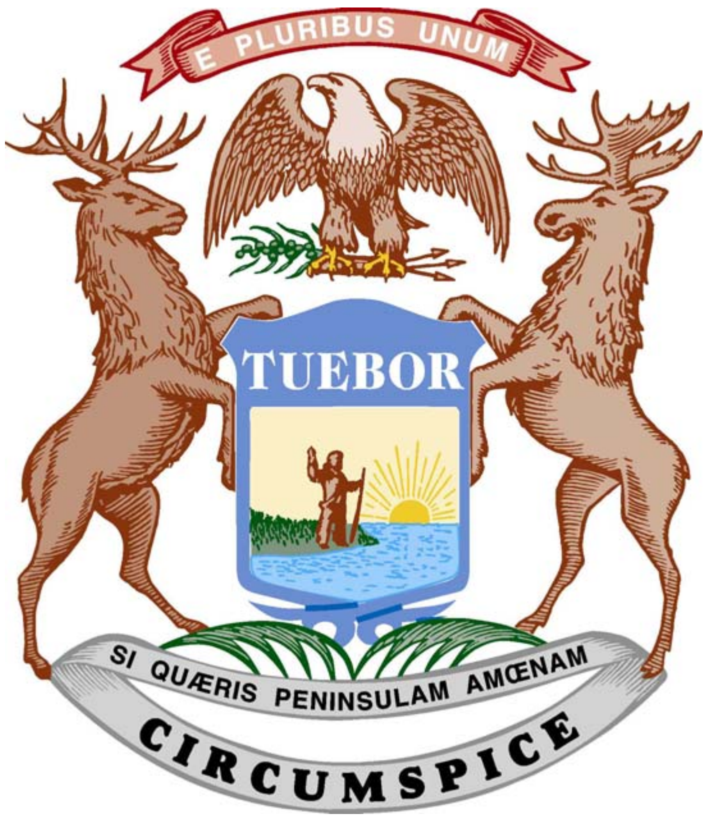
Administration Estimates Michigan Economic and Revenue Outlook



FY 2008-09 and FY 2009-10

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May 15, 2009

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Revenue Review and Outlook

- FY 2008 General Fund-General Purpose (GF-GP) revenue totaled $9,358.7 million, a 12.5 percent increase from 2007. FY 2008 GF-GP revenues were increased by the increase in the income tax rate from 3.9 percent to 4.35 percent and the enactment of the MBT surcharge. School Aid Fund (SAF) revenue rose 3.2 percent to $11,512.9 million.

- Due to significant economic weakness, job declines, and new tax credits, including the state earned income tax credit and film production credit, FY 2009 GF-GP revenue is forecast to decline 21.0 percent to $7,397.7 million, down $908.4 million from the January 2009 Consensus estimate. FY 2009 SAF revenue is forecast to decline 4.8 percent to $10,956.2 million, which is $412.5 million below the January 2009 Consensus estimate.

- FY 2010 GF-GP revenue is forecast to decrease 4.8 percent to $7,045.6 million, which is $888.8 million below the January 2009 Consensus estimate. FY 2010 SAF revenue is forecast to decline 1.5 percent to $10,791.2 million, which is $504.7 million less than the January 2009 Consensus estimate.

2009 and 2010 U.S. Economic Outlook

- Real gross domestic product is forecast to plummet in 2009, falling 3.4 percent before growing a slight 1.2 percent in 2010.
- Wage and salary employment is projected to decline through mid-2010 before rising slightly over the second half of 2010. Between the end of 2008 and end of 2010, the U.S. economy is expected to lose a net 5.6 million jobs.
- The U.S. unemployment rate is forecast to average 9.1 percent in 2009 and a record high 10.1 percent in 2010.
- Housing starts are projected to total fewer than 1.0 million units in both 2009 and 2010. Projected 2009 housing starts of 592,600 units would be the lowest number of annual starts in at least 50 years.
- In 2009, light vehicle sales are forecast to total just 10.0 million units (a 39-year low) before rising to 11.8 million units in 2010.
- Driven by sharp declines in oil prices and a sagging U.S. economy, consumer prices are forecast to fall 0.2 percent in 2009 – its first decline since 1955. Inflation is then expected to accelerate to 2.0 percent growth in 2010.

2009 and 2010 Michigan Economic Outlook

- Michigan wage and salary employment is forecast to fall sharply in 2009 (-7.2 percent, its sharpest one-year decline since 1958). Employment is then expected to decline by an additional 3.8 percent in 2010, marking the tenth straight year of State employment declines.
- After averaging 8.4 percent in 2008, the Michigan unemployment rate is forecast to rise to 14.1 percent in 2009. The rate is then expected to increase to 14.8 percent in 2010 -- the State's highest annual unemployment rate since 1982.
- Between the end of 2008 and end of 2009, Michigan manufacturing employment is projected to fall by nearly one-third. Over the same period, transportation equipment employment is forecast to be cut in half with sector employment falling to 79,000 jobs by the end of 2010.
- Wages and salaries are forecast to decrease 4.8 percent in CY 2009 and to fall an additional 1.1 percent in CY 2010, compared with a 0.1 percent drop in CY 2008. Personal income will fall 2.2 percent in 2009 and fall 1.0 percent in 2010.
- In FY 2009, Michigan wages and salaries income is expected to fall 3.7 percent before decreasing an additional 2.7 percent in FY 2010.
- Disposable income is forecast to be flat in FY 2009 and then fall 0.2 percent in FY 2010.

Forecast Risks

- More severe and broader than expected fallout from the financial crisis and attendant credit crunch would further roil financial markets, blunt monetary policy's effectiveness and retard economic growth.
- Failure of one or more of the Big Three vehicle manufacturers would lead to more significant employment declines in Michigan.
- Higher oil prices would depress economic activity by lowering consumer's discretionary income. Higher oil prices would also spur higher inflation.
- The baseline economic forecast sees Michigan being hit disproportionately harder because of its greater reliance on the manufacturing sector in general and the automotive industry in particular. This greater reliance could lead to a still weaker Michigan economy than forecast.
- Geopolitical factors, such as a domestic terrorist attack, would depress economic activity. A significant negative reaction to the H1-N1 virus would also lead to a weaker U.S. economy.
- Less steep housing market downturn could boost U.S. and Michigan economic activity above the projected baseline forecast.

ECONOMIC REVIEW AND OUTLOOK
May 15, 2009

Current U.S. Economic Situation

Summary

The U.S. economy has officially been in recession since December 2007 -- as determined by the National Bureau of Economic Research.

Over the last two quarters, real (inflation adjusted) GDP has fallen sharply. Real GDP declined at a 6.3 percent annual rate in 2008Q4, followed by a 6.1 percent drop in 2009Q1. As a result, the U.S. economy posted its worst two-quarter performance in fifty years. Real GDP has now declined for three straight quarters – the first such stretch since 1974-75.

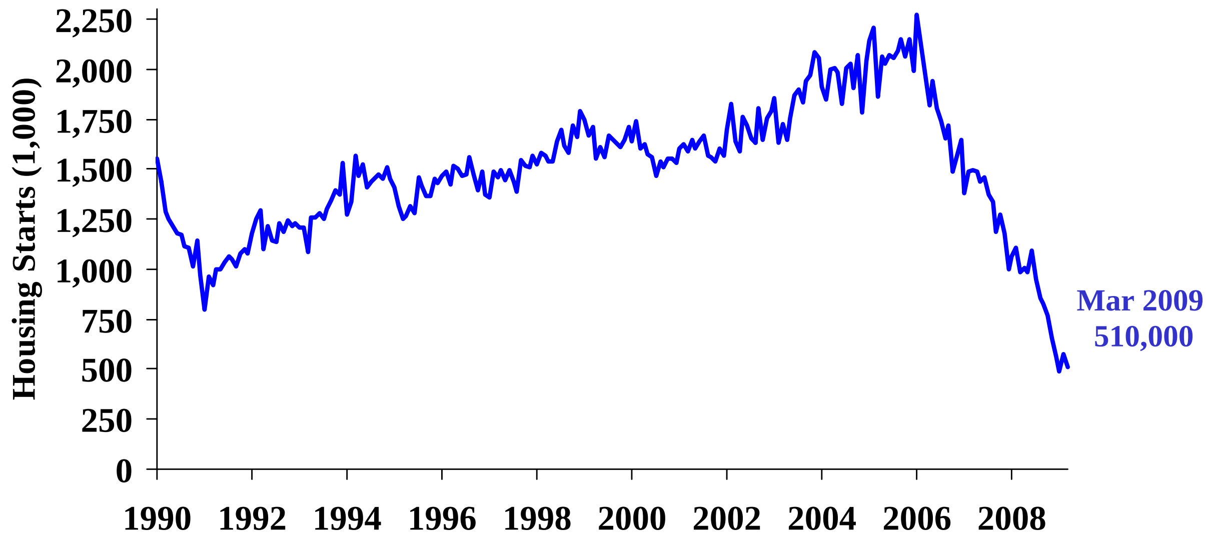
Sharp declines in consumption and in investment each accounted for about half of the sharp real GDP decline at the end of 2008. In the first quarter of 2009, real consumption actually rose with a significant increase in durable consumption. However, fixed investment fell very sharply in 2009Q1, falling at a 37.9 percent annual rate -- its steepest rate of decline in a recorded history dating back to 1947. Both residential and non-residential investment were down by about 38.0 percent. A sharp decline in inventory investment also significantly contributed to the large 2009Q1 real GDP decline. While this large drop in inventories depressed first quarter growth, it may contribute to less sharp declines in future quarters as businesses rebuild drawn down inventories.

While residential investment contributed to the bulk of overall investment's decline in 2008Q4, non-residential investment accounted for the vast majority of investment's 2009Q1 decline. Nevertheless, the *level* of residential investment fell to a 17-year low in 2009Q1. Compared to its peak (2005Q4), residential investment is down by more than half (-51.1 percent). 2009Q1 marked the 12th consecutive quarter of double digit declines in residential investment -- the first such stretch on record.

Housing Market

The housing market is in its worst shape in a recorded history dating back to 1959. Calendar year 2008 housing starts totaled only 905,500 units – the lowest level on record and the first time annual starts fell below 1.0 million. This performance stands in sharp contrast to the 2.1 million unit pace in 2005 and even the 1.8 million and 1.4 million unit pace in 2006 and 2007 respectively. In the fourth quarter of 2008, starts dropped to their lowest quarterly level on record (660,000 unit annual rate) before falling to a new record low in the first quarter of 2009 (523,000 unit rate).

Housing Starts Little Changed from Record Low



Source: U.S. Census Bureau.

In January 2009, home builder sentiment fell to a record low with the National Association of Home Builders (NAHB) index falling to 8, less than half its level a year earlier. The index rose one point in February to 9 where it remained in March. In April, the index rose to 14. However, April's reading stands six points below its year-ago level.

In 2008, existing home sales averaged 4.9 million units. However, sales fell off considerably in November 2008, dropping to a 4.5 million unit annual rate. Between November 2008 and March 2009, sales have fluctuated between a 4.5 million unit rate and 4.7 million unit rate. In March, sales came in at a 4.6 million unit pace – down 7.1 percent from a year ago. Foreclosure and other distressed sales have helped to stabilize sales. Months of sales inventory have risen considerably over the past few years, rising from 6.5 months to 10.5 months. In 2009Q1, months supply fell slightly from year-end levels, averaging 9.7 months.

With new construction of homes down considerably from a year ago, the number of vacant homes is also down substantially from a year ago. The number of unoccupied housing units for sale total is down 257,000 units from one year ago. However, the number is still running 800,000 units above the 1996 to 2005 average.

Construction employment was down 12.5 percent from a year ago -- compared to a 3.5 percent year-over-year decline in overall payroll employment.

