

**ECONOMIC OUTLOOK
AND
REVENUE ESTIMATES
FOR
MICHIGAN**

**FY 2011-12
THROUGH
FY 2013-14**



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FOREWORD

This report includes a national and State economic forecast for calendar year (CY) 2011 through CY 2014. It also presents final General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue for fiscal year (FY) 2010-11 and revised revenue estimates for FY 2011-12 through FY 2013-14. Estimates reported herein will be presented to the Consensus Revenue Estimating Conference on May 16, 2012, and will be used to facilitate the consensus estimating process.

This report includes House Fiscal Agency (HFA) analyses of important factors that will affect state and national economies through the year 2014, and estimates of the Countercyclical Budget Stabilization Fund, state compliance with the Constitutional State Revenue Limit, and GF/GP and SAF year-end balances.

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EXECUTIVE SUMMARY

The national economy has been generally improving at a subdued pace. The April nonfarm employment report showed an 115,000 job gain, following an increase of 154,000 in March. These two months were a disappointing slowdown from the average employment gain of 252,000 that occurred over the December through February period. However, the weaker employment signs are in line with the overall anemic economic growth.

The growth of Gross Domestic Product or GDP has been and is expected to continue to be subpar, which is typical following a financial/banking crisis. The national economy is expected to slowly accelerate throughout the forecast period.

Michigan's economy and state revenue will be significantly affected by the strength of the national recovery. In March, Michigan's nonfarm employment grew 1.5% or by 56,500 jobs relative to a year ago. This increase was led by gains in manufacturing, professional and business services, and education and health services.

U. S. Forecast

Real GDP growth is forecast to increase 2.2% in CY 2012. It is forecast to increase 2.4% in CY 2013, and grow 2.9% in CY 2014.

Inflation, as measured by the Consumer Price Index (CPI), is forecast to increase 2.2% in CY 2012, then increase 2.0% in CY 2013 and 2.2% in CY 2014.

Light vehicle sales of 12.7 million units in CY 2011 are forecast to grow to 14.5 million units in CY 2012, to 15.1 million units in CY 2013, and to 15.6 million units in CY 2014. The import share of light vehicles is forecast to be close to 22.6% through the forecast horizon.

The national unemployment rate is expected to be 8.1% in CY 2012; it is forecast to decline to 7.5% in CY 2014.

Interest rates on three-month T-bills are expected to average 0.1% in CY 2012 and CY 2013; rates are forecast to average 0.2% in CY 2014.

Michigan Forecast

Michigan personal income is forecast to increase 3.2% in CY 2012, 2.8% in CY 2013, and 4.3% in CY 2014.

Michigan's unemployment rate is forecast to decrease to 8.4% in 2012 and to decline to 7.4% in CY 2014.

Inflation (as measured by the Detroit Consumer Price Index) for CY 2012 is forecast to increase 2.5% in CY 2012 and increase moderately for both CY 2013 and CY 2014.

State Revenue

Baseline revenue does not include the impact of partial-year policy changes or certain policy changes that have recently occurred. Baseline estimates are comparable across fiscal years and demonstrate the changes to state revenue that are driven by changes in the economy. The final total baseline GF/GP and SAF revenue was \$18.9 billion in FY 2010-11, which was an increase of 7.4%. It is forecast to increase 4.5% in FY 2011-12, 2.3% in FY 2012-13, and by 3.7% in FY 2013-14.

Net revenue captures the effects of all policy changes and represents resources available. Final total net GF/GP and SAF revenue was \$20.1 billion in FY 2010-11, which was an 8.5% increase from FY 2009-10. It is forecast to decrease \$74.6 million or 0.4% in FY 2011-12. Total net GF/GP and SAF revenue for FY 2012-13 is forecast to increase 0.9% and for FY 2013-14 increase 3.2%.

Table 1 reports GF/GP and SAF revenue in terms of baseline and net revenue. It also shows the January 2012 consensus estimates and the recommended revisions to these estimates for FY 2011-12 through FY 2013-14. The recommended revision for FY 2011-12 is an increase of \$192.5 million, for FY 2012-13 is an increase of \$84.8 million, and for FY 2013-14 is an increase of \$219.2 million.

State Revenue Limit

Total state revenue is expected to be below the state revenue limit by \$6.2 billion in FY 2010-11; it is estimated to be under the limit by \$6.0 billion in FY 2011-12, \$7.3 billion in FY 2012-13, and \$7.5 billion in FY 2013-14.

Fund Balances

The year-end GF/GP balance was \$553.7 million for FY 2010-11.

The year-end unreserved SAF balance was \$724.7 million for FY 2010-11.

The year-end Countercyclical Budget Stabilization Fund balance was \$2.2 million for FY 2010-11; it is estimated to be \$364.9 million for FY 2011-12, \$368.6 million for FY 2012-13, and \$373.1 million for FY 2013-14.

Table 1
HFA MAY 2012 REVENUE ESTIMATES FOR FY 2011-12 THROUGH FY 2013-14
(Millions of Dollars)

	<u>Final</u> <u>FY 2010-11</u>	<u>HFA Est.</u> <u>FY 2011-12</u>	<u>HFA Est.</u> <u>FY 2012-13</u>	<u>HFA Est.</u> <u>FY 2013-14</u>	<u>FY 2011-12</u> <u>% Change</u>	<u>FY 2012-13</u> <u>% Change</u>	<u>FY 2013-14</u> <u>% Change</u>
<u>Baseline</u>							
GF/GP	\$7,660.2	\$8,143.1	\$8,333.8	\$8,750.5	6.3%	2.3%	5.0%
SAF	11,260.5	11,638.4	11,905.4	12,229.8	3.4%	2.3%	2.7%
Total	\$18,920.7	\$19,781.4	\$20,239.3	\$20,980.2	4.5%	2.3%	3.7%
<u>Net</u>							
GF/GP	\$8,813.0	\$9,087.1	\$8,967.6	\$9,299.5	3.1%	-1.3%	3.7%
SAF	11,248.2	10,899.5	11,206.8	11,515.1	-3.1%	2.8%	2.8%
Total	\$20,061.2	\$19,986.6	\$20,174.4	\$20,814.7	-0.4%	0.9%	3.2%
<u>January 2012 Consensus</u>							
<u>Net</u>							
GF/GP	\$8,813.0	\$9,030.5	\$9,034.6	\$9,236.0			
SAF	11,248.2	10,763.6	11,055.0	11,359.5			
Total	\$20,061.2	\$19,794.1	\$20,089.6	\$20,595.5			
<u>Recommended Revision</u>							
<u>Net</u>							
GF/GP	\$0.0	\$56.6	(\$67.0)	\$63.5			
SAF	0.0	135.9	151.8	155.6			
Total	\$0.0	\$192.5	\$84.8	\$219.2			

