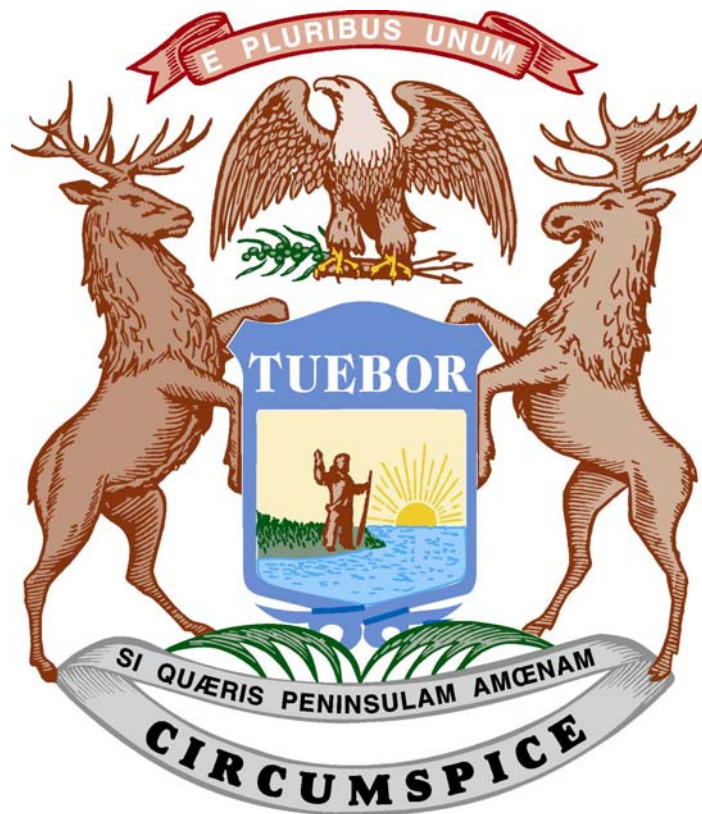


# Administration Estimates Michigan Economic and Revenue Outlook



**FY 2006-07 and FY 2007-08**

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January 18, 2007**

## Table of Contents

<b><u>Executive Summary</u></b> .....	1
<b>Revenue Review and Outlook</b> .....	1
<b>2007 and 2008 U.S. Economic Outlook</b> .....	1
<b>2007 and 2008 Michigan Economic Outlook</b> .....	2
<b>Forecast Risks</b> .....	2
<b><u>Economic Review and Outlook</u></b> .....	4
<b>Current U.S. Economic Situation</b> .....	4
Summary .....	4
Major Economic Indicators .....	9
Employment .....	10
Vehicle Sales and Production .....	11
<b>Current Michigan Economic Conditions</b> .....	12
Employment .....	12
Personal Income .....	13
<b>2007 and 2008 U.S. Economic Outlook</b> .....	13
Summary .....	13
Assumptions .....	14
<b>2007 and 2008 Michigan Economic Outlook</b> .....	15
<b>Fiscal Year Economics</b> .....	18
<b>Forecast Risks</b> .....	18

<b><u>Administration Revenue Estimates</u></b> .....	21
<b>Revenue Estimate Overview</b> .....	21
<b>FY 2006 Revenue Review</b> .....	22
<b>FY 2007 Revenue Outlook</b> .....	23
<b>FY 2008 Revenue Outlook</b> .....	24
<b>Constitutional Revenue Limit</b> .....	25
<b>Budget Stabilization Fund Calculation</b> .....	25
<b>School Aid Fund Revenue Adjustment Factor</b> .....	27
<b>Revenue Detail</b> .....	27

### **List of Tables**

<b>Table 1 Administration Economic Forecast</b> .....	16
<b>Table 2 FY 2005 – 06 Administration Revenue Estimates</b> .....	22
<b>Table 3 FY 2006 – 07 Administration Revenue Estimates</b> .....	23
<b>Table 4 FY 2007 – 08 Administration Revenue Estimates</b> .....	24
<b>Table 5 Administration Constitutional Revenue Limit Calculation</b> .....	25
<b>Table 6 Budget and Economic Stabilization Fund Calculation</b> .....	26
<b>Table 7 Administration School Aid Revenue Adjustment Factor</b> .....	27
<b>Table 8 Administration General Fund General Purpose Revenue Detail</b> .....	28
<b>Table 9 Administration School Aid Fund Revenue Detail</b> .....	29
<b>Table 10 Administration Major Tax Totals</b> .....	29

**ADMINISTRATION ESTIMATES**  
**EXECUTIVE SUMMARY**  
**January 18, 2007**

**Revenue Review and Outlook**

- FY 2006 General Fund-General Purpose (GF-GP) revenue decreased to \$8,266.7 million, a 0.5 percent decrease over FY 2005. The GF-GP total is \$90.5 million below the May 2006 Consensus estimate. School Aid Fund (SAF) revenue rose 1.6 percent to \$11,082.1 million. SAF revenues were \$115.9 million below the May 2006 Consensus estimate.
- FY 2007 GF-GP revenue is projected to decrease 0.3 percent to \$8,238.3 million. This total is \$215.4 million below the May 2006 Consensus estimate. SAF revenue is projected to increase 1.2 percent to \$11,216.1 million, \$336.3 million less than the May 2006 Consensus estimate. The January GF-GP and SAF estimates include some revenue items that were not included in the May 2006 Consensus estimates. The May 2006 Consensus estimates have been adjusted to make them directly comparable to January's administration estimates.
- FY 2008 GF-GP revenue is forecast to decrease 12.9 percent to \$7,175.3 million. This total represents a \$1,063.0 million decrease over the FY 2007 administration estimates. The large decrease is primarily due to the repeal of the Single Business Tax (SBT) beginning in tax year 2008. A reduction in the casino tax rate and indexing of the personal exemption also reduces GF-GP revenue in FY 2008. However, if the SBT was still in effect, FY 2008 GF-GP revenues would be forecast to increase 1.5 percent to \$8,363.3 million, or \$125.0 million above FY 2007 administration estimates. FY 2008 SAF revenue is forecast to grow 3.1 percent to \$11,562.6 million. This represents a \$346.5 million increase over the FY 2007 administration estimates.

**2007 and 2008 U.S. Economic Outlook**

- Real gross domestic product growth is forecast to average 2.3 percent in 2007 and 2.7 percent in 2008, following 3.3 percent growth in 2006.
- Employment is projected to continue growing over the forecast horizon. The U.S. unemployment rate is forecast to average 4.6 percent in both 2007 and 2008.
- The housing market will decline with housing starts projected to fall 17.5% between 2006 and 2008.
- Light vehicle sales are forecast to be 16.3 million units in both 2007 and 2008.
- Consumer price inflation is forecast to average 2.3 percent in 2007 and 3.2 percent in 2008.

## **2007 and 2008 Michigan Economic Outlook**

- Michigan wage and salary employment is forecast to fall 0.9 percent in 2007 and to decline 0.5 percent in 2008. Between 2006 and 2008, private non-manufacturing employment is projected to increase by approximately 10,000 jobs, while manufacturing employment declines are expected to slow over the period.
- After averaging 6.8 percent in 2006, the Michigan unemployment rate is forecast to rise to 7.3 percent in 2007 and 7.5 percent in 2008.
- Wages and salaries income is forecast to increase 1.8 percent in CY 2007 and 1.6 percent in CY 2008, down from 2.2 percent growth in 2006. Personal income growth will slow somewhat, rising 3.3 percent in 2007 and 3.0 percent in 2008.
- In FY 2007 and FY 2008, Michigan wages and salaries income is expected to grow 2.4 percent and 1.3 percent, respectively. Disposable income is expected to rise 3.7 percent in FY 2007 and 2.7 percent in FY 2008.

### **Forecast Risks**

A major supply disruption, increased demand, or heightened geopolitical tensions could raise oil prices well above the baseline forecast projections. This, in turn, would slow domestic demand more than forecasted along with spurring higher than expected inflation.

If international confidence in the dollar declines dramatically, the value of the dollar may fall sharply. A plummeting dollar could shake financial markets, severely curtailing both consumption and investment, and thus slow economic growth sharply. A rapidly falling dollar would also put upward pressure on inflation. A substantial decline in investor confidence in the long-term bond market would sharply decrease bond prices and significantly increase longer-term interest rates (which move in the opposite direction of bond prices). A spike in long-term interest rates would cause further declines in the housing sector, as well as consumption and investment growth in general. Thus, much higher long-term rates would severely curtail overall economic growth.

Firms' increased pricing power, increased obsolescence of current capacity, tighter labor markets, higher commodity prices, and rising health care and pension costs may lead to higher inflation than the baseline forecast projects. This higher inflation rate may crimp consumption and investment spending – especially if accompanied by even more aggressive inflation fighting on the part of the Federal Reserve.

A flattening or an outright decline in home prices would slow economic growth. Further, if a national housing bubble does exist and it bursts during the forecast horizon, there is a chance that the U.S. economy could slow severely. Coupled with other risks materializing, such as sharply higher oil prices and a rapidly declining dollar, a collapsing housing market could send the U.S. economy into a recession.

Geopolitical factors remain a forecast risk.

On the other hand, productivity could grow faster than expected. Faster productivity would both curb inflation and fuel growth. Similarly, oil prices could fall below baseline projections and support higher growth and lower inflation.

