MICHIGAN
ECONOMIC OUTLOOK
AND
HOUSE FISCAL AGENCY
REVENUE ESTIMATES

FISCAL YEARS
1997-98 AND 1998-99

HOUSE FISCAL AGENCY

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May 1998

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FOREWORD

We are pleased to present this report to members of the Michigan House of Representatives. The purpose of the report is to inform members about the revised House Fiscal Agency General Fund/General Purpose and School Aid Fund revenue estimates for the current fiscal year and for Fiscal Year 1998-99. The estimates reported herein will be presented to the Consensus Revenue Estimating Conference on May 21, 1998, and will be used to facilitate the consensus estimating process.

Included are our analyses of important factors that will affect the state and national economies through 1999, estimates of state compliance with the Constitutional State revenue limit, and year-end balance estimates for General Fund/General Purpose, the School Aid Fund, and the Countercyclical Budget Stabilization Fund. Revised balance sheets are presented in the Appendix.

This report was prepared by Mitchell Bean, Senior Economist. Stephen Marasco, Economist, provided technical support and assisted in the analysis, and Jeanne Dee prepared the report for publication.

James J. Haag, Director

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EXECUTIVE SUMMARY

Michigan experienced robust economic growth throughout Fiscal Year (FY) 1996-97. Baseline General Fund/General Purpose (GF/GP) revenues grew approximately 4.7%, and dedicated School Aid Fund (SAF) revenues grew approximately 4.8%. Michigan's unemployment rate averaged about 4.2% in 1997, remaining below the national average rate of 4.9%, and inflation was under control at approximately 2.4%. The House Fiscal Agency (HFA) expects the current economic expansion to continue through FY 1998-99. The most important aspects of the HFA forecast are summarized in the following.

U. S. Forecast

On a calendar-year basis:

- ♦ Real GDP growth will decrease from 3.8% in 1997 to 3.1% in 1998, and decline to 2.0% in 1999.
- ♦ Inflation will slow to 1.5% in 1998 and increase to 2.1% in 1999.
- ♦ Light vehicle sales will total 15.1 million units in both 1998 and 1999.
- ♦ The national unemployment rate is expected to decrease from 4.9% in 1997 to 4.7% in 1998, and rise to 5.0% in 1999.
- ♦ Short-term interest rates will average 5.0% in 1998 and 1999.

Michigan Forecast

On a calendar-year basis:

- ♦ Michigan personal income increased by 4.6% in 1997, and will increase by 4.4% in 1998 and 4.0% in 1999.

- ♦ Michigan unemployment rates will average 4.0% in 1998 and 4.4% in 1999.

- ♦ Inflation, as measured by the Detroit Consumer Price Index, will decrease from 2.4% in 1997 to 1.8% in 1998, and increase to 2.1% in 1999.

State Revenues

- ♦ Total baseline GF/GP and SAF revenues were $16.7 billion in FY 1996-97, will increase 4.4% (to $17.4 billion) in FY 1997-98, and 4.1% (to $18.1 billion) in FY 1998-99. Baseline revenues do not include prior-year fund balances or reflect the effects of recent tax policy changes.

- ♦ The Countercyclical Budget Stabilization Fund (BSF) balance will be approximately $1.0 billion in both FY 1997-98 and FY 1998-99.

- ♦ Total state revenues will be below the state revenue limit by $1.2 billion in FY 1997-98 and by $1.6 billion in FY 1998-99.

Year-End Fund Balances

- ♦ The year-end GF/GP balance was $53.3 million in FY 1996-97 and is expected to be $60.0 million in FY 1997-98. Pursuant to 1997 PA 144, all year-end balances for FY 1997-98 and each fiscal year thereafter are to be transferred to the Countercyclical Budget Stabilization Fund. The FY 1996-97 year-end balances were carried forward to GF/GP in FY 1997-98.

- ♦ The School Aid Fund (SAF) year-end balance was $120.2 million in FY 1995-96 and $193.4 million in FY 1996-97. The SAF balance is expected to be $171.7 million in FY 1997-98, and $185.1 million in FY 1998-99.

- The Countercyclical Budget Stabilization Fund year-end balance was $1,152.4 million in FY 1996-97, and is estimated to be $1,029.6 million in FY 1997-98 and $1,035.7 million in FY 1998-99.

Table 1 (following page) reports GF/GP and SAF revenues in terms of baseline and actual revenues (any discrepancy in total amount is due to rounding).

- Baseline revenues do not include the impact of partial-year policy changes or certain policy changes that have only recently occurred.

- Baseline estimates are comparable across fiscal years and demonstrate the changes to state revenues that are driven by changes in the economy.

- Actual GF/GP revenues capture the effects of all policy changes and year-end fund balances, and represent resources actually available.

- Actual SAF revenues for FY 1997-98 and FY 1998-99 also include transfers from the BSF of $212.0 million and $73.7 million, respectively, pursuant to 1997 PA 144. Actual SAF revenues do not include transfers from GF/GP.

Table 2 presents HFA-recommended revisions to the January 1998 consensus-estimated baseline revenues. In this revised estimate, FY 1998-99 GF/GP baseline revenues increase by $35.3 million, and SAF baseline revisions increase by $66.6 million.

TABLE 1

HFA REVENUE ESTIMATES (IN MILLIONS)	FY 1996-97	FY 1997-98	FY 1998-99
BASELINE			
GF/GP	$8,365.9	$8,703.9	$9,071.8
SAF	8,319.2	8,717.5	9,067.4
TOTAL	**$16,685.1**	**$17,421.4**	**$18,139.2**
ACTUAL			
GF/GP	$8,372.5	$8,635.8	$8,774.2
SAF	8,517.9	9,197.1	9,415.0
TOTAL	**$16,890.4**	**$17,832.9**	**$18,189.2**

TABLE 2

HFA RECOMMENDED REVISIONS (IN MILLIONS)	For FY 1998-99		
	January 1998 Consensus	May 1998 HFA Recommend	Recommended Revision
BASELINE			
GF/GP	$9,036.5	$9,071.8	$35.3
SAF	9,000.8	9,067.4	66.6
TOTAL	**$18,037.3**	**$18,139.2**	**$101.9**

ECONOMIC FORECAST

ECONOMIC FORECAST

This section discusses the economic assumptions used by the House Fiscal Agency to produce its updated revenue forecast for FY 1997-98 and FY 1998-99. The data are shown in **Table 3**, on page 24.

U.S. Forecast

Fiscal Policy Assumptions:

- This forecast includes the impact of personal tax cuts enacted as part of the 1998 budget package. However, most of the tax savings will not be realized until individual income tax returns are filed in 1999. Thus, the impact of the tax cuts will be modest until then. No further tax cuts are assumed over the period of the forecast.

