

**ECONOMIC OUTLOOK
AND
REVENUE ESTIMATES
FOR
MICHIGAN**

**FY 2004-05
AND
FY 2005-06**



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FOREWORD

The House Fiscal Agency (HFA) is pleased to provide this report to 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) 2003-04, and revised revenue estimates for FY 2004-05 and FY 2005-06. Estimates reported herein will be presented to the Consensus Revenue Estimating Conference on May 19, 2005, 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 2006, 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 and the School Aid Fund.

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EXECUTIVE SUMMARY

According to the National Bureau of Economic Research, the national economic recovery started at the end of 2001. Once the recovery began, high productivity gains outpaced economic growth, which dampened national employment. In CY 2004, the economy grew at its fastest pace in five years, productivity slowed, and the national labor market added over 2,000,000 jobs.

Michigan's wage and salary employment has generally trended downward since mid-2000. In March 2005, Michigan's wage and salary employment fell by 17,000 workers. Over the last six months, Michigan lost, on average, more than 4,800 jobs per month.

U. S. Forecast

Real GDP growth is forecast to increase 3.1% in CY 2005, down from 4.4% in CY 2004. Real GDP is forecast to grow 3.2% in CY 2006.

Inflation, as measured by the Consumer Price Index (CPI), is forecast to decline from 2.7% in CY 2004 to 2.6% in CY 2005 and 2.5% in CY 2006.

Light vehicle sales totaled 16.8 million units in CY 2004 and are forecast to remain close to this level in both CY 2005 and CY 2006. The import share of light vehicles is forecast to be 20.9% in CY 2005 and 21.6% in CY 2006.

The national unemployment rate, which was 5.5% in CY 2004, is forecast to decrease to 5.4% in CY 2005 and 5.3% in CY 2006.

Interest rates on three-month T-bills averaged 1.4% in CY 2004 and are forecast to increase to 3.0% in CY 2005 and 3.8% in CY 2006.

Michigan Forecast

Michigan personal income increased 2.8% in CY 2004. The rate of growth will pick up to 4.5% in CY 2005 and 5.3% in CY 2006.

Michigan's unemployment rate was 7.1% in CY 2004 and is forecast to be 7.5% in CY 2005 and CY 2006.

Inflation, as measured by the Detroit Consumer Price Index, was 1.6% in CY 2004; it is forecast to accelerate to 2.1% in CY 2005 and in CY 2006.

State Revenue

Final total baseline GF/GP and School Aid Fund (SAF) revenue was \$18.5 billion in FY 2003-04, is forecast to increase 2.6% to \$19.0 billion in FY 2004-05, and increase 3.1% to \$19.6 billion in FY 2005-06.

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 actual GF/GP and SAF revenue was \$18.7 billion in FY 2003-04, is forecast to increase \$91.4 million or 0.5% in FY 2004-05, and increase \$642.8 million or 3.4% to \$19.4 billion in FY 2005-06. Actual revenue captures the effects of all policy changes and represent resources available.

Table 1 reports GF/GP and SAF revenue in terms of baseline and actual revenue. House Fiscal Agency’s recommended revisions to estimates for FY 2004-05 and FY 2005-06 are reported in **Table 2** and **Table 3**.

Table 1
HFA REVENUE ESTIMATES
(Millions of Dollars)

	<u>Final FY 2003-04</u>	<u>HFA Estimate FY 2004-05</u>	<u>HFA Estimate FY 2005-06</u>
GF/GP	\$7,992.8	\$8,169.5	\$8,372.1
SAF	<u>10,533.6</u>	<u>10,831.0</u>	<u>11,220.8</u>
TOTAL BASELINE	\$18,526.4	\$19,000.4	\$19,592.9
GF/GP*	\$8,042.1	\$7,915.7	\$8,153.9
SAF	<u>10,615.1</u>	<u>10,833.0</u>	<u>11,237.5</u>
TOTAL ACTUAL	\$18,657.2	\$18,748.6	\$19,391.4

*Approximately \$115 million of the FY 2005-06 amount is due to an increased earmarking to GF/GP (and decreased earmarking to the Medicaid Benefits Trust Fund) of the tobacco tax increase.

NOTE: Numbers may not add due to rounding.

Table 2
FY 2004-05 HFA RECOMMENDED REVISIONS
(Millions of Dollars)

	<u>January 2005</u> <u>Consensus</u>	<u>May 2005</u> <u>Recommendation</u>	<u>HFA Recommended</u> <u>Revision</u>
GF/GP	\$8,123.6	\$8,169.5	\$45.9
SAF	<u>10,868.8</u>	<u>10,831.0</u>	<u>(37.8)</u>
TOTAL BASELINE	\$18,992.4	\$19,000.4	\$8.0
GF/GP	\$7,869.8	\$7,915.7	\$45.9
SAF	<u>10,878.8</u>	<u>10,833.0</u>	<u>(45.8)</u>
TOTAL ACTUAL	\$18,748.5	\$18,748.6	\$0.1

NOTE: Numbers may not add due to rounding.

Table 3
FY 2005-06 HFA RECOMMENDED REVISIONS
(Millions of Dollars)

	<u>January 2005</u> <u>Consensus</u>	<u>May 2005</u> <u>Recommendation</u>	<u>HFA Recommended</u> <u>Revision</u>
GF/GP	\$8,374.5	\$8,372.1	(\$2.4)
SAF	<u>11,284.1</u>	<u>11,220.8</u>	<u>(63.3)</u>
TOTAL BASELINE	\$19,658.6	\$19,592.9	(\$65.7)
GF/GP	\$8,156.2	\$8,153.9	(\$2.3)
SAF	<u>11,300.9</u>	<u>11,237.5</u>	<u>(63.4)</u>
TOTAL ACTUAL	\$19,457.2	\$19,391.4	(\$65.7)

NOTE: Numbers may not add due to rounding.

State Revenue Limit

Final total state revenue is expected to be below the state revenue limit by \$4.7 billion in FY 2003-04 and is estimated to be under the limit by \$5.7 billion in FY 2004-05 and \$5.7 billion in FY 2005-06. Final calculation of the state revenue limit is performed by the Auditor General.