# ECONOMIC REVIEW AND OUTLOOK

## January 18, 2007

### Current U.S. Economic Situation

#### Summary

The current U.S. economic expansion is five years old, having begun in November 2001. Since the expansion began (through the third quarter), real gross domestic product (GDP) has grown at a 3.1 percent annual rate. Over this time period, real consumption expenditures growth matched overall economic growth. However, durable consumption rose at a substantially faster rate over this time, increasing at a 5.0 percent annual rate. Business fixed investment rose at a 3.6 percent annual rate with its two components growing at significantly different rates. Equipment and software rose at a 4.9 percent rate while structures declined slightly (-0.2 percent). Residential construction has increased at a substantial rate, averaging 5.2 percent growth since the expansion began. Import growth has outpaced export growth (7.2 percent vs. 6.3 percent). Government spending has grown at only a 2.1 percent annual rate with state and local government spending expanding at just 1.1 percent per year.

Between the end of 2005 and the third quarter of 2006, real GDP growth has averaged 3.4 percent. Real consumption spending matched overall growth. Business fixed investment increased at a sharply higher rate (9.3 percent). Residential investment declined steeply (-10.3 percent rate). Exports have outpaced imports year-to-date (9.0 percent vs. 5.3 percent). Government spending grew at only a 2.4 percent annual rate.

Through November, the light vehicle sales rate has averaged 16.5 million units, down from 16.9 million units a year ago. Over this time, domestic sales have fallen 5.2 percent while import sales have climbed 7.4 percent. Thus, the foreign share of light vehicle sales has risen 2.1 percentage points to 22.2 percent. The decrease in Big Three market (domestic sales less foreign nameplate transplants) share has been even more dramatic. Through the first three quarters of this year, the Big Three's share has fallen by 3.6 percentage points to average 53.4 percent. This average share stands in sharp contrast to the Big Three's sizeable calendar year 2000 market share of 65.2 percent. These massive declines substantially hamper Michigan's economy, which is tightly linked to the Big Three. Through November, U.S. vehicle production has fallen 5.0 percent (includes transplants along with domestic name plates).

In 2005, housing starts, reflecting the booming housing market, surpassed 2.0 million units and rose to their highest level since 1972. Recently however, the U.S. housing market has cooled considerably. Reflecting this, the annual rate of housing starts fell from 2.1 million to 1.7 million between the first and third quarters of 2006. The starts rate fell below a 1.5 million unit rate in October 2006 to its lowest level in over six years. Starts then increased to a 1.6 million unit rate in November.

In 2006, national payroll employment rose an average of 150,000 jobs per month. As a result, U.S. payroll employment increased 1.4 percent. The U.S. unemployment rate averaged 4.6 percent, down from 5.1 percent. After falling to its lowest monthly rate in over five years in

October (4.4 percent), the national unemployment rate increased 0.1 of a percentage point to 4.5 percent in November and remained unchanged in December.

After rebounding to a 5.6 percent annual growth rate in the first quarter, real GDP increases slowed substantially, falling to 2.6 percent in the second quarter and to 2.0 percent in the third quarter. Sizeable declines in residential investment played a central role in the sharp slowdown. Residential investment declined at an 11.1 percent rate in the second quarter and at an 18.7 percent rate in the third quarter. The third quarter decline in residential investment was the largest in over 15 years. Low mortgage rates, increasingly more creative financing, and speculative buying have, until recently, helped support a strong housing market. In turn, the vibrant housing market supported strong consumption growth and allowed for a low or even negative savings rate. As the housing market shrinks, consumption growth will slow as consumers rebuild their savings and mortgage equity withdrawals lessen.

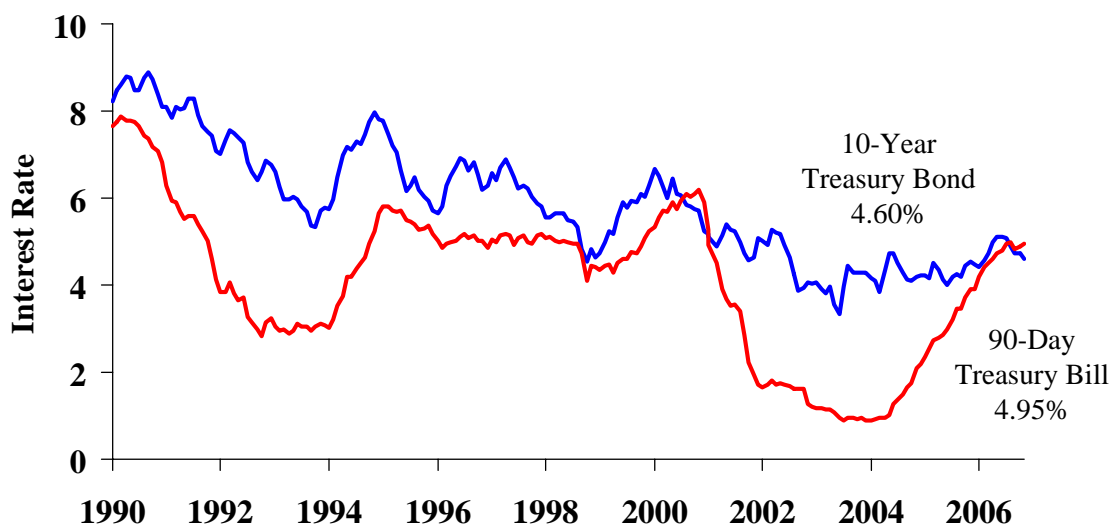
Offsetting around half the drag from residential investment, *business* investment in structures increased at a 20.3 percent rate and a 15.7 percent rate in the second and third quarters respectively. These two recent quarters marked the first time since 1984 that the annual growth rate of business structures exceeded 10.0 percent for two consecutive quarters. Durable consumption's growth has varied considerably over the past three quarters with growth rates of 19.8 percent, -0.1 percent and 6.4 percent. Government spending growth has been tepid the past two quarters with growth rates of 0.8 percent and 1.7 percent.

Between June 2004 and June 2006, the Federal Reserve Open Market Committee (FOMC) increased the target federal funds rate 25 basis points at each of its meetings. At its June 2006 meeting, the Committee raised the target rate for the seventeenth time, increasing the rate to 5.25 percent. In each of its past four meetings between August and December, the FOMC has kept the federal funds rate unchanged. Whether the Fed will cut, increase or keep unchanged the target rate will largely depend upon its weighing of inflation and economic growth in the light of newly released economic data. Fed officials have continued to express concerns regarding accelerating inflation, which would argue for a higher or at least an unchanged federal funds rate.

While short-term interest rates (e.g., the three month T-bill) have risen in step with increases in the federal funds rate, long-term rates have remained little changed. As a result, the yield curve (the difference between short-term and long-term interest rates) has remained flat or even inverted (short-term rates higher than long-term rates) over recent months. In November 2006, the three-month Treasury bill rate averaged 4.95 percent, 0.35 percentage points above the ten-year Treasury note rate. While an inverted yield curve often signals an impending recession, the Blue Chip consensus forecast projects only a slowdown.



## Yield Curve Inverted



Source: Federal Reserve Bank

After falling to \$43 a barrel in December 2004, the average monthly oil price rose to \$66 a barrel in September 2005, in the wake of hurricane Katrina. After subsiding in late 2005 to slightly below \$60 a barrel, oil prices began trending upward through July 2006. In July, oil prices averaged \$74 a barrel. Oil prices fell substantially in both September and October but then rose in both November and December. As a result, December oil prices averaged \$62 a barrel. Geopolitical factors continue to pose the risk of a resumption in oil price hikes.

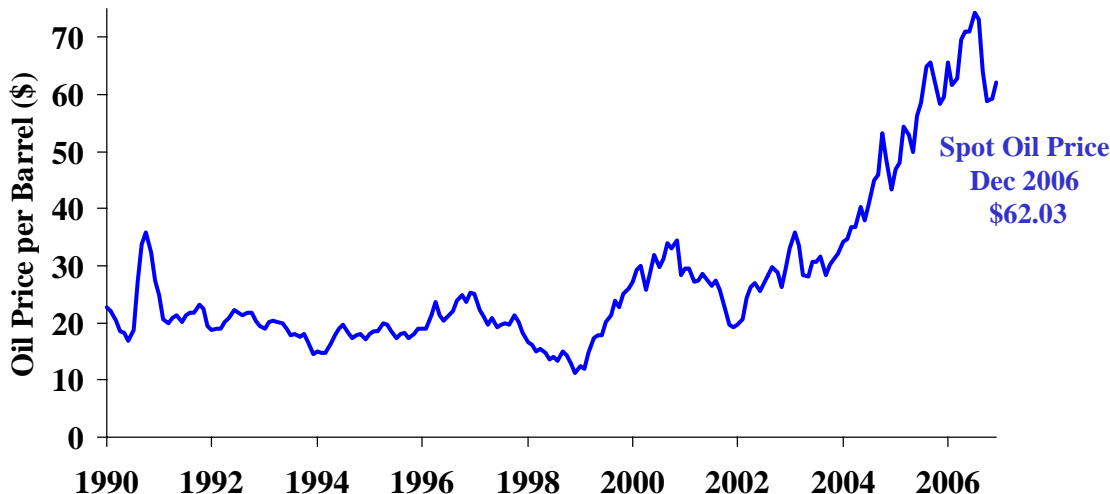
Natural gas prices (not seasonally adjusted), which rose sharply following Hurricane Katrina, fell back significantly through the first quarter of 2006. Prices then stabilized through September before decreasing substantially in October to their lowest level in four years. Natural gas prices then reported a sharp increase in November but were still 35.1 percent below year-ago prices.