- Total federal current expenditures increased 3.5% in FY 1996-97, and are expected to increase 2.5% in FY 1997-98 and 2.8% in FY 1998-99.

- Non-defense consumption expenditures are expected to increase 2.8% in FY 1997-98 and 1.0% in FY 1998-99.

- Defense expenditures are expected to increase 0.2% in FY 1997-98 and 1.2% in FY 1998-99.

- The rate of growth of total federal transfer payments to individuals is expected to be 3.8% in FY 1997-98 and 4.8% in FY 1998-99.

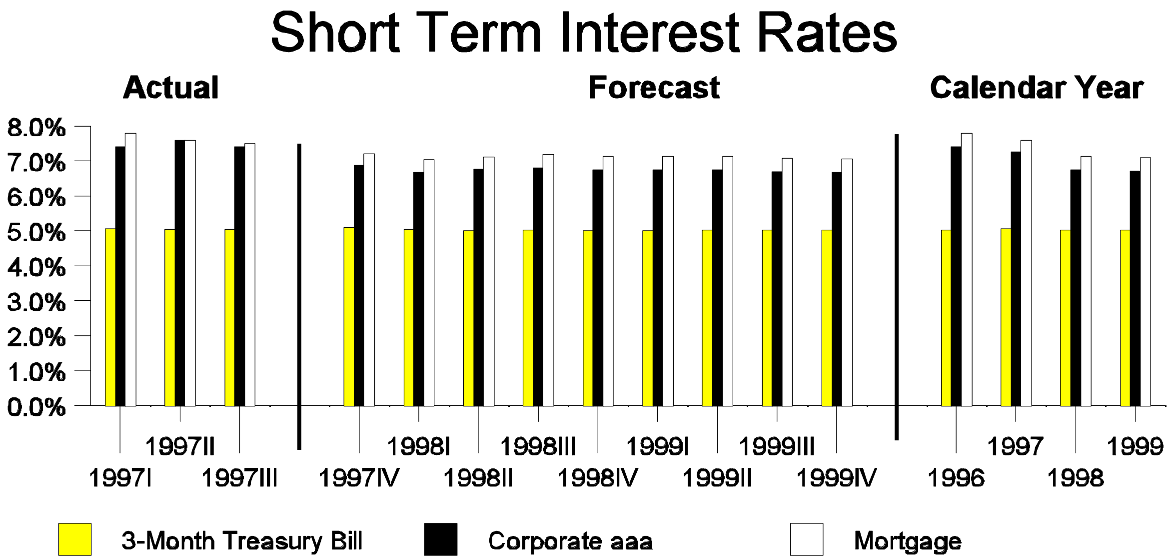
- The rate of growth in federal grants-in-aid to state and local governments is expected to be 4.8% in both FY 1997-98 and FY 1998-99.

- Federal receipts are expected to increase 5.9% in FY 1997-98 and (due to tax-cuts and slower economic growth) 2.5% in FY 1998-

99.

- Due to substantial growth in tax revenues in FY 1996-97, the federal budget deficit declined from $84.0 billion to $45.0 billion. Moderate expenditure increases and relatively strong revenue growth will lead to a budget surplus of $11.0 billion in FY 1997-98. The budget is expected to remain in surplus through FY 1999-00.

Figure 1



- **Interest Rates**

  The economic expansion is expected to continue through 1999, but the rate of growth is expected to moderate significantly. In addition, inflation is expected to be less than 2.0% in the current year. Therefore, the likely reaction of the Federal Reserve (FED) is to maintain current interest rates.

  ➤ The federal funds rate averaged 5.5% in 1997, and is expected to remain stable at 5.5% in 1998 and 1999.

  ➤ The three-month Treasury bill rate is forecast to be 5.0% in 1998 and 1999.

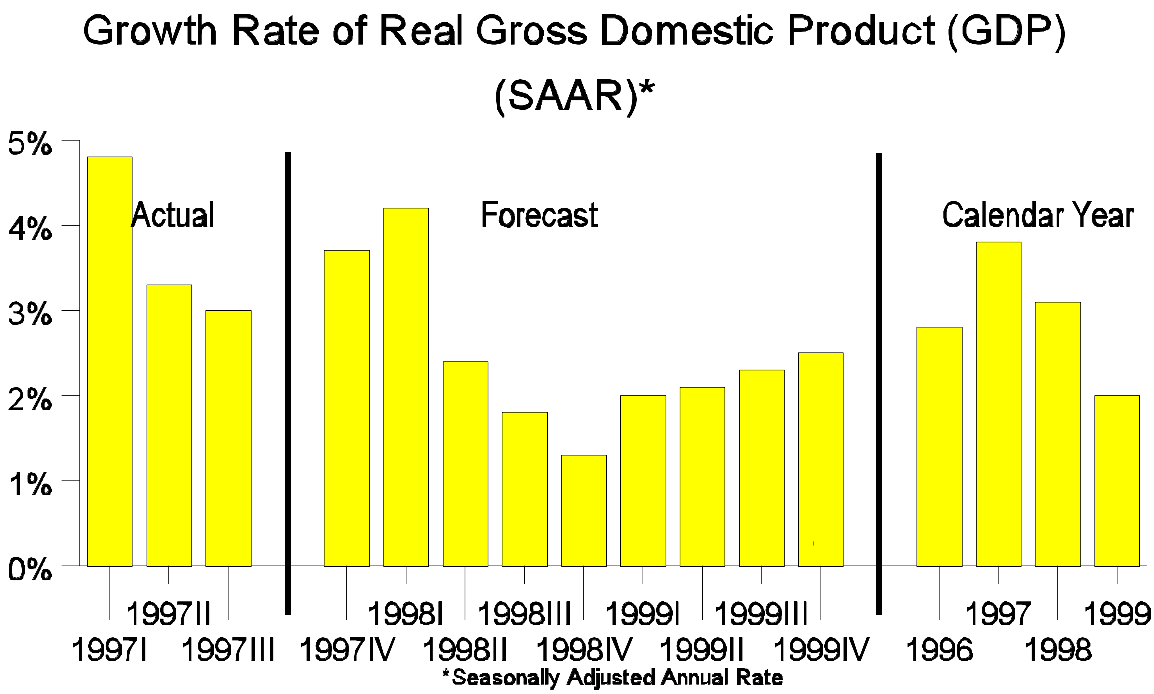
  ➤ The 30-year Treasury bond rate averaged 6.6% in 1997, and is expected to decrease to 6.0% in 1998 and 1999.