NOTE: Numbers may not add due to rounding



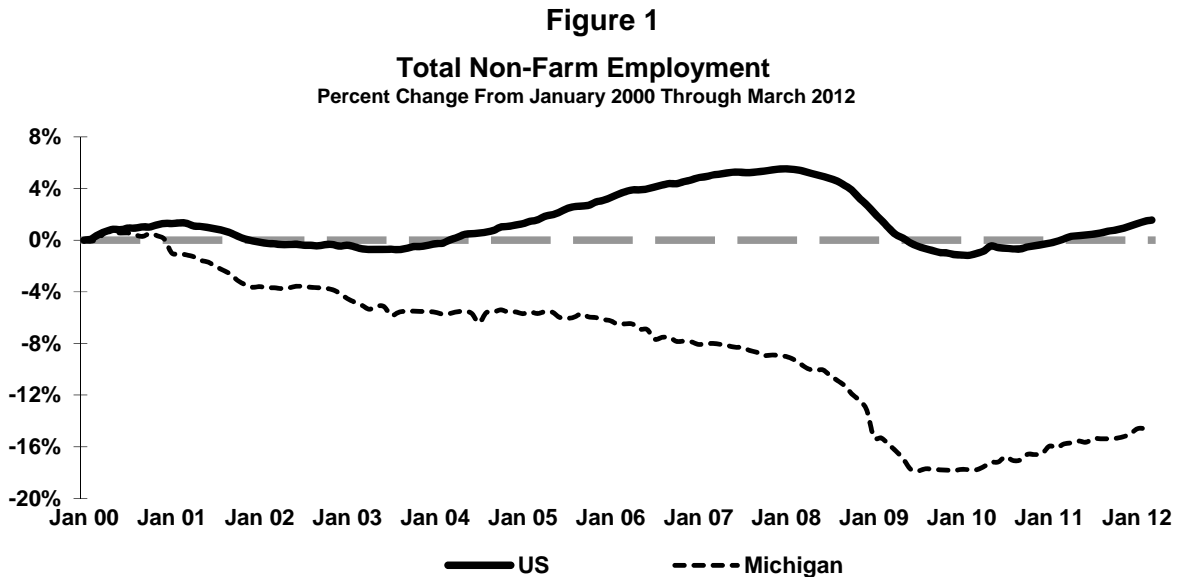
ECONOMIC REVIEW AND FORECAST

This section presents the economic forecast used by the House Fiscal Agency to produce its revenue forecasts for FY 2011-12 through FY 2013-14.

Employment fell by more than 6.3% between January 2008 and February 2009, which translates into a loss of almost 8.8 million jobs. And, while employment began growing during 2010, only about one million jobs were added. Continued employment growth through all of 2011 added more than 1.8 million jobs, but employment still remains far below pre-recession levels.

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 2012.



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 2.7 million jobs – about 91,800 jobs per month on average. This decline was followed by 53 consecutive months of job growth. Between September 2003 and January 2008, more than 8.1 million jobs were added.

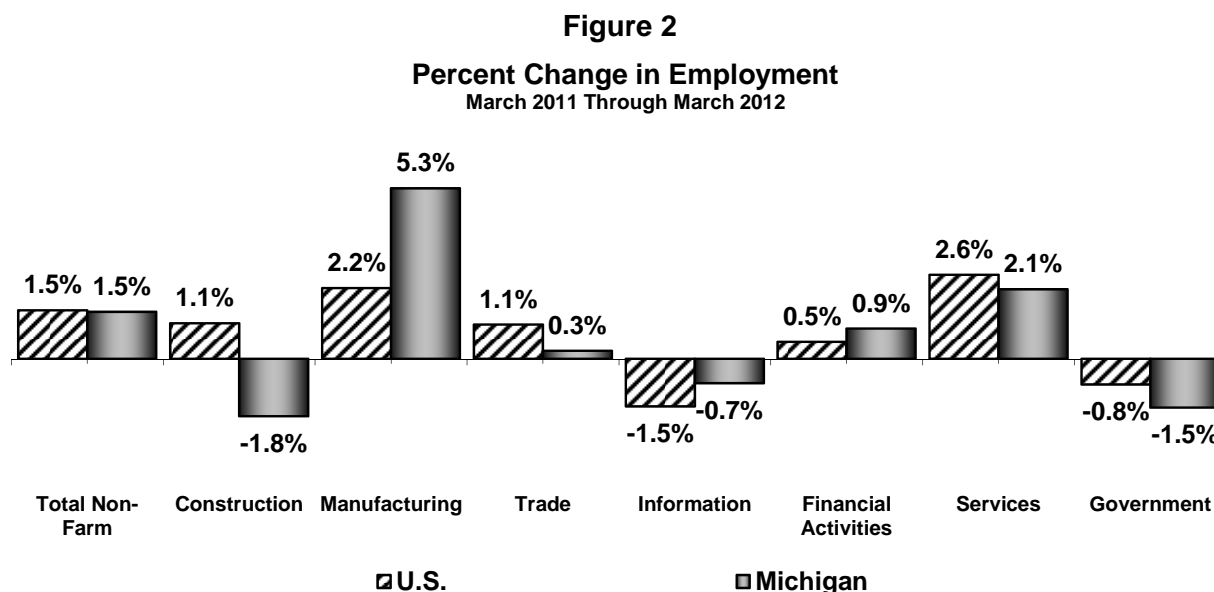
The ensuing recession saw 25 consecutive months of employment declines during which more than 8.7 million jobs were lost. Job gains finally reappeared in March 2010, and while modest job growth resumed during much of 2010 and has continued through March 2012, total non-farm employment increased by only about 3.6 million jobs. As of March 2012, total employment is less than 1.6% higher than in January 2000.

Michigan Non-Farm Employment

Although employment rebounded at the national level through 2007, conditions in Michigan remained bleak. Employment in Michigan peaked in June 2000, a full eight months before the national level peak in February 2001. Following that 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. For the next two years, employment in Michigan fluctuated around the July 2003 level, with monthly job gains offset by subsequent monthly job losses. Throughout the 2000s, job losses continued to mount. During 2008 and 2009, more than 400,000 additional jobs were lost, and while employment increased in 2010, only about 61,200 jobs were added. Although an additional 70,000 jobs were added during 2011, total non-farm employment as of March 2012 is 14.6% lower than in January 2000.

