Administration Estimates Michigan Economic and Revenue Outlook

FY 2007-08 and FY 2008-09

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Revenue Review and Outlook

- FY 2007 General Fund-General Purpose (GF-GP) revenue increased to $8,318.5 million, a 0.6 percent increase over FY 2006. School Aid Fund (SAF) revenue rose 0.6 percent to $11,153.1 million.

- FY 2008 GF-GP revenue is forecast to increase 9.3 percent to $9,094.8 million, down $151.7 million from the FY 2008 January Consensus estimate. FY 2008 revenues include the new Michigan Business Tax (MBT) which fully replaced the repealed Single Business Tax. FY 2009 SAF revenue is forecast to grow 2.3 percent to $11,409.4 million, which is $56.3 million more than the FY 2008 January Consensus estimate.

- FY 2009 GF-GP revenue is forecast to decrease 2.4 percent to $8,873.1 million, down $320.6 million from the FY 2008 January Consensus estimate. FY 2009 SAF revenue is forecast to grow 3.3 percent to $11,787.6 million, which is $83.0 million less than the FY 2008 January Consensus estimate.

2008 and 2009 U.S. Economic Outlook

- Real gross domestic product growth is forecast to average 1.2 percent in 2008 and 1.7 percent in 2009, following 2.2 percent growth in 2007.
- Wage and salary employment is projected to decline in mid-2008 before stagnating in late 2008 and early 2009. Employment is then forecast to rise slowly over the balance of the forecast. Between the end of 2007 and end of 2009, the U.S. economy is expected to add only 50,000 net jobs.

- The U.S. unemployment rate is forecast to average 5.3 percent in 2008 and 5.9 percent in 2009.
- Housing starts are projected to total less than 1.0 million units in both 2008 and 2009. Projected 2008 housing starts of 909,000 would be the lowest level of starts since at least 1959.
- Light vehicle sales are forecast to be 15.0 million units in both 2008 and 2009 -- their lowest level in nearly 15 years.

- Driven by record high oil prices (and consequently record high gasoline prices), consumer price inflation is forecast to average 4.0 percent in 2008 -- a 17-year high. Inflation is then expected to moderate to 2.9 percent growth in 2009.

2008 and 2009 Michigan Economic Outlook

- Michigan wage and salary employment is forecast to fall by 1.5 percent in 2008 and by 1.2 percent in 2009, the ninth straight year of State employment declines. Private non-manufacturing employment is projected to fall by approximately 20,000 jobs both in 2008 and in 2009. Manufacturing employment is forecast to decline by 38,400 jobs in 2008 and 25,300 jobs in 2009.
- After averaging 7.2 percent in 2007, the Michigan unemployment rate is forecast to rise to 7.5 percent in 2008 and 8.2 percent in 2009.
- Wages and salaries are forecast to increase 0.4 percent in CY 2008 and rise 1.1 percent in CY 2009, down from 2.1 percent growth in 2007. Personal income will rise 1.6 percent in 2008 and 2.0 percent in 2009.
- In FY 2008, Michigan wages and salaries income is expected to rise 1.0 percent before increasing 0.8 percent in FY 2009.
- Disposable income is forecast to rise 3.2 percent in FY 2008 and 1.1 percent in FY 2009.

Forecast Risks

- Higher oil prices.
- More severe and broader than expected fallout from the subprime crisis.
- Less steep housing market downturn.
- Precipitous decline in the value of the dollar.
- Higher interest rates.
- Geopolitical factors.
- Michigan hit disproportionately harder.

ECONOMIC REVIEW AND OUTLOOK
May 16, 2008

Current U.S. Economic Situation

Summary

After two strong quarters in mid 2007 during which real (inflation adjusted) GDP grew at a 4.4 percent annual rate, economic growth has stalled over the past two quarters. Real GDP grew at a 0.6 percent annual rate in both the final quarter of 2007 and the first quarter of 2008. While still registering positive growth, these two quarters marked the first two consecutive quarters of sub 1.0 percent growth since 1991.

Final demand (excluding inventory investment) fell in the first quarter at a 0.2 percent annual rate. This decline (although slight) is in marked contrast to final demand growth rates in the immediately three preceding quarters (3.6 percent, 4.0 percent and 2.4 percent).

Comprising 70 percent of real GDP, real consumption is essential to U.S. economic growth. Recently this key component has slowed. In the first quarter, real consumption growth decelerated to a 1.0 percent annual rate, slowing from 2.8 percent and 2.3 percent in the previous two quarters. First quarter consumption growth was its slowest pace in 13 years. Durable consumption fell sharply (-6.1 percent annual rate) while non-durable consumption declined slightly (-1.3 percent). At the same time, services consumption rose 3.4 percent. Taken together, durable and non-durable consumption subtracted 0.8 of a percentage point from consumption growth while services consumption added 1.4 percentage points.

Sharply declining residential investment has led the slowdown, falling at a 25.9 percent annual rate over the past two quarters. In the first quarter, the *level* of residential investment fell to a ten-year low. Compared to its peak (2005 Q4), residential investment is down 34.3 percent. The first quarter of 2008 marked the eighth consecutive quarter of double digit declines in residential investment -- the first such stretch in over 30 years.

The foreign trade sector has been crucial for maintaining positive economic growth with a 6.0 percent annual export growth rate over the past two quarters. In each of the past four quarters, the trade deficit has shrunk -- the first such string of declines since mid-1991. However, the export growth rate has slowed considerably from the final two quarters of 2007 when exports grew at a double digit rate.

Non-residential investment also declined in the first quarter, falling at a 2.5 percent annual rate. This is in marked contrast to solid non-residential growth in the three immediately prior quarters when non-residential investment grew at an 8.8 percent annual rate. In the first quarter, investment in non-residential structures declined significantly (-6.2 percent rate) while equipment and software investment fell slightly (-0.7 percent).

Over the past three years, annual GDP growth has slowed. While real GDP increased 3.6 percent in 2004, the economy grew 3.1 percent in 2005, 2.9 percent in 2006 and 2.2 percent in 2007.

Between 2005 and 2007, real consumption grew about 3.0 percent each year. In 2007, consumption accounted for nearly all economic growth (2.0 percentage points of overall 2.2 percent growth). The foreign trade sector was also very important in supporting overall 2007 economic growth, adding 0.6 of a percentage point to last year's economic growth.

Residential investment subtracted nearly a full percentage point from overall 2007 GDP growth. In contrast, residential investment had *added* a half percentage point to 2004 growth. In 2007, residential investment fell 17.0 percent, following a 4.6 percent decline the year before. As a result, 2007 marked the first time since 1991 that residential investment fell in two consecutive years. Recent residential investment declines contrast with 10.0 percent growth in 2004 and a 6.6 percent increase in 2005.

Real government consumption and investment grew 2.0 percent last year, following a 1.8 percent increase in the prior year. Federal expenditures increased 1.7 percent while state and local spending rose 2.2 percent.

Interest Rates

At its June 2006 meeting, the Federal Open Market Committee (FOMC) raised the target federal funds rate for the seventeenth straight time, increasing the rate to 5.25 percent. In each of its meetings between August 2006 and August 2007, the FOMC kept the federal funds rate unchanged.

Faced with credit market tightening, turmoil in the financial markets and the floundering housing market, the FOMC began cutting the target federal funds rate in September 2007. The FOMC cut the federal funds target rate by 50 basis points at its September 2007 meeting, 25 basis points at its October meeting and another 25 points in December, pushing the target rate down to 4.25 percent.

In January 2008, the FOMC found itself faced with a deteriorating economic outlook and growing strains on financial markets:

- Weakening economic outlook
- Increased downside risks to growth
- Continued deterioration in broader financial markets
- Further tightening of credit for businesses and households
- Deepening of the housing contraction
- Softening labor markets.

Consequently, the FOMC convened two unscheduled meetings on January 9 and January 21. At its January 21, 2008 meeting the FOMC cut the target federal funds rate by 75 basis points, lowering the target rate to 3.50 percent. The Committee also reduced the discount rate by the same amount, cutting that rate to 4.00 percent. Just a week later at a scheduled meeting on January 29/30, the FOMC cut the interest rates another 50 basis points citing many of the same reasons it had for the January 21 rate cuts. After these actions, at the end of January, the target federal funds rate and discount rate stood at 3.00 percent and 3.50 percent respectively.

At a weekend emergency meeting in mid March, the Federal Reserve cut the discount rate an additional 25 basis points to 3.25 percent, shrinking the spread between the discount rate (the rate the Fed charges at its borrowing window) and the target federal funds rate (the rate banks charge each other) to 25 basis points.

Shortly after, at a scheduled March 18, 2008 meeting, the FOMC cut the target federal funds rate and discount rate an additional 75 basis points, reducing the rates to 2.25 percent and 2.50 percent respectively. Then, on April 30, 2008, the FOMC lowered both rates by another 25 basis points. While noting a downside risk to growth at its meetings through March 18, the FOMC cited no such risk in its April statement, signaling a possible pause to FOMC rate cuts.

Thus, in total, between September 2007 and April 2008, the Federal Reserve cut the target federal funds rate seven times and the discount rate eight times. As a result, the target federal funds rate fell a total of 325 basis points, dropping from 5.25 percent to 2.00 percent, its lowest level since November 2004. The discount rate was cut 350 basis points, falling to 2.25 percent.

Additional Recent Federal Reserve Bank Actions

In mid-March 2008, the Federal Reserve was confronted with the immediate prospect of a major investment bank declaring bankruptcy (Bear Stearns). Viewing the impending bankruptcy in the context of broader "complex", "interconnected" and "fragile" financial markets, the Federal Reserve believed that "the sudden failure of Bear Stearns likely would have led to a chaotic unwinding of positions in those markets and could have severely shaken confidence." Consequently, in conjunction with the U.S. Treasury Department, the Federal Reserve facilitated the sale of the large investment bank (and its financial obligations) to JP Morgan Chase.

More generally, the Federal Reserve instituted the Primary Dealer Credit Facility. The Facility allowed investment banks a means to borrow cash with highly rated assets from the Federal Reserve Bank at the rate the Fed charged commercial banks at its discount window. Doing so provided security brokers a means to bolster their financial balance sheets. The Fed had not taken such an action since the Great Depression.

