Senate Fiscal Agency

MICHIGAN'S ECONOMIC OUTLOOK AND BUDGET REVIEW

FY 2011-12, FY 2012-13 AND FY 2013-14

May 14, 2012

Ellen Jeffries, Director – Lansing, Michigan – (517) 373-2768
www.senate.michigan.gov/sfa

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Ellen Jeffries, Director
Senate Fiscal Agency
P.O. Box 30036
Lansing, Michigan 48909-7536
Telephone (517) 373-2768

Internet Home Page http://www.senate.michigan.gov/sfa

ACKNOWLEDGEMENT

This Economic Outlook and Budget Review was prepared and written by Ellen Jeffries, Director, and David Zin, Chief Economist, of the Senate Fiscal Agency. Karen Hendrick, Executive Secretary and Administrative Assistant, coordinated the production of this report.

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ECONOMIC FORECAST

The U.S. economy, as measured by inflation-adjusted gross domestic product, after growing 1.7% during 2011, is predicted to expand 2.1% in both 2012 and 2013, and 2.6% in 2014. Light vehicle sales are forecasted to rise from 12.7 million units in 2011, to 14.3 million units in 2012, 14.8 million units in 2013, and 15.2 million units in 2014. The unemployment rate is expected to fall from 8.9% in 2011 to 8.1% in 2012, 7.6% in 2013, and 7.4% in 2014; while the consumer price index is estimated to increase 2.2% in 2012, 1.7% in 2013, and 1.8% in 2014.

The Michigan economy, as measured by inflation-adjusted personal income, is estimated to grow 0.2% in 2012, 0.1% in 2013, and 2.3% in 2014, after rising 1.9% in 2011. Wage and salary employment is predicted to continue growing, increasing 1.4% during 2012, 0.5% in 2013, and 0.6% in 2014. The 1.9% increase in wage and salary employment during 2011 was the first annual expansion since 2000.

REVENUE FORECAST

In FY 2011-12, the Michigan economy will grow more slowly than in FY 2010-11, resulting in slower revenue growth. General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue will total an estimated $20.0 billion, down 0.3% from FY 2010-11 but $208.1 million above the January 2012 consensus estimate. Reflecting tax changes enacted during 2011, General Fund/General Purpose revenue is expected to increase 3.1% from the FY 2010-11 level to $9.1 billion, while SAF revenue is projected to decline 3.0% to $10.9 billion.

In FY 2012-13, GF/GP and SAF revenue will total an estimated $20.1 billion, up 0.3% from FY 2011-12 and $22.0 million below the January 2012 consensus estimate. General Fund/General Purpose revenue will total an estimated $8.9 billion, a decline of 1.8% from FY 2011-12, while SAF revenue will rise to an estimated $11.1 billion, a 2.1% increase.

In FY 2013-14, GF/GP and SAF revenue will total an estimated $20.6 billion. This revised estimate for FY 2013-14 is 2.5% higher than the revised estimate for FY 2012-13. General Fund/General Purpose revenue will total an estimated $9.2 billion, an increase of 2.6% from FY 2012-13, while SAF revenue will rise to an estimated $11.4 billion, a 2.5% increase.

YEAR-END BALANCE ESTIMATES

Based on the revised Senate Fiscal Agency (SFA) revenue estimates and enacted and projected appropriations, the SFA is estimating that the FY 2011-12 GF/GP budget will have a positive ending balance of $730.7 million. A comparison of the FY 2011-12 SAF revenue estimates and enacted and projected SAF appropriations produces a $302.4 million SAF surplus.

Comparing the SFA's FY 2012-13 revenue estimate with the appropriation bills as passed the Senate, leads to a $394.3 million positive balance in the FY 2012-13 GF/GP budget. The SFA's FY 2012-13 SAF revenue estimate, combined with the Senate-passed SAF appropriations, results in a $232.0 million SAF surplus.

If the SFA's FY 2013-14 GF/GP revenue estimate is compared with the FY 2013-14 Governor's appropriation recommendation, adjusted for the FY 2012-13 Senate-passed reductions and caseload changes, there is a projected $493.5 million budget surplus. If the SFA's FY 2013-14 SAF revenue estimate is compared to the FY 2013-14 Senate-estimated SAF appropriations adjusted for pupil costs, there is a projected $261.3 million SAF surplus.

EXECUTIVE SUMMARY

SENATE FISCAL AGENCY
ECONOMIC AND BUDGET SUMMARY

ECONOMIC PROJECTIONS
(Calendar Year)

	2010 Actual	2011 Actual	2012 Estimate	2013 Estimate	2014 Estimate
Real Gross Domestic Product (% change)	3.0%	1.7%	2.1%	2.1%	2.6%
U.S. Consumer Price Index (% change)	1.6%	3.2%	2.2%	1.7%	1.8%
Light Motor Vehicle Sales (millions of units)	11.6	12.7	14.3	14.8	15.2
U.S. Unemployment Rate (%)	9.6%	8.9%	8.1%	7.6%	7.4%
Real Michigan Personal Income (% change)	2.5%	1.9%	0.2%	0.1%	2.3%
Michigan Wage & Salary Employment (% chng)	(0.2%)	1.9%	1.4%	0.5%	0.6%

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

	FY 2011-12 Estimate			FY 2012-13 Estimate			FY 2013-14 Estimate		
	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available	Baseline	Tax Changes	Net Available
GF/GP	$9,355.5	($267.2)	$9,088.3	$9,538.8	($610.4)	$8,928.4	$9,866.2	($709.4)	$9,156.8
% Change	8.7%		3.1%	2.0%		(1.8%)	3.4%		2.6%
School Aid Fund	$11,652.4	($738.4)	$10,914.0	$11,852.6	($713.3)	$11,139.3	$12,135.2	($713.0)	$11,422.3
% Change	3.5%		(3.0%)	1.7%		2.1%	2.4%		2.5%
Total GF/GP & SAF	$21,007.9	($1,005.6)	$20,002.3	$21,391.4	($1,323.7)	$20,067.7	$22,001.5	($1,422.4)	$20,579.1
% Change	5.8%		(0.3%)	1.8%		0.3%	2.9%		2.5%
Revenue Limit - Under (Over)		$6,100.7			$7,618.0			$7,869.7	
Revision from Jan. Consensus									
GF/GP..		$57.8			($106.4)			($79.1)	
SAF..		$150.3			$84.4			$62.7	
Total		**$208.1**			**($22.0)**			**($16.4)**	

YEAR-END BALANCE ESTIMATES
(Fiscal Year, Millions of Dollars)

	FY 2011-12 Estimate	FY 2012-13 Estimate	FY 2013-14 Estimate
General Fund/General Purpose	$730.7	$394.3	$493.5
School Aid Fund	$302.4	$232.0	$261.3
Budget Stabilization Fund...	$364.9	$498.6	$506.1

ECONOMIC REVIEW
AND OUTLOOK

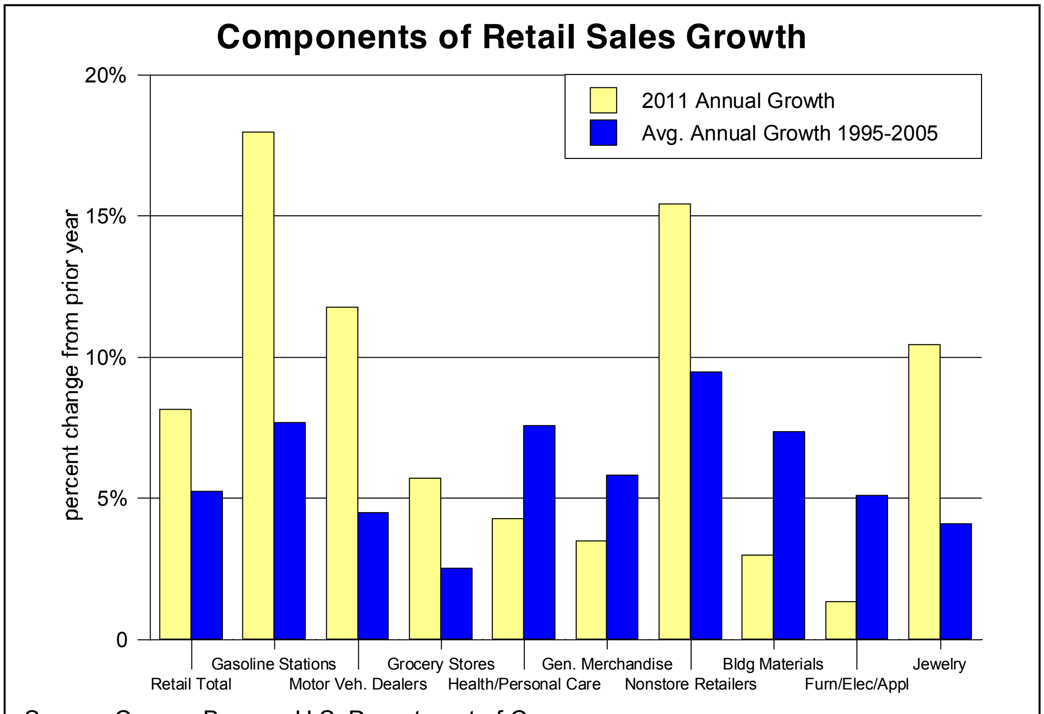
ECONOMIC REVIEW AND OUTLOOK

State revenue, particularly tax revenue, depends heavily on economic conditions. This section presents the Senate Fiscal Agency's (SFA's) latest economic forecast for 2012, 2013, and 2014, as well as a summary of recent economic activity.

RECENT U.S. ECONOMIC HIGHLIGHTS

On September 20, 2010, the National Bureau of Economic Research announced that the recession the U.S. economy had entered in December 2007 had ended in June 2009. Virtually every economic indicator identifies the 2008-2009 recession as the most severe economic contraction in more than 70 years. While the economy, particularly as measured by inflation-adjusted Gross Domestic Product (GDP), has grown since the second quarter of 2009, the gains have generally been modest. As of the first quarter of 2012, inflation-adjusted GDP was 6.8% above the level during the second quarter of 2009. Consumption has improved somewhat, but after 11 quarters of growth, personal consumption expenditures in the first quarter of 2012 were only 6.1% above the level in the second quarter of 2009. However, certain areas of consumer spending have shown more growth, especially as a result of higher fuel and food prices, with March 2012 light vehicle sales 54.8% above the February 2009 trough and luxury markets such as jewelry exhibiting substantial increases (Figure 1).

Figure 1



Source: Census Bureau, U.S. Department of Commerce

Despite the improvements in the economy, a number of fundamental indicators still exhibit limited, if any, improvement. Payroll employment continued to decline for months after the end of the recession, falling by approximately 1.3 million jobs by February 2010. Despite strong gains in the first three months of 2012, April 2012 employment was less than 2.5 million jobs above the June 2009 level and only 2.9% above the February 2010 trough. Housing starts, a key indicator of the factors that led to the 2008-2009 recession, remain at depressed levels, with March 2012 starts only 11.8% above the level in June 2009 and still down 71.2% from the January 2006 peak.

In April 2012, consumer sentiment, measured by the University of Michigan's Consumer Sentiment Index, was 7.9% above the June 2009 level and up 9.5% from the April 2011 level. However, only 25% of households in April 2012 expected their financial situation to improve in the next year, a majority of respondents in the survey expected no income increases in the coming year (for a 40th consecutive month), and a majority anticipated declining inflation-adjusted incomes over the next year. Business inventories have risen, and while some of the increase is likely intended, the increase means that production has exceeded consumption. Since the fourth quarter of 2009, inventories have increased by an inflation-adjusted $443.0 billion, approximately 64.3% of the $688.9 billion net increase in total inflation-adjusted GDP. Normally, increases in personal consumption account for approximately 70%-75% of economic growth; and growth that is driven on increases in the value of unsold goods is not sustainable.

Other indicators provide a mixed view of the economy. The economies of Europe and China are slowing, with much of Europe in a deepening recession over the last two quarters, and the value of the dollar has strengthened, increasing the price of U.S. exports and lowering the relative price of imports. Durable goods orders (excluding defense-related orders) have declined in two of the last three months and March 2012 orders were down 2.0% from the December level, although the Institute for Supply Management manufacturing index continues to rise and remains above 50, indicating expansion in the manufacturing sector. Business investment, which increased 4.4% in 2010 and 8.8% in 2011 and accounted for a significant portion of the economic growth over the period, declined by 2.1% in the first quarter of 2012. However, corporate profits increased 7.9% during 2011, to the highest level on record.

Several economic indicators currently exhibit conditions that have both positive and negative implications, and exhibit strength for some aspects of the economy but not for others. Productivity, as measured by output per worker, rose at an average annual rate of 3.5% between the second quarter of 2009 and the fourth quarter of 2010, well above the 1.7% average during much of the latter half of the 20th century. However, between the fourth quarter of 2010 and the first quarter of 2012, productivity gains have averaged an annual rate of only 0.2%. Productivity gains increase output and income, but reduce the need for additional workers. As productivity has fallen over the last five quarters, employment gains have increased, although unemployment remains higher than would otherwise be expected due to weak economic growth. Personal income increased by 11.1% between the second quarter of 2009 and the first quarter of 2012, and personal saving as a share of disposable personal income (personal income after taxes) declined from 6.2% (the highest level in 18 years) in the second quarter of 2009 to 3.9% in the first quarter of 2012 – only slightly above the levels of the last 15 years. Much of that increase in saving has reduced consumption but also reduced household debt, which declined 3.7% between the second quarter of 2009 and the third quarter of 2011. Slower consumption and higher saving reduce the need for additional output and workers but improve the overall long-term financial health of consumers. In the fourth quarter of 2011, consumption growth appears to have been driven by increased borrowing, with outstanding consumer debt rising for the first time since 2008. Details for selected economic indicators are presented in Table 1 and Table 2.

Table 1

THE SENATE FISCAL AGENCY ECONOMIC FORECAST (Calendar Years)	2010 Actual	2011 Actual	2012 Estimate	2013 Estimate	2014 Estimate
United States					
Nominal GDP					
(year-to-year growth)	4.2%	3.9%	3.9%	4.0%	4.2%
Inflation-Adjusted GDP					
(year-to-year growth)	3.0%	1.7%	2.1%	2.1%	2.6%
Unemployment Rate	9.6%	8.9%	8.1%	7.6%	7.4%
Inflation					
Consumer Price Index					
(year-to-year growth)	1.6%	3.2%	2.2%	1.7%	1.8%
GDP Implicit Price Deflator					
(year-to-year growth)	1.2%	2.1%	1.7%	1.9%	1.6%
Interest Rates					
90-day Treasury bill	0.14%	0.05%	0.12%	0.17%	0.27%
10-year Treasury bill	3.22%	2.78%	2.18%	2.58%	2.76%
Corporate Aaa bond	4.94%	4.64%	3.95%	4.16%	4.26%
Federal funds rate	0.18%	0.10%	0.11%	0.19%	0.41%
Light Motor Vehicle Sales					
(millions of units)	11.6	12.7	14.3	14.8	15.2
Auto	5.7	6.2	7.3	7.3	7.4
Truck	5.8	6.5	7.0	7.5	7.7
Import Share	23.8%	22.9%	22.1%	22.0%	22.3%
Michigan					
Personal Income (millions)	$342,874	$360,806	$370,338	$376,583	$391,216
Year-to-year growth	3.3%	5.2%	2.6%	1.7%	3.9%
Inflation-Adjusted Personal Income (year-to-year growth)	2.5%	1.9%	0.2%	0.1%	2.3%
Wage & Salary Income					
(millions)	$173,571	$182,600	$188,164	$192,797	$197,324
Year-to-year growth	1.7%	5.2%	3.0%	2.5%	2.3%
Detroit Consumer Price Index					
(year-to-year growth)	0.8%	3.3%	2.5%	1.6%	1.6%
Wage & Salary Employment					
(thousands)	3,863.4	3,935.7	3,990.1	4,009.5	4,034.9
Year-to-year growth	(0.2%)	1.9%	1.4%	0.5%	0.6%
Unemployment Rate	12.7%	10.3%	8.6%	8.3%	8.1%

Table 2

THE SENATE FISCAL AGENCY U.S. ECONOMIC FORECAST DETAIL (Calendar Years)	2010 Actual	2011 Actual	2012 Estimate	2013 Estimate	2014 Estimate
Gross Domestic Product					
(billions of dollars)	$14,526.5	$15,094.0	$15,682.2	$16,305.7	$16,990.2
Year-to-year growth	4.2%	3.9%	3.9%	4.0%	4.2%
Inflation-Adjusted GDP and Components					
Gross Domestic Product					
(billions of 2005 dollars)	$13,088.0	$13,315.1	$13,596.5	$13,879.2	$14,233.7
Year-to-year growth	3.0%	1.7%	2.1%	2.1%	2.6%
Consumption					
(billions of 2005 dollars)	$9,220.9	$9,421.3	$9,620.9	$9,811.1	$10,030.3
Year-to-year growth	2.0%	2.2%	2.1%	2.0%	2.2%
Business Fixed Investment					
(billions of 2005 dollars)	$1,319.2	$1,435.5	$1,540.8	$1,675.6	$1,788.9
Year-to-year growth	4.4%	8.8%	7.3%	8.8%	6.8%
Change in Business Inventories					
(billions of 2005 dollars)	$58.8	$34.6	$55.2	$37.3	$46.2
Residential Investment					
(billions of 2005 dollars)	$330.8	$326.3	$359.2	$419.3	$484.2
Year-to-year growth	(4.3%)	(1.4%)	10.1%	16.8%	15.5%
Government Spending					
(billions of 2005 dollars)	$2,556.8	$2,502.7	$2,444.9	$2,399.5	$2,388.4
Year-to-year growth	0.7%	(2.1%)	(2.3%)	(1.9%)	(0.5%)
Net Exports					
(billions of 2005 dollars)	($421.8)	($413.5)	($418.1)	($433.9)	($455.9)
Exports (billions of 2005 dollars)	$1,663.2	$1,774.2	$1,859.3	$1,959.1	$2,074.0
Imports (billions of 2005 dollars)	$2,085.0	$2,187.7	$2,277.3	$2,393.0	$2,530.0
Personal Income					
(year-to-year growth)	3.7%	5.1%	3.3%	3.5%	4.9%
Adjusted for Inflation	2.0%	1.9%	1.0%	1.7%	3.1%
Wage & Salary Income					
(year-to-year growth)	2.2%	4.3%	4.3%	4.1%	4.2%
Personal Savings Rate	5.3%	4.7%	3.8%	3.3%	3.7%
Capacity Utilization Rate	73.7%	76.8%	78.9%	79.2%	79.3%
Housing Starts (millions of units)	0.587	0.609	0.717	0.939	1.166
Conventional Mortgage Rates	4.7%	4.5%	4.0%	4.3%	4.6%
Federal Budget Surplus					
(billions of dollars, NIPA basis)	($1,273.7)	($1,183.1)	($999.3)	($835.7)	($718.4)

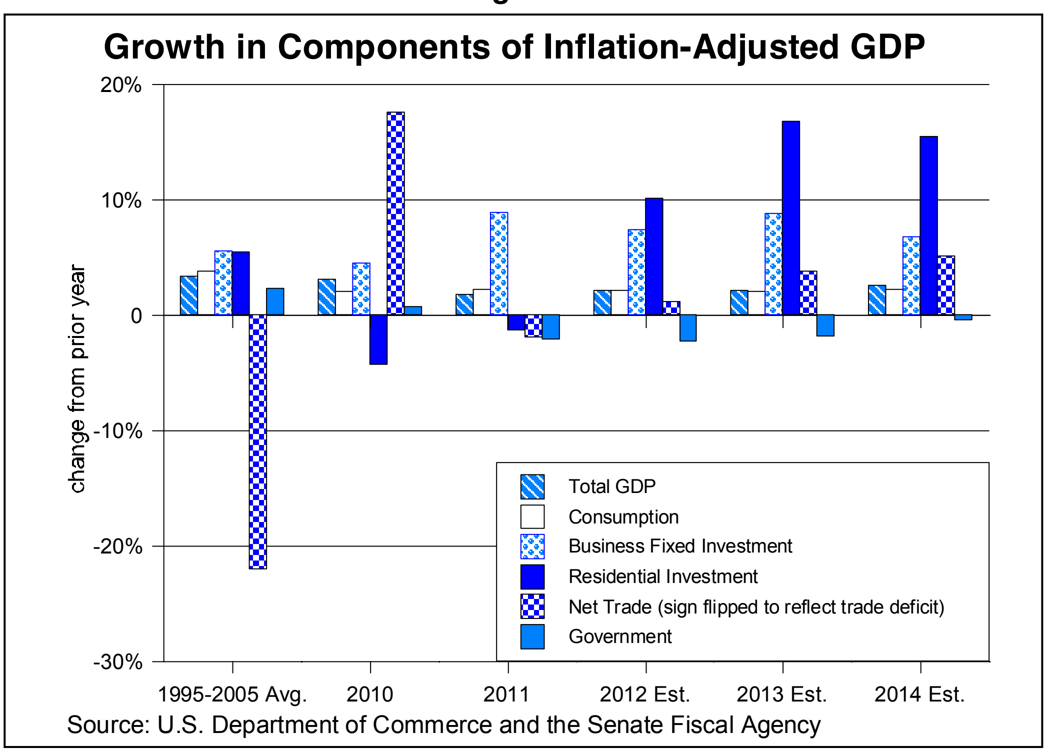
Michigan's economy spent the 2000-2010 period in recession, largely driven by the same fundamental restructuring that affected manufacturing globally. Manufacturing has experienced a significant surge in productivity, driven by increased competition in the economy. For Michigan, the effect of productivity improvements was substantial, particularly given that there was more room for improvement in the durable goods and motor vehicle manufacturing sectors than in many other sectors, that Michigan was, and remains, very disproportionately concentrated in motor vehicle manufacturing, and that the motor vehicle industries have become one of the most competitive sectors of the economy. For Michigan, those factors were complicated as General Motors, Ford, and Chrysler lost market share over most of the last decade, leaving Michigan to lose employment from both productivity and reduced demand. The impact on the Michigan economy was exacerbated by the rapid and drastic decline in automobile sales in late 2008 and during 2009, reflecting national collapses in sectors such as construction, real estate, and finance.