Year-End Fund Balances

The year-end GF/GP balance was \$0.0 in FY 2003-04 and is estimated to be \$0.0 for FY 2004-05.

The School Aid Fund year-end balance was \$74.1 million in FY 2003-04 and is estimated to be \$0.0 for FY 2004-05.

The Countercyclical Budget Stabilization Fund year-end balance was \$81.3 million in FY 2003-04 and is forecast to be \$86.1 million in FY 2004-05.



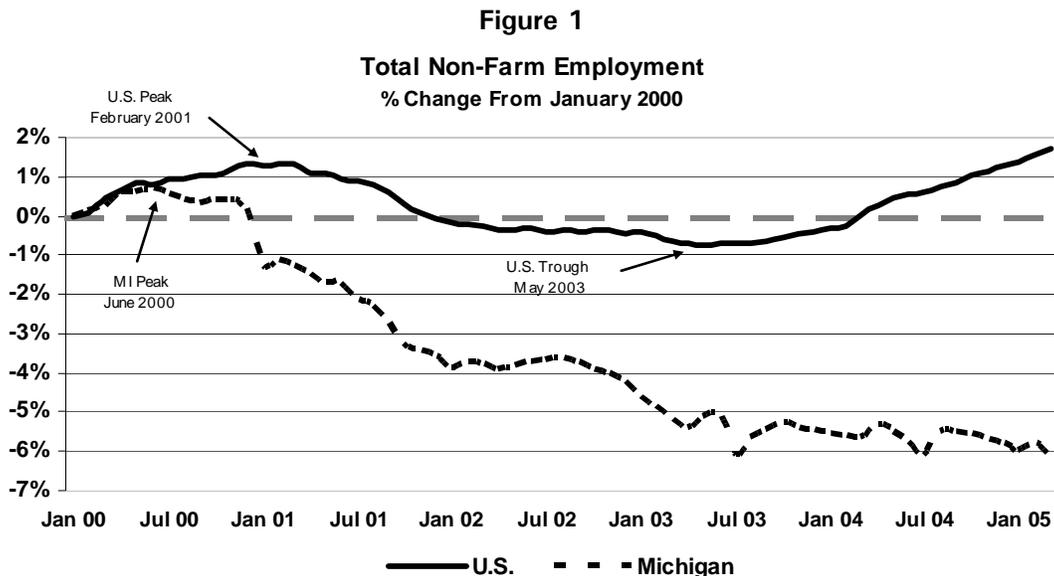
ECONOMIC REVIEW AND FORECAST

This section presents the economic forecast used by the House Fiscal Agency to produce its updated revenue forecasts for FY 2004-05 and FY 2005-06.

The eight-month national recession that ended in November 2001 was followed by weak economic growth throughout 2002 and the early part of 2003. At the national level, economic growth accelerated at the end of 2003 and continued through 2004. Job growth at the national level began to improve during the latter half of 2003 and has continued its upward trend.

U.S. and Michigan 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 2005.

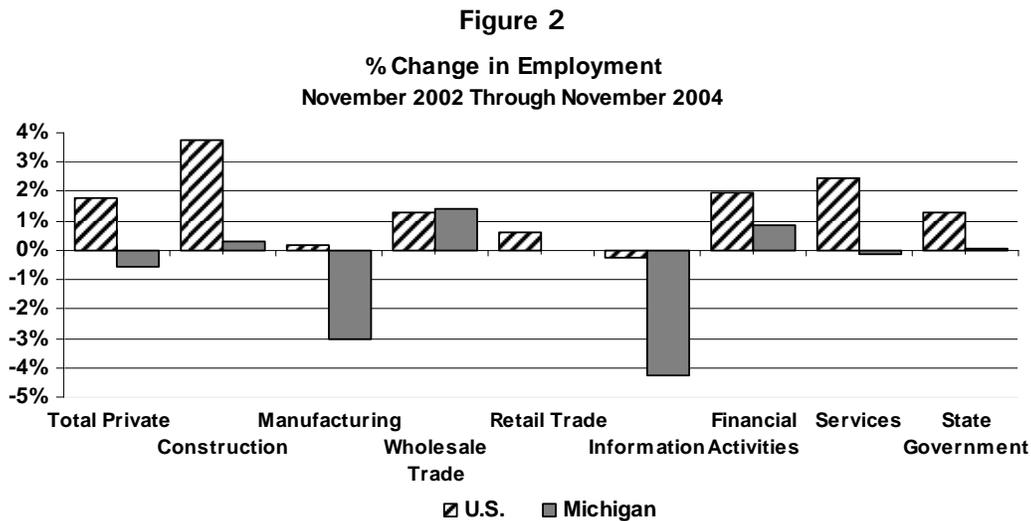


Employment in the U.S. reached a peak in February 2001, and began a long slide that did not bottom out until May 2003. During this 29-month period, the national economy lost more than 2.7 million jobs, or about 100,700 jobs per month, on average. In the 22 months since May 2003, almost 3.1 million jobs have been added.

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 February 2001 peak at the national level. Following the June 2000 peak, employment in Michigan dropped steadily until July 2003, resulting in a loss of more than 314,000 jobs—a 6.7% decline. In the 20 months since July 2003, employment in Michigan has generally continued to decline, albeit at a slower pace. As of March 2005, more than 3,300 additional jobs have been lost.

U.S. and Michigan Employment

Figure 2 shows the percentage change in employment over the past year for all private workers and several important sectors of the economy for both the U.S. and Michigan.



Although the U.S. gained almost 2,000,000 jobs over this period, employment in Michigan fell by more than 20,000 jobs.

