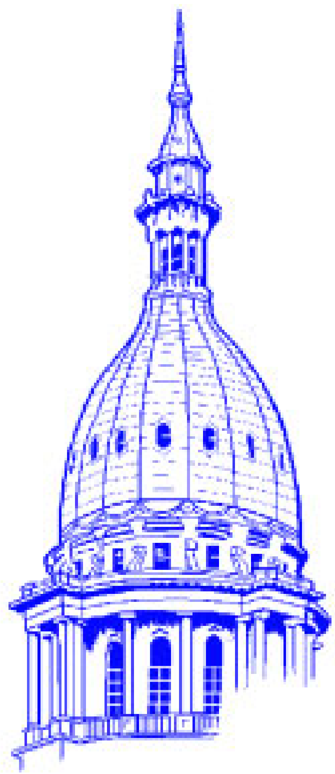
CONSENSUS REVENUE AGREEMENT
FINAL REPORT
MAY 19, 2005

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



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CONSENSUS FINAL AGREEMENT
MAY 19, 2005

EXECUTIVE SUMMARY

Revenue Review and Outlook

- Fiscal Year (FY) 2004-05 GF/GP revenue is projected to decrease 1.6% to $7,914.7 million, which is $44.9 million higher than the January 2005 Consensus estimate. School Aid Fund revenue is expected to grow 2.2% to $10,850.5 million, $28.3 million less than the January Consensus estimate.

- FY 2005-06 GF/GP revenue is projected to increase 2.8% to $8,135.1 million, an increase of $220.4 million from FY 2004-05, but $21.1 million less than expected by the January 2005 Consensus estimate. School Aid Fund revenue is projected to rise 3.6% to $11,244.1 million, $393.5 million above the estimate for FY 2004-05 but $56.8 million less than expected in January.

2005 and 2006 U.S. Economic Outlook

- Inflation-adjusted Gross Domestic Product growth is forecast to average 3.2% in 2005 and 3.1% during 2006.

- The U.S. unemployment rate is forecast to average 5.3% in both 2005 and 2006.

- Consumer price inflation is forecast to be moderate, averaging 2.7% in 2005 and 2.6% in 2006.

- Wage and commodity price pressures are expected to continue building, helping to push up interest rates over the forecast period. The interest rate on three-month Treasury bills is expected to increase to an average of 3.1% in 2005 and 4.4% in 2006.

- Light vehicle sales are forecast to be 16.7 million units in both 2005 and 2006, although the import share will increase over the period.

2005 and 2006 Michigan Economic Outlook

- On an annual basis, Michigan wage and salary employment is expected to decline again in 2005, by 0.1%, before posting the first annual increase since 2000 in 2006, with a gain 0.8%.

- The Michigan unemployment rate is forecast to rise from 7.1% during 2004 to 7.4% in 2005 and then fall to 7.2% in 2006.

- Wage and salary income is predicted to rise 3.4% in 2005, followed by a 4.3% increase during 2006. Personal income also will increase throughout the forecast horizon, rising 4.4% and 5.3% in 2005 and 2006, respectively.

- In FY 2004-05 and FY 2005-06, Michigan wage and salary income will grow a projected 3.3% and 3.8%, respectively. Disposable income is expected to rise 4.0% in FY 2004-05 and 4.7% in FY 2005-06.

Forecast Risks

- Nationally, wage and salary 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 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 could decline more rapidly 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.

- Inflationary pressures may be greater than expected. 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. Other inflationary pressures, among them higher energy prices, rising health care and pension costs, and the increased obsolescence of current production capacity, could be stronger than expected and result in higher interest rates, lower inflation-adjusted consumption and investment spending, and greater financial uncertainty in U.S. financial markets.

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

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

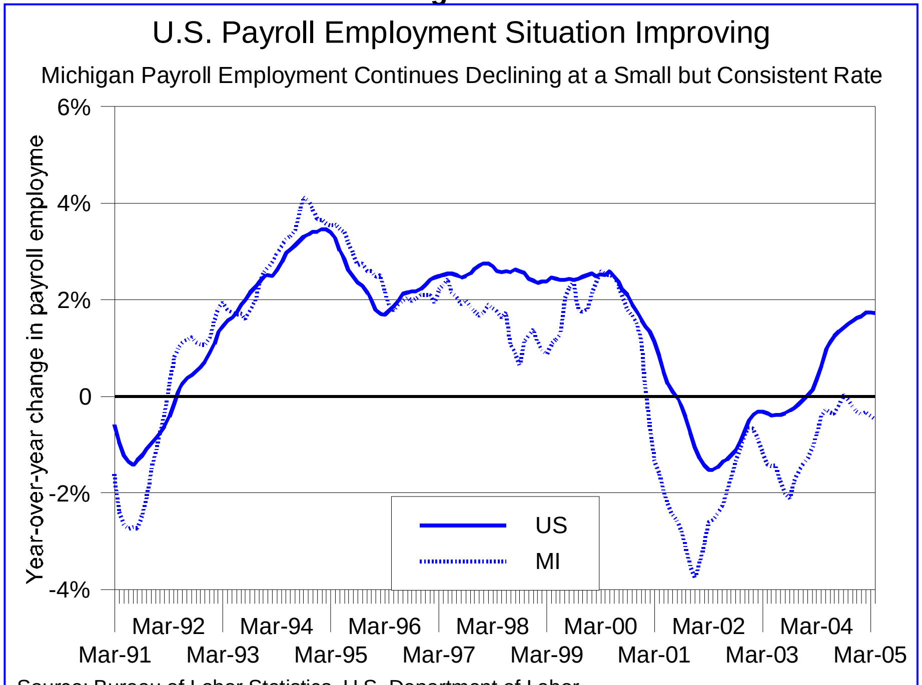
ECONOMIC REVIEW AND CONSENSUS OUTLOOK - MAY 19, 2005

Current U.S. Economic Situation

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

However, employment growth has lagged behind the recovery. Wage and salary employment declined for nine consecutive quarters, including six quarters after the recovery officially began. While employment has grown in each of the past eight quarters, that growth has been uneven. Further, despite recent growth, U.S. payroll employment did not surpass its February 2001 peak until January 2005 and was only 741,000 above that peak in April 2005 (Figure 1). Continued job growth will be a key factor to sustained economic growth.