However, the drag from the manufacturing sector on Michigan's economy appears to have bottomed out and the recovery in vehicle sales nationally has helped Michigan's economic situation. Manufacturing employment in Michigan rose by 88,000 jobs (20.0%) between June 2009, when the U.S. recession ended, and March 2012. Employment in the transportation equipment manufacturing sector increased by 32.3% over that period, accounting for 36,300 of the manufacturing jobs Michigan gained. Michigan payroll employment declined for 12 consecutive months between July 2008 and June 2009, but has risen in 18 of the last 24 months. The unemployment rate declined from a high of 14.1% in August and September of 2009 to 10.3% in March 2011, although a portion of that decline represents the departure of individuals from the labor force.

FORECAST SUMMARY

During 2012, the U.S. economy is expected to expand at a slightly faster rate than during 2011, while the Michigan economy is expected to grow more slowly than during 2011. Michigan's economy is forecast to exhibit both income and employment growth during 2012, although the improvements will be modest. Table 1 and Table 2 provide a summary of key economic indicators from the SFA's economic forecast, with references to recent years. Inflation-adjusted GDP is projected to rise 2.1% in 2012, a rate slightly faster than the 1.7% increase in 2011. The economy will continue growing during 2013, with inflation-adjusted GDP rising another 2.1%, before increasing 2.6% in 2014. The expansion over the forecast period primarily reflects improvements in business investment, and a slow but growing recovery in residential investment that will more than offset the drag on the economy from a declining public sector (Figure 2).

Figure 2



Employment gains over the forecast will be muted, particularly compared with prior recoveries, because while productivity growth is expected to be less than what was exhibited during the last decade, consumer demand is not likely to grow much more rapidly than productivity. Furthermore, business investment is expected to continue to focus on equipment and software, which generally replaces capital for labor, although investment in structures, which represents new facilities, is also expected to exhibit significant growth. The unemployment rate is expected to decrease to 8.1% during 2012, 7.6% in 2013 and 7.4% in 2014. As has been true for the recovery so far, a meaningful portion of the improvement in the unemployment rate will reflect the departure of individuals from the labor force, rather than substantial gains in employment.

Inflation is not anticipated to be a concern over the forecast, despite the assumption of high energy prices and a decline in the value of the dollar toward the end of the forecast period. The U.S. Consumer Price Index (CPI) is anticipated to increase 2.2% in 2012, followed by increases of 1.7% in 2013 and 1.8% in 2014. Export growth is expected to be tempered by slower economic growth overseas, particularly due to a forecasted recession in Europe, and by growth in the value of the dollar. As foreign economies improve later in the forecast period, the twin gains of healthier export markets and renewed declines in the value of the dollar will improve U.S. exports. Productivity, weak domestic consumer demand, and substantial weakness in the labor market will help keep labor costs low, with unit labor costs expected to increase 1.7% in 2012, before rising only 0.4% in 2013 and 0.6% in 2014.

In Michigan, both job growth and personal income growth are expected to remain below the national average (despite outperforming the national average in both 2010 and 2011) and the historical State average, although employment is expected to exhibit its strongest performances in more than a decade (Figures 3 and 4). Inflation-adjusted personal income is projected to increase 0.2% in 2012 and 0.1% in 2013, before growing by 2.3% in 2014. Payroll employment is expected to increase 1.4% in 2012, after rising 1.9% during 2011, and then increase 0.5% in 2013 and 0.6% in 2014. Private sector gains in employment during 2012 and 2013 are expected to be partially offset by declines in public sector employment, as State and local governments experience continued budgetary problems (Figure 5). Nationally, light vehicle sales are expected to increase from 12.7 million units in 2011 to 14.3 million units in 2012, 14.8 million units in 2013, and 15.2 million units in 2014. In Michigan, higher vehicle sales, stability in the housing market, and an improved national economy are expected to allow the unemployment rate to slowly decline, from 12.7% in 2010 and 10.3% in 2011, to 8.6% in 2012, 8.3% in 2013, and 8.1% in 2014. However, as with the U.S. unemployment rate, the declines will be dominated by the withdrawal of individuals from the labor force rather than substantial job gains.

Compared with the January 13, 2012, Consensus Economic Forecast, the U.S. forecast is slightly stronger in 2012 and slightly weaker in 2013 and 2014, as is the Michigan employment forecast. However, inflation-adjusted personal income growth is expected to be weaker, reflecting weak employment growth combined with weak wage growth. Continued weakness in the housing and financial markets, combined with weak employment growth, weak income growth, and slowdowns in overseas economies will temper the pace of the U.S. and Michigan recoveries during 2012 and 2013. Improved vehicle sales and stronger profitability in Michigan's vehicle sector will provide stability to the Michigan employment situation as the government sector contracts.

Figure 3

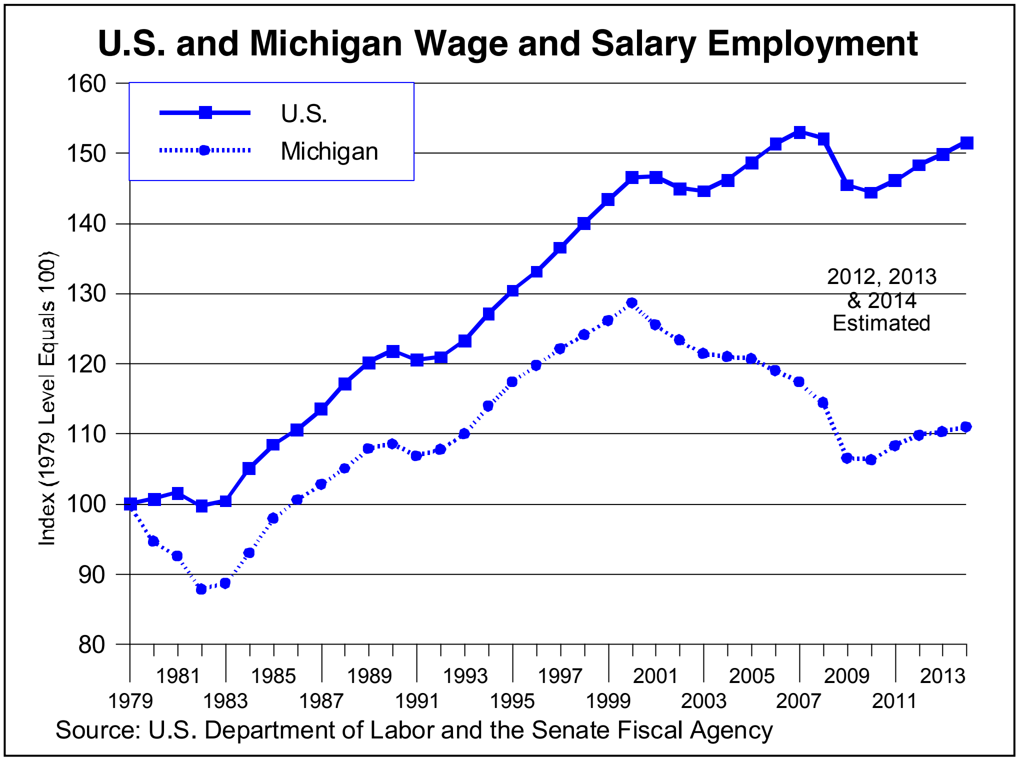


Figure 4

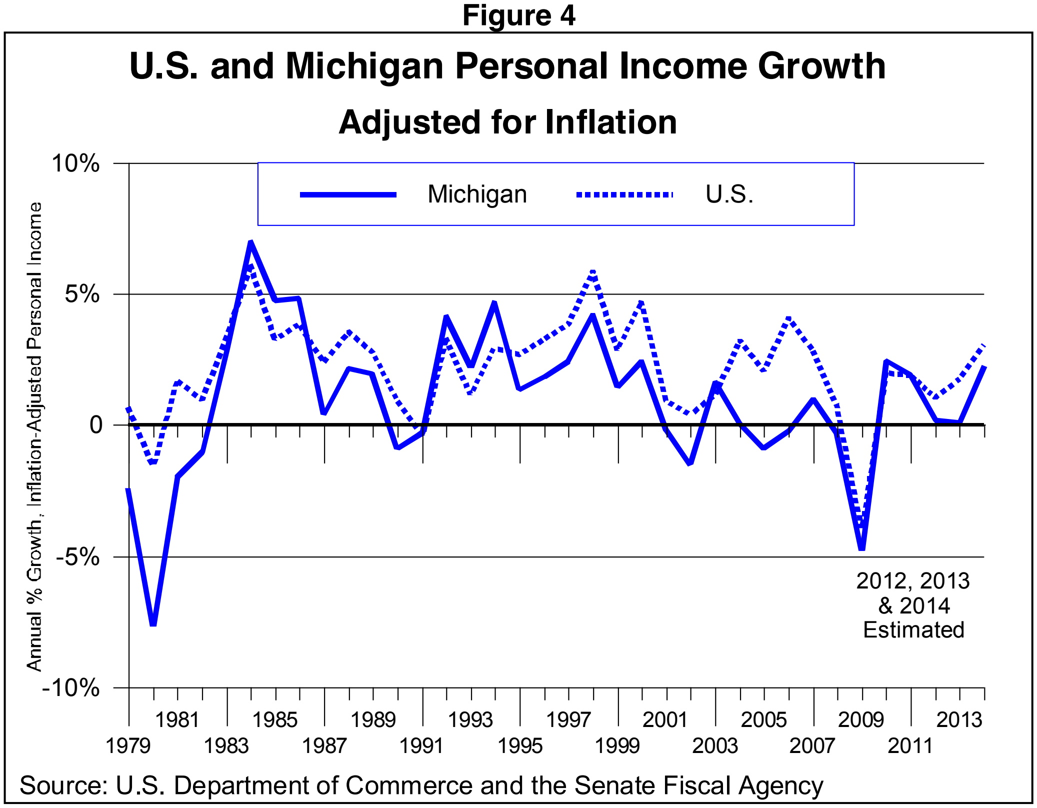
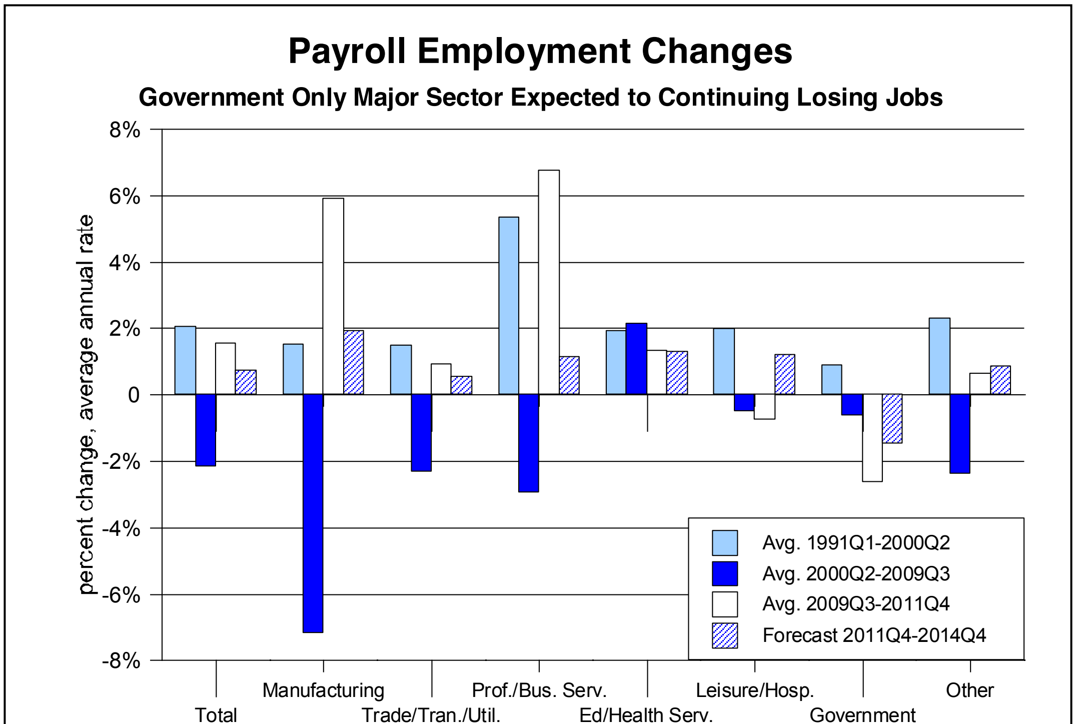


Figure 5



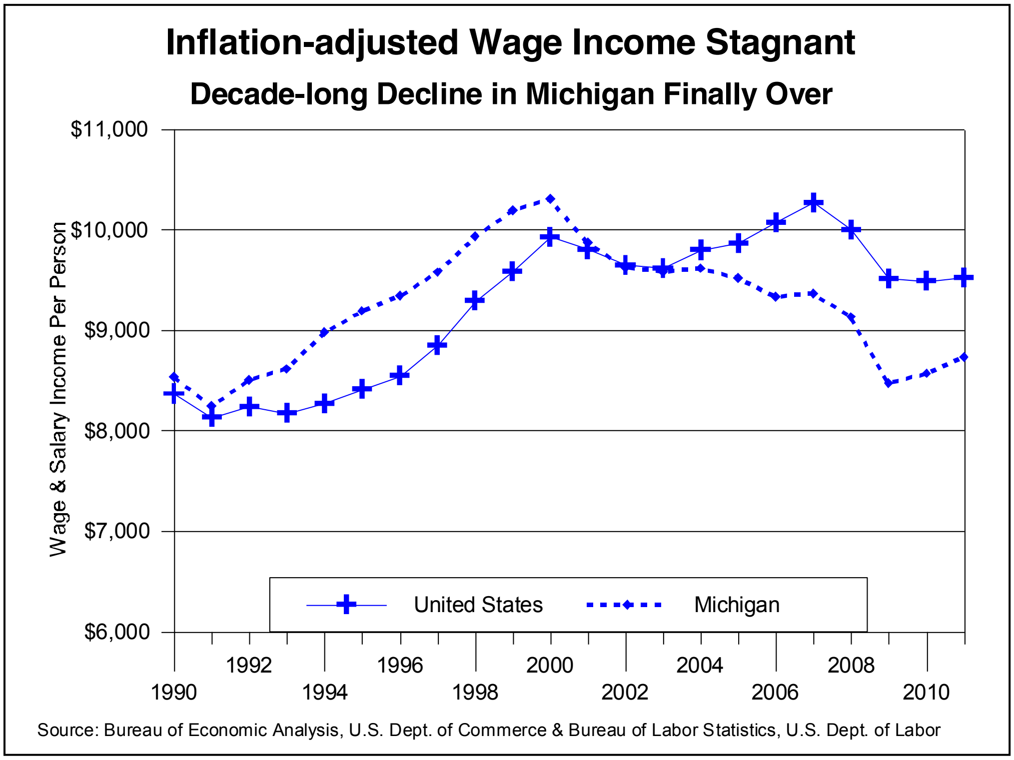
Source: Bureau of Labor Statistics, U.S. Dept. of Labor and Senate Fiscal Agency

FORECAST RISKS

Forecasting the behavior of the economy requires making assumptions about the behavior of certain key economic variables. As a result, all forecasts carry a certain amount of error. However, unexpected changes in economic fundamentals often represent the greatest source of error. The challenge for the current forecast is to determine when the economy will complete the adjustments required to exhibit consistent economic growth. Such turning points are notoriously difficult to predict and the current economic forecast faces a number of risks, with many suggesting the economic recovery could be weaker than forecasted.

Consumer Behavior. The economy of the last 30 years has been largely powered by strong growth in consumer spending. While saving rates fell and debt levels increased through the 1980s and 1990s, over much of the last decade those trends became even more magnified, despite flat or declining inflation-adjusted wages (Figure 6). Weak financial markets and declining housing prices over the last three years have induced consumers to rein in their spending. As a result, the saving rate has been significantly higher over the last 15 quarters. However, consumers will need to save at a far higher rate than this to offset their losses in home equity and in the stock market. Limited income growth and high debt burdens will impede consumers in their ability to increase saving and/or significantly reduce debt. If the saving rate improves more than expected, such as to levels experienced during the 1980s, both consumption growth and economic growth will be substantially lower. Conversely, consumers could return to their spending habits of the late 2000s and growth would be stronger than forecasted.

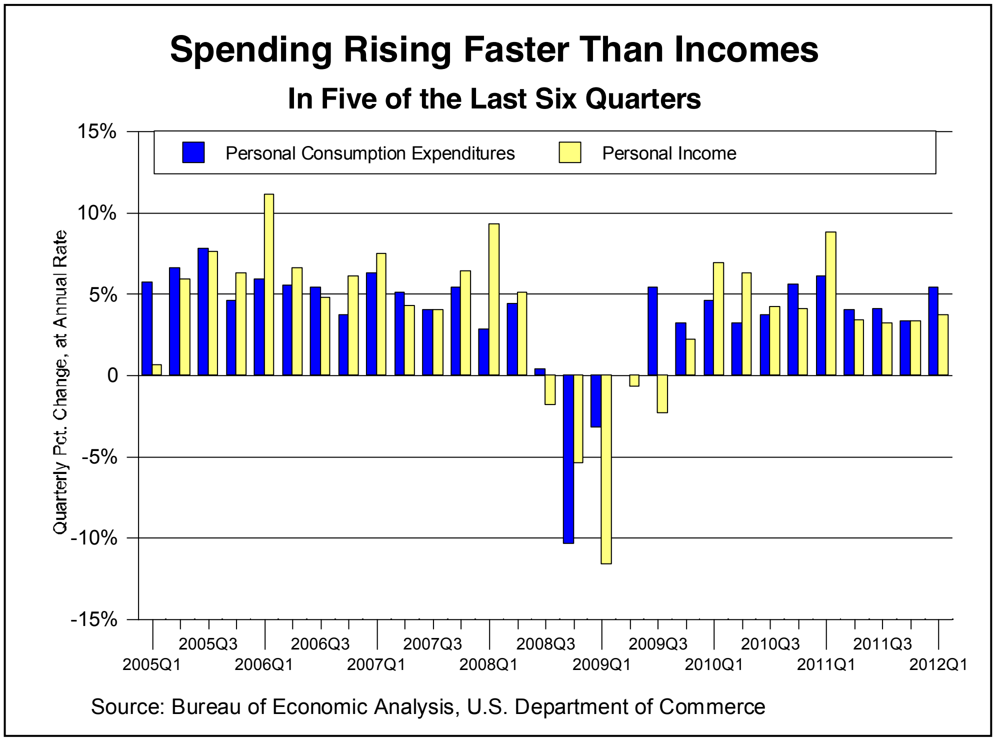
Figure 6



Historically, consumption has represented approximately 70.0% of GDP. As a result, even small deviations in consumption can have a significant impact on the economy. During the 2008-2009 recession, consumption dropped significantly: on an annual basis, it was the largest percentage decline since 1942, and the largest peacetime decline since 1938. From peak to trough, inflation-adjusted consumption spending fell 3.4% between the fourth quarter of 2007 and the second quarter of 2009, as the economy shed 6.9 million jobs. Personal income fell more slowly over that time period, declining 1.6%, indicating that consumers engaged in a large amount of precautionary saving: reducing consumption by more than accounted for by actual income changes. As consumption has improved over the last nine quarters, much of the increase is estimated to reflect delayed purchases, particularly for replacement purposes, that did not occur because of consumers' economic anxiety during the recession. As the job market has stabilized, consumers have renewed replacement consumption, but it is unclear how much actual growth in the underlying consumption trend is actually occurring. For example, despite 11 quarters of growth in consumption, personal consumption expenditures in the first quarter of 2012 were only 2.6% above the level in the fourth quarter of 2007. Despite more than 30 months of consistent growth in retail sales, March 2012 retail sales levels were only 6.8% above the level in the November 2007 peak, without adjusting for inflation. As a result, another way of looking at the question of consumer saving behavior is to examine the nature of consumer spending. If consumers make their deferred purchases and only continue spending in the near future at replacement rates, then as income grows, saving rates will rise and the economic recovery will be weaker than if consumers spent at a rate above what is necessary to meet replacement needs.