At an unscheduled March 10, 2008 meeting, the FOMC instituted the Term Securities Lending Facility (TSLF) as a means to support the troubled agency-backed mortgage securities and loans markets. Under the TSLF, the Fed would accept a broad range of securities as collateral, including private mortgages and mortgage-backed securities, from the Fed's twenty primary dealers.

As a result of the Federal Reserve's rate cuts and additional actions, short-term rates (e.g., three month Treasury bill rate) have fallen significantly over the past year, falling from 4.97 percent in March 2007 to 1.38 percent in March 2008 -- a 359 basis point reduction. Over the past year, long-term rates have also fallen, but by substantially less. Since March 2007, the 10 year Treasury note rate has fallen 105 basis points from 4.56 percent to 3.51 percent. The 30 year Treasury bond rate fell still less over the past year, declining by just 33 basis points from 4.72 percent to 4.39 percent. Thus, the yield curve (the difference between long-term rates and short-term rates) has steepened.

Fiscal Policy

In February 2008, the Congress passed and the President signed the Economic Stimulus Act of 2008. The Act provided for more than $160 billion in fiscal stimulus. The centerpiece of the legislation was the $120 billion in personal income tax rebates to be paid out between May 2008 and July 2008. Eligible individuals and families will receive up to $600 for individuals and $1,200 for couples. In addition, taxpayers will receive $300 per eligible child.

The Act also provided for accelerated depreciation of assets purchased in 2008. Businesses will be able to deduct an additional 50 percent of the cost of the 2008 investment.

Inflation

Overall inflation pressures are mounting as a result of sharp increases in energy prices. In March, oil prices rose above $100 a barrel for the first time in history, rising to $105.56. Oil prices then rose to $112.57 in April. The April 2008 average price is up 76 percent compared to a year ago. Even adjusting for inflation, the March oil price had represented a record, which the April 2008 inflation adjusted oil price will likely exceed.[1] In early May 2008, oil prices rose above $120 a barrel.

Between October 2006 and May 2007, monthly oil prices ranged between the mid-50's and mid-60's. Since June 2007, oil prices have risen substantially. October oil prices averaged $86 a barrel before rising to $95 a barrel in November. Several factors have helped drive prices sharply higher including geopolitical tensions, poor weather, diminishing stocks and greater demand. In December, the price of oil moderated slightly. However, oil prices have climbed since December.

High oil prices have been reflected in high gasoline prices. In early 2007, the average price of a gallon of unleaded gasoline rose from the low two-dollar range to the low three-dollar range. While falling into the upper two-dollar range in the third quarter of 2007, gasoline prices again rose to around $3.00 a gallon where they hovered until mid-February. In mid-February, prices resumed climbing. By the end of March, gasoline prices had risen to $3.29 a gallon. By the second week in May, the average price had risen to a record $3.72 a gallon -- up 62 cents from a year ago.

In 2005, natural gas prices rose to their highest level in history as a result of Hurricane Katrina. While falling 16.4 percent in 2006, natural gas prices reported their second highest calendar year level. In 2007, natural gas prices were little changed, falling 2.0 percent. However, in recent months, natural gas prices are up significantly from a year ago. In March 2008, the three-month average of natural gas prices was up 19.8 percent.

A recent poll by the Wall Street Journal suggests that current high energy (and food) prices will not be fleeting. Two-thirds of economists surveyed by the Wall Street Journal in May 2008

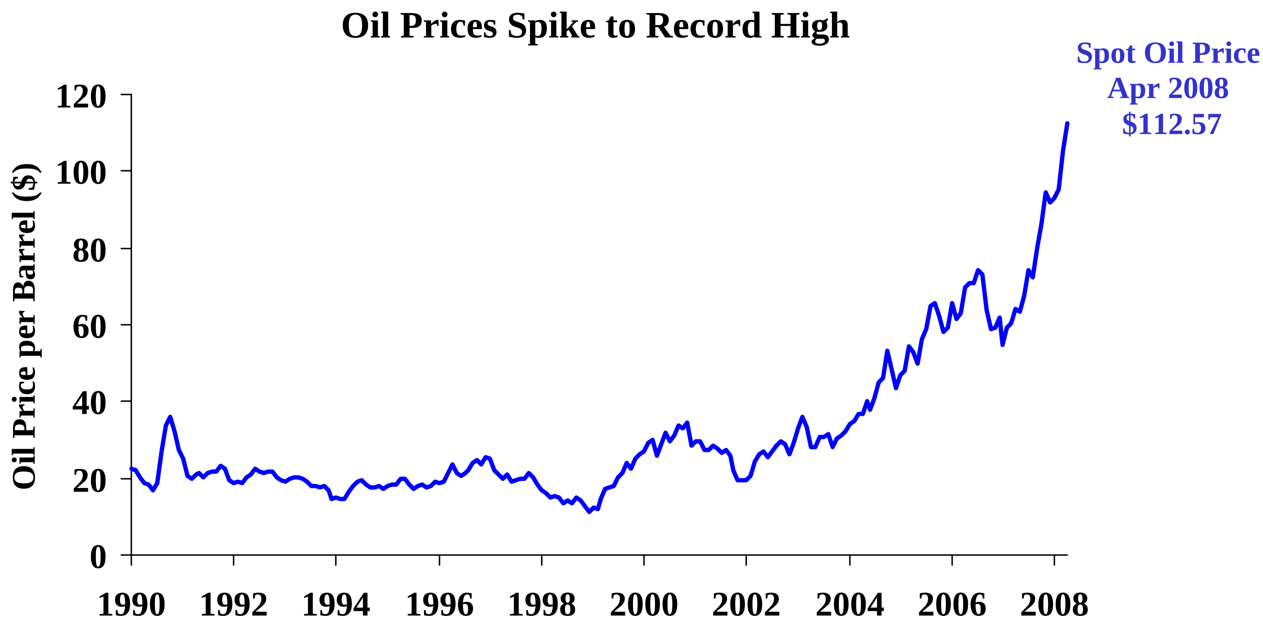
[1] March's representing a record holds whether the nominal oil price is deflated by the overall CPI or the CPI less energy. As of the writing of this Report, the CPI figures needed to deflate April's nominal oil price were not yet available.

believe that the current sharply higher energy (and food) prices are truly the product of market forces (constrained supply and growing demand). Only 11 percent of those surveyed held that the high prices were the result of a speculative bubble.

The Federal Reserve's April 2008 Beige Book reported that

> Business contacts across all Districts continued to report increases in input costs and output prices. In particular, price increases were consistently reported for food products, fuel and energy products, and many raw materials. More specifically, increases in the price of chemicals, metals, plastics and other petroleum-based products were commonly cited.

While districts reported increases in both input and output prices, "On balance, input costs have risen more rapidly than output prices, putting pressure on margins for many firms."



Source: Federal Reserve Bank of St. Louis.

In April, nearly 70 percent of manufacturing firms surveyed by the Institute of Supply Management (ISM) reported paying higher prices. Sixty percent of non-manufacturing firms surveyed reported paying higher prices.

Compared to a year ago, the ISM manufacturing price index was up 11.5 points. Using a three-month average, which helps to smooth out monthly fluctuations, the ISM manufacturing price index was up by 15.3 points compared to a year ago. The ISM non-manufacturing price index rose by 8.9 points with its three-month average increasing 10.3 points.

In April 2008, the three-month average of hourly earnings increased by 3.6 percent over the past year. This compares to a 4.0 percent increase between April 2006 and April 2007.

In March 2008, the three-month moving average of the overall producer price index rose sharply (6.9 percent), led by outsized increases in energy prices. This year-over-year increase is substantially higher than the March 2006-March 2007 percent increase (just 1.9 percent). Core producer inflation accelerated much less sharply, rising from 1.7 percent to 2.5 percent.

In March 2008, the three-month moving average of the overall consumer price index rose 4.1 percent, significantly faster than the March 2006-March 2007 percent increase (2.4 percent). Excluding food and energy, however, the increase was less steep with core consumer prices rising 2.4 percent between March 2007 and March 2008, slightly slower than the increase a year earlier (2.6 percent).

Housing Market

The housing market has seen a substantial downturn in recent quarters. In calendar year 2007, housing starts averaged 1.4 million units, down 24.8 percent from 2006. This contrasts with housing starts between 1.8 million and 2.0 million units over the prior four years. With these declines, residential construction has fallen precipitously. In the first quarter of 2008, housing starts averaged 1.035 million units -- the lowest quarterly average in nearly 17 years. First quarter starts were down 29.1 percent compared to a year ago. In March 2008, monthly housing starts fell below a 1.0 million unit rate for the first time since May 1991 and were 58.7 percent below their January 2006 peak.

In December, home builder sentiment hit a record low with the National Association of Home Builders (NAHB) index falling to 18. The index rose a point in both January and February; the index has remained flat over the past three months at 20.

The National Association of Realtors' (NAR) data show that the slowdown has not been restricted to new residential construction.

- In 2007, existing home sales fell to 5,652,000, down 12.8 percent from 2006 and off 20.1 percent compared with 2005. In March 2008, the existing home sales rate fell below a 5 million unit annual pace, declining to a 4,930,000 unit rate. March's pace was down 19.3 percent compared to a year ago.

- In March 2008, the twelve month average of available inventory of existing homes stood at 9.7 months. In comparison, the March 2007 average was 6.9 months and the March 2006 average, 4.8 months.

- The March 2008 NAR index of 83.0, based on signed contracts for previously owned homes (pending sales), was 20.1 percent below the March 2007 reading of 103.9

Construction employment is down 5.0 percent compared to a year ago -- compared with essentially flat year-over-year overall payroll employment.

The Federal Reserve's April 2008 *Beige Book* further corroborates the weak housing market, reporting that

> Housing markets and home construction remained sluggish throughout most of the nation, though there were few signs of any quickening in the pace of deterioration. Ongoing weakness in housing markets, in general, was reported in almost all Districts.
>
> . . . .
>
> New residential construction was reported to have remained at depressed levels, and none of the Districts reported any pickup since the last report.

House Prices

All three major housing price measures point to a sharp retrenchment in housing prices.

In February 2008, the Case-Shiller 20-metro area housing price index was down 12.7 percent from a year ago while the 10-metro area index fell 13.6 percent. On a year-over-year basis housing prices have declined every month since January 2007, with the rate of decline accelerating each month.