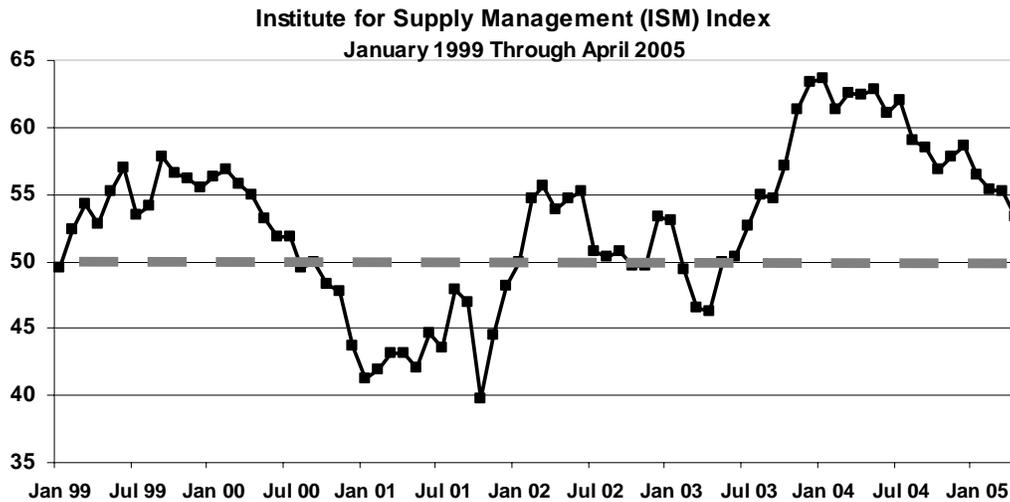
The U.S. experienced job gains in all sectors except information, while Michigan continued to lose jobs in all sectors except construction, information, financial activities, and state government. Although these four sectors combined to create almost 5,000 jobs over the past year, manufacturing employment fell by more than 21,000 jobs during the same time period.

Institute for Supply Management (ISM) Index

Figure 3 shows the ISM Index, a composite index of five economic indicators that is used to measure economic vitality, beginning with January 1999. An index number above 50 indicates a growing manufacturing sector; a number below 50 suggests that the manufacturing sector is contracting.

The index reached a peak in December 1999, then fell below 50 in August 2000 and remained below 50 until February 2002. After peaking in June 2002, the index began to drop, and by October it had fallen back below 50—where it remained before jumping to 53.3 in December.

Figure 3

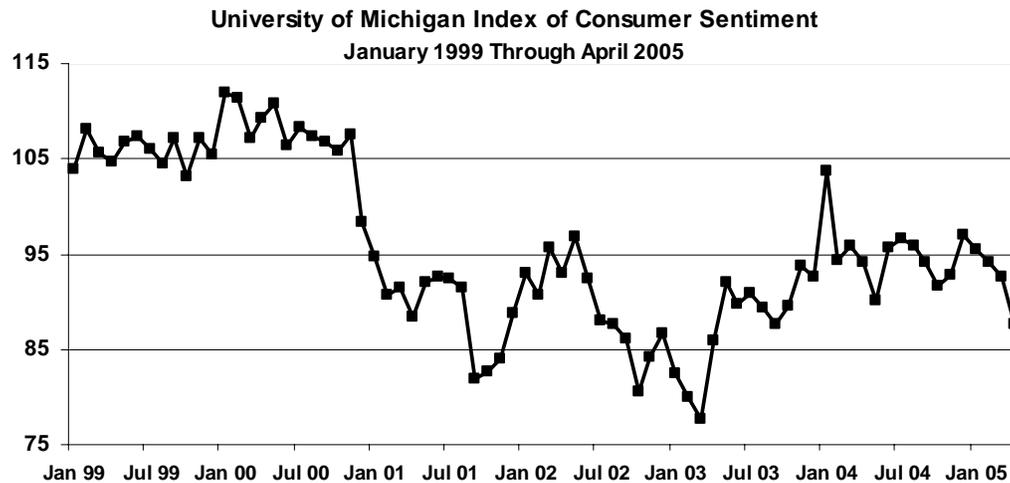


The ISM index dropped during each of the first four months of 2003, then began a strong upward trend that led to a 20-year high of 63.3 in January 2004. During the past 15 months, the index has generally declined, and dropped to a level of 53.3 as of April 2005.

Index of Consumer Sentiment

A somewhat similar story is portrayed in **Figure 4**, which shows the University of Michigan Index of Consumer Sentiment.

Figure 4



Consumer sentiment can be a strong motivator of personal consumption expenditures, which represents almost two-thirds of GDP. Even though the ISM index began to fall in early 2000, consumers remained cautiously optimistic about the economy.

The consumer sentiment index remained at historically-high levels throughout most of CY 2000, but dropped in December 2000 and continued falling until February 2001. Like the

ISM index, consumer sentiment rebounded somewhat through August 2001 before plunging again in September 2001.

The index of consumer sentiment began 2003 with a three-month drop before rebounding in April and May. For the remainder of the year, the index generally followed an upward trend comprised of small monthly changes.

After a large spike in January 2004 brought the index to over 100 for the first time in more than three years, it immediately dropped back in February and remained in the low- to mid-90s before ending 2004 with two consecutive monthly increases. Following this brief uptick, consumer sentiment has declined in each of the past four months due, in part, to concerns about high gas prices and the possibility that the economy may be weakening. The April 2005 reading is the lowest since September 2003.

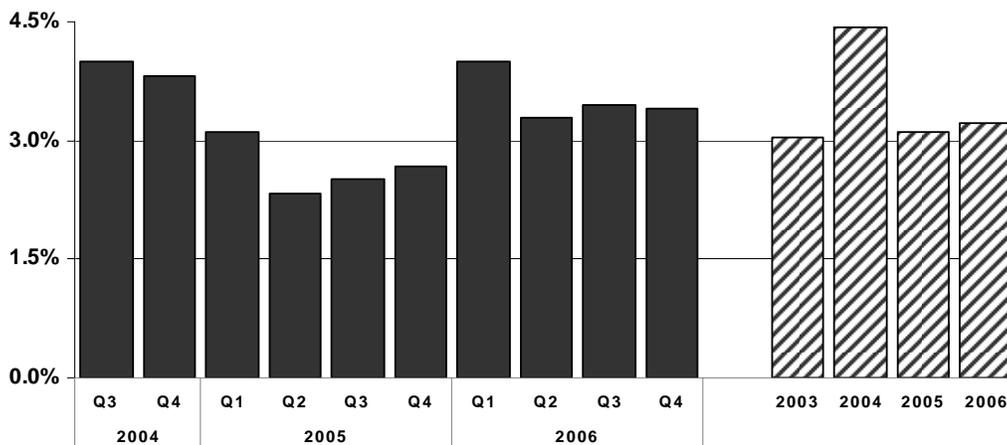
Real GDP

After rising by 3.8% during the fourth quarter of 2004, real GDP growth slowed to 3.1% in the first quarter of 2005. Real GDP growth was 4.4% in CY 2004, and is forecast to be 3.1% in CY 2005 and 3.2% in CY 2006.