Figure 1

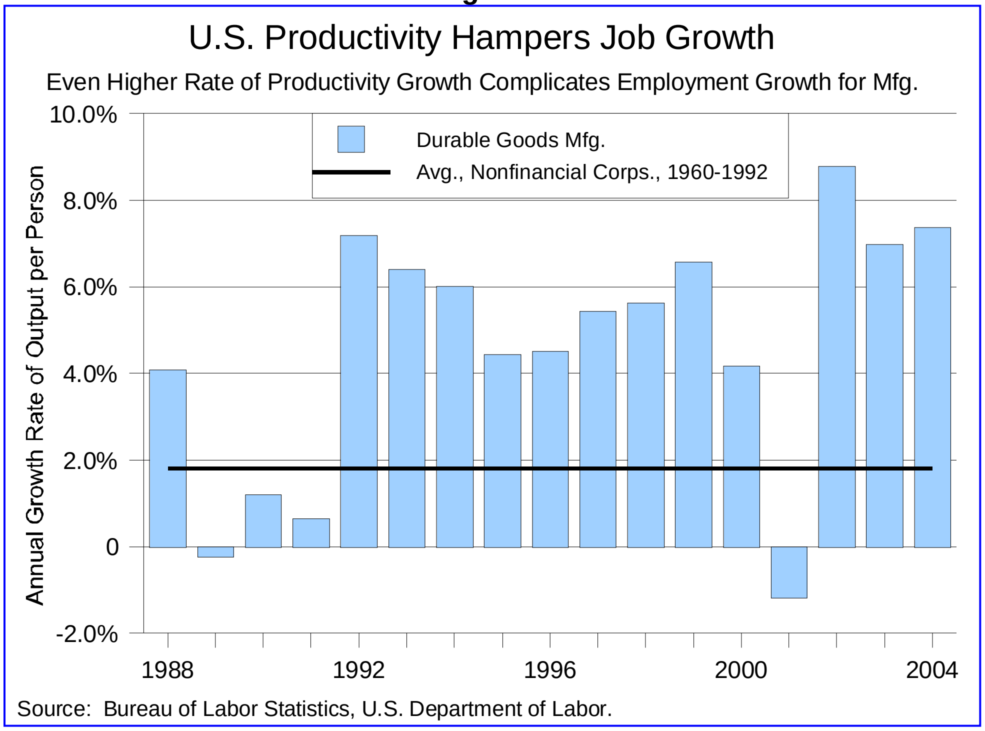


Source: Bureau of Labor Statistics, U.S. Department of Labor.

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 more than 2.5 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 second half of 2004. However, productivity in the manufacturing sector has not exhibited such slowing and, in the durable goods manufacturing sector, has been steadily rising since mid-2004.

Figure 2



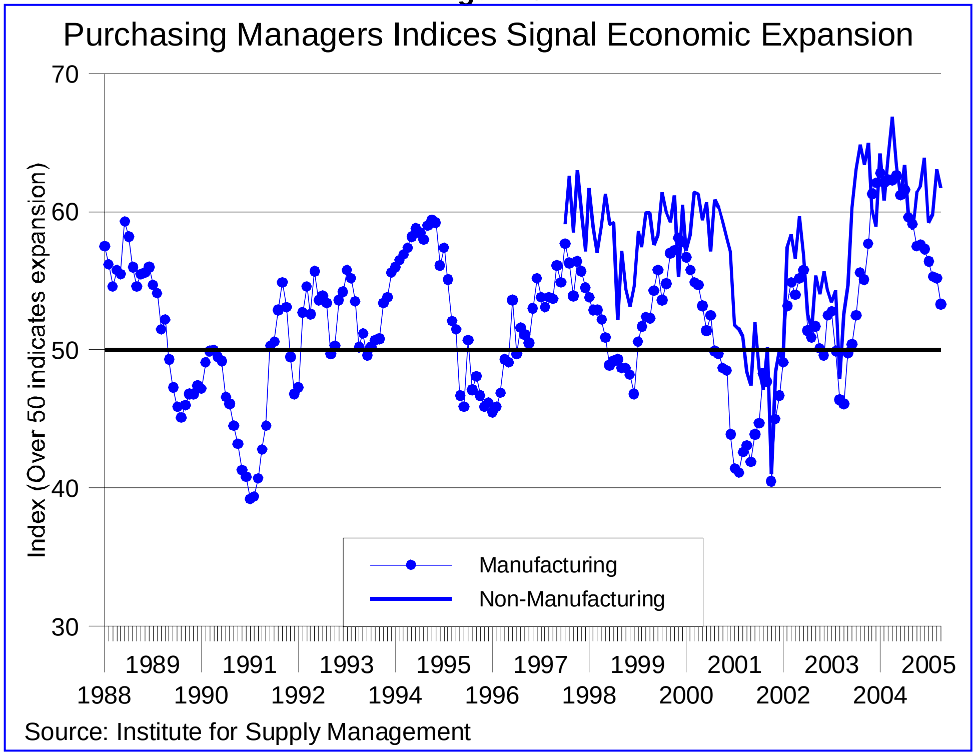
Interest rates have remained at historically low levels, but are expected to rise as the economy continues to exhibit solid growth. The Federal Reserve has increased the target Federal funds rate 25 basis points at each Open Market Committee meeting since June 2004. As a result, the Federal funds rate has risen from 1.0% in May 2004 to 3.0% in May 2005. Other short-term interest rates have risen, with the rate on 90-day Treasury bills rising from 1.0% to 2.9% over the same period, and the prime rate on business loans has risen from 4.0% to 6.0%.

Inflationary pressures, ranging from the declining value of the dollar, to higher commodity prices, to higher wage costs from rising health care costs, pension costs and a tighter labor market, also will put additional pressure on the Federal Reserve to increase interest rates. Energy prices, most notably oil, are increasing due to a restricted supply and growing world demand. Despite a brief drop in December, oil prices have hovered near the $55-a-barrel mark for two months. Similarly, natural gas prices in the first quarter of 2005 were more than 20% above both year-ago levels and the level in September 2004. Security concerns for oil supplies also are in the forefront with tensions high in Iraq and elsewhere in the Middle East, as well as in a number of 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 has 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 recent months and a significant drop in April 2005. However, the burden of servicing consumer debt has been rising as a share of disposable income after declining during 2003, as interest rates have risen and debt levels have resumed increasing.

Figure 3



Rebates, coupled with low financing rates, have helped maintain vehicle sales above 16 million units. In 2003, light vehicle sales averaged 16.6 million units and 2004 light vehicle sales averaged 16.8 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).

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 restructuring 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 either 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.