Overall, the Federal Reserve remained negative about the residential real estate market, noting in its April *Beige* Book, that "[h]ousing markets remained depressed overall," and "[n]ew home construction activity fell further . . . as inventories remained elevated."

Nevertheless, the Fed acknowledged that improved buying conditions provided a measure of hope for housing markets:

> . . . there were some signs that conditions may be stabilizing. Many Districts said factors such as homebuyer tax credits, low mortgage rates, and more affordable prices led to a rising number of potential buyers. . . .
>
> Low mortgage rates were fueling refinancing activity. Outlooks for the housing sector were generally more optimistic than in earlier surveys, with respondents hopeful that increased buyer interest would lead to better sales.

Counterbalancing this note of tempered optimism for the residential real estate market, the Fed pointed to worsening conditions in the non-residential real estate markets:

> Nonresidential real estate conditions continued to deteriorate over the past six weeks. Demand for office, industrial and retail space continued to fall, and there were reports of increases in sublease space. . . . Construction activity continues to slow, and several Districts noted increased postponement of both private and public projects. Nonresidential construction is expected to decline through year-end . . .

House Prices

There are three major housing price measures. All three price measures point to a substantial retrenchment in housing prices.

In February 2009, the Case-Shiller 20-metro area housing price index was down 18.6 percent from a year ago. On a year-over-year basis, housing prices declined every month between January 2007 and January 2009 with the rate of decline accelerating each month. The rate of decline slowed – although only slightly – in February.   The index has posted double-digit year-over-year declines since January 2008. Compared to its peak level set in mid-2006, home prices are down 30.7 percent.

The Federal Housing Finance Agency (formerly OFHEO), which excludes mortgages over $417,000, reports similar, but not as dramatic, findings. Compared to a year ago, the February 2009 FHFA index was down 6.5 percent.

The National Association of Realtors reported that the March 2009 median existing-house price is down by 12.4 percent from a year ago. Foreclosure and other distressed sales have played a significant role in depressing prices.

Repercussions

The sharp housing market downturn and concomitant home price declines -- along with a worsening economy and jobs market -- have had serious repercussions.

Rising delinquency rates point to higher future foreclosure rates. In 2008Q4, the mortgage delinquency rate rose to a new record high (7.88 percent) for the 36-year old Mortgage Bankers Association's (MBA) National Delinquency Survey. The delinquency rate is up 0.89 of a percentage point from 2008Q3, and 2.06 percentage points higher than a year ago.

The delinquency rate increased for both prime and sub-prime loans compared to a year ago. The prime loan delinquency rate rose 1.82 percentage points to 5.06 percent while the sub-prime delinquency rate was up 4.57 percentage points to 21.88 percent.

More than one in ten (11.18 percent) of all mortgage loans were either delinquent or in foreclosure – a record high.

When the housing market was booming, lenders relaxed their lending standards and extended credit to subprime (more risky, less qualified) borrowers. Now that the booming market has gone bust, lenders in turn have tightened their lending standards – even beyond what they were prior to the boom.

With more and more borrowers defaulting on their loans, financial institutions have written off large sums of sub-prime loans. Because many loan originators packaged and sold their loans to other companies, the housing market bust has extended beyond the original lenders. The write-offs are in the billions of dollars for many high-profile companies. These write offs have served to reduce monies available to lend (even outside the mortgage market). The write offs have also reduced funds to invest and impacted the stock market as publicly held companies holding risky loans have seen their stock values plummet. The result has been a credit crunch with repercussions that extend beyond the housing and mortgage markets, let alone just beyond the subprime mortgage market.

Lending conditions remain tight. However, there are recent indications that the *rate* of tightening is slowing. While 69.2 percent of banks reported tighter lending conditions for prime mortgage loans in the fourth quarter of 2008, 47.1 percent reported additional tightening in the 2009Q1 and 49.0 percent reported tighter standards in 2009Q2. Similarly, while all respondent banks reported tightening standards for sub-prime borrowers in 2008Q4, only half reported tightening sub-prime borrowing standards further in 2009Q1.

A smaller percentage of banks reported tighter lending standards for commercial and industrial loans to large and mid-sized firms over the first half of 2009 as compared to the end of 2008. In 2008Q4, 83.6 percent of banks reported tighter lending standards. However, that figure dropped to 64.2 percent in 2009Q1 and to 39.6 percent in 2009Q2.

As an indication of investors' flight to safety, the 90-day Treasury bill rate fell to essentially zero percent in early December 2008. That is, investors were willing to sacrifice any return to assure themselves that their principal would be preserved in the midst of the current financial turmoil. Since December, that rate has risen slightly, averaging 0.25 percent in March 2009.

Banks remain considerably more wary than usual of lending to each other. However, this wariness has lessened considerably compared to last fall when the panic was at its height. The difference between the three-month LIBOR rate, a benchmark for the rate banks charge each other to borrow from one another, and the 90-day Treasury bill rate rose to 4.58 percentage points in mid-October. However, the spread recently fell below one percentage point. Similarly, junk corporate bond rate spreads are now less than thirteen percentage points. While this is well above the long-run average of five percentage points, it is significantly below the twenty percentage point spreads at the peak of the panic.

Declining home prices have meant lower homeowner equity (house value less mortgage debt). The Federal Reserve reported that homeowner equity fell to a record low 43.0 percent in 2008Q4. Prior to the current housing bust, homeowner equity had never fallen below 50 percent. The *amount* of homeowner equity fell 21.1 percent between 2007Q4 to 2008Q4.

During the height of the previous expansion, homeowners extracted considerable equity from their homes. These mortgage equity withdrawals played a key role in fueling the expansion. Homeowners extracted equity in several ways including taking out home equity loans and refinancing. However, in recent quarters, net mortgage equity withdrawals have turned negative as home prices have fallen and more owners have lost their homes altogether in foreclosures.

In the fourth quarter of 2008, *overall* consumer net worth declined a record 17.9 percent compared to a year ago (-$11.2 trillion). Spillover into broader financial markets has meant sharp declines in stock prices along with the sharp house price declines.

While households borrowed at a $765.8 billion annual rate in 2007Q4, that rate nearly halved in 2008Q1 and fell by 89 percent in 2008Q2. In 2008Q4, for the first time in a history going back to 1952, household borrowing turned negative (-$278.7 billion annual rate). With the substantial declines in household borrowing, the personal savings rate has risen sharply. Between March 2008 and March 2009, the personal savings rate rose from a meager 0.2 percent of disposable income to 4.2 percent.

Despite the higher savings rate, consumer finances remain in very poor shape. The deterioration in consumer finances has been dramatic and broad-based. Household liabilities that are in either delinquency or default totaled $1.0 trillion at the end of 2009Q1 (9.0 percent of all liabilities). This is up one percentage point from 2008Q4. More striking, just three years ago, there were under $330 billion in delinquent and defaulting loans accounting for only 3.4 percent of liabilities.

Given the inter-connectedness of financial and economic markets, what began as a U.S. recession has become a severe and broadly encompassing global one. As a result, the International Monetary Fund (IMF) predicts that world gross domestic product (GDP) will fall by at least 0.5 percent in 2009, which would be the first annual decline in world GDP in 60 years. Further, according to the Economic Cycle Research Institute (ECRI), six of the world's seven major developed countries that make up the G7 are now in recession.

Monetary Policy

Interest Rates

Faced with credit market tightening, turmoil in the financial markets and the foundering housing market, the Federal Open Market Committee (FOMC) began cutting the target federal funds rate in September 2007. Between September 2007 and October 2008 in a combination of scheduled and unscheduled meetings, the FOMC cut the federal funds rate from 5.25 percent to 1.00 percent. Finally, at its December 16, 2008 meeting, the FOMC took an unprecedented step and lowered the target federal funds rate range to 0.00 percent to 0.25 percent. At the same time, the FOMC cut the discount rate to 0.50 percent, its lowest level since the 1940s.

In total, between September 2007 and December 2008, the Federal Reserve cut the target federal funds rate ten times and the discount rate eleven times. As a result, the target federal funds rate was cut a total of 500-525 basis points and the discount rate was cut 525 basis points.

At its April 29, 2009, meeting the FOMC noted that while the economy had continued to contract since its March meeting, that rate of contraction had slowed – although only modestly. However, the FOMC believes that "economic activity is likely to remain weak for a time." Given its assessment, the FOMC affirmed that would continue to maintain its 0.00 percent to 0.25 percent federal funds rate range for "an extended period."

Additional Recent Federal Reserve Bank Actions

In addition to dramatically lowering its key interest rates to record low levels, the Federal Reserve has also been addressing the financial and economic crises by injecting substantial liquidity into financial markets. While having remained relatively flat over the past few years, Federal Reserve Bank reserves have exploded since mid-September 2008. Between mid-September and mid-December, Federal Reserve Bank credit more than doubled from $890.4 billion to $2,253.7 billion. Reserve bank credit has remained at these extremely high levels with credit totaling $2,087.6 billion at the end of April.

In November 2008, the Federal Reserve Board created the Term Asset-Backed Securities Loan Facility (TALF) to support the asset backed securities market, a key source of credit for households and small businesses, by helping to unfreeze the ABS market and narrow outsized interest rate spreads:

> The asset-backed securities (ABS) market has been under strain for some months. This strain accelerated in the third quarter of 2008 and the market came to a near-complete halt in October. At the same time, interest rate spreads on AAA-rated tranches of ABS rose to levels well outside the range of historical experience, reflecting unusually high risk premiums. The ABS markets historically have funded a substantial share of credit to consumers and businesses. Continued disruption of these markets could significantly limit the availability of credit to households and businesses of all sizes and thereby contribute to further

> weakening of U.S. economic activity. The TALF is designed to increase credit availability and support economic activity by facilitating renewed issuance of consumer and business ABS at more normal interest rate spreads.

When first introduced, the Fed announced plans to lend up to $200 billion in loans under TALF. In February 2009, the Federal Reserve stated that it was ready to expand the Term Asset-Backed Securities Loan Facility to $1 trillion. The Fed also indicated that it might broaden the types of ABS supported by the facility (e.g., ABS backed by certain commercial and residential mortgages). The Fed officially launched the program in March 2009. On May 1, 2009, the Fed announced that, starting in June, commercial mortgage-backed securities (CMBS) and securities backed by insurance premium finance loans would be eligible collateral under the TALF.

Many of the liquidity programs that the Federal Reserve had instituted in 2008 to address various financial crises were scheduled to expire April 30, 2009. However, "in light of continuing substantial strains in many financial markets," the Federal Reserve announced an extension of these programs in early February 2009. With the announcement, the programs were extended an additional six months, now expiring October 30, 2009.

Programs extended through October 30, 2009 include:

- Asset-Backed Commercial Paper Money Market Mutual Liquidity Facility (AMLF)
- Money Market Investor Funding Facility (MMIFF)
- Commercial Paper Funding Facility (CPFF)
- Term Securities Lending Facility (TSLF)
- Primary Dealer Credit Facility (PDCF)

In its April 29, 2009, statement, the FOMC reaffirmed that "Although the economic outlook has improved modestly since the March meeting, partly reflecting some easing of financial market conditions, economic activity is likely to remain weak for a time." Given this the Committee also reaffirmed its plans to dramatically increase and expand the diversity of its holdings and to facilitate the functioning of financial markets via numerous liquidity programs:

> As previously announced, to provide support to mortgage lending and housing markets and to improve overall conditions in private credit markets, the Federal Reserve will purchase a total of up to $1.25 trillion of agency mortgage-backed securities and up to $200 billion of agency debt by the end of the year. In addition, the Federal Reserve will buy up to $300 billion of Treasury securities by autumn. The Committee will continue to evaluate the timing and overall amounts of its purchases of securities in light of the evolving economic outlook and conditions in financial markets. The Federal Reserve is facilitating the extension of credit to households and businesses and supporting the functioning of financial markets through a range of liquidity programs. The Committee will continue to carefully monitor the size and composition of the Federal Reserve's balance sheet in light of financial and economic developments.