The durability of consumer spending represents the primary determinant of the accuracy of the forecast. Retail sales data indicate that a substantial portion of the gains in consumer spending during 2011 and early 2012 represented expenditures on gasoline and on motor vehicles. Gasoline prices were largely driven higher by events in the Middle East, such as the revolution in Libya, and vehicle sales have been below scrappage rates for several years. Expenditures have risen more rapidly than incomes for much of the past year (Figure 7), especially since mid-2011, and saving rates have fallen to their lowest levels since 2007. The forecast assumes that consumers will not continue this behavior. In the context of the data on consumer sentiment, the forecast assumes much of the increase in consumption during 2011 reflects a view that the gasoline price increases were largely temporary and that the economy would provide enough stability to support replacement purchases of essential durable goods that were at the end of their product life. To the extent that this perspective is not accurate and consumers assume more debt and accept lower saving rates, consumption is likely to be stronger than expected and the economy will grow more rapidly than expected.

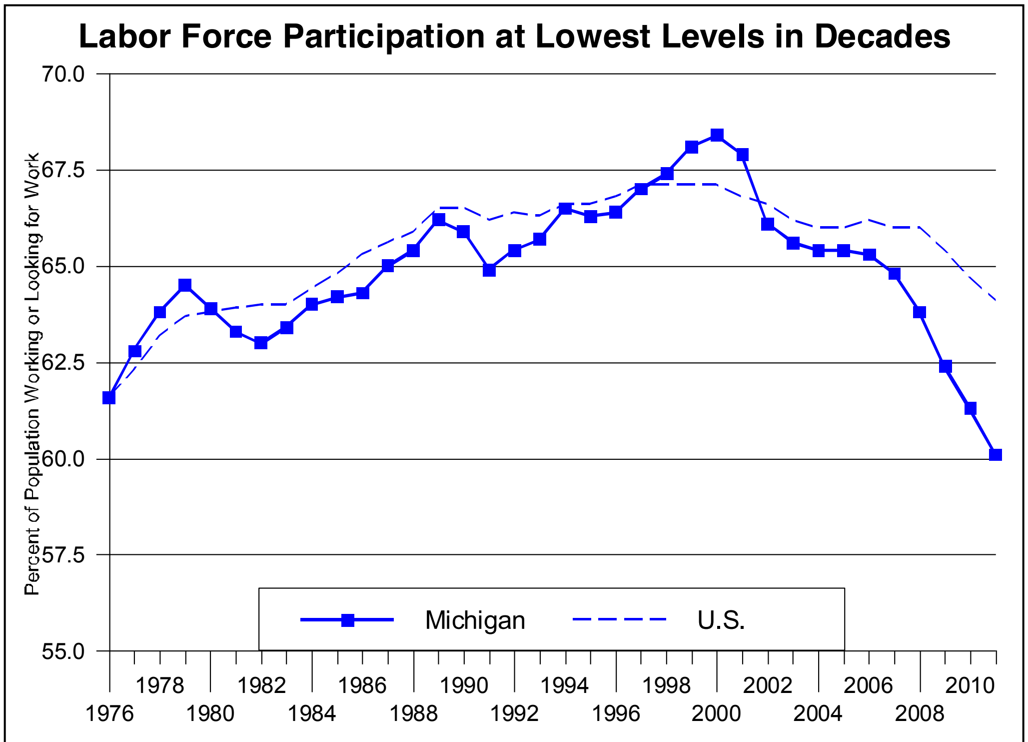
Figure 7



The Labor Market. Over the last year, Michigan has seen a marked decline in the unemployment rate, outpacing drops in the unemployment rate nationally. With the exception of a brief period in mid-2011, the Michigan unemployment rate has dropped almost every month since December 2009. With Michigan posting the first annual job gains since 2000 during 2011, the decline in the unemployment rate would appear to reflect rising employment levels. However, while job gains have helped reduce the unemployment rate, the primary factor causing the unemployment rate to decline over this period has been the withdrawal of individuals from the labor force. Individuals who have a job or are actively seeking work are counted as participating in the labor force, and the unemployment rate reflects the number of individuals who do not have a job and are actively seeking work divided by the size of the labor force.

Since the 2000 recession, labor force participation has fallen, with the steepest declines occurring over the last two years (Figure 8). Labor force participation can decline for a variety of reasons, ranging from individuals' choosing to permanently retire, to discouraged unemployed individuals' giving up searching for a job. Regardless of the reasons for their departure from the labor force, the withdrawal has implications for the economy. To the extent that such individuals remain out of the labor force, they generally face more limited income growth and reduce the pool of workers from which businesses can hire, potentially putting upward pressure on wages. On the other hand, to the extent that these individuals have only temporarily left the labor force, while they still face limited income growth, they represent a somewhat hidden group of unemployed individuals who will depress wages when the economy does begin to recover.

Figure 8



Source: Bureau of Labor Statistics, U.S. Department of Labor

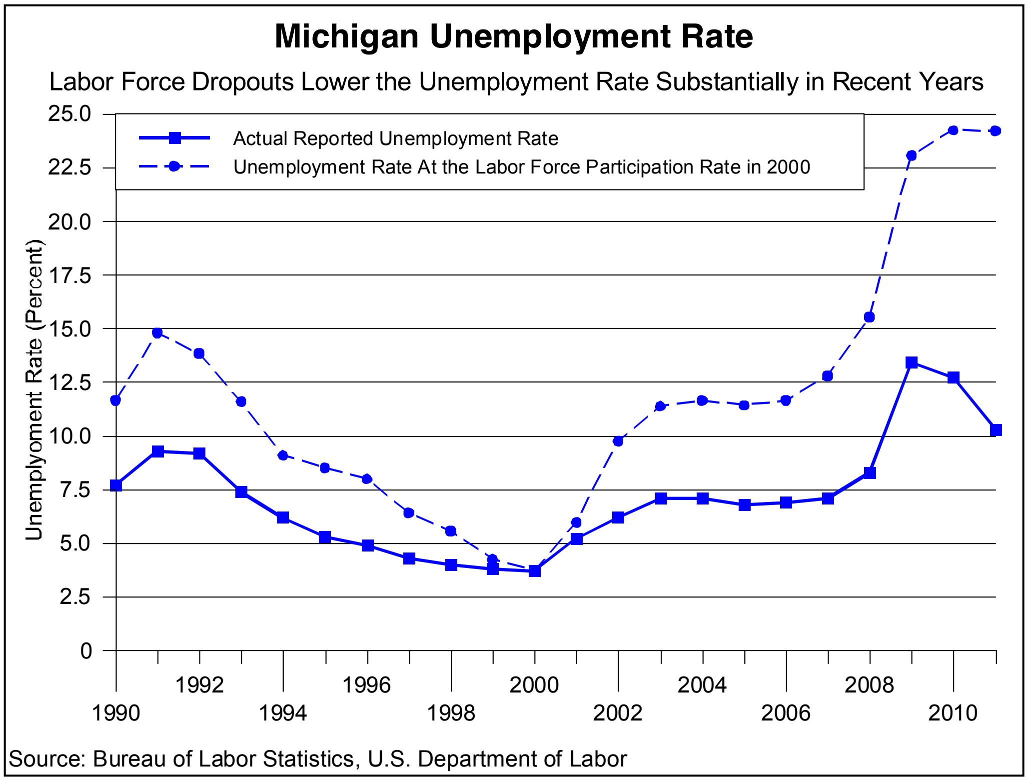
For Michigan, the pool of unemployed individuals who have left the labor force represents a substantial group. If labor force participation were at the same level it was when it peaked in 2000, given that participation would not change the number of jobs that have been created over the period, Michigan would have exhibited an unemployment rate in 2011 of more than 24.0%, rather than the officially reported 10.3% (Figure 9). In other words, if labor force participation rates in 2011 were the same as in 2000, there would have been approximately 650,000 more individuals listed as unemployed in Michigan. Unemployment rates have risen less than they would have otherwise, and declined more than they would have otherwise, as these 650,000 individuals have either lost their jobs and given up seeking employment or simply chosen not to enter the labor force at all.

How those who are not part of the labor force behave over the forecast period has important implications for the economy and the forecast. To the extent these individuals face limited incomes and reduced income growth, it depresses consumption and investment, lowering economic growth and reducing tax revenue. To the extent that these individuals enter (or re-enter) the labor force, the unemployment rate is likely to increase. To the extent these individuals find employment, it will improve the economy, but at the expense of reducing the income gains that other workers might realize from an improving economy. As a result, both nationally and in Michigan in particular, the large number of individuals who have left the labor force represent a force that may exert a substantial slowing effect on the future growth of the economy.

Michigan's Situation. While over the last 10 years Michigan's employment situation has fared worse than the national average, and, in some cases or time periods within that range, worse than any other state, Michigan's performance is not particularly inconsistent with other states' when

Michigan's economic composition is considered. Generally, states with higher manufacturing concentrations (particularly in the transportation equipment manufacturing sector) have experienced weaker job performance over the last 10 years, both because of the economic changes occurring in that sector and because of the dependence of other sectors within those states on manufacturing activity. As indicated earlier, productivity gains have made American manufacturing firms more profitable and more competitive, but have reduced the need for hiring additional employees to meet increased demand.

Figure 9



Weak markets for housing, credit, and employment, coupled with high energy prices and substantial debt burdens, are expected to exert a dragging force on any increases in demand over the forecast period. Vehicle sales are expected to remain substantially below the levels experienced over the last two decades, although the Detroit 3 share of the sales mix is expected to remain fairly stable (Figure 10). Michigan's economic fortunes historically have been very closely linked with sales of domestically produced light vehicles (Figure 11). Despite the improvement forecasted in vehicle sales, and the renewed profitability of domestic automobile manufacturers, much of the additional demand can be met with existing employees, and low capital costs combined with meaningful productivity growth mean few incentives to increase hiring significantly. As a result, although as of June 2009, Michigan had lost more than two-thirds of the jobs (68.2%, a decline of approximately 241,300 jobs) in transportation equipment manufacturing that existed at the May 2000 peak, the majority of those jobs will never return and any gains in employment in the near future are likely to be muted. As identified in versions of this report prepared for earlier forecasts, even with something approximating normal employment growth in Michigan, it is unlikely that Michigan will reach the level of total employment reported in April 2000 (the pre-recession peak) again for decades.

Figure 10

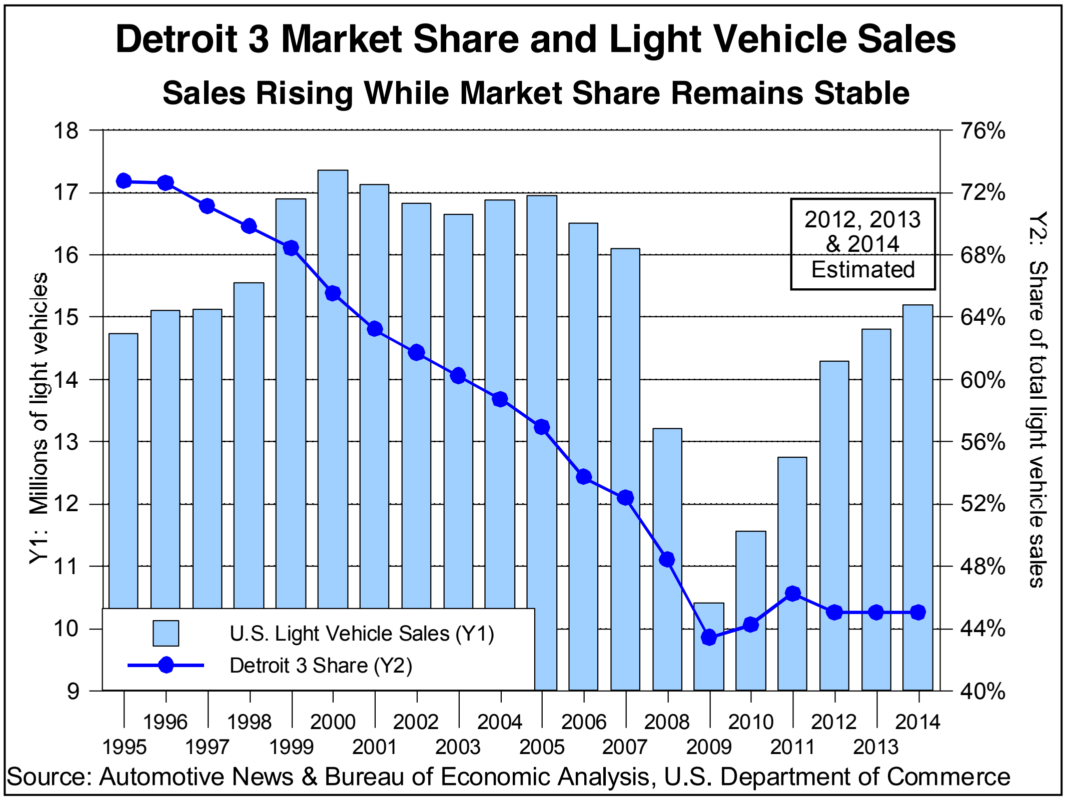
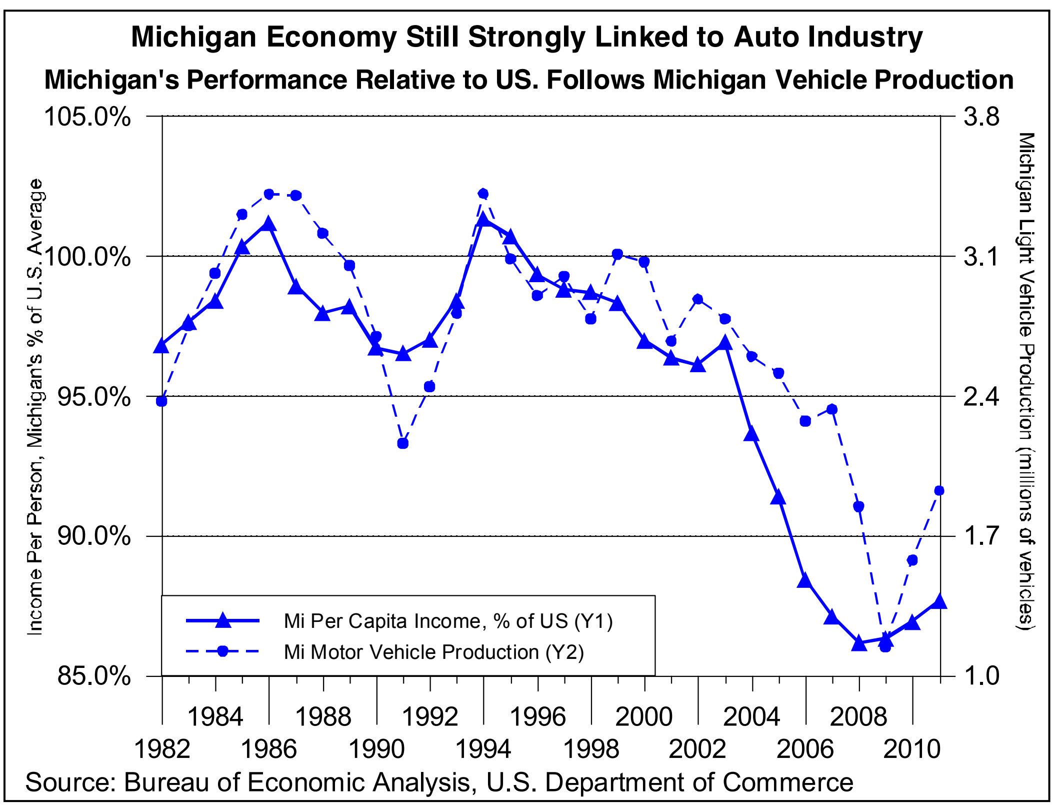


Figure 11



The forecast expects employment levels in the transportation equipment manufacturing sector to increase slightly through 2012, 2013, and 2014. Overall employment in Michigan is expected to grow slightly, with many of the employment gains in 2012 and 2013 largely offset by declines in State and local government employment. However, for both the economy and State tax revenue to improve markedly, more substantial employment gains in the economy as a whole will need to occur. While increased profitability in the vehicle industry has stabilized much of the Michigan economy, significant and sustained growth is unlikely to occur until a meaningful recovery occurs in both the financial sector and the housing industry, and consumers have improved their debt-to-income ratios. These changes, which are expected to take years, will need to occur at both the national and statewide levels before Michigan will experience economic growth on a sustained basis.

FORECAST FOR STATE REVENUE

THE FORECAST FOR STATE REVENUE

This section of the Economic Outlook and Budget Review presents the Senate Fiscal Agency's (SFA's) estimates for General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue. The revised estimates for FY 2011-12, FY 2012-13, and FY 2013-14 are presented. The revenue estimates for each of these fiscal years include the estimates for baseline revenue, which measures what the revenue would be without any changes in the State's tax structure, and net revenue, which equals baseline revenue adjusted for the impact of all enacted tax changes. In addition, these revenue estimates represent the revenue generated from ongoing revenue sources and generally do not include any revenue included in the GF/GP or SAF budget from one-time revenue adjustments, transfers, or other nonrecurring revenue items. Any one-time revenue adjustments and transfers used to balance the GF/GP and SAF budgets in FY 2011-12, FY 2012-13, and FY 2013-14 are discussed in the last section of this report.

REVENUE OVERVIEW

The revised estimates for FY 2011-12, FY 2012-13, and FY 2013-14 are presented in Table 3 and are summarized below.

FY 2011-12 Revised Revenue Estimate

- GF/GP and SAF revenue is expected to total $20.0 billion in FY 2011-12.
- This revised estimate for FY 2011-12 is down 0.3% or $58.8 million from the final revenue for FY 2010-11.
- In FY 2011-12, increased revenue from higher economic activity is more than offset by negative impacts from changes in business taxes and the absence of certain one-time revenue sources from FY 2010-11.
- The revenue projected for FY 2011-12 marks the first decrease in revenue since FY 2008-09.
- The revised estimate for FY 2011-12 is $208.1 million above the January 2012 consensus revenue estimate.

FY 2012-13 Revised Revenue Estimate

- GF/GP and SAF revenue is expected to total $20.1 billion in FY 2012-13.
- This revised estimate for FY 2012-13 is up 0.3% or $65.4 million from the revised estimate for FY 2011-12.
- While the revenue increase in FY 2012-13 reflects improvements in the level of economic activity, the increases are reduced by substantial negative impacts associated with changes in business taxes. However, unlike in FY 2011-12, the negative impacts do not exceed the gains.
- The revised estimate for FY 2012-13 is $22.0 million below the January 2012 consensus revenue estimate.