Figure 4

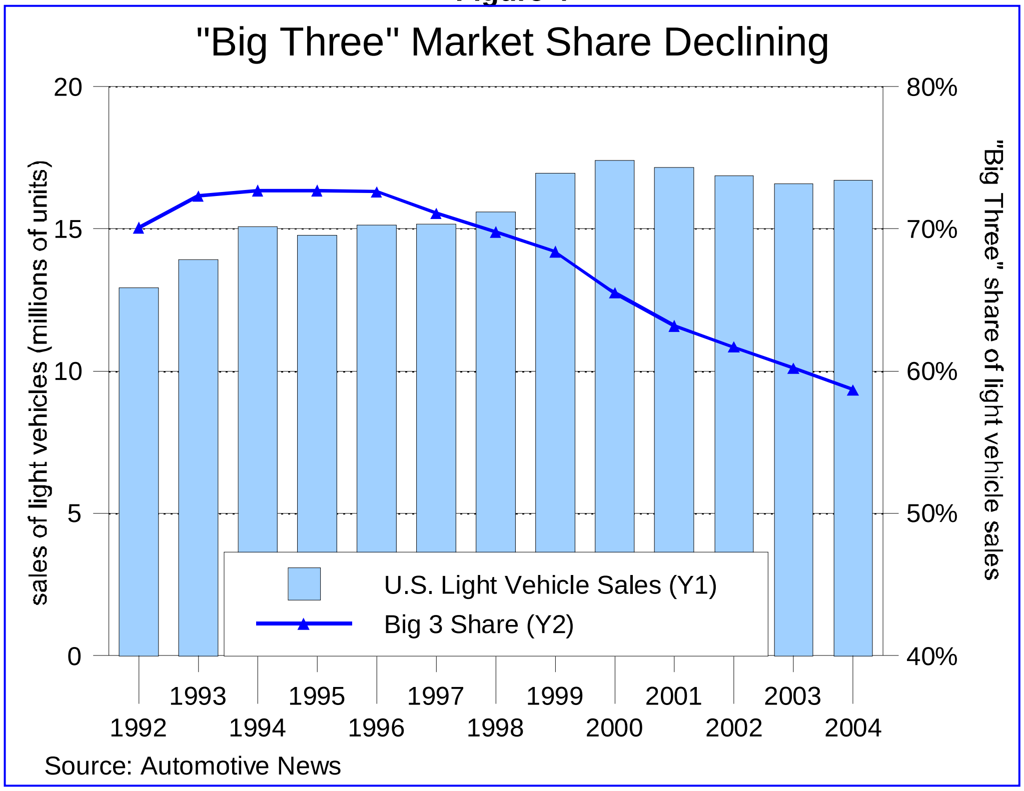


Figure 5

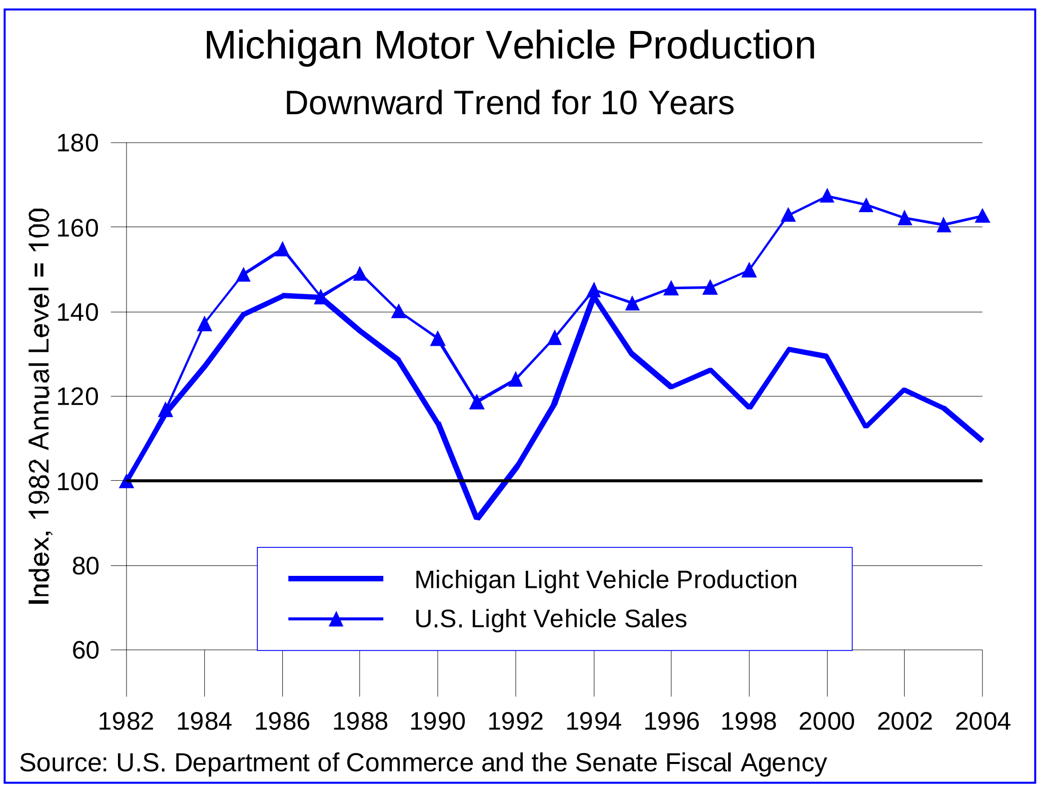
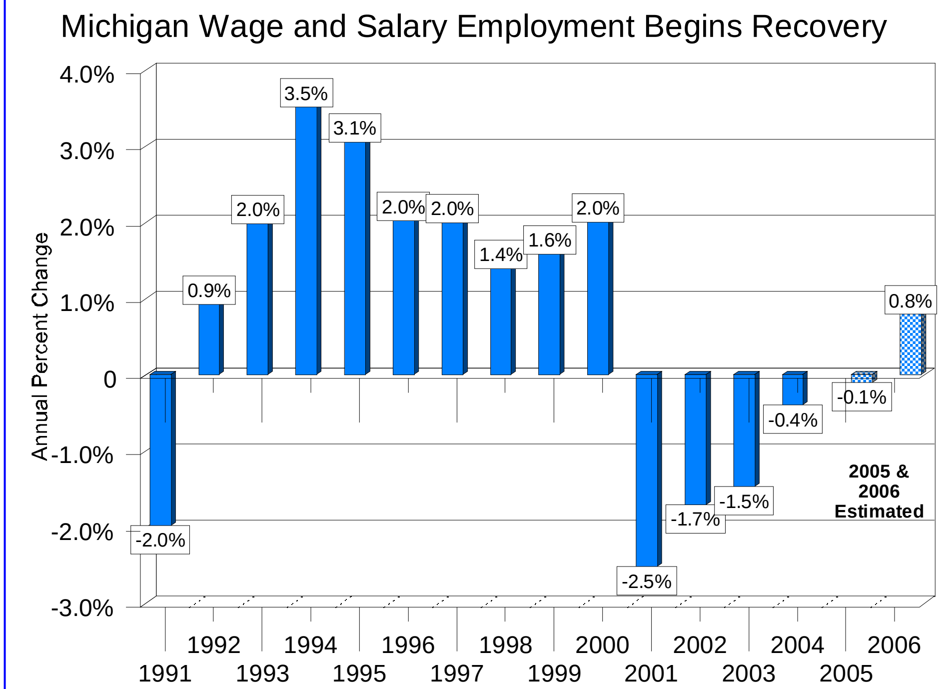


Figure 6



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

Over the past four years, the annual average for wage and salary employment has fallen. Through April 2005, Michigan wage and salary employment was approximately 0.6% lower than one year ago. From Michigan's employment peak in June 2000 (nine months before employment peaked nationally) to April 2005, Michigan wage and salary employment declined by 307,300 jobs, a 6.6% drop. By this time after the 1990-1991 recession, Michigan employment had risen approximately 172,200 jobs *above* its pre-recession peak, a 4.3% increase. However, while both total payroll employment and manufacturing employment have trended down since June 2000, the rate of that decline has shown signs of stabilizing. Through April, Michigan wage and salary employment had increased in two of the preceding three months -- the best performance since August-October 2003, although April 2005 employment was still 28,500 jobs below the level in April 2004.