Personal consumption advanced 3.8% during CY 2004. As the economy begins to slow down, personal consumption is predicted to increase by 3.2% in CY 2005 and 3.3% in CY 2006.

Figure 5

% Change in U.S. Real GDP

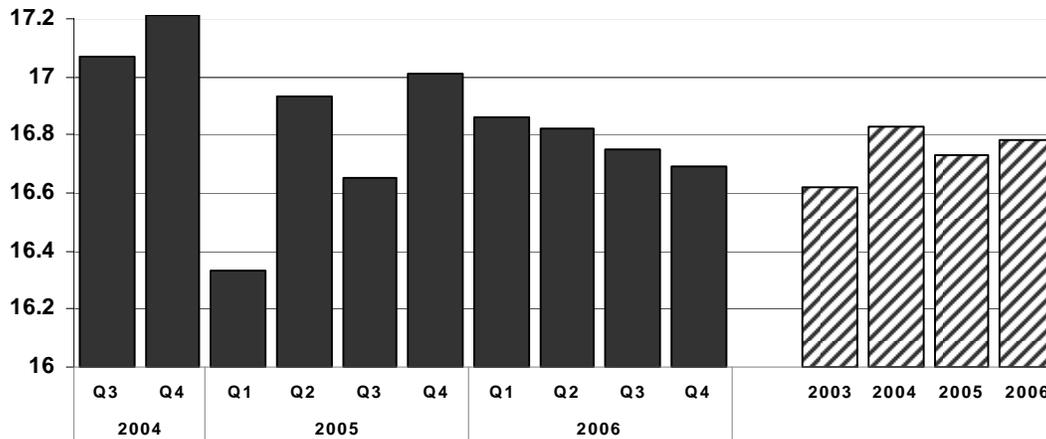


The GDP component showing the most significant improvement in 2004 was private investment. After increasing just 4.4% during CY 2003, gross private domestic investment rose by 13.2% in CY 2004. Gross private domestic investment is forecast to increase by 5.1% in CY 2005 and 4.3% in CY 2006.

Light Vehicle Sales

Rebates and special financing offers that began in the latter half of 2001 continue. Despite incentives, sales of light motor vehicles in CY 2004 totaled 16.8 million units—well below CY 2000's record level of 17.2 million units. Light vehicle sales are anticipated to total 16.7 million units in CY 2005 and 16.8 million units in CY 2006.

Figure 6
Light Vehicle Sales
(Millions of Units)



Over the past several years, there has been a shift in sales away from cars and toward light trucks. The share of light trucks is expected to decline slightly in CY 2005, then stabilize in CY 2006. Light trucks accounted for just under 56.0% of total sales in CY 2004, and are expected to account for just under 55.0% in both CY 2005 and CY 2006.

The import share of total light vehicle sales rose to 20.2% in CY 2004, and is forecast to increase slightly to 20.9% in CY 2005, and 21.6% in CY 2006.

Inflation: U.S.

Although the overall increase in input prices (e.g., energy prices, wages, and import prices) has generally remained moderate and has helped to hold down production costs, increasing crude oil prices could significantly impact almost all sectors of the economy.

Benchmark West Texas intermediate crude began 2004 near \$33 per barrel, and reached a high of more than \$54 per barrel in October. Continued concern over the stability of the oil supply caused oil prices to surpass \$57 per barrel in April 2005. It is anticipated that oil prices will slowly drop throughout the forecast period and average about \$52 per barrel during CY 2005 and \$48 per barrel in CY 2006.

The annual rate of inflation, as measured by the percentage change in the U.S. Consumer Price Index-Urban (CPI-U), was 2.7% in CY 2004, and is expected to fall slightly to 2.6% in CY 2005 before dipping to 2.5% in CY 2006.

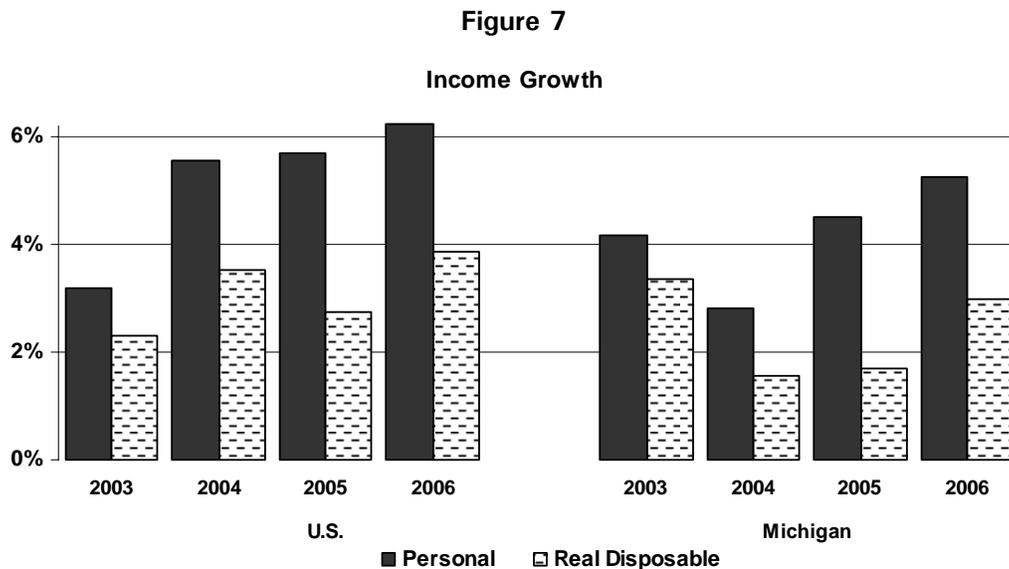
Inflation: Michigan

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 1.6% in CY 2004. Inflation in Michigan is forecast to increase by 2.1% in both CY 2005 and CY 2006.