  ➤ Conventional mortgage rates are expected to decrease from 7.6% in 1997 to 7.1% in 1998 and 1999.

  ➤ Corporate aaa rates are expected to decrease from 7.3%

in 1997 to 6.8% in 1998, and 6.7% in 1999.

Figure 2

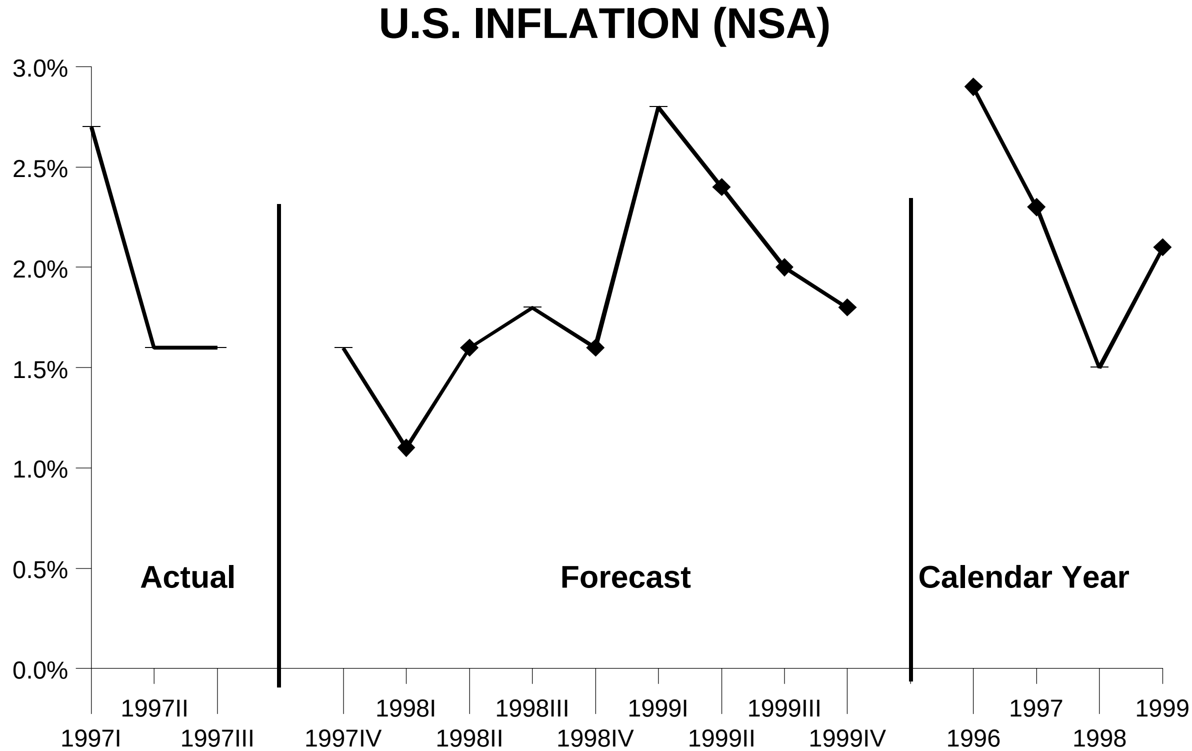


- **Real GDP**

  The economy grew at an average annualized rate of 4.2% during the first quarter of 1998. This pace is not expected to continue. Most economic growth indicators look solid for the near term, but the recent turmoil in Southeast Asia will hinder the growth rate of exports and this will contribute to a moderate slowdown of economic growth for the second half of Calendar Year (CY) 1998 and for CY 1999.

  Real GDP increased by an estimated 3.8% in CY 1997, and is expected to grow 3.1% in CY 1998 and 2.0% in CY 1999.

Figure 3



♦ **Inflation**

Inflation is typically triggered when producers attempt to exceed short-term capacity constraints in the economy and/or when input prices rise.

Through the summer of 1997, non-energy materials prices were increasing at an average annual rate of about 2.0% — putting upward pressure on prices. The Asian financial crisis has slowed world-wide production and relieved inflationary pressures.

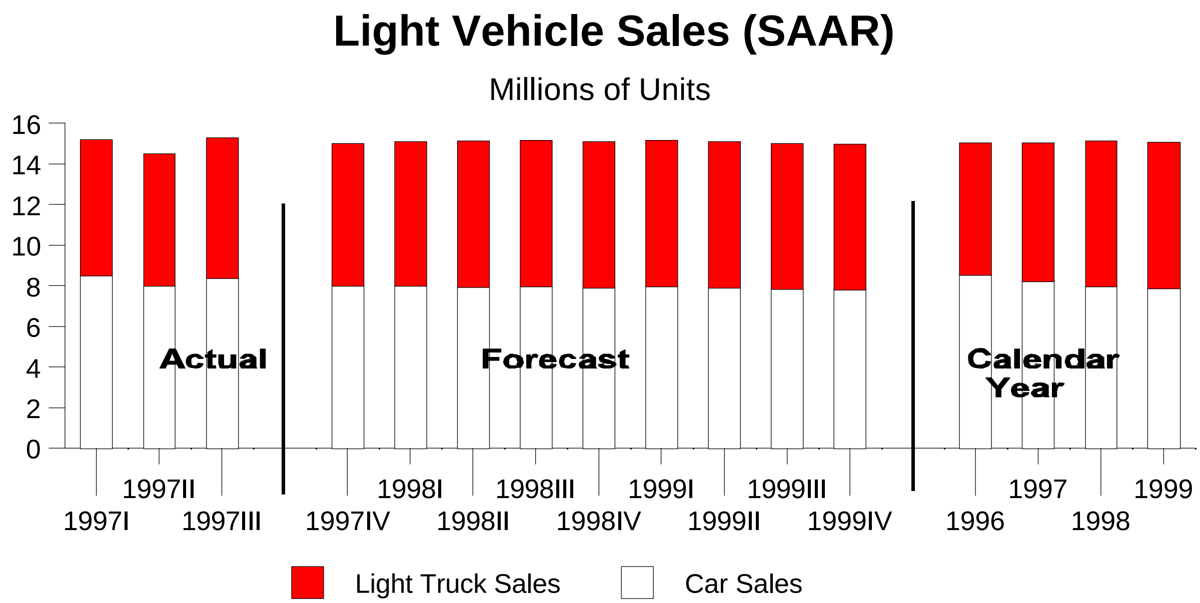
Due to declining demand, materials prices have fallen to a level about 3.0% below their 1996 lows.

Although production and demand for materials are expected to increase in late 1998 (putting upward pressure on prices), the dramatic declines of late1997 through early 1998 have significantly dampened inflationary pressures.

