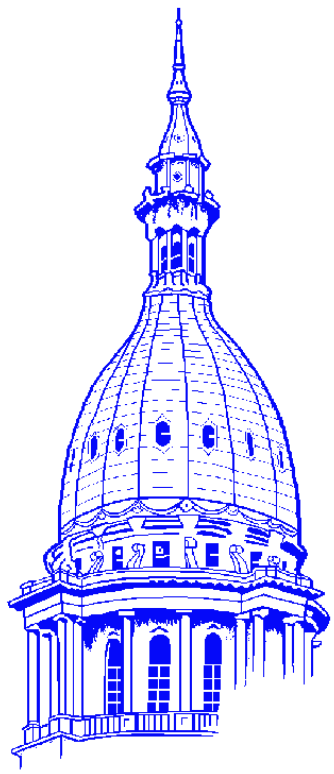
CONSENSUS REVENUE AGREEMENT
FINAL REPORT
JANUARY 13, 2005

Economic and Revenue Forecasts
Fiscal Years 2004-05 and 2005-06



Principals

Gary Olson, Director
Senate Fiscal Agency

Mitch Bean, Director
House Fiscal Agency

Jay Rising, State Treasurer
Department of Treasury

Staff

Jay Wortley
Senate Fiscal Agency

Rebecca Ross
House Fiscal Agency

Jeff Guilfoyle
Department of Treasury

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CONSENSUS FINAL AGREEMENT
JANUARY 13, 2005

EXECUTIVE SUMMARY

Revenue Review and Outlook

- FY 2004-05 GF/GP revenue is projected to decrease 2.1% to $7,869.8 million, a $31.2 million increase from the December 2004 Consensus estimate. School Aid Fund revenue is expected to grow 2.5% to $10,878.8 million, $4.6 million less than the December Consensus estimate.

- FY 2005-06 GF/GP revenue is projected to increase 3.6% to $8,156.2 million, an increase of $286.5 million from FY 2004-05. The School Aid Fund revenue is projected to rise 3.9% to $11,300.9 million, $422.1 million above the estimate for FY 2004-05.

2005 and 2006 U.S. Economic Outlook

- Inflation-adjusted Gross Domestic Product growth is forecast to average 3.2% in both 2005 and 2006.

- The U.S. unemployment rate is forecast to average 5.4% in 2005 and 5.5% in 2006.

- Consumer price inflation is forecast to be moderate, averaging 2.6% in 2005 and 2.4% in 2006.

- Wage and commodity price pressures are expected to continue building, helping push up interest rates over the forecast period. The interest rate on 3-month Treasury bills is expected to increase to an average of 2.4% in 2005 and 3.6% in 2006.

- Light vehicle sales are forecast to be 16.8 million units in both 2005 and 2006, although the import share will increase over the period.

2005 and 2006 Michigan Economic Outlook

- Michigan wage and salary employment is expected to increase, rising 0.3% in 2005. In 2006, Michigan wage and salary employment is forecast to grow 1.0%.

- The Michigan unemployment rate is forecast to rise to 6.9% in 2005, before falling to 6.8% in 2006.

- Wage and salary income is predicted to rise 3.7% in 2005, followed by a 4.3% increase during 2006. Personal income will post moderate increases throughout the forecast horizon. In 2005 and 2006, personal income is forecast to rise 4.5% and 5.6%, respectively.

- In FY 2004-05 and FY 2005-06, Michigan wage and salary income is anticipated to grow 2.5% and 4.0%, respectively. Disposable income is expected to rise 3.4% in FY 2004-05 and 5.0% in FY 2005-06.

Forecast Risks

- Nationally, employment has increased each month for over a year. However, Michigan job growth has remained elusive. The forecast projects modest gains in Michigan employment. However, several factors present risks that employment growth may be even slower, both in Michigan and nationally. If interest rates are higher than expected, productivity grows more rapidly than expected, or substantial declines in business and/or consumer confidence occur, employment is likely to be below the forecasted levels.

- Much of the economic improvement in the forecast reflects increased business investment. If firms invest less (more) than expected, then growth may be weaker (stronger) than forecasted.

- If the market share for domestic vehicle manufacturers falls by more than forecasted, then manufacturing employment could decline more steeply than predicted. Michigan would likely bear a disproportionate share of that decline because of the concentration of motor vehicle jobs within the state. Similarly, to the extent that productivity gains in the auto industry remain very strong, Michigan's manufacturing employment would decline faster than expected and overall employment gains would be slower than anticipated.

- Continued higher oil and natural gas prices could curb growth. Weaker growth abroad, particularly due to high energy prices, also could slow domestic growth by reducing exports.

- A rapidly falling dollar, while helping the manufacturing sector and exports, also could spur inflation and lead to instability for U.S. financial markets. Slower equity price growth or outright declines could slow consumption and investment spending.

- If firms add to their inventories more rapidly (slowly) than projected, economic growth will be more (less) rapid than projected.

- Geopolitical concerns continue to pose a risk to the forecast.

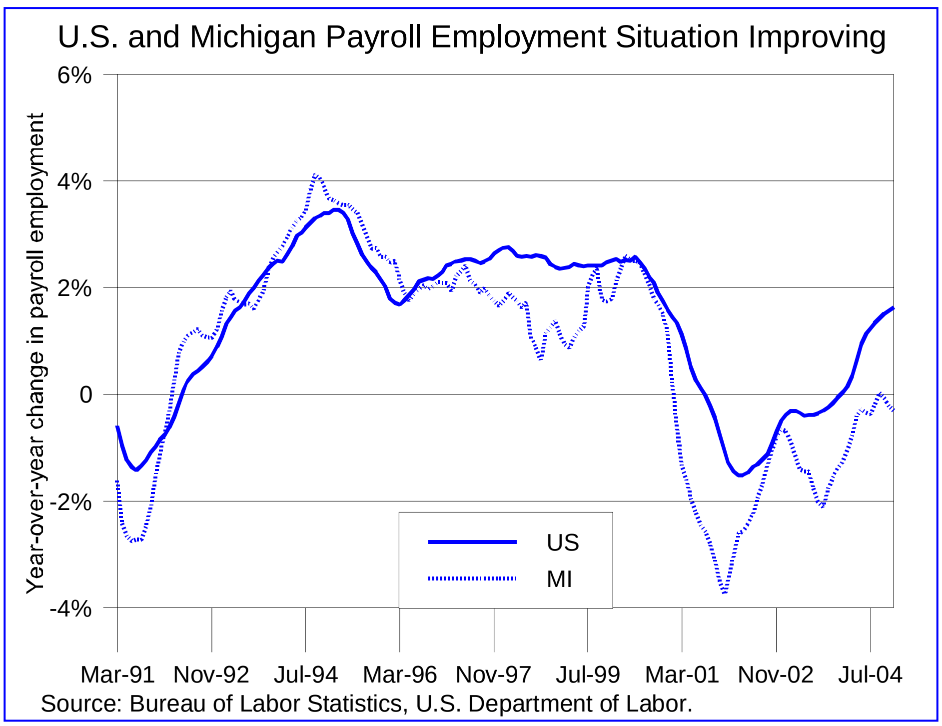
ECONOMIC REVIEW AND CONSENSUS OUTLOOK - JANUARY 13, 2005

Current U.S. Economic Situation

The current recovery, according to the National Bureau of Economic Research, is now three years old, having begun in November 2001. Over the past six quarters, real Gross Domestic Product (GDP) growth has exceeded 3.0% each quarter. Consumption growth has generally remained strong over this period. Similarly, with the exception of the first quarter of this year, business investment in equipment and software has grown at double digit rates over the past year and a half, spurred by higher profits and tax incentives that expired at the end of 2004. Light vehicle sales have remained strong throughout the recovery, boosted by record incentives and low financing rates. Supported by historically low interest rates, new and existing home sales have remained strong as well.

However, employment growth has lagged behind the recovery. Employment declined each quarter during the recovery until the fourth quarter of 2003. While employment has grown in each of the past four quarters, that growth has been uneven. Further, despite recent growth, U.S. payroll employment in December remained 62,000 jobs below its March 2001 peak (Figure 1). Continued job growth will be a key factor to sustained economic growth.

