FY 2005-06	FY 2006-07	FY 2007-08	Fiscal Year 2007-08 over 2006-07 % Change	$ Change
Sales and Use Tax	$5,302.3	$5,277.9	$5,334.8	1.1%	57.0
Income Tax Earmark	2,039.0	2,088.1	2,094.0	0.3%	5.9
State Education Tax	1,997.8	2,099.0	2,198.0	4.7%	99.0
Lottery/Casino Wagering	792.1	794.1	799.5	0.7%	5.3
Tobacco Taxes	468.9	454.9	445.8	-2.0%	(9.2)
Real Estate Transfer Tax	297.7	219.2	214.0	-2.4%	(5.2)
Other Taxes	187.4	179.4	179.8	0.2%	0.4
Baseline SAF Revenue	**$11,085.2**	**$11,112.6**	**$11,265.8**	**1.4%**	**$153.2**
Adjustments to Baseline	(3.2)	3.0	20.3	576.7%	17.3
Actual SAF Revenue	**$11,082.0**	**$11,115.6**	**$11,286.1**	**1.5%**	**$170.5**

NOTE: Numbers may not add due to rounding.

HFA Estimates of Year-End Balances

Table 7 reports House Fiscal Agency estimates of year-end balances for GF/GP, the SAF, and the BSF.

Fiscal Year 2006-07 estimates are based on year-to-date appropriations and HFA revenue estimates. Final FY 2004-05 and FY 2005-06 figures are included.

Budget Stabilization Fund estimates are based on current balance estimates provided by the Michigan Department of Treasury and HFA estimates of future deposits and interest earned.

Table 7

YEAR-END BALANCE ESTIMATES

(Millions of Dollars)

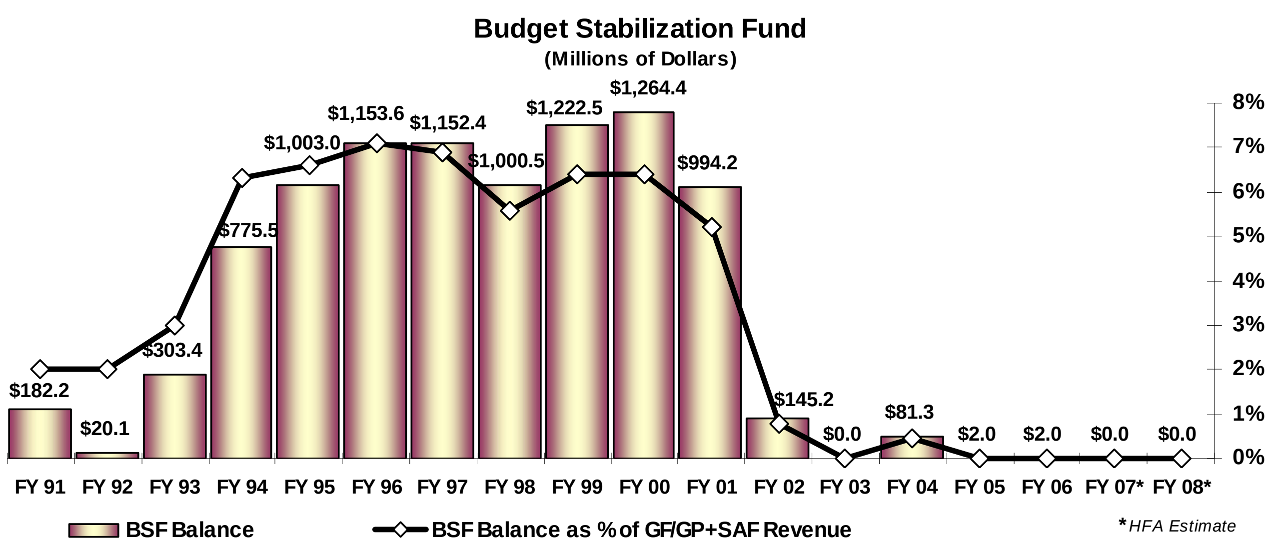
	Final FY 2004-05	Final FY 2005-06	Estimated FY 2006-07
General Fund/General Purpose	$220.5	$5.4	$0.0
School Aid Fund	$98.0	$0.0	$0.0
Budget Stabilization Fund	$2.0	$2.0	$0.0

School Aid Fund revenues are restricted; any year-end balance is carried forward to the subsequent year.

BSF Year-End Balance

The Counter-Cyclical Budget and Economic Stabilization Fund (BSF), the state's rainy day fund, is a reserve of cash to contribute to or withdraw from throughout economic and budget cycles. **Table 8** details deposits, withdrawals, interest earnings, and the year-end balance from FY 1990-91 through FY 2007-08. **Figure 9** shows the BSF fund balance and the BSF fund balance as a percent of total GF/GP and SAF revenue.

Figure 9



The BSF ending fund balance for FY 2005-06 was estimated at $2.0 million. The BSF trigger calculation—based on Michigan personal income less transfer payments adjusted for inflation and actual or net GF/GP revenue—indicates a $73.3 million withdrawal for FY 2006-07 and a $20.5 million withdrawal for FY 2007-08. If a withdrawal were to occur, this would reduce the estimated ending fund balance for FY 2006-07 to zero. The estimated ending fund balance for FY 2007-08 is zero.