The Office of Federal Housing Enterprise Oversight (OFHEO), which excludes mortgages over $417,000, reports similar findings, although not as dramatic. Compared to a year ago, the 2007Q4 OFHEO index was essentially flat, up only 0.8 percent. Year-over-year price increases have slowed each quarter over the past two years. The OFHEO February 2008 monthly index reading was down 2.4 percent compared to a year ago -- the fourth straight month of year-over-year declines.

The National Association of Realtors (NAR) reported that the March 2008 median existing single family home price was down 8.3 percent compared to a year ago. 2007 marked the first year on record in which the calendar year median existing home price declined.

In a May 2008 Wall Street Journal poll of major economists, almost all of those surveyed project falling house prices in 2008 and approximately half see a 2009 house price decline. On average, those surveyed forecast a 5.8 percent house price decline in 2008. In contrast less than a year earlier (September 2007), the average projected 2008 price decline was 2.3 percent. Surveyed economists, on average, see price declines continuing into 2009 with an average forecasted price decline of 1.7 percent.

Repercussions

The sharp housing market downturn and concomitant home price declines have had serious repercussions. In the fourth quarter of 2007, the rate of mortgages entering foreclosure (0.83 percent of all loans outstanding) was at it highest level in the history of the Mortgage Bankers' Association's (MBA) quarterly national survey. The percent of loans somewhere in the foreclosure process (2.04 percent) also hit its highest level. At 5.82 percent, the delinquency rate of home loans was at its highest level since 1985.

With home prices falling, the Federal Reserve reported that homeowner equity (house value less mortgage debt) fell below 50 percent for the first time since World War II.

According to RealtyTrac, 2008Q1 foreclosure filings were up 23 percent from last quarter and increased a staggering 112 percent from a year ago.

Further indicating that housing market weakness will continue, a substantial number of variable rate mortgages will reset (rise to a higher interest rate) over the next couple of years. This will likely boost delinquencies and foreclosures as more and more home owners are unable to afford the higher mortgage payments.

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

According to the Federal Reserve's April 2008 Senior Loan Officer Opinion Survey, 62.3 percent of banks reported tighter lending conditions for *prime* mortgage loans in the second quarter of 2008. In contrast, only 15.1 percent of surveyed banks had reported tighter prime mortgage lending standards a year earlier. Still more, 55.4 percent of banks reported tighter lending standards for commercial and industrial loans to large and mid-sized firms. Just a year earlier, a larger percentage of banks had reported looser commercial and industrial loan standards than had reported tighter standards.

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

Major Economic Indicators

On balance, major economic indicators suggest that growth slowed in recent months.

In the second quarter of 2007, the ISM manufacturing index (PMI) indicated moderate sector growth with a 53.0 reading. The index then signaled near flat growth in the third quarter before registering 49.6 in the final quarter of 2007 pointing to a slightly declining sector. The index continued to point to a slightly contracting manufacturing sector in the first quarter of 2008. The non-manufacturing business activity index pointed to strong sector growth in the second quarter of 2007 with growth slowing in the following two quarters. In the first quarter of 2008, the non-manufacturing business activity index indicated contracting sector business activity with a 48.3 reading. Compared to a year ago, the first quarter non-manufacturing ISM index was down sharply, falling by 7.0 points, while the manufacturing index was down only slightly (-1.3 points).

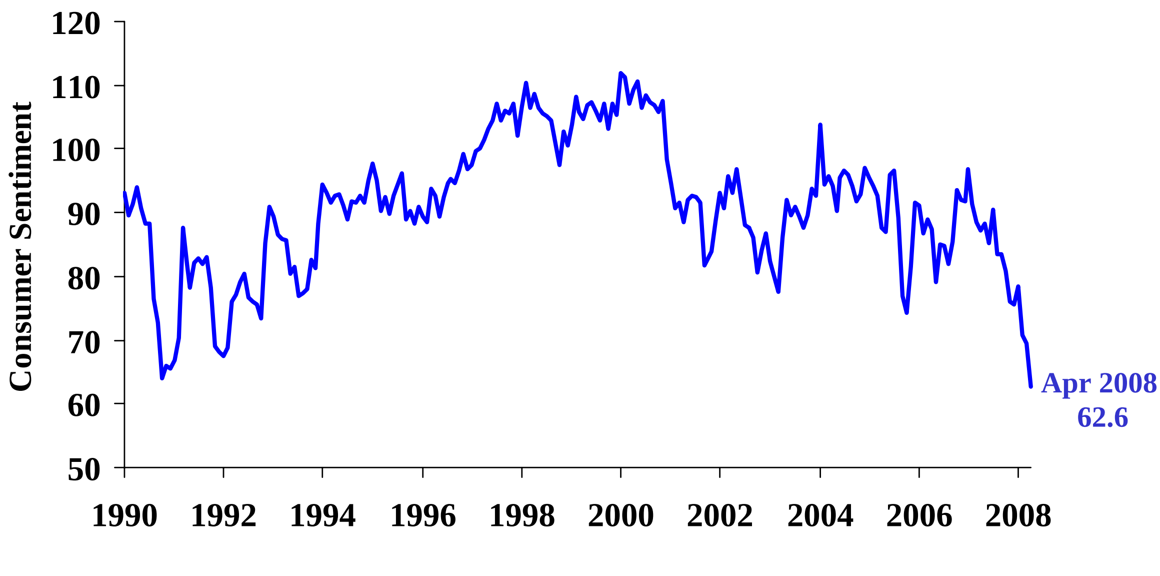
Compared to a year ago, first quarter 2008 durable goods orders rose 1.9 percent. Excluding defense and aircraft, the increase was even larger (5.0 percent).

Industrial production has increased at a mild pace. In March 2008, the three-month average was up 1.7 percent compared to a year ago, its thirteenth sub-2.0 percent reading in the past sixteen months.

Compared to a year ago, the three-month average of retail sales, excluding motor vehicle and gasoline sales, increased 2.0 percent in March, its slowest growth in nearly five years.

Both major consumer confidence readings continued to signal greater weakness in consumption. In April, the University of Michigan index of consumer sentiment fell to 62.6, the lowest reading in 26 years (going back to the severe recessions of the early 1980s). Compared to a year ago, the index is down nearly 25 points. The Conference Board index of consumer confidence fell for the fourth consecutive month to 62.3. April's reading was the second lowest since October 1993. In early May, the ABC News/Washington Post Consumer Comfort Index fell to -46, its lowest reading since 1993 and only four points above its all-time low. Since the beginning of 2008, the index has fallen by more than 20 points.

Consumer Sentiment At 26-Year Low

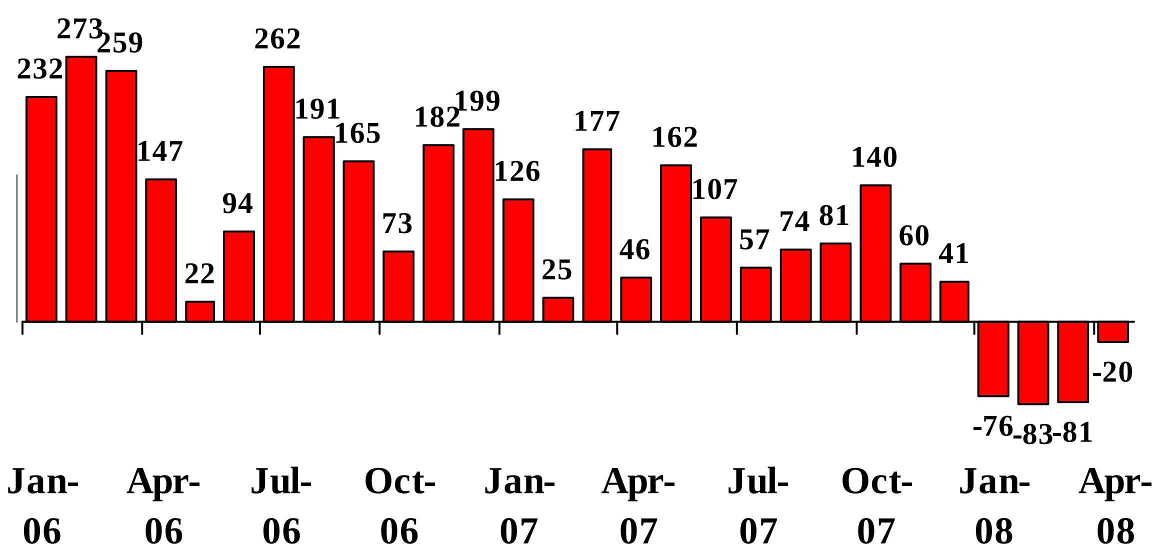


Source: University of Michigan Survey of Consumers.

After five straight declines, the Conference Board index of leading indicators rose a slight 0.1 percent in March 2008. However, the leading index is still more than 2.0 percent below its January 2006 reading.

The Economic Cycle Research Institute (ECRI) weekly leading index points to an economy in recession. As of the week of May 2, 2008, the index's growth rate had been negative for 35 consecutive weeks. However, the growth rate has increased (become less negative) for the fourth consecutive week. In the first week of May, the ECRI weekly leading index's smoothed annualized growth rate stood at -8.7 percent.

U.S. Employment Declines for Fourth Straight Month
(Monthly Change in Thousands)



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

<u>Employment</u>

U.S. payroll employment rose each month between September 2003 and December 2007. By December 2007, employment exceeded its pre-2001 recession peak (February 2001) by 5.5 million jobs. However, in each of the past four months, employment has fallen, declining by a total of 260,000 jobs with April accounting for 20,000 of the four-month jobs decline.

Manufacturing employment remains hard hit. Between its March 1998 pre-recession peak and April 2008, the U.S. economy shed more than one in five manufacturing jobs (4.0 million jobs).

In calendar year 2007, employment increased by 1.5 million jobs -- down from a 2.4 million jobs increase in 2006.

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

Between mid-January 2008 and early April 2008, the four-week moving average of initial unemployment claims rose substantially, rising from 327,000 to 377,000. In April, the average fell slightly before rising slightly the first week of May when the average stood at 367,000.

Since November 2007, the ISM manufacturing employment index has signaled shrinking employment in the manufacturing sector. In April, the index stood at 45.4, its lowest level in five years.