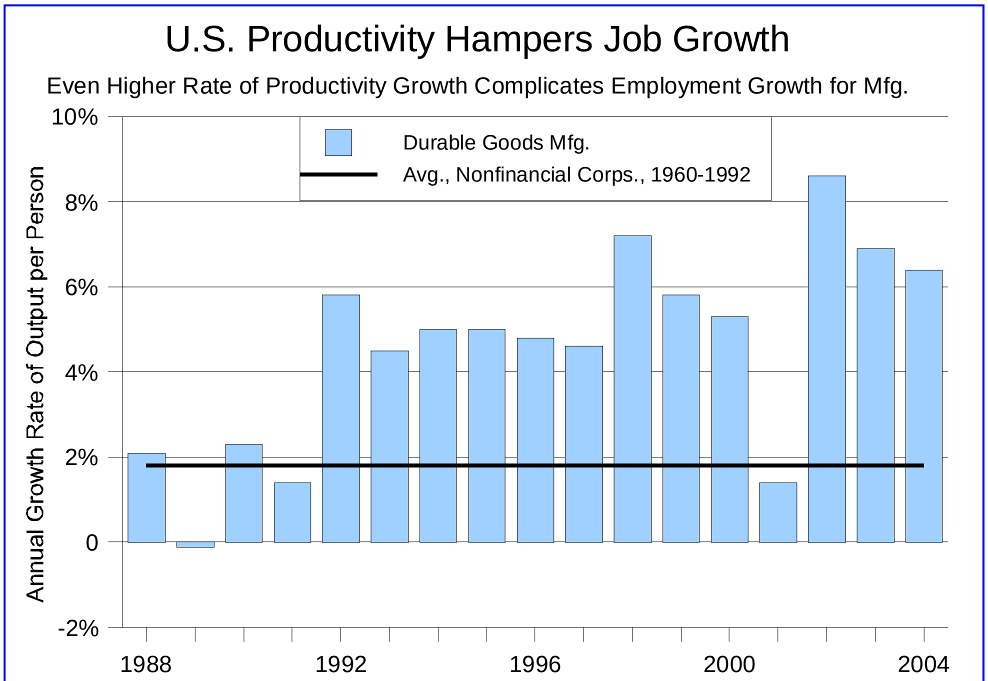
Figure 1



The manufacturing sector has exhibited particularly poor job growth. Even before the recession, the manufacturing sector was losing jobs. Beginning in August 2000, U.S. manufacturing employment fell for 42 straight months. Manufacturing employment then reported solid gains in early 2004. However, in recent months, manufacturing employment has declined. Over the past four years, the manufacturing sector has lost nearly 3.0 million jobs.

Rapid productivity gains have allowed firms to reduce payroll employment even as they continued to increase output (Figure 2). While overall productivity growth has remained strong, it did slow in the latter half of 2004. However, productivity in the manufacturing sector has not exhibited such slowing.

Figure 2



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

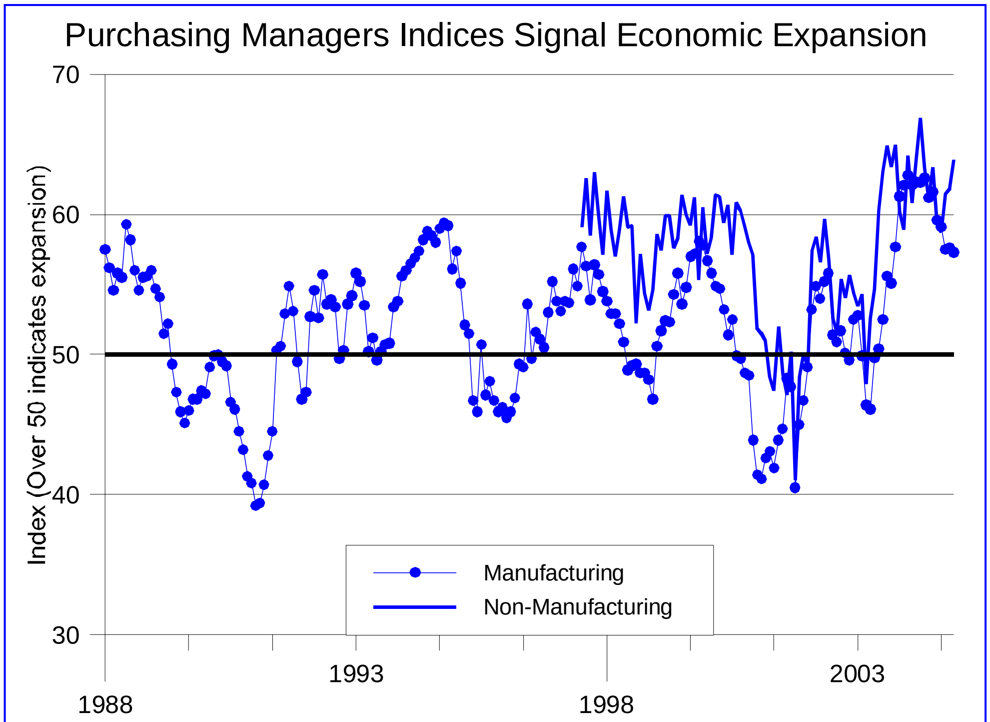
Interest rates have remained at historically low levels, but are expected to rise as the economy continues to report solid growth and inflationary pressures build with higher commodity prices and wage pressures as job growth increases. Energy prices, most notably for oil, are increasing due to a restricted supply and growing world demand. Despite a brief drop in December, oil prices have hovered around $50 a barrel and natural gas prices in December were more than 20.0% above September levels. Security concerns for oil supplies are also in the forefront with tensions high in Iraq and the Middle East and other oil-producing nations.

Other indicators for the national economy point to continued economic growth. The Institute for Supply Management's indices for manufacturing activity and nonmanufacturing activity have remained above 50, although the manufacturing index declined fairly steadily over most of 2004 (Figure 3). The nonmanufacturing index declined somewhat during the third quarter of 2004, but began rising slightly over the fourth quarter. A reading of 50 indicates a growing sector.

While new durable goods orders have trended upward, capacity utilization remains near 20-year lows. Recent retail sales growth has been uneven, but has consistently trended upward. Similarly, consumer sentiment has remained strong, despite a slight general decline over a number of recent months. However, after declining during 2003, the burden of servicing consumer debt has been rising as a share of disposable income as interest rates have risen and debt levels have resumed increasing.

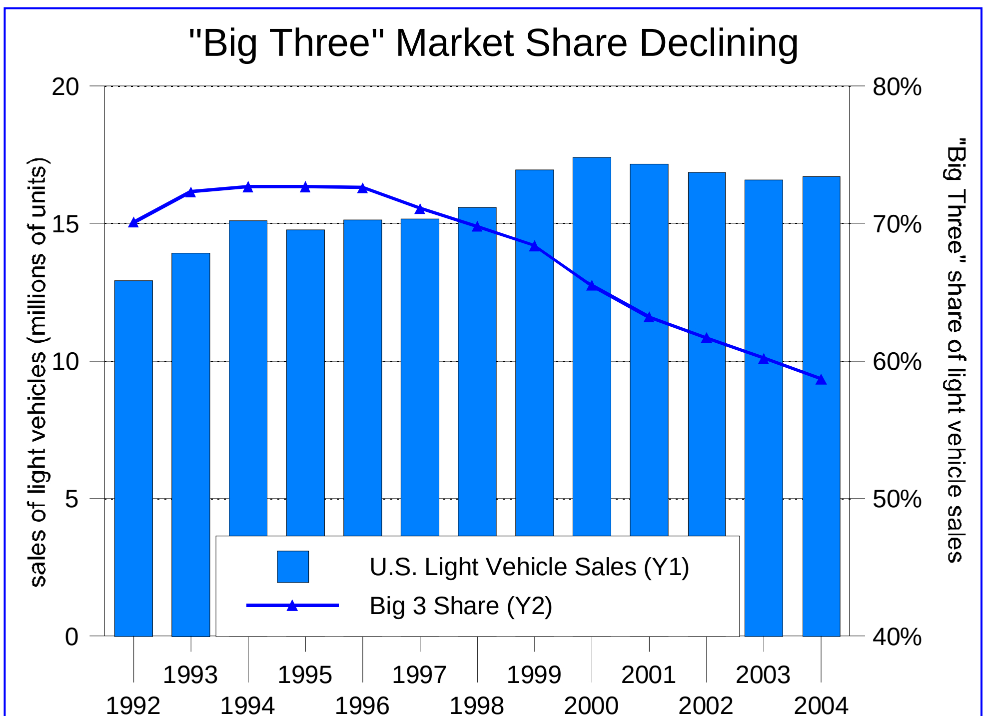
Rebates, coupled with low financing rates, have helped maintain vehicle sales above 16.0 million units. In 2003, light vehicle sales averaged 16.6 million units and in 2004 light vehicle sales were on track to finish the year at approximately 16.7 million units. However, over the past few years, imports and transplants have continued to increase their market share (Figure 4). This erosion of market share for the traditional "Big Three" domestic vehicle manufacturers is a particular concern for Michigan, where roughly one-fourth of domestically manufactured vehicles are produced and nearly one-third of "Big Three" vehicles are produced (Figure 5).