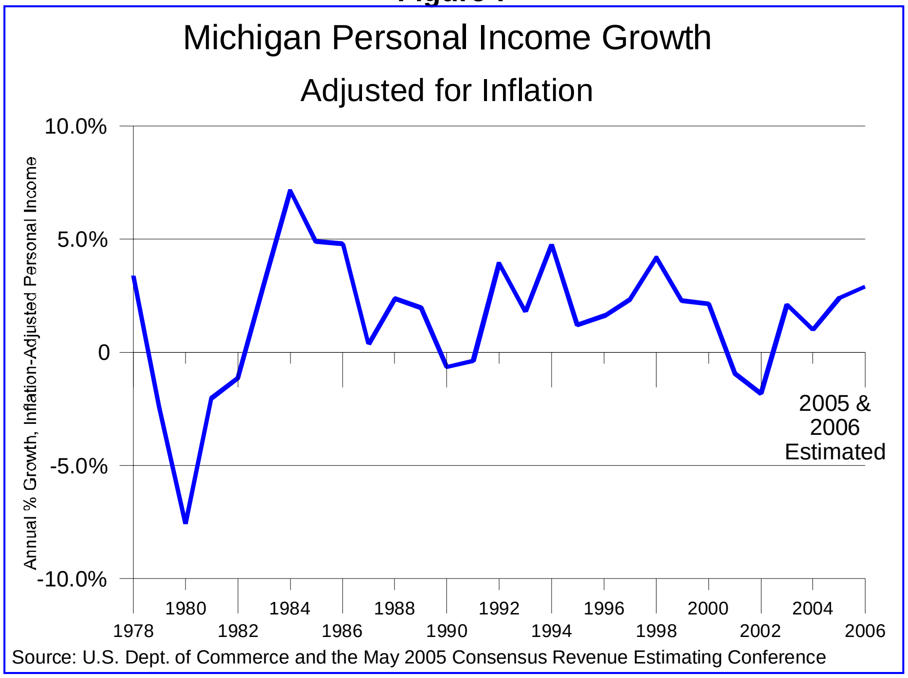
Michigan manufacturing employment has declined even more sharply than total employment. Between June 2000 and April 2005, Michigan manufacturing employment fell by approximately 225,400 jobs, a 24.9% decline. Michigan has lost almost one out of every four manufacturing jobs it had at the State's employment peak in June 2000 and has lost almost twice as many manufacturing jobs as it gained during the 1990s.

Between November 2001, when the national recession officially ended, and April 2005, the Michigan economy lost 115,400 payroll jobs -- the most lost by any state in the nation. As a result, inflation-adjusted Michigan personal income has struggled, falling 1.8% in 2002 and rising only 2.1% in 2003 (Figure 7). Inflation-adjusted Michigan personal income increased 1.2% in 2004.

Without adjusting for inflation, Michigan's personal income increased 4.2% in 2003 but only 2.8% in 2004, while wages and salaries rose 1.8% in 2003 and 1.9% in 2004. Large contributions, primarily by the Big 3 automobile manufacturers, to employee pension and health insurance plans in 2003 largely account for the apparent incongruity between overall personal income growth and wage and salary growth. These contributions also artificially boosted the growth rate in personal income during 2003 and artificially lowered it in 2004.

Michigan's annual average unemployment rate for 2003 was 7.1%, the highest level since 1993, and remained at that level in 2004. Although the Michigan unemployment rate in 2004 was above both the U.S. average of 5.6% for 2004, and its pre-recession lows of roughly 3.0%, the rate remained well below the 10.1% rate exhibited in 1985 -- three years after the end of the 1981-1982 recession.

Figure 7



2004 and 2005 U.S. Economic Outlook

Inflation-adjusted GDP is forecast to grow 3.2% in 2005 and 3.1% in 2006, after growing 4.4% in 2004 (Table 1 and Figure 8). Light vehicle sales are projected to remain relatively stable with sales of 16.7 million units in both 2005 and 2006, slightly less than the 16.8 million units sold 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 2.7% and 2.6% in 2005 and 2006, respectively (Figure 10). Interest rates are forecast to remain historically low even as the Federal Reserve continues to tighten. Rates on 90-day Treasury bills will rise from 1.4% in 2004 to an estimated 3.1% in 2005 and 4.4% in 2006.

Employment is projected to continue growing over the forecast horizon. As a result, the U.S. unemployment rate is expected to decline from 5.5% in 2004 to 5.3% in 2005 and 2006.

2004 and 2005 Michigan Economic Outlook

Michigan employment declined, on an annual basis, for the fourth straight year in 2004. However, wage and salary employment is expected to exhibit modest growth in 2005 and 2006 (Table 1). Weak growth in manufacturing employment will constrain gains in overall Michigan employment. Wage and salary employment is expected to decline on an annual basis in 2005, by 0.1%, although employment will actually rise in each quarter of the forecast period, beginning with the second quarter of 2005. The gains are expected to continue into 2006, when wage and salary employment is expected to rise 0.8% (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 7.1% in 2004 to 7.4% in 2005. As job growth improves in 2006, the unemployment rate is forecasted to decline slightly, to 7.2%.

Table 1

Consensus Economic Forecast
May 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	$10,842	4.4%	$11,189	3.2%	$11,536	3.1%
Implicit Price Deflator GDP (2000 = 100)	106.0	108.2	2.1%	110.6	2.2%	113.5	2.6%
Consumer Price Index (1982-84 = 100)	184.0	189.0	2.7%	194.1	2.7%	199.1	2.6%
Personal Consumption Deflator (2000 = 100)	105.5	107.8	2.2%	110.1	2.1%	112.6	2.3%
3-month Treasury Bills Interest Rate (percent)	1.0	1.4		3.1		4.4	
Aaa Corporate Bonds Interest Rate (percent)	5.7	5.6		5.6		6.4	
Unemployment Rate - Civilian (percent)	6.0	5.5		5.3		5.3	
Light Vehicle Sales (millions of units)	16.6	16.8	1.2%	16.7	(0.8)%	16.7	0.0%
Passenger Car Sales (millions of units)	7.6	7.5	(1.6)%	7.6	1.4%	7.6	0.0%
Light Truck Sales (millions of units)	9.0	9.3	3.7%	9.1	(2.5)%	9.1	0.0%
Import Share of Light Vehicles (percent)	19.9	20.2		20.9		21.6	
Michigan							
Wage and Salary Employment (thousands)	4,410	4,391	(0.4)%	4,386	(0.1)%	4,421	0.8%
Unemployment Rate (percent)	7.1	7.1		7.4		7.2	
Personal Income (millions of dollars)	$314,346	$323,142	2.8%	$337,360	4.4%	$355,240	5.3%
Real Personal Income (millions of 1982-84 dollars)	$172,244	$173,816	0.9%	$178,026	2.4%	$183,208	2.9%
Wages and Salaries (millions of dollars)	$176,645	$180,058	1.9%	$186,180	3.4%	$194,186	4.3%
Detroit Consumer Price Index (1982-84 = 100)	182.5	185.4	1.6%	189.5	2.2%	193.9	2.3%
Detroit CPI Fiscal Year (1982-84 = 100)	182.0	184.4	1.3%	188.6	2.3%	192.9	2.3%

Sluggish employment growth is expected to mitigate the growth of income, although 2005 and 2006 are expected to exhibit stronger growth than seen in 2004. Wage and salary income rose 1.9% in 2004, and is predicted to increase by 3.4% in 2005 and 4.3% in 2006. Michigan personal income rose 2.8% in 2004 and is forecast to grow 4.4% and 5.3% in 2005 and 2006, respectively.

Inflation, as measured by the Detroit CPI, increased 1.6% in 2004. Prices are expected to rise slightly more rapidly over the forecast, with increases of 2.2% in 2005 and 2.3% in 2006 (Figure 10). As a result, inflation-adjusted Michigan personal income is expected to grow 2.4% in 2005 and 2.9 in 2006, compared with an increase of 0.9% in 2004 (Figure 7).