FY 2013-14 Revised Revenue Estimate

- GF/GP and SAF revenue is expected to total $20.6 billion in FY 2013-14.
- This initial estimate for FY 2013-14 is up 2.5% or $511.4 million from the revised estimate for FY 2012-13.
- As in FY 2012-13, the revenue increase in FY 2013-14 reflects improvements in the level of economic activity, although substantial negative impacts from changes in business taxes still reduce revenue.
- The revised estimate for FY 2013-14 is $16.4 million below the January 2012 consensus revenue estimate.

Historical Perspective

- Net GF/GP and SAF revenue increased 8.5% in FY 2010-11 and is forecasted to decline 0.3% in FY 2011-12 before growing 0.3% in FY 2012-13 and 2.5% in FY 2013-14. These changes compare with an average decline of 1.1% per year for the FY 1999-2000 to FY 2009-10 period.
- The revised estimate for GF/GP revenue from ongoing sources in FY 2011-12 is 14.9% ($1.6 billion) below the FY 1999-2000 level and 12.1% below the record peak reached in FY 2007-08. By FY 2013-14, ongoing GF/GP revenue will remain nearly $1.5 billion below the FY 1999-2000 level and approximately $1.2 billion below the level in FY 2007-08.
- In FY 2010-11, School Aid Fund revenue from ongoing sources is estimated to be 10.4% ($1.0 billion) more than in FY 1999-2000, but 5.2% ($598.9 million) below the FY 2007-08 peak. By FY 2013-14, ongoing SAF revenue will be $1.5 billion over the level in FY 1999-2000, but $90.6 million below the FY 2007-08 peak.

The FY 2010-11 increase in GF/GP and SAF revenue measured in terms of both baseline revenue and net revenue from ongoing sources was the strongest increase in over a decade. Figure 12 presents the percentage changes in baseline GF/GP and SAF revenue from FY 1986-87 through the initial estimate for FY 2013-14. During this 27-year period, GF/GP and SAF baseline revenue declined during three periods of time: FY 1990-91, three consecutive fiscal years beginning in FY 2000-01, and FY 2008-09 and FY 2009-10. The decline in FY 1990-91 was 2.7% and the total decline from FY 2000-01 through FY 2002-03 was about 3.8%. While these declines in baseline revenue caused serious budgetary problems, they represent relatively small revenue declines compared with the 9.1% decline in FY 2008-09 and the additional 2.1% decline in FY 2009-10. After rising 9.3% in FY 2010-11, GF/GP and SAF baseline revenue is estimated to increase 5.8% in FY 2011-12, 1.8% in FY 2012-13, and 2.9% in FY 2013-14.

Figure 12

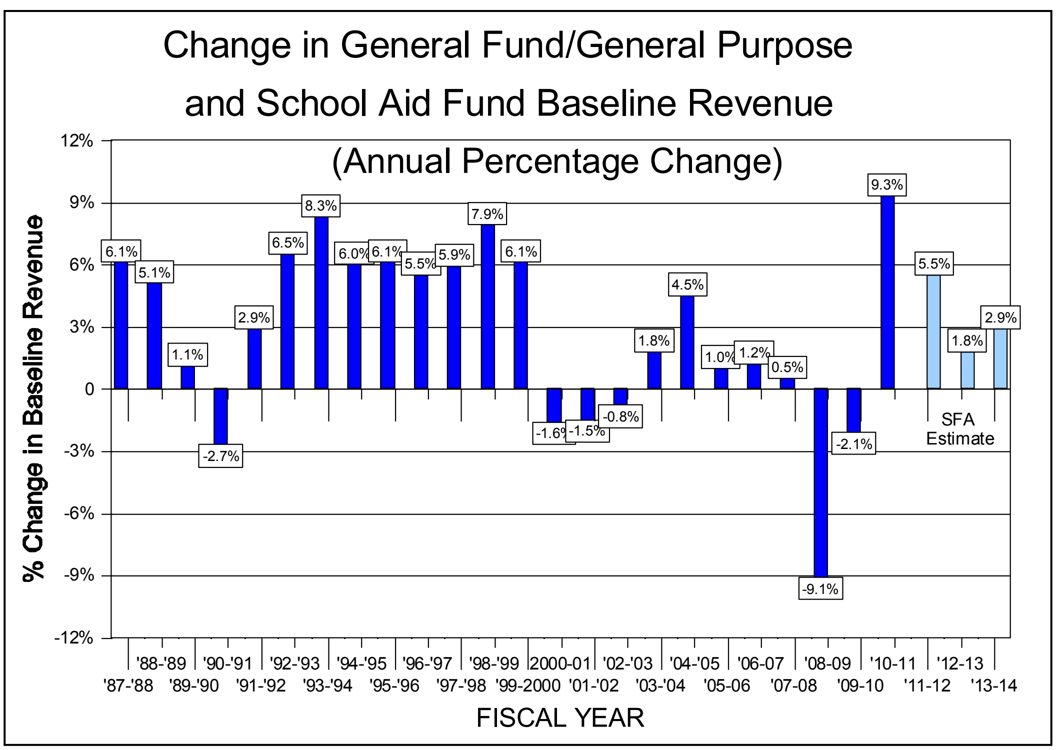


Table 3

SENATE FISCAL AGENCY REVENUE ESTIMATES FOR FY 2010-11 THROUGH FY 2013-14 GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (Millions of Dollars)				
	FY 2010-11 Final	**FY 2011-12 Revised Est.**	**FY 2012-13 Revised Est.**	**FY 2013-14 Initial Est.**
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue	$8,604.1	$9,355.5	$9,538.8	$9,866.2
Tax Changes Not In Baseline	208.9	(267.2)	(610.4)	(709.4)
Revenue After Tax Changes:				
Net Income Tax	4,444.8	4,816.4	5,599.2	5,778.8
MBT, Corp. Income Tax, SBT, & Insurance Tax	1,617.8	1,565.1	628.0	620.5
Other Taxes	2,211.7	2,249.0	2,329.5	2,401.7
Total Taxes	8,274.3	8,670.6	8,598.7	8,844.3
Nontax Revenue	538.7	417.7	329.7	312.5
TOTAL GF/GP REVENUE	**$8,813.0**	**$9,088.3**	**$8,928.4**	**$9,156.8**
SCHOOL AID FUND				
Baseline SAF	$11,260.5	$11,652.4	$11,852.6	$12,135.2
Tax Changes Not In Baseline	(12.4)	(738.4)	(713.3)	(713.0)
TOTAL SAF REVENUE	**$11,248.1**	**$10,914.0**	**$11,139.3**	**$11,422.2**
BASELINE GF/GP AND SAF REVENUE	$19,864.6	$21,007.9	$21,391.4	$22,001.4
Tax & Revenue Changes	196.5	(1,005.6)	(1,323.7)	(1,422.4)
GF/GP & SAF REV. AFTER CHANGES	**$20,061.1**	**$20,002.3**	**$20,067.7**	**$20,579.0**
ADDENDUM:				
Sales Tax	$6,709.0	$7,079.5	$7,211.1	$7,395.0
	PERCENT CHANGE			
GENERAL FUND/GENERAL PURPOSE				
Baseline Revenue	13.0%	8.7%	2.0%	3.4%
Revenue After Tax Changes:				
Net Income Tax	20.3	8.4	16.3	3.2
MBT, Corp. Income Tax, SBT, & Insurance Tax	16.0	(3.3)	(59.9)	(1.2)
Other Taxes	(0.3)	1.7	3.6	3.1
Total Taxes	13.2	4.8	(0.8)	2.9
Nontax Revenue	44.8	(22.5)	(21.1)	(5.2)
TOTAL GF/GP REVENUE	**14.8%**	**3.1%**	**(1.8%)**	**2.6%**
SCHOOL AID FUND				
Baseline SAF	3.9	3.5	1.7	2.4
TOTAL SAF REVENUE	**4.0%**	**(3.0%)**	**2.1%**	**2.5%**
BASELINE GF/GP AND SAF REVENUE	9.3	5.8	1.8	2.9
GF/GP & SAF REV. AFTER CHANGES	**8.5%**	**(0.3%)**	**0.3%**	**2.5%**
ADDENDUM:				
Sales Tax	8.6%	5.5%	1.9%	2.6%

Figure 13 compares actual FY 1995-96 through estimated FY 2013-14 GF/GP revenue and SAF revenue from ongoing sources with their respective levels for each of the fiscal years since the Proposal A school finance tax reforms were put in place. General Fund/General Purpose revenue peaked in FY 1999-2000 and then declined for three consecutive years due to a faltering economy and cuts to the income tax and the Single Business Tax (SBT). In FY 2007-08, GF/GP revenue jumped to $9.3 billion due to the increase in the income tax rate and the adoption of, and subsequent increase in, the Michigan Business Tax (MBT). The significant decline in GF/GP revenue experienced during FY 2008-09 and FY 2009-10, due to the 2008-09 recession, reduced GF/GP revenue to its lowest level since FY 1987-88, as shown in Figure 14. Despite the growth estimated over most of the forecast period, ongoing GF/GP revenue in FY 2013-14 will be approximately 2.0% (or $185.1 million) below the FY 1996-97 level (without accounting for inflation), and 7.0% (or $625.7 million) below the FY 1967-68 level if adjusted for inflation. In sharp contrast to the path GF/GP revenue has taken during this period, SAF-earmarked revenue has been on a fairly smooth upward trend, even though the economic downturn reduced SAF revenue in FY 2008-09 and FY 2009-10. Ongoing SAF revenue is expected to grow consistently through the forecast period, except for a significant decline during FY 2011-12 due to tax policy changes. In FY 2013-14, SAF revenue is predicted to be approximately 54.5% above the revenue level in FY 1995-96 (without accounting for inflation) and 13.4% (or $1.6 billion) below if adjusted for inflation, as shown in Figure 15.

Figure 13

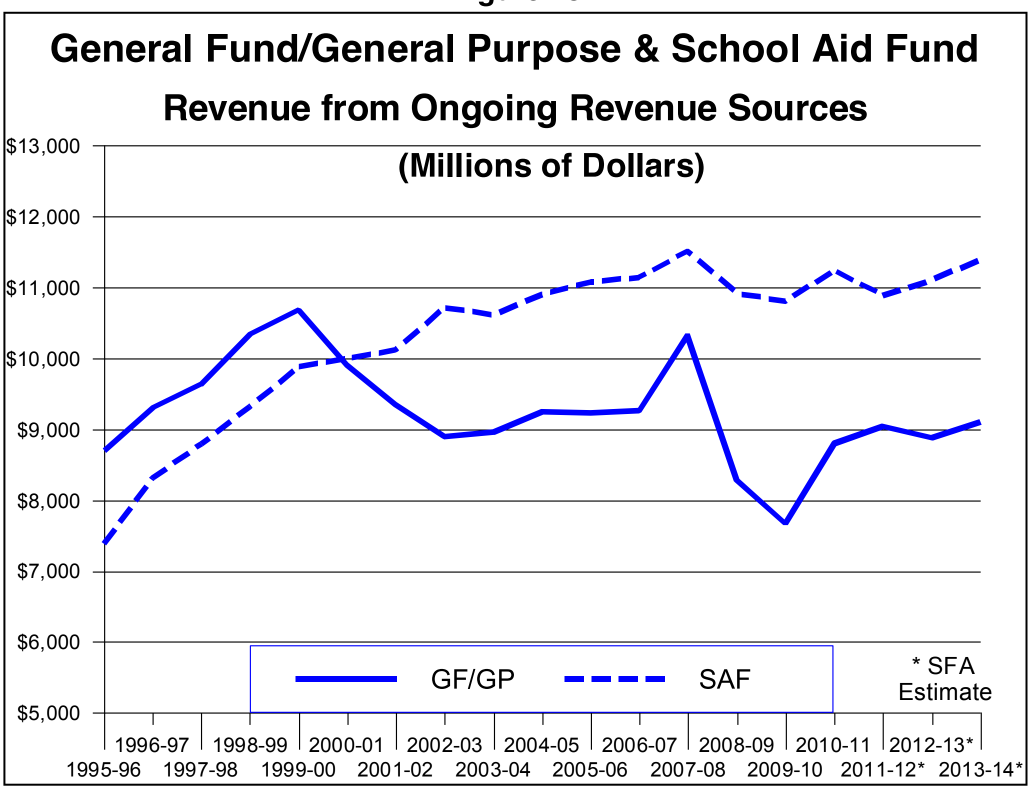


Figure 14

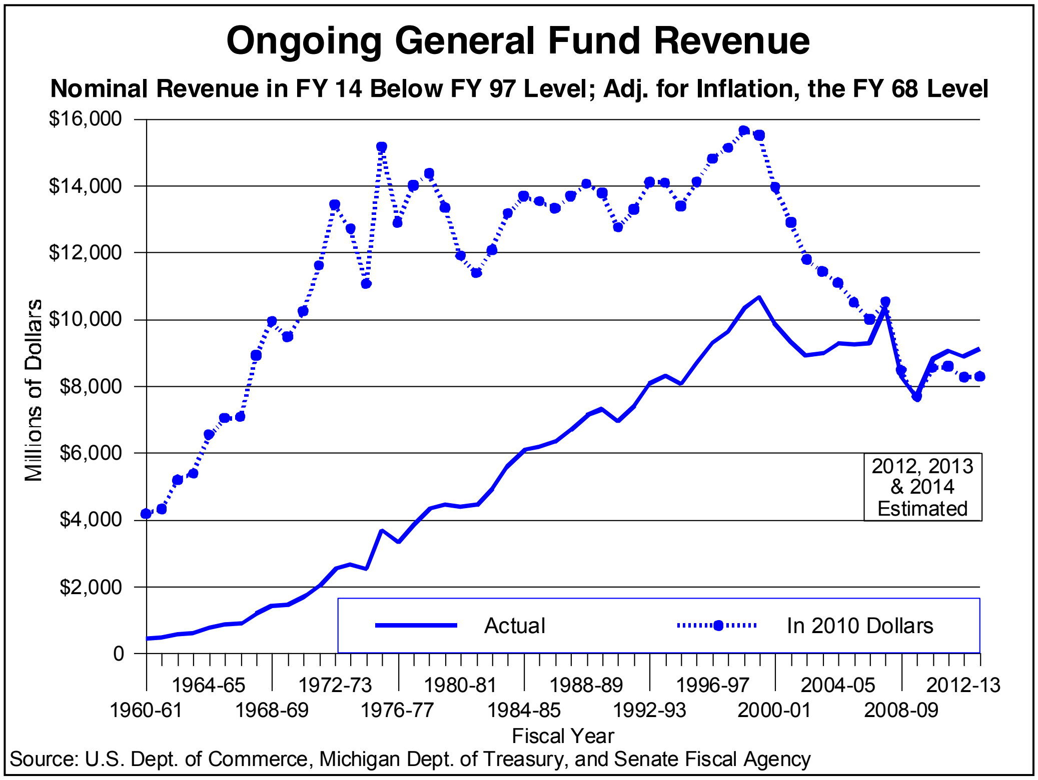
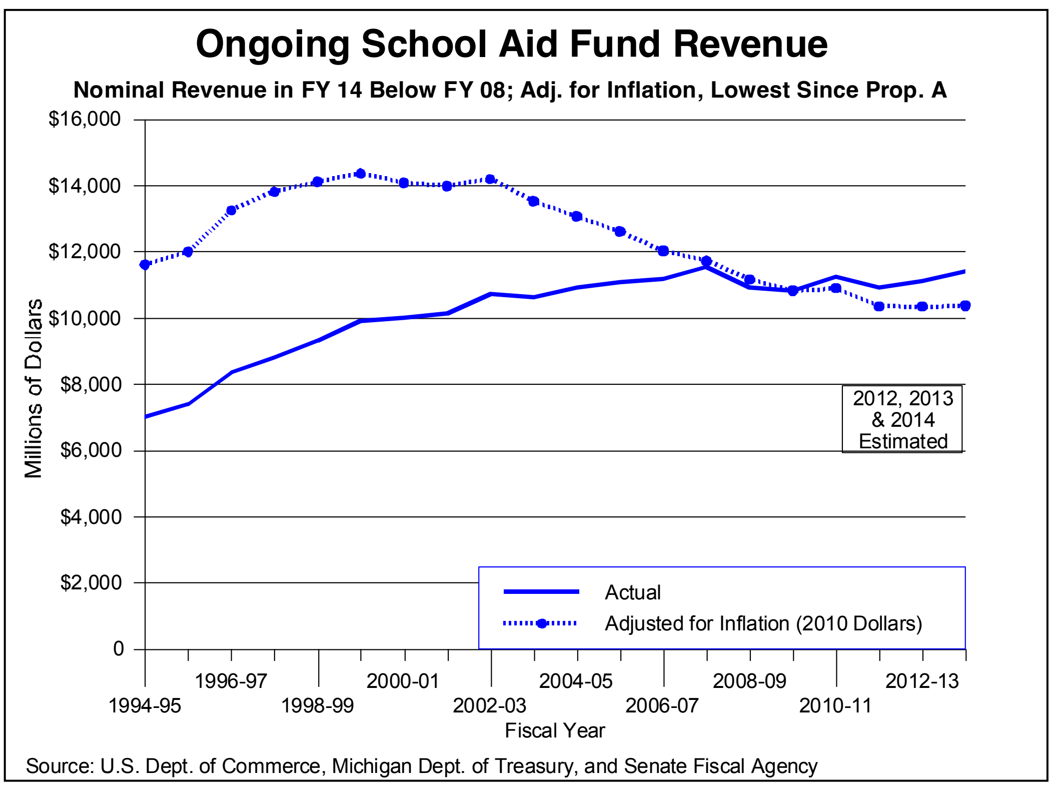


Figure 15



FY 2011-12 REVISED REVENUE ESTIMATES

- General Fund/General Purpose and SAF revenue will total an estimated $20.0 billion in FY 2011-12, which is down 0.3% or $58.8 million from final revenue for FY 2010-11.
- The revised estimate for FY 2011-12 is $208.1 million above the January 2012 consensus estimate.

Economic activity in Michigan is expected to grow more slowly during FY 2011-12, so while baseline GF/GP and SAF revenue will rise, the growth will be less than experienced during FY 2010-11. In addition, several tax policy changes will reduce FY 2011-12 revenue, as discussed below. The revised estimates for FY 2011-12 GF/GP and SAF revenue are summarized in Table 4.

Tax Policy Changes

Several tax policy changes are expected to alter revenue during FY 2011-12, with the most significant impacts coming from modifications enacted in 2011 to the individual income tax and the replacement of the MBT with a Corporate Income Tax (CIT). Furthermore, despite the repeal of the MBT, several MBT credits enacted in earlier years will begin to reduce revenue during FY 2011-12.

Income Tax Reform. Legislation adopted in May 2011 made fundamental alterations to the Michigan individual income tax. The changes included postponing or eliminating scheduled rate reductions, expanding the tax base by eliminating many deductions and exemptions, and repealing or reducing a large number of credits. The combined effect of these changes is expected to increase individual income tax revenue in FY 2011-12 by approximately $523.1 million, of which $473.0 million is expected to be directed to the General Fund.

Business Tax Changes. Coincidentally with the modifications adopted for the individual income tax, the legislation also repealed the MBT effective January 1, 2012, and replaced it with a Corporate Income Tax. The CIT taxes a narrower base and fewer firms, and thus is expected to generate substantially less revenue than generated by the MBT. Therefore, revenue during FY 2011-12 will be lowered by the loss of three quarters of a year of estimated MBT payments, and the three quarters of CIT estimated payments are expected to replace less than a third of the lost revenue.

The legislation also provided for certain credits that had been awarded under the MBT to continue to be claimed, under an "option" tax. This option allows taxpayers to continue to claim those credits if they continue to file under the MBT. The option reduces revenue significantly, beginning in FY 2011-12, because between 2008 and 2010, various special credits were enacted to subsidize certain types of manufacturing activity, including photovoltaic cells, polycrystalline silicon, and certain high-power energy batteries. During FY 2010-11, only the photovoltaic credit exhibited an impact, reducing MBT revenue by approximately $1.5 million. In FY 2011-12, the value of these credits is expected to increase, reducing revenue by an estimated $47.5 million. The combined effect of the elimination of the MBT, the new CIT, the increased business tax credits, and the other legislative changes to business taxes is to lower FY 2011-12 revenue by $1.3 billion.