U.S. and Michigan Employment

Figure 2 shows the percent change in employment between March 2011 and March 2012 for all workers in several important sectors of the economy for both the U.S. and Michigan. Improving economic conditions at the national level are evident as the U.S. gained almost two million jobs over this period. In addition, employment in Michigan rose by 56,500 jobs.



U.S. Employment

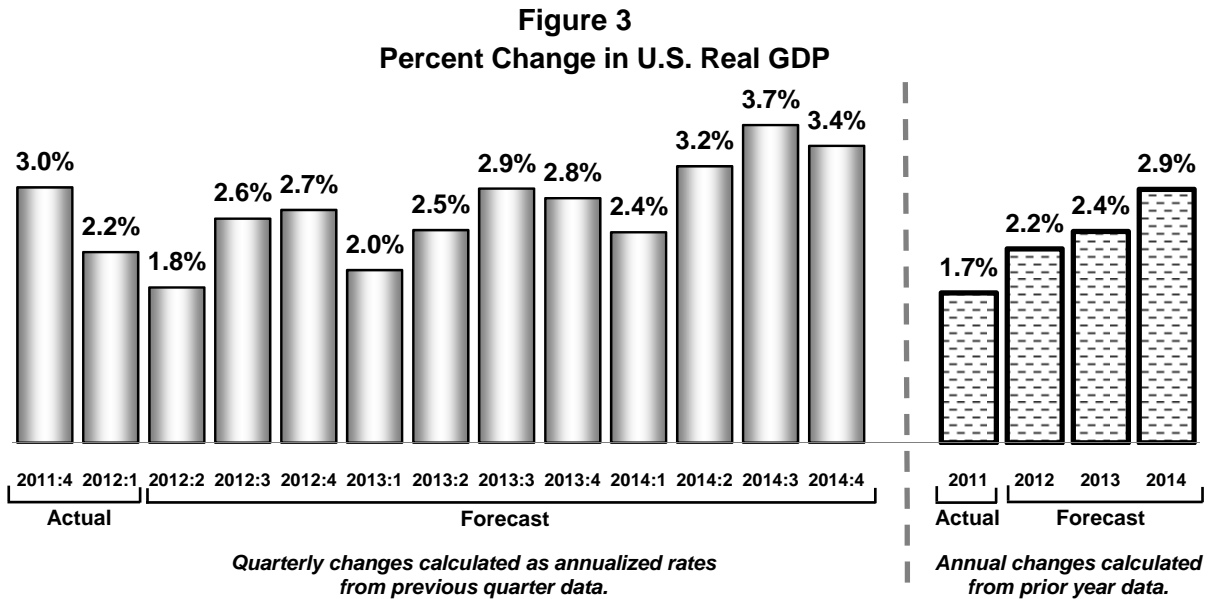
From March 2011 through March 2012, the U.S. experienced job gains in all categories with the exception of information and government, which lost 39,000 and 179,000 jobs respectively. Conversely, service sector employment increased by more than 1.4 million. Although the manufacturing sector has been generally contracting for the past several years, it realized job gains of 254,000 workers.

Michigan Employment

Job gains in Michigan over the past year totaled 56,500 and occurred primarily in manufacturing and services, which gained 26,100 and 36,100 jobs. Most other sectors recorded small job gains with the exception of construction, retail trade, Information, and government. Although the job gains in Michigan's manufacturing sector over the past year accounted for about 10.3% of total manufacturing job gains nationwide, over the past eight years Michigan has lost almost 26% of its manufacturing employment.

Real GDP

Figure 3 shows the estimated percent change in U.S. Real GDP for CY 2012 through CY 2014.

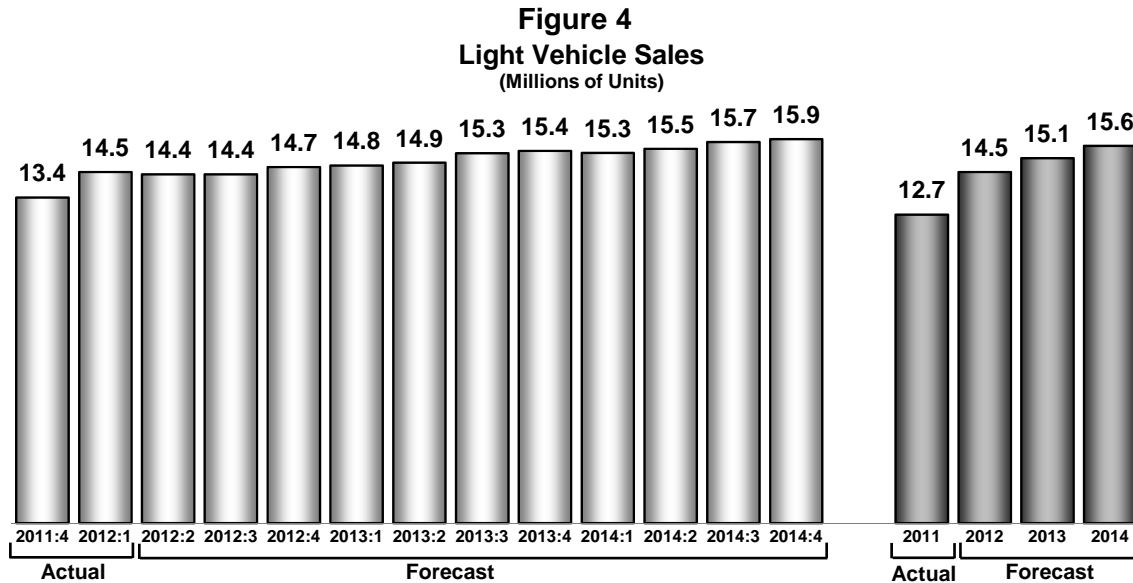


After increasing 1.7% during CY 2011, real GDP grew at a 2.2% rate in the first quarter of CY 2012. Real GDP is forecast to increase 2.2% in CY 2012, 2.4% in CY 2013, and 2.9% in CY 2014.

Both personal consumption and business fixed investment are forecast to increase in CY 2012, and will continue to provide the foundation for continued real GDP growth. In addition, residential investment is forecast to increase beginning in 2012. All three of these factors will contribute to overall economic growth throughout the forecast horizon.

Light Vehicle Sales

Figure 4 shows light vehicle sales for CY 2011 and estimates for CY 2012 through CY 2014.