After averaging about $20.00 per barrel in the fourth quarter of 1997, the price of West Texas Intermediate Crude oil fell to about $16.00 per barrel in the first quarter of 1998. Oil prices are expected to remain in this range due to the Asian crisis through mid-1998. Beginning in late 1998, annual increases of about 2.0% are expected.

These factors are expected to lead to a very modest average annual increase in the U.S. Consumer Price Index-Urban (CPI-U) of 1.5% in CY 1998, and 2.1% in CY 1999. The U.S. CPI-U increased 2.3% in CY 1997.

Figure 4

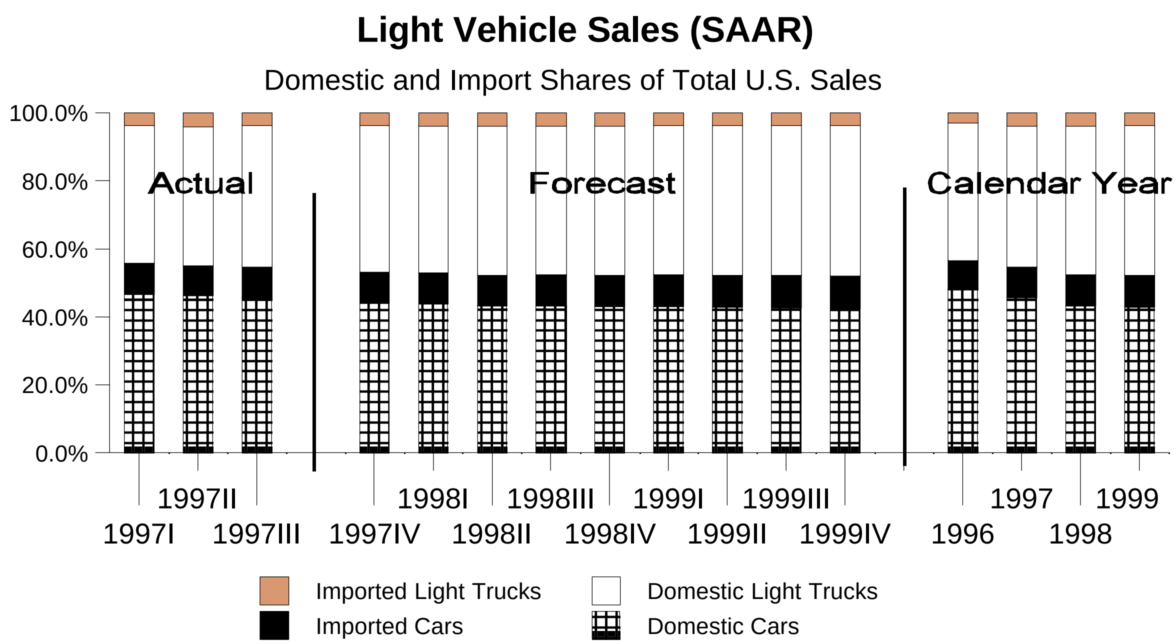


♦ **Light Vehicle Sales**

Light vehicle sales are estimated to be approximately 15.0 million units in CY 1997, the same as CY 1996, and are anticipated to increase by 0.6% (to 15.1 million units) in CY 1998 and hold steady at 15.1 million units in CY 1999.

For several years there has been a shift away from cars and toward light trucks. That trend is expected to continue. Light trucks accounted for approximately 45.0% of light vehicle sales in CY 1997, 46.0% of sales in CY 1998, and are expected to account for 47.0% percent of total sales in CY 1999.

Figure 5



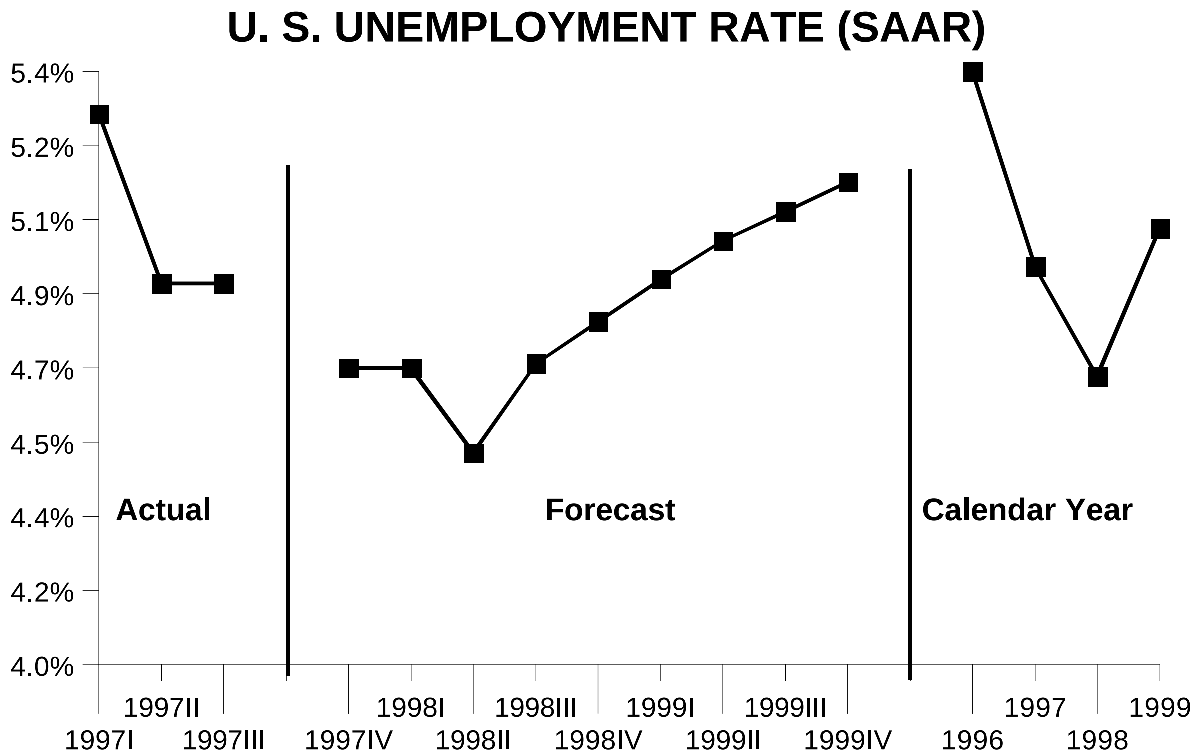
♦ **Import Share of Auto Sales**

In CY 1997, the import share of the automobile market was characterized by an estimated increase of 1.8 percentage points (to 8.4%) in the share of foreign light truck sales to total light truck sales, and an increase of 1.5 percentage points (to 16.5%) in the share of foreign car sales to total car sales.