Income Growth: U.S.

Total U.S. personal income grew by 5.6% in CY 2004. Personal income growth is forecast to increase by 5.7% in CY 2005 and 6.2% in CY 2006.

Moderate growth in inflation contributed to a 3.5% growth of U.S. real disposable income in CY 2004. It is forecast that U.S. real disposable income growth will increase by 2.7% in CY 2005 and 3.9% in CY 2006.



Income Growth: Michigan

Michigan's total state personal income growth was 2.8% in CY 2004. It is forecast that Michigan personal income will increase by 4.5% in CY 2005 and 5.3% in CY 2006.

Michigan real disposable income grew 1.6% in CY 2004. In CY 2005, real disposable income is forecast to grow by 1.7% before picking up to 3.0% in CY 2006.

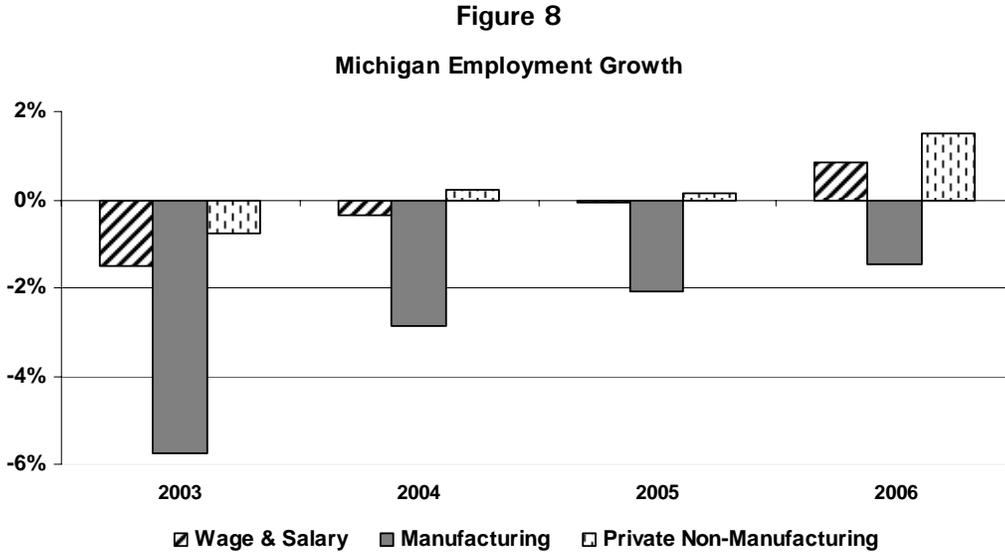
Employment: U.S.

One critical factor underscoring the difference in income growth between the U.S. and Michigan is overall job growth. National employment has posted average monthly gains of almost 183,000 during 2004, and 211,000 through the first four months of 2005. U.S. non-farm employment is projected to increase by 1.4% in CY 2005 and 1.2% in CY 2006.

Employment: Michigan

The Michigan economy has continued to endure a weak labor market, with employment declining by more than 15,000 workers in CY 2004. In CY 2004, wage and salary employment dropped by 0.3%, manufacturing employment declined by 2.9%, and private non-manufacturing employment rose by 0.2%.

The forecast calls for continued job losses during the first quarter of 2005 before employment begins growing in the second quarter. This growth, however, will not be enough to prevent a net loss of jobs for 2005 as a whole.



Michigan wage and salary employment fell by 0.3% in CY 2004, and is forecast to fall 0.1% in CY 2005 before growing 0.9% in CY 2006. The 25-year trend rate of growth for Michigan wage and salary employment is 1.4%

Michigan manufacturing employment dropped by 2.9% in CY 2004, and is forecast to decrease 2.1% in CY 2005 and 1.5% in CY 2006. 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 rose by a modest 0.2% in CY 2004, and is expected to grow 0.2% in CY 2005 and 1.5% in CY 2006.

Unemployment: U.S.

Total non-farm employment has grown each of the past 23 months, which has helped to decrease the unemployment rate. Much of this growth has been in service-related sectors; the construction, manufacturing, and information sectors all continue to shed jobs.

The U.S. unemployment rate was 5.5% in CY 2004, and is forecast to decline slightly to 5.4% in CY 2005 and 5.3% in CY 2006.

Unemployment: Michigan

Employment in Michigan remains a concern as job growth has fallen during the past four years. There are, however, signs that some employment growth may be resuming. Michigan employment is forecast to expand very slowly throughout the latter half of 2005, and then accelerate in 2006. Despite these projected job gains, the unemployment rate is expected to remain relatively high throughout both 2005 and 2006 as increases in the labor force (and unemployment) more than offset additional employment.

Michigan's unemployment rate was 7.1% in CY 2004, and is expected to rise to 7.5% in both CY 2005 and CY 2006.