Sales of light motor vehicles totaled 11.6 million units in CY 2010 and rose to 12.7 million units in CY 2011. Light vehicle sales are forecast to increase to 14.5 million units in CY 2012, 15.1 million units in CY 2013, and 15.6 million units in CY 2014.

While there was a shift in vehicle sales away from light trucks and toward cars over the past few years, that trend has reversed itself somewhat as light trucks have become more fuel efficient. Light truck sales, which accounted for 51.3% of total light vehicle sales in CY 2011, are expected to decline to about 48.1% in CY 2012 and then increase to 49.9% in CY 2013 and 50.0% in CY 2014.

The import share of total light vehicle sales was 22.9% in CY 2011; it is forecast to remain between 22.4% and 22.8% through CY 2014.

Inflation

U.S. Inflation

The annual rate of inflation, as measured by the percentage change in the U.S. Consumer Price Index for all Urban Consumers (CPI-U), rose by 3.2% in CY 2011; it is expected to increase by 2.2% in CY 2012, 2.0% in CY 2013, and 2.2% in CY 2014.

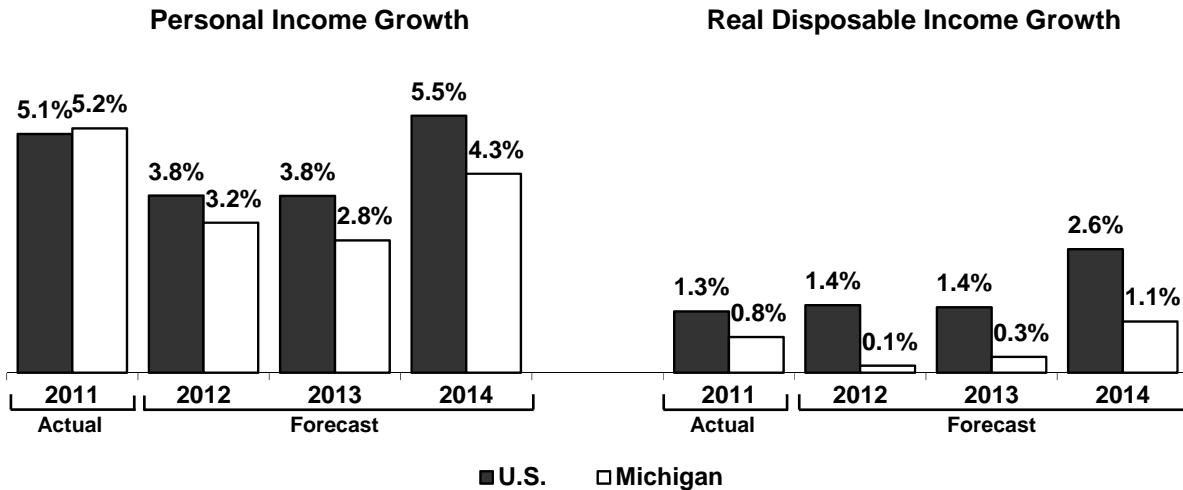
Michigan Inflation

The cost of living in Michigan is measured by the Detroit Consumer Price Index for all Urban Consumers (Detroit CPI-U). Michigan's average inflation rate was 3.3% in CY 2011, and although inflation in Michigan is predicted to continue increasing, it should remain relatively modest throughout the forecast period. The Detroit CPI-U is expected to increase 2.5% in CY 2012, 2.0% in CY 2013, and 2.3% in CY 2014.

Income Growth

Figure 5 shows personal and real disposable income growth for the U.S. and for Michigan.

Figure 5



U.S. Income Growth

Total U.S. personal income grew 5.1% in CY 2011. Personal income growth is forecast to increase 3.8% in both CY 2012 and CY 2013, and 5.5% in CY 2014.

A jump in inflation reduced the growth in U.S. real disposable income to 1.3% in CY 2011. U.S. real disposable income is forecast to grow 1.4% in both CY 2012 and CY 2013, and 2.6% in CY 2014.

Michigan Income Growth

Michigan's total state personal income growth was 5.2% in CY 2011. Michigan personal income is forecast to increase 3.2% in CY 2012, 2.8% in CY 2013, and 4.3% in CY 2014.

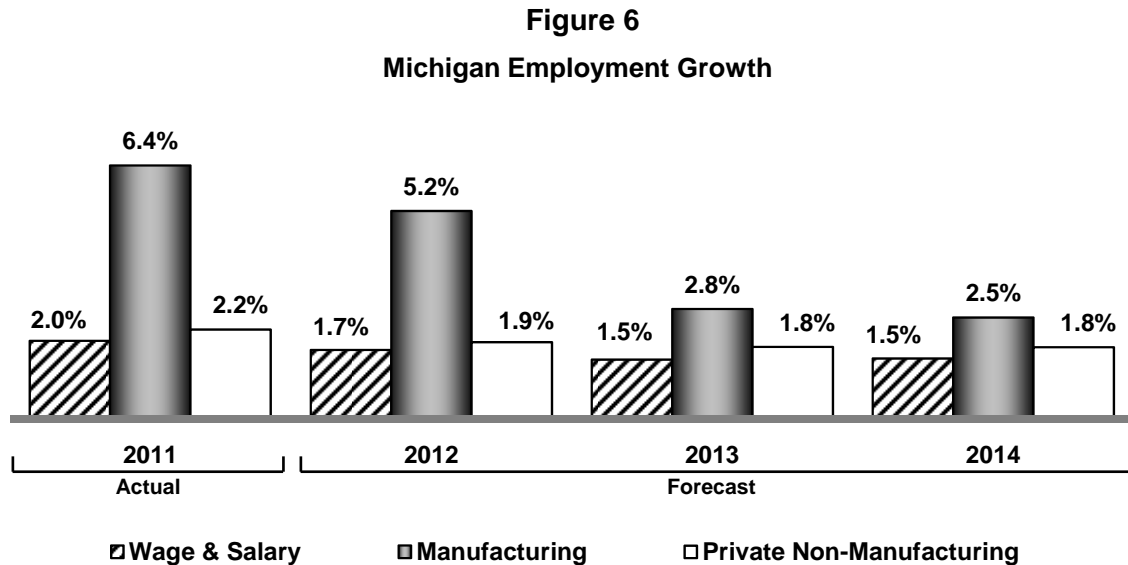
Michigan real disposable income increased 0.8% in CY 2011; it is forecast to increase 0.1% in CY 2012, 0.3% in CY 2013, and 1.1% in CY 2014.