Figure 3



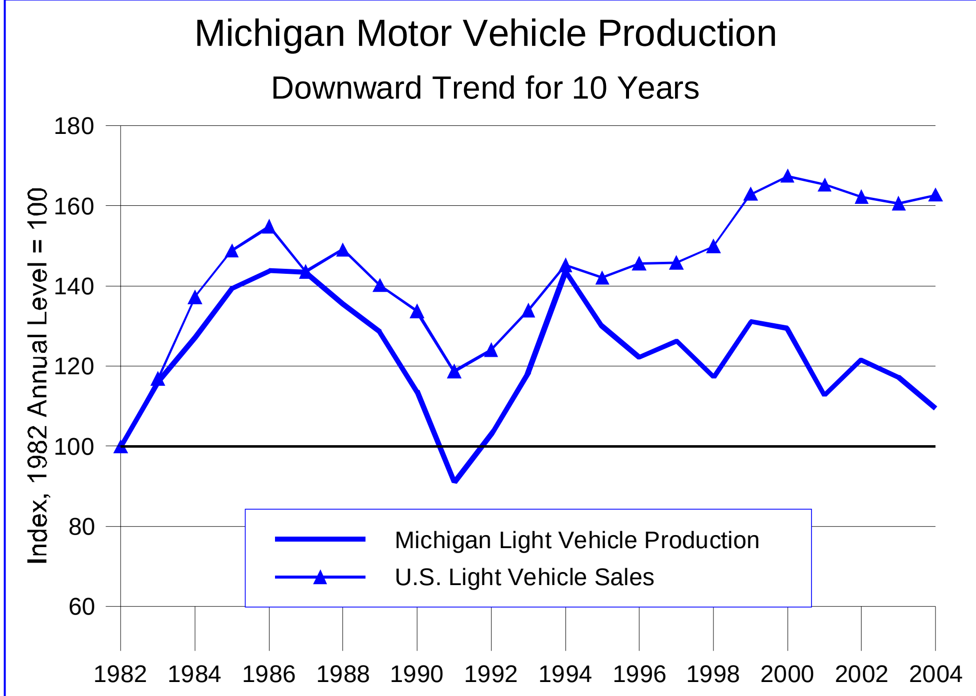
Source: Institute for Supply Management

Figure 4



Source: Automotive News

Figure 5



Source: U.S. Department of Commerce and the Senate Fiscal Agency

Current Michigan Economic Conditions

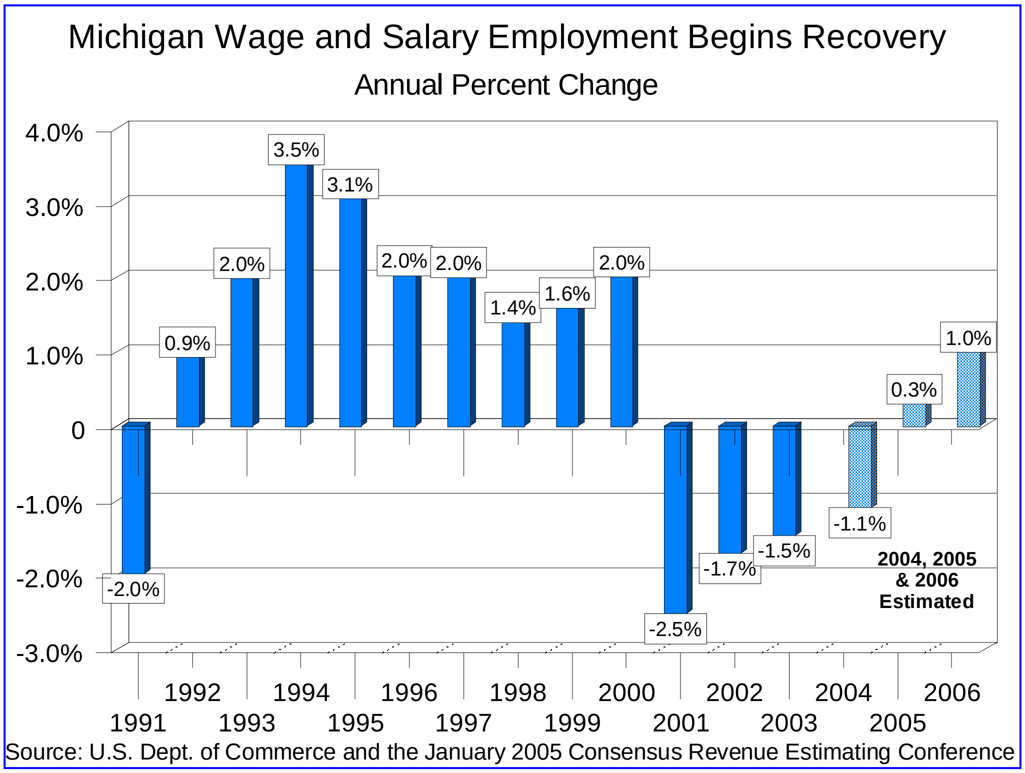
Michigan's economy relies heavily on the performance of the manufacturing sector in general and the auto industry specifically. Given extremely weak manufacturing employment performance, declining vehicle production, continued declines in "Big Three" market share along with continued supply rationing among vehicle suppliers, Michigan's employment performance has been below the national average (Figures 1 and 6). Many nonmanufacturing sectors in Michigan also depend heavily upon activity in the manufacturing sector. With nearly one out of every six jobs in manufacturing, even after the substantial declines over the last four years, a substantial number of the customers in nonmanufacturing sectors are manufacturing workers and/or their employers.

Substantial productivity gains in the vehicle industry also have contributed to Michigan's sub-par employment performance. Productivity growth in the durable goods sector, a sector in which Michigan industry is disproportionately concentrated, has grown significantly (Figure 2). Productivity growth in the durable goods sector has exceeded that in the overall manufacturing sector, which has exceeded the productivity growth in the overall economy. While consumption growth has been uncharacteristically strong -- both during the recession and, given the weakness in employment growth, since the recession -- demand has risen by less than productivity, meaning that fewer workers have been needed to generate the output required by the economy.

Over the past three years, the annual average for wage and salary employment has fallen and 2004 is expected to have posted a fourth consecutive year of decline. Through November, Michigan wage and salary employment is down nearly 1.0% compared with a year ago. From Michigan's employment peak in June 2000 (nine months before employment peaked nationally) compared with November 2004, Michigan wage and salary employment declined by 329,000 jobs, a 7.0% drop. By this time after the 1990-1991 recession, Michigan employment had risen approximately 106,700 jobs from its pre-recession peak, a 2.7% increase. However, while both total payroll employment and manufacturing employment have trended down since June 2000, the rate of that decline has slowed.

Through November, State employment had increased in two of the preceding four months and was 11,100 jobs above the level in July 2004.

Figure 6



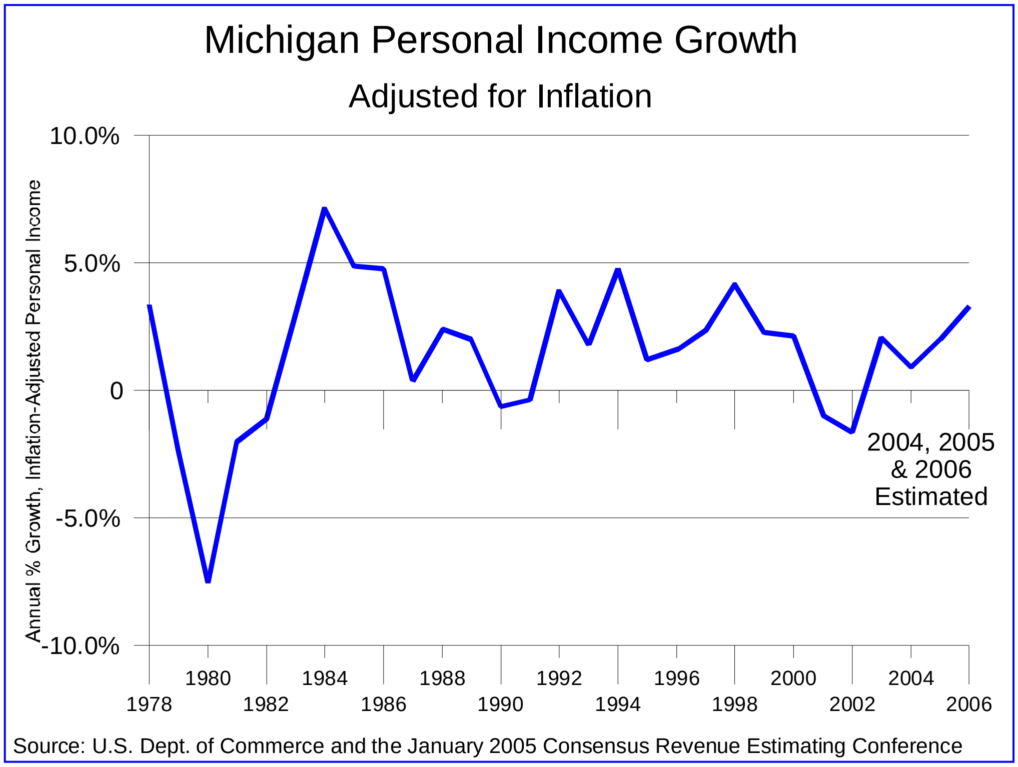
Michigan manufacturing employment has declined even more sharply than total employment. Between June 2000 and November 2004, Michigan manufacturing employment fell by approximately 210,200 jobs, a 23.2% decline. Michigan has lost more than one out of every five manufacturing jobs it had at the State's employment peak in June 2000 and lost almost twice as many manufacturing jobs as it gained during the 1990s.