Long-Term Impact of Other FY 2010-11 Tax Policy Changes. Public Act 198 of 2010 enacted a tax amnesty from May 15, 2011, through June 30, 2011, for taxes due before January 1, 2010. While the amnesty increased revenue during FY 2010-11, the amnesty also will reduce revenue collections in later years, particularly during FY 2011-12. Michigan also enacted changes to the State's laws regarding unclaimed property, altering the applicable dormancy period for many types of property to be considered abandoned and accelerating when the State would receive the property. As a result, the State collected an additional $175.4 million during FY 2010-11, and is expected to receive an additional $35.0 million during FY 2011-12. Similar to the issue with the tax amnesty, a portion of these increases represents property that the State would have received in later fiscal years. As a result, the changes are expected to reduce revenue by approximately $35.0 million per year during FY 2012-13 and FY 2013-14. The combination of these two policies results in a revenue impact that swings from a $215.8 million increase in FY 2010-11 to a $16.4 million reduction in FY 2011-12, a drop of $199.4 million. By FY 2012-13, the changes result in a net loss of $45.8 million, down $261.6 million from FY 2010-11 and $62.2 million from FY 2011-12.

General Fund/General Purpose Revenue

- General Fund/General Purpose revenue will total an estimated $9.1 billion in FY 2011-12, an increase of 3.1% or $275.3 million from FY 2010-11.
- The revised GF/GP estimate is $57.8 million above the January 2012 consensus revenue estimate.

Modest economic growth during 2012 will result in higher tax collections during FY 2011-12, although the increases will not be as strong as in FY 2010-11. Growth in GF/GP revenue is expected to primarily reflect growth in sales tax revenue, higher income tax withholding, and strong growth in MBT payments, as well as an expected 0.7% decline in individual income tax refunds. The revised GF/GP revenue estimate for FY 2011-12 is summarized in Table 4.

School Aid Fund

- School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $10.9 billion in FY 2011-12, which is down 3.0% or $334.1 million from FY 2010-11.
- This revised SAF revenue estimate for FY 2011-12 is $150.3 million above the January 2012 consensus revenue estimate.

The projected 3.0% decrease in SAF revenue in FY 2011-12 almost exclusively reflects the tax reform legislation that repealed the MBT and its earmark of revenue to the SAF. Continued weakness in the housing market also is expected to result in net declines in revenue from the State Education Tax and the real estate transfer tax. Revenue from the State Education Tax is expected to decrease 2.0% while revenue from the real estate transfer tax will decline 1.4%. A portion of these declines is offset by strong growth in sales tax revenue. The revised SAF revenue estimate for FY 2011-12 is summarized in Table 4.

Table 4

FY 2011-12 REVISED REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (Millions of Dollars)					
			Change from FY 2010-11		
	FY 2010-11 Final	FY 2011-12 Revised Est.	Dollar Change	Percent Change	$ Change from 01/12 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue[1)]	$8,604.1	$9,355.5	$751.4	8.7%	$277.4
Tax Changes Not In Baseline	208.9	(267.2)	(476.1)	---	(219.6)
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	8,545.4	9,021.5	476.1	5.6	(51.5)
Less: Refunds	(2,127.1)	(2,111.7)	15.4	(0.7)	(70.6)
Net Income Tax Collections	6,418.3	6,909.8	491.5	7.7	(122.1)
Less: Earmarking to SAF	(1,972.5)	(2,092.4)	(119.9)	6.1	12.0
Campaign Fund	(1.0)	(1.0)	0.0	0.0	0.0
Net Income Tax to GF/GP	4,444.8	4,816.4	371.6	8.4	(110.1)
Other Taxes					
Michigan Business Tax	1,344.0	798.3	(545.7)	(40.6)	161.0
Corporate Income Tax	0.0	485.6	485.6	---	0.0
Sales	1,066.7	1,108.3	41.6	939.5	23.6
Use	734.0	789.9	55.9	7.6	(9.5)
Cigarette	195.7	193.8	(1.9)	(4.9)	4.5
Insurance Company Premiums	271.2	305.6	34.4	12.7	23.6
Telephone & Telegraph	56.1	57.0	0.9	1.6	0.0
Oil & Gas Severance	59.8	60.9	1.1	1.8	(1.3)
All Other	102.0	54.8	(47.2)	(46.3)	(30.0)
Subtotal Other Taxes	3,829.5	3,854.2	24.7	0.6	171.9
Total Nontax Revenue	538.7	417.7	(121.0)	(22.5)	(4.0)
GF/GP REV. AFTER TAX CHANGES	**$8,813.0**	**$9,088.3**	**$275.3**	**3.1%**	**$57.8**
SCHOOL AID FUND:					
Baseline Revenue[1)]	$11,260.5	$11,652.4	$391.9	3.5%	$159.7
Tax Changes Not In Baseline	(12.4)	(738.4)	(726.0)	---	(9.3)
Revenue After Tax Changes					
Sales Tax	4,878.6	5,148.2	269.6	5.5	143.4
Use Tax	367.0	395.0	28.0	7.6	(4.7)
Lottery Revenue	727.2	767.2	40.0	5.5	47.2
State Education Property Tax	1,845.0	1,807.9	(37.1)	(2.0)	(12.1)
Real Estate Transfer Tax	123.1	121.4	(1.7)	(1.4)	(11.5)
Michigan Business Tax	739.2	0.0	(739.2)	(100.0)	0.0
Income Tax	1,845.0	2,092.4	247.4	13.4	(12.0)
Casino Tax	114.0	112.6	(1.4)	(1.2)	(1.1)
Other Revenue	609.0	469.4	(139.6)	(22.9)	1.2
SAF REV. AFTER TAX CHANGES	**$11,248.1**	**$10,914.0**	**($334.1)**	**(3.0%)**	**$150.3**
BASELINE GF/GP AND SAF	19,864.6	21,007.9	1,143.3	5.8	437.1
Tax & Revenue Changes	196.5	(1,005.6)	(1,202.1)	---	(228.9)
GF/GP & SAF REV. AFTER CHANGES	**$20,061.1**	**$20,002.3**	**($58.8)**	**(0.3%)**	**$208.1**
Sales Tax	$6,709.0	$7,079.5	$370.5	5.5%	$195.6

[1)] FY 2010-11 is the base year for baseline revenue.

FY 2012-13 REVISED REVENUE ESTIMATES

- Total GF/GP and SAF revenue will reach an estimated $20.1 billion in FY 2012-13, an increase of 0.3% or $65.4 million from the revised estimate for FY 2011-12.
- The revised estimate for FY 2012-13 is $22.0 million below the January 2012 consensus estimate.

The level of economic activity in Michigan is expected to slow slightly from the FY 2011-12 level during FY 2012-13, although the economy is still expected to exhibit growth. However, the effect of this economic growth on tax revenue will continue to be offset by significant tax policy changes for FY 2012-13 that reduce GF/GP and SAF revenue. On a baseline basis, GF/GP and SAF revenue is expected to increase 1.8% in FY 2012-13, reflecting modest improvements in the level of State economic activity. The revised estimate of GF/GP and SAF revenue for FY 2012-13 is summarized in Table 5.

Tax Policy Changes

As in FY 2011-12, several tax policy changes are expected to reduce revenue during FY 2012-13, with the most significant reductions coming from substantial increases in business tax credits and the full-year impact of the tax reform legislation. A portion of the tax reform legislation also is expected to significantly increase individual income tax revenue.

Income Tax Reform. The combined effect of legislation adopted in May 2011 is expected to increase individual income tax revenue by approximately $1.4 billion in FY 2012-13, of which $1.2 billion is expected to be directed to the General Fund.

Business Tax Changes. As discussed above, the 2011 legislation also repealed the MBT effective January 1, 2012, replaced it with a Corporate Income Tax, and provided for certain credits that had been awarded under the MBT to continue to be claimed, under an "option" tax. By FY 2012-13, the photovoltaic credit, polycrystalline silicon credit, and battery credits are expected to reduce revenue by $297.0 million, with all of the impact reducing GF/GP revenue. The combined effect of the elimination of the MBT, the new CIT, the increased business tax credits, and the other legislative changes to business taxes is to lower FY 2012-13 revenue by $1.9 billion.

Long-Term Impact of Other FY 2010-11 Tax Policy Changes. While the long-term effects of the tax amnesty are expected to have largely dissipated by FY 2012-13, the changes to the treatment of unclaimed property are predicted to continue to affect revenue in FY 2012-13. While the changes were expected to generate $35.0 million during FY 2011-12, the changes are expected to decrease GF/GP revenue in FY 2012-13 by approximately $35.0 million, a net swing of $70.0 million.

General Fund/General Purpose Revenue

- General Fund/General Purpose revenue will total an estimated $8.9 billion in FY 2012-13, a decline of 1.8% or $159.9 million from the revised estimate for FY 2011-12.
- The revised GF/GP estimate is $106.4 million below the January 2012 consensus revenue estimate.

Baseline GF/GP revenue is expected to increase 2.0%, but the impact of the tax reform legislation is expected to more than offset the revenue gain from the improving economy. The revised GF/GP revenue estimates for FY 2012-13 are summarized in Table 5.

Table 5

FY 2012-13 REVISED REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (Millions of Dollars)					
			Change from FY 2011-12		
	FY 2011-12 Revised Est.	FY 2012-13 Revised Est.	Dollar Change	Percent Change	$ Change from 01/12 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue[1)]	$9,355.5	$9,538.8	$183.3	2.0%	$99.1
Tax Changes Not In Baseline	(267.2)	(610.4)	(343.2)	---	(205.5)
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	9,021.5	9,360.5	339.0	3.8	(75.0)
Less: Refunds	(2,111.7)	(1,549.0)	562.7	(26.6)	(55.0)
Net Income Tax Collections	6,909.8	7,811.5	901.7	13.0	(130.0)
Less: Earmarking to SAF	(2,092.4)	(2,211.3)	(118.9)	5.7	17.4
Campaign Fund	(1.0)	(1.0)	0.0	0.0	0.0
Net Income Tax to GF/GP	4,816.4	5,599.2	782.8	16.3	(112.6)
Other Taxes					
Michigan Business Tax	798.3	(542.0)	(1,340.3)	(167.9)	(80.0)
Corporate Income Tax	485.6	850.0	364.4	75.0	36.1
Sales	1,108.3	1,124.6	16.3	1.5	8.7
Use	789.9	852.0	62.1	7.9	20.7
Cigarette	193.8	190.4	(3.4)	(1.8)	5.4
Insurance Company Premiums	305.6	320.0	14.4	4.7	30.1
Telephone & Telegraph	57.0	57.3	0.3	0.5	0.0
Oil & Gas Severance	60.9	58.5	(2.4)	(3.9)	(6.5)
All Other	54.7	88.6	33.9	61.9	(8.2)
Subtotal Other Taxes	3,854.2	2,999.5	(854.7)	(22.2)	6.2
Total Nontax Revenue	417.7	329.7	(88.0)	(21.1)	0.0
GF/GP REV. AFTER TAX CHANGES	**$9,088.3**	**$8,928.4**	**($159.9)**	**(1.8%)**	**($106.4)**
SCHOOL AID FUND:					
Baseline Revenue[1)]	$11,652.4	$11,852.6	$200.2	1.7%	$82.8
Tax Changes Not In Baseline	(738.4)	(713.3)	25.1	---	1.6
Revenue After Tax Changes					
Sales Tax	5,148.2	5,244.4	96.2	1.9	117.3
Use Tax	395.0	426.0	31.0	7.8	10.3
Lottery Revenue	767.2	732.7	(34.5)	(4.5)	0.0
State Education Property Tax	1,807.9	1,828.0	20.1	1.1	(13.0)
Real Estate Transfer Tax	121.4	129.1	7.7	6.3	(14.5)
Michigan Business Tax	0.0	0.0	0.0	---	---
Income Tax	2,092.4	2,211.3	118.9	5.7	(17.4)
Casino Tax	112.6	105.3	(7.3)	(6.5)	(1.0)
Other Revenue	469.4	462.5	(6.9)	(1.5)	2.7
SAF REV. AFTER TAX CHANGES	**$10,914.0**	**$11,139.3**	**$225.3**	**2.1%**	**$84.4**
BASELINE GF/GP AND SAF	21,007.9	21,391.4	383.5	1.8	181.9
Tax & Revenue Changes	(1,005.6)	(1,323.7)	(318.1)	---	(203.9)
GF/GP & SAF REV. AFTER CHNGS	**$20,002.3**	**$20,067.7**	**$65.4**	**0.3%**	**($22.0)**
Sales Tax	$7,079.5	$7,211.1	$131.6	1.9%	$160.0

[1)] FY 2010-11 is the base year for baseline revenue.

School Aid Fund

- School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $11.1 billion in FY 2012-13, an increase of $225.3 million, or 2.1%, from the revised estimate for FY 2011-12.
- The revised SAF estimate is $84.4 million above the January 2012 consensus revenue estimate.

The forecasted increase in SAF revenue reflects growth in every major revenue source other than casino taxes and the lottery. Casino revenue is expected to be lowered somewhat by the first full-year impact of new casinos opening in Ohio, beginning in the second half of 2012, while lottery revenue was substantially boosted during FY 2011-12 by several record jackpots. Because all of the tax reform legislation's negative impact on the SAF will be experienced during FY 2011-12, the only impact in FY 2012-13 will reflect increases attributable to the individual income tax changes. The revised SAF revenue estimates for FY 2012-13 are summarized in Table 5.

FY 2013-14 REVISED REVENUE ESTIMATES

- Total GF/GP and SAF revenue will reach an estimated $20.6 billion in FY 2013-14, an increase of 2.5% or $511.4 million from the revised estimate for FY 2012-13.
- The revised estimate for FY 2013-14 is $16.4 million below the January 2012 consensus revenue estimate.

Michigan's economy is expected to expand more rapidly during FY 2013-14 than during FY 2012-13, with personal income exhibiting the strongest growth since FY 2010-11, although the increase will be less than the improvement experienced during FY 2010-11. Tax policy changes will continue to affect both GF/GP revenue and SAF revenue during FY 2013-14, but the incremental impact relative to the prior fiscal year is expected to be less. On a baseline basis, GF/GP and SAF revenue is expected to increase 2.9% in FY 2013-14, reflecting the stronger level of State economic activity. The initial estimate of GF/GP and SAF revenue for FY 2013-14 is summarized in Table 6.

Tax Policy Changes

Tax policy changes are expected to continue affecting revenue during FY 2013-14, with the most significant impact reflecting the tax reform legislation and additional increases in business tax credits. However, the year-over-year change in the impacts of these provisions will be less than in previous years.

Income Tax Reform. The combined effect of legislation adopted in May 2011 is expected to increase individual income tax revenue by approximately $1.6 billion in FY 2013-14, of which $1.5 billion is expected to be directed to the General Fund.

Business Tax Changes. The photovoltaic credit, polycrystalline silicon credit, and battery credits continued under the MBT are expected to reduce revenue by another $297.0 million in FY 2013-14, with all of the impact reducing GF/GP revenue. The combined effect of the elimination of the MBT, the new Corporate Income Tax, the increased business tax credits, and the other legislative changes to business taxes is to lower FY 2013-14 revenue by $2.0 billion.

Long-Term Impact of Other FY 2010-11 Tax Policy Changes. As in FY 2012-13, the changes to the treatment of unclaimed property are expected to continue to affect revenue in FY 2013-14, lowering GF/GP revenue in FY 2013-14 by approximately $35.0 million.

Table 6

FY 2013-14 REVISED REVENUE ESTIMATES GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND (Millions of Dollars)					
			Change from FY 2012-13		
	FY 2012-13 Revised Est.	FY 2013-14 Revised Est.	Dollar Change	Percent Change	$ Change from 01/12 Consensus
GENERAL FUND/GENERAL PURPOSE:					
Baseline Revenue[1]	$9,538.8	$9,866.2	$327.4	3.4%	$95.8
Tax Changes Not In Baseline	(610.4)	(709.4)	(99.0)	---	(174.9)
Revenue After Tax Changes					
Personal Income Tax					
Gross Collections	9,360.5	9,627.0	266.5	2.8	(102.0)
Less: Refunds	(1,549.0)	(1,550.2)	(1.2)	0.1	(55.0)
Net Income Tax Collections	7,811.5	8,076.8	265.3	3.4	(157.0)
Less: Earmarking to SAF	(2,211.3)	(2,297.0)	(85.7)	3.9	23.7
Campaign Fund	(1.0)	(1.0)	0.0	0.0	0.0
Net Income Tax to GF/GP	5,599.2	5,778.8	179.6	3.2	(133.3)
Other Taxes					
Michigan Business Tax	(542.0)	(633.5)	(91.5)	16.9	(50.0)
Corporate Income Tax	850.0	924.0	74.0	8.7	46.6
Sales	1,124.6	1,161.4	36.8	3.3	10.0
Use	852.0	883.3	31.3	3.7	22.0
Cigarette	190.4	186.5	(3.9)	(2.0)	6.4
Insurance Company Premiums	320.0	330.0	10.0	3.1	32.6
Telephone & Telegraph	57.3	57.3	0.0	0.0	0.0
Oil & Gas Severance	58.5	62.5	4.0	6.8	(5.5)
All Other	88.7	94.0	5.3	6.0	(7.9)
Subtotal Other Taxes	2,999.5	3,065.5	66.0	2.2	54.2
Total Nontax Revenue	329.7	312.5	(17.2)	(5.2)	0.0
GF/GP REV. AFTER TAX CHANGES	**$8,928.4**	**$9,156.8**	**$228.4**	**2.6%**	**($79.1)**
SCHOOL AID FUND:					
Baseline Revenue[1]	$11,852.6	$12,135.2	$282.6	2.4%	$61.2
Tax Changes Not In Baseline	(713.3)	39.6	752.9	---	1.4
Revenue After Tax Changes					
Sales Tax	5,244.4	5,379.0	134.6	2.6	101.9
Use Tax	426.0	441.7	15.7	3.7	11.0
Lottery Revenue	732.7	735.0	2.3	0.3	0.0
State Education Property Tax	1,828.0	1,862.5	34.5	1.9	(15.0)
Real Estate Transfer Tax	129.1	143.0	13.9	10.8	(15.0)
Michigan Business Tax	0.0	0.0	0.0	---	---
Income Tax	2,211.3	2,297.0	85.7	3.9	(23.7)
Casino Tax	105.3	108.4	3.1	2.9	(1.0)
Other Revenue	462.5	455.7	(6.8)	(1.5)	4.5
SAF REV. AFTER TAX CHANGES	**$11,139.3**	**$11,422.3**	**$283.0**	**2.5%**	**$62.7**
BASELINE GF/GP AND SAF	21,391.4	22,001.5	610.1	2.9	157.0
Tax & Revenue Changes	(1,323.7)	(1,422.4)	(98.7)	---	(173.4)
GF/GP & SAF REV. AFTER CHNGS	**$20,067.7**	**$20,579.1**	**$511.4**	**2.5%**	**($16.4)**
Sales Tax	$7,211.1	$7,395.0	$183.9	2.6%	$138.9

[1] FY 2010-11 is the base year for baseline revenue.

General Fund/General Purpose Revenue

- General Fund/General Purpose revenue will total an estimated $9.2 billion in FY 2013-14, an increase of 2.6% or $228.4 million from the revised estimate for FY 2012-13.
- The revised GF/GP estimate is $79.1 million below the January 2012 consensus revenue estimate.

Baseline GF/GP revenue is expected to increase 3.4%, but the changes from the tax reform legislation are expected to offset a portion of the revenue gain from the improving economy. The revised GF/GP revenue estimates for FY 2013-14 are summarized in Table 6.

School Aid Fund

- School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $11.4 billion in FY 2013-14, an increase of $283.0 million, or 2.5%, from the revised estimate for FY 2012-13.
- The revised SAF estimate is $62.7 million above the January 2012 consensus revenue estimate.

The forecasted increase in SAF revenue reflects growth in every major revenue source. Total SAF revenue in FY 2013-14 is projected to remain $112.3 million below the peak reached in FY 2007-08. The revised SAF revenue estimates for FY 2013-14 are summarized in Table 6.