Employment

Figure 6 shows Michigan wage and salary, manufacturing, and private non-manufacturing employment growth.

U.S. Employment

Nationally, total non-farm employment experienced average gains of about 153,300 per month during 2011 – roughly a 1.4% overall increase between December 2010 and December 2011. However, when compared to CY 2010 as a whole, total non-farm employment increased just 1.2% in CY 2011. Total non-farm employment is expected to grow 1.6% in both CY 2012 and CY 2013, and 1.9% in CY 2014.



Michigan Employment

The Michigan economy has continued to endure a weak labor market, although after experiencing a decade of annual job losses, Michigan wage and salary employment grew by 61,200 workers in CY 2010 and 70,000 in CY 2011.

Michigan wage and salary employment is forecast to grow by 1.7% in CY 2012 and 1.5% in both CY 2013 and CY 2014. In the 25-year period between 1982 and 2007, Michigan wage and salary employment grew at an average annual rate of 1.2%; between 1986 and 2011 it grew at an average annual rate of just 0.3%.

Michigan manufacturing employment increased 2.4% in CY 2010 and 6.4% in CY 2011 after suffering an almost 20.0% decline in CY 2009. It is forecast to increase 5.2% in CY 2012, 2.8% in CY 2013, and 2.5% in CY 2014. Much of this growth is expected to occur within the motor vehicle industry, in small part offsetting some of the job losses due to the restructuring of Michigan's auto industry.

Michigan private non-manufacturing employment fell 0.2% in CY 2010 before growing 2.2% in CY 2011. It is forecast to grow 1.9% in CY 2012 and 1.8% in both CY 2013 and CY 2014.

Unemployment

U.S. Unemployment

As of January 2008, total non-farm employment had increased for 53 consecutive months. Monthly job losses through the remainder of CY 2008 and most of CY 2009 increased the unemployment rate, and although CY 2010 saw the return of modest job growth, the unemployment rate is expected to remain at historically high levels.

The U.S. unemployment rate, which was 9.6% in CY 2010, dropped to 8.9% in CY 2011; it is forecast to continue falling to 8.1% in CY 2012, 7.8% in CY 2013, and 7.5% in CY 2014.

Michigan Unemployment

Employment in Michigan remains a major concern as employment growth has fallen during each of the past ten years. Michigan's wage and salary employment grew in CY 2011, and is forecast to continue growing through 2014, albeit at declining rates. As a result, the unemployment rate is expected to continue declining.

Michigan's unemployment rate was 12.6% in CY 2010 and 10.3% in CY 2011; it is expected to decrease to 8.4% in CY 2012, 7.8% in CY 2013, and 7.4% in CY 2014.

If the unemployment rate forecasts for the U.S. and Michigan hold, CY 2014 would be the first time since CY 2000 that the Michigan unemployment rate would be lower than the U.S.

Table 2
ECONOMIC FORECAST VARIABLES

	Calendar 2010 Actual	Calendar 2011 Actual	% Change from Prior Year	Calendar 2012 Estimated	% Change from Prior Year	Calendar 2013 Estimated	% Change from Prior Year	Calendar 2014 Estimated	% Change from Prior Year
United States									
Real Gross Domestic Product (Billions of 2005 dollars)	\$13,088.0	\$13,315.1	1.7%	\$13,613.8	2.2%	\$13,946.8	2.4%	\$14,356.1	2.9%
Implicit Price Deflator GDP (2005 = 100)	111.0	113.4	2.1%	115.2	1.6%	117.4	1.9%	119.8	2.0%
Consumer Price Index (1982-84 = 100)	218.1	224.9	3.2%	229.9	2.2%	234.5	2.0%	239.5	2.2%
Consumer Price Index (FY) (1982-84 = 100)	217.4	223.1	2.7%	228.7	2.5%	233.2	2.0%	238.2	2.1%
Personal Consumption Deflator (2005 = 100)	111.1	113.8	2.5%	116.0	1.9%	117.9	1.7%	120.1	1.8%
3-month Treasury Bills Interest Rate (Percent)	0.1%	0.1%		0.1%		0.1%		0.2%	
Aaa Corporate Bonds Interest Rate (Percent)	4.9%	4.6%		4.0%		4.1%		4.2%	
Non-Farm Employment (Millions)	129.9	131.4	1.2%	133.5	1.6%	135.7	1.6%	138.2	1.9%
Unemployment Rate – Civilian (Percent)	9.6%	8.9%		8.1%		7.8%		7.5%	
Light Vehicle Sales (Millions of units)	11.6	12.7	10.3%	14.5	13.8%	15.1	3.9%	15.6	3.4%
Passenger Car Sales (Millions of units)	5.7	6.2	8.3%	7.5	21.2%	7.6	0.4%	7.8	3.1%
Light Truck Sales (Millions of units)	5.8	6.5	12.2%	7.0	6.7%	7.5	7.8%	7.8	3.6%
Import Share of Light Vehicles (Percent)	23.8%	22.9%		22.4%		22.5%		22.8%	
Housing Starts (Thousands of units)	0.585	0.610	4.2%	0.752	23.4%	0.997	32.6%	1.347	35.0%
Personal Income (Billions of current dollars)	\$12,373.5	\$13,005.3	5.1%	\$13,497.9	3.8%	\$14,008.4	3.8%	\$14,778.4	5.5%
Real Disposable Income (Billions of 2005 dollars)	\$10,061.7	\$10,193.5	1.3%	\$10,340.9	1.4%	\$10,485.7	1.4%	\$10,762.7	2.6%
Michigan									
Wage and Salary Employment (Thousands)	3,863.4	3,935.7	1.9%	4,004.5	1.7%	4,063.6	1.5%	4,124.7	1.5%
Transportation Equipment Employment (Thousands)	131.2	140.4	7.0%	148.0	5.4%	152.6	3.1%	157.2	3.0%
Unemployment Rate (Percent)	12.6%	10.3%		8.4%		7.8%		7.4%	
Personal Income (Millions of current dollars)	\$342,874	\$360,806	5.2%	\$372,378	3.2%	\$382,916	2.8%	\$399,211	4.3%
Real Personal Income (Millions of 1982-84 dollars)	\$167,133	\$170,312	1.9%	\$171,484	0.7%	\$172,952	0.9%	\$176,291	1.9%
Real Disposable Income (Millions of 1982-84 dollars)	\$151,801	\$152,956	0.8%	\$153,184	0.1%	\$153,710	0.3%	\$155,399	1.1%
Wage and Salary Income (Millions of current dollars)	\$173,571	\$182,600	5.2%	\$190,167	4.1%	\$198,154	4.2%	\$206,260	4.1%
Detroit Consumer Price Index (1982-84 = 100)	205.2	211.9	3.3%	217.2	2.5%	221.4	2.0%	226.5	2.3%
Detroit CPI (FY) (1982-84 = 100)	204.8	210.0	2.5%	216.0	2.9%	220.3	2.0%	225.2	2.2%

NOTE: Numbers may not add due to rounding.