In the first three months of 2008, the ISM non-manufacturing component index signaled shrinking employment in the services sector. In April, the sub-index indicated a slightly expanding services sector labor market at 50.8.

For more than six years, the average workweek has remained in a very narrow range between 33.6 hours and 33.9 hours. In the first four months of 2008, the average workweek has stayed in the still narrower band between 33.7 hours and 33.8 hours. In April, the average workweek was 33.7 hours.

In April 2008, the U.S. unemployment rate was 5.0 percent, down 0.1 of a percentage point from March 2008 but up 0.5 of a percentage point from a year ago. In calendar year 2007, the unemployment rate was unchanged at 4.6 percent.

According to the Challenger Report, April 2008 layoff announcements rose 27.4 percent compared to a year ago to their highest level since September 2006.

<u>Vehicle Sales and Production</u>

The 2007 vehicle sales and production data reveal a slightly slower vehicle market compared with 2006.

In 2006, light vehicle sales averaged 16.5 million units, down from 16.9 million units in 2005. In 2007, light vehicle sales averaged 16.1 million units, down 2.4 percent from 2006.

In 2007, domestically produced vehicle sales fell 3.6 percent while import sales rose 1.8 percent. The foreign share of vehicle sales increased by 1.0 percentage point to 23.3 percent – more than double the 1996 import share (11.3 percent).

The decrease in Big Three market share (domestic sales less foreign nameplate transplants) has been dramatic. In 2007, the Big Three's share declined 2.7 percentage points to 51.8 percent. This average share stands in sharp contrast to 2000 when the Big Three comprised two-thirds of the U.S. vehicle market. These massive declines substantially hamper Michigan's economy, which is tightly linked to the Big Three.

In April 2008, light vehicle sales fell sharply (-11.2 percent) compared to a year ago to a 14.4 million unit rate, the slowest sales rate since August 1998. Domestic light vehicle sales declined to a 10.6 million unit rate, its slowest rate in over 15 years. Through the first four months of

2008, overall light vehicle sales have declined substantially (-8.4 percent) with domestic light truck sales down 15.0 percent.

First quarter 2008 U.S. vehicle production was down 9.6 percent from a year ago. Truck production declined substantially more than car production with truck production down 13.5 percent and auto production down 2.9 percent

Current Michigan Economic Conditions

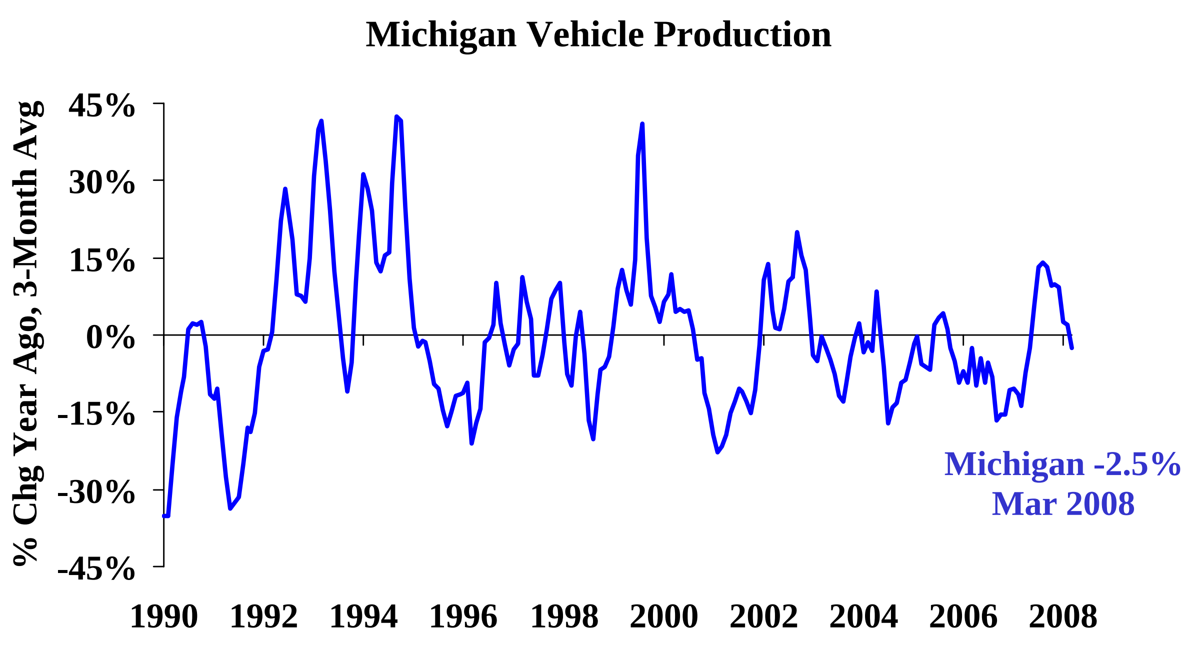
Vehicle Production

In 2007, Michigan vehicle production rose 2.5 percent. This slight increase follows four consecutive years of declining State vehicle production. Calendar year 2007 Michigan auto production was down 9.6 percent while Michigan truck production rose by 14.1 percent.

In March 2008, the three-month average of State vehicle production was down 2.5 percent from a year ago. In contrast, the average had been up 9.4 percent from a year ago during the fourth quarter of 2007.

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.



Source: Automotive News and Michigan Department of Treasury.

In calendar year 2007, Michigan wage and salary employment declined by 1.5 percent. In 2006, State employment fell by 1.4 percent. 2007 marked the seventh consecutive year in which overall State employment fell and eighth straight year in which Michigan manufacturing employment declined.

Between March 2007 and March 2008, Michigan's monthly employment fell by 74,200 jobs, a 1.7 percent decline. Over this time period, manufacturing employment accounted for the lion's share of the decline (46,200 jobs). A recent labor dispute at an auto parts supplier has negatively affected State employment. Construction declined by 12,400 jobs, while government employment fell by 13,200 jobs. Between February 2008 and March 2008 alone, overall State employment declined by 21,900 jobs.

Employment declines have slowed considerably since December 2002, with monthly declines slowed by nearly one-half. However, from Michigan's employment peak in June 2000 to March 2008, Michigan has lost 478,900 jobs (-10.2 percent). Since June 2000, Michigan manufacturing employment has fallen by 324,600 jobs, more than one out of every three manufacturing jobs it had at the State's employment peak (-35.8 percent).

In 2007, Michigan's unemployment rate averaged 7.2 percent, 0.3 of a percentage point above the State's 2006 calendar year average (6.9 percent). Michigan's March 2008 unemployment rate was 7.2 percent, unchanged from February's reading. Michigan's unemployment rate has been at or above 7.0 percent for 20 straight months. In March 2008, Michigan had the highest state unemployment rate in the nation.

Housing Market

Despite not being one of the major participants in the housing boom, Michigan has been hit disproportionately hard from the housing bust. According to the OFHEO, among all states, Michigan ranked fourth in year-over-year home price declines in 2007Q4 (-4.3 percent) behind three states that had been major participants in the housing boom (Florida, Nevada and California).

In February, according to Case-Shiller house price measures, the Detroit MSA recorded a 16.5 percent year-over-year house price decline, compared with a 12.7 percent average decline for the twenty U.S. metro areas surveyed for the measure.

In the first quarter of 2008, Michigan ranked in the top ten among U.S. states in the foreclosure rates. The Detroit MSA's foreclosure activity decreased 22 percent from the previous quarter and was down almost four percent from the first quarter of 2007. However, the metro area's foreclosure rate still ranked sixth, with one in every 68 households receiving a foreclosure filing during the quarter. (RealtyTrac Inc.)

In the fourth quarter of 2007, Michigan reported the second highest state mortgage delinquency rate (8.97 percent), behind Mississippi (Mortgage Bankers Association).

In 2007, the metro Detroit area had the highest foreclosure rate among the 100 largest U.S. metropolitan areas. (RealtyTrac Inc.) In 2007, 4.9 percent of metro Detroit area households entered some stage of the foreclosure process -- 4.8 times the national foreclosure rate. The Warren-Farmington Hills-Troy area ranked seventeenth with a 2.1 percent foreclosure rate.

Personal Income

2007 marked the third straight year of anemic Michigan personal income growth. Between 2004 and 2007, Michigan personal income growth has averaged 3.5 percent compared with substantially faster growth nationally (6.2 percent). Over this time period, Michigan saw the slowest personal income growth of any state. In 2007, Michigan also reported 3.5 percent growth, again the slowest increase among all U.S. states. In 2007, Michigan wages and salaries income growth accelerated from 0.8 percent to 2.1 percent, but remained substantially slower than the national wage increase (5.7 percent)

Compared to a year ago, fourth quarter 2007 Michigan personal income grew 4.1 percent compared with 5.9 percent growth nationally. Similarly, Michigan wages and salaries rose 2.6 percent compared with substantially faster growth nationally (4.7 percent). Michigan manufacturing wages and salaries were essentially flat compared to a year ago (0.2 percent increase).

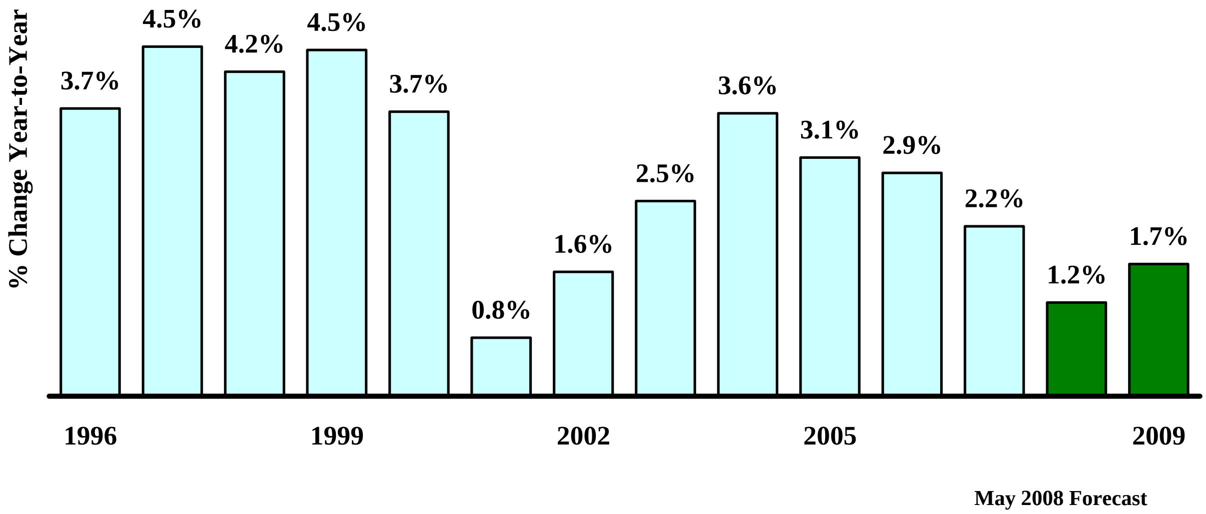
2008 and 2009 U.S. Economic Outlook

Summary

In 2008, real GDP growth is forecast to slow from 2.2 percent to 1.2 percent. Growth is then expected to accelerate to 1.7 percent in 2009. High consumer debt levels, high energy prices, the credit crunch and a weak housing market are expected to depress growth.