Table 4
ECONOMIC FORECAST VARIABLES

	<u>Calendar 2003 Actual</u>	<u>Calendar 2004 Estimated</u>	<u>% Change from Prior Year</u>	<u>Calendar 2005 Estimated</u>	<u>% Change from Prior Year</u>	<u>Calendar 2006 Estimated</u>	<u>% Change from Prior Year</u>
<u>United States</u>							
Real Gross Domestic Product (Billions of 2000 dollars)	\$10,381	\$10,842	4.4%	\$11,179	3.1%	\$11,538	3.2%
Implicit Price Deflator GDP (2000 = 100)	106.0	108.2	2.1%	110.6	2.2%	113.5	2.6%
Consumer Price Index (1982-84 = 100)	184.0	188.9	2.7%	193.9	2.6%	198.8	2.5%
Personal Consumption Deflator (2000 = 100)	105.5	107.8	2.2%	110.1	2.1%	112.5	2.2%
3-month Treasury Bills Interest Rate (Percent)	1.0%	1.4%		3.0%		3.8%	
Aaa Corporate Bonds Interest Rate (Percent)	5.7%	5.6%		5.6%		6.3%	
Unemployment Rate - Civilian (Percent)	6.0%	5.5%		5.4%		5.3%	
Light Vehicle Sales (Millions of units)	16.6	16.8	1.2%	16.7	-0.6%	16.8	0.6%
Passenger Car Sales (Millions of units)	7.6	7.5	-1.3%	7.6	1.3%	7.6	0.0%
Light Truck Sales (Millions of units)	9.0	9.3	3.3%	9.1	-2.2%	9.2	1.1%
Import Share of Light Vehicles (Percent)	19.9%	20.2%		20.9%		21.6%	
Personal Income (Billions of current dollars)	\$9,162	\$9,671	5.6%	\$10,222	5.7%	\$10,858	6.2%
Real Disposable Income (Billions of 2000 dollars)	\$7,734	\$8,006	3.5%	\$8,225	2.7%	\$8,543	3.9%
<u>Michigan</u>							
Wage and Salary Employment (Thousands)	4,409	4,394	-0.3%	4,390	-0.1%	4,428	0.9%
Unemployment Rate (Percent)	7.1%	7.1%		7.5%		7.5%	
Personal Income (Millions of current dollars)	\$314,345	\$323,142	2.8%	\$337,706	4.5%	\$355,471	5.3%
Real Personal Income (Millions of 1982-84 dollars)	\$172,197	\$174,226	1.2%	\$178,302	2.3%	\$183,778	3.1%
Real Disposable Income (Millions of 1982-84 dollars)	\$153,552	\$155,970	1.6%	\$158,613	1.7%	\$163,334	3.0%
Wages and Salary Income (Millions of current dollars)	\$176,646	\$180,059	1.9%	\$186,134	3.4%	\$194,239	4.4%
Detroit Consumer Price Index (1982-84 = 100)	182.6	185.5	1.6%	189.4	2.1%	193.4	2.1%
Detroit CPI (FY) (1982-84 = 100)	182.0	184.4	1.3%	188.4	2.2%	192.5	2.2%



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. The key risks in this forecast stem predominantly from uncertainties surrounding the manufacturing sector, the price of oil, and the intense competition in the motor vehicle industry.

Manufacturing Sector

According to the Institute of Supply Management, business activity in the manufacturing sector increased in April, but at its slowest rate since July 2003. Excluding transportation, durable goods orders declined in February and March.

Activity in the manufacturing sector depends on domestic demand as well as the demand in other countries. Exports affect the manufacturing sector, and the value of the dollar relative to other currencies affects the competitiveness of U.S. manufacturers in the world market. This forecast assumes that the economies of major trading partners will decelerate from the CY 2004 pace. Exports grow 8.6% in CY 2004 and are forecast to increase 5.1% in CY 2005 and 7.1% in CY 2006.

Michigan manufacturing employment is forecast to decline 2.1% in CY 2005 and 1.5% in CY 2006. Although most of the decline stems from the transportation sector, non-transportation manufacturing is forecast to decline 0.9% in CY 2005 and to remain flat in CY 2006. If the manufacturing sector improves (or deteriorates) sooner than forecast, Michigan's employment and revenue will be higher (lower) than estimated.

Oil Prices

The average West Texas Intermediate (WTI) crude oil price was \$50 per barrel in the first quarter of 2005—approximately \$15 per barrel higher than in the year-ago quarter. Oil prices are forecast to remain elevated throughout 2005 and 2006 and are expected to average \$52 per barrel in CY 2005 and \$48 per barrel in CY 2006. These prices are significantly higher than the previously-estimated long-term trend price of oil.

Both strong global demand (especially in China) and supply constraints have contributed to the recent high oil prices. In addition, geo-political uncertainties in Iraq, Nigeria, and Venezuela are expected to contribute to the risks.

Oil prices affect the economy primarily through allocation of disposable income—because more income is used for energy (gasoline, fuel oil, and natural gas), less is used for all other items. Oil prices could fall below the estimated level, causing economic growth to be stronger than anticipated. On the other hand, oil prices may be higher than estimated, resulting in economic growth below the forecasted level.

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 16.8 million units in CY 2004 and are forecast to be 16.7 million in CY 2005 before rising to 16.8 million in CY 2006. Despite the declining value of the dollar, the import share of light vehicles was 20.2% in CY 2004 and is forecast to edge up to 20.9% in CY 2005 and 21.6% in CY 2006.

Although the relatively high level of motor vehicle sales would generally be considered positive for Michigan, no benefit is expected to materialize to the state. The 2004 market share of the big three auto manufacturers-General Motors, Ford, and DaimlerChrysler-declined to an all-time low of 58.7% in CY 2004 and has declined further in the first three months of CY 2005. Michigan motor vehicle production declined 4.9% in FY 2003-04 and 5.5% in the first half of FY 2004-05.

Vehicles with a foreign nameplate that are made in the U.S. (transplants) have steadily gained in market share over the past several years. These transplants are expected to increase production capacity in the next few years while the big three are expected to reduce capacity.

If the Michigan-produced market share of motor vehicles is less than anticipated, Michigan's economy and revenue growth will be lower than estimated.



GF/GP AND SAF REVENUE

Revenue estimates are based on the economic performance of key components of national and state economies discussed in the preceding section. This section explains May 2005 House Fiscal Agency revenue estimates for GF/GP and School Aid Fund (SAF) 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 \$7,667.4 million in FY 2003-04; it is estimated to increase \$228.5 million or 3.0% to \$7,895.9 million in FY 2004-05 and \$208.7 million or 2.6% to \$8,104.5 million in FY 2005-06.

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 \$7,992.8 million in FY 2003-04; it is estimated to increase 2.2% to \$8,169.5 million in FY 2004-05 and 2.5% or \$202.7 million to \$8,372.1 million in FY 2005-06.