The massive size and broad range of the Federal Reserve's programs has and will continue to play a critical role in facilitating and improving the functioning of financial markets. However, financial market conditions remain historically poor and will continue to pose a substantial challenge to the ultimate effectiveness of these proposals.

Fiscal Policy

On February 17, 2009, the President signed the American Recovery and Reinvestment Act. The Act took a multi-pronged approach and included federal tax relief, expansion of unemployment benefits and other social welfare provisions, and domestic spending in education, health care, and infrastructure, including the energy sector. The bill's stimulus exceeded $700 billion. The bill provided for $218 billion in tax cuts, with the bulk ($167 billion) going to individuals.[1] The key element of the individual tax cuts was a $400 per worker ($800 per couple) tax credit. The Act also included an expansion of the child tax credit and the college credit. The Act increased Medicaid funding to states by an estimated $86.6 billion. The Act also provided a 65 percent subsidy of health care insurance premiums for the unemployed with an estimated cost of $24.7 billion. To help aid in preventing local school district layoffs and cutbacks, $44.5 billion in aid to districts was provided. Further, the Act provided for extended unemployment benefits and increased spending on the Food Stamp program. Complementing the worker tax credit, the Act called for a one time $250 payment per recipient to those receiving Social Security. The Act also provided increased funding for infrastructure spending for projects such as bridge and highway projects.

In late 2008, in the wake of the Lehman Brothers' debacle, Congress passed a $700 billion financial rescue package, the Troubled Asset Relief Program (TARP), designed to complement the Fed's actions to restart lending. As originally conceived, TARP was to buy toxic mortgage assets to help clean up financial institutions' books. However, Treasury was granted broad latitude in how it implemented TARP. Consequently, Treasury instead used the appropriated funds to buy ownership into major financial institutions and instituted a program to assist companies issuing credit cards, car loans and/or student loans. The goal remained the same as originally conceived: to enhance liquidity and, hence, financial institutions' willingness to lend. TARP also raised the FDIC limit on insured deposits from $100,000 to $250,000.

Inflation

Inflationary pressures remain tame. Between June 2008 and December 2008, oil prices fell from a record $133.93 per barrel to $41.02 per barrel in December. Oil prices remained close to December's level in January and February before rising substantially in March and then slightly in April. In April, oil prices stood at $49.79 per barrel. Weakening economies around the world have curtailed oil demand.

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[1] The bill also provided for a one-year extension of AMT relief. However, since this provision's passage was widely expected even in the absence of any stimulus package, its estimated value is excluded from the numbers cited here.

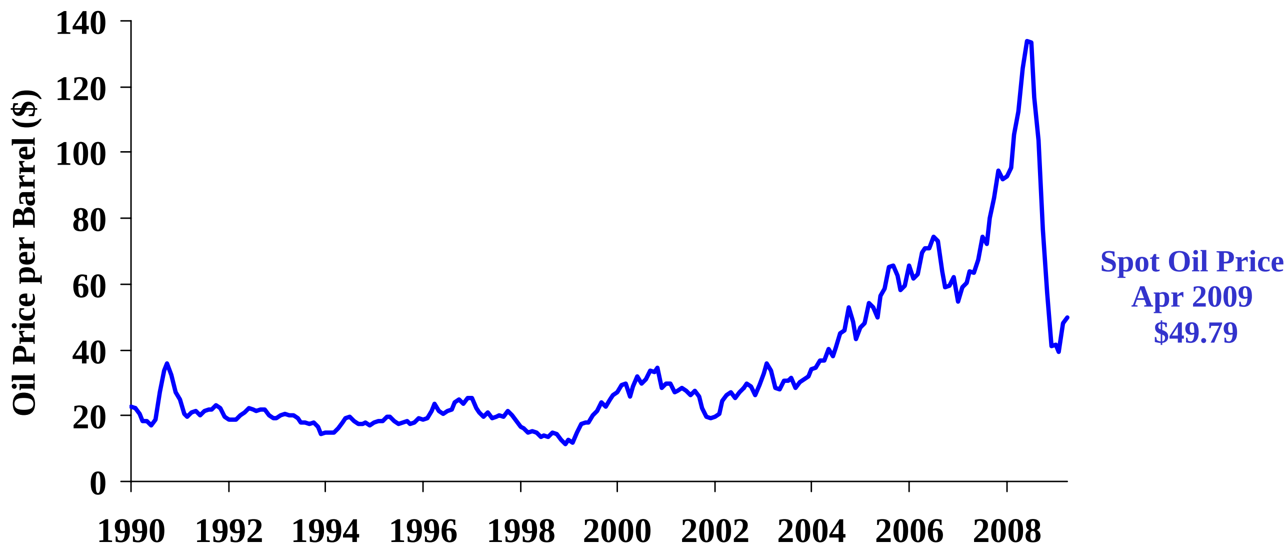
Relatively lower oil prices have kept gasoline prices down. Following oil prices down, the average price of a gasoline fell from a record $4.05 a gallon in mid-July 2008 to $1.59 a gallon by the end of December 2008. Since December 2008, gasoline prices have risen to slightly above $2.00 a gallon. In the face of the current recession, these lower prices have served as a partial, but important, counter-balancing force as they have measurably increased consumers' discretionary spending.

Natural gas prices have also remained relatively low. While having had risen to the second highest level in history in July 2008, natural gas prices fell sharply between July 2008 and March 2009. March 2009 natural gas prices are down 58.4 percent from a year ago.

The Federal Reserve's December 2008 Beige Book reported that

> Districts that report on prices noted downward pressures. Oil prices rose during the survey period, although most other commodity prices were stable to down. Manufacturers noted declines in the cost of raw materials and inputs, and product prices were generally said to be steady to down. Significant discounting was reported among retailers, and there were numerous examples of service providers reducing fees.

Oil Prices Drop Sharply
Rebound Slightly



Source: Federal Reserve Bank of St. Louis.

While 80 percent of manufacturing firms surveyed by the Institute for Supply Management (ISM) reported paying higher prices in mid-2008, almost no respondents (2 percent) reported paying higher prices in December 2008. The figure rose to 12 percent in January 2009 before falling off to just 7 percent in each of the following three months. Similarly, while more than 65 percent of non-manufacturing firms reported paying higher prices in mid-2008, only 9 percent reported having done so in December 2008. That figure rose to 18 percent in Feburary 2009 before falling to 12 percent in March and only 9 percent in April.

While overall July 2008 producer prices were up tremendously from a year ago (9.9 percent), March 2009 producer prices were actually *down* 3.5 percent from a year ago. March's decline represented the largest year-over-year decline in producer prices since 1950.

Consumer prices followed a similar pattern. In July 2008, the overall year-over-year consumer price inflation rate stood at 5.6 percent, a 17-year high. However, by December 2008, consumer price inflation was essentially flat (0.1 percent). And, in March 2009, overall consumer prices were actually down compared to a year ago (-0.4 percent) for the first time since 1955. Core consumer inflation decelerated from 2.5 percent in July 2008 to 1.8 percent in March 2009.

The Economic Cycle Research Institute's (ECRI) future inflation gauge indicates that price pressures will remain contained in the near term. The gauge's March 2009 reading was the lowest since 1958.

Major Economic Indicators

Major economic indicators confirm that the U.S. economy has fallen into a severe and long-lasting recession.

Between August 2008 and December 2008, the ISM manufacturing index (PMI) fell each month. By December, the index had fallen to 32.9 -- its lowest level since June 1980. The index then rebounded in January 2009 to 35.6 – a level around which it fluctuated over the next two months. The index then posted a sizeable gain in April, rising to 40.1 – its highest level since September 2008. However, being below 50.0, the index continues to point to a declining manufacturing sector.

The non-manufacturing business activity index fell sharply in both October 2008 and November 2008. November's reading (33.3) represented the index's lowest reading in the index's 11-year history. The index posted solid gains in December and in January 2009. While the index fell in February, it recovered nearly all of its losses in March. The index rose still further in April, rising to its highest level since September 2008. However, at 45.2, the index continues to signal a declining sector

Industrial production has worsened considerably since mid-2008. While the three-month average of industrial production was down only 0.7 percent from a year ago in July 2008, the average fell an astounding 11.8 percent between March 2008 and March 2009. The March 2009 decline was the largest percentage decline since the recession in the mid-1970s.

Compared to a year ago, the three-month average of retail sales, excluding motor vehicle and gasoline sales, fell in December 2008 – falling for the first time in a history extending back to

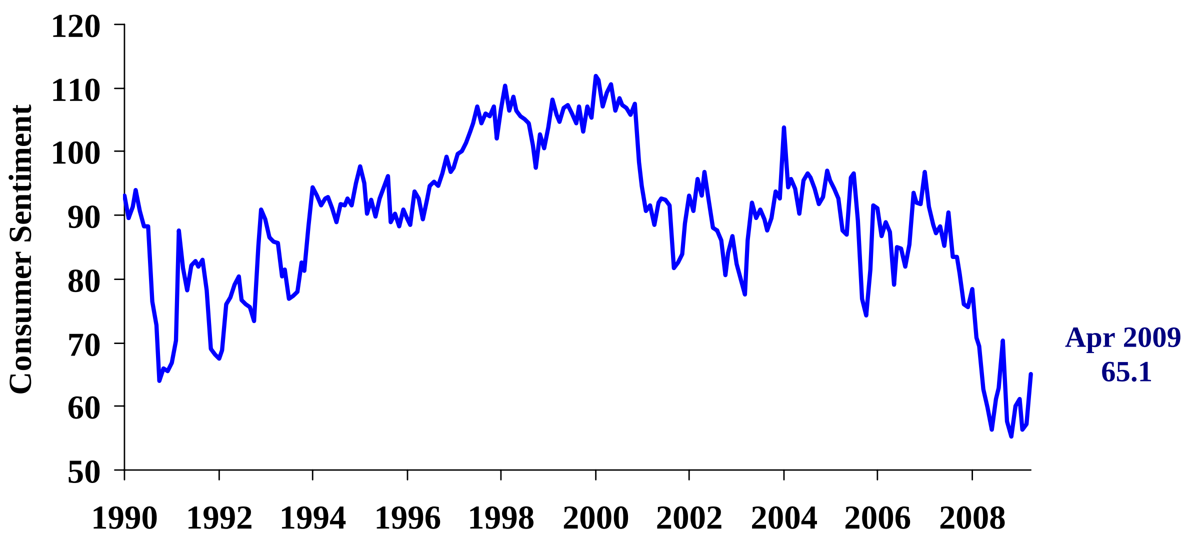
1992. Between December 2008 and March 2009, the three-month average posted year-ago declines. In March 2009, the average was down 1.2 percent from a year earlier.

The Conference Board index of consumer confidence plummeted to a record low 25.3 in February 2009. However, the index rose slightly in March 2009 and increased sharply in April 2009, rising to 39.2. However, confidence remains below 40, a level which the index had never fallen below before the current recession in a series going back to 1969. However, April's sharp rise to its highest level since November 2008 provides a measure of hope.

The University of Michigan index of consumer sentiment declined sharply in October 2008, falling from 70.3 to 57.6. The index fell further in November to 55.3 – a 28-year record low. The index rose in December before falling back nearly to November's low in February. However, the index rose sharply in April, increasing to 65.1 – its highest reading since September 2008.

In late November 2008, the ABC News/Washington Post Consumer Comfort Index fell to -54, an all-time low in the index's 22-year history, before improving only slightly. The index has since improved – but only slightly. In late April 2009, the index stood at -45 – its highest level since early October 2008.

Consumer Sentiment Up from 28 Year Low
To Highest Reading Since September



Source: University of Michigan Survey of Consumers.

The Conference Board index of leading economic indicators has fallen in five of the last six months. However, declines in the first three months of 2009 have been smaller than last fall. This trend gibes with other economic indicators that point to a continuing downturn that, while severe, may be seeing slower declines.