Calendar years 1998 and 1999 will see a slight increase in both the share of foreign cars to total cars (to 17.5% in CY 1998, and to 18.2% in CY 1999) and a decrease in the share of foreign trucks to total trucks (to 7.9% in CY 1998 and 7.6% in CY 1999), resulting in a slight overall increase in the import share of total sales.

The import automaker's share of the total market is estimated to be 12.8% in 1997, and is expected to increase to 12.9% in CY 1998 and to 13.1% in CY 1999.

Figure 6



♦ **U.S. Unemployment Rate**

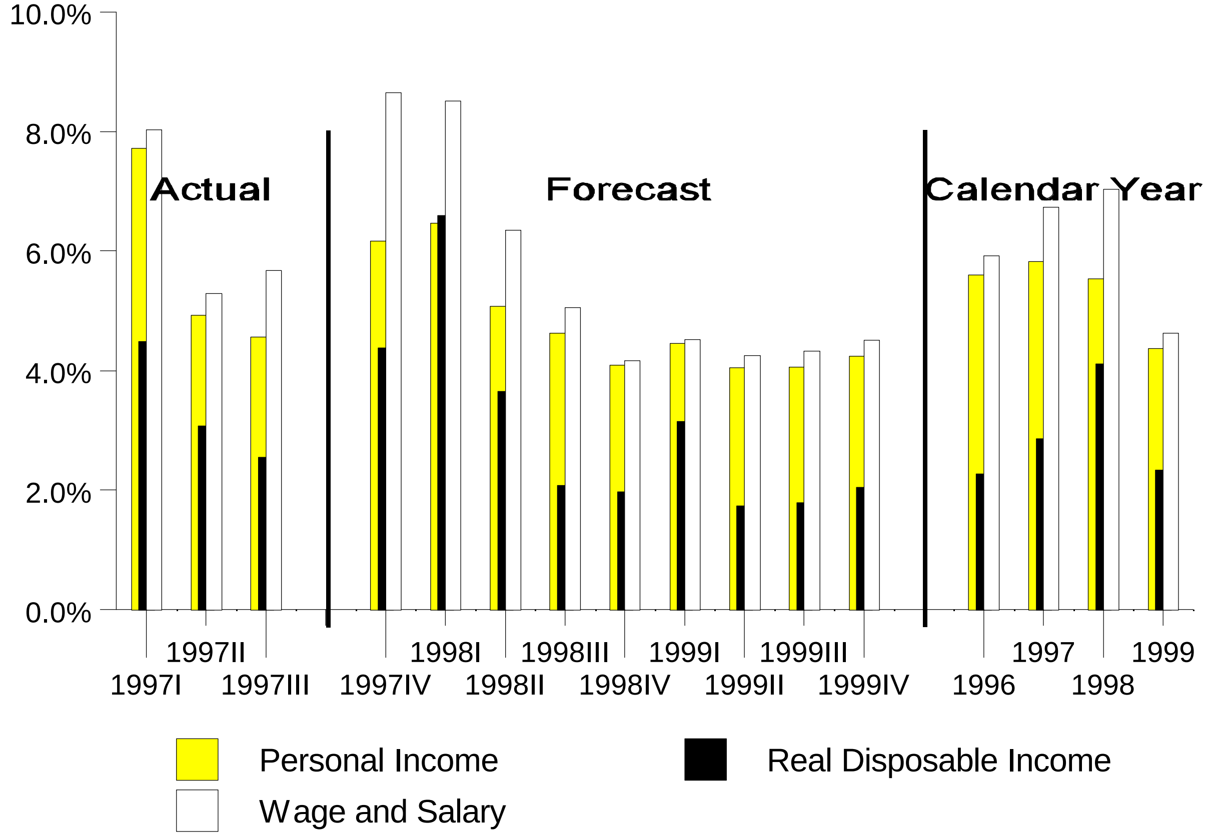
Non-farm payroll employment increased steadily throughout CY 1997, and at a faster pace than the previous year. In November 1997, preliminary estimates indicated that payroll employment increased by 404,000 — well above the increase recorded in November of last year.

Steady economic growth through CYs 1998 and 1999 will allow the economy to continue to create jobs; hence, unemployment rates are expected to remain relatively low.

The unemployment rate in CY 1997 is estimated to be approximately 4.9%. Unemployment rates are expected to average 4.7% in CY 1998 and 5.0% in CY 1999.