In its November 2006 *Beige Book*, the Federal Reserve characterized wage growth as “generally moderate” despite labor markets remaining tight. Construction material and energy product prices were found to have moderated.

In the first quarter of 2006, productivity grew strongly at a 4.3 percent annual rate. At the same time however, compensation grew at its fastest rate in six years. Consequently, despite strong productivity growth, unit labor costs grew at a 9.0 percent annual rate, also its fastest growth rate in six years. The enormous first quarter increase in unit labor costs raised inflation flags. However, much of the first quarter increase likely reflected large bonuses for 2005 performance and the exercise of stock options, which are less inflationary than other sources of an increase such as wages and health and retirement benefits. In the second quarter, productivity growth slowed but compensation actually declined resulting in a 2.4 percent rate of decline in unit labor costs. In the third quarter, compensation grew at a 2.6 percent annual rate and unit labor costs

increased at a 2.3 percent annual rate. Taken together, recent productivity and unit labor costs readings indicate that inflationary pressures remain relatively moderate.

### Oil Prices Ebb



Source: St. Louis Federal Reserve Bank (FRED).

Both the ISM manufacturing and the non-manufacturing price indices are down substantially compared to a year ago. In December, the ISM manufacturing price index was down 15.5 points from a year ago, while the ISM non-manufacturing price index was down 8.1 points.

Tighter labor markets will continue to exert upward pressure on inflation. Recent reports on hourly earnings provide one indication of these pressures. For over a year, hourly earnings have increased faster than 3.0 percent (compared to a year ago).

Lower energy prices have helped lower overall price inflation. In both September and October, overall consumer inflation actually fell at nearly a 6.0 percent annual rate compared to the prior month. November consumer prices were unchanged from October. Core inflation (excluding volatile food and energy prices) has also moderated in recent months. While running around 3.5 percent on an annual basis in mid 2006, core inflation slowed to 1.2 percent in October and 0.6 percent in November.

Compared to a year ago, consumer inflation was around or below 2.0 percent in the three most recent months. These inflation readings compare with year-ago increases roughly ranging between 3.5 percent and 4.5 percent in the immediately preceding twelve months. However, while overall price inflation has slowed, core prices compared to a year ago have accelerated slightly. Running around 2.0 percent through 2005 and early 2006, year-ago core inflation readings have since increased and have ranged between 2.5 percent and 3.0 percent.

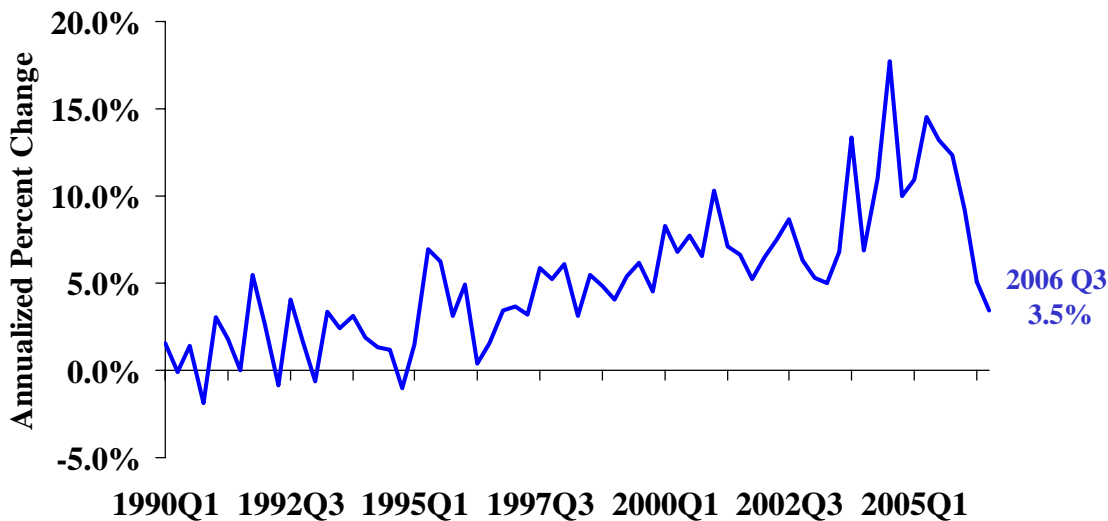
Between July and October, overall producer price inflation (PPI) was tame. The overall index fell slightly in July and increased moderately in August. Producer prices then declined at over a 10.0 percent annual rate in both September and October. Core producer price inflation also

moderated. Between July and October, core producer prices declined in two months and rose only slightly in another. However, both overall and core producer prices rose sharply in November. The overall PPI rose at a 26.4 percent annual rate while the core PPI increased at a 16.3 percent annual rate.

Compared to a year ago, September producer prices increased only slightly (0.9 percent) before declining in October and rising slightly in November. These mild readings follow year-ago producer price increases exceeding 3.0 percent over the prior two years. Compared to a year ago, overall core producer price increases have remained moderate in recent months. Year-ago core producer price inflation has remained below 2.0 percent since October 2005.

The housing market has exhibited signs of a sizeable slowing in recent quarters. Compared to the prior quarter, third quarter housing prices rose at a 3.5 percent annual rate, their slowest quarterly increase in eight years. The third quarter annualized increase follows a 5.1 percent rate in the second quarter and 9.2 percent in the first quarter. In contrast, housing prices recorded double-digit rates of increase each quarter of 2005.

### Housing Price Appreciation Slows Substantially



Source: Office of Federal Housing Enterprise Oversight

National Association of Realtors (NAR) data support the observation that the housing market has slowed significantly:

- November existing home sales were down 11.1 percent compared to a year ago.
- The median sales price of existing homes has fallen 2.2 percent compared to a year ago.
- Months of supply of homes for sale has remained above seven months since July and inventories have increased by over 30 percent over 2005.

The Federal Reserve's November 29, 2006 Beige Book further corroborated the slowdown:

Almost all Districts reported that overall housing market activity continued to slow, especially in the single-family segment. Most Districts cited declining sales and rising home inventories. There were also scattered reports of price reductions, while the use of non-price sales incentives was reported in the Cleveland, Dallas, New York, Philadelphia, and San Francisco Districts. Most Districts reported declines in residential construction.

As noted earlier, this slowdown has significant implications for the overall economic outlook. In particular, the slowing housing market has substantially reduced the amount of equity that homeowners are extracting from their homes. Mortgage equity withdrawal, which peaked in 2005 at \$870 billion, fell to a \$380 billion annual rate in the third quarter of this year.

Despite the sizeable slowing, the majority of economists believe that the housing market has bottomed out. In a recent Wall Street Journal survey, nearly two in three economists said they thought the worst of the housing slump had passed.

### Major Economic Indicators

Through the first eight months of 2006, the ISM industrial index (PMI) hovered in the mid 50's. A reading above 50.0 indicates a growth. However, the index declined 5.0 points between September and November. As a result, the index fell to 49.5. November 2006's sub-50 reading marked the first time the index indicated a contracting manufacturing sector since April 2003. In December, the PMI rebounded with a reading slightly above 50.0. Compared to a year ago, the December PMI was down 4.2 points. The non-manufacturing ISM index continues to remain above 50, indicating continued service sector growth. Compared to a year ago, the non-manufacturing ISM index is down 3.9 points.

For three years, new orders for durable goods have trended upward. Compared to a year ago, the three-month average of new durable goods orders was up 5.7 percent in November. Excluding volatile defense and aircraft orders, the three-month average of new orders increased 9.0 percent.

Industrial production has increased at a robust pace. For the past six months, the three-month average increased faster than 4.0 percent compared to a year ago. In November, the three-month average was up 4.8 percent compared to a year ago.

In December 2006, the three-month average of retail sales was up 4.9 percent from a year ago -- its slowest growth in over two years. Excluding motor vehicle and gasoline sales, the average increased 5.6 percent -- also its slowest growth in over two years.

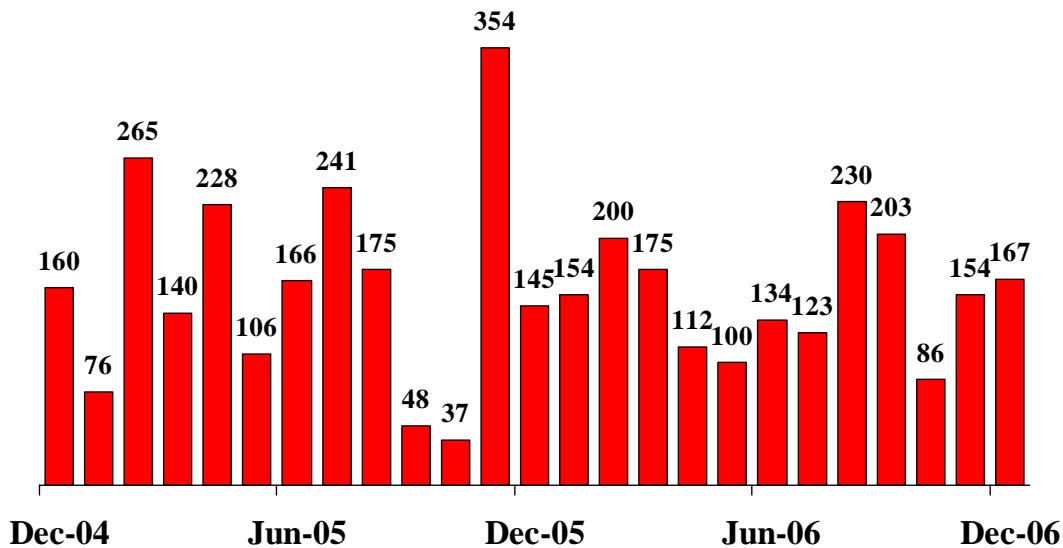
Compared to a year ago, consumer sentiment is essentially unchanged. However over the past year, sentiment has moved within a relatively large range between the upper 70s and lower 90s. Over this time, the index troughed in May at 79.1 and peaked in October at 93.6. Since October, the index has reported two slight declines.