RISKS AND UNCERTAINTIES

An economic forecast is based on the best information available at the time the forecast is prepared. 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 the European debt crisis, oil prices, housing, fiscal policy, state and local governments, and Michigan's motor vehicle industry.

European Debt Crisis

The European debt crisis and concerns about the level of contagion will remain a significant risk. Debt restructuring at some European banks and government austerity measures will continue to be precarious. Many European countries face difficult decisions and weak economies moving forward.

The U.S. economy has built momentum over the last few months and the expansion is expected to continue. However, the effects of the crisis on U.S. financial markets may unnerve households and businesses and could dampen the overall economy.

Oil Prices

The average West Texas Intermediate crude oil price was \$103 per barrel in the first quarter of 2012, but has recently fallen to \$97 per barrel. Oil prices averaged \$95 per barrel throughout CY 2011; they are expected to remain high and to increase to \$108 per barrel in CY 2014.

Oil prices affect the economy primarily through disposable income allocation – because more income is used for oil-related goods, less is used for all other goods and services. In addition, the amount spent on oil is for the most part an import, which is a subtraction from overall U.S. economic growth. Oil 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.

Housing

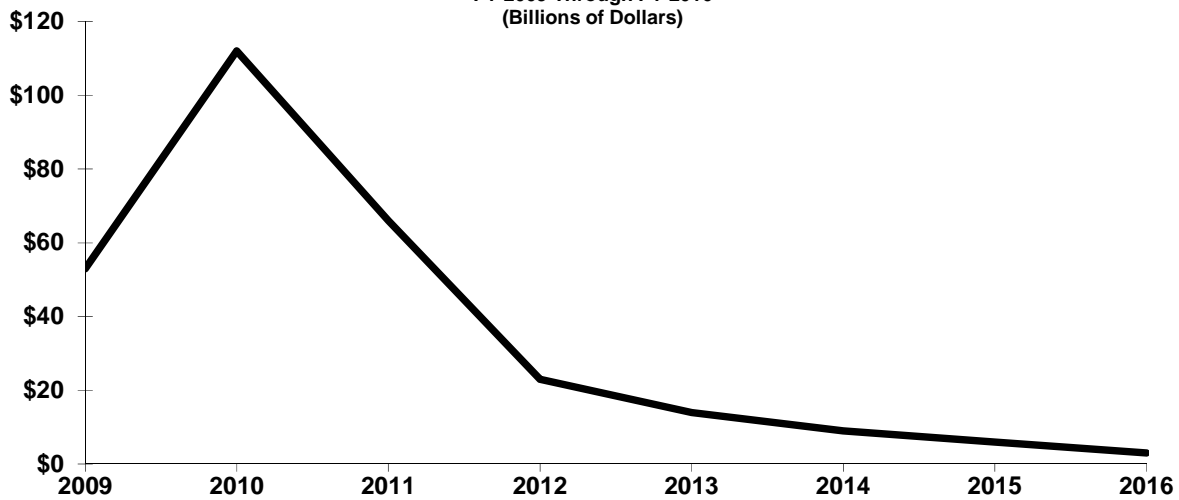
High foreclosure and delinquency rates coupled with weak home sales continue to put downward pressure on home prices. In CY 2011, median existing home prices declined 4.5%, while national home sales increased approximately 0.9%. In CY 2012, housing starts are expected to increase 23.4%, but remained at a low level of 0.75 million units. Housing starts are forecast to increase to 1.00 million units in CY 2013 and 1.35 million units in CY 2014.

The conditions of the housing market are important driving factors for construction related industries (employment/income) and for State and local government revenue (property tax and real estate transfer tax). In typical recoveries, housing generally provides a strong background for growth.

Fiscal Policy

Significant tax and spending changes are not anticipated until after the 2012 election. Federal fiscal policy is in contractionary mode and is expected to remain so throughout the forecast horizon. Figure 9, from the General Accounting Office (GAO) and the National Association of State Budget Officers (NASBO) shows the significant reduction of the federal aid to the states that will occur in FY 2011-12. The forecast assumes the 2% employee payroll tax cut and the emergency unemployment insurance benefits will be extended for 2013. However, fiscal policy remains a risk if federal government spending cuts are enacted that are too severe in the short-term.

Figure 7
Temporary Federal Aid to States
 FY 2009 Through FY 2016
 (Billions of Dollars)



Sources: General Accounting Office and the National Association of State Budget Officers

State and Local Governments

According to the Nelson A. Rockefeller Institute, state tax revenues in most states are now above the previous peak levels following the revenue collapse during the Great Recession. State revenue collections continue to improve moderately. State governments were largely able to avoid significant cuts to spending or increased taxes due to federal government assistance. However, additional federal aid is not expected to materialize beyond what has already been enacted.

In addition, local governments, which rely predominately on property tax revenue – which has been declining nationally – will also have to deal with ongoing budget difficulties. The forecast for Michigan includes government employment cuts of 1.4% in CY 2012, 1.2% in CY 2013, and 0.9% in CY 2014.

Michigan's Motor Vehicle Industry

The level and composition of light motor vehicle sales is a key component of Michigan's economy. Light motor vehicle sales totaled 12.7 million units in CY 2011, which was a 10.3% increase from the previous year. Light motor vehicle sales are forecast to be 14.5 million units in CY 2012, then increase to 15.1 million units in CY 2013 and 15.6 million units in CY 2014 as the national expansion continues.