The ECRI weekly leading index points to a continuing severe recession. However, recent readings suggest a possible moderation in the rate of decline. In early December, the index's smoothed annualized growth rate fell to its lowest reading in the index's forty year history (-30.4). However, by April, the growth rate had improved to -17.4.

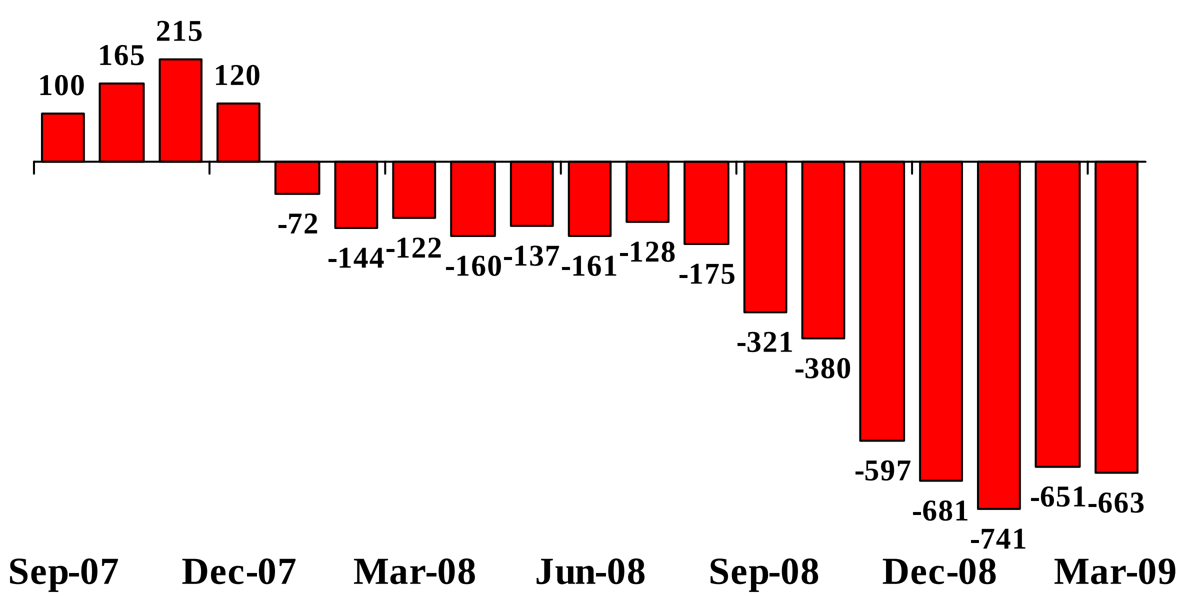
Employment

In the foregoing, there are some signs that the rate of overall economic decline, though continuing, may moderate later this year. However, the employment situation, which typically lags improvements in the overall economy, continues to experience severe declines.

U.S. payroll employment rose each month between September 2003 and June 2007. By June 2007, employment exceeded its pre-2001 recession peak (February 2001) by 5.1 million jobs.

However, since December 2007, employment has fallen every month, declining a total of 5.1 million jobs. In the last five months alone, employment has dropped by 3.3 million jobs. Employment fell by nearly 600,000 jobs in November 2008 (597,000 jobs) and then declined by more than 600,000 jobs each month between December 2008 and March 2009. In January 2009, the U.S. lost the greatest number of jobs the nation had lost in a single month in nearly 60 years. Over the past year, employment has fallen by 3.5 percent, the largest one-year percentage decline since 1958.

U.S. Economy Sheds Over 3 Million Jobs in Just Five Months
(Monthly Change in Thousands)



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

Manufacturing employment remains particularly hard hit having lost 1.3 million jobs over the past year – a 9.8 percent reduction. In addition, the bursting housing bubble and credit crunch have exacted an enormous toll on the construction industry. Between March 2008 and March 2009, construction employment fallen by 928,000 jobs, representing 12.5 percent of that industry's jobs.

Temporary help services employment, a leading indicator for the overall jobs market, points to continued overall weakness. Over the past year, more than one in four (26.9 percent) temporary jobs has been lost.

The U.S. unemployment rate has risen sharply since April 2008. Between January 2008 and April 2008, the unemployment rate fluctuated in the narrow band between 4.9 percent and 5.1 percent. However, the rate rose to 7.2 percent by the end of 2008 and has continued to rise in 2009, increasing to 8.5 percent in March 2009 – the highest monthly unemployment rate since late 1983.

Several other employment indicators also point to a weak labor market.

The four-week moving average of initial unemployment claims rose fairly steadily between the January 2009 Consensus Conference and early April, rising from 523,750 initial claims to 658,750 initial claims, the highest average in over 26 years. By the end of April, the average had fallen to 637,250. However, the average is up sharply from a year ago when initial claims averaged 364,500.

According to the Challenger Report, announced layoffs fell considerably in February 2009 and March 2009. Nevertheless, March announcements remain 180.7 percent higher than a year ago.

Since August 2008, the ISM manufacturing employment index has signaled a worsening manufacturing sector employment picture (index less than 50.0) every month. In February 2009, the index fell to a record low in a series that dates back to 1948 (26.1). The index rose in both March and April. Nevertheless, at 34.4, the index remains extremely low.

Since January 2008, the ISM non-manufacturing component index has signaled worsening employment in the services sector in all but one month. In November, the sub-index registered 31.3 – a record low and its first reading under 40.0 since the index's inception in July 1997. The index has remained below 40.0 through April 2009. In April, the index's stood at 37.0, continuing to signal significant employment reductions in the non-manufacturing sector.

Vehicle Sales and Production

Light vehicle sales have fallen off considerably compared to last year to historic lows. Between May 2008 and February 2009, sales fell from a 14.2 million unit rate to a 9.1 million unit rate – the lowest light vehicle sales rate since December 1981. Adjusting for population, the February sales rate was the lowest since 1961. Vehicle sales rebounded slightly in March, but fell off again in April. Compared to a year ago, April 2009 light vehicle sales were down 35.7 percent with the foreign sales share down 0.9 of a percentage point. Domestic vehicle sales fell 35.0 percent compared to April 2008. Year-to-date, domestic sales are down 39.8 percent with the foreign sales share up 3.1 percentage points.

The light vehicle sales rate averaged 9.5 million units for the first quarter of 2009 – well below the 13.5 million unit rate for calendar year 2008 and substantially less than the 16.1 million unit sales rate in 2007.

Vehicle sales have flagged under the weight of weaker employment, substantially tighter credit markets and dramatic declines in household assets. The Big Three's precarious situation seriously harms Michigan's economy, which is tightly linked to the Big Three as the State's three largest private sector employers.

In the face of a plummeting vehicle sales market, declining market share, and tightening credit standards, the Big Three vehicle manufacturers have fallen into serious financial straits. Consequently, in the late Fall of 2008, General Motors and Chrysler twice went before Congress seeking a multi-billion financial assistance package. Both efforts failed. However, in late December, using TARP funds, the Bush Administration extended a $17.4 billion bridge loan package to help General Motors and Chrysler keep afloat. Both companies, however, needed more loans. As a condition of additional assistance, the Obama Administration required each firm to restructure in a manner that the Administration found necessary to assure financial viability. Working in close concert with the federal government, Chrysler reached agreements with its major creditors and the UAW, but failed to reach agreement with a few of its creditors by the May 1, 2009 deadline set by the Administration. As a result, the company entered into bankruptcy proceedings. A bankruptcy judge recently granted Chrysler access to $4.5 billion to fund its operations through the end of June. Many are optimistic that Chrysler will be able to emerge from bankruptcy in just a couple months and be sold to Italian automaker Fiat. GM, also working closely with the Administration, has until June 1, 2009 to submit its plan for federal approval.

In March 2009, the three-month average of U.S. vehicle production was down 53.6 percent compared to a year ago. Production will be significantly curtailed by shut downs at General Motors and Chrysler. Upon entering into bankruptcy proceedings earlier this month, Chrysler closed all of its plants. General Motors announced the lengthening of its traditional summer shutdown of most of its plants from two weeks to nine weeks.

Current Michigan Economic Conditions

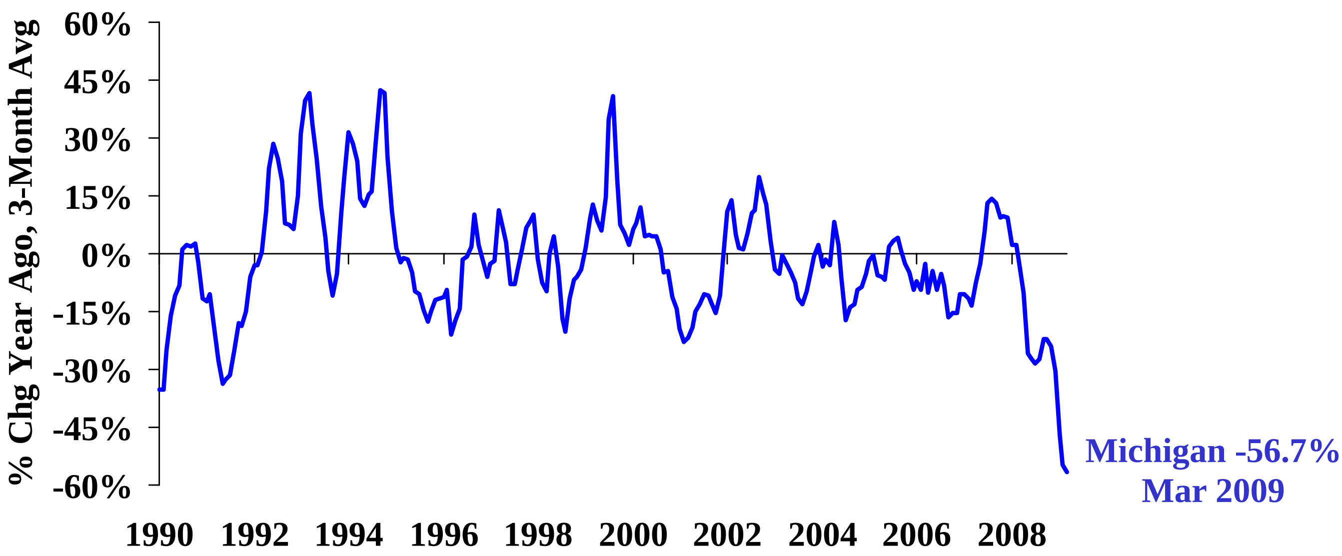
Vehicle Production

In March 2009, the three-month average of Michigan vehicle production was down 56.7 percent compared to a year ago. Auto production was down 70.3 percent. While higher margin light truck production was down by a lesser degree, light truck production was still down considerably (42.4 percent).

Employment

Michigan's economy relies heavily on the performance of the manufacturing sector in general and the auto industry specifically. Given extremely weak manufacturing employment performance, declining vehicle production, continued declines in Big Three market share along with continued supply rationalization among vehicle suppliers, Michigan's employment performance has been below the national average. Substantial productivity gains in the vehicle industry have also contributed to Michigan's weaker employment performance.

Michigan Vehicle Production
Down Sharply from Year Ago



Source: Automotive News and Michigan Department of Treasury.

Michigan wage and salary employment fell for the eighth consecutive year in 2008, falling 2.6 percent, compared to 1.4 percent declines in 2006 and in 2007. Michigan manufacturing employment fell for the ninth straight year, falling 7.2 percent.

Over the last twelve months (March 2008 to March 2009), Michigan employment has fallen by 270,500 jobs (6.4 percent) With its employment declining 16.3 percent, the manufacturing sector accounted for 96,200 of these jobs lost.

In just the past five months, overall Michigan employment has fallen by 182,100 jobs.