Between November 2001, when the national recession officially ended, and November 2004, the Michigan economy lost 76,700 payroll jobs - the most lost by any state in the nation. As a result, inflation-adjusted Michigan personal income has struggled; falling 1.6% in 2002 and rising only 2.1% in 2003 (Figure 7). Inflation-adjusted Michigan personal income is expected to have averaged a 0.9% increase in 2004.

Michigan's personal income increased 4.1% in 2003 while wages and salaries rose 1.8%. Personal income is currently expected to have grown 2.7% in 2004, compared with an anticipated increase of 0.7% in wages and salaries. (Large contributions to employee pension and health insurance plans largely account for the apparent incongruity between overall personal income growth and wage and salary growth.)

Michigan's annual average unemployment rate for 2003 was 7.3%, which marked the highest level since 1992. In 2004, it edged down to an estimated 6.7%. While the Michigan unemployment rate in 2004 remained above both the U.S. average, estimated at 5.5% for 2004, and its pre-recession lows of roughly 3.0%, the rate remained well below the 9.6% rate experienced at the same point following the end of the 1981-1982 recession.

Figure 7



2005 and 2006 U.S. Economic Outlook

Inflation-adjusted GDP is forecast to grow 3.2% in both 2005 and 2006, after growing an anticipated 4.4% in 2004 (Table 1 and Figure 8). Light vehicle sales are projected to remain relatively stable with sales of 16.8 million units in both 2005 and 2006, up slightly from 16.7 million units in 2004 (Figure 9).

Inflation will remain moderate throughout the forecast horizon. As measured by the consumer price index (CPI), prices are expected to rise 2.6% and 2.4% in 2005 and 2006, respectively (Figure 10). Interest rates are forecast to remain historically low even as the Federal Reserve continues to raise the Federal Funds rate.

Employment is projected to continue growing over the forecast horizon. Thus, the U.S. unemployment rate is expected to fall from 5.5% in 2004 to 5.4% in 2005. Increasing employment also will attract additional individuals into the labor force, which is expected to grow slightly more rapidly than employment grew. As a result, the unemployment rate is expected to rise slightly, to 5.5% in 2005.

Table 1

Consensus Economic Forecast
January 2005

	Calendar 2003 Actual	Calendar 2004 Forecast	% Change from Prior Year	Calendar 2005 Forecast	% Change from Prior Year	Calendar 2006 Forecast	% Change from Prior Year
United States							
Real Gross Domestic Product (Billions of Chained 2000 Dollars)	$10,381	$10,838	4.4%	$11,185	3.2%	$11,540	3.2%
Implicit Price Deflator GDP (2000 = 100)	106.0	108.2	2.1%	110.6	2.2%	113.1	2.3%
Consumer Price Index (1982-84 = 100)	184.0	189.0	2.7%	193.9	2.6%	198.6	2.4%
Personal Consumption Deflator (2000 = 100)	105.5	107.7	2.1%	109.9	2.0%	112.1	2.0%
3-month Treasury Bills Interest Rate (percent)	1.0	1.4		2.4		3.6	
Aaa Corporate Bonds Interest Rate (percent	5.7	5.6		5.7		6.4	
Unemployment Rate - Civilian (percent)	6.0	5.5		5.4		5.5	
Light Vehicle Sales (millions of units)	16.6	16.7	0.5%	16.8	0.6%	16.8	0.0%
Passenger Car Sales (millions of units)	7.6	7.4	(2.8)%	7.4	0.0%	7.5	1.4%
Light Truck Sales (millions of units)	9.0	9.3	3.2%	9.4	1.1%	9.3	(1.1)%
Import Share of Light Vehicles (percent)	19.9	20.1		20.6		21.1	
Michigan							
Wage and Salary Employment (thousands)	4,412	4,363	(1.1)%	4,376	0.3%	4,420	1.0%
Unemployment Rate (percent)	7.3	6.7		6.9		6.8	
Personal Income (millions of dollars)	$314,460	$322,950	2.7%	$337,483	4.5%	$356,382	5.6%
Real Personal Income (millions of 1982-84 dollars)	$172,307	$173,816	0.9%	$177,342	2.0%	$183,230	3.3%
Wages and Salaries (millions of dollars)	$176,493	$177,728	0.7%	$184,304	3.7%	$192,155	4.3%
Detroit Consumer Price Index (1982-84 = 100)	182.5	185.8	1.8%	190.3	2.4%	194.5	2.2%
Detroit CPI Fiscal Year (1982-84 = 100)	182.0	184.4	1.3%	189.2	2.6%	193.2	2.1%