MAJOR GENERAL FUND AND SCHOOL AID FUND TAXES IN FY 2011-12 THROUGH FY 2013-14

Individual Income Tax. The income tax will generate an estimated $6.9 billion in FY 2011-12, which represents an increase of 7.7% from FY 2010-11. Modest increases in economic activity will combine with the impact of tax reform legislation and fewer income tax refunds to push individual income tax revenue higher in both FY 2011-12 and FY 2012-13. By FY 2013-14, faster year-over-year growth in individual income tax revenue attributable to the tax reform legislation will have dissipated, but stronger economic growth is expected to increase net collections by 3.4%. Compared with January 2012 consensus revenue estimates, the revised individual income tax estimate for FY 2011-12 is down $122.1 million and the revised estimate for FY 2012-13 is down $130.0 million, reflecting a higher level of income tax refunds and slightly slower economic growth than was expected in January. These downward revisions in income tax revenue will reduce GF/GP revenue and SAF revenue. The School Aid Fund receives 23.3% of gross income tax collections (withholding, quarterly, and annual payments), while the GF/GP budget receives 76.7% of gross collections, and incurs the negative impact of all income tax refunds (or positive impact of reduced refunds), including the refund payments for the homestead property tax credit and the earned income tax credit (both of which are reduced substantially by the tax reform legislation). While the revised forecast is for lower revenue than expected in January 2012, the individual income tax is still expected to exhibit healthy revenue growth over the entire forecast.

Sales Tax. As employment has stabilized and the economy has continued to grow, consumers and businesses have become less cautious, increasing spending on items subject to the sales tax. A significant portion of the sales tax growth experienced during the last quarter of 2011 and the first quarter of calendar year 2012 reflects higher gas prices and increases in residential utility rates, and at least the high gasoline prices appeared to have been viewed as temporary by consumers. While gasoline prices are expected to remain high over the forecast period, they are not expected to show the types of increases experienced during 2011 and early 2012. Stable economic conditions also have led consumers to increase spending on replacement durable goods, purchases that were delayed during the 2008-09 recession. While the economy is expected to be weaker during FY 2011-12 and FY 1012-13 than during FY 2010-11, sales tax revenue in FY 2011-12 will total an estimated $7.1 billion, which is 5.5% above the level in FY 2010-11. Sales tax collections are expected to continue growing, rising 1.9% in FY 2012-13, to $7.2 billion, and 2.6% in FY 2013-14, to $7.4 billion. Generally, these increases are below the average growth experienced during the 1990s, but are substantially above the growth rates experienced during much of the last decade. Compared with January 2012 consensus revenue estimates, the revised sales tax estimate for FY 2011-12 is up $195.6 million and the revised estimate for FY 2012-13 is up $160.0 million. Most of the sales tax revenue is earmarked to the SAF (73.3%) and most of the remainder goes to local government revenue sharing payments, the Comprehensive Transportation Fund, and the General Fund. The amount going to revenue sharing includes only constitutional revenue sharing earmarks, and, to reflect the significant portion of sales tax revenue earmarked statutorily to revenue sharing that has been diverted to the General Fund, this report directs all of the statutory revenue sharing earmark to the General Fund and shows the appropriation for statutory revenue sharing as a revenue reduction on the balance sheet, as discussed in the last section of the version of this report issued in December 2011.

Use Tax. Use tax collections, which reflect the taxes levied on a variety of activities ranging from spending at hotels and motels, telephone service (both residential and business), and business equipment purchased in other states for use in Michigan, can be volatile. Baseline use tax revenue is expected to grow 4.6% in FY 2011-12, but net revenue is expected to increase 7.6%, almost entirely reflecting the impact of a large refund paid in FY 2010-11. In later fiscal years, improvements in economic activity and business investment will result in growing use tax revenue. In FY 2012-13, use tax receipts will total an estimated $1.3 billion, an increase of 7.9% from the revised estimate for FY 2011-12. As the economy continues to improve, use tax revenue is expected to increase 3.7% in FY 2013-14, to $1.3 billion. Compared with the January 2012 consensus revenue estimates, the FY 2011-12 estimate for use tax collections has been revised downward by $14.2 million, with a portion of the revision reflecting a different large refund paid in February, and the FY 2012-13 estimate is $31.0 million more, largely reflecting the absence of the refunds paid in FY 2010-11 and FY 2011-12. The GF/GP budget receives two-thirds of use tax revenue and the remaining one-third goes to the SAF.

Tobacco Taxes. Collections from the cigarette and other tobacco products taxes will total an estimated $963.8 million in FY 2011-12, which represents a decrease of 0.5% from FY 2010-11. In FY 2012-13, tobacco tax revenue is expected to decline another 1.9%, to $945.6 million, before falling 2.1% in FY 2013-14, to $925.4 million. These estimated declines reflect the ongoing steady decline in tobacco consumption, further accelerated by the increase in the Federal tobacco tax and the 2009 legislation that substantially reduced smoking in public places such as restaurants and bars. Tobacco tax revenue is earmarked to several different funds including the General Fund and the SAF.

Casino Tax. The State's tax on casinos equals 8.1% of gross gaming receipts and is directed to the SAF. In FY 2011-12, casino tax revenue will total an estimated $112.6 million, a 1.2% decrease from FY 2010-11. Baseline casino tax revenue is expected to increase 2.7% during FY 2011-12, but the opening of new casinos in northern Ohio is expected to reduce revenue in late 2012 and early 2013. As the economy improves and the novelty of the Ohio casinos declines, a portion of the lost casino tax revenue will be recovered. As a result, casino tax revenue is expected to decline in FY 2012-13, falling 6.5% to $105.3 million, despite 3.6% baseline growth, and then rebound in FY 2013-14, rising 2.9% to $108.4 million.

State Education Property Tax. Weakness in the housing sector has driven State Education Tax revenue down since FY 2006-07. Few housing starts and declining home values will continue to depress State Education Tax revenue in FY 2011-12, with collections expected to fall 2.0%, to $1.8 billion. The housing market is expected to stabilize during FY 2012-13, resulting in a 1.1% increase in State Education Tax revenue. While the housing market is expected to remain weak, by FY 2013-14, State Education Tax revenue will mostly be able to keep pace with inflation, and is expected to increase 1.9%, to slightly less than $1.9 billion. All of the revenue generated by the State Education Tax is earmarked to the SAF.

Lottery. Net lottery revenue is expected to decline slightly over the forecast period, varying as tepid income growth trades off with increased competition from other types of gaming activity and few significant new games. Several large jackpots during FY 2011-12, including one record jackpot of approximately $640.0 million, boosted lottery revenue to a revised estimate of $767.2 million, an increase of 5.5% from FY 2010-11. Absent such record-setting jackpots in FY 2012-13, lottery revenue is expected to decline 4.5% in FY 2012-13, to $732.7 million, and then rise only 0.3% in FY 2013-14. All of the net revenue generated by the lottery is earmarked to the SAF.

Michigan Business Tax/Corporate Income Tax. Legislation adopted in May 2011 repealed the MBT for most taxpayers beginning January 1, 2012. Corporate taxpayers will begin paying a Corporate Income Tax that is expected to generate less than one-third of the revenue from the MBT. Under the legislation, unincorporated businesses and "pass-through" entities such as S-corporations, partnerships, and many limited liability companies (LLCs) will not pay any separate business tax to the State. Those businesses that continue to pay the MBT will do so largely to claim substantial refundable credits awarded in previous years. As a result, over much of the forecast period, MBT revenue will be negative, reflecting refund payments. The Corporate Income Tax is expected to grow over the forecast period, as profits improve, although the CIT is expected to be a more volatile tax than the MBT.

Business taxes, representing the combination of MBT and Corporate Income Tax revenue, are expected to decline 39.6% in FY 2011-12, from $2.1 billion to $1.3 billion, largely reflecting the incomplete revenue replacement under the CIT and a partial year of lost MBT revenue. As the MBT credits increase in FY 2012-13 and the full-year impact of the transition to the Corporate Income Tax occurs, business tax revenue is expected to decline another 75.5%, to $308.0 million. In FY 2013-14, the second full year under the Corporate Income Tax, CIT revenue is expected to increase 8.7%, but increased MBT credits will combine with MBT refunds to cause net business tax revenue to decline another 5.7%, to $290.5 million. The revised estimate for business taxes in FY 2011-12 is $138.9 million above the January 2012 consensus estimate, while the revised estimate for FY 2012-13 is $43.9 million higher.

According to the MBT Act, the SAF received $729.0 million of MBT revenue in FY 2008-09, with that amount indexed in future years to the percentage change in the U.S. Consumer Price Index (CPI) during the previous fiscal year. In FY 2010-11, MBT revenue earmarked to the SAF totaled $739.2 million. The tax reform legislation repealed the earmark along with the MBT, so no revenue from the MBT will be directed to the SAF in FY 2011-12 or later, lowering SAF by an estimated $758.8 million in FY 2011-12, $777.2 million in FY 2012-13, and $792.2 million in FY 2013-14. All remaining MBT revenue, and all of the Corporate Income Tax revenue, goes to the General Fund.

REVENUE TRENDS

Revenue collections depend on both tax laws and economic conditions. Over time, different taxes tend to exhibit certain average growth rates, although these growth rates are often affected substantially by changes in the law. As a result, the forecast attempts to examine baseline revenue growth, which reflects the growth in revenue that would occur absent any changes to the law.

However, the tax law assumed when computing a baseline is updated every year. Maintaining a common baseline over a long period of time could quickly become unwieldy and the difference between baseline and actual net collections would become so large that it would be difficult to estimate the revenue or even compare the two measures.

In any given year, actual revenue from any tax will generally deviate from the average growth rates and the strength of forecasts largely depends on the ability to estimate these deviations. The inherent uncertainty of the future means that longer-term trend growth rates are less accurate than the more detailed forecast data for earlier fiscal years. Furthermore, history indicates that not only will the economy likely deviate from trends over this period but the Legislature is likely to enact various changes to the State's tax laws.

Based on a longer-term view of Michigan's economy for FY 2014-15 and FY 2015-16, net GF/GP revenue is expected to increase 4.3% in FY 2014-15, to $9.6 billion, while SAF revenue will increase 3.5%, to $11.8 billion. In FY 2015-16, net GF/GP revenue is expected to increase 3.4%, to $9.9 billion, while SAF revenue will increase 2.5%, to $12.1 billion.

SENATE FISCAL AGENCY BASELINE REVENUE FORECAST HISTORY

The history of the Senate Fiscal Agency's and consensus estimates for GF/GP and SAF baseline revenue for FY 2011-12, FY 2012-13, and FY 2013-14 is presented in Tables 7, 8, and 9. Baseline estimates are used to track the forecast history for these fiscal years in order to avoid the wide swings in revenue estimates that occur when tax changes are enacted for a particular fiscal year after the initial revenue estimates have been calculated for that fiscal year. In addition, in order to provide an accurate comparison, all of the previous baseline estimates made for FY 2011-12, FY 2012-13, and FY 2013-14 have been adjusted to reflect a common base year.

The initial GF/GP and SAF baseline revenue estimate for FY 2011-12 was made in December 2010 at $18.9 billion, as shown in Table 7. This estimate was lowered by $96.6 million at the January 2011 Consensus Revenue Estimating Conference, but that revised estimate was increased by $580.5 million at the May 2011 Consensus Revenue Estimating Conference and another $152.5 million at the January 2012 Consensus Revenue Estimating Conference. The Senate Fiscal Agency's revised estimate for FY 2011-12 presented in this report increases the baseline estimate $408.1 million above the January 2012 consensus estimate, to $20.0 billion.

The initial GF/GP and SAF baseline revenue estimate for FY 2012-13 was made in May 2011 at $20.1 billion, as shown in Table 8. This estimate was lowered by $143.3 million at the May 2011 Consensus Revenue Estimating Conference but increased by $147.7 million at the January 2012 Consensus Revenue Estimating Conference. The Senate Fiscal Agency's revised estimate for FY 2012-13 presented in this report increases the baseline estimate $53.6 million above the January 2012 consensus estimate, to $20.3 billion.

The initial GF/GP and SAF baseline revenue estimate for FY 2013-14 was made in January 2012 at $20.6 billion, as shown in Table 9. This estimate was increased by $193.0 million at the January 2012 Consensus Revenue Estimating Conference. The Senate Fiscal Agency's revised estimate for FY 2012-13 presented in this report increases the baseline estimate $125.8 million above the January 2012 consensus estimate, to $20.9 billion.

Table 7

CHANGES IN SENATE FISCAL AGENCY
BASELINE REVENUE ESTIMATES FOR FY 2011-12
(Millions of Dollars)

Forecast Date	GF/GP	SAF	Total
December 17, 2010	$7,816.5	$11,127.3	$18,943.8
January 14, 2011 [a]	7,663.2	11,184.0	18,847.2
May 13, 2011	8,206.5	11,330.8	19,537.3
May 16, 2011[a]	8,105.3	11,322.4	19,427.7
December 28, 2011	8,153.4	11,414.6	19,568.0
January 13, 2012 [a]	8,087.4	11,492.8	19,580.2
May 9, 2012	8,335.9	11,652.4	19,988.3
Change From Previous Estimate:			
Dollar Change	$248.5	$159.6	$408.1
Percent Change	3.1%	1.4%	2.1%
Change From Initial Estimate:			
Dollar Change	$519.4	$525.1	$1,044.5
Percent Change	6.6%	4.7%	5.5%

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

Note: Baseline base year equals FY 2010-11, baseline revenue reflects full earmark of sales tax revenue to revenue sharing.

Table 8

CHANGES IN SENATE FISCAL AGENCY
BASELINE REVENUE ESTIMATES FOR FY 2012-13
(Millions of Dollars)

Forecast Date	GF/GP	SAF	Total
May 13, 2011	$8,439.9	$11,694.8	$20,134.7
May 16, 2011 [a]	8,350.2	11,641.2	19,991.4
December 28, 2011	8,406.2	11,645.7	20,051.9
January 13, 2012 [a]	8,429.8	11,769.8	20,199.6
May 9, 2012	8,400.6	11,852.6	20,253.2
Change From Previous Estimate:			
Dollar Change	($29.2)	$82.8	$53.6
Percent Change	(0.3%)	0.7%	0.3%
Change From Initial Estimate:			
Dollar Change	($39.3)	$157.8	$118.5
Percent Change	(0.5%)	1.3%	0.6%

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

Note: Baseline base year equals FY 2010-11, baseline revenue reflects full earmark of sales tax revenue to revenue sharing.

Table 9

CHANGES IN SENATE FISCAL AGENCY BASELINE REVENUE ESTIMATES FOR FY 2013-14 (Millions of Dollars)			
Forecast Date	**GF/GP**	**SAF**	**Total**
December 28, 2011	$8,700.4	$11,913.5	$20,613.9
January 13, 2012 [a)]	8,732.8	12,074.0	20,806.9
May 9, 2012	8,797.5	12,135.2	20,932.7
Change From Previous Estimate:			
Dollar Change	$64.7	$61.2	$125.8
Percent Change	0.7%	0.5%	0.6%
Change From Initial Estimate:			
Dollar Change	$97.1	$221.7	$318.8
Percent Change	1.1%	1.9%	1.5%

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

Note: Baseline base year equals FY 2010-11, baseline revenue reflects full earmark of sales tax revenue to revenue sharing.

BUDGET
STABILIZATION FUND

The Counter-Cyclical Budget and Economic Stabilization Fund (BSF) was established by Public Act 76 of 1977. The BSF is a cash reserve to which the State, in years of economic growth, adds revenue, and from which, in years of economic recession, the State withdraws revenue. The Fund's purposes are to mitigate the adverse effects on the State budget of downturns in the business cycle and to reserve funds that can be available during periods of high unemployment for State projects that will increase job opportunities.

The requirements for contributions to and withdrawals from the BSF are established in State law. By statute, revenue may be added to the BSF when Michigan personal income, less transfer payments and adjusted for inflation, increases by more than 2.0%. When the growth in real personal income less transfer payments is over 2.0%, the pay-in to the BSF is equal to the percentage growth in excess of 2.0% multiplied by the total General Fund/General Purpose (GF/GP) revenue.

Funds may be transferred out of the BSF for budget stabilization purposes when Michigan personal income less transfer payments, adjusted for inflation, decreases on a calendar-year basis. The withdrawal equals the percentage decline in adjusted real personal income multiplied by the annual GF/GP revenue. Thus, funds contributed to the BSF in growth years are used to supplement current revenue during a recession, reducing the need either to increase taxes or to reduce State services in a time of poor economic conditions.

Withdrawals from the BSF also are permitted for State job creation programs in times of high unemployment. When the State's unemployment rate averages between 8.0% and 11.9% during a calendar quarter, 2.5% of the balance in the BSF may be withdrawn during the subsequent quarter and appropriated for projects that will create job opportunities. If the unemployment rate averages 12.0% or higher for a calendar quarter, up to 5.0% of the BSF balance may be withdrawn.

In order for any payment into or out of the BSF actually to occur under either the personal income or the unemployment rate formula described above, the payment must be appropriated by the Legislature. In addition, the Legislature may appropriate transfers into or out of the BSF even if the formulas do not trigger a transfer. For example, in FY 1998-99, the Legislature appropriated a transfer into the BSF of $55.2 million in response to the personal income formula; however, the Legislature also appropriated to the BSF the ending balance of the General Fund/General Purpose budget, which equaled $189.2 million. Also in FY 1998-99, the Legislature appropriated the transfer of $73.7 million from the BSF to the School Aid Fund to finance scheduled payments to K-12 school districts required under the *Durant* court case.

Table 10 presents the recent history of the BSF in terms of actual transfers into and out of the Fund, interest earnings, and year-end balances from FY 1998-99 through FY 2010-11. Also presented in this table are the SFA's estimates for FY 2011-12, FY 2012-13, and FY 2013-14. The BSF year-end balance as a percentage of GF/GP and SAF revenue is shown in Figure 16, and the estimated economic stabilization trigger calculations for FY 2011-12, FY 2012-13, and FY 2013-14 are presented in Table 11.

FY 2010-11

The BSF ended FY 2009-10 with a balance of $2.2 million. During FY 2010-11, there were no payments into or out of the Fund, and very little interest was earned (primarily due to low interest rates), leaving an ending balance of $2.2 million.

FY 2011-12, FY 2012-13, AND FY 2013-14

Based on the SFA's revised estimates of personal income, transfer payments, and the Detroit Consumer Price Index (CPI), the budget stabilization formula does not trigger any payments into the Fund for FY 2011-12, but would trigger a withdrawal of $33.0 million. However, based on the appropriations that have been enacted for FY 2011-12, no such withdrawal is scheduled -- although a deposit of $362.7 million has been appropriated. Inflation-adjusted personal income used in the calculation for FY 2012-13 also declines, resulting in a calculated transfer out of the BSF of $36.8 million. The Governor's FY 2012-13 budget recommends a transfer of $130.0 million into the Fund. Any transfer out of the BSF would need to be approved by the Legislature. No transfer out of, or into, the BSF is calculated for FY 2013-14, as shown in Table 11. Given the enacted appropriations for FY 2011-12, combined with the revised year-end balance estimates presented later in this report, no transfers out of the BSF are anticipated in FY 2011-12.