From Michigan's employment peak in June 2000 to March 2009, Michigan has lost 750,900 jobs (-16.0 percent). Since June 2000, Michigan manufacturing employment has fallen by 414,500 jobs, nearly a loss of half (45.7 percent) of jobs in that sector at the state's overall employment peak.

Michigan's unemployment rate has risen sharply over the past year. Between March 2008 and March 2009, the State's rate rose an astounding 5.0 percentage points to 12.6 percent – the state's highest rate in over 25 years. In March 2009, Michigan had the highest state unemployment rate in the nation.

Housing Market

Despite not being one of the major participants in the housing boom with skyrocketing home prices and rising housing starts, Michigan has been hit disproportionately hard from the housing bust due to declining employment.

In February 2009, according to Case-Shiller house price measures, the Detroit MSA recorded a 23.6 percent year-over-year house price decline, compared with an 18.6 percent average decline for the twenty U.S. metro areas surveyed for the measure.

In 2008Q4, 11.1 percent of mortgages in Michigan were delinquent while 3.7 percent were in foreclosure according to the Mortgage Bankers Association.

In 2009Q1, Michigan ranked sixth among U.S. states in foreclosure rates with one for every 136 housing units -- compared to one for every 159 units nationally (Realty Trac).

Compared to a year ago, March 2009 housing unit authorizations in Michigan were down 41.9 percent compared to a 43.1 percent drop nationally.

Personal Income

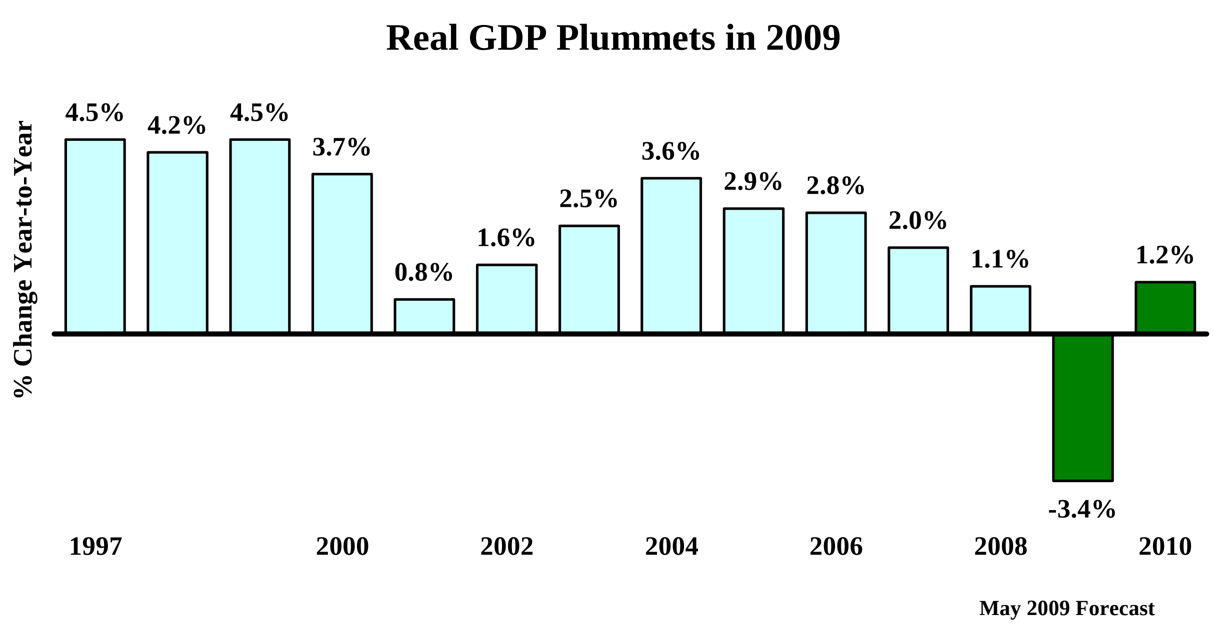
Compared to a year ago, fourth quarter 2008 Michigan personal income grew 1.3 percent compared with 2.4 percent growth nationally. Similarly, Michigan wages and salaries fell 0.9 percent compared with a 1.6 percent increase nationally. Manufacturing wages and salaries were down sharply in Michigan compared to a year ago (-7.3 percent) compared with a 2.6 percent decline nationally.

2009 and 2010 U.S. Economic Outlook

Summary

After growing 1.1 percent in 2008, real GDP is forecast to decline 3.4 percent in 2009 and then rise only 1.2 percent in 2010. High consumer debt levels, still very tight credit markets, a weak housing market and a plummeting labor market are expected to shrink the economy in 2009 and to substantially restrain growth in 2010. The projected 2009 decline would be the economy's worst annual performance since 1946, when the U.S. economy contracted sharply with the end of World War II.

After declining slightly in 2008Q3, the U.S. economy contracted severely in 2008Q4 and 2009Q1. Real GDP is forecast to decline substantially in 2009Q2 (-2.7 percent annual rate) and 2009Q3 (-1.9 percent annual rate). Real GDP growth is then expected to remain slow to moderate throughout 2010.



Source: Bureau of Economic Analysis, U.S. Department of Commerce, and Administration Forecast, May 2009.

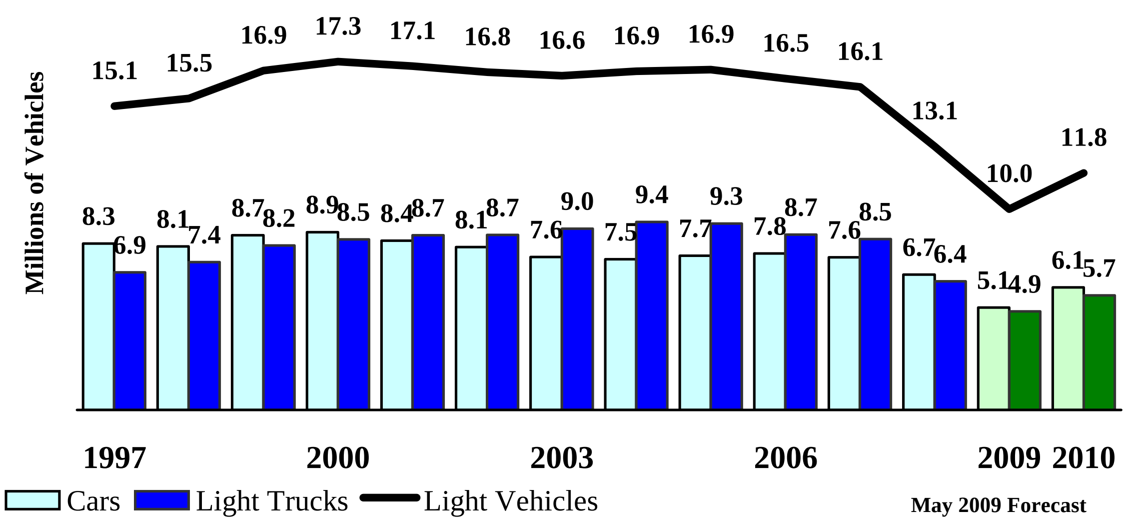
Light vehicle sales are projected to decline to 10.0 million units in 2009 (a 39-year low) before rising in 2010 to 11.8 million units. The last time that light vehicle sales fell below 11.8 million units was 1982.

The U.S. unemployment rate rises to 9.1 percent in 2009 before increasing further to 10.1 percent in 2010 – the first double digit U.S. unemployment rate in a history dating back to 1948. U.S. wage and salary employment is forecast to fall 3.8 percent in 2009 and an additional 1.5 percent in 2010.

Overall consumer prices are forecast to fall slightly (-0.2 percent) in 2009 – their first decline since 1955. Inflation is then expected to accelerate to 2.0 percent in 2010.

As a result of substantial Federal Reserve rate cuts and investors' flight to safety, short-term Treasury rates fell from 4.4 percent to 1.5 percent in 2008. Short-term rates are forecast to decline still further to 0.3 percent in 2009 and remain essentially unchanged for most of 2010, averaging 0.4 percent for the year. Given slower inflation and lower risk premia, corporate interest rates are expected to fall from 5.6 percent in 2008 to 5.2 percent and 4.8 percent, respectively, in 2009 and 2010. Mortgage rates are forecast to remain around 5.0 percent over the forecast horizon.

Motor Vehicle Sales Fall to 39-Year Low in 2009



Source: Bureau of Economic Analysis, U.S. Department of Commerce, and Administration Forecast, May 2009.

<u>Assumptions</u>

Oil prices are expected to rise slightly from their current levels averaging $51 a barrel in 2009 and $60 a barrel in 2010. Natural gas prices are forecast to fluctuate slightly over the forecast horizon with prices flat in mid-2009, rising in late 2009, falling slightly in mid-2010 and rising in late 2010. Natural gas prices are forecast to rise 2.8 percent from CY 2009 to CY 2010.

The housing market is expected to remain extremely weak throughout the forecast horizon. In 2008, starts averaged 905,500 units (a record low). Starts are forecast to fall to 592,600 units in 2009 (well below any level ever seen before) before rising to 907,300 units in 2010. These three years would represent the only years since at least 1959 in which annual housing starts totaled fewer than 1.0 million units.

The forecast assumes that the FOMC will hold the target federal funds rate constant at a record low 0.00-0.25 percent range through all of 2009 and most of 2010 as the Fed continues to contend with shaky financial markets and a weak economy.

The value of the U.S. dollar is expected to fall over most of the forecast horizon. On average, the dollar is expected to decline 5.9 percent in CY 2010.

With more households unwilling or unable to borrow and more households becoming increasingly restrained in their spending habits, the household savings rate is assumed to remain above 5.0 percent through most of 2009 before averaging 3.5 percent in 2010 -- still in sharp contrast to the near zero rate in late 2007 and early 2008.

Forecast Risks

The U.S. economy has been in recession for well over a year. The questions now are "How long?" and "How deep?". The baseline forecast sees the current recession as lasting longer than any other post World War II recession and being on par with the severity of the 1957-58 recession, which saw the largest real GDP decline of any post-World War II recession.[2] Relative to the extremely severe declines at the end of 2008 and beginning of 2009, the baseline forecast expects declines to moderate beginning in the current quarter. In large part, the risks to these expectations represent the three major factors that precipitated the recession: the housing market, the roiled financial markets and the accompanying credit crunch and oil prices.

Housing Market. The baseline forecast assumes an extremely weak housing market with housing starts remaining below 1.0 million units for both 2009 and 2010. The severe stressors on the housing market suggest that such assumed weakness is justified. Such poor performance would be unprecedented since at least 1959. A stronger housing market would boost the overall economy.

Credit Crunch Impact. The baseline forecast assumes that financial markets will stabilize soon. However, the credit crunch and its impacts could substantially worsen. The extreme fragility of the financial system poses a substantial downward risk to the baseline forecast.

Oil Prices. Geopolitical concerns, increased demand, or a major supply disruption could raise prices well above the assumed range ($50-$70 a barrel). Higher oil prices (and consequently higher gasoline prices) would retard domestic growth by depressing consumer sentiment, reducing households' disposable income and increasing input costs to businesses. Higher oil prices may lead the Federal Reserve to hike rates. At the same time, the synchronized world recession could lead to further reductions in the demand for oil and its price.

[2] The estimated duration and real GDP decline calculation for the Administration's May 2009 forecast are derived using quarterly data. The recession is assumed to end at the end of the last quarter in which real GDP declines. The peak-to-trough real GDP decline is calculated using the 2007Q4 real GDP level and the forecasted 2009Q3 real GDP level. In contrast, the historical data constructed by Economy.com derive duration and real GDP declines using monthly estimates.