Figure 8

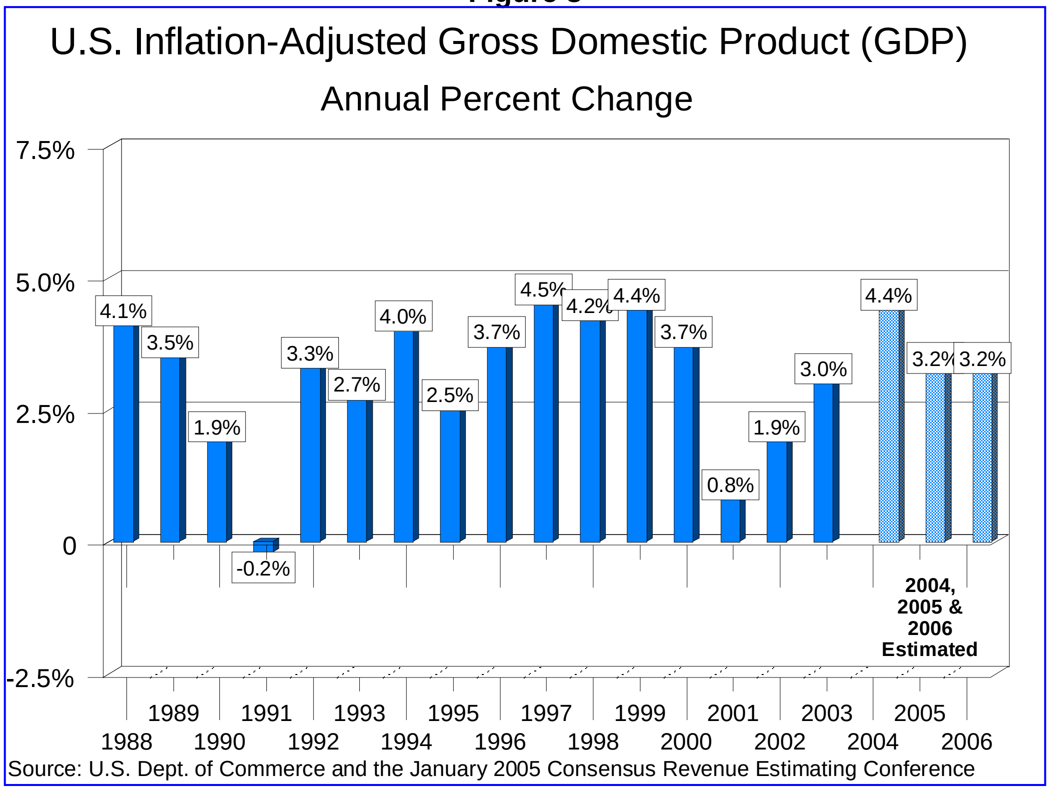


Figure 9

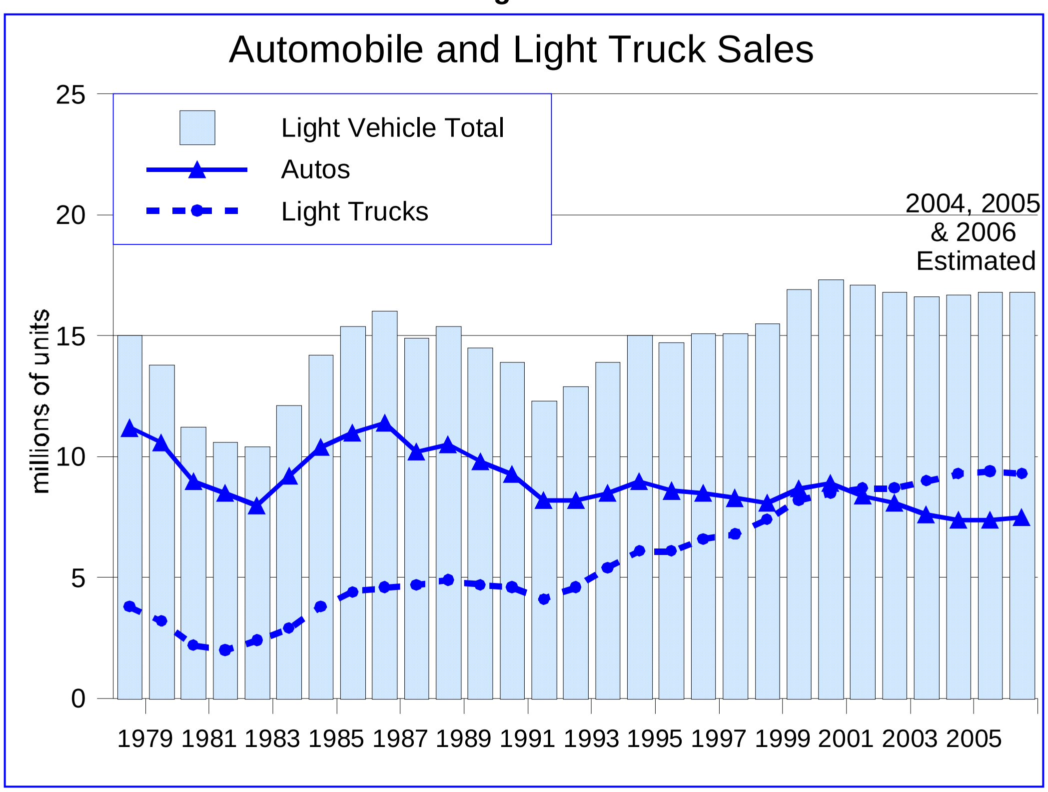
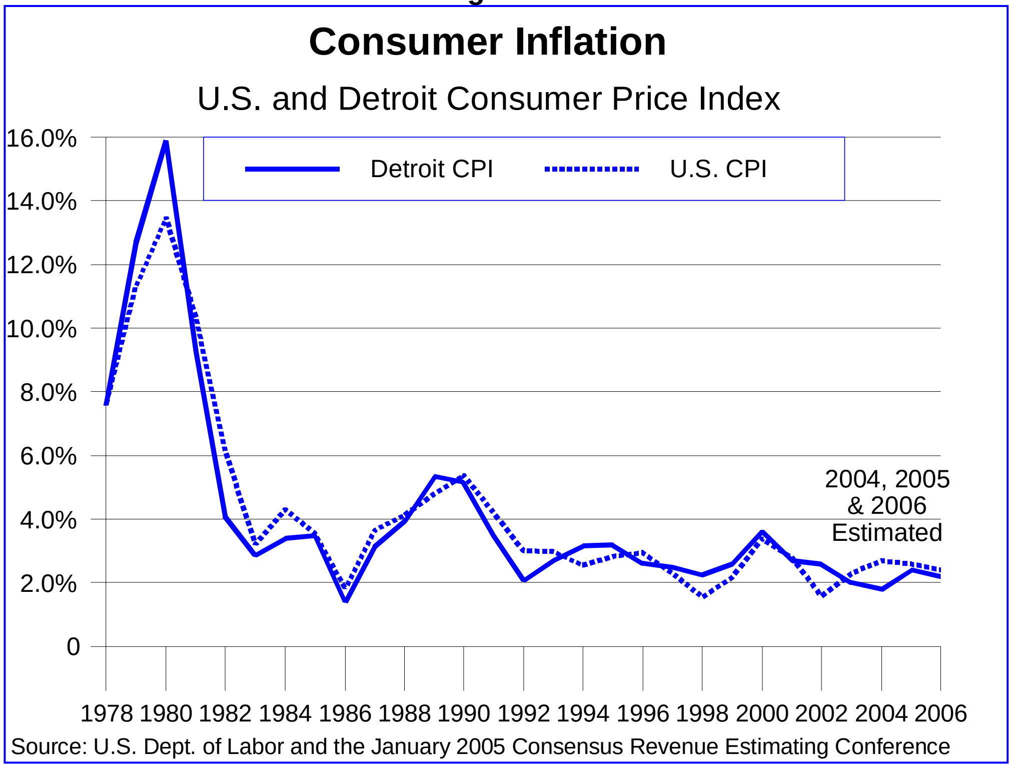


Figure 10



2004 and 2005 Michigan Economic Outlook

Michigan employment is expected to experience modest growth in 2005 and 2006 after declining in 2004 for the fourth straight year (Table 1). Weak growth in manufacturing employment will constrain Michigan employment increases. Wage and salary employment is forecast to increase 0.3% in 2005 and 1.0% in 2006, after falling an estimated 1.1% in 2004 (Figure 6). The number of entrants to the labor force is expected to exceed job growth in 2005, causing Michigan's unemployment rate to rise from an anticipated 6.7% in 2004 to 6.9% in 2005. As job growth improves in 2006, the unemployment rate is forecasted to decline slightly, to 6.8%.

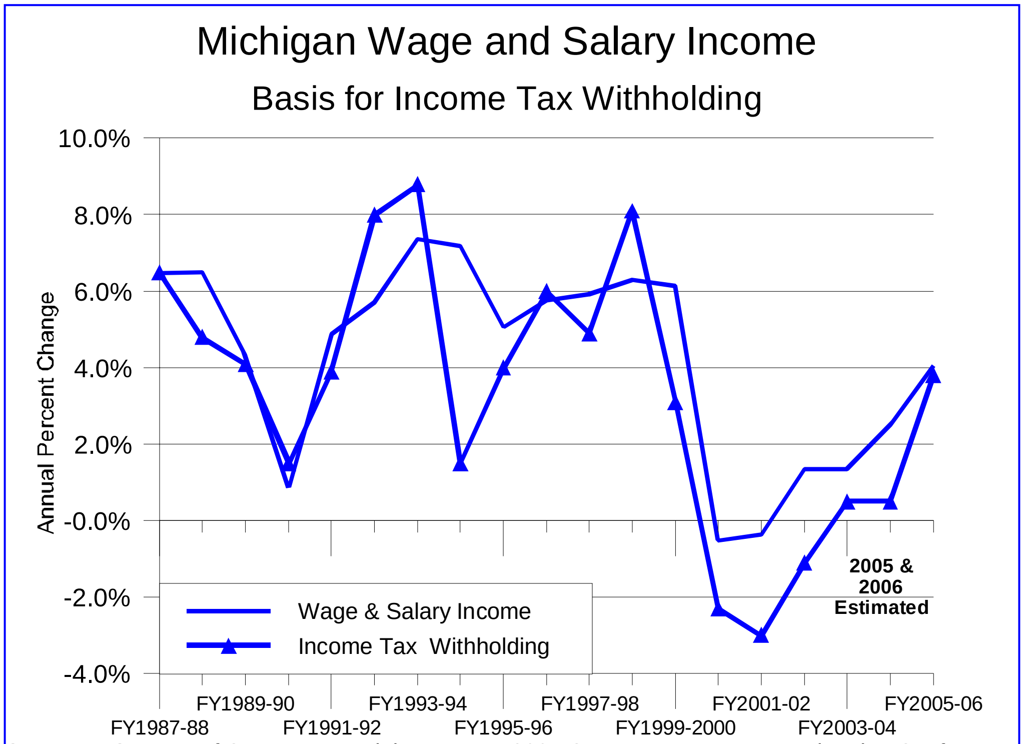
Sluggish employment is expected to mitigate the growth of income, although 2005 and 2006 are expected to exhibit stronger growth than was experienced for 2004. Wage and salary income increased an estimated 0.7% in 2004, and is projected to increase 3.7% in 2005 and 4.3% in 2006. Michigan personal income is forecast to increase 4.5% in 2005 and 5.6% in 2006, respectively, after increasing at an estimated rate of 2.7% in 2004.

Inflation, as measured by the Detroit CPI, increased an estimated 1.8% in 2004. Prices are expected to rise slightly more rapidly over the forecast period, with increases of 2.4% in 2005 and 2.2% in 2006 (Figure 10). As a result, inflation-adjusted Michigan personal income, which rose an estimated 0.9% in 2004, will increase an estimated 2.0% in 2005 and 3.3% in 2006 (Figure 7).

Fiscal Year Economics

Michigan's State government receives a large share of its total revenue from taxes and three of these major taxes whose revenue levels are strongly linked to the level of economic activity are the income, sales, and use taxes. Income tax withholding is the largest component of individual income tax revenue. Withholding, which is expected to total $6.4 billion in fiscal year (FY) 2004-05, is affected by growth in wage and salary income (Figure 11). Michigan wages and salaries increased an estimated 1.4% in FY 2003-04 and are forecasted to increase 2.5% in FY 2004-05 and 4.0% in FY 2005-06. The predicted FY 2004-05 and FY 2005-06 increases are substantially slower than the growth reported through much of the 1990s.