Figure 8

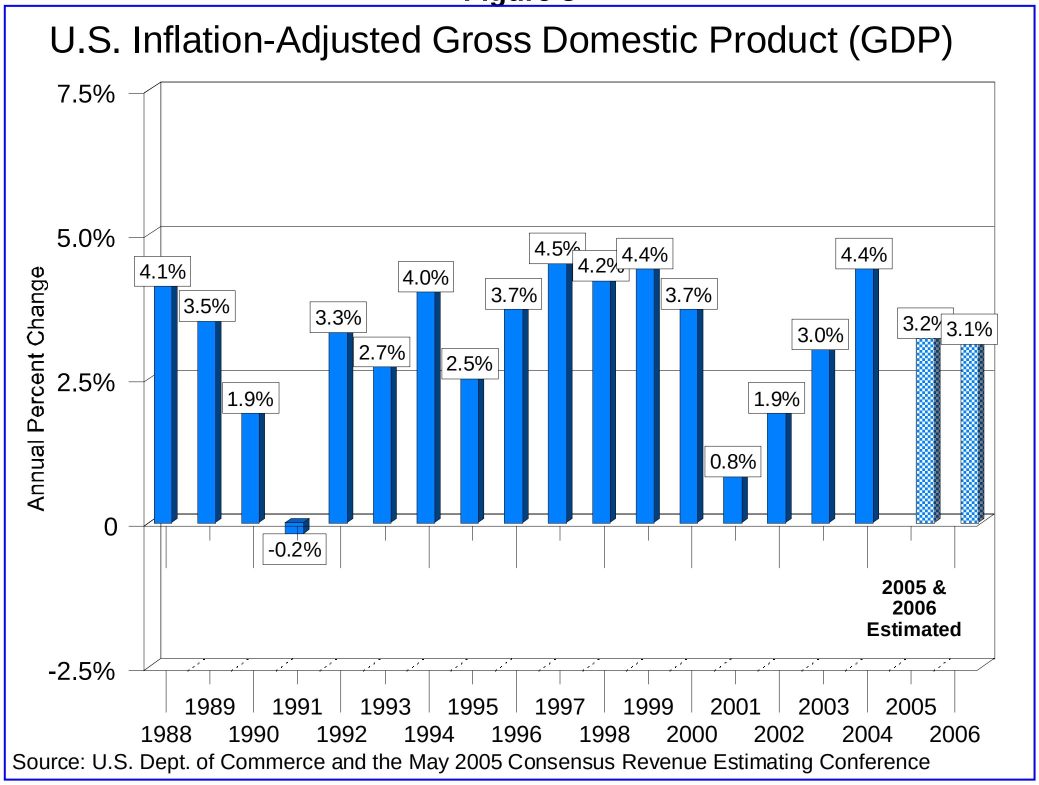


Figure 9

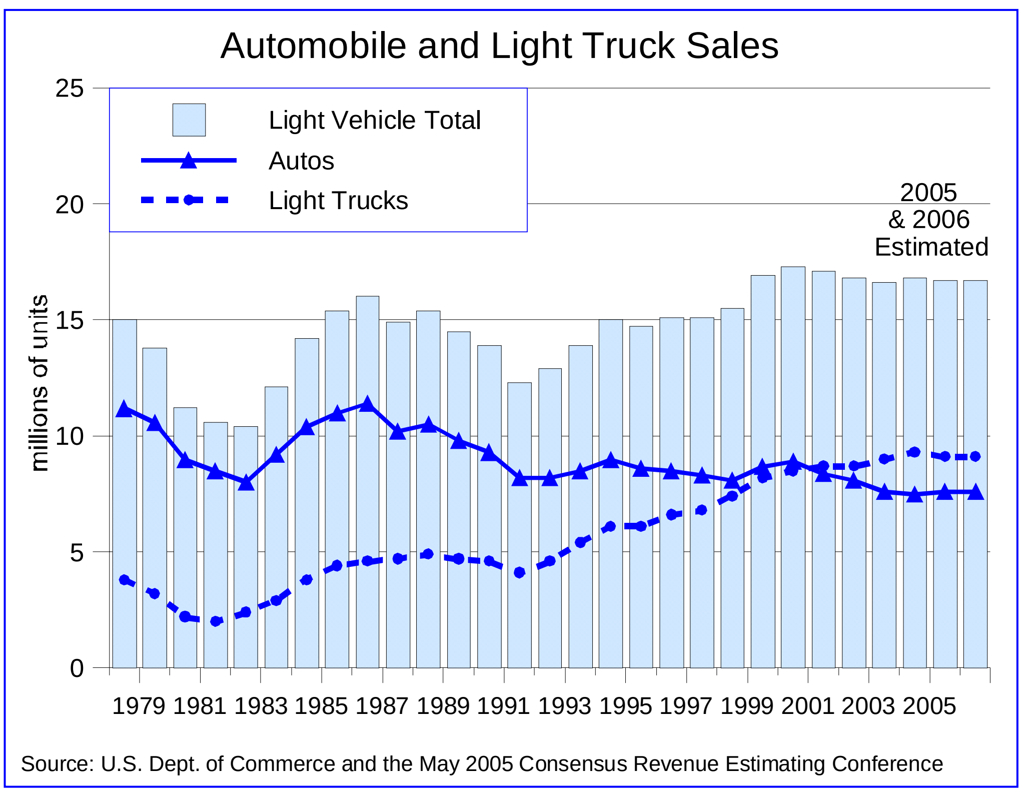
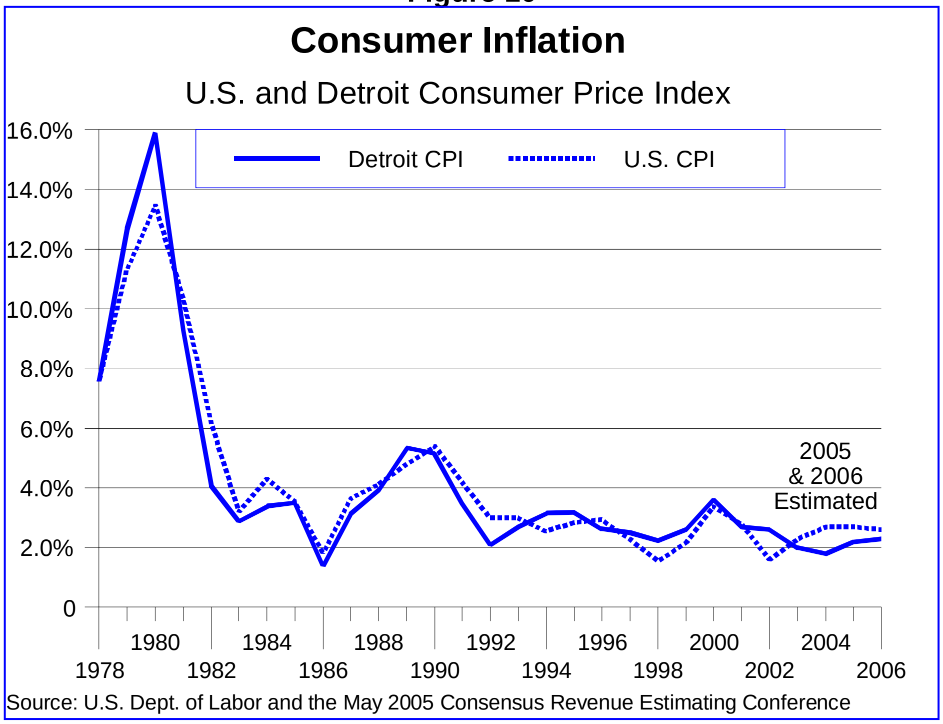


Figure 10



Fiscal Year Economics

Michigan receives a substantial portion of its overall revenue from taxes and the revenue it receives from three of its major taxes -- income, sales, and use taxes -- is particularly sensitive to the level of economic activity. The income tax withheld from workers' earnings is the largest component of individual income tax revenue and is most affected by growth in wage and salary income (Figure 11). Michigan wages and salaries grew 2.0% in fiscal year (FY) 2003-04 and are forecasted to increase 3.3% in FY 2004-05 and 3.8% 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.