After two quarters of anemic growth, the U.S. economy is forecast to contract in 2008Q2, declining at a 1.4 percent rate. However, the distribution of federal rebate checks lifts the economy with growth rising to around a 2.0 percent rate over the second half of 2008. Growth is then expected to accelerate throughout 2009 with growth rising to a 2.9 percent rate by the end of the year.

GDP Growth Substantially Slower



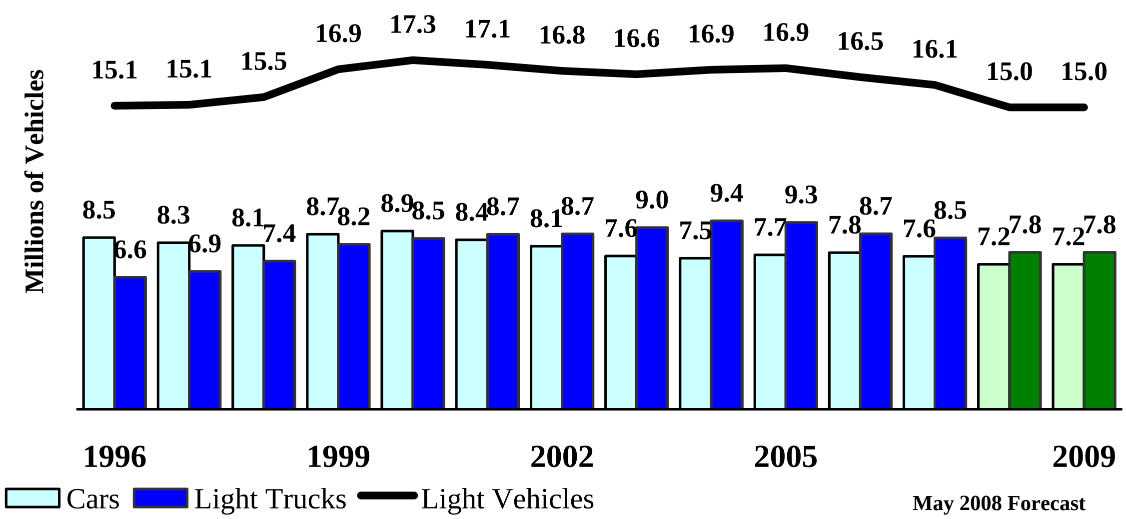
Source: Bureau of Economic Analysis, U.S. Department of Commerce, and Administration Forecast, May 2008.

Light vehicle sales are projected to decline to 15.0 million units in both 2008 and 2009 -- their lowest level in nearly 15 years.

As measured by the consumer price index (CPI), consumer inflation is expected to accelerate to 4.0 percent in 2008 -- its fastest pace in 17 years. Inflation is then forecast to moderate in 2009, slowing to 2.9 percent. As a result of substantial Federal Reserve rate cuts, short-term interest rates are projected to decline sharply from 4.4 percent to 1.5 percent in 2008 and rise only slightly in 2009 to 1.7 percent. Long-term interest rates are also expected to fall but much less sharply given higher inflation and risk premia. The Aaa corporate bond rate falls from 5.6 percent to 5.0 percent in 2008 and to 4.5 percent in 2009.

U.S. wage and salary employment is forecast to remain essentially flat in both 2008 and 2009 with employment increasing by only 50,000 jobs between 2007Q4 and 2009Q4 (a 0.04 percent increase over two years). The U.S. unemployment rate rises to 5.3 percent and 5.9 percent in 2008 and 2009, respectively.

Motor Vehicle Sales Fall to Near 15-Year Low



Source: Bureau of Economic Analysis, U.S. Department of Commerce, and Administration Forecast, May 2008.

<u>Assumptions</u>

While falling slightly over the forecast horizon, oil prices are assumed to remain above $100 a barrel throughout the forecast horizon.

The housing market is assumed to fare poorly over the forecast. Housing starts are expected to total 909,000 units in 2008 (their lowest level since at least 1959) before rising to 966,000 units in 2009. As forecasted, 2008 and 2009 would be the first and second years in which starts totaled less than 1.0 million units since at least 1959. Forecasted 2008 housing starts represent more than a 50 percent reduction from 2005 when starts totaled 2.1 million units.

Between September 2007 and April 2008, the Federal Reserve's Federal Open Market Committee (FOMC) cut the target federal funds rate by 3.25 percentage points and the discount rate, 3.50 percentage points. As of April 2008, the rates stood at 2.0 percent and 2.25 percent respectively. The forecast assumes that the FOMC will cut both rates an additional 25 basis points at its June meeting and leave rates unchanged through mid 2009. As the U.S. economy stabilizes but inflation remains a substantial risk, the FOMC is then expected to begin raising rates. The target federal funds rate is assumed to average 2.60 percent in 2009Q4.

The U.S. dollar is expected to continue its decline throughout the forecast horizon. Between 2007Q4 and 2008Q4, the value of the dollar is expected to fall by 7.6 percent, matching the decline over the prior year. The dollar's decline is then expected to slow to 4.6 percent in 2009. Thus over the four-year period between 2005Q4 and 2009Q4, the dollar is assumed to have lost more than one-fifth of its value.

With households saving a portion of their federal tax rebates, the household savings rate is assumed to rise from near zero to around 1.5 percent in the second and third quarters of 2008. However, households are then expected to spend slightly more than they make in the fourth quarter. While the savings rate turns positive and rises in 2009, the rate stands at only 0.6 percent by the end of 2009.

Forecast Risks

Housing Market. The baseline forecast assumes an extremely weak housing market with housing starts remaining below 1.0 million units for both 2008 and 2009. The severe stressors on the housing market suggest that such assumed weakness is justified. Such poor performance would be unprecedented since at least 1959. A stronger housing market would boost the overall economy.

Credit Crunch Impact. On the other hand, the spillover from the housing market weakness and the mortgage market troubles could be more severe and broader than assumed. Greater spillover would weaken the overall economy.

Oil Prices. The baseline forecast assumes that the price of a barrel of oil will range between \$100 a barrel and \$116 a barrel. Geopolitical concerns, increased demand, or a major supply disruption could raise prices well above this assumed range. Higher oil prices (and consequently higher gasoline prices) would retard domestic growth by depressing consumer sentiment, reducing households' disposable income and increasing input costs to businesses. Higher oil prices may lead the Federal Reserve to hike rates sooner than is assumed. 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.

Value of the Dollar. The baseline forecast assumes that the value of the dollar will post significant but not precipitous declines. However, under the weight of a yawning U.S. current account deficit and the increased attractiveness of investments in other nations, it would not be too surprising for the U.S. dollar's value to fall sharply. A plummeting dollar could shake financial markets, severely curtailing both consumption and investment, and thus slow economic growth sharply.

Geopolitical Factors. Geopolitical factors (such as a domestic terrorist attack) remain a downside risk to the baseline forecast.

Recession Risk

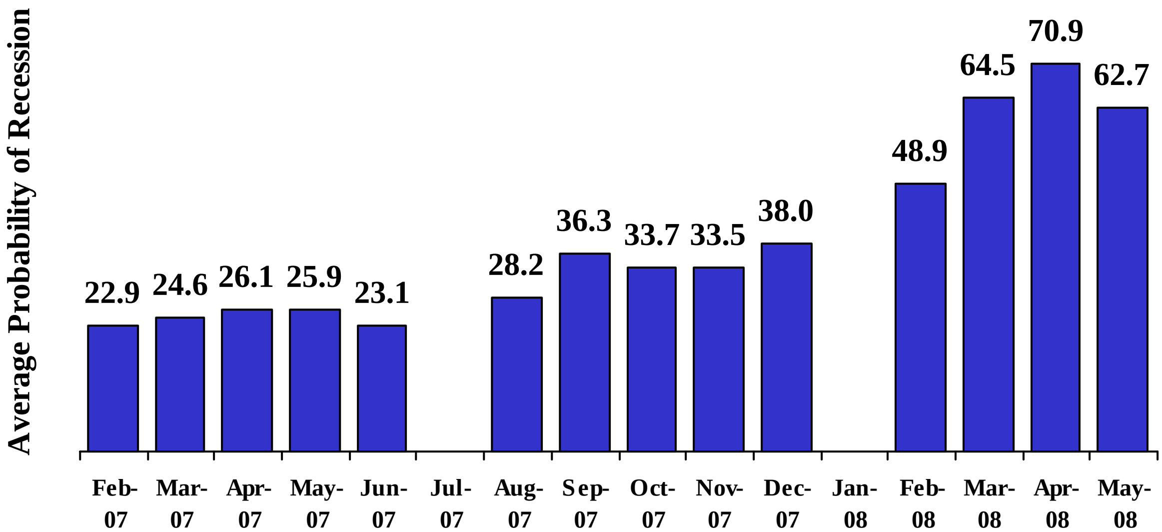
As the discussion of forecast risks indicates, most risks are on the down side and that, given the confluence of stressors on the economy (housing market bust, credit crunch, high oil prices, and high consumer debt) there is a significant likelihood that the U.S. economy will fall/ has already fallen into recession, which could worsen over the next two years

Recent Wall Street Journal (WSJ) surveys of economists corroborate these concerns. In the April 2008 WSJ poll, the average survey probability of a recession in the next twelve months rose to 70.9 percent before falling back to 62.7 percent in the May 2008 survey of 51 economists.