Between late August and early November, the ABC News/Washington Post consumer comfort index, which measures consumers' attitudes toward current economic conditions, rose steadily.

Between early November and mid December, the index was flat. The comfort index then fell slightly over the second half of December.

Between April 2006 and August 2006, the Conference Board's index of leading indicators declined four out of five months. Following this, the index rose in September but was essentially flat in October and November.

### U.S. Employment Growth Moderates (Monthly Change in Thousands)



Source: U.S. Bureau of Labor Statistics

#### Employment

U.S. employment has increased each month since late 2003. Between January and December 2006, the U.S. economy gained 1.8 million jobs, an average gain of about 150,000 jobs per month. After strong employment gains in August and September, gains moderated in the final quarter of 2006. December 2006 employment exceeds its pre-recession peak (February 2001) by 3.7 million jobs.

However, manufacturing employment remains hard hit. Between its mid-1998 pre-recession peak and December 2006, the U.S. economy shed one out of five manufacturing jobs (3.5 million jobs). Similarly, motor vehicle and parts manufacturing sector employment has fallen 21.4 percent between its February 2000 peak and December 2006.

Between late October and early December, the four-week average of weekly initial unemployment claims steadily rose. In early December, the four-week average rose to its highest level since late May. The average declined over the balance of December.

Over the past four months, the ISM manufacturing employment index component has signaled nearly flat or slightly decreasing manufacturing employment. Compared to a year ago, the component index is down 3.9 points. The non-manufacturing ISM employment index has signaled employment expansion each month since July 2003 except one month when the index signaled flat employment. However, compared to a year ago, the index has declined by 3.6 points.

In 2006, the Challenger Report count of announced layoffs was substantially below the 2005 count. However, announced layoffs in the motor vehicle industry were up by more than 50 percent compared to 2005. In 2006, the motor vehicle industry alone accounted for nearly one-fifth of all 2006 cuts. Given Michigan's heavy reliance on the vehicle industry, this represents a serious drag to the Michigan economy moving forward.

In December 2006, the average workweek (33.9 hours) was up 0.1 of an hour compared to a year ago. For over a year, the average workweek has remained in an extremely narrow range between 33.8 and 33.9 hours.

In December 2006, the U.S. unemployment rate was unchanged compared to November at 4.5 percent. December's rate was 0.4 of a percentage point lower than a year ago. For 2006 as a whole, the unemployment rate averaged 4.6 percent, 0.5 of a percentage point lower compared to 2005.

### Vehicle Sales and Production

Boosted by "employee pricing for everyone" incentives, third quarter 2005 light vehicle sales rose to an 18.0 million unit rate, the highest rate since the fourth quarter of 2001. Following the promotion, light vehicle sales fell sharply to a 16.0 million unit rate, the lowest sales rate in seven years. Sales rebounded in the first quarter of 2006 to a 16.9 million unit rate, and then fell to 16.3 million in the second quarter before rising to 16.6 million in the third quarter.

Over the past several years, imports and transplants have continued to increase their market share. Thus, the traditional Big Three market share has declined sharply. The Big Three accounted for 72 percent of the U.S. light vehicle market in 1990. For 2006, the Big Three are projected to account for just 53 percent of the U.S. market, a record low.

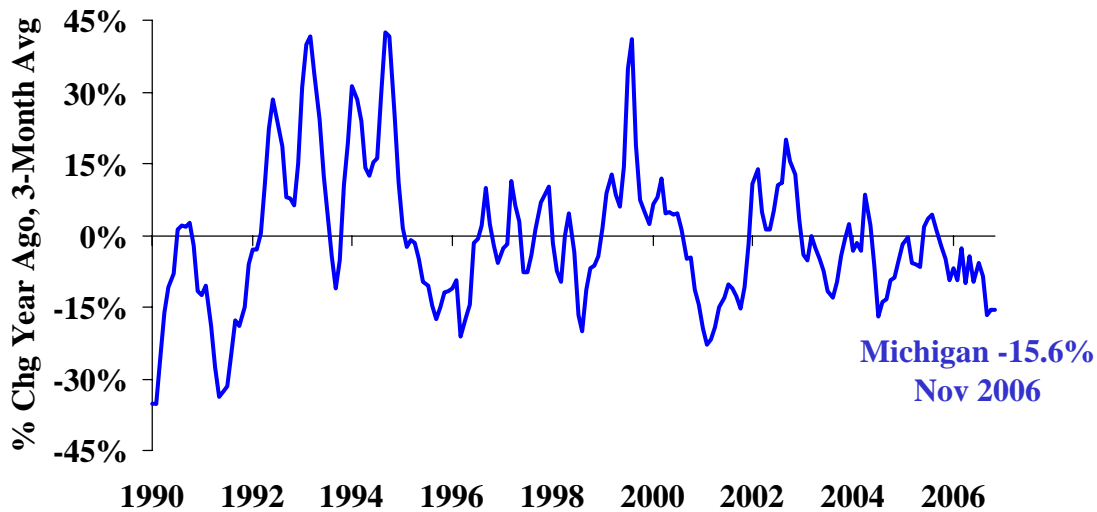
Through November, year-to-date Michigan vehicle production has fallen 9.2 percent compared to a 5.0 percent decline nationally. Compared to the first eleven months of 2000, Michigan vehicle production is down 27.5 percent, compared to a 12.2 percent decline nationally.

## Current Michigan Economic Conditions

### 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 3 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**



Source: Automotive News and Michigan Department of Treasury

Employment declines have slowed considerably since December 2002, with monthly declines slowed by more than half. However, from Michigan's employment peak in June 2000 compared to November 2006, Michigan has lost 326,000 jobs.

Michigan manufacturing employment has declined sharply. Since June 2000, Michigan manufacturing employment has fallen by 266,800 jobs. Michigan has lost nearly three out of every ten manufacturing jobs it had at the State's employment peak.

The Bureau of Labor Statistics provides two measures of employment:

1. Household employment data generated from a survey of households (Current Population Survey). Household employment is a count of the number of persons employed.
2. Wage and salary employment data generated from a survey of firms (Current Employment Survey). Wage and salary employment is a count of the number of jobs.

Over the past year, the two measures have diverged. However, recently this gap has been closing. In November, Michigan wage and salary employment was down 0.4 percent from a year ago, and Michigan household employment is down 0.2 percent (six month moving average).

Year-to-date, Michigan’s unemployment rate has averaged 6.8 percent, equaling the average unemployment rate in 2005 through November 2005.

Personal Income

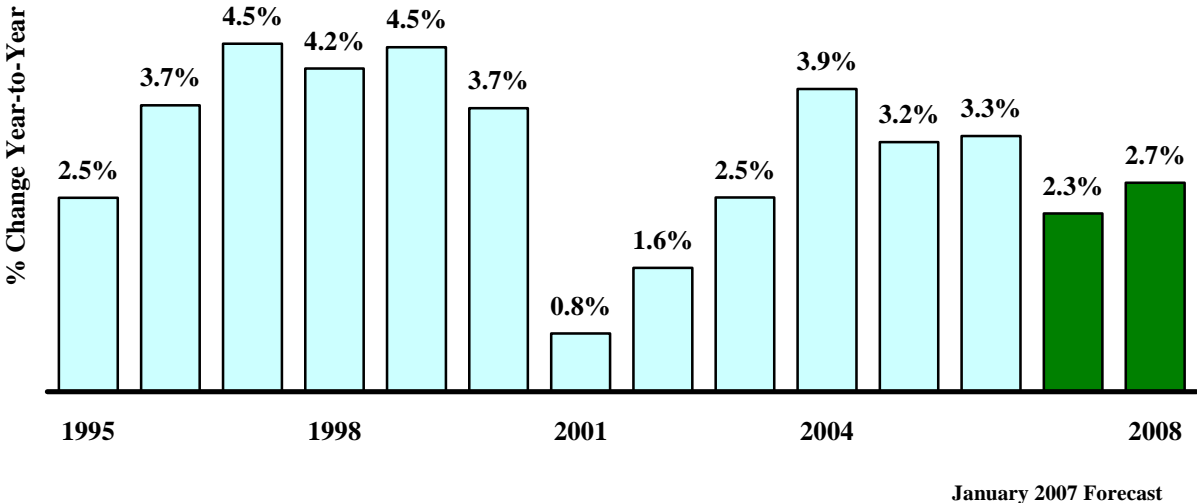
Michigan personal income rose 3.4 percent in 2005, while U.S. personal income increased 5.2 percent. Wages and salaries income grew 1.8 percent in 2005 compared with 5.1 percent growth nationally. In the first and second quarters of 2006, Michigan personal income reported mild growth, increasing at a 2.4 percent and 3.6 percent annual rate respectively. Michigan personal income then posted strong growth in the third quarter, rising at a 6.0 percent annual rate. Wages and salaries income reported weak growth in the first two quarters of 2006 before recording solid growth in the third quarter. Compared to a year ago, 2006 Q3 Michigan personal income was up 3.7 percent, while State wages and salaries income increased just 2.5 percent.