Length and Severity
Post World War II U.S. Recessions

Recession	Length (Months)	Real GDP
Mar 01 to Nov 01	8	-0.4%
Jul 90 to Mar 91	8	-1.3%
Jul 81 to Nov 82	16	-2.7%
Jan 80 to Jul 80	6	-2.2%
Nov 73 to Mar 75	16	-3.1%
Dec 69 to Nov 70	11	0.0%
Apr 60 to Feb 61	10	-1.6%
Aug 57 to Apr 58	8	-3.8%
Jul 53 to May 54	10	-2.4%
Nov 48 to Oct 49	11	-1.8%
Average	**10**	**-1.9%**
Baseline Forecast Dec 07 to Sep 09	**21**	**-3.6%**

Sources: Economy.com and May 2009 Administration Forecast.

Auto Industry. The baseline forecast is for extremely low light vehicle sales. However, the forecast assumes that all three Big Three vehicle manufacturers remain viable. The failure of one or more of the Big Three constitutes an extremely large downside risk to the national forecast, but especially to the Michigan economic forecast. (See the directly following section for further discussion.)

Other Factors. Geopolitical factors (such as a domestic terrorist attack) remain a downside risk to the baseline forecast. It is also possible that the current outbreak of the new H1-N1 influenza strain – and more especially – the reaction to the outbreak could depress near term economic activity.

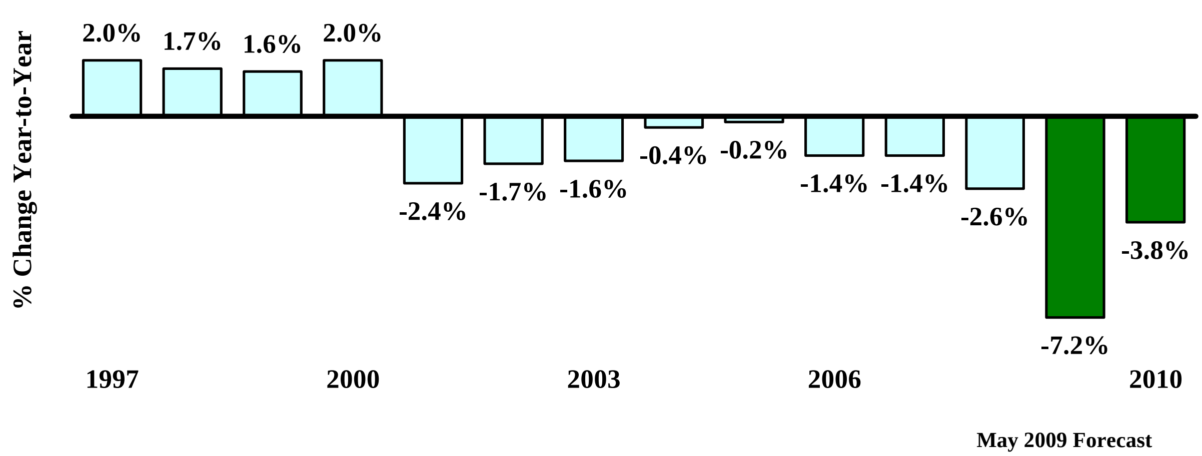
2009 and 2010 Michigan Economic Outlook

Michigan employment is forecast to fall 7.2 percent in 2009 – its sharpest decline since 1958. State employment is then expected to drop another 3.8 percent in 2010. Private non-manufacturing employment is projected to decline by 156,400 jobs in calendar year 2009 and by 77,600 jobs in 2010. Manufacturing employment is forecast to fall by 22.7 percent in 2009 and by 14.5 percent in 2010. Between CY 2008 and CY 2010, manufacturing employment falls by 195,000 jobs. Struggles at the domestic Big Three automakers and vehicle suppliers along with concomitant restructurings will depress manufacturing employment.

Michigan transportation equipment employment is forecast to decline sharply, falling 35.3 percent in 2009 and an additional 26.3 percent in 2010. By the end of 2010, Michigan is expected to lose half of the transportation equipment employment jobs it had at the end of 2008 with sector employment falling to 79,000 jobs. The projected 2010 transportation equipment employment level stands in sharp contrast to 2000 when sector employment totaled 346,100 jobs. However, this forecast assumes that all three of the Big 3 remain viable. The failure of one or more of the major automakers would further slash this sector's employment and, with spillover, sharply cut Michigan's manufacturing and overall employment level.

Total Michigan employment is forecast to decline substantially each quarter of 2009, falling an average of 78,800 jobs per quarter. State employment continues to decline in each quarter of 2010, but those declines are smaller, averaging 18,300 jobs across the year. 2010 would mark the tenth straight year of Michigan employment declines. 2010 wage and salary employment would be Michigan's lowest calendar year employment in 24 years. Michigan's unemployment rate is expected to soar from 8.4 percent to 14.1 percent in 2009 before rising in 2010 to 14.8 percent, the State's highest rate since 1982 when the rate rose to 15.6 percent.

Michigan Wage and Salary Employment Declines for Tenth Straight Year



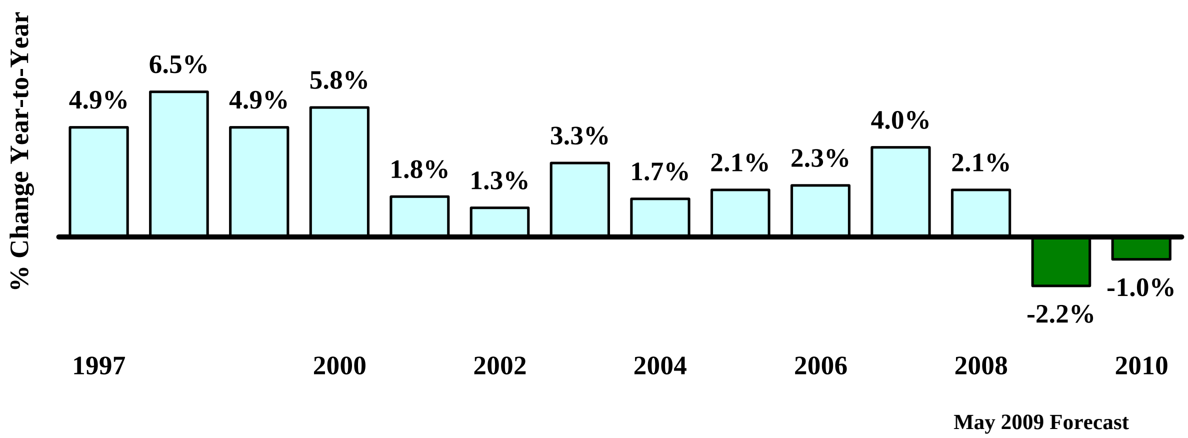
Source: Michigan Department of Labor and Economic Growth, U.S. Bureau of Labor Statistics, and May 2009 Administration Forecast.

Michigan wages and salaries are projected to fall sharply in 2009 (-4.8 percent) and then decline an additional 1.1 percent in 2010. Overall Michigan personal income is forecast to fall 2.2 percent in 2009 and drop 1.0 percent in 2010. The overall price level, as measured by the Detroit CPI, is forecast to decline for the first year since 1949 before rising 1.9 percent in 2010. As a result, real (inflation adjusted) Michigan personal income is expected to fall 1.8 percent in 2009 and decline 2.9 percent in 2010.

Table 1
Administration Economic Forecast
May 2009

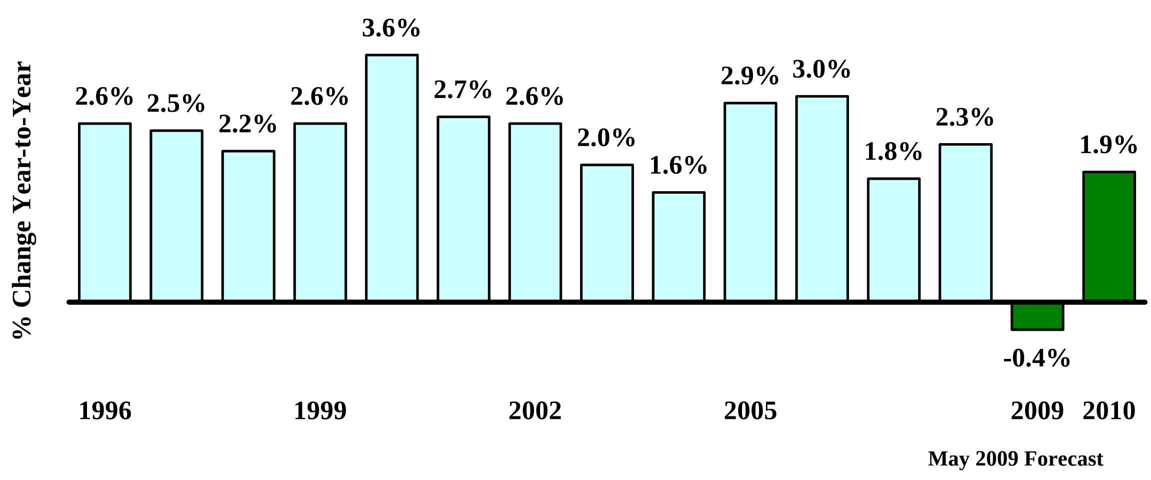
	Calendar 2007 Actual	Calendar 2008 Actual	Percent Change from Prior Year	Calendar 2009 Forecast	Percent Change from Prior Year	Calendar 2010 Forecast	Percent Change from Prior Year
United States							
Real Gross Domestic Product (Billions of Chained 2000 Dollars)	$11,524	$11,652	1.1%	$11,256	-3.4%	$11,391	1.2%
Implicit Price Deflator GDP (2000 = 100)	119.8	122.4	2.2%	124.6	1.8%	126.0	1.1%
Consumer Price Index (1982-84 = 100)	207.3	215.3	3.8%	214.9	-0.2%	220.5	2.6%
Personal Consumption Deflator (2000 = 100)	117.7	121.6	3.3%	122.0	0.3%	124.4	2.0%
3-month Treasury Bills Interest Rate (percent)	4.4	1.5		0.3		0.4	
Aaa Corporate Bonds Interest Rate (percent)	5.6	5.6		5.2		4.8	
Unemployment Rate - Civilian (percent)	4.6	5.8		9.1		10.1	
Light Vehicle Sales (millions of units)	16.1	13.1	-18.6%	10.0	-23.7%	11.8	18.0%
Passenger Car Sales (millions of units)	7.6	6.7	-11.8%	5.1	-23.9%	6.1	19.6%
Light Truck Sales (millions of units)	8.5	6.4	-24.7%	4.9	-23.4%	5.7	16.3%
Import Share of Light Vehicles (percent)	23.3	25.4		29.9		28.4	
Michigan							
Wage and Salary Employment (thousands)	4,268	4,159	-2.6%	3,860	-7.2%	3,713	-3.8%
Unemployment Rate (percent)	7.1	8.4		14.1		14.8	
Personal Income (millions of dollars)	$345,940	$353,113	2.1%	$345,345	-2.2%	$341,891	-1.0%
Real Personal Income (millions of 1982-84 dollars)	$172,859	$172,462	-0.2%	$169,370	-1.8%	$164,529	-2.9%
Wages and Salaries (millions of dollars)	$188,116	$187,914	-0.1%	$178,894	-4.8%	$176,927	-1.1%
Detroit Consumer Price Index (1982-84 = 100)	200.1	204.7	2.3%	203.9	-0.4%	207.8	1.9%
Detroit CPI Fiscal Year (1982-84 = 100)	199.0	204.6	2.8%	203.0	-0.8%	206.9	1.9%

Michigan Personal Income Declines in Both 2009 and 2010



Source: Bureau of Economic Analysis, U.S. Department of Commerce, and Administration Forecast, May 2009.