Sales and use tax revenue depends primarily on Michigan disposable (after tax) income and inflation (Figure 12). Michigan disposable income grew an estimated 4.1% in FY 2003-04 and will grow an estimated 4.0% in FY 2004-05 and 4.7% in FY 2005-06. The Detroit Consumer Price Index rose 1.3% in FY 2003-04 and is expected to increase 2.3% in both FY 2004-05 and FY 2005-06.

Changes from the January 2005 Forecast

Compared with the January 2005 Consensus forecast, the forecast for the U.S. economy during 2005 is essentially unchanged. Inflation and interest rates are expected to be minimally higher and light vehicle sales minimally lower than predicted in January. However, growth in the Michigan economy during 2005 is noticeably weaker than was expected in January. The forecast for wage and salary employment growth was lowered from an increase of 0.3% to a decline of 0.1% and wage and salary income growth was lowered from 3.7% to 3.4%. However, because the forecast for inflation in the Detroit Consumer Price Index is also lower, inflation-adjusted personal income growth is actually above the forecast in January, rising from 2.0% growth to 2.4%.

For 2006, the May 2005 forecast generally predicts slower growth in both the U.S. and Michigan economies. The forecast for inflation at both the State and national levels is higher. However, none of the changes are particularly significant. The forecast for inflation-adjusted GDP growth has been lowered from 3.2% in 2006, to 3.1%, while the forecast for the increase in the Consumer Price Index was raised from 2.4% to 2.6%. Similarly, for Michigan the forecast for wage and salary employment growth during 2006 was lowered from 1.0% to 0.8%, while the rate of increase in the Detroit CPI was increased from 2.2% to 2.3%.

Figure 11

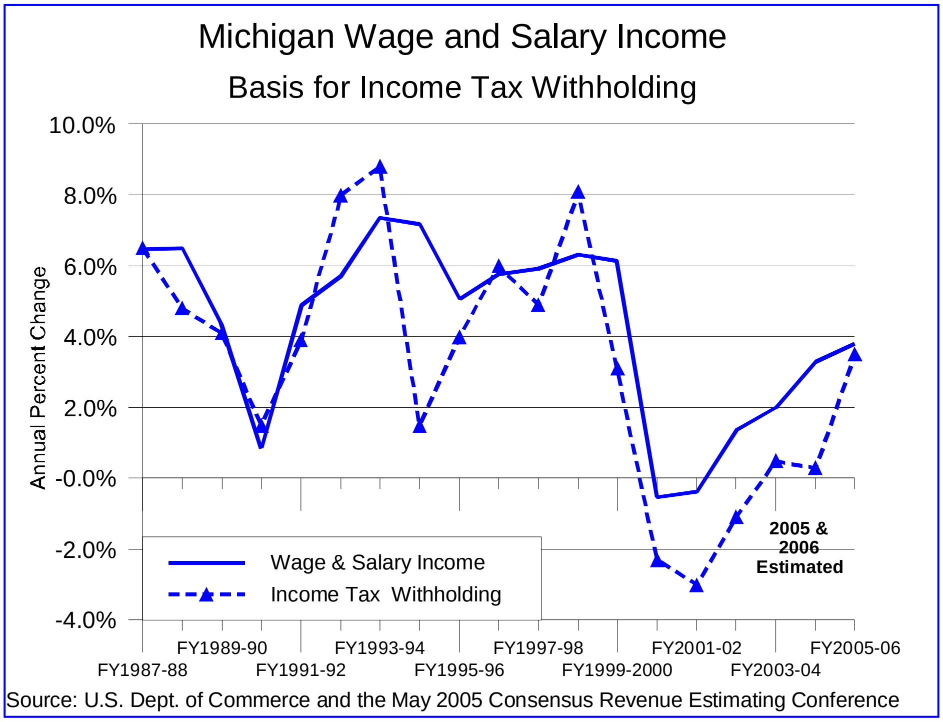
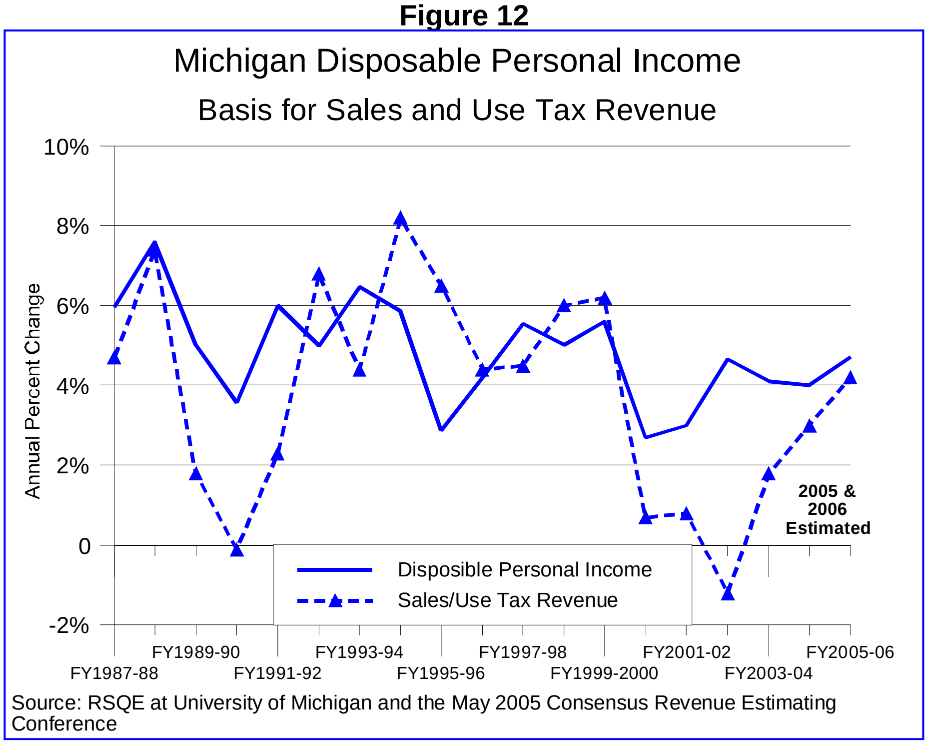


Figure 12



Forecast Risks

Although U.S. wage and salary employment has increased each month for over a year, and finally exceeded the pre-recession peak in January, employment gains are still well below the levels experienced historically nearly three and half years after the end of a recession. Michigan employment is still well below both the pre-recession peaks and growth historically experienced during a recovery. If employment gains continue to fail to materialize, for any number of factors including greater-than-expected growth in productivity, slower-than-expected export growth, high consumer and corporate debt burdens, 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, because of either 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 level of economic activity in 2005 and 2006. 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 consumers' discretionary income and increasing production costs. Weaker growth abroad also could slow domestic growth by reducing exports. 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 may be roiled. Other significant inflation pressures may also be greater than expected, resulting in higher interest rates and slower employment and economic growth. Geopolitical concerns continue to pose a risk to the forecast.