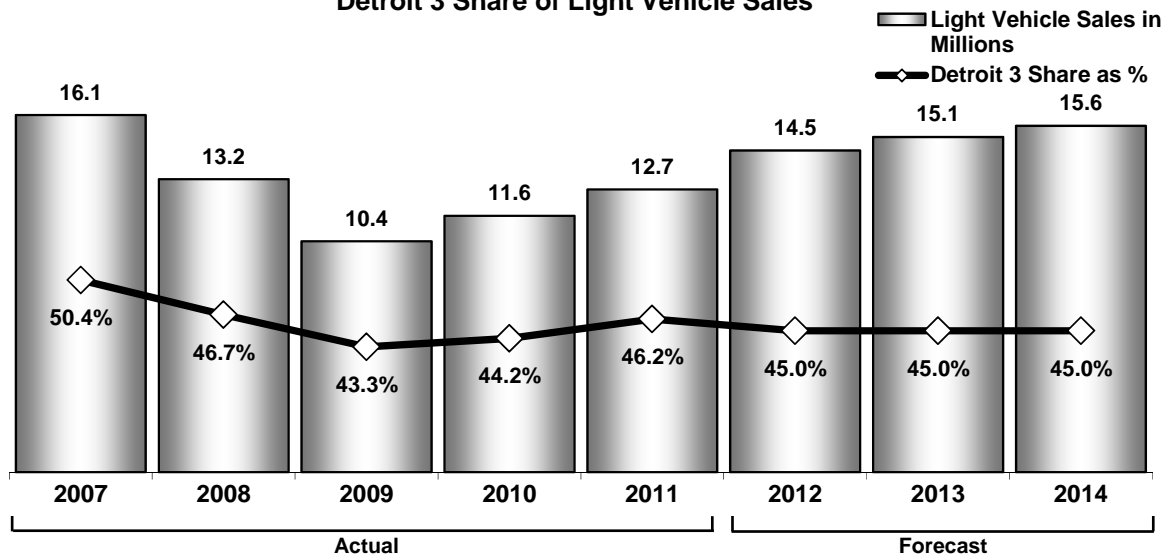
Imports and transplants (vehicles with a foreign nameplate that are made in the U.S.) have steadily gained in market share over the past several years; however since 2009 the market share of these vehicles has stabilized. As shown in **Figure 10**, the market share of the Detroit 3 auto manufacturers hovered around 46% in CY 2011 and is expected to fall to and remain at 45% throughout the forecast horizon.

The extent to which the domestic nameplates can retain market share will have a direct impact on Michigan's economy. In CY 2011, the Detroit 3 sold 5.9 million vehicles, which was a 15.2% increase from the previous year. It is expected that the Detroit 3 will sell 6.5 million vehicles in CY 2012 and continue to post healthy gains in CY 2013 and CY 2014.

After significant declines since CY 2000, Michigan transportation equipment employment increased 7.0% in CY 2011 and is forecast to increase 5.4% in CY 2012, 3.1% in CY 2013, and 3.0% in CY 2014. The CY 2014 estimated level of transportation equipment employment of 157,200 is 45% of the 346,000 peak in CY 2000. If the Michigan-produced market share of motor vehicles is greater or less than anticipated, Michigan's economy and revenue growth will be higher or lower than estimated.

Figure 8

Detroit 3 Share of Light Vehicle Sales





GF/GP AND SAF REVENUE

Revenue estimates are based on the economic performance of the components of national and state economies discussed in the previous section. This section contains the House Fiscal Agency's May 2012 estimates for GF/GP (**Table 3**) and SAF (**Table 4**) revenue, which include enacted personal income tax and business tax changes, amnesty, unclaimed property changes, and other adjustments. Also, included in this section are the estimated year-end balances for the GF/GP, the SAF, the budget stabilization fund (BSF), and the state revenue limit calculation.

GF/GP Revenue by Source

GF/GP Tax Revenue

GF/GP tax revenue increased 13.3% to \$8,274.4 million in FY 2010-11. Much of this increase was due stronger MBT and gross income tax revenue, as well as, dampened income tax refunds because of taxpayers reduced ability to take the homestead property tax credit. GF/GP tax revenue is estimated to be \$8,666.3 million, an increase of \$391.9 million or 4.7%, in FY 2011-12, and \$8,639.4 million, a decrease of \$26.9 million, or 0.3% in FY 2012-13. GF/GP tax revenue is estimated to increase 4.0% in FY 2013-14.

Total Net GF/GP Revenue

Net GF/GP revenue includes non-tax revenue and represents the amount available to spend. Net GF/GP revenue was \$8,813.0 million in FY 2010-11; it is forecast to be \$9,087.1 million, an increase of \$274.0 million or 3.1% in FY 2011-12, and \$8,967.6 million, a decrease of \$119.5 million or 1.3% in FY 2012-13. Net GF/GP revenue is estimated to increase 3.7% in FY 2013-14.

SAF Revenue by Source

Total Net SAF Revenue

Net SAF revenue increased 4.0% to \$11,248.2 million in FY 2010-11. Most of the increase was due to a strong 8.8% increase in sales tax revenue, but the gain was also due to income tax revenue and the lottery. Continued declines in housing resulted in falling State education tax revenue. Net SAF revenue is forecast to be \$10,899.5 million, a decrease of \$348.6 million or 3.1%, in FY 2011-12 – due largely to the repeal of the MBT earmark. Net SAF revenue is estimated to increase 2.8% in FY 2012-13 and 2.8% in FY 2013-14.

Table 3
GF/GP REVENUE ESTIMATES AND CHANGE FROM THE PREVIOUS FISCAL YEARS
(Millions of Dollars)

	Final	HFA Est.	HFA Est.	HFA Est.	FY 2011-12		FY 2012-13		FY 2013-14	
	<u>FY 2010-11</u>	<u>FY 2011-12</u>	<u>FY 2012-13</u>	<u>FY 2013-14</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>
Income Tax	\$4,444.9	\$4,865.3	\$5,665.1	\$5,914.0	\$420.4	9.5%	\$799.7	16.4%	\$249.0	4.4%
Sales Tax	1,066.8	1,114.0	1,141.9	1,177.8	47.3	4.4%	27.8	2.5%	35.9	3.1%
Use Tax	734.1	790.2	831.3	861.3	56.0	7.6%	41.2	5.2%	30.0	3.6%
Michigan Business Tax	1,344.0	737.3	(542.0)	(583.5)	(606.7)	-45.1%	(1,279.3)	-173.5%	(41.5)	7.7%
Corporate Income Tax	0.0	485.6	833.7	898.8	485.6	--	348.1	71.7%	65.0	7.8%
Insurance	271.2	302.0	315.0	323.0	30.8	11.4%	13.0	4.3%	8.0	2.5%
Other Taxes	413.4	371.9	394.4	397.1	(41.5)	-10.0%	22.5	6.1%	2.7	0.7%
GF/GP Net Taxes	\$8,274.4	\$8,666.3	\$8,639.4	\$8,988.5	\$391.9	4.7%	(\$26.9)	-0.3%	\$349.1	4.0%
Non-Tax Revenue	538.7	420.8	328.2	311.0	(117.9)	-21.9%	(92.6)	-22.0%	(17.2)	-5.2%
Total GF/GP Net Revenue	\$8,813.0	\$9,087.1	\$8,967.6	\$9,299.5	\$274.0	3.1%	(\$119.5)	-1.3%	\$331.9	3.7%

NOTE: Numbers may not add due to rounding.