Overall Price Level Drops for First Time since 1949
Detroit CPI

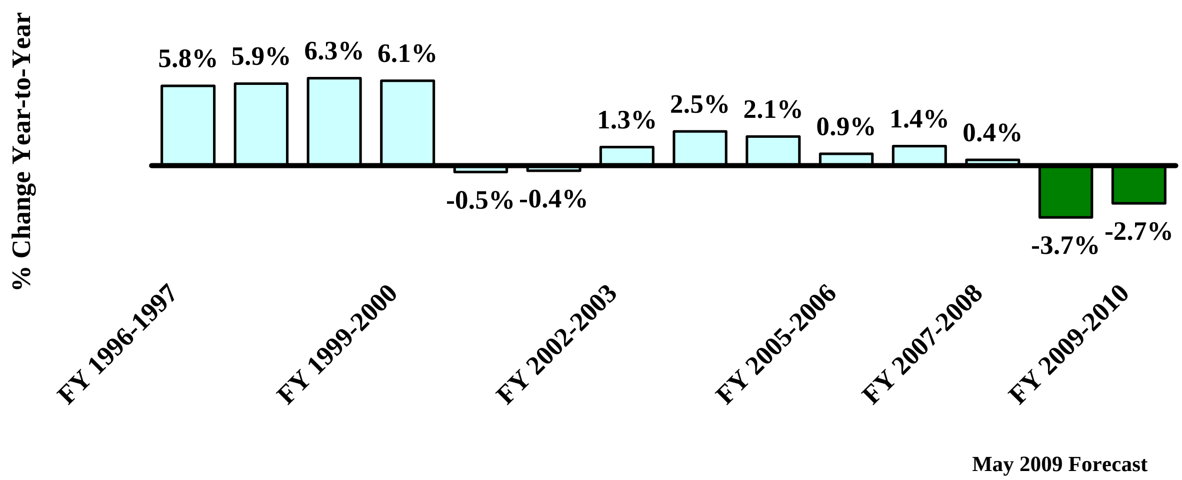


Source: U.S. Bureau of Labor Statistics and Administration Forecast, May 2009.

Fiscal Year Economics

Michigan's largest taxes are the individual income tax ($7.2 billion in FY 2008), which includes refunds, and sales and use taxes ($8.2 billion). Income tax withholding is the largest income tax component. Withholding ($7.3 billion) is most affected by growth in wages and salaries. Michigan wages and salaries are expected to fall substantially, dropping 3.7 percent in FY 2009 and declining 2.7 percent in FY 2010.

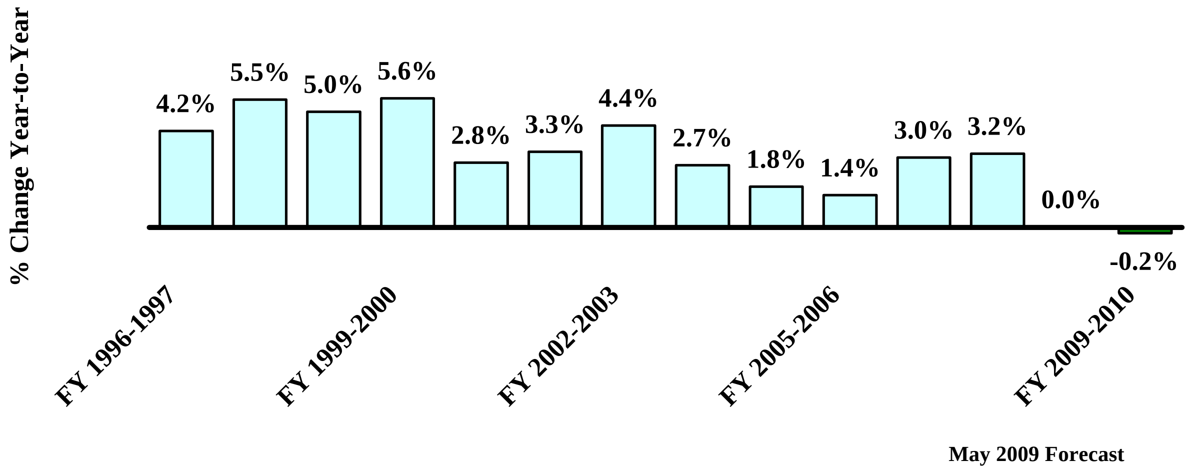
Michigan Wages and Salaries Drop Substantially
Basis for Income Tax Withholding Collections



Source: Bureau of Economic Analysis, U.S. Department of Commerce, and Administration Forecast, May 2009.

Sales and use taxes depend primarily on Michigan disposable (after tax) income and inflation. Disposable income is expected to be essentially unchanged over the next two fiscal years. In FY 2009, disposable income is expected to be flat in FY 2009 and is forecast to decline 0.2 percent in FY 2010. In FY 2009, overall prices are expected to drop 0.8 percent before rising 1.9 percent in FY 2010.

Michigan Disposable Income Little Changed
Basis for Sales and Use Tax Collections



Source: Research Seminar in Quantitative Economics, University of Michigan, and Administration Forecast, May 2009.

Given Michigan's manufacturing mix and that Michigan has been hit disproportionately harder by the housing bust, it is very possible that Michigan manufacturing would grow substantially more slowly than U.S. economic growth itself would imply. This would retard Michigan economic growth, employment and income growth.

ADMINISTRATION REVENUE ESTIMATES
May 15, 2009

Revenue Estimate Overview

The revenue estimates presented in this section consist of baseline revenues, revenue adjustments, and net revenues. Baseline revenues provide an estimate of the effects of the economy on tax revenues. For these estimates, FY 2008 is the base year. Any non-economic changes to the taxes occurring in FY 2009 and FY 2010 are not included in the baseline estimates. Non-economic changes are referred to in the tables as "tax adjustments." The net revenue estimates are the baseline revenues adjusted for tax adjustments.

This treatment of revenue is best illustrated with an example. Suppose tax revenues are $10.0 billion in a given year, and that based on the economic forecast, revenues are expected to grow by 5.0 percent per year. Baseline revenue would be $10.0 billion in Year 1, $10.5 billion in Year 2, and $11.0 billion in Year 3. Assume a tax rate cut is in place that would reduce revenues by $100 million in Year 1, $200 million in Year 2, and $300 million in Year 3. If Year 1 is the base year, the revenue adjustments for Year 1 would be $0 since the tax cut for this year is included in the base. The revenue adjustments for Year 2 would be $100 million, and the revenue adjustments for Year 3 would be $200 million, since the revenue adjustments are compared to the base year.

In the example above, the baseline revenues would be $10.0 billion, $10.5 billion, and $11.0 billion, for Years 1 through 3, respectively. The revenue adjustments would be $0 in Year 1, $100 million in Year 2, and $200 million in Year 3. The $200 million in Year 3 represents the tax cuts since Year 1. Net revenue would be $10.0 billion in Year 1, $10.4 billion in Year 2, and $10.8 billion in Year 3.

The following revenue figures are presented on a Consensus basis. Generally speaking, the Consensus estimates do not include certain one-time budget measures, such as withdrawals from the Budget Stabilization Fund, the sale of buildings, etc. The figures also assume the full statutory amount for revenue sharing payments to local governments from the sales tax. In addition, the estimates only include enacted legislation and do not include the effects of any proposed changes. The School Aid Fund estimates consist of taxes plus the transfer from the State Lottery Fund.

FY 2008 Revenue Review

FY 2008 GF-GP revenue totaled $9,358.7 million on a Consensus basis, a 12.5 percent increase over FY 2007. FY 2008 GF-GP revenues were increased by an increase in the income tax rate from 3.9 percent to 4.35 percent and by the enactment of the MBT surcharge. FY 2008 SAF revenues totaled $11,512.9 million, a 3.2 percent increase compared to FY 2007 (See Table 2).

Table 2

FY 2007-08 Totals

(millions)

	Actual	
	Amount	**Growth**
General Fund - General Purpose		
Baseline Revenue	$8,166.5	
Tax Cut Adjustments	$1,192.1	
Net Resources	$9,358.7	12.5%
School Aid Fund		
Baseline Revenue	$11,249.0	
Tax Cut Adjustments	$263.9	
Net Resources	$11,512.9	3.2%
Combined		
Baseline Revenue	$19,415.5	
Tax Cut Adjustments	$1,456.0	
Net Resources	$20,871.6	7.2%

FY 2009 Revenue Outlook

FY 2009 GF-GP revenue is expected to be $7,397.7 million, a 10.9 percent baseline decline, and a 21.0 percent decline after tax adjustments. The FY 2009 estimate is $908.4 million below the January 2009 Consensus estimate. The significant weakening of the national and state economies resulted in the weaker revenue estimate.

SAF revenue is forecast to be $10,956.2 million, representing a 7.7 percent baseline revenue decline and a 4.8 percent decline after tax adjustments. The FY 2009 SAF estimate is $412.5 million below the January 2009 Consensus estimate (See Table 3).

Table 3

FY 2008-09 Administration Revenue Estimates

(millions)

	Consensus January 9, 2009		Administration May 15, 2009		
	Amount	**Growth**	**Amount**	**Growth**	**Change**
General Fund - General Purpose					
Baseline Revenue		-6.4%	$7,278.9	-10.9%	
Tax Cut Adjustments			$118.8		
Net Resources	$8,306.1	-11.3%	$7,397.7	-21.0%	($908.4)
School Aid Fund					
Baseline Revenue		-4.4%	$10,382.0	-7.7%	
Tax Cut Adjustments			$574.2		
Net Resources	$11,368.7	-1.3%	$10,956.2	-4.8%	($412.5)
Combined					
Baseline Revenue		-5.2%	$17,660.9	-9.0%	
Tax Cut Adjustments			$693.0		
Net Resources	$19,674.8	-5.7%	$18,353.9	-12.1%	($1,320.9)

FY 2010 Revenue Outlook

FY 2010 GF-GP revenue is estimated to be $7,045.6 million, a 2.0 percent baseline decrease and a 4.8 percent decrease after tax adjustments. The FY 2010 GF-GP revenue estimate is down $888.8 million from the January 2009 Consensus estimate. SAF revenue is forecast to be $10,791.2 million; representing a 1.4 percent baseline decrease and a 1.5 percent net decline. The FY 2010 SAF estimate is $504.7 million below the January 2009 Consensus estimate (see Table 4).

Table 4

FY 2009-10 Administration Revenue Estimates

(millions)

	Consensus January 9, 2008		Administration May 15, 2009		
	Amount	**Growth**	**Amount**	**Growth**	**Change**
General Fund - General Purpose					
Baseline Revenue	$7,504.1	-1.8%	$7,130.8	-2.0%	
Tax Cut Adjustments	$430.3		($85.3)		
Net Resources	$7,934.4	-4.5%	$7,045.6	-4.8%	($888.8)
School Aid Fund					
Baseline Revenue	$10,706.2	-0.5%	$10,234.2	-1.4%	
Tax Cut Adjustments	$589.7		$557.0		
Net Resources	$11,295.9	-0.6%	$10,791.2	-1.5%	($504.7)
Combined					
Baseline Revenue	$18,210.3	-1.1%	$17,365.0	-1.7%	
Tax Cut Adjustments	$1,020.0		$471.8		
Net Resources	$19,230.3	-2.3%	$17,836.8	-2.8%	($1,393.5)

Constitutional Revenue Limit

Article IX, Section 26, of the Michigan Constitution establishes a limit on the amount of revenue State government can collect in any given fiscal year. The revenue limit for a given fiscal year is equal to 9.49 percent of the State's personal income for the calendar year prior to the year in which the fiscal year begins. FY 2007 revenue is compared to CY 2005 personal income. If revenues exceed the limit by less than 1 percent, the State may deposit the excess into the Budget Stabilization Fund (BSF). If the revenues exceed the limit by more than 1 percent, the excess revenue is refunded to taxpayers.

FY 2008 revenues were $4.7 billion below the revenue limit. State revenues will also be well below the limit for FY 2009 and FY 2010. FY 2009 revenues are expected to be $7.6 billion below the limit, and FY 2010 revenues are expected to be $8.7 billion below the limit (See Table 5).