Table 10

BUDGET AND ECONOMIC STABILIZATION FUND
TRANSFERS, EARNINGS AND FUND BALANCE
FY 1998-99 TO FY 2013-14 ESTIMATE
(Millions of Dollars)

Fiscal Year	Pay-In	Interest Earned	Pay-Out	Fund Balance
1998-99	$244.4	$51.2	$73.7	$1,222.5
1999-00	100.0	73.9	132.0	1,264.4
2000-01	0.0	66.7	337.0	994.2
2001-02	0.0	20.8	869.8	145.2
2002-03	0.0	1.8	147.0	0.0
2003-04	81.3	0.0	0.0	81.3
2004-05	0.0	2.0	81.3	2.0
2005-06	0.0	0.0	0.0	2.0
2006-07	0.0	0.1	0.0	2.1
2007-08	0.0	0.1	0.0	2.2
2008-09	0.0	0.0	0.0	2.2
2009-10	0.0	0.0	0.0	2.2
2010-11	0.0	0.0	0.0	2.2
Senate Fiscal Agency estimates:				
2011-12	362.7	0.0	0.0	364.9
2012-13	130.0[a)]	3.6	0.0	498.6
2013-14	0.0	7.5	0.0	506.1

a) Governor's recommendation

Figure 16

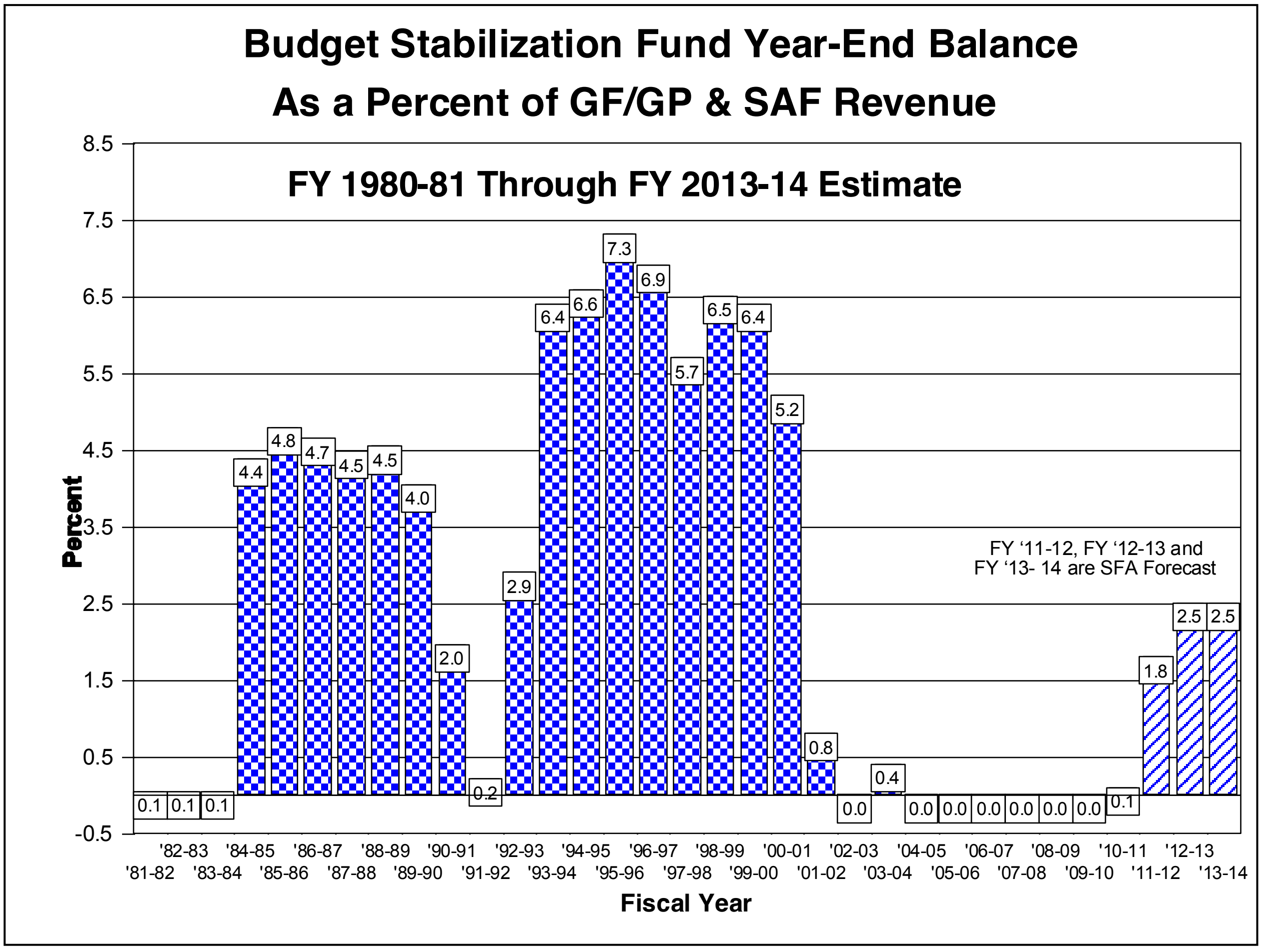


Table 11

ESTIMATED ECONOMIC AND BUDGET STABILIZATION FUND TRIGGER
FY 2011-12, FY 2012-13, and FY 2013-14
(Millions of Dollars)

	CY 2011	CY 2012	CY 2013	CY 2014
Michigan Personal Income (MPI)	$360,806	$370,338	$376,583	$391,216
Less: Transfer Payments	82,230	83,335	85,605	90,537
Subtotal	$278,576	$287,003	$290,978	$300,679
Divided by: Detroit CPI, 12 months average ending June 30 (1982-84=1)	2.079	2.150	2.189	2.223
Equals: Real Adjusted MPI	$133,976	$133,490	$132,939	$135,252
Percent Change from Prior Year		(0.36%)	(0.41%)	1.74%
Excess Over 2.0%		0.00%	0.00%	0.00%
		FY 2011-12	**FY 2012-13**	**FY 2013-14**
Multiplied by: Estimated GF/GP Revenue		$9,088.3	$8,928.4	$9,156.8
Equals: Transfer to the BSF		$0.0	$0.0	$0.0
OR Transfer from the BSF		$33.0	$36.8	$0.0

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

COMPLIANCE WITH
STATE REVENUE LIMIT

COMPLIANCE WITH STATE REVENUE LIMIT

Article IX, Section 26 of the Michigan Constitution establishes a limit on the amount of revenue State government may collect in any fiscal year. This section of the Constitution was adopted by a vote of the people in 1978 and the limit was first applicable in FY 1979-80. In the first 15 years this revenue limit was in effect (FY 1979-80 to FY 1993-94), the revenue limit was never exceeded. The largest gap between revenue and the limit occurred in FY 2008-09, when State revenue was $8.0 billion below the revenue limit. In FY 1994-95, State revenue exceeded the revenue limit, for the first time, by $109.6 million. This was due to new State revenue being generated as part of the school financing reform that was enacted in 1994. In FY 1995-96 through FY 1997-98, revenue fell below the revenue limit again. In FY 1998-99 and FY 1999-2000, revenue exceeded the limit, but not by enough to require refunds to be paid to taxpayers. In FY 2000-01 through FY 2006-07, revenue fell well below the revenue limit and then remained well below the revenue limit in FY 2007-08 despite increases in the income and Michigan business tax rates. Based on the SFA's latest economic forecast and revenue estimates, it is estimated that revenue subject to the revenue limit will continue to remain well below the revenue limit in FY 2011-12 through FY 2013-14.

THE REVENUE LIMIT

The revenue limit specifies that for any fiscal year, State government revenue may not exceed a certain percentage of Michigan personal income. The Constitution requires that the limit be calculated each year using the percentage that State government revenue in FY 1978-79 was of Michigan personal income in calendar year 1977, which equaled 9.49%. Therefore, for any fiscal year, State government revenue may not exceed 9.49% of Michigan total personal income for the calendar year prior to the calendar year in which the fiscal year begins. For example, in FY 2009-10, State government revenue could not exceed 9.49% of personal income for calendar year 2008. Given that Michigan personal income for 2008 equaled $349.6 billion at the time compliance was determined, the revenue limit for FY 2009-10 was $33.2 billion.

State government revenue subject to the limit includes total State government tax revenue and all other State government revenue, such as license fees, and interest earnings. For purposes of the limit, State government revenue does not include Federal aid. Personal income is a measure of the total income received by individuals, including wages and salaries, proprietors' income, interest and dividend income, rental income, and transfer payments. It is the broadest measure of overall economic activity for the State of Michigan and is estimated by the U.S. Department of Commerce's Bureau of Economic Analysis.

REQUIREMENTS IF REVENUE LIMIT IS EXCEEDED

If final revenue exceeds the revenue limit, the Constitution and State law provide procedures to deal with this event. If revenue exceeds the limit by less than 1.0%, the excess revenue must be deposited into the Budget Stabilization Fund. If the revenue limit is exceeded by 1.0% or more, the excess revenue must be refunded to individual and business taxpayers, on a pro rata basis. These refunds would be given to taxpayers who file an annual return under the Income Tax Act (including a Corporate Income Tax return) in the following fiscal year, because these taxpayers would have made withholding and quarterly estimated payments during the fiscal year when the revenue limit was exceeded. The law requires that these refunds occur in the fiscal year following the filing of the report which determines that the limit was exceeded. This report for any particular fiscal year is typically issued in the spring following the end of the fiscal year.

REVENUE LIMIT COMPLIANCE PROJECTIONS

Based on final revenue for FY 2010-11 and the SFA's revenue estimates for FY 2011-12, FY 2012-13, and FY 2013-14, revenue subject to the constitutional revenue limit is estimated to remain well below the limit for each of these fiscal years. The SFA's estimates of the State's compliance with the revenue limit are presented in Table 12.

FY 2010-11

In FY 2010-11, the revenue limit equaled 9.49% of Michigan's personal income in calendar year 2009. According to the U.S. Department of Commerce's Bureau of Economic Analysis, Michigan personal income for 2009 was $332.1 billion, so the revenue limit equaled $31.5 billion. Based on the final revenue for FY 2010-11, revenue subject to the limit totaled $26.3 billion. As a result, revenue subject to the limit fell below the revenue limit by $5.2 billion, or 16.4%. This gap between the revenue limit and revenue subject to the limit was less than it had been since FY 2004-05, as a result of strong revenue growth during FY 2010-11 combined with the substantial 5.0% decline in personal income during 2009.

FY 2011-12

In FY 2011-12, the revenue limit will equal 9.49% of Michigan's personal income in calendar year 2010. The Bureau of Economic Analysis estimate of Michigan personal income in calendar year 2010 equals $342.9 billion, resulting in a revenue limit of $32.5 billion for FY 2011-12. Based on the SFA's revised revenue estimates for FY 2011-12, revenue subject to the revenue limit will equal an estimated $26.4 billion, and will fall below the limit by $6.1 billion, or 18.7%, in FY 2011-12. The increase in the gap between estimated revenue and the limit during FY 2011-12 reflects the 0.4% increase in revenue subject to the limit combined with the 3.3% increase in personal income during 2010. The 2010 increase in personal income increases the FY 2011-12 revenue limit by $1.0 billion.

FY 2012-13

The preliminary Bureau of Economic Analysis estimate for Michigan personal income during 2011 equals $360.8 billion, and as a result, the revenue limit will equal $34.2 billion in FY 2012-13. Based on the SFA's revised revenue estimates for FY 2012-13, revenue subject to the revenue limit will equal an estimated $26.6 billion. As a result, revenue subject to the revenue limit will fall below the limit by an estimated $7.6 billion, or 22.2%, in FY 2012-13. The additional increase in the gap between estimated revenue and the limit during FY 2012-13 reflects factors similar to those during FY 2011-12. Revenue subject to the limit is estimated to increase 0.7% in FY 2012-13, compared with the 5.2% increase in personal income during 2011, which increases the revenue limit by $1.7 billion.

FY 2013-14

The SFA estimates that personal income in Michigan during 2012 will equal $370.3 billion, and as a result, the revenue limit will equal $35.1 billion in FY 2013-14. Based on the SFA's revised revenue estimates for FY 2013-14, revenue subject to the revenue limit will equal an estimated $27.3 billion. As a result, revenue subject to the revenue limit will fall below the limit by an estimated $7.9 billion, or 22.4% in FY 2013-14.

Table 12

COMPLIANCE WITH CONSTITUTIONAL REVENUE LIMIT SECTION 26 OF ARTICLE IX OF THE STATE CONSTITUTION FY 2009-10 THROUGH FY 2013-14 ESTIMATE (Millions of Dollars)	FY 2009-10 Final	FY 2010-11 Final	FY 2011-12 Estimate	FY 2012-13 Estimate	FY 2013-14 Estimate
Revenue Subject to Limit					
Revenue:					
Gen'l Fund/Gen'l Purpose (baseline)	$7,399.8	$8,604.1	$9,355.5	$9,538.8	$9,866.2
Constitutional Revenue Sharing (baseline)	629.2	664.7	718.0	739.1	752.6
School Aid Fund (baseline)	10,808.8	11,260.5	11,652.4	11,852.6	12,135.2
Transportation Funds	1,999.7	2,028.9	2,105.9	2,094.8	2,110.7
Other Restricted Non-Federal Aid Revenue	4,468.5	3,595.9	3,631.9	3,740.8	3,853.0
Adjustments:					
GF/GP Federal Aid	(20.8)	(17.3)	(20.0)	(20.0)	(20.0)
GF/GP Balance Sheet Adjustments	279.4	208.9	(267.2)	(610.4)	(709.4)
SAF Balance Sheet Adjustments	8.0	(12.4)	(738.4)	(713.3)	(713.0)
Total Revenue Subject to Limit	$25,572.6	$26,333.3	$26,438.1	$26,622.5	$27,275.4
Revenue Limit					
Personal Income:					
Calendar Year	**CY 2008**	**CY 2009**	**CY 2010**	**CY 2011**	**CY 2012**
Amount	$349,612.0	$332,079.4	$342,874.7	$360,806.0	$370,338.2
Revenue Limit Ratio	9.49%	9.49%	9.49%	9.49%	9.49%
Revenue Limit	$33,178.2	$31,514.3	$32,538.7	$34,240.5	$35,145.1
1.0% of Limit	331.8	315.1	325.4	342.4	351.5
Amount Under (Over) Limit	$7,605.6	$5,181.0	$6,100.7	$7,618.0	$7,869.7
Percent Below Limit	22.9%	16.4%	18.7%	22.2%	22.4%

ESTIMATE OF
YEAR-END BALANCES

ESTIMATE OF YEAR-END BALANCES

Based on the economic and revenue forecasts outlined earlier in this report, along with enacted and projected State appropriations, the Senate Fiscal Agency (SFA) has revised its estimates of the FY 2011-12, FY 2012-13, and FY 2013-14 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) year-end balances. This section of the report discusses the year-end balances and addresses the issues the members of the Legislature are facing as they attempt to complete action on the FY 2012-13 State budget.

On February 9, 2012, Governor Rick Snyder presented his FY 2012-13 and FY 2013-14 State budget recommendations to the Legislature. The numbers contained in the Governor's budget recommendations were based on the consensus revenue estimates agreed to on January 13, 2012, and fee adjustments totaling approximately $86.5 million. There were no new taxes proposed as part of the FY 2012-13 Governor's budget. The Governor's FY 2012-13 budget recommendation was balanced between estimated revenue and recommended appropriations pursuant to constitutional requirements.

Since the Governor introduced the FY 2012-13 State budget to the Legislature in February 2012, several factors have changed which will have a direct impact on the final decisions to be made by the Legislature on the State budget. The recent performance of the United States and Michigan economies has generally tracked with the levels assumed at the January 2012 Consensus Revenue Estimating Conference. However, estimates of State income tax refunds and Michigan Business Tax refunds appear to have been understated in January. This results in relatively minor changes from January to May in the estimates of FY 2011-12 GF/GP revenue but reduces GF/GP revenue estimates for FY 2012-13 and FY 2013-14. The SFA is estimating increases in SAF revenue from the January 2012 consensus for all three fiscal years.

Table 13 provides a summary of the SFA's estimates of the FY 2011-12, FY 2012-13, and FY 2013-14 year-end balances of the GF/GP and SAF budgets. Based on current SFA revenue estimates along with enacted and projected State appropriations, the FY 2011-12 GF/GP budget will have a surplus of $730.7 million and the SAF budget will have a surplus of $302.4 million. Based on current SFA revenue estimates along with Senate-passed State appropriations and SFA estimates of caseload changes, the FY 2012-13 GF/GP budget will have a surplus of $394.3 million and the SAF budget will have a surplus of $232.0 million. A comparison of the SFA's estimate of FY 2013-14 revenue and the Governor's February 2012 FY 2013-14 appropriation recommendation adjusted for Senate changes made for FY 2012-13, leads to a projected $493.5 million GF/GP budget surplus and a projected $261.3 million SAF surplus.

Table 13

GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND
SFA ESTIMATED YEAR-END BALANCES
(Millions of Dollars)

	FY 2011-12 Estimate	FY 2012-13 Estimate	FY 2013-14 Estimate
General Fund/General Purpose	$730.7	$394.3	$493.5
School Aid Fund	$302.4	$232.0	$261.3

FY 2011-12 YEAR-END BALANCE

During May 2011, the Michigan Legislature approved FY 2011-12 GF/GP budgets that were balanced between estimated revenue and enacted appropriations. The initial budget approved by the Legislature was based on a May 2011 consensus revenue estimate. The revisions to the consensus revenue estimates agreed to in January 2012 reflected increases in both GF/GP and SAF revenue, so the enacted FY 2011-12 GF/GP and SAF budgets were still in balance, unlike in years past. The current SFA revenue estimates, which result in increases in both GF/GP and SAF revenue from the January 2012 consensus, produce a surplus in the FY 2011-12 GF/GP budget of $730.7 million and a surplus in the FY 2011-12 SAF budget of $302.4 million. Under current law, ending balances for both the GF/GP budget and the SAF budget are carried forward into the ensuing fiscal year, and have already been built into the FY 2012-13 budgets proposed by the Governor and the Legislature.

Table 14 provides the details of the SFA's estimate of a $730.7 million FY 2011-12 GF/GP budget surplus. On the revenue side of the FY 2011-12 GF/GP budget ledger, the SFA now believes that current law GF/GP revenue will total $9.1 billion. This projected level of FY 2011-12 GF/GP revenue represents a $275.3 million or 3.1% increase from the final level of FY 2010-11 GF/GP revenue. The May 2012 SFA estimate of current law GF/GP revenue is up $57.8 million from the January 2012 consensus revenue estimate. The FY 2011-12 estimated GF/GP revenue total of $9.5 billion includes $553.7 million of surplus revenue carried forward from FY 2010-11, adjustments of $330.0 million to reflect statutory State revenue sharing payments, the shifting of $8.5 million in short-term borrowing costs to the School Aid Fund, and $201.1 million of revenue from the use tax on health maintenance organizations.

On the expenditure side of the FY 2011-12 GF/GP budget ledger, the SFA now believes that final GF/GP expenditures will total $8.4 billion and there will also be $362.7 million in GF/GP appropriations to the State's Budget Stabilization Fund. This projected level of FY 2011-12 GF/GP expenditures reflects a $574.3 million or 7.0% increase from the final level of FY 2010-11 GF/GP expenditures. It should be noted that over $500.0 million of Federal American Recovery and Reinvestment Act funding was used to offset GF/GP in the FY 2010-11 budget. The projected level of FY 2011-12 GF/GP expenditures includes enacted appropriations, pending supplemental appropriations, projected caseload and cost estimates in the Departments of Community Health and Human Services, and the recognition of GF/GP savings of $88.7 million from employee concessions.

Table 15 provides a summary of the SFA estimate of a $302.4 million FY 2011-12 SAF budget surplus. This surplus estimate is based on a comparison of estimated revenue, enacted appropriations, and estimated final SAF expenditures.

On the revenue side of the FY 2011-12 SAF budget ledger, the SFA now believes that current law SAF revenue will total $10.9 billion. This projected level of total SAF revenue represents a $334.1 million or 3.0% decrease from the final level of FY 2010-11 SAF revenue. The May 2012 SFA estimate of current-law SAF revenue is $150.3 million above the January 2012 consensus revenue estimate. The FY 2011-12 estimated SAF revenue total of $13.4 billion includes $724.7 million of surplus revenue carried forward from FY 2010-11, $10.9 billion of restricted SAF revenue, a $118.6 million GF/GP grant, and $1.7 billion of ongoing Federal aid.

On the expenditure side of the FY 2011-12 SAF budget ledger, the SFA now believes that final SAF expenditures will total $13.1 billion. This projected level of FY 2011-12 SAF expenditures reflects a $129.9 million or 1.0% increase from the final level of FY 2010-11 SAF expenditures. The $13.1 billion of projected SAF expenditures includes $13.0 billion of funding in the original enacted appropriation bill, supplemental funding for early childhood programs and distressed district transition grants, updated pupil counts, and other formula cost adjustments.