In the December 2007 survey (the last survey available before the January 2008 Consensus Revenue Estimating Conference), the average probability of a recession was only 38.0 percent.

In the May 2008 survey, one in five economists posited the probability of recession at 90 percent or greater. In contrast, in December, only one economist assigned a probability equal to or greater than 90 percent to a recession. In December 2007, only ten economists believed that the probability of a recession was 50 percent or greater; in May 2008, 35 economists saw the probability of a recession as 50 percent or greater.

Probability of Recession Jumps in 2008



Source: Wall Street Journal Surveys of Economists

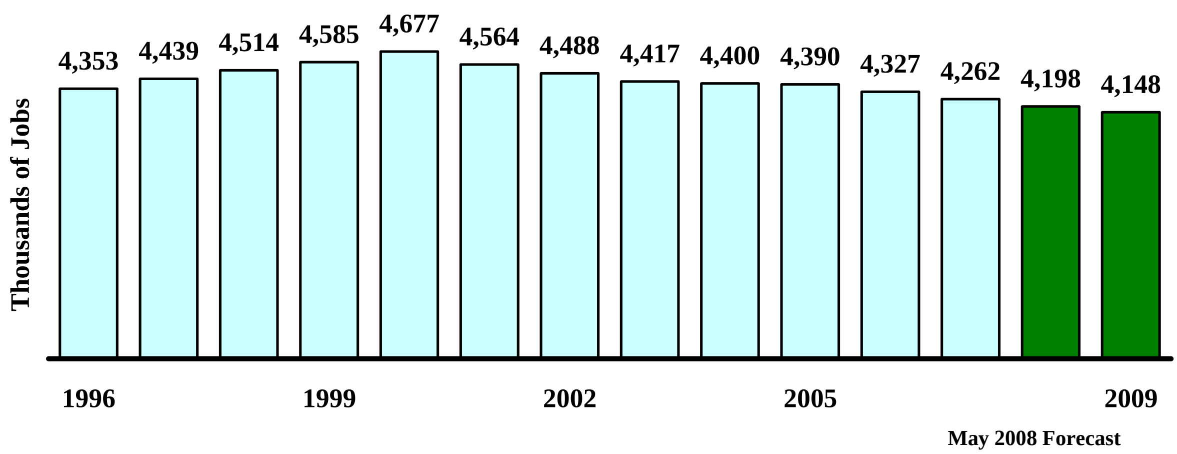
According to the Moody's Economy.com Survey of Business Confidence, U.S. business confidence is now "firmly negative," suggesting "the economy is in the midst of recession."

The Economic Cycle Research Institute (ECRI) notes that the four straight months of employment declines "suggests that the economy is on a recession track." Further, ECRI notes that their leading indexes "have never been this weak outside a recession."

2008 and 2009 Michigan Economic Outlook

Michigan employment is forecast to fall 1.5 percent in 2008 and 1.2 percent in 2009. Private non-manufacturing employment is projected to decline by 18,200 jobs in calendar year 2008 and by 20,000 jobs in 2009. Manufacturing employment is forecast to fall by 6.2 percent in 2008 and by 4.4 percent in 2009. Struggles at the domestic Big 3 automakers and concomitant restructurings will depress manufacturing employment along with continued rationalization among vehicle suppliers. After a modest decline in the first quarter of 2008, total Michigan employment is forecast to decline by approximately 17,000 jobs per quarter over the balance of the year. State employment continues declining in each quarter of 2009, but those declines slow across the year. In 2009, declines average 9,000 jobs per quarter. 2009 would mark the ninth straight year of Michigan employment declines; 2009 State wage and salary employment would be the lowest in 15 years. Michigan's unemployment rate is expected to rise from 7.2 percent to 7.5 percent in 2008. In 2009, the State's unemployment rate increases to 8.2 percent -- a 17-year high.

Michigan Wage and Salary Employment



Source: Michigan Department of Labor and Economic Growth, U.S. Bureau of Labor Statistics, and May 2008 Administration Forecast.

Michigan wages and salaries are projected to rise modestly in 2008 and 2009 with increases of 0.4 percent and 1.1 percent respectively. Michigan personal income growth is forecast to slow significantly from 3.5 percent in 2007 to 1.6 percent in 2008 and 2.0 percent in 2009. Inflation, as measured by the Detroit CPI, is forecast to be 2.8 percent in 2008 and 2.6 percent in 2009. As a result, real (inflation adjusted) Michigan personal income is expected to fall 1.2 percent in 2008 and decline 0.6 percent in 2009.

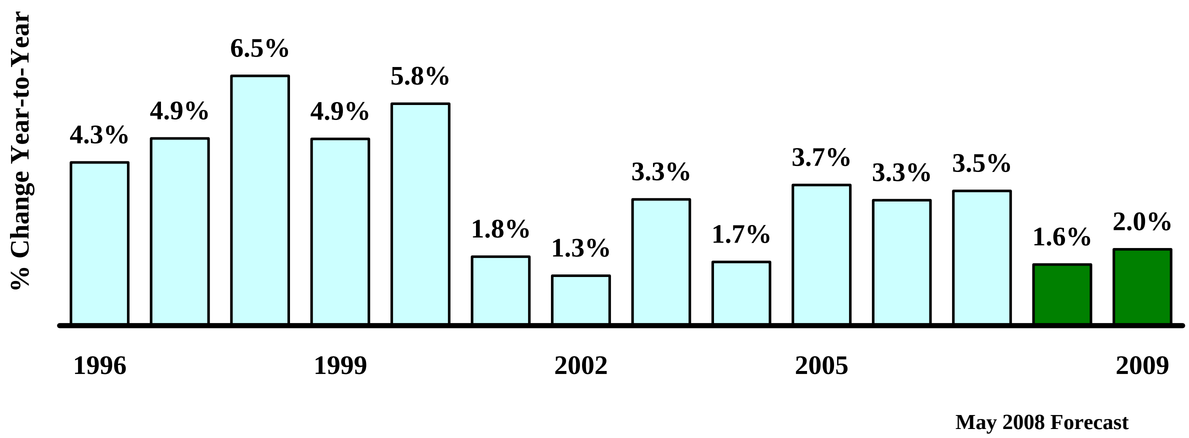
Table 1

Administration Economic Forecast

May 2008

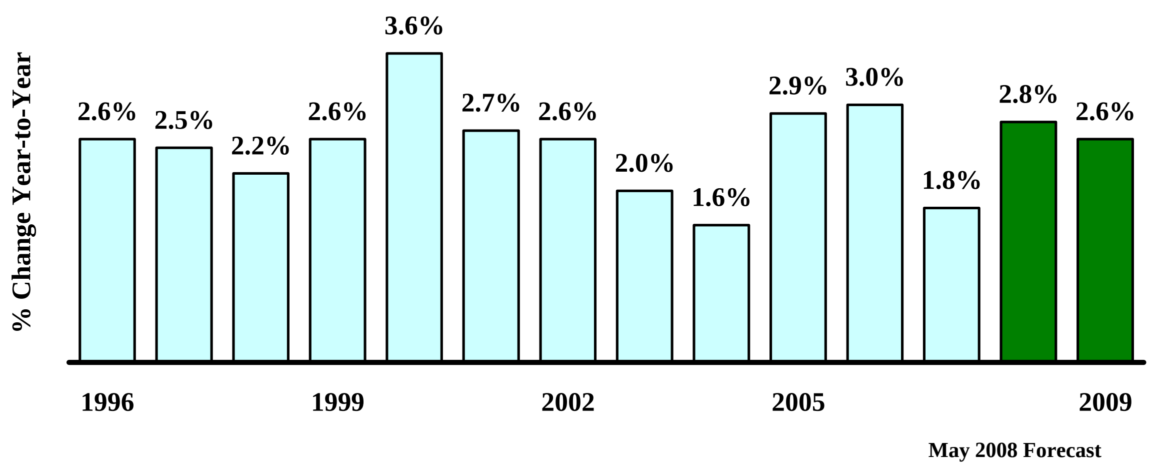
	Calendar 2006 Actual	Calendar 2007 Actual	Percent Change from Prior Year	Calendar 2008 Forecast	Percent Change from Prior Year	Calendar 2009 Forecast	Percent Change from Prior Year
United States							
Real Gross Domestic Product (Billions of Chained 2000 Dollars)	$11,319	$11,567	2.2%	$11,706	1.2%	$11,905	1.7%
Implicit Price Deflator GDP (2000 = 100)	116.6	119.7	2.7%	122.5	2.4%	125.8	2.7%
Consumer Price Index (1982-84 = 100)	201.6	207.3	2.8%	215.6	4.0%	221.9	2.9%
Personal Consumption Deflator (2000 = 100)	114.7	117.6	2.5%	121.5	3.3%	124.3	2.3%
3-month Treasury Bills Interest Rate (percent)	4.7	4.4		1.5		1.7	
Aaa Corporate Bonds Interest Rate (percent)	5.6	5.6		5.0		4.5	
Unemployment Rate - Civilian (percent)	4.6	4.6		5.3		5.9	
Light Vehicle Sales (millions of units)	16.5	16.1	-2.4%	15.0	-6.9%	15.0	0.0%
Passenger Car Sales (millions of units)	7.8	7.6	-2.4%	7.2	-5.2%	7.2	0.0%
Light Truck Sales (millions of units)	8.7	8.5	-2.4%	7.8	-8.4%	7.8	0.0%
Import Share of Light Vehicles (percent)	22.4	23.3		23.4		24.2	
Michigan							
Wage and Salary Employment (thousands)	4,327	4,262	-1.5%	4,198	-1.5%	4,148	-1.2%
Unemployment Rate (percent)	6.9	7.2		7.5		8.2	
Personal Income (millions of dollars)	$341,337	$353,376	3.5%	$359,031	1.6%	$366,211	2.0%
Real Personal Income (millions of 1982-84 dollars)	$173,620	$176,574	1.7%	$174,541	-1.2%	$173,560	-0.6%
Wages and Salaries (millions of dollars)	$185,169	$189,019	2.1%	$189,775	0.4%	$191,862	1.1%
Detroit Consumer Price Index (1982-84 = 100)	196.6	200.1	1.8%	205.7	2.8%	211.0	2.6%
Detroit CPI Fiscal Year (1982-84 = 100)	195.9	199.0	1.6%	204.2	2.6%	209.1	2.4%

Michigan Personal Income Growth Weaker



Source: Bureau of Economic Analysis, U.S. Department of Commerce, and Administration Forecast, May 2008.