Table 8
BUDGET STABILIZATION FUND HISTORY
(Millions of Dollars)

Fiscal Year	Deposits	Withdrawals	Interest Earned	Balance
1990-91	0.0	230.0	27.1	182.2
1991-92	0.0	170.1	8.1	20.1
1992-93	282.6	0.0	0.7	303.4
1993-94	460.2	0.0	11.9	775.5
1994-95	260.1	90.4	57.7	1,003.0
1995-96	91.3	0.0	59.2	1,153.6
1996-97	0.0	69.0	67.8	1,152.4
1997-98	0.0	212.0	60.1	1,000.5
1998-99	244.4	73.7	51.2	1,222.5
1999-2000	100.0	132.0	73.9	1,264.4
2000-01	0.0	337.0	66.7	994.2
2001-02	0.0	869.8	20.8	145.2
2002-03	0.0	156.1	10.9	0.0
2003-04	81.3	0.0	0.0	81.3
2004-05	0.0	81.3	2.0	2.0
2005-06	0.0	0.0	0.0	2.0
2006-07*	0.0	2.0	0.0	0.0
2007-08*	0.0	0.0	0.0	0.0

** HFA Estimates*
NOTE: Numbers may not add due to rounding.

Compliance With the State Revenue Limit

Article IX, Section 26 of the *Michigan Constitution,* which was approved by the vote of the people in 1978, sets a limit on the amount of revenue collected by the state in any fiscal year. As provided for in the Constitution, the revenue limit is calculated as 9.49% of total state personal income (which is the broadest measure of state economic activity) in the previous full calendar year prior to the fiscal year in which the revenues are measured.

The revenue to be considered in the revenue limit includes not only state taxes, but also fees, licenses, and interest earned. Federal aid is not included in the revenue limit calculation. Article IX, Section 26, *Constitution of the State of Michigan*, provides that:

> . . . For any fiscal year in the event that Total State Revenues exceed the limit established in this section by 1% or more, the excess revenues shall be refunded pro rata based on the liability reported on the Michigan income tax

> and single business tax (or its successor tax or taxes) annual returns filed following the close of such fiscal year. If the excess is less than 1%, this excess may be transferred to the State Budget Stabilization Fund . . . .

Furthermore, the state is prohibited from spending any current-year revenue in excess of the limit established in Section 26 by Article IX, Section 28.

As shown in **Table 9, Figure 10,** and Table **10**, the final FY 2004-05 revenue limit calculation indicated that state revenue collections were $4.22 billion below the revenue limit. For FY 2005-06, FY 2006-07, and FY 2007-08, state revenue is estimated to be substantially below the revenue limit—by $4.94 billion, $5.59 billion, and $7.57 billion, respectively.

Table 9

COMPLIANCE WITH THE STATE REVENUE LIMIT

(Millions of Dollars)

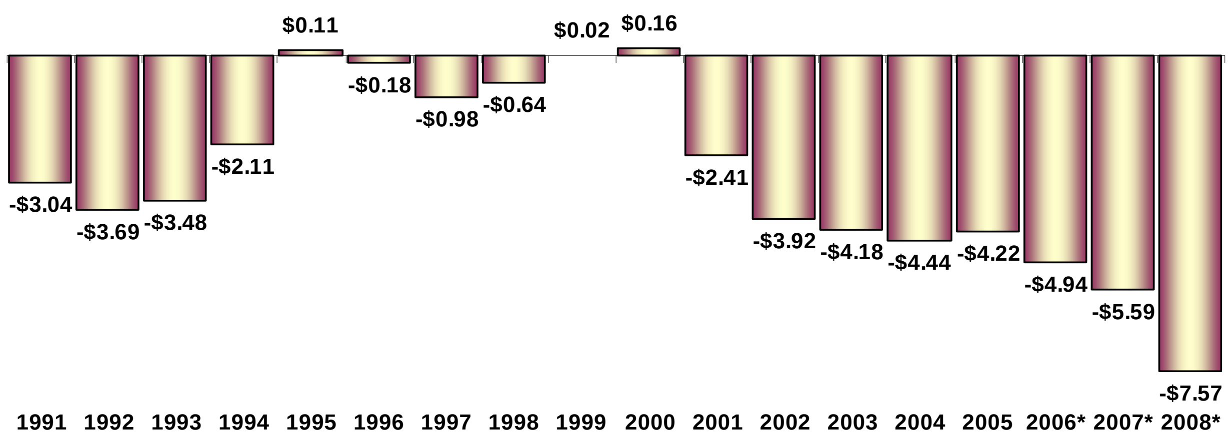
Revenue Limit Calculations	**Final FY 2004-05**	**Estimated FY 2005-06**	**Estimated FY 2006-07**	**Estimated FY 2007-08**
Personal Income				
Calendar Year	CY 2003	CY 2004	CY 2005	CY 2006
Amount	$314,460	$324,134	$331,304	$341,710
X Limit Ratio	9.49%	9.49%	9.49%	9.49%
State Revenue Limit	**$29,842.3**	**$30,760.3**	**$31,440.7**	**$32,428.2**
Total Revenue Subject to Revenue Limit	25,626.8	25,821.4	25,849.4	24,854.2
Amount (Under) Over State Revenue Limit	**($4,215.5)**	**($4,938.9)**	**($5,591.4)**	**($7,574.1)**

NOTE: Numbers may not add due to rounding.

Figure 10

Constitutional Revenue Limit

Amount Under or Over Limit (Billions of Dollars)



**HFA Estimate*

Table 10
CONSTITUTIONAL REVENUE LIMIT HISTORY
(Billions of Dollars)

Fiscal Year	(Under) or Over Limit
1990-91	($3.04)
1991-92	($3.69)
1992-93	($3.48)
1993-94	($2.11)
1994-95	$0.11
1995-96	($0.18)
1996-97	($0.98)
1997-98	($0.64)
1998-99	$0.02
1999-2000	$0.16
2000-01	($2.41)
2001-02	($3.92)
2002-03	($4.18)
2003-04	($4.44)
2004-05	($4.22)
2005-06*	($4.94)
2006-07*	($5.59)
2007-08*	($7.57)

**HFA Estimate*

Additional copies of this report can be obtained from:
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