Table 4
SCHOOL AID FUND REVENUE ESTIMATES AND CHANGE FROM THE PREVIOUS FISCAL YEARS
(Millions of Dollars)

	<u>Final</u> <u>FY 2010-11</u>	<u>HFA Est.</u> <u>FY 2011-12</u>	<u>HFA Est.</u> <u>FY 2012-13</u>	<u>HFA Est.</u> <u>FY 2013-14</u>	<u>FY 2011-12</u>		<u>FY 2012-13</u>		<u>FY 2013-14</u>	
					<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>
Sales Tax	\$4,878.6	\$5,124.9	\$5,247.3	\$5,397.3	\$246.4	5.0%	\$122.3	2.4%	\$150.1	2.9%
Use Tax	367.0	395.0	415.7	430.7	28.0	7.6%	20.6	5.2%	15.0	3.6%
Income Tax	1,972.5	2,104.3	2,255.1	2,338.2	131.8	6.7%	150.9	7.2%	83.0	3.7%
State Education Tax	1,845.1	1,811.3	1,838.2	1,884.1	(33.8)	-1.8%	26.9	1.5%	45.9	2.5%
Lottery/Casinos	841.2	867.5	853.2	861.4	26.3	3.1%	(14.3)	-1.6%	8.2	1.0%
Michigan Business Tax	739.2	0.0	0.0	0.0	(739.2)	-100.0%	0.0	-233.2%	0.0	-11.6%
Tobacco Tax	376.2	373.2	364.0	354.9	(3.0)	-0.8%	(9.1)	-2.4%	(9.1)	-2.5%
Real Estate Transfer Tax	123.2	123.9	132.0	145.0	0.7	0.6%	8.1	6.5%	13.0	9.8%
Other Taxes	105.2	99.4	101.3	103.5	(5.8)	-5.5%	1.9	1.9%	2.2	2.2%
SAF Net Revenue	\$11,248.2	\$10,899.5	\$11,206.8	\$11,515.1	(\$348.6)	-3.1%	\$307.3	2.8%	\$308.3	2.8%

NOTE: Numbers may not add due to rounding.

HFA Estimates of Year-End Balances

Table 5 reports House Fiscal Agency estimates of year-end balances for GF/GP, the SAF, and the BSF. Fiscal Year 2011-12 estimates are based on year-to-date appropriations and HFA revenue estimates. Final FY 2010-11 figures are included.

Budget Stabilization Fund estimates are based on the current balance and HFA estimates of future deposits and interest earned.

Table 5
YEAR-END UNRESERVED BALANCE ESTIMATES
(Millions of Dollars)

	<u>Final</u> <u>FY 2010-11</u>	<u>Estimated</u> <u>FY 2011-12</u>
General Fund/General Purpose	\$553.7	\$509.9
School Aid Fund	\$724.7	\$237.7
Budget Stabilization Fund	\$2.2	\$364.9

Note: School Aid Fund revenue is 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 6** details deposits, withdrawals, interest earnings, and the year-end balance from FY 1990-91 through FY 2013-14.

The BSF ending fund balance for FY 2010-11 was \$2.2 million. The BSF trigger calculation – 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 2011-12 through FY 2013-14. However, a \$362.7 million appropriation has been made for FY 2011-12. The year-end balance is estimated at \$364.9 million for FY 2011-12, \$368.6 million for FY 2012-13, and \$373.1 million for FY 2013-14.

Table 6
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	\$0.0	\$0.1	\$2.1
2007-08	\$0.0	\$0.0	\$0.1	\$2.2
2008-09	\$0.0	\$0.0	\$0.0	\$2.2
2009-10	\$0.0	\$0.0	\$0.0	\$2.2
2010-11	\$0.0	\$0.0	\$0.0	\$2.2
2011-12*	\$362.7	\$0.0	\$0.0	\$364.9
2012-13*	\$0.0	\$0.0	\$3.7	\$368.6
2013-14*	\$0.0	\$0.0	\$4.5	\$373.1

* HFA Estimate

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 7**, **Figure 11**, and **Table 8**, the FY 2010-11 revenue limit calculation is expected to show state revenue collections at \$6.15 billion below the revenue limit. For FY 2011-12, state revenue is estimated to be below the limit by \$5.96 billion. For FY 2012-13 and FY 2013-14, state revenue is estimated to be below the revenue limit – by \$7.30 billion, and \$7.52 billion, respectively.

Table 7
COMPLIANCE WITH THE STATE REVENUE LIMIT
(Millions of Dollars)

Revenue Limit Calculations	Preliminary Final FY 2010-11	Estimated FY 2011-12	Estimated FY 2012-13	Estimated FY 2013-14
Personal Income				
Calendar Year	<u>CY 2009</u>	<u>CY 2010</u>	<u>CY 2011</u>	<u>CY 2012</u>
Amount	\$342,302	\$342,663	\$360,806	\$372,378
X Limit Ratio	9.49%	9.49%	9.49%	9.49%
State Revenue Limit	\$32,484.5	\$32,518.7	\$34,240.5	\$35,338.7
Total Revenue Subject to Revenue Limit	\$26,333.4	\$26,561.6	\$26,944.6	\$27,817.9
Amount Under (Over) State Revenue Limit	\$6,151.0	\$5,957.2	\$7,295.9	\$7,520.7

NOTE: Numbers may not add due to rounding.

Figure 9
Constitutional Revenue Limit
Amount Under or Over Limit (Billions of Dollars)



Table 8
CONSTITUTIONAL REVENUE LIMIT HISTORY
(Billions of Dollars)

<u>Fiscal Year</u>	<u>(Under) or Over Limit</u>
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	(\$4.95)
2006-07	(\$5.32)
2007-08	(\$4.65)
2008-09	(\$7.99)
2009-10	(\$7.61)
2010-11*	(\$6.15)
2011-12*	(\$5.96)
2012-13*	(\$7.30)
2013-14*	(\$7.52)

**HFA Estimate*



Additional copies of this report can be obtained from:

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