CONSENSUS REVENUE ESTIMATES - MAY 19, 2005

This section of the report presents the consensus revenue estimates adopted at the May 19, 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 foundation allowance index.

General Fund/General Purpose and School Aid Fund Revenue Estimates

At the May 19, 2005, Consensus Revenue Estimating Conference, consensus agreements were reached on revised revenue estimates for FY 2004-05 and 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 typically include the impact of one-time revenue adjustments such as withdrawals from the Budget Stabilization Fund, transfers from other funds, or proceeds from the sale of State property.

Revised Revenue Estimates for FY 2004-05

General Fund/General Purpose and SAF revenue is expected to total $18.77 billion in FY 2004-05, which is up 0.6% from FY 2003-04. Compared with the January 13, 2005, consensus estimate, this revised estimate is up $16.5 million. This relatively modest revision in the FY 2004-05 revenue estimate reflects the facts that the economic forecast did not change markedly from the January consensus economic forecast, and that monthly tax collections were tracking fairly closely to the January consensus estimates in the months leading up to the conference. The most significant upward revisions were made in income and use tax estimates, but most of these gains were offset by downward revisions in the sales, single business, and insurance tax collections. The revised GF/GP and SAF revenue estimates for FY 2004-05 are summarized in Table 2.

General Fund/General Purpose. General Fund/General Purpose revenue will total an estimated $7.91 billion in FY 2004-05, which is down 1.6% from FY 2003-04. This revised GF/GP revenue estimate is up $45 million from the January consensus estimate and all of this increase is due to an upward revision in income tax revenue, which more than offset slight downward revisions in the single business and insurance tax collections. The decline from the FY 2003-04 revenue level 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 $40.0 million decline in estate tax revenue due to the ongoing phased repeal of this tax; and 3) a loss of an estimated $59.0 million in income tax revenue due 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 $39.0 million increase in casino wagering tax revenue due to the full-year impact of the increase in the tax rate that was effective September 1, 2004.

School Aid Fund. School Aid Fund revenue from earmarked taxes and the lottery is expected to total $10.85 billion in FY 2004-05, which is up 2.2% from the FY 2003-04 level. This estimate reflects a downward revision of $28 million from the January consensus estimate. While the estimates were revised upward for the income and real estate transfer taxes, these gains were more than offset by a downward revision in sales tax receipts. The SAF revenue estimate for FY 2004-05 is summarized in Table 2.

Table 2

FY 2004-05 Consensus Revenue Estimate General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) May 19, 2005, Consensus Revenue Estimating Conference (Millions of Dollars)	FY 2003-04 Final	Previous FY 2004-05 Consensus Estimate Jan. 13, 2005	**FY 2004-05 Revised Consensus Estimate May 19, 2005**	$ Change From Jan. 2005 Consensus Estimate	% Change From FY 2003-04
General Fund/General Purpose:					
Baseline *	$7,992.7	$8,123.6	$8,177.7	$54.1	2.3%
Tax Adjustments	49.3	(253.8)	(263.0)	(9.2)	---
Net GF/GP Revenue	$8,042.0	$7,869.8	$7,914.7	$44.9	(1.6)%
School Aid Fund:					
Baseline *	$10,533.5	$10,868.8	$10,850.7	$(18.1)	3.0%
Tax Adjustments	82.1	10.0	(0.2)	(10.2)	---
Net SAF Revenue	$10,615.6	$10,878.8	$10,850.5	$(28.3)	2.2%
TOTAL GF/GP & SAF:					
Baseline *	$18,526.2	$18,992.4	$19,028.4	$36.0	2.7%
Tax Adjustments	131.4	(243.9)	(263.2)	(19.3)	---
Net GF/GP & SAF Revenue	**$18,657.6**	**$18,748.5**	**$18,765.1**	**$16.5**	**0.6%**

* Baseline base year equals FY 2003-04.

Revised Revenue Estimates for FY 2005-06

The modest growth in the level of economic activity forecast for the last part of 2005 and 2006 will help boost revenue collections in FY 2005-06. It is estimated that GF/GP and SAF revenue will total $19.38 billion in FY 2005-06, which represents an increase of 3.3%, or $614.0 million, from the revised estimate for FY 2004-05, as presented in Table 3. Total GF/GP and SAF baseline revenue will increase at a projected rate of 3.0%, which will mark its strongest increase since FY 1999-2000. This revised estimate of GF/GP and SAF revenue for FY 2005-06 is $78.0 million below the January consensus estimate. Most of this downward revision is due to anticipated slower growth in sales, single business, and insurance tax collections, and some non-tax revenue sources, compared with the estimates adopted in January.

General Fund/General Purpose Revenue. General Fund/General Purpose revenue will total an estimated $8.14 billion in FY 2005-06. This represents a 2.8%, or $220 million, increase from the FY 2004-05 revised estimate. This increase will be generated by increases in the ongoing revenue from the income, single business, insurance, and use taxes. In addition, scheduled changes in the earmarking of cigarette tax revenue will help boost GF/GP cigarette tax revenue $112.0 million 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 non-tax 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. Compared with the January consensus estimate, this revised GF/GP revenue estimate is down $21.1 million.

School Aid Fund. School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $11.24 billion in FY 2005-06, which represents an increase of 3.6%, or $394.0 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 are expected to increase 4.2% to $5.04 billion, which will account for almost 45.0% of total SAF revenue derived from the earmarked taxes and lottery revenue. In addition, use tax revenue will be up an estimated 4.3% to $482 million, income tax revenue will be up 3.3% to $2.05 billion, and State education property tax revenue will be up an estimated 5.3% to $1.95 billion. Lottery revenue will total an estimated $651.0 million in FY 2005-06, which represents an increase of 2.1%. This revised estimate for SAF earmarked taxes and lottery revenue represents a downward revision of $57.0 million from the January consensus estimate. Most of this downward revision is due to a lowering of the sales tax revenue estimate.

Table 3

FY 2005-06 Consensus Revenue Estimate
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)
May 19, 2005, Consensus Revenue Estimating Conference
(Millions of Dollars)

	FY 2004-05 Revised Consensus Estimate May 19, 2005	Previous FY 2005-06 Consensus Estimate Jan. 13, 2005	**FY 2005-06 Revised Consensus Estimate May 19, 2005**	$ Change From Jan. 2005 Consensus Estimate	% Change From FY 2004-05
General Fund/General Purpose:					
Baseline*	$8,177.7	$8,374.5	$8,368.4	$(6.1)	2.3%
Tax Adjustments	(263.0)	(218.3)	(233.3)	(15.0)	---
Net GF/GP Revenue	$7,914.7	$8,156.2	$8,135.1	$(21.1)	2.8%
School Aid Fund:					
Baseline*	$10,850.7	$11,284.1	$11,236.2	$(47.9)	3.6%
Tax Adjustments	(0.2)	16.8	7.9	(8.9)	---
Net SAF Revenue	$10,850.5	$11,300.9	$11,244.1	$(56.8)	3.6%
TOTAL GF/GP & SAF:					
Baseline *	$19,028.4	$19,658.6	$19,604.6	$(54.0)	3.0%
Tax Adjustments	(263.2)	(201.5)	(225.4)	(23.9)	---
Net GF/GP & SAF Revenue	**$18,765.1**	**$19,457.1**	**$19,379.2**	**$(77.9)**	**3.3%**

* Baseline base year equals FY 2003-04.