**2007 and 2008 U.S. Economic Outlook**

Summary

In 2007, real GDP growth is forecast to slow from 3.3 percent to 2.3 percent. Growth is then expected to accelerate slightly to 2.7 percent in 2008. High consumer debt levels, low savings rates, high energy prices, a cooling housing market and higher interest rates are expected to slow growth. On the other hand, increased business investment supported by profits and solid balance sheets should help buoy growth.

**GDP Growth Slows**



Source: Bureau of Economic Analysis, U.S. Department of Commerce, and Administration Forecast, January 2007.

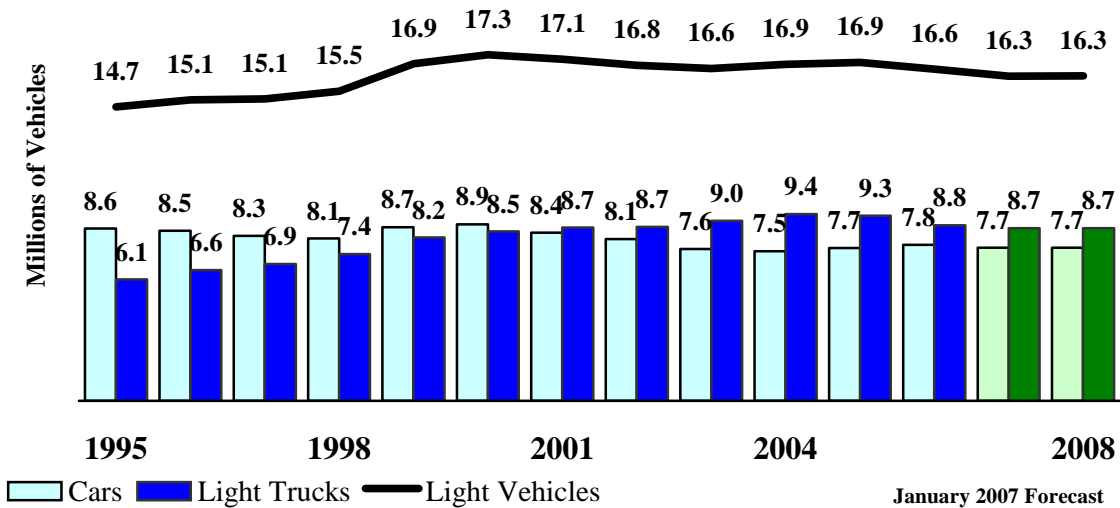


Light vehicle sales are projected to decline to 16.3 million units in both 2007 and 2008.

As measured by the consumer price index (CPI), consumer inflation is expected to slow significantly from 3.2 percent in 2006 to 2.3 percent in 2007 before accelerating to 3.2 percent in 2008. Short-term interest rates are projected to remain essentially flat until the second half of 2008 when rates are forecast to rise. The Aaa corporate bond rate slowly but steadily rises over the forecast horizon, rising from 5.6 percent in 2006Q4 to 6.7 percent in 2008Q4.

U.S. wage and salary employment is forecast to rise in 2007 and 2008 with gains projected throughout the forecast horizon. Employment will increase by a projected 1.2 million jobs in 2007 and 1.6 million jobs in 2008. The U.S. unemployment rate is expected to remain flat through the end of 2008 with the annual average remaining at 4.6 percent in 2006, 2007 and 2008.

### Motor Vehicle Sales Stable



Source: Bureau of Economic Analysis, U.S. Department of Commerce, and Administration Forecast, January 2007.

### Assumptions

Oil prices are projected to remain at or near \$60 a barrel through the end of 2008. Balancing both growth and inflation risks, the Federal Reserve is assumed to leave the target federal funds rate unchanged through mid-2008. With continued tight labor markets and high levels of capacity utilization fanning inflation concerns, the Federal Reserve is projected to begin increasing the target rate in the second half of 2008. The federal funds rate is forecast to average 5.8 percent in the 2008Q4. The U.S. dollar is expected to decline slightly, falling 3.1 percent between the end of 2006 and end of 2008.

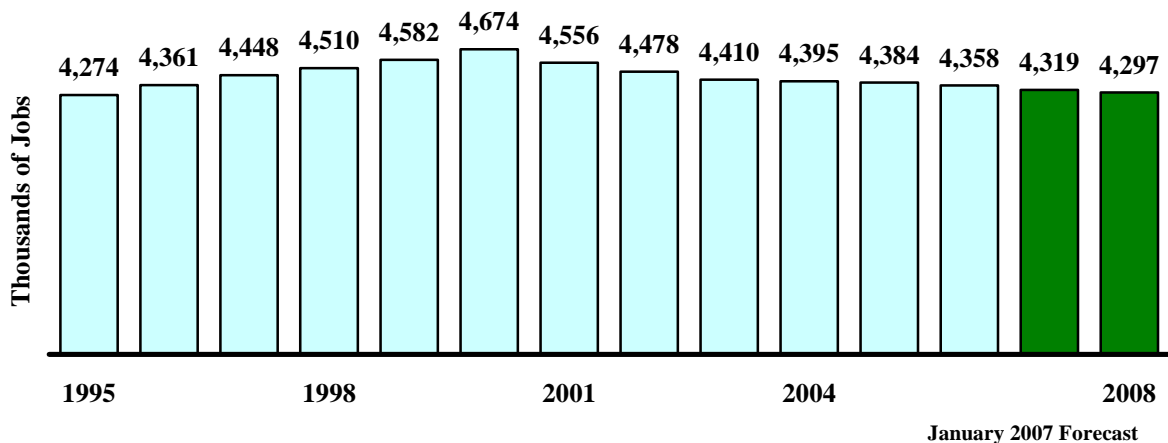
The household savings rate is forecast to remain near 0.0 percent through the forecast horizon with the rate peaking in 2007Q1 at 0.4 percent and falling to -0.4 percent in the final quarter of 2008. Stock market gains are projected to be modest with 4.4 percent annual growth. The

housing market is forecast to cool considerably over the forecast horizon with housing starts declining 16.6 percent in calendar year 2007.

## **2007 and 2008 Michigan Economic Outlook**

Employment is forecast to fall 0.9 percent in 2007 and 0.5 percent in 2008. Private non-manufacturing employment is projected to increase by 3,200 jobs in calendar year 2007 and 6,400 jobs in calendar year 2008. Manufacturing employment declines are expected to slow. The Delphi bankruptcy and struggles at the domestic Big 3 automakers and concomitant restructurings will depress manufacturing employment along with continued rationalization among vehicle suppliers. Employment is forecast to decline by approximately 10,000 jobs per quarter during 2007, matching the rate of decline estimated for 2006. Declines are then forecast to slow to an average of 3,000 jobs per month in 2008. Michigan's unemployment rate is expected to rise from 6.8 percent to 7.3 percent in 2007 and to 7.5 percent in 2008.

### **Michigan Wage and Salary Employment**



Source: Michigan Department of Labor and Economic Growth, U.S. Bureau of Labor Statistics, and January 2007 Administration Forecast.

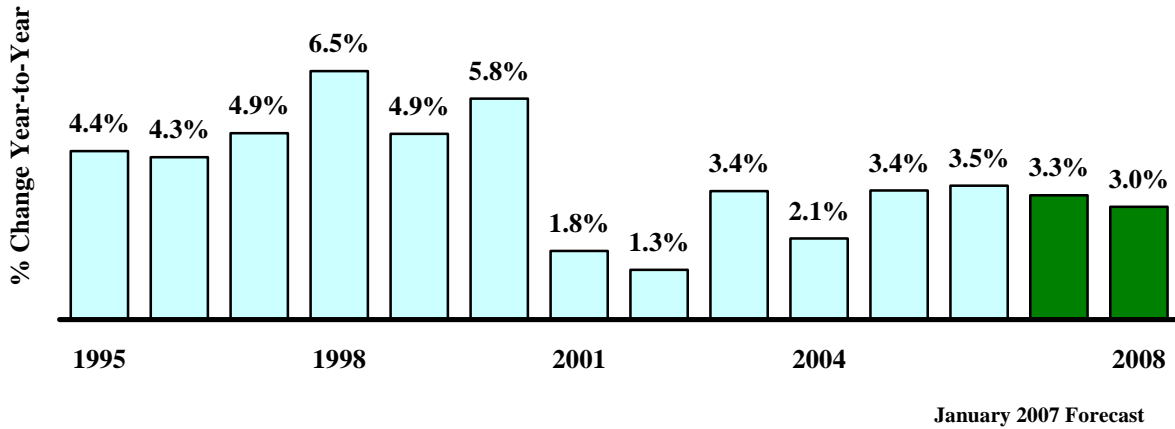
Michigan wages and salaries income is projected to rise 1.8 percent in CY 2007 and 1.6 percent in CY 2008. Michigan personal income is forecast to rise 3.3 percent in 2007 and 3.0 percent in 2008. Inflation, as measured by the Detroit CPI, is forecast to rise 1.9 percent in 2007 and 3.0 percent in 2008. As a result, real Michigan personal income (inflation adjusted) is expected to rise 1.3 percent in 2007 and remain flat in 2008.