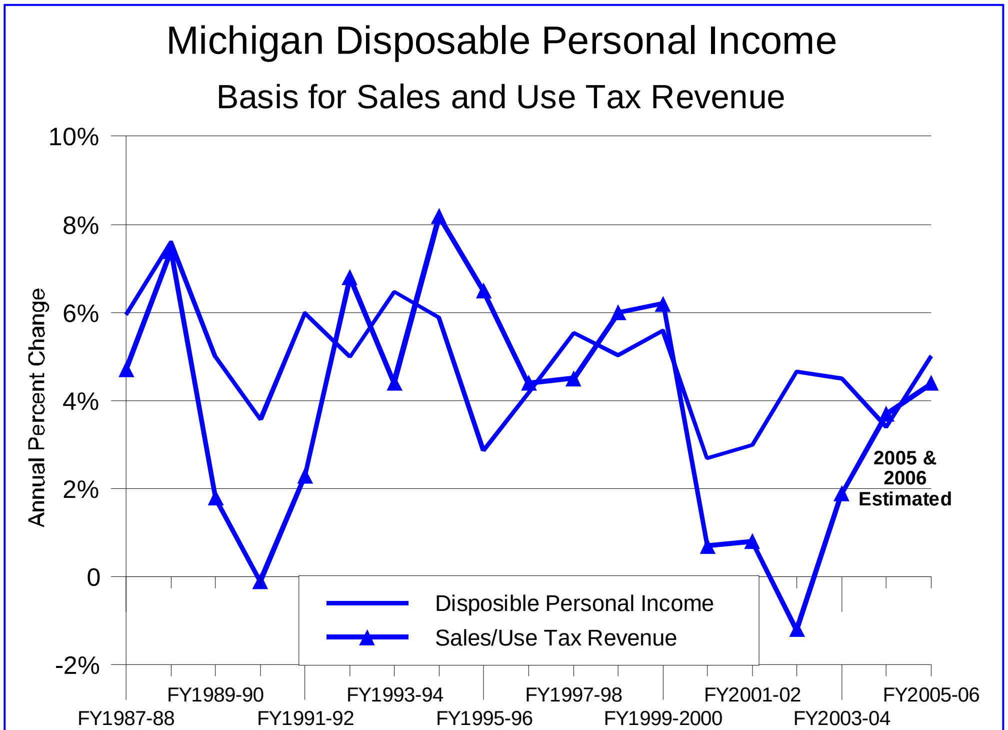
Figure 11



Source: U.S. Dept. of Commerce and the January 2005 Consensus Revenue Estimating Conference

Sales and use tax revenue, which will total an estimated $8.1 billion in FY 2004-05, depends primarily on Michigan disposable (after tax) income and inflation (Figure 12). Michigan disposable income is estimated to have risen 4.5% in FY 2003-04 and will grow a projected 3.4% in FY 2004-05 and 5.0% in FY 2005-06. The inflation rate rose 1.3% in FY 2003-04 and is expected to increase 2.6% in FY 2004-05 and 2.1% in FY 2005-06.

Figure 12



Source: U.S. Dept. of Commerce and the January 2005 Consensus Revenue Estimating Conference

Forecast Risks

Although U.S. employment has increased each month for over a year, employment at the national level is still below the pre-recession peak. Michigan employment is still well below the pre-recession peaks. If employment gains do not materialize, due to any number of factors including greater-than-expected growth in productivity, slower-than-expected export growth, higher consumer and corporate debt burdens, and below-forecast inventory accumulation and/or consumption growth, then businesses and/or consumers may lose confidence in the expansion. If businesses and/or consumers lose confidence in the expansion, either as a result of these factors or external shocks, such as increases in oil prices or international geopolitical issues, then both national and Michigan employment growth may be slower than forecast.

Business investment is a significant portion of the expected growth over the forecast. If business investment is above (below) projected levels, economic growth may be more (less) than forecast. For the Michigan economy, “Big Three” market share also will affect the forecast. Sharp declines in market share would adversely affect the Michigan economy, particularly compared with other states. Similarly, faster (slower) productivity growth, particularly in the durable goods manufacturing sector, would decrease (increase) employment relative to forecasted levels. Faster (slower) inventory investment would increase (decrease) economic growth relative to the forecast.

Continued higher oil and natural gas prices could curb growth by reducing consumer’s discretionary income and increasing production costs. Weaker growth abroad also could slow domestic growth as exports decline. Slower growth or outright declines in equity prices could slow consumption and investment spending. If the U.S. dollar declines sharply, inflation risks would increase and financial markets could become roiled. Geopolitical concerns continue to pose a risk to the forecast.

CONSENSUS REVENUE ESTIMATES - JANUARY 13, 2005

This section of the report presents the consensus revenue estimates adopted at the January 13, 2005, Consensus Revenue Estimating Conference. These estimates include General Fund/General Purpose (GF/GP) revenue, School Aid Fund (SAF) revenue, the constitutional revenue limit, Budget Stabilization Fund pay-in, and the School Aid Fund revenue adjustment factor.

General Fund/General Purpose and School Aid Fund Consensus Revenue Estimates

At the January 13, 2005, Consensus Revenue Estimating Conference final revenue for FY 2003-04 was presented and consensus agreements were reached on revised revenue estimates for FY 2004-05 and initial revenue estimates for FY 2005-06. General Fund/General Purpose and SAF revenue includes the following three components: 1) estimates for baseline revenue, which measures what revenue would be without any changes in the State's tax structure from one year to the next; 2) tax adjustments which represent the estimated fiscal impact of enacted tax changes that are not reflected in the baseline revenue; and 3) net revenue, which equals baseline revenue plus the impact of the tax adjustments. In addition, the consensus revenue estimates primarily include GF/GP revenue from ongoing revenue sources and SAF revenue from earmarked taxes and the lottery. The consensus revenue estimates do not include the impact of one-time revenue adjustments such as withdrawals from the Budget Stabilization Fund, transfers from other funds, or the proceeds from the sale of State property.

FY 2003-04 Final Revenue

General Fund/General Purpose and School Aid Fund revenue totaled $18.66 billion in FY 2003-04, which was down a slight 0.1% from the FY 2002-03 revenue level, as presented in Table 2. The information available at the December 3, 2004, Consensus Revenue Estimating Conference suggested that FY 2003-04 revenue would fall below the FY 2002-03 level by 0.8%; however, an unexpected boost in revenue was revealed in December during the year-end book-closing process. These book-closing adjustments boosted FY 2003-04 GF/GP and SAF revenue $137 million. This stronger-than-expected level of revenue was due to larger-than-anticipated revenue from the income tax, single business tax, some nontax revenue sources, and stronger-than-expected year-end collections from the State education property tax.

General Fund/General Purpose. General Fund/General Purpose revenue totaled $8.04 billion in FY 2003-04, which was up 1.1% from FY 2002-03. Compared with the December 3, 2004, consensus revenue estimate, GF/GP revenue was up $74 million. This unexpected boost in GF/GP revenue during the year-end book-closing process was primarily due to additional revenue from the income, single business, and insurance taxes.

School Aid Fund. School Aid Fund earmarked revenue totaled an estimated $10.62 billion in FY 2003-04, which was down 0.9% from the FY 2002-03 revenue level. While SAF revenue collections from the income, sales, use, real estate transfer, and casino taxes, along with the lottery, were all up in FY 2003-04, they were not up enough to offset the 14.2% decline in the revenue generated from the State education property tax. This significant decline in State education property tax revenue resulted from the acceleration in the due date that took affect in the summer of 2003 and generated a one-time boost in revenue totaling $454 million in FY 2002-03. Compared with the consensus estimate adopted on December 3, 2004, SAF revenue was up $63 million, of which $59 million was in additional State education property tax collections.

Table 2

FY 2003-04 Final Revenue General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) January 13, 2004, Consensus Revenue Estimating Conference (Millions of Dollars)	FY 2002-03 Final	Previous FY 2003-04 Adjusted Consensus Estimate Dec 3, 2004	**FY 2003-04 Final**	$ Change From Dec. 2004 Adjusted Consensus	% Change From FY 2002-03
General Fund/General Purpose:					
Baseline *	$7,943.6	$8,037.0	$8,068.3	$31.3	1.6%
Tax Adjustments	14.1	(68.9)	(26.2)	42.7	---
Net GF/GP Revenue	$7,957.7	$7,968.1	$8,042.0	$73.9	1.1%
School Aid Fund:					
Baseline *	$10,255.6	$10,434.5	$10,434.5	$0.0	1.7%
Tax Adjustments	459.2	117.3	180.7	63.3	---
Net SAF Revenue	$10,714.8	$10,551.8	$10,615.1	$63.3	(0.9)%
TOTAL GF/GP & SAF:					
Baseline *	$18,199.2	$18,471.5	$18,502.9	$31.3	1.7%
Tax Adjustments	473.3	48.4	154.4	105.9	---
Net GF/GP & SAF Revenue	**$18,672.5**	**$18,519.9**	**$18,657.3**	**$137.2**	**(0.1)%**

* Baseline base year equals FY 2002-03.