Table 14

FY 2011-12 GENERAL FUND/GENERAL PURPOSE REVENUE, EXPENDITURES, AND YEAR-END BALANCE (Millions of Dollars)	
	SFA Estimate
Revenue:	
Beginning Balance	$553.7
Ongoing Revenue:	
Senate Fiscal Agency Revenue Estimate (May 2012)	$9,088.3
Revenue Sharing Payments	(300.0)
One-Time Appropriation for Revenue Sharing	(30.0)
Shift of Short-Term Borrowing Costs to School Aid Fund	8.5
Subtotal Ongoing Revenue	$8,766.8
Non-ongoing Revenue:	
Use Tax on Health Maintenance Organizations	$201.1
Total Estimated GF/GP Revenue	**$9,521.6**
Expenditures:	
Initial Ongoing Appropriations	$8,275.1
Auditor General Boilerplate Appropriation	0.4
One-Time Appropriations	171.6
Enacted Supplementals:	
Public Act 38 of 2011: Tax Plan Implementation	1.0
Public Act 264 of 2011: SERS Reform Implementation	0.0
Public Act 267 of 2011: UI Bonding, Michigan Finance Authority	1.0
Public Act 275 of 2011: Heating Assistance	10.0
Public Act 278 of 2011: Multiple Departments	169.4
Public Act 53 of 2012: Michigan Employment Relations Commission	0.0
Public Act 64 of 2012: Other Post-Employment Benefits (OPEB)	144.5
Public Act 89 of 2012: Multiple Departments/DCH Fund Shift	(73.4)
Other Adjustments:	
Savings from One-Time OPEB Appropriation	(17.1)
Employee Concessions/Alternative Contingency Plans	(88.7)
Caseload and Cost Adjustments for DCH (SFA May 2012 Estimate)	(103.8)
Caseload and Cost Adjustments for DHS (SFA May 2012 Estimate)	(68.8)
Pending Senate-Proposed Supplementals	7.0
Total Estimated GF/GP Expenditures	**$8,428.2**
One-Time Appropriations to Budget Stabilization Fund ($255.8 million + $106.9 million)	$362.7
Projected Year-End GF/GP Balance	**$730.7**

Table 15

FY 2011-12 SCHOOL AID FUND REVENUE, EXPENDITURES, AND YEAR-END BALANCE (Millions of Dollars)	SFA Estimate
Revenue:	
Beginning Balance	$724.7
Senate Fiscal Agency Revenue Estimate (May 2012)	$10,914.0
General Fund/General Purpose Grant	$118.6
Federal Ongoing Aid	1,658.0
Subtotal Ongoing Revenue	$12,690.6
Total Estimated School Aid Fund Revenue	**$13,415.3**
Expenditures:	
Initial Ongoing K-12 Appropriations	$12,203.6
Public Act 29 of 2012 Adjustments	68.4
Pupil Adjustments (SFA May 2012 Estimate)	(4.0)
Partial Funding of Community Colleges with School Aid Fund	195.9
Partial Funding of Higher Education with School Aid Fund	200.0
One-Time Appropriations:	
Public School Employees Retirement System (MPSERS) Payments	$155.0
K-12 Best Practices	154.0
MPSERS Retirement Obligation Reform Reserve Fund	110.0
Partial Restoration of K-12 Small Class Size Grants	13.5
Public Act 29 of 2012 (Kindergarten Assessments/Grants)	16.5
Subtotal One-Time Appropriations	$449.0
Total Estimated School Aid Fund Expenditures	**$13,112.9**
Projected Year-End School Aid Fund Balance	**$302.4**

FY 2012-13 YEAR-END BALANCE

The Legislature has been considering Governor Snyder's FY 2012-13 State budget recommendation since the budget was presented to the Legislature on February 9, 2012. To date, the Senate and House have acted on all of the appropriation bills necessary to implement the budget. The Senate-passed appropriation bills reflect the Senate policy decision to reduce funding for most budgets as a hedge against potentially inadequate GF/GP revenue and to maintain the Governor's recommended funding levels for the education budgets and State Revenue Sharing. The Senate funds the $294.1 million Community Colleges budget completely from the School Aid Fund, but does this by shifting $96.5 million of GF/GP revenue to the K-12 budget, and shifting $96.5 million of SAF revenue from K-12 to Community Colleges. The Senate-passed bills retain the Governor's proposal to use $200.5 million of SAF revenue for the Higher Education budget. The Senate also reduces GF/GP funding for the Department of Transportation budget by $96.0 million and replaces it with $96.0 million in State Trunkline Fund (STF) revenue. Additional STF revenue will become available if pending Senate Bill 351, which earmarks a percentage of sales tax revenue to the STF instead of to the General Fund, is enacted. Using the Senate-passed appropriation bills as the basis of the FY 2012-13 budget, there will be positive ending balances for both the GF/GP and the SAF balance sheets.

Table 16 provides a summary of the $394.3 million projected year-end balance in the FY 2012-13 GF/GP budget. This projected balance is based on the FY 2011-12 projected year-end balance carry-forward, the SFA estimate of current-law revenue, revenue adjustments that are part of the Senate-passed appropriation bills, and the Senate-passed appropriation levels.

Table 16

FY 2012-13
GENERAL FUND/GENERAL PURPOSE
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Beginning Balance	$730.7
Ongoing Revenue:	
Senate Fiscal Agency Revenue Estimate (May 2012)	$8,928.4
Revenue Sharing Payments	(335.6)
One-Time Appropriation for Revenue Sharing	(25.0)
Senate Bill 351: Increase Sales Tax Earmark to State Trunkline Fund	(96.0)
Shift of Short-Term Borrowing Costs to School Aid Fund	10.0
Subtotal Ongoing Revenue	$8,481.8
Total Estimated GF/GP Revenue	**$9,212.5**
Expenditures:	
Ongoing Appropriations:	
Governor's Recommended Appropriations	$8,626.8
Governor's Recommended Revisions (March 2012)	(4.5)
Subtotal Ongoing Appropriations	$8,622.3
One-Time Appropriations:	
Governor's Recommended Appropriations	213.8
Governor's Recommended Appropriation to School Aid Fund	181.4
Subtotal One-Time Appropriations	$395.2
Senate Adjustments to Governor	(231.5)
Senate-Passed Appropriations	**$8,786.0**
Caseload and Cost Adjustments for DCH (SFA May 2012 Estimate)	(52.7)
Caseload and Cost Adjustments for DHS (SFA May 2012 Estimate)	(45.1)
Total Estimated GF/GP Expenditures	**$8,688.2**
One-Time Appropriation to Budget Stabilization Fund	$130.0
Projected Year-End GF/GP Balance	**$394.3**

On the revenue side of the FY 2012-13 GF/GP budget ledger, the SFA now believes that current-law GF/GP revenue will total $8.9 billion. This projected level of FY 2012-13 GF/GP revenue reflects a $159.9 million or 1.8% decline from the estimated level of FY 2011-12 GF/GP revenue. The May 2012 SFA estimate of current-law revenue represents a $106.4 million decline from the January 2012 consensus revenue estimate. The Senate-passed GF/GP appropriation bills include statutory revenue sharing payments of $360.6 million, which reduce GF/GP revenue by that amount. The FY 2012-13 estimated GF/GP revenue total of $9.2 billion assumes enactment of Senate Bill 351, which earmarks additional GF/GP revenue to the State Trunkline Fund.

On the expenditure side of the FY 2012-13 GF/GP budget ledger, the Senate-passed appropriation bills total $8.8 billion. Based on revised SFA estimates, caseload and cost adjustments in the Department of Community Health (DCH) will lead to $52.7 million of GF/GP appropriation reductions and caseload and cost changes in the Department of Human Services (DHS) will reduce GF/GP appropriations by $45.1 million. The Senate-passed budget also includes a $130.0 million GF/GP appropriation to the State's Budget Stabilization Fund. Table 17 provides a summary of the Governor's FY 2012-13 Adjusted Gross and GF/GP budget recommendations compared with the Senate-passed appropriation bills. The Senate-passed appropriation bills are $139.1 million Adjusted Gross, and $231.5 million GF/GP, below the Governor's recommendations.

Table 17

FY 2012-13 ADJUSTED GROSS AND GF/GP APPROPRIATIONS GOVERNOR'S REVISED RECOMMENDATION VS SENATE-PASSED	Adjusted Gross Appropriations			GF/GP Appropriations		
Department/Budget Area	**Governor's Revised Rec.**	**Senate-Passed**	**Adj. Gross $ Difference**	**Governor's Revised Rec.**	**Senate-Passed**	**GF/GP $ Difference**
Agriculture and Rural Development	$74,195,300	$75,947,000	$1,751,700	$34,160,500	$35,612,200	$1,451,700
Attorney General	60,865,100	60,865,100	0	33,690,500	33,690,500	0
Civil Rights	14,332,600	14,332,600	0	11,520,700	11,520,700	0
Community Colleges	294,130,500	294,130,600	100	96,516,400	0	(96,516,400)
Community Health	15,085,456,300	15,025,489,200	(59,967,100)	2,847,864,700	2,825,612,300	(22,252,400)
Corrections	2,063,505,800	1,990,929,100	(72,576,700)	1,982,185,600	1,909,608,900	(72,576,700)
Education	330,952,900	324,865,200	(6,087,700)	68,043,200	64,298,500	(3,744,700)
Environmental Quality	422,507,000	422,507,000	0	29,405,000	30,053,300	648,300
Executive	4,887,900	4,887,900	0	4,887,900	4,887,900	0
Higher Education	1,399,981,500	1,400,531,500	550,000	1,102,389,400	1,102,939,400	550,000
Human Services	6,561,645,100	6,513,697,900	(47,947,200)	1,028,796,400	991,406,500	(37,389,900)
Judiciary	266,121,900	271,121,900	5,000,000	163,551,500	168,551,500	5,000,000
Legislative Auditor General	14,895,600	14,895,600	0	13,004,900	13,004,900	0
Legislature	109,522,500	113,877,500	4,355,000	108,012,700	112,367,700	4,355,000
Licensing and Regulatory Affairs	819,016,700	819,017,000	300	35,570,900	35,571,000	100
Military and Veterans Affairs	166,672,700	167,407,100	734,400	34,733,400	34,733,400	0
Natural Resources	338,534,900	332,304,200	(6,230,700)	19,637,900	16,737,900	(2,900,000)
School Aid	12,687,014,800	12,712,649,200	25,634,400	200,000,000	296,516,400	96,516,400
State	200,822,500	200,822,500	0	14,041,300	14,041,300	0
State Police	547,908,800	547,708,800	(200,000)	316,891,400	312,691,400	(4,200,000)
Technology, Management, and Budget	503,408,700	501,408,700	(2,000,000)	401,916,200	399,916,200	(2,000,000)
Transportation	3,448,558,400	3,458,558,400	10,000,000	119,000,000	23,000,000	(96,000,000)
Treasury-Debt Service	140,554,900	140,554,900	0	135,040,400	135,040,400	0
Treasury-Operations	460,713,200	462,587,400	1,874,200	67,931,800	69,507,200	1,575,400
Treasury-Revenue Sharing	1,061,719,700	1,073,193,000	11,473,300	0	1,473,300	1,473,300
Treasury-Strategic Fund Agency	962,211,500	956,738,200	(5,473,300)	148,701,600	143,228,300	(5,473,300)
Total GF/GP Appropriations	**$48,040,136,800**	**$47,901,027,500**	**($139,109,300)**	**$9,017,494,300**	**$8,786,011,100**	**($231,483,200)**

Table 18 provides the details of the SFA estimate of a $232.0 million balance in the FY 2012-13 SAF budget. This projected budget balance is based on the SFA's estimate of current-law revenue and the Senate-passed K-12 School Aid appropriation bill.

On the revenue side of the FY 2012-13 SAF budget, the SFA now believes that current-law SAF revenue will total $11.1 billion. This projected level of FY 2012-13 SAF revenue is $225.3 million or 2.1% above the estimated level of FY 2011-12 SAF revenue. The May 2012 SFA estimate of restricted SAF revenue represents an $84.4 million increase from the January 2012 consensus revenue estimate. The estimate of total SAF revenue of $13.4 billion includes $302.4 million of surplus SAF revenue carried forward from FY 2011-12, a $296.5 million GF/GP grant to the SAF budget, and $1.7 billion of ongoing Federal aid.

On the expenditure side of the FY 2012-13 SAF budget ledger, the Senate-passed K-12 School Aid appropriation bill totals $13.2 billion. The SFA estimates that there will be no FY 2012-13 formula funding cost adjustments as a result of revised pupil estimates. As was mentioned previously, the Senate completely funds the $294.1 million Community Colleges budget from the SAF. The Senate concurred with the Governor's recommendation to partially fund the Higher Education budget with $200.5 million of SAF revenue. The FY 2012-13 Senate-passed K-12 appropriation bill does not include the Governor's recommendations for MPSERS reimbursement or best practices but instead directs the funding to a per-pupil foundation allowance increase of $232 for the minimum and $116 for the basic. The Senate also appropriates $40.0 million for pupil performance grants, with student growth measured by a computer adaptive test, and $10.0 million for consolidation innovation grants.

Table 18

FY 2012-13
SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Beginning Balance	$302.4
Senate Fiscal Agency Revenue Estimate (May 2012)	$11,139.3
Other Revenue Adjustments:	
General Fund/General Purpose Grant	296.5
Federal Ongoing Aid	1,701.0
Subtotal Ongoing Revenue	$13,136.8
Total Estimated School Aid Fund Revenue	**$13,439.2**
Expenditures:	
Ongoing Appropriations:	
Senate-Passed K-12 Appropriations	$12,662.6
Pupil Adjustments (SFA May 2012 Estimate)	0.0
Complete Funding of Community Colleges with School Aid Fund	294.1
Partial Funding of Higher Education with School Aid Fund	200.5
Subtotal Ongoing Appropriations	$13,157.2
One-Time Appropriations:	
Pupil Performance Grants	$40.0
Consolidation Innovation Grants	10.0
Subtotal One-Time Appropriations	$50.0
Pupil and Other Cost Adjustments	$0.0
Total Estimated School Aid Fund Expenditures	**$13,207.2**
Projected Year-End School Aid Fund Balance	**$232.0**

FY 2013-14 BUDGET OUTLOOK

When Governor Snyder presented his FY 2012-13 budget on February 9, 2012, he also proposed anticipated appropriations for FY 2013-14. The FY 2012-13 appropriation bills passed by the House and the Senate include references to anticipated FY 2013-14 appropriations, which are only expressions of an intent to appropriate those funds for FY 2013-14.

Table 19 provides a summary of the $493.5 million projected year-end balance in the FY 2013-14 GF/GP budget. This projected balance is based on carrying forward the FY 2012-13 projected year-end balance, the SFA estimate of current-law revenue, and the FY 2013-14 Governor's appropriation recommendation, adjusted for the FY 2012-13 Senate-passed reductions and revised caseload and cost estimates for the DCH and DHS.

Table 19

FY 2013-14
GENERAL FUND/GENERAL PURPOSE
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Revenue:	
Beginning Balance	$394.3
Ongoing Revenue:	
Senate Fiscal Agency Revenue Estimate (May 2012)	$9,156.8
Revenue Sharing Payments	(350.1)
Senate Bill 351: Increase Sales Tax Earmark to State Trunkline Fund	(96.0)
Shift of Short-Term Borrowing Costs to School Aid Fund	20.0
Subtotal Ongoing Revenue	$8,730.7
Total Estimated GF/GP Revenue	**$9,125.0**
Expenditures:	
Ongoing Appropriations:	
Governor's Recommended Appropriations (February 2012)	$8,881.9
Subtotal Ongoing Appropriations	$8,881.9
One-Time Appropriations:	
Governor's Recommended Appropriations (February 2012)	$13.6
Subtotal One-Time Appropriations	$13.6
Other Adjustments:	
Continuation of Senate-Passed Adjustments from FY 2012-13	($231.5)
Caseload and Cost Adjustments for DCH (SFA May 2012 Estimate)	($53.1)
Caseload and Cost Adjustments for DHS (SFA May 2012 Estimate)	($39.4)
Decrease in Federal Medicaid Match Rate	$60.0
Total Estimated GF/GP Expenditures	**$8,631.5**
Projected Year-End GF/GP Balance	**$493.5**

On the revenue side of the FY 2013-14 GF/GP budget ledger, the SFA now believes that GF/GP current-law revenue will total $9.2 billion. This projected level of GF/GP FY 2013-14 revenue reflects a $228.4 million or 2.6% increase from estimated current-law GF/GP revenue for FY 2012-13. The May 2012 SFA estimate of current-law GF/GP revenue represents a $79.1 million decline from the January 2012 consensus revenue estimate. The FY 2013-14 estimated GF/GP revenue total of $9.1 billion assumes a $350.1 million GF/GP cost for the statutory State Revenue Sharing payments proposed by the Governor, a continuation of the $96.0 million earmark to the State Trunkline Fund, and the shifting of $20.0 million in short-term borrowing costs to the School Aid Fund.

On the expenditure side of the FY 2013-14 budget ledger, if the Governor's FY 2013-14 appropriation recommendations incorporate the FY 2012-13 Senate-passed budget reductions, and are adjusted for the decrease in the Federal Medicaid match rate and for caseload and cost revisions for the Departments of Community Health and Human Services, then total FY 2013-14 GF/GP expenditures are estimated to be $8.6 billion.

Table 20 provides a summary of the $261.3 million projected year-end balance in the FY 2013-14 SAF budget. This projected balance is based on the FY 2012-13 projected year-end carry-forward balance, the SFA estimate of current-law revenue, and the estimate of the FY 2013-14 Senate appropriation levels, adjusted for pupil counts and other costs.

On the revenue side of the FY 2013-14 SAF budget ledger, the SFA now believes that current-law SAF revenue will total $11.4 billion. This projected level of FY 2013-14 SAF revenue reflects a $283.0 million or 2.5% increase from estimated current-law SAF revenue for FY 2012-13. The May 2012 SFA estimate of current-law SAF revenue represents an $84.4 million increase from the January 2012 consensus revenue estimate. The FY 2013-14 estimated SAF revenue total of $13.5 billion also assumes a GF/GP grant of $115.1 million and $1.7 billion in ongoing Federal aid.

On the expenditure side of the FY 2013-14 budget ledger, when the Senate's FY 2013-14 recommendations are adjusted for funding formula costs of $30.0 million, total FY 2013-14 SAF expenditures are estimated to be $13.2 billion. The Senate's FY 2013-14 SAF budget estimate continues to completely fund Community Colleges at $294.1 million and Higher Education at $200.5 million, from SAF revenue.

Table 20

FY 2013-14
SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	SFA Estimate
Beginning Balance	$232.0
Senate Fiscal Agency Revenue Estimate (May 2012)	$11,422.3
Other Revenue Adjustments:	
General Fund/General Purpose Grant	115.1
Federal Ongoing Aid	1,701.0
Subtotal Ongoing Revenue	$13,238.4
Total Estimated School Aid Fund Revenue	**$13,470.4**
Expenditures:	
Ongoing Appropriations:	
Senate Recommendation for K-12 Appropriations	$12,684.5
Pupil Adjustments (SFA May 2012 Estimate)	30.0
Complete Funding of Community Colleges with School Aid Fund	294.1
Partial Funding of Higher Education with School Aid Fund	200.5
Subtotal Ongoing Appropriations	$13,209.1
Total Estimated School Aid Fund Expenditures	**$13,209.1**
Projected Year-End School Aid Fund Balance	**$261.3**

OTHER POTENTIAL BUDGET ISSUES FOR FY 2012-13 AND FY 2013-14

The FY 2012-13 Senate-passed appropriation bills do not account for several pending expenditure items. Among the issues that may have an impact on the spending targets for FY 2012-13 are the following:

Autism Coverage Fund: On May 10, 2012, the Governor requested $15.0 million for this Fund in the Department of Licensing and Regulatory Affairs.

Court Cases: There are several pending court cases that could affect the budget.

Federal Budget Actions: Potential funding reductions at the Federal level could have a negative impact on Michigan's budget.

Fee Proposals: The Governor has requested $86.5 million in total fee adjustments. Although the Senate appropriation bills incorporate $83.5 million of the total request, legislation is still necessary to implement the fee changes.

Implementation Legislation: In addition to fees, there are various pieces of legislation that would be required to implement other parts of the FY 2012-13 budget, including an adjustment to airport parking taxes related to health care revenue and changes to the low income heating assistance program.

Michigan Public School Employees Retirement System Reforms: If legislation is enacted, there is likely to be a significant fiscal impact on the State and K-12 school districts.

Mortgage Settlement: At least $97.2 million from the Joint State-Federal Foreclosure Settlement is available for appropriation in the State of Michigan.

Personal Property Tax Reform: If legislation is enacted, there are likely to be significant fiscal impacts on State and local revenue.