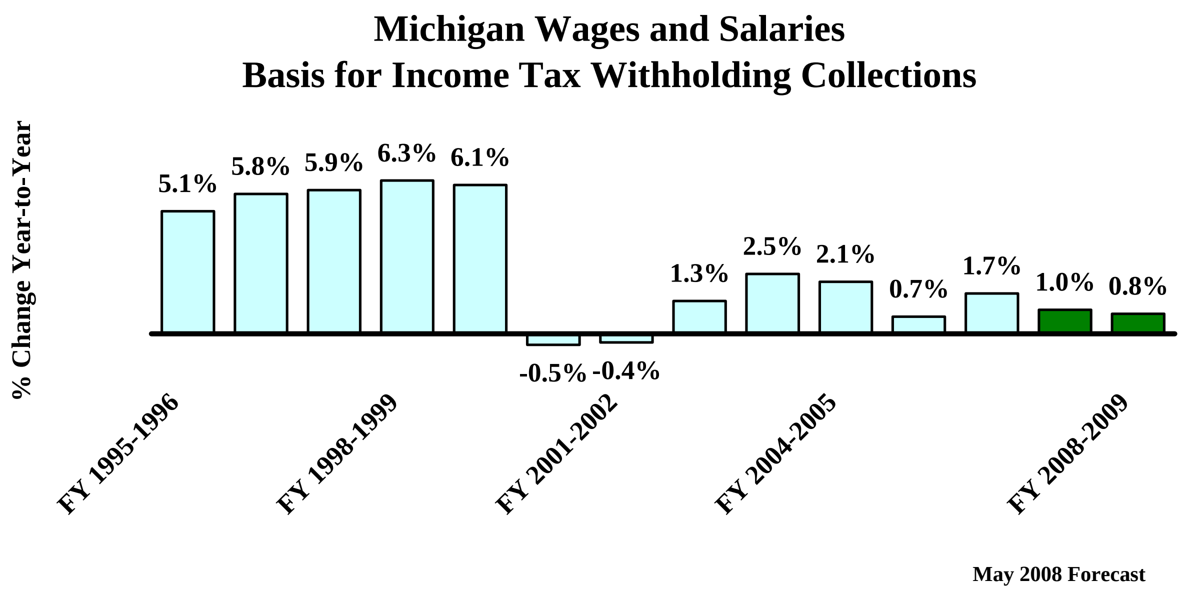
Inflation Little Changed
Detroit CPI



Source: U.S. Bureau of Labor Statistics and Administration Forecast, May 2008.

Fiscal Year Economics

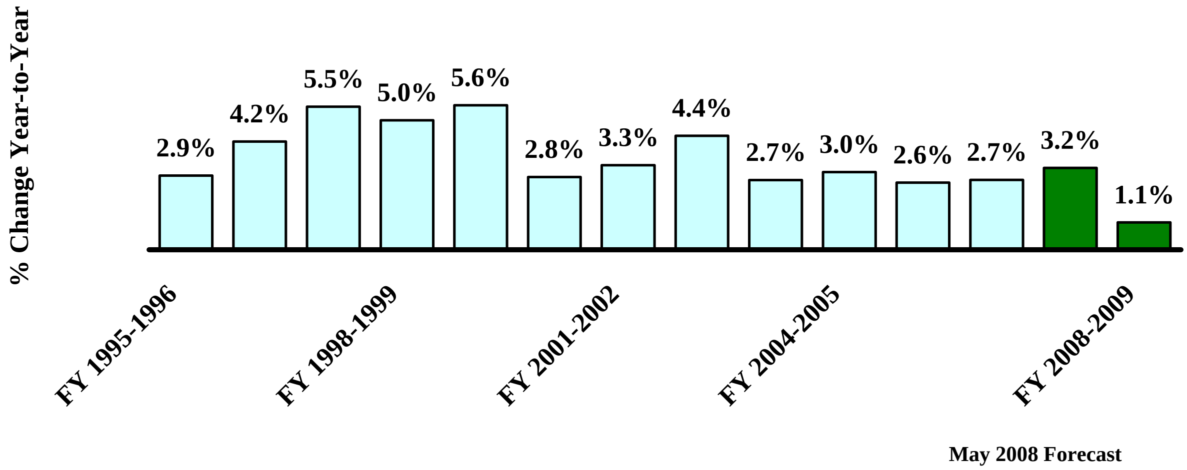
Michigan's largest taxes are the individual income tax ($7.0 billion in FY 2009), which includes refunds, and sales and use taxes ($8.0 billion). Income tax withholding is the largest income tax component. Withholding ($7.3 billion) is most affected by growth in wages and salaries. Michigan wages and salaries are expected to rise 1.0 percent in FY 2008 and increase 0.8 percent in FY 2009.



Source: Bureau of Economic Analysis, U.S. Department of Commerce, and Administration Forecast, May 2008.

Sales and use taxes depend primarily on Michigan disposable (after tax) income and inflation. Disposable income is expected to increase 3.2 percent in FY 2008 and slow markedly to 1.1 percent growth in FY 2009. The inflation rate is forecast to average 2.7 percent in FY 2008 and to slow to 2.6 percent in FY 2009.

Michigan Disposable Income
Basis for Sales and Use Tax Collections



Source: Research Seminar in Quantitative Economics, University of Michigan, and Administration Forecast, May 2008.

Given Michigan's manufacturing mix and that Michigan has been hit disproportionately harder by the housing bust, it is very possible that Michigan manufacturing would grow substantially more slowly than U.S. economic growth itself would imply. This would retard Michigan economic growth, employment and income growth. High gasoline prices may also curtail Michigan produced vehicles and hence slow Michigan's economy.

ADMINISTRATION REVENUE ESTIMATES
May 16, 2008

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 2007 is the base year. Any non-economic changes to the taxes occurring in FY 2008 and FY 2009 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 2007 Revenue Review

FY 2007 GF-GP revenue totaled $8,318.5 million on a Consensus basis, a 0.6 percent increase over FY 2006. SAF revenue totaled $11,153.1 million, a 0.6 percent increase compared to FY 2006 (See Table 2).

Table 2

FY 2006-07 Administration Revenue Estimates

(millions)

	Final	
	Amount	**Growth**
General Fund - General Purpose		
Baseline Revenue	$8,280.5	
Tax Cut Adjustments	$38.0	
Net Resources	$8,318.5	0.6%
School Aid Fund		
Baseline Revenue	$11,149.7	
Tax Cut Adjustments	$3.4	
Net Resources	$11,153.1	0.6%
Combined		
Baseline Revenue	$19,430.2	
Tax Cut Adjustments	$41.4	
Net Resources	$19,471.6	0.6%

Prepared By: Office of Revenue and Tax Analysis, Michigan Department of Treasury

FY 2008 Revenue Outlook

FY 2008 GF-GP revenue is expected to be $9,094.8 million, a 1.7 percent baseline decrease, but a 9.3 percent increase after tax adjustments. The FY 2008 estimate is $151.7 million below the January 2008 Consensus estimate. The growth rate for FY 2008 was increased by the increase in the income tax rate from 3.90 percent to 4.35 percent and the enactment of the MBT surcharge.

SAF revenue is forecast to be $11,409.4 million, representing no increase for baseline revenue and 2.3 percent growth after tax adjustments. The FY 2008 SAF estimate is $56.3 million above the January 2008 Consensus estimate (See Table 3).

Table 3

FY 2007-08 Administration Revenue Estimates

(millions)

	Consensus January 11, 2008		Administration May 16, 2008		
	Amount	Growth	Amount	Growth	Change
General Fund - General Purpose					
Baseline Revenue			$8,141.2	-1.7%	
Tax Cut Adjustments			$953.6		
Net Resources	$9,246.5	11.2%	$9,094.8	9.3%	($151.7)
School Aid Fund					
Baseline Revenue			$11,154.3	0.0%	
Tax Cut Adjustments			$255.1		
Net Resources	$11,353.1	1.8%	$11,409.4	2.3%	$56.3
Combined					
Baseline Revenue			$19,295.5	-0.7%	
Tax Cut Adjustments			$1,208.7		
Net Resources	$20,599.7	5.8%	$20,504.2	5.3%	($95.4)

Prepared By: Office of Revenue and Tax Analysis, Michigan Department of Treasury

FY 2009 Revenue Outlook

FY 2009 GF-GP revenue is estimated to be $8,873.1 million, a 0.8 percent baseline decrease and a 2.4 percent decrease after tax adjustments. FY 2009 GF-GP revenue is $320.6 million below the January 2008 Consensus. SAF revenue is forecast to be $11,787.6 million; representing 0.1 percent baseline decrease and 3.3 percent net growth. The FY 2009 SAF estimate is $83.0 million below the January 2008 Consensus (see Table 4).

Table 4

FY 2008-09 Administration Revenue Estimates

(millions)

	Consensus January 11, 2008		Administration May 16, 2008		
	Amount	**Growth**	**Amount**	**Growth**	**Change**
General Fund - General Purpose					
Baseline Revenue			$8,080.0	-0.8%	
Tax Cut Adjustments			$793.1		
Net Resources	$9,193.7	-0.6%	$8,873.1	-2.4%	($320.6)
School Aid Fund					
Baseline Revenue			$11,144.4	-0.1%	
Tax Cut Adjustments			$643.2		
Net Resources	$11,870.6	4.6%	$11,787.6	3.3%	($83.0)
Combined					
Baseline Revenue			$19,224.4	-0.4%	
Tax Cut Adjustments			$1,436.3		
Net Resources	$21,064.3	2.3%	$20,660.7	0.8%	($403.6)

Prepared By: Office of Revenue and Tax Analysis, 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 2006 revenue is compared to CY 2004 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 2006 revenues were $4.9 billion below the revenue limit, while FY 2007 revenues were $5.3 billion below the limit. State revenues will also be well below the limit for FY 2008 and FY 2009. FY 2008 revenues are expected to be $5.0 billion below the limit, while FY 2009 revenues are expected to fall further below the limit by $5.8 billion (See Table 5).