Figure 7

U.S. INCOME GROWTH

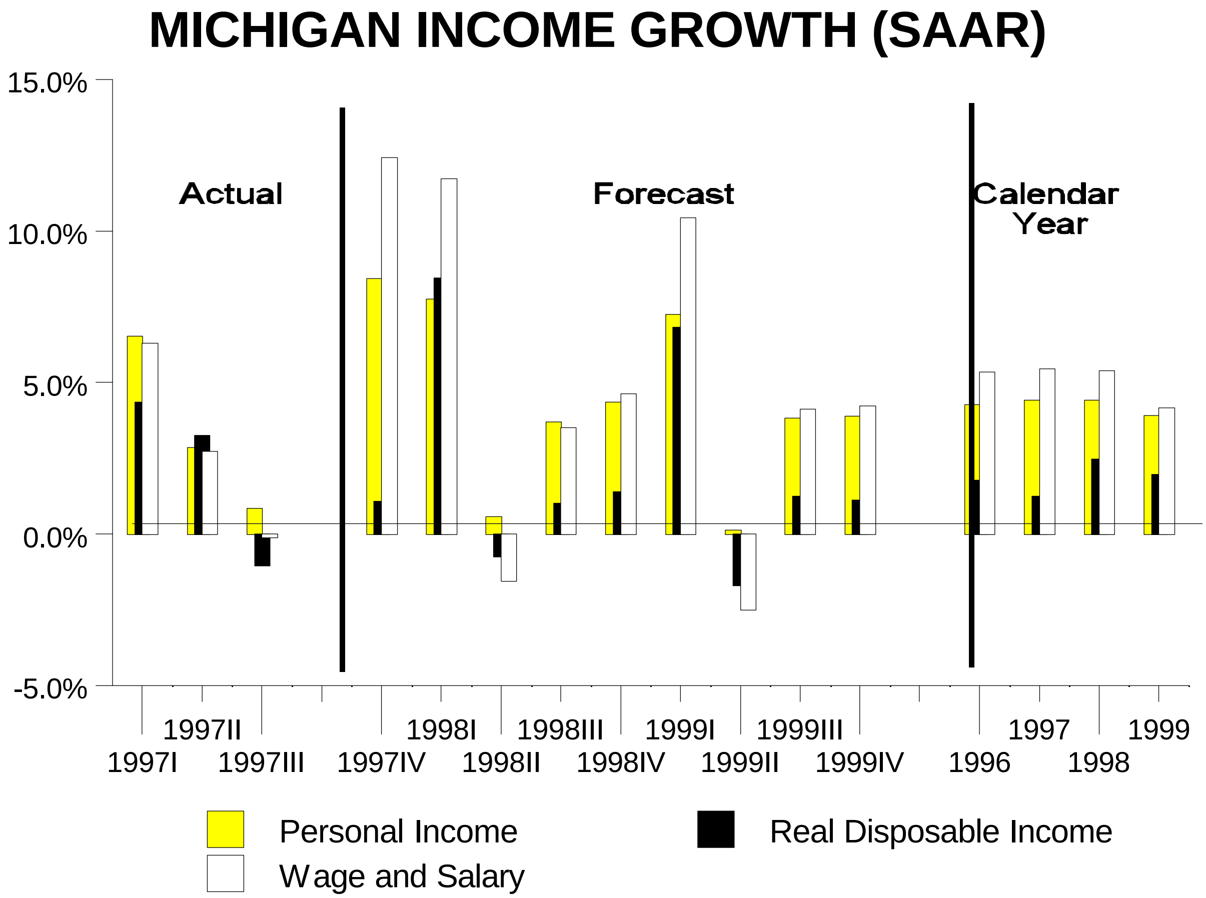


♦ **Personal Income Growth**

Total U.S. personal income grew 5.8% in CY 1997. The rate of growth is expected to decrease to 5.5% in CY 1998. Despite a steady unemployment rate forecast, the average yearly growth in personal income will fall to 4.4% in CY 1999.

Wage and salary income growth (6.7% in CY 1997) is expected to outpace total personal income growth in CY 1998. It is anticipated that wage and salary income growth will increase to 7.0% in CY 1998, and fall to 4.6% in CY 1999. Moderate growth in inflation will result in increased growth of real disposable income in CY 1998 (to 4.1%), following a 2.9% growth rate in CY 1997. Real disposable income is expected to grow at a 2.3% rate in CY 1999.

Figure 8



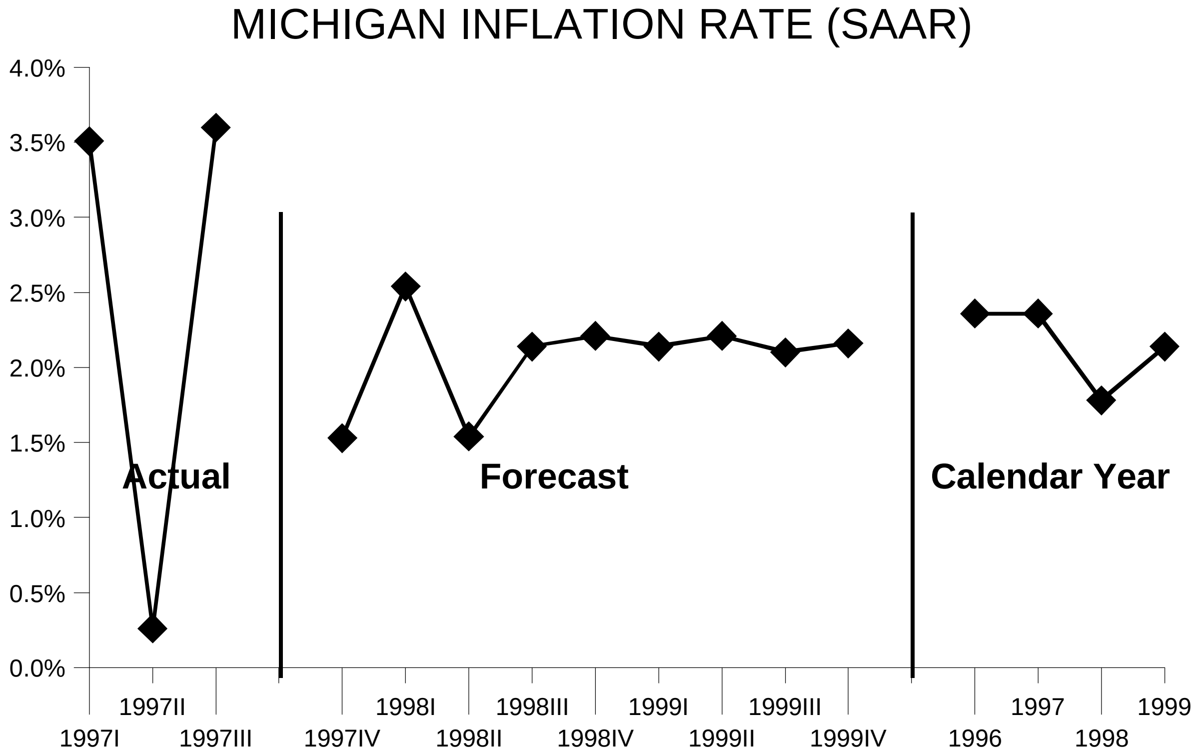
Michigan Forecast

♦ **Michigan Personal Income Growth**
The Michigan economy continues to expand at a healthy rate, and income growth is expected to remain steady through CYs 1998 and 1999.

➤ Total Michigan personal income grew by approximately 4.6% in CY 1997.

➤ State personal income growth will increase in CY 1998 to 4.4%, and will decelerate to 4.0% in CY 1999.