Detailed Revenue Estimates

Table 4 presents a more detailed breakdown of the GF/GP and SAF revenue estimates for FY 2004-05 and FY 2005-06.

Table 4

GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND DETAILED REVENUE ESTIMATES: FY 2004-05 AND FY 2005-06 (Millions of Dollars)						
	FY 2003-04		FY 2004-05		FY 2005-06	
Fund/Revenue Source	**Final**	**% Chg.**	**Estimate**	**% Chg.**	**Estimate**	**% Chg.**
GENERAL FUND/GENERAL PURPOSE						
Personal Income Tax						
Gross Collections	$7,467.0	1.4%	$7,630.4	2.2%	$7,885.4	3.3%
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	5,969.7	1.6	6,150.4	3.0
Less: Earmarking to SAF	(1,893.5)	2.5	(1,980.6)	4.6	(2,046.8)	3.3
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%	$3,987.6	0.2%	$4,102.1	2.9%
Other Taxes						
Single Business Tax	$1,827.6	(0.8)%	$1,845.7	1.0%	$1,883.8	2.1%
Sales	102.1	60.5	114.0	11.7	114.8	0.7
Use	877.4	7.1	923.7	5.3	963.6	4.3
Cigarette	242.7	(16.1)	119.0	(51.0)	231.1	94.2
Insurance Co. Premiums	230.3	(0.3)	229.3	(0.4)	232.0	1.2
Telephone & Telegraph	101.3	(18.4)	95.3	(5.9)	79.3	(16.8)
Estate	75.5	(23.4)	36.0	(52.3)	8.0	(77.8)
Oil & Gas Severance	57.1	19.2	63.0	10.3	56.0	(11.1)
Casino Tax	3.2	---	42.5	1228.1	43.1	1.4
All Other	110.6	(17.1)	114.1	3.2	114.5	0.4
Subtotal Other Taxes	$3,627.8	(0.6)	$3,582.6	(1.2)	$3,726.2	4.0%
Total Nontax Revenue	436.4	26.0	344.5	(21.1)	306.8	(10.9)
TOTAL GF/GP REVENUE	**$8,042.0**	**1.1%**	**$7,914.7**	**(1.6)%**	**$8,135.1**	**2.8%**
SCHOOL AID FUND:						
Earmarked Taxes:						
Sales	$4,716.7	0.8%	$4,833.4	2.5%	$5,036.0	4.2%
Use	439.1	7.0	461.9	5.2	481.9	4.3
State Education Property	1,824.5	(14.2)	1,851.6	1.5	1,949.1	5.3
Real Estate Transfer	317.5	15.2	320.0	0.8	320.0	0.0
Income	1,893.5	2.5	1,980.6	4.6	2,046.8	3.3
Tobacco	484.8	(0.9)	477.0	(1.6)	469.4	(1.6)
Casino	95.8	5.4	98.4	2.7	99.7	1.3
Other Taxes	198.5	(3.8)	189.6	(4.5)	189.9	0.2
Subtotal Taxes	$9,970.4	(1.6)%	$10,212.5	2.4%	$10,592.8	3.7
Lottery Revenue	644.9	10.1	638.0	(1.1)	651.3	2.1
TOTAL SAF REVENUE	**$10,615.3**	**0.9%**	**$10,850.5**	**2.2%**	**$11,244.1**	**3.6%**
TOTAL GF/GP & SAF REVENUE	**$18,657.3**	**(0.1)%**	**$18,765.2**	**0.6%**	**$19,379.2**	**3.3%**
Total Revenue for Major Taxes:						
Sales Tax	$6,473.5	0.8%	$6,636.8	2.5%	$6,915.0	4.2%
Use Tax	1,316.5	7.0	1,385.6	5.2	1,445.5	4.3
Cigarette Tax	968.9	11.5	1,147.1	18.4	1,128.4	(1.6)
Other Tobacco Products Tax	24.4	15.6	32.1	31.6	32.1	0.0
Total Tobacco Taxes	993.3	11.4	1,179.2	18.7	1,160.5	(1.6)
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 2003 personal income is used to set the revenue limit in FY 2004-05. If revenue exceeds the limit by less than 1%, the State may deposit the excess into the Budget Stabilization Fund (BSF). If revenue exceeds the limit by more than 1%, 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 5, revenue subject to the revenue limit will fall below the revenue limit by an estimated $5.7 billion in FY 2004-05 and $5.8 billion in FY 2005-06.

Table 5

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**	**$24,082.6**	**$24,163.9**	**$24,910.0**
Revenue Limit				
Personal Income:				
Time Period	CY 2001	CY 2002	CY 2003	CY 2004
Level	$297,609	$303,745	$314,460	$323,142
Revenue Limit %	9.49%	9.49%	9.49%	9.49%
Revenue Limit	$28,243.1	$28,825.4	$29,842.2	$30,666.2
Amount Under (Over) Limit	**$4,181.5**	**$4,742.8**	**$5,678.3**	**$5,756.2**

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. 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 that no payment is indicated in FY 2005-06. This calculation is presented in Table 6.

Table 6

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)	$323,142[a)]	$337,360[b)]
Less: Transfer Payments	49,101[a)]	52,096[b)]
MPI less Transfer Payments	$274,041	$285,264
Divided by: Detroit Consumer Price Index	1.837[a)]	1.876[b)]
Average for 12 months ending:	June 2004	June 2005
Equals: Real Adjusted MPI	$149,178	$152,094
Percent Change in Real Adjusted MPI		2.0%
Excess Over 2%		0.0%
		FY 2004-05
Multiplied by: Estimated GF/GP Revenue [c)]		$7,914.7
		FY 2005-06
Equals: Pay-in to the BSF		$0.0

[a)] Actual. [b)] Consensus Economic Forecast, May 2005. [c)] Consensus Revenue Estimate, May 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 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 1,707,843/1,704,000 or 1.0023.

Revenue Adjustment Factor

The School Aid Fund 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 May 2005 consensus revenue estimates, the SAF revenue adjustment factor equals 1.0328 for FY 2005-06; this calculation is presented in Table 7.

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 (1.0023) times the revenue adjustment factor (1.0328), which equals 1.0352. This means that the FY 2005-06 basic foundation allowance should increase by at least 3.52% from the FY 2004-05 basic foundation allowance of $6,700, which represents an increase of $236 to $6,936.

Table 7

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	$10,533.5	$10,850.7	$11,236.2
Enacted Tax/Revenue Adjustments	82.0	(0.2)	7.9
Net School Aid Fund Revenue	$10,615.5	$10,850.5	$11,244.1
Base Year FY 2005-06 Adjustments	$(74.1)	$8.1	$0.0
Baseline Revenue (FY 2005-06 Base Year)	$10,541.4	$10,858.6	$11,244.1
School Aid Fund Revenue Adjustment Calculation: FY 2005-06			
Sum of Baseline FY 2003-04 and FY 2004-05	$10,541.4 + $10,858.6 = $21,400.0		
Sum of Baseline FY 2004-05 and FY 2005-06	$10,858.6 + $11,244.1 = $22,102.7		
FY 2005-06 Revenue Adjustment Factor (FY05+FY06)/(FY04+FY05):	**1.0328**		