**Table 1**  
**Administration Economic Forecast**

January 2007

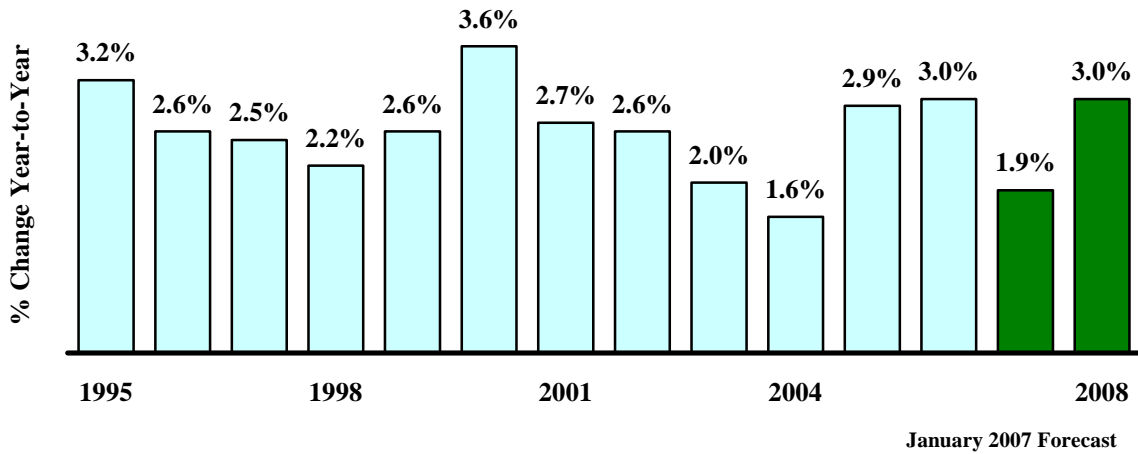
	Calendar 2005 Actual	Calendar 2006 Estimated	Percent Change from Prior Year	Calendar 2007 Forecast	Percent Change from Prior Year	Calendar 2008 Forecast	Percent Change from Prior Year
<b>United States</b>							
Real Gross Domestic Product (Billions of Chained 2000 Dollars)	\$11,049	\$11,413	3.3%	\$11,675	2.3%	\$11,990	2.7%
Implicit Price Deflator GDP (2000 = 100)	112.7	116.0	3.0%	119.0	2.6%	122.3	2.8%
Consumer Price Index (1982-84 = 100)	195.3	201.5	3.2%	206.1	2.3%	212.7	3.2%
Personal Consumption Deflator (2000 = 100)	111.5	114.6	2.8%	116.7	1.8%	119.4	2.3%
3-month Treasury Bills Interest Rate (percent)	3.2	4.7		4.9		5.0	
Aaa Corporate Bonds Interest Rate (percent)	5.2	5.6		6.0		6.5	
Unemployment Rate - Civilian (percent)	5.1	4.6		4.6		4.6	
Light Vehicle Sales (millions of units)	16.9	16.6	-1.9%	16.3	-1.8%	16.3	0.1%
Passenger Car Sales (millions of units)	7.7	7.8	2.0%	7.7	-1.9%	7.7	0.1%
Light Truck Sales (millions of units)	9.3	8.8	-5.2%	8.7	-1.7%	8.7	0.1%
Import Share of Light Vehicles (percent)	20.1	22.1		21.9		21.6	
<b>Michigan</b>							
Wage and Salary Employment (thousands)	4,384	4,358	-0.6%	4,319	-0.9%	4,297	-0.5%
Unemployment Rate (percent)	6.7	6.8		7.3		7.5	
Personal Income (millions of dollars)	\$331,304	\$342,983	3.5%	\$354,212	3.3%	\$364,746	3.0%
Real Personal Income (millions of 1982-84 dollars)	\$173,639	\$174,546	0.5%	\$176,841	1.3%	\$176,804	0.0%
Wages and Salaries (millions of dollars)	\$183,652	\$187,746	2.2%	\$191,176	1.8%	\$194,311	1.6%
Detroit Consumer Price Index (1982-84 = 100)	190.8	196.5	3.0%	200.3	1.9%	206.3	3.0%
Detroit CPI Fiscal Year (1982-84 = 100)	189.0	195.8	3.6%	198.7	1.5%	204.8	3.1%

## Michigan Personal Income Growth Weaker



Source: Bureau of Economic Analysis, U.S. Department of Commerce, and Administration Forecast, January 2007.

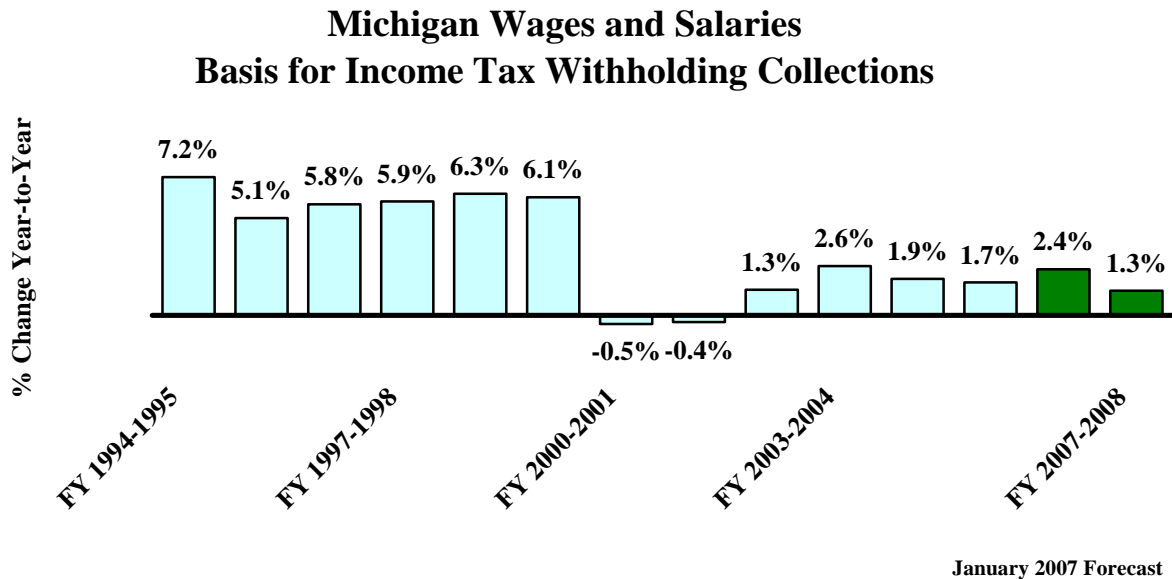
## Inflation Rate Slows in 2007, Accelerates in 2008 Detroit CPI



Source: U.S. Bureau of Labor Statistics and Administration Forecast, January 2007.

## **Fiscal Year Economics**

Michigan's largest taxes are the individual income tax (\$6.4 billion), which includes refunds, and sales and use taxes (\$8.3 billion). Income tax withholding is the largest income tax component. Withholding (\$6.7 billion) is most affected by growth in wages and salaries. Michigan wages and salaries are expected to grow 2.4 percent in FY 2007 and 1.3 percent in FY 2008.



Source: Bureau of Economic Analysis, U.S. Department of Commerce, and Administration Forecast, January 2007.

Sales and use taxes depend primarily on Michigan disposable (after tax) income and inflation. Disposable income is expected to rise 2.4 percent in FY 2006 and to increase 3.7 percent in FY 2007 before slowing to 2.7 percent in FY 2008. The inflation rate is forecast to decline to 1.5 percent in FY 2007 and is expected to accelerate to 3.1 percent in FY 2008.

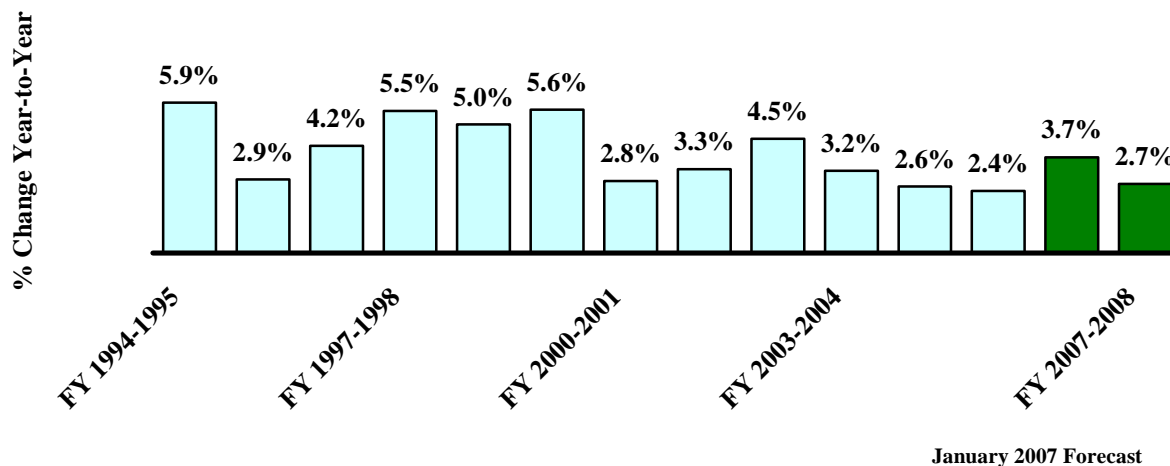
## **Forecast Risks**

The baseline forecast assumes that the price of a barrel of oil will remain essentially flat at \$60 a barrel. Geopolitical concerns, increased demand, or a major supply disruption could raise prices well above this assumed level. At the same time, recent high oil prices may slow the world economy leading to a reduction in the demand for oil and its price. A higher/lower oil price will help retard/elevate domestic growth.