Revised Revenue Estimates for FY 2004-05

General Fund/General Purpose and SAF revenue is expected to total $18.75 billion in FY 2004-05, which is up 0.5% from FY 2003-04. Compared with the December 3, 2004, consensus estimate, this revised estimate is up $27 million. Given that the economic forecast adopted at the January 2005 Consensus Revenue Estimating Conference was unchanged from the economic forecast adopted at the December 3, 2004, Consensus Revenue Estimating Conference, this revised revenue estimate is not due to changes in the economic forecast, but results from the unexpected boost in certain tax collections in FY 2003-04 during the book-closing process. As described above, GF/GP and SAF revenue realized an unexpected $137 million boost in FY 2003-04. While it is estimated that over $100 million of this revenue reflected a one-time boost in revenue not to be repeated in FY 2004-05, about $31.0 million is expected to be ongoing. This upward revision includes a $20.0 million increase in single business tax revenue, $9.0 million in insurance tax revenue, and $2.0 million in oil and gas severance tax revenue. The revised GF/GP and SAF revenue estimates for FY 2004-05 are presented in Table 3.

General Fund/General Purpose. General Fund/General Purpose revenue will total an estimated $7.87 billion, which is down 2.1% from FY 2003-04. Most of this decrease will be due to three major factors: 1) a $120.0 million decline in the amount of tobacco tax revenue earmarked to the General Fund; 2) a $37.0 million decline in estate tax revenue due to the ongoing phased repeal of this tax; and 3) a $59.0 million decline in income tax revenue due primarily to the full-year impact of reducing the income tax rate to 3.9% on July 1, 2004. Partially offsetting these revenue declines will be a $43.0 million increase in casino wagering tax revenue due to the full-year impact of the recent increase in the tax rate. This revised GF/GP revenue estimate is up $31.0 million from the December 3, 2004, consensus revenue estimate and all of this increase is due to the revisions made to the single business, insurance company, and oil and gas severance taxes described above.

School Aid Fund. School Aid Fund revenue from earmarked taxes and the lottery is expected to total $10.88 billion in FY 2004-05, which is up 2.5% from the FY 2003-04 level. This estimate is practically unchanged from the December 3, 2004, consensus estimate. The major year-end adjustment made to FY 2003-04 SAF revenue was a $59 million increase in State education property tax collections, but it appears that all of this increase was due to an acceleration in tax collections and therefore it is not expected to have any positive impact on State education property tax collections in FY 2004-05. The SAF revenue estimate for FY 2004-05 is presented in Table 3.

Table 3

FY 2004-05 Consensus Revenue Estimate
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)
January 13, 2005, Consensus Revenue Estimating Conference
(Millions of Dollars)

	FY 2003-04 Final	Previous FY 2004-05 Adjusted Consensus Estimate Dec 3, 2004	**FY 2004-05 Revised Consensus Estimate Jan. 13, 2005**	$ Change From Dec. 2004 Adjusted Consensus	% Change From FY 2003-04
General Fund/General Purpose:					
Baseline*	$7,992.8	$8,092.4	$8,123.6	$31.2	1.6%
Tax Adjustments	49.3	(253.8)	(253.8)	0.0	---
Net GF/GP Revenue	$8,042.1	$7,838.6	$7,869.8	$31.2	-2.1%
School Aid Fund:					
Baseline*	$10,533.6	$10,868.8	$10,868.8	$0.0	3.2%
Tax Adjustments	81.5	14.6	10.0	(4.6)	---
Net SAF Revenue	$10,615.1	$10,883.4	$10,878.8	($4.6)	2.5%
TOTAL GF/GP & SAF:					
Baseline *	$18,526.4	$18,961.2	$18,992.4	$31.2	2.5%
Tax Adjustments	130.8	(239.2)	(243.9)	(4.7)	---
Net GF/GP & SAF Revenue	**$18,657.2**	**$18,722.0**	**$18,748.5**	**$26.5**	**0.5%**

* Baseline base year equals FY 2003-04.

FY 2005-06 Initial Revenue Estimates

The modest improvement in the level of economic activity forecast for Michigan's economy in 2005 and 2006 will help boost revenue collections in FY 2005-06. It is estimated that GF/GP and SAF revenue will total $19.46 billion in FY 2005-06. This initial consensus estimate of FY 2005-06 revenue represents an increase of 3.8%, or $708.0 million from the revised estimate for FY 2004-05, as presented in Table 4. Total GF/GP and SAF baseline revenue will increase at a projected rate of 3.5%, which will mark its strongest increase since FY 1999-2000.

Table 4

FY 2005-06 Consensus Revenue Estimate General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) January 13, 2005, Consensus Revenue Estimating Conference (Millions of Dollars)	FY 2004-05 Revised Consensus Estimate Jan. 13, 2005	**FY 2004-05 Initial Consensus Estimate Jan. 13, 2005**	% Change From FY 2004-05
General Fund/General Purpose:			
Baseline *	$8,123.6	$8,374.5	3.1%
Tax Adjustments	(253.8)	(218.3)	---
Net GF/GP Revenue	$7,869.8	$8,156.2	3.6%
School Aid Fund:			
Baseline *	$10,868.8	$11,284.1	3.8%
Tax Adjustments	10.0	16.8	---
Net SAF Revenue	$10,878.8	$11,300.9	3.9%
TOTAL GF/GP & SAF:			
Baseline *	$18,992.4	$19,658.6	3.5%
Tax Adjustments	(243.9)	(201.5)	---
Net GF/GP & SAF Revenue	$18,748.5	$19,457.1	3.8%
* Baseline base year equals FY 2003-04.			

General Fund/General Purpose Revenue. General Fund/General Purpose revenue will total an estimated $8.16 billion in FY 2005-06. This represents a 3.6%, or $286 million, increase from the FY 2004-05 revised estimate. This increase will be fueled by increases in revenue from the income, single business, and use taxes. In addition, scheduled changes in the earmarking of cigarette tax revenue will help boost GF/GP cigarette tax revenue in FY 2005-06. These revenue gains, however, will be partially offset by expected declines in the revenue generated from the estate and oil and gas severance taxes, and in nontax revenue. In addition, telephone and telegraph tax collections are expected to be down $16.0 million due primarily to a new income property valuation procedure that will be in effect for the first time. On a baseline basis, GF/GP revenue is expected to increase 3.1% in FY 2005-06.

School Aid Fund. School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $11.30 billion in FY 2005-06, which represents an increase of 3.9%, or $422.0 million, from the revised estimate for FY 2004-05. This increase reflects a general improvement in most of the taxes that are earmarked to the SAF. Sales tax collections, which account for about 45.0% of SAF revenue derived from the earmarked tax and lottery revenue, are expected to increase 4.5%. State education property tax revenue is expected to increase 5.3% to $1.94 billion. Lottery revenue will total an estimated $656.0 million in FY 2005-06, which represents an increase of 0.9%.

Detailed Revenue Estimates

Table 5 presents a more detailed breakdown of the revenue estimates for the GF/GP and SAF for FY 2004-05 and FY 2005-06.

Table 5

General Fund/General Purpose and School Aid Fund Detailed Revenue Estimates: FY 2004-05 and FY 2005-06						
	FY 2003-04		FY 2004-05		FY 2005-06	
Fund/Revenue Source	**Final**	**% Chg.**	**Final**	**% Chg.**	**Final**	**% Chg.**
General Fund/General Purpose:						
Personal Income Tax						
Gross Collections	$7,467.0	1.4%	$7,538.1	1.0%	$7,846.3	4.1%
Less: Refunds	(1,594.2)	2.8%	(1,660.7)	4.2%	(1,735.0)	4.5%
Net Income Tax Collections	5,872.8	1.1%	5,877.4	0.1%	6,111.3	4.0%
Less: Earmarking to SAF	(1,893.5)	2.5%	(1,956.9)	3.3%	(2,037.0)	4.1%
Campaign Fund	(1.5)	-21.1%	(1.5)	0.0%	(1.5)	0.0%
Net Income Tax to GF/GP	$3,977.8	0.4%	$3,919.0	-1.5%	$4,072.8	3.9%
Other Taxes						
Single Business Tax	$1,827.6	-0.8%	$1,855.7	1.5%	$1,905.2	2.7%
Sales	102.1	60.5%	117.1	14.7%	112.8	-3.7%
Use	877.4	7.1%	912.8	4.0%	950.3	4.1%
Cigarette	242.7	-16.1%	122.8	49.4%	233.6	90.2%
Insurance Co. Premiums	230.3	-0.3%	239.3	3.9%	243.0	1.5%
Telephone & Telegraph	101.3	-18.4%	95.3	-5.9%	79.3	-16.8%
Estate	75.5	-23.4%	39.0	-48.3%	10.0	-74.4%
Oil & Gas Severance	57.1	19.2%	55.0	-3.7%	49.0	-10.9%
Casino Tax	3.2	---	42.9	1,240.6%	42.9	0.0%
All Other	110.6	-17.1%	114.0	3.1%	114.5	0.4%
Subtotal Other Taxes	$3,627.8	-0.6%	$3,593.9	-0.9%	$3,740.6	4.1%
Total Nontax Revenue	436.4	26.0%	356.9	-18.2%	342.8	-4.0%
Total GF/GP Revenue	**$8,042.0**	**1.1%**	**$7,869.8**	**-2.1%**	**$8,156.2**	**3.6%**
School Aid Fund:						
Earmarked Taxes:						
Sales	$4,716.7	0.8%	$4,887.9	3.6%	$5,108.7	4.5%
Use	439.1	7.0%	456.5	4.0%	475.2	4.1%
State Education Property	1,824.5	-14.2%	1,846.0	1.2%	1,943.9	5.3%
Real Estate Transfer	317.5	15.2%	310.0	-2.4%	312.0	0.6%
Income	1,893.5	2.5%	1,956.9	3.3%	2,037.0	4.1%
Tobacco	484.8	-0.9%	479.9	-1.0%	474.4	-1.1%
Casino	95.8	5.4%	98.0	2.3%	100.0	2.0%
Other Taxes	198.5	-3.8%	193.8	-2.4%	193.8	0.0%
Subtotal Taxes	$9,970.4	-1.6%	$10,229.0	2.6%	$10,645.0	4.1%
Lottery revenue	644.9	10.1%	649.9	0.8%	655.9	0.9%
Total SAF Revenue	**$10,615.3**	**0.9%**	**$10,878.9**	**2.5%**	**$11,300.9**	**3.9%**
Total GF/GP & SAF Revenue	**$18,657.3**	**-0.1%**	**$18,748.7**	**0.5%**	**$19,457.1**	**3.8%**
Total Revenue for Major Taxes:						
Sales Tax	$6,473.5	0.8%	$6,707.8	3.6%	$7,010.0	4.5%
Use Tax	1,318.5	7.0%	1,369.3	3.9%	1,425.5	4.1%
Cigarette Tax	940.1	8.1%	1,157.1	23.1%	1,145.8	-1.0%
Other Tobacco Products Tax	24.4	15.6%	32.1	31.6%	32.1	0.0%
Total Tobacco Taxes	964.5	11.4%	1,189.2	23.3%	1,177.9	-1.0%
Casino Tax	99.5	9.5%	147.0	47.7%	149.0	1.4%