Actual GF/GP Revenue

Actual GF/GP revenue takes tax changes into account and is available for expenditure each year. Final actual GF/GP revenue was \$8,042.1 million in FY 2003-04; it is forecast to decline 1.6% or \$126.4 million to \$7,915.7 million in FY 2004-05 and increase 3.0% or \$238.2 million to \$8,153.9 million in FY 2005-06.

Approximately \$115 million of the GF/GP increase in FY 2005-06 is due to an increased earmarking to GF/GP (and decreased earmarking to the Medicaid Benefits Trust Fund) of the tobacco tax increase.

SAF Revenue by Source

Total SAF Baseline Revenue

Total SAF baseline revenue was \$10,533.6 million in FY 2003-04; it is forecast to increase \$297.4 million or 2.8% to \$10,831.0 million in FY 2004-05 and \$389.8 million or 3.6% to \$11,220.8 million in FY 2005-06.

Actual SAF Revenue

Actual SAF revenue takes tax changes into account. Actual SAF revenue totaled \$10,615.1 million in FY 2003-04; it is forecast to increase \$217.9 million or 2.1% to \$10,833.0 million in FY 2004-05 and 404.5 million or 3.7% to \$11,237.5 million in FY 2005-06.

Table 5
GF/GP REVENUE ESTIMATES
(Millions of Dollars)

	Final			Fiscal Year 2005-06 over 2004-05	
	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>%Change</u>	<u>\$Change</u>
Personal Income Taxes	\$3,997.4	\$4,116.8	\$4,243.8	3.1%	\$127.0
Sales and Use Taxes	968.6	1,039.7	1,079.7	3.9%	40.1
SBT and Insurance Taxes	2,071.7	2,094.0	2,149.0	2.6%	55.0
Other Taxes	<u>629.7</u>	<u>645.4</u>	<u>632.0</u>	-2.1%	<u>(13.4)</u>
GF/GP Baseline Tax Revenue	\$7,667.4	\$7,895.9	\$8,104.5	2.6%	\$208.7
Non-Tax Revenue	<u>325.4</u>	<u>273.6</u>	<u>267.6</u>	-2.2%	<u>(6.0)</u>
Total GF/GP Baseline Revenue	\$7,992.8	\$8,169.5	\$8,372.1	2.5%	\$202.7
Adjustments to Baseline	<u>49.3</u>	<u>(253.8)</u>	<u>(218.3)</u>	14.0%	<u>\$35.5</u>
Actual GF/GP Revenue	\$8,042.1	\$7,915.7	\$8,153.9	3.0%	\$238.2

NOTE: Numbers may not add due to rounding.

Table 6
SCHOOL AID FUND REVENUE ESTIMATES
(Millions of Dollars)

	Final			Fiscal Year 2005-06 over 2004-05	
	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>% Change</u>	<u>\$ Change</u>
Sales and Use Tax	\$5,155.9	\$5,303.1	\$5,520.5	4.1%	217.3
Income Tax Earmark	1,895.7	1,979.4	2,051.8	3.7%	72.4
State Education Tax	1,750.7	1,848.6	1,945.0	5.2%	96.4
Lottery/Casino Wagering	740.7	727.0	740.0	1.8%	13.0
Tobacco Taxes	481.2	470.6	463.7	-1.5%	(6.8)
Real Estate Transfer Tax	317.5	315.0	312.0	-1.0%	(3.0)
Other Taxes	<u>191.9</u>	<u>187.3</u>	<u>187.8</u>	0.3%	<u>0.5</u>
Baseline SAF Revenue	\$10,533.6	\$10,831.0	\$11,220.8	3.6%	\$389.8
Adjustments to Baseline	<u>81.5</u>	<u>2.0</u>	<u>16.7</u>	735.0%	<u>\$14.7</u>
Actual SAF Revenue	\$10,615.1	\$10,833.0	\$11,237.5	3.7%	\$404.5

NOTE: Numbers may not add due to rounding.

Table 7
YEAR-END BALANCE ESTIMATES
(Millions of Dollars)

	<u>Final</u> <u>FY 2002-03</u>	<u>Final</u> <u>FY 2003-04</u>	<u>Estimated</u> <u>FY 2004-05</u>
General Fund/General Purpose	\$174.0	\$0.0	\$0.0
School Aid Fund	\$113.7	\$74.1	\$0.0
Budget Stabilization Fund	\$0.0	\$81.3	\$86.1

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 2004-05 estimates are based on year-to-date appropriations and HFA revenue estimates. Final FY 2002-03 and FY 2003-04 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.

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

BSF Year-End Balances

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 the economic and budget cycles. **Table 8** shows deposits, withdrawals, interest earnings, and the year-end balance from FY 1989-90 through FY 2005-2006. **Figure 9** depicts the BSF fund balance and fund balance as a percent of total GF/GP and SAF revenues.

FY 2003-04

Based on final FY 2003-04 data, the GF/GP year-end balance of \$81.3 million was transferred to the BSF.

FY 2004-05 and FY 2005-06

The BSF trigger calculation, which is based on Michigan personal income less transfer payments adjusted for inflation, and actual or net GF/GP revenue, indicates no pay-in or withdrawal for FY 2004-05 and a \$9.9 million pay-in for FY 2005-06. Pay-ins to the BSF are subject to an appropriation.