The baseline forecast assumes that the value of the dollar will fall slightly. However, if international confidence in the dollar declines dramatically, the value of the dollar may fall sharply. A plummeting dollar could shake financial markets, severely curtailing both consumption and investment, and thus slow economic growth sharply. A collapsing dollar

would also put upward pressure on inflation and possibly lead to still higher interest rates, which would further retard growth.

### Michigan Disposable Income Basis for Sales and Use Tax Collections



Source: Research Seminar in Quantitative Economics, University of Michigan, and Administration Forecast, January 2007.

Firms’ increased pricing power, increased obsolescence of current capacity, tighter labor markets, higher commodity prices, and rising health care and pension costs may lead to higher inflation than the baseline forecast projects. This higher inflation rate may crimp consumption and investment spending – especially if accompanied by even more aggressive inflation fighting on the part of the Federal Reserve.

Given Michigan’s manufacturing mix, 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.

If business investment is above projected levels, economic growth may be more than forecast. For the Michigan economy, Big Three market share is important. Sharp declines in market share would affect the Michigan economy adversely compared to other states. Similarly, faster/slower productivity growth may decrease/increase employment. Faster/slower inventory investment will increase/decrease economic growth.

A substantial portion of U.S. economic activity has depended directly or indirectly on the housing market. Through refinancings, home equity loans, and realization of capital gains on housing sales, rapidly appreciating home prices have provided substantial support for the overall economy. In many ways, consumers came to rely on appreciating home prices as a source of “income.” To the extent to which home prices decline, consumption, and in turn investment, may fall more sharply than the baseline forecast assumes.

The baseline forecast assumes that the Federal Reserve succeeds in averting a collapse of the U.S. housing market through federal funds rate increases that translate into increases in higher mortgage rates. To the extent to which the Fed is not successful in effecting an orderly correction in the housing market, a housing bubble may burst and the economy may grow substantially more slowly than the baseline forecast projects. There remains an outside chance that a collapsing housing market, combined with other risk factors, could send the U.S. economy into a recession.

Interest rates (which move in the opposite direction of bond prices) have remained low because bond prices have remained relatively high. To the extent that investors regard bonds as less and less attractive investments, bond prices could fall sharply and thus interest rates could rise steeply. A sharp rise in interest rates would adversely impact the housing market, whose strength is greatly dependent upon low mortgage rates.

Geopolitical factors remain a forecast risk.

## **ADMINISTRATION REVENUE ESTIMATES**

**January 18, 2007**

### **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 2006 is the base year. Any non-economic changes to the taxes occurring in FY 2007 and FY 2008 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 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. 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 2006 Revenue Review

FY 2006 GF-GP revenue totaled \$8,266.7 million on a Consensus basis, a 0.5 percent decrease over FY 2005. SAF revenue totaled \$11,082.1 million, a 1.6 percent increase compared to FY 2005 (See Table 2).

**Table 2**  
**FY 2005-06 Administration Revenue Estimates**  
(millions)

	Consensus May 17, 2006		Actual		Change
	Amount	Growth	Amount	Growth	
General Fund - General Purpose					
Baseline Revenue			\$8,083.4		
Tax Cut Adjustments			\$183.3		
Net Resources	\$8,357.2	0.6%	\$8,266.7	-0.5%	(\$90.5)
School Aid Fund					
Baseline Revenue		2.4%	\$11,085.4		
Tax Cut Adjustments			(\$3.3)		
Net Resources	\$11,198.0	2.6%	\$11,082.1	1.6%	(\$115.9)
Combined					
Baseline Revenue		0.0%	\$19,168.9		
Tax Cut Adjustments			\$180.0		
Net Resources	\$19,555.2	0.0%	\$19,348.9	0.7%	(\$206.3)

Prepared By: Economic and Revenue Forecasting Division, Michigan Department of Treasury

## **FY 2007 Revenue Outlook**

FY 2007 GF-GP revenue is expected to be \$8,238.3 million, a 1.2 percent baseline increase, but a 0.3 percent decrease after tax adjustments. The FY 2007 estimate is \$215.4 million below the May 2006 Consensus estimate. SAF revenue is forecast to be \$11,216.1 million, representing 1.3 percent growth baseline revenue and 1.2 percent growth after tax adjustments. The FY 2007 SAF estimate is \$336.3 million lower than the May 2006 Consensus estimate (See Table 3).

**Table 3**  
**FY 2006-07 Administration Revenue Estimates**  
(millions)

	<b>Consensus May 17, 2006</b>		<b>Administration January 18, 2007</b>		<b>Change</b>
	<u>Amount</u>	<u>Growth</u>	<u>Amount</u>	<u>Growth</u>	
<b>General Fund - General Purpose</b>					
Baseline Revenue			\$8,179.4	1.2%	
Tax Cut Adjustments			\$58.9		
Net Resources	<u>\$8,453.7</u>	<u>1.2%</u>	<u>\$8,238.3</u>	<u>-0.3%</u>	<u>(\$215.4)</u>
<b>School Aid Fund</b>					
Baseline Revenue		2.4%	\$11,225.3	1.3%	
Tax Cut Adjustments			(\$9.2)		
Net Resources	<u>\$11,552.4</u>	<u>2.6%</u>	<u>\$11,216.1</u>	<u>1.2%</u>	<u>(\$336.3)</u>
<hr/>					
<b>Combined</b>					
Baseline Revenue		2.1%	\$19,404.7	1.2%	
Tax Cut Adjustments			\$49.7		
Net Resources	<u>\$20,006.1</u>	<u>1.4%</u>	<u>\$19,454.4</u>	<u>0.5%</u>	<u>(\$551.7)</u>

Prepared By: Economic and Revenue Forecasting Division, Michigan Department of Treasury

## **FY 2008 Revenue Outlook**

FY 2008 GF-GP revenue is expected to be \$7,175.3 million, a 2.7 percent baseline increase, but a 12.9 percent decrease after tax adjustments. The FY 2008 GF-GP estimate includes the repeal of the SBT and a loss in casino tax revenue. Under Michigan law, when a permanent casino is opened in Detroit, the casino tax rate for that permanent casino is reduced compared to when the casino was operating in a temporary facility. This rate reduction thereby only eliminates the GF-GP portion of casino tax revenue while SAF earmarking remains the same. The repeal of the SBT lowers FY 2008 revenue by \$1.2 billion. If the SBT had not been repealed, FY 2008 GF-GP revenue would have grown by 1.6 percent. SAF revenue is forecast to be \$11,562.6 million, representing 2.9 percent baseline and 3.1 percent net growth (see Table 4).

**Table 4**  
**FY 2007-08 Administration Revenue Estimates**  
(millions)

	<b>Administration</b>	
	<b>January 18, 2007</b>	
	<b>Amount</b>	<b>Growth</b>
General Fund - General Purpose		
Baseline Revenue	\$8,398.6	2.7%
Tax Cut Adjustments	(\$1,223.3)	
Net Resources	\$7,175.3	-12.9%
School Aid Fund		
Baseline Revenue	\$11,556.3	2.9%
Tax Cut Adjustments	\$6.3	
Net Resources	\$11,562.6	3.1%
<hr/>		
Combined		
Baseline Revenue	\$19,954.9	2.8%
Tax Cut Adjustments	(\$1,217.0)	
Net Resources	\$18,737.9	-3.7%

Prepared By: Economic and Revenue Forecasting Division, Michigan Department of Treasury

## 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 2004 revenue is compared to CY 2002 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 via the income and single business taxes.

FY 2005 revenues were \$4.2 billion below the revenue limit, while FY 2006 revenues are expected to be \$4.8 billion below the limit. State revenues will also be well below the limit for FY 2007 and FY 2008. FY 2007 revenues are expected to be nearly \$5.0 billion below the limit, while FY 2008 revenues are expected to fall further below the limit at over \$6.7 billion with the repeal of the SBT (See Table 5).

**Table 5**  
**Administration Constitutional Revenue Limit Calculation**  
(millions)

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
	<u>Actual</u>	<u>Admin</u>	<u>Admin</u>	<u>Admin</u>
	<u>June 2006</u>	<u>Jan 2007</u>	<u>Jan 2007</u>	<u>Jan 2007</u>
<b>Revenue Subject to Limit</b>	\$25,605.1	\$26,012.2	\$26,445.4	\$26,101.5
<b><u>Revenue Limit</u></b>	<b><u>CY 2003</u></b>	<b><u>CY 2004</u></b>	<b><u>CY 2005</u></b>	<b><u>CY 2006</u></b>
Personal Income	\$314,460	\$324,134	\$331,304	\$345,945
Ratio	9.49%	9.49%	9.49%	9.49%
Revenue Limit	\$29,842.2	\$30,760.3	\$31,440.8	\$32,830.2
<b><u>Amount Under (Over) Limit</u></b>	<b>\$4,237.1</b>	<b>\$4,748.2</b>	<b>\$4,995.3</b>	<b>\$6,728.6</b>

## 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 increase 0.7 percent in 2007. Therefore, the formula has no pay-in or withdrawal for FY 2008 (See Table 6).