Table 5

Administration Constitutional Revenue Limit Calculation

(millions)

	FY 2007 Actual April 2008	FY 2008 Actual April 2009	FY 2009 Admin May 2009	FY 2010 Admin May 2009
Revenue Subject to Limit	$26,118.4	$27,716.3	$25,271.2	$24,853.1
Revenue Limit	**CY 2005**	**CY 2006**	**CY 2007**	**CY 2008**
Personal Income	$331,304	$341,075	$345,885	$353,113
Ratio	9.49%	9.49%	9.49%	9.49%
Revenue Limit	$31,440.7	$32,368.0	$32,824.5	$33,510.4
Amount Under (Over) Limit	**$5,322.4**	**$4,651.7**	**$7,553.3**	**$8,657.3**

Budget Stabilization Fund Calculation

The Management and Budget Act contains provisions for calculating a recommended deposit or withdrawal from the BSF. The calculation looks at personal income net of transfer payments. The net personal income figure is adjusted for inflation. The change in this figure for the calendar year determines whether a pay-in or pay-out is dictated. If the formula calls for a deposit into the BSF, the deposit is made in the next fiscal year. If the formula calls for a withdrawal, the withdrawal is made during the current fiscal year.

If real personal income grows by more than 2 percent in a given calendar year, the fraction of income growth over 2 percent is multiplied by the current fiscal year's GF-GP revenue to determine the pay-in for the next fiscal year. If real personal income declines, the percentage deficiency under zero is multiplied by the current fiscal year's GF-GP revenue to determine the withdrawal available for the current fiscal year. If the change in real personal income is between 0 and 2 percent, no pay-in or withdrawal is indicated.

Real calendar year personal income for Michigan is expected to decrease 5.5 percent in 2009. Thus, the formula has a withdrawal of $406.9 million for FY 2009 (See Table 6). In 2010, real calendar year personal income for Michigan is forecast to decrease 3.4 percent, and the formula calls for a withdrawal of $239.5 million (See Table 7). Withdrawals will be limited by the available balance of the BSF, which is currently just over $2 million.

Table 6

Budget and Economic Stabilization Fund Calculation
Based on CY 2009 Personal Income Growth
Administration Calculation

	CY 2008	CY 2009
Michigan Personal Income	$ 353,113 [1]	$ 345,345 [1]
less Transfer Payments	$ 65,131 [1]	$ 71,357 [1]
Income Net of Transfers	$ 287,982	$ 273,988
Detroit CPI	202.820 [2]	204.199 [3]
for 12 months ending	(June 2008)	(June 2009)
Real Adjusted Michigan Personal Income	$ 1,420	$ 1,342
Change in Real Adjusted Personal Income		-5.5%
Amount Under 0%		-5.5%
GF-GP Revenue Fiscal Year 2008-2009		$ 7,397.7

	FY 2008-2009
BSF Pay-Out Calculated for FY 2009	$ (406.9)

Notes:

[1] Personal Income and Transfer Payments, Adminstration Forecast, May 2009.

[2] Detroit Consumer Price Index, Average of 6 monthly values reported by BLS for each 12-month period.

[3] Detroit Consumer Price Index, Administration Forecast, May 2009.

Table 7

Budget and Economic Stabilization Fund Calculation
Based on CY 2010 Personal Income Growth
Administration Calculation

	CY 2009	CY 2010
Michigan Personal Income	$ 345,345 [1]	$ 341,891 [1]
less Transfer Payments	$ 71,357 [1]	$ 74,576 [1]
Income Net of Transfers	$ 273,988	$ 267,315
Detroit CPI	204.199 [2]	206.200 [2]
for 12 months ending	(June 2008)	(June 2009)
Real Adjusted Michigan Personal Income	$ 1,342	$ 1,296
Change in Real Adjusted Personal Income		-3.4%
Amount Under 0%		-3.4%
GF-GP Revenue Fiscal Year 2009-2010		$ 7,045.6

	FY 2009-2010
BSF Pay-Out Calculated for FY 2010	$ (239.5)

Notes:

[1] Personal Income and Transfer Payments, Adminstration Forecast, May 2009.

[2] Detroit Consumer Price Index, Administration Forecast, May 2009.

School Aid Fund Revenue Adjustment Factor

The School Aid Fund (SAF) revenue adjustment factor for the next fiscal year is calculated by dividing the sum of current year and subsequent year SAF revenue by the sum of current year and prior year SAF revenue. For example, the FY 2010 SAF revenue adjustment factor is calculated by dividing the sum of FY 2009 and FY 2010 SAF revenue by the sum of FY 2008 and FY 2009 SAF revenue. The SAF revenue totals are adjusted for any change in the rate and base of the SAF taxes. The year for which the adjustment factor is being calculated is used as the base year for any tax adjustments. For FY 2010, the SAF revenue adjustment factor is calculated to be 0.9554 (See Table 8).

Table 8

Administration School Aid Revenue Adjustment Factor

For Fiscal Year FY 2010

	FY 2008	FY 2009	FY 2010
Baseline SAF Revenue	$11,249.0	$10,382.0	$10,234.2
Balance Sheet Adjustments	$263.9	$574.2	$557.0
Net SAF Estimates	$11,512.9	$10,956.2	$10,791.2
Subtotal Adjustments to FY 2010 Base	$293.1	($17.2)	$0.0
Baseline Revenue on a FY 2010 Base	$11,806.0	$10,939.0	$10,791.2

School Aid Fund Revenue Adjustment Calculation for FY 2010

Sum of FY 2008 & FY 2009	$11,806.0	+	$10,939.0	=	$22,745.0
Sum of FY 2009 & FY 2010	$10,939.0	+	$10,791.2	=	$21,730.2

FY 2010 Revenue Adjustment Factor	**0.9554**

Note: Factor is calculated off a FY 2010 base year.

Revenue Detail

The estimated tax and revenue totals include the effects of all enacted tax changes except sales tax savings resulting from reductions in revenue sharing payments to local units. The revenue totals by tax are presented separately for GF-GP and for the SAF (See Tables 9 and 10). Tax totals for the income, sales, use, tobacco and casino taxes for all funds are also included (See Table 11).

Table 9

Administration General Fund General Purpose Revenue Detail

(millions)

	FY 2008		FY 2009		FY 2010	
	Amount	**Growth**	**Amount**	**Growth**	**Amount**	**Growth**
GF-GP Tax Amounts						
Income Tax	$5,106.6	17.9%	$4,223.0	-17.3%	$3,811.2	-9.8%
Sales	$76.5	-8.1%	$31.3	-59.0%	$91.6	192.4%
Use	$911.6	-0.9%	$781.0	-14.3%	$819.3	4.9%
Cigarette	$212.9	-5.5%	$203.2	-4.6%	$193.1	-5.0%
Beer & Wine	$50.9	-1.2%	$51.5	1.2%	$51.5	0.0%
Liquor Specific	$37.3	3.0%	$37.0	-0.8%	$37.2	0.5%
Single Business Tax	$573.8	-68.4%	($118.2)	-120.6%	$0.0	NA
Insurance Co. Premium	$223.2	-0.3%	$243.8	9.2%	$247.4	1.5%
Michigan Business Tax	$1,551.6	NA	$1,417.5	-8.6%	$1,293.6	0.0%
Telephone & Telegraph	$80.8	-7.4%	$74.0	-8.4%	$73.0	-1.4%
Inheritance Estate	$0.2	0.0%	$0.0	0.0%	$0.0	0.0%
Casino Wagering	$15.4	-66.6%	$3.9	-74.8%	$0.0	NA
Horse Racing	$0.0	0.0%	$0.0	0.0%	$0.0	0.0%
Oil & Gas Severance	$97.1	34.9%	$66.0	-32.0%	$68.0	3.0%
GF-GP Other Taxes	$48.1	-7.5%	$27.0	-43.9%	$25.0	-7.4%
Total GF-GP Taxes	$8,985.9	13.1%	$7,040.9	-21.6%	$6,710.9	-4.7%
GF-GP Non-Tax Revenue						
Federal Aid	$14.8	-21.3%	$17.0	14.9%	$17.0	0.0%
From Local Agencies	$0.1	-75.0%	$0.5	400.0%	$0.5	0.0%
From Services	$18.4	124.4%	$13.0	-29.3%	$13.0	0.0%
From Licenses & Permits	$22.3	-12.9%	$24.0	7.6%	$24.0	0.0%
Miscellaneous	$46.4	-3.7%	$44.0	-5.2%	$44.0	0.0%
Driver Responsibility Fees	$105.7	3.1%	$100.0	-5.4%	$100.0	0.0%
Short Term Note Interest	$0.0	0.0%	$0.0	0.0%	$0.0	0.0%
Interfund Interest	($54.4)	-16.3%	($59.0)	8.5%	($81.0)	37.3%
Liquor Purchase	$159.2	3.0%	$159.2	0.0%	$159.2	0.0%
Charitable Games	$10.6	-1.9%	$11.0	3.8%	$11.0	0.0%
Transfer From Escheats	$49.6	-28.6%	$47.0	-5.2%	$47.0	0.0%
Other Non Tax	$0.0	0.0%	$0.0	0.0%	$0.0	0.0%
Total Non Tax	$372.7	-0.2%	$356.7	-4.3%	$334.7	-6.2%
Total GF-GP Revenue	$9,358.7	12.5%	$7,397.7	-21.0%	$7,045.6	-4.8%

Table 10

Administration School Aid Fund Revenue Detail

	FY 2008		FY 2009		FY 2010	
	Amount	**Growth**	**Amount**	**Growth**	**Amount**	**Growth**
School Aid Fund						
Income Tax	$2,117.7	0.4%	$1,902.5	-10.2%	$1,839.4	-3.3%
Sales Tax	$4,928.1	3.3%	$4,514.6	-8.4%	$4,551.4	0.8%
Use Tax	$459.3	-0.2%	$390.5	-15.0%	$409.7	4.9%
Liquor Excise Tax	$36.9	3.4%	$37.0	0.3%	$37.2	0.5%
Cigarette & Tobacco	$424.7	-5.7%	$403.0	-5.1%	$381.2	-5.4%
State Education Tax	$2,079.7	-0.1%	$1,987.2	-4.4%	$1,849.2	-6.9%
Real Estate Transfer	$169.8	-28.5%	$109.3	-35.6%	$114.3	4.6%
Michigan Business Tax	$341.0	NA	$729.0	113.8%	$734.1	0.0%
Industrial Facilities Tax	$86.1	-37.0%	$50.9	-40.9%	$51.0	0.2%
Casino (45% of 18%)	$112.1	5.1%	$110.0	-1.9%	$110.5	0.5%
Commercial Forest	$4.0	29.0%	$3.1	-22.5%	$3.1	0.0%
Other Spec Taxes	$12.8	-8.6%	$14.0	9.4%	$14.0	0.0%
Subtotal Taxes	$10,772.2	3.5%	$10,251.3	-4.8%	$10,095.1	-1.5%
Lottery Transfer	$740.7	-1.1%	$705.0	-4.8%	$696.1	-1.3%
Total SAF Revenue	$11,512.9	3.2%	$10,956.2	-4.8%	$10,791.2	-1.5%

Table 11

Administration Major Tax Totals

	FY 2008		FY 2009		FY 2010	
	Amount	**Growth**	**Amount**	**Growth**	**Amount**	**Growth**
Major Tax Totals (Includes all Funds)						
Income Tax	$7,225.5	12.2%	$6,127.0	-15.2%	$5,652.1	-7.8%
Sales Tax	$6,773.3	3.4%	$6,211.7	-8.3%	$6,261.9	0.8%
Use Tax	$1,377.0	-0.2%	$1,171.5	-14.9%	$1,229.0	4.9%
Cigarette and Tobacco	$1,073.6	-90.5%	$1,015.6	-5.4%	$964.4	-5.0%
Casino Tax	$129.7	-18.6%	$114.5	-11.7%	$110.8	-3.2%