Figure 9

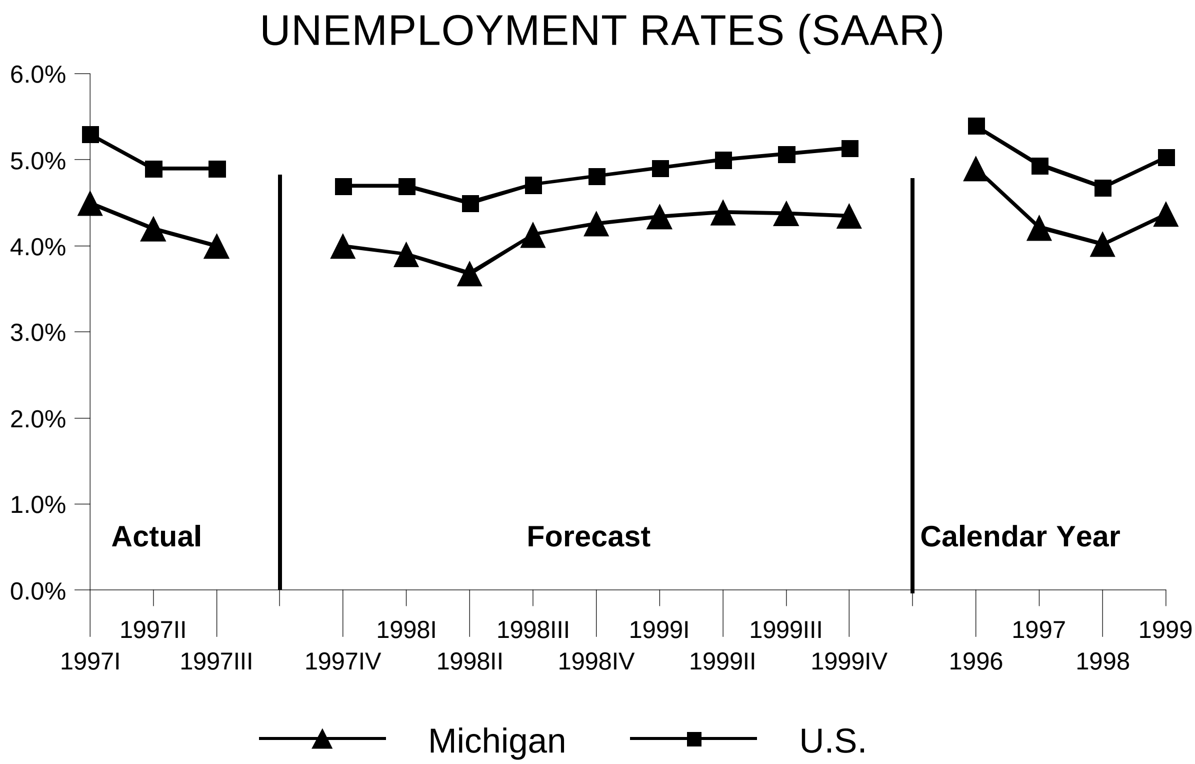


♦ **Inflation**

The change in the cost of living in Michigan, as measured by the Detroit Consumer Price Index for Urban Consumers (Detroit CPI-U), increased by 2.4% in CY 1997 — slightly above the national average. With the exception of 1994 and 1995 figures, which were skewed due to the increase in the sales tax rate, inflation since 1991 has been at or below 2.8% each year.

Inflation in Michigan is expected to remain subdued through 1999. In CY 1998, the Detroit CPI-U will increase by 1.8%. In CY 1999, inflation in Michigan will increase by 2.1%.

Figure 10

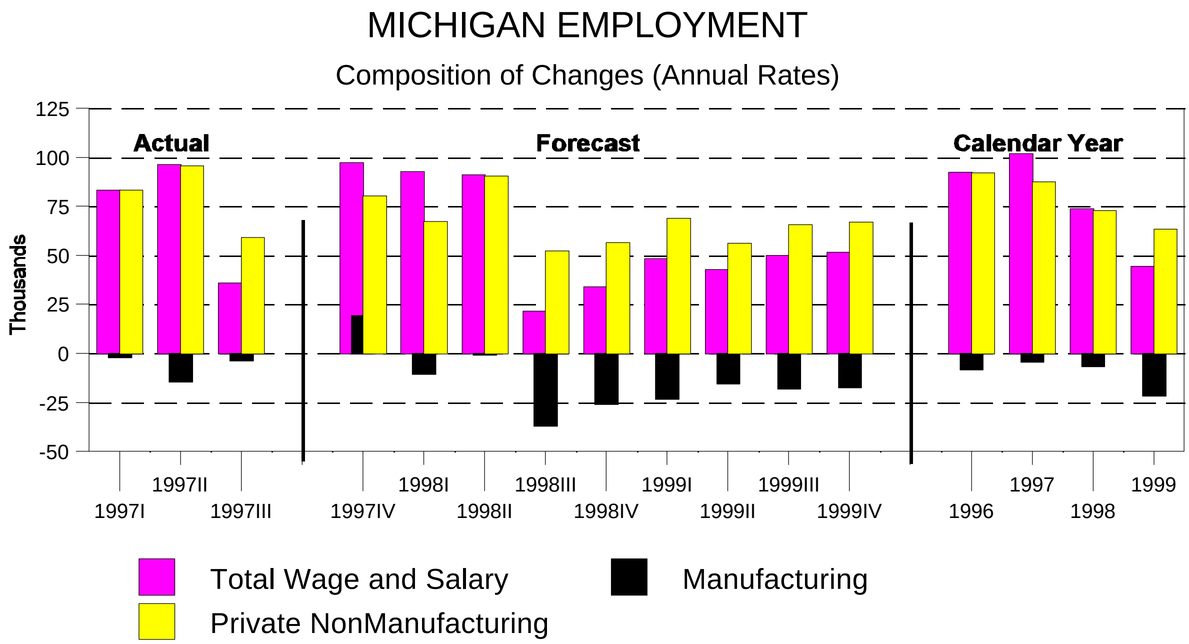


- ♦ **Michigan Unemployment Rates**

  Although the job market is expected to remain somewhat tight, job growth in Michigan is expected to be moderate through CY 1999, and the state unemployment rate is expected to increase slightly through CY 1999. Wage and salary employment in the manufacturing sector is expected to decrease 0.7% in CY 1998, and decrease another 2.2% in CY 1999. Most of the job loss in manufacturing in CY 1998 will be in the motor vehicle sector.

  The average unemployment rate in Michigan was 4.2% in CY 1997; this will decline in CY 1998 to 4.0% and inch up to 4.4% in CY 1999.

Figure 11



♦ **Job Growth in Michigan**

The Michigan economy continued to create jobs in CY 1997, but the composition of jobs created is changing. In CY 1997, employment in the manufacturing sector is estimated to have fallen by 1.0%, whereas private non-manufacturing employment grew by an estimated 2.7%, and total wage and salary employment grew 1.4%.

➤ Total wage and salary employment is expected to increase 1.7% in CY 1998 and moderate to 1.0% in CY 1999. However, all of the employment gains are expected to be in private nonmanufacturing.

➤ Manufacturing employment will decrease 0.7% in CY 1998 (due primarily to job losses in the motor vehicle sector) and 2.2% in CY 1999 (in large part due to declines in durable goods employment and the motor vehicle sector).

➤ Private non-manufacturing employment, with expected growth rates of 2.6% in CY 1998 and 2.2% in 1999, will once again be fueled by the service sector, as well as the construction and wholesale trade sectors.