**Table 6**  
**Budget and Economic Stabilization Fund Calculation**  
**Based on CY 2006 Personal Income Growth**  
**Administration Calculation**

	CY 2006	CY 2007
Michigan Personal Income	\$ 345,945 <sup>(1)</sup>	\$ 356,565 <sup>(1)</sup>
less Transfer Payments	<u>\$ 54,885 <sup>(1)</sup></u>	<u>\$ 58,343 <sup>(1)</sup></u>
Income Net of Transfers	\$ 291,060	\$ 298,223
Detroit CPI	1.948 <sup>(2)</sup>	1.981 <sup>(3)</sup>
for 12 months ending	(June 2006)	(June 2007)
Real Adjusted Michigan Personal Income	\$ 149,453	\$ 150,541
Change in Real Adjusted Personal Income		0.7%
Between 0 and 2%		0.0%
GF-GP Revenue Fiscal Year 2006-2007		\$ 8,238.3
BSF Pay-In Calculated for FY 2008		<u>FY 2007-2008</u> NO PAY-IN INDICATED

Notes:

<sup>(1)</sup> Personal Income and Transfer Payments, Administration Forecast, January 2007.

<sup>(2)</sup> Detroit Consumer Price Index, Average of 6 monthly values reported by BLS for each 12-month period.

<sup>(3)</sup> Detroit Consumer Price Index, Administration Forecast, January 2007.

## 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 2008 SAF revenue adjustment factor is calculated by dividing the sum of FY 2007 and FY 2008 SAF revenue by the sum of FY 2006 and FY 2007 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 2008, the SAF revenue adjustment factor is calculated to be 1.0211 (See Table 7).

**Table 7**  
**Administration School Aid Revenue Adjustment Factor**  
**For Fiscal Year FY 2008**

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Baseline SAF Revenue	\$11,085.4	\$11,225.3	\$11,556.3
Balance Sheet Adjustments	(\$3.3)	(\$9.2)	\$6.3
Net SAF Estimates	<u>\$11,082.1</u>	<u>\$11,216.1</u>	<u>\$11,562.6</u>
Adjustments to FY 2008 Base Year	<u>\$9.6</u>	<u>\$15.5</u>	<u>\$0.0</u>
Baseline Revenue on a FY 2007 Base	\$11,091.7	\$11,231.6	\$11,562.6

### School Aid Fund Revenue Adjustment Calculation for FY 2008

Sum of FY 2006 & FY 2007	\$11,091.7	+	\$11,231.6	=	\$22,323.3
Sum of FY 2007 & FY 2008	\$11,231.6	+	\$11,562.6	=	\$22,794.2

<b>FY 2008 Revenue Adjustment Factor</b>	<b>1.0211</b>
--	---------------

Note: Factor is calculated off a FY 2008 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 8 and 9). Tax totals for the income, sales, use, and tobacco taxes for all funds are also included (See Table 10).

**Table 8**  
**Administration General Fund General Purpose Revenue Detail**  
(millions)

	FY 2006		FY 2007		FY 2008	
	Amount	Growth	Amount	Growth	Amount	Growth
<b>GF-GP Tax Amounts</b>						
Income Tax	\$4,183.7	1.5%	\$4,191.7	0.2%	\$4,275.1	2.0%
Sales	\$85.9	-21.3%	\$96.2	12.0%	\$105.3	9.5%
Use	\$917.0	-1.9%	\$944.3	3.0%	\$983.4	4.1%
Cigarette	\$229.0	96.6%	\$229.1	0.0%	\$226.1	-1.3%
Beer & Wine	\$51.2	0.4%	\$51.2	0.0%	\$52.2	2.0%
Liquor Specific	\$34.9	3.9%	\$35.4	1.4%	\$35.9	1.4%
Single Business Tax	\$1,841.9	-3.7%	\$1,868.9	1.5%	\$756.6	-59.5%
Insurance Co. Premium	\$219.5	-12.0%	\$237.5	8.2%	\$186.1	-21.6%
Telephone & Telegraph	\$83.5	-15.7%	\$80.5	-3.6%	\$78.5	-2.5%
Inheritance Estate	\$0.6	-99.4%	\$0.0	-100.0%	\$0.0	0.0%
Intangibles	\$0.2	0.0%	\$0.0	-100.0%	\$0.0	0.0%
Casino Wagering	\$45.0	6.6%	\$47.5	5.7%	\$22.2	-53.3%
Horse Racing	\$2.0	0.0%	\$0.0	-100.0%	\$0.0	0.0%
Oil & Gas Severance	\$81.5	22.2%	\$61.1	-25.0%	\$63.1	3.3%
GF-GP Other Taxes	\$40.3	-23.2%	\$46.1	14.4%	\$55.4	20.2%
<b>Total GF-GP Taxes</b>	<b>\$7,816.1</b>	<b>-0.9%</b>	<b>\$7,889.5</b>	<b>0.9%</b>	<b>\$6,839.9</b>	<b>-13.3%</b>
<b>GF-GP Non-Tax Revenue</b>						
Federal Aid	\$20.0	-44.0%	\$25.5	27.5%	\$25.5	0.0%
From Local Agencies	\$0.2	-33.3%	\$0.2	0.0%	\$0.2	0.0%
From Services	\$8.1	-59.1%	\$8.1	0.0%	\$8.1	0.0%
From Licenses & Permits	\$50.6	84.7%	\$23.4	-53.8%	\$22.6	-3.4%
Miscellaneous	\$157.7	16.7%	\$138.0	-12.5%	\$138.0	0.0%
Short Term Note Interest	\$0.0	0.0%	\$0.0	0.0%	\$0.0	0.0%
Interfund Interest	(\$58.1)	6.8%	(\$54.5)	-6.2%	(\$61.1)	12.1%
Liquor Purchase	\$148.5	4.4%	\$150.5	1.3%	\$152.5	1.3%
Charitable Games	\$10.6	-9.4%	\$10.6	0.0%	\$10.6	0.0%
Transfer From Escheats	\$113.0	13.0%	\$47.0	-58.4%	\$39.0	-17.0%
Other Non Tax	\$0.0	0.0%	\$0.0	0.0%	\$0.0	0.0%
<b>Total Non Tax</b>	<b>\$450.6</b>	<b>7.9%</b>	<b>\$348.8</b>	<b>-22.6%</b>	<b>\$335.4</b>	<b>-3.8%</b>
<b>Total GF-GP Revenue</b>	<b>\$8,266.7</b>	<b>-0.5%</b>	<b>\$8,238.3</b>	<b>-0.3%</b>	<b>\$7,175.3</b>	<b>-12.9%</b>

**Table 9  
Administration School Aid Fund Revenue Detail**

	FY 2006		FY 2007		FY 2008	
	Amount	Growth	Amount	Growth	Amount	Growth
<b>School Aid Fund</b>						
Income Tax	\$2,038.9	2.7%	\$2,068.8	1.5%	\$2,121.9	2.6%
Sales Tax	\$4,831.3	0.5%	\$4,860.1	0.6%	\$4,989.1	2.7%
Use Tax	\$458.9	-1.9%	\$472.1	2.9%	\$491.7	4.1%
Liquor Excise Tax	\$34.5	4.2%	\$35.4	2.6%	\$35.9	1.4%
Cigarette	\$472.2	-0.1%	\$459.1	-2.8%	\$451.9	-1.6%
Other Tobacco	\$0.0	0.0%	\$0.0	0.0%	\$0.0	0.0%
State Ed Prop Tax	\$2,003.5	4.6%	\$2,099.3	4.8%	\$2,217.5	5.6%
Real Estate Transfer	\$297.7	-5.0%	\$240.7	-19.1%	\$249.7	3.7%
Ind and Comm Facilities	\$135.6	-1.9%	\$140.3	3.5%	\$142.0	1.2%
Casino (45% of 18%)	\$104.1	6.6%	\$110.0	5.7%	\$120.7	9.7%
Commercial Forest	\$3.1	0.0%	\$3.1	0.0%	\$3.1	0.0%
Other Spec Taxes	\$14.2	35.2%	\$14.2	0.0%	\$14.2	0.0%
<b>Subtotal Taxes</b>	\$10,394.1	1.5%	\$10,503.1	1.0%	\$10,837.7	3.2%
Lottery Transfer	\$688.0	3.1%	\$713.0	3.6%	\$724.9	1.7%
<b>Total SAF Revenue</b>	\$11,082.1	1.6%	\$11,216.1	1.2%	\$11,562.6	3.1%

**Table 10  
Administration Major Tax Totals**

<b>Major Tax Totals (Includes all Funds)</b>						
Income Tax	\$6,223.9	1.9%	\$6,262.0	0.6%	\$6,398.5	2.2%
Sales Tax	\$6,638.1	0.6%	\$6,677.2	0.6%	\$6,853.4	2.6%
Use Tax	\$1,375.9	-1.9%	\$1,416.4	2.9%	\$1,475.1	4.1%
Cigarette and Tobacco	\$1,169.0	-0.9%	\$1,147.4	-1.8%	\$1,131.8	-1.4%
Casino Tax	\$155.5	6.6%	\$164.3	5.7%	\$146.1	-11.1%