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% of the State's personal income for the calendar year prior to the year in which the fiscal year begins. For example, calendar year (CY) 2003 personal income is used to set the revenue limit in FY 2004-05. If revenue exceeds the limit by less than 1.0%, the State may deposit the excess into the Budget Stabilization Fund (BSF). If revenue exceeds the limit by more than 1.0%, the excess revenue must be refunded to taxpayers via the income and single business taxes.

In FY 2003-04, revenue subject to the revenue limit fell below the limit by an estimated $4.7 billion. Given the economic forecast and the consensus revenue estimates for FY 2004-05 and FY 2005-06, it is projected that revenue will remain well below the revenue limit in both FY 2004-05 and FY 2005-06. As shown in Table 6, revenue subject to the revenue limit will fall below the revenue limit by an estimated $5.7 billion in FY 2004-05 and $5.6 billion in FY 2005-06.

Table 6

COMPLIANCE WITH CONSTITUTIONAL REVENUE LIMIT CONSENSUS ESTIMATE (Millions of Dollars)

	FY 2002-03 Actual	FY 2003-04 Consensus	FY 2004-05 Consensus	FY 2005-06 Consensus
Revenue Subject to Limit	**$24,061.6**	**$24,087.7**	**$24,159.2**	**$25,031.5**
Revenue Limit				
Personal Income:				
Time Period	CY 2001	CY 2002	CY 2003	CY 2004
Level	$297,609	$303,745	$314,460	$322,950
Revenue Limit %	9.49%	9.49%	9.49%	9.49%
Revenue Limit	$28,243.1	$28,825.4	$29,842.2	$30,648.0
Amount Under (Over) Limit	**$4,181.5**	**$4,737.7**	**$5,683.0**	**$5,616.4**

Budget Stabilization Fund Calculation

The Counter Cyclical Budget and Economic Stabilization Fund (BSF) is essentially a reserve fund to which the State deposits money during good economic years and withdraws money during years of economic weakness. The BSF statute contains a formula that is intended to help identify when deposits and withdrawals should occur. This formula calculates the percentage change in Michigan personal income less transfer payments adjusted for inflation. When the percentage change in adjusted personal income from one year to the next is greater than 2.0%, then a payment into the Fund is recommended, but when the change is negative a withdrawal from the Fund is recommended. However, in order for any transfer into or out of the BSF actually to occur, it must be appropriated by the Legislature and approved by the Governor and the amount transferred does not have to follow the formula-generated recommendation.

Based on the consensus economic forecast, real Michigan personal income less transfer payments will increase an estimated 2.0% in calendar year 2005, which means no payment is indicated in FY 2005-06. This calculation is presented in Table 7.

Table 7

Counter Cyclical Budget and Economic Stabilization Fund Pay-in Calculation for FY 2005-06 (Millions of Dollars)		
	CY 2004	**CY 2005**
Michigan Personal Income (MPI) [1]	$322,950	$337,483
Less: Transfer Payments [1]	48,908	51,647
MPI less Transfer Payments	$274,042	$285,836
Divided by: Detroit Consumer Price Index	1.837[2]	1.879[1]
Average for 12 months ending:	June 2004	June 2005
Equals: Real Adjusted MPI	$149,179	$152,121
Percent Change in Real Adjusted MPI		1.97%
Excess Over 2%		0.00%
		FY 2004-05
Multiplied by: Estimated GF/GP Revenue [3]		$7,869.8
		FY 2005-06
Equals: Pay-in to the BSF		$0.0

[1] Consensus Economic Forecast, January 2005. [2] Actual. [3] Consensus Revenue Estimate, January 2005.
CY = Calendar Year; FY = Fiscal Year

School Aid Foundation Allowance Index

The School Aid Act requires that the coming year's basic foundation allowance increase by at least the minimum amount calculated using the foundation allowance index. The foundation allowance index is based on the change in pupils and the change in revenue. The calculations for the changes in pupils and revenue are presented below.

Pupil Membership Adjustment Factor

The pupil estimates presented at the January 2005 Consensus Revenue Estimating Conference for FY 2004-05 show a minimal decrease in the total number of pupils from those reported earlier at the December 2004 Revenue Estimating Conference. The FY 2004-05 pupil count is 1,709,100, which is 577 pupil memberships lower than the December 2004 consensus estimate for that year.

Pupil estimates for the upcoming fiscal year also were presented at the January 2005 conference. The pupil estimates presented for FY 2005-06 decrease by 5,100 memberships to 1,704,000, representing a decline of 0.3% from the previous fiscal year. The primary reasons for a decline of this magnitude include a similar decline in pupil counts observed in the current year, falling pupil counts at Detroit Public Schools, fewer new public school academies opening up, possible continual cleanup of duplicative records in the Single Record Student Database, and possible out-migration (though this is impossible to determine).

The pupil membership adjustment factor equals the pupil count in the previous year (FY 2004-05) divided by the pupil estimate for the current year (FY 2005-06). Based on consensus pupil estimates, the pupil membership adjustment factor for FY 2005-06 equals 1,709,100/1,704,000 or 1.0030.

Revenue Adjustment Factor

The School Aid Fund (SAF) revenue adjustment factor for FY 2005-06 is calculated by adjusting SAF revenue for any tax rate or base changes in any of the SAF earmarked taxes using FY 2005-06 as the base year, and then dividing the sum of FY 2004-05 and FY 2005-06 baseline SAF earmarked revenue by the sum of FY 2003-04 and FY 2004-05 SAF baseline earmarked revenue. Based on the latest consensus revenue estimates, the SAF revenue adjustment factor equals 1.0350 for FY 2005-06; this calculation is presented in Table 8.

Table 8

Consensus School Aid Revenue Adjustment Factor: FY 2005-06
(Millions of Dollars)

	FY 2003-04	FY 2004-05	FY 2005-06
School Aid Fund Consensus Revenue Estimate:			
(January 2005, Base Year = FY 2003-04)			
Baseline School Aid Fund Revenue	$10,533.6	$10,868.8	$11,284.1
Enacted Tax/Revenue Adjustments	$81.5	$10.0	$16.8
Net School Aid Fund Revenue	$10,615.1	$10,878.8	$11,300.9
Base Year FY 2005-06 Adjustments	($64.7)	$6.8	$0.0
Baseline Revenue (FY 2005-06 Base Year)	$10,550.4	$10,885.6	$11,300.9
School Aid Fund Revenue Adjustment Calculation: FY 2005-06			
Sum of Baseline FY 2003-04 & FY 2004-05	$10,550.4 + $10,885.6 = $21,436.0		
Sum of Baseline FY 2004-05 & FY 2005-06	$10,885.6 + $11,300.9 = $22,186.5		
FY 2005-06 Revenue Adjustment Factor (FY05+FY06)/(FY04+FY05):	**1.0350**		

School Aid Foundation Allowance Index

Using the above consensus estimates for the pupil membership adjustment factor and the revenue adjustment factor, the school aid foundation allowance index for FY 2005-06 equals the pupil index (1.0030) times the revenue adjustment factor (1.0350), which equals 1.0381. This means that the FY 2005-06 basic foundation allowance should increase by at least 3.81% from the FY 2004-05 basic foundation allowance of $6,700, which represents an increase of $255 to $6,955.