Table 5

Administration Constitutional Revenue Limit Calculation

(millions)

	FY 2006 Actual May 2007	FY 2007 Actual April 2008	FY 2008 Projected May 2008	FY 2009 Projected May 2008
Revenue Subject to Limit	$25,814.1	$26,118.4	$27,358.1	$27,690.4
Revenue Limit	**CY 2004**	**CY 2005**	**CY 2006**	**CY 2007**
Personal Income	$324,134	$331,304	$341,075	$353,376
Ratio	9.49%	9.49%	9.49%	9.49%
Revenue Limit	$30,760.3	$31,440.8	$32,368.0	$33,535.4
Amount Under (Over) Limit	**$4,946.2**	**$5,322.4**	**$5,009.9**	**$5,845.0**

Budget Stabilization Fund Calculation

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

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

Real calendar year personal income for Michigan is expected to decrease 1.3 percent in 2008. Thus, the formula has a withdrawal of $118.2 million for FY 2008 (See Table 6). In 2009, real calendar year personal income for Michigan is forecast to decrease 1.1 percent. Therefore, the formula has a withdrawal of $97.6 million for FY 2009 (See Table 8).

Table 6

Budget and Economic Stabilization Fund Calculation
Based on CY 2008 Personal Income Growth
Administration Calculation

	CY 2007	CY 2008
Michigan Personal Income	$ 353,376 [1]	$ 359,164 [1]
less Transfer Payments	$ 59,619 [1]	$ 62,932 [1]
Income Net of Transfers	$ 293,757	$ 296,232
Detroit CPI	1.986 [2]	2.030 [3]
for 12 months ending	(June 2007)	(June 2008)
Real Adjusted Michigan Personal Income	$ 147,914	$ 145,949
Change in Real Adjusted Personal Income		-1.3%
Amount Under 0%		-1.3%
GF-GP Revenue Fiscal Year 2007-2008		$ 9,094.8
		FY 2007-2008
BSF Pay-Out Calculated for FY 2008		$ (118.2)

Notes:

[1] Personal Income and Transfer Payments, Administration Forecast, May 2008.

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

[3] Detroit Consumer Price Index, Administration Forecast, May 2008.

Table 7

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

	CY 2008		CY 2009	
Michigan Personal Income	$ 359,164		$ 366,454	(1)
less Transfer Payments	$ 62,932		$ 66,912	(1)
Income Net of Transfers	$ 296,232		$ 299,542	
Detroit CPI	2.030	(2)	2.074	(3)
for 12 months ending	(June 2008)		(June 2009)	
Real Adjusted Michigan Personal Income	$ 145,949		$ 144,403	
Change in Real Adjusted Personal Income			-1.1%	
Amount Under 0%			-1.1%	
GF-GP Revenue Fiscal Year 2008-2009			$ 8,873.1	

	FY 2008-2009
BSF Pay-Out Calculated for FY 2009	$ (97.6)

Notes:

(1) Personal Income and Transfer Payments, Administration Forecast, May 2008.

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

(3) Detroit Consumer Price Index, Administration Forecast, May 2008.

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 2009 SAF revenue adjustment factor is calculated by dividing the sum of FY 2008 and FY 2009 SAF revenue by the sum of FY 2007 and FY 2008 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 2009, the SAF revenue adjustment factor is calculated to be 0.9998 (See Table 8).

Table 8

Administration School Aid Revenue Adjustment Factor

For Fiscal Year 2009

	FY 2007	FY 2008	FY 2009
Baseline SAF Revenue	$11,149.7	$11,154.3	$11,144.4
Balance Sheet Adjustments	$3.4	$255.1	$643.2
Net SAF Estimates	$11,153.1	$11,409.4	$11,787.6
Adjustments to FY 2009 Base Year	$639.8	$388.1	$0.0
Baseline Revenue on a FY 2009 Base	$11,792.9	$11,797.5	$11,787.6

<u>School Aid Fund Revenue Adjustment Calculation for FY 2009</u>

Sum of FY 2007 & FY 2008	$11,792.9	+	$11,797.5	=	$23,590.4
Sum of FY 2008 & FY 2009	$11,797.5	+	$11,787.6	=	$23,585.1

FY 2009 Revenue Adjustment Factor	**0.9998**

Note: Factor is calculated off a FY 2009 base year.

Revenue Detail

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

Table 9

Administration General Fund General Purpose Revenue Detail

(millions)

	FY 2007		FY 2008		FY 2009	
	Amount	**Growth**	**Amount**	**Growth**	**Amount**	**Growth**
GF-GP Tax Amounts						
Income Tax	$4,330.7	3.5%	$5,059.6	16.8%	$4,898.4	-3.2%
Sales	$83.2	-3.2%	$83.5	0.4%	$93.2	11.7%
Use	$920.0	0.3%	$890.7	-3.2%	$870.0	-2.3%
Cigarette	$225.4	-1.6%	$213.2	-5.4%	$208.8	-2.0%
Beer & Wine	$51.5	0.6%	$52.0	1.0%	$52.5	1.0%
Liquor Specific	$36.2	3.7%	$36.6	1.1%	$37.0	1.1%
Single Business Tax	$1,816.1	-1.4%	$525.6	-71.1%	$0.0	-100.0%
Insurance Co. Premium	$223.8	2.0%	$244.0	9.0%	$260.0	6.6%
Michigan Business Tax	NA	NA	$1,434.6	NA	$1,927.9	34.4%
Telephone & Telegraph	$87.3	4.6%	$79.0	-9.5%	$75.0	-5.1%
Inheritance Estate	$0.7	16.7%	$0.0	0.0%	$0.0	0.0%
Intangibles	$0.0	-100.0%	$0.0	0.0%	$0.0	0.0%
Casino Wagering	$46.1	2.5%	$13.7	-70.2%	$0.0	-100.0%
Horse Racing	$0.0	-100.0%	$0.0	0.0%	$0.0	0.0%
Oil & Gas Severance	$72.0	-11.7%	$77.0	6.9%	$74.0	-3.9%
GF-GP Other Taxes	$52.0	1.4%	$40.0	-23.1%	$39.0	-2.5%
Total GF-GP Taxes	$7,945.0	1.6%	$8,749.5	10.1%	$8,535.9	-2.4%
GF-GP Non-Tax Revenue						
Federal Aid	$18.8	-6.5%	$20.0	6.4%	$20.0	0.0%
From Local Agencies	$0.4	100.0%	$0.7	75.0%	$0.7	0.0%
From Services	$8.2	2.5%	$8.1	-1.2%	$8.1	0.0%
From Licenses & Permits	$25.6	-49.5%	$23.0	-10.2%	$23.0	0.0%
Miscellaneous	$48.2	-69.2%	$43.0	-10.8%	$43.0	0.0%
Driver Responsibility Fees	$102.5	6.5%	$105.5	2.9%	$105.5	0.0%
Short Term Note Interest	$0.0	0.0%	$0.0	0.0%	$0.0	0.0%
Interfund Interest	($65.0)	11.9%	($70.0)	7.7%	($76.0)	8.6%
Liquor Purchase	$154.5	4.0%	$155.0	0.3%	$155.0	0.0%
Charitable Games	$10.8	1.9%	$11.0	1.9%	$11.0	0.0%
Transfer From Escheats	$69.5	-38.5%	$49.0	-29.5%	$47.0	-4.1%
Other Non Tax	$0.0	0.0%	$0.0	0.0%	$0.0	0.0%
Total Non Tax	$373.5	-16.9%	$345.3	-7.6%	$337.3	-2.3%
Total GF-GP Revenue	$8,318.5	0.6%	$9,094.8	9.3%	$8,873.1	-2.4%

Table 10
Administration School Aid Fund Revenue Detail

	FY 2007		FY 2008		FY 2009	
	Amount	**Growth**	**Amount**	**Growth**	**Amount**	**Growth**
School Aid Fund						
Income Tax	$2,110.2	3.5%	$2,128.3	0.9%	$2,119.1	-0.4%
Sales Tax	$4,768.5	-1.3%	$4,871.5	2.2%	$4,887.5	0.3%
Use Tax	$460.4	0.3%	$445.3	-3.3%	$435.0	-2.3%
Liquor Excise Tax	$35.7	3.5%	$36.6	2.5%	$37.0	1.1%
Cigarette	$450.4	-4.6%	$425.8	-5.5%	$416.1	-2.3%
Other Tobacco	$0.0	0.0%	$0.0	0.0%	$0.0	0.0%
State Education Tax	$2,081.0	3.9%	$2,028.3	-2.5%	$2,037.9	0.5%
Real Estate Transfer	$237.5	-20.2%	$186.0	-21.7%	$186.0	0.0%
Michigan Business Tax	NA	NA	$341.0	NA	$729.0	113.8%
Industrial Facilities Tax	$136.7	0.8%	$60.9	-55.4%	$60.9	0.0%
Casino (45% of 18%)	$106.7	2.5%	$118.0	10.5%	$113.5	-3.8%
Commercial Forest	$3.1	6.9%	$3.1	0.0%	$3.1	0.0%
Other Spec Taxes	$14.0	-2.8%	$14.0	0.0%	$14.0	0.0%
Subtotal Taxes	$10,404.2	0.1%	$10,658.7	2.4%	$11,039.0	3.6%
Lottery Transfer	$748.9	8.9%	$750.7	0.2%	$748.6	-0.3%
Total SAF Revenue	$11,153.1	0.6%	$11,409.4	2.3%	$11,787.6	3.3%

Table 11
Administration Major Tax Totals

	FY 2007		FY 2008		FY 2009	
	Amount	**Growth**	**Amount**	**Growth**	**Amount**	**Growth**
Major Tax Totals (Includes all Funds)						
Income Tax	$6,442.1	3.5%	$7,189.4	11.6%	$7,019.0	-2.4%
Sales Tax	$6,552.2	-1.3%	$6,694.8	2.2%	$6,716.9	0.3%
Use Tax	$1,380.4	0.3%	$1,336.0	-3.2%	$1,305.0	-2.3%
Cigarette and Tobacco	$1,129.7	-3.4%	$1,067.0	-5.6%	$1,044.7	-2.1%
Casino Tax	$159.4	2.5%	$133.6	-16.2%	$113.5	-15.1%