➤ Employment in services grew approximately 2.9% in CY 1997, and is anticipated to grow by 3.4% in CY 1998 and 3.5% in CY 1999.

➤ Retail trade employment grew by 1.8% in CY 1997, and will grow by 1.1% in CY 1998 and 0.7% in CY 1999.

➤ Wholesale trade employment will grow by 2.6% in CY 1998 and by 1.4% in CY 1999.

➤ Construction employment will grow by 5.2% in CY 1998 and by 3.2% in CY 1999.

TABLE 3

ECONOMIC VARIABLES			
U.S. FORECAST			
Variable	**CY 1997**	**CY 1998**	**CY 1999**
Real GDP Growth	3.8%	3.1%	2.0%
U.S. CPI-U -- Percentage Change	2.3%	1.5%	2.1%
Unemployment Rate	4.9%	4.7%	5.0%
Light Vehicle Sales (in millions)	15.0	15.1	15.1
Import Share of Light Vehicle Sales	12.8%	12.9%	13.1%
Rate of Interest, 3-Month Treasury Bill	5.1%	5.0%	5.0%
MICHIGAN FORECAST			
Variable	**CY 1997**	**CY 1998**	**CY 1999**
Michigan Personal Income Growth	4.6%	4.4%	4.0%
Wage and Salary Employment Growth	1.4%	1.7%	1.0%
Unemployment Rate	4.2%	4.0%	4.4%
Detroit CPI-U -- Percentage Change	2.4%	1.8%	2.1%

RISKS & UNCERTAINTIES

RISKS AND UNCERTAINTIES

- **Risks Associated With The National Economy**

  Michigan is one of the leading export states in the nation, and Michigan's economy produces a high proportion of durable goods. Therefore, Michigan's economy is sensitive to events that affect international trade and changes in interest rates. Most economists believe that the current turmoil in international financial markets will reduce real U.S. GDP growth about 0.5 percentage points through 1999. This is due primarily to decreases in net exports. If the effect of these events on the economies of our trading partners is more severe than expected, the negative impact on the U.S. economy will be more severe as well.

- **Monetary Policy**

  The forecast assumes that the combination of low input prices, low oil prices, and a slowing economy will keep inflation below 2.0% in 1998 and lead to very moderate increases in the rate of inflation in 1999. Because inflation is low, we have assumed that the FED will not raise interest rates through the forecast horizon. If these assumptions prove to be wrong and the monetary authorities raise interest rates in the last half of 1998, the economy could slow more rapidly than we expect.

  In addition, policy makers at the FED will continue to watch U.S. labor market conditions, indicators of U.S. economic growth, and worldwide financial markets. If there are signs that inflation is imminent, they will respond with interest rate hikes.

- **Potential Labor Shortages**
  With statewide unemployment rates expected to remain between 4.0% and 4.3%, the labor market will be very tight through 1999. Not only are employers finding it more difficult to hire skilled labor, but they are also having trouble hiring enough employees in lower-skilled areas such as retail trade and services. Companies in the automotive sector are also having trouble finding qualified job applicants, and the construction industry is finding that labor is scarce in some areas of the state. The problem with labor shortages is that they can become impediments to state economic growth.

GF/GP & SAF REVENUES

GF/GP AND SCHOOL AID FUND REVENUES

This section explains May 1998 House Fiscal Agency revenue estimates for GF/GP and School Aid Fund revenue by major revenue sources. Several important assumptions behind the revenue estimates are discussed in the following text. Revenue estimates are reported in **Tables 4 and 5** on pages 33 and 36. Also included are year-end balance estimates and state revenue limit calculations.

General Fund/General Purpose Revenue by Source

- **Personal Income Tax**

  The jobs base is expected to continue to expand, and unemployment rates will remain low. This will lead to sustained growth in Michigan personal income and income tax revenues through FY 1998-99.

  Baseline GF/GP income tax revenues increased by 7.0% in FY 1996-97, to $4,335.6 million. FY 1997-98 income tax revenues are expected to increase 9.0% (to $4,725.0 million), and 4.1% in FY 1998-99 (to $4,917.9 million).

  Baseline revenues do not include the impact of indexing the personal exemption, the final phase-in of the interest and dividend exemption for seniors, the impact of increasing the personal exemption in 1998, or the impact of increasing the tuition tax credit in 1998.

- **Sales and Use Taxes**

  Sustained growth in wage and salary income and sustained low unemployment will combine to increase baseline sales and use tax revenue from $800.7 million in FY 1996-97 to $811.2 million in FY 1997-98, and by 6.3% (to $862.7 million) in FY 1998-99.

Baseline sales tax revenues in each fiscal year are adjusted to reflect changes in the percent of gross sales tax revenue dedicated to local revenue sharing beginning in FY 1996-97.

♦ **Single Business and Insurance Taxes**

Beginning in FY 1996-97, 100% of Single Business Tax (SBT) revenues accrue to the GF/GP. Net baseline business taxes (SBT plus insurance taxes) were $2,406.5 million in FY 1996-97 and will increase 0.2% (to $2,410.4 million) in FY 1997-98, and increase by 4.5% (to $2,520.0 million) in FY 1998-99.

Single Business Tax revenues alone were $2,224.2 million in FY 1996-97; they are expected to increase 1.4% (to $2,255.4 million) in FY 1997-98, and by 3.8% (to $2,340.0 million) in FY 1998-99.

Baseline estimates do not include the impact of SBT apportionment changes, the new apprenticeship credit, or Capital Acquisition Deduction changes that will affect FY 1997-98 and FY 1998-99 revenue collections.

♦ **GF/GP Baseline Tax Revenues**

Year-end GF/GP baseline tax revenues totaled $8,172.3 million in FY 1996-97. General Fund/General Purpose baseline tax revenues are expected to increase by 5.1% (to $8,591.0 million) in FY 1997-98, and by 4.3% (to $8,961.4 million) in FY 1998-99. Total GF/GP baseline tax revenues include the category labeled "Other Taxes" in **Table 4**.

♦ **Total GF/GP Baseline Revenues**

Total baseline GF/GP revenues include baseline tax revenues and non-tax revenues, and are adjusted to reflect an additional income tax earmarking to the SAF (8.6%) that went into effect for FY 1996-97.

Total GF/GP baseline revenues were $8,365.9 million in FY 1996-97. General Fund/General Purpose baseline revenues are expected to increase by 4.0% (to $8,703.9 million) in FY 1997-98, and by 4.2% (to $9,071.8 million) in FY 1998-99.

♦ **Actual GF/GP Revenues**

Actual GF/GP revenues represent revenues available for expenditure each year. Actual GF/GP revenues are expected to be