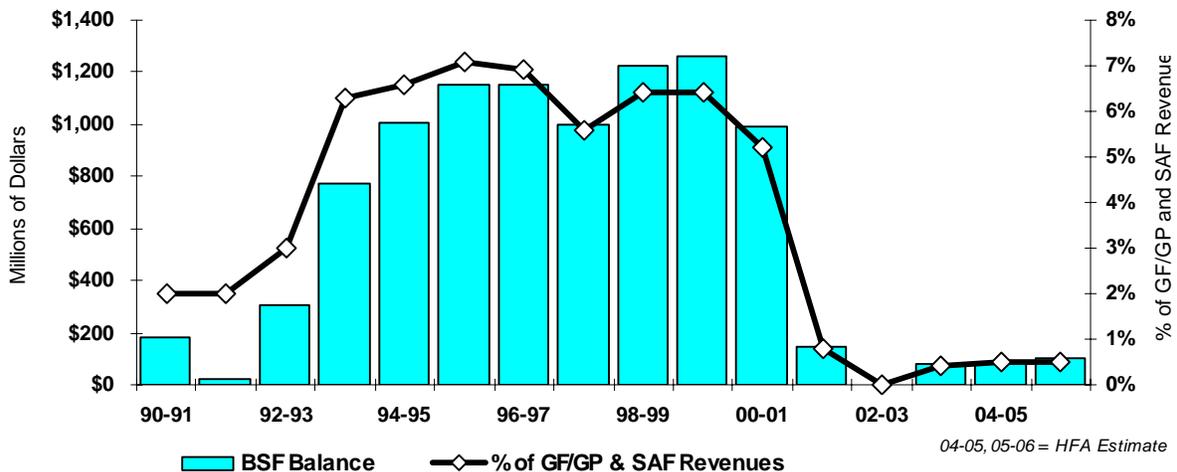
Table 8
BUDGET STABILIZATION FUND HISTORY
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Deposits</u>	<u>Withdrawals</u>	<u>Interest Earned</u>	<u>Balance</u>
1989-90	\$0.0	\$69.9	\$35.8	\$385.1
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	0.0	4.8	86.1
2005-06*	9.9	0.0	7.5	103.5

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

Figure 9

Budget Stabilization Fund



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.

The final FY 2002-03 revenue limit calculation indicated that state revenue collections were \$4.18 billion below the revenue limit. For FY 2003-04 through FY 2005-06, state revenue is estimated to be substantially below the revenue limit, by \$4.74 billion, \$5.70 billion, and \$5.72 billion, respectively.

Table 9
COMPLIANCE WITH THE STATE REVENUE LIMIT
(Millions of Dollars)

<u>Revenue Limit Calculations</u>	<u>Final FY 2002-03</u>	<u>Estimated FY 2003-04</u>	<u>Estimated FY 2004-05</u>	<u>Estimated FY 2005-06</u>
Personal Income				
Calendar Year	<u>CY 2001</u>	<u>CY 2002</u>	<u>CY 2003</u>	<u>CY 2004</u>
Amount	\$297,609	\$303,745	\$314,460	\$323,142
X Limit Ratio	<u>9.49%</u>	<u>9.49%</u>	<u>9.49%</u>	<u>9.49%</u>
State Revenue Limit	\$28,243.1	\$28,825.4	\$29,842.3	\$30,666.2
Total Revenue Subject to Revenue Limit	<u>24,061.6</u>	<u>24,087.7</u>	<u>24,137.6</u>	<u>24,942.1</u>
Amount (Under) Over State Revenue Limit	(\$4,181.5)	(\$4,737.7)	(\$5,704.6)	(\$5,724.1)

NOTE: Numbers may not add due to rounding.

Figure 10
Constitutional Revenue Limit
 Amount Under or Over Limit

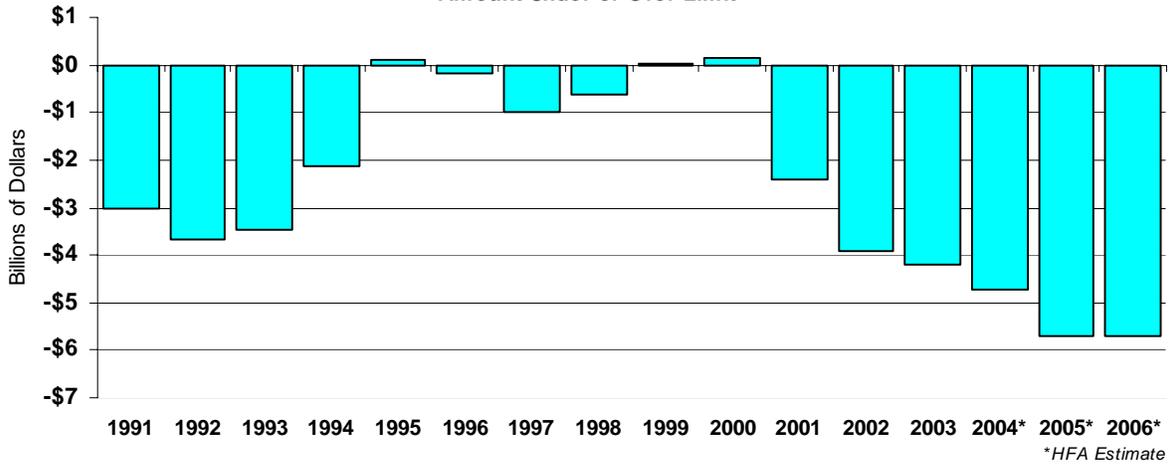


Table 10
CONSTITUTIONAL REVENUE LIMIT HISTORY
 (Billions of Dollars)

<u>Fiscal Year</u>	<u>(Under) or Over Limit</u>	<u>Fiscal Year</u>	<u>(Under) or Over Limit</u>
1979-80	(\$0.53)	1993-94	(\$2.11)
1980-81	(\$1.17)	1994-95	\$0.11
1981-82	(\$1.41)	1995-96	(\$0.18)
1982-83	(\$1.32)	1996-97	(\$0.98)
1983-84	(\$0.24)	1997-98	(\$0.64)
1984-85	(\$0.01)	1998-99	\$0.02
1985-86	(\$0.37)	1999-2000	\$0.16
1986-87	(\$0.84)	2000-01	(\$2.41)
1987-88	(\$1.35)	2001-02	(\$3.92)
1988-89	(\$1.03)	2002-03	(\$4.18)
1989-90	(\$1.76)	* 2003-04	(\$4.74)
1990-91	(\$3.04)	* 2004-05	(\$5.70)
1991-92	(\$3.69)	* 2005-06	(\$5.72)
1992-93	(\$3.48)		

*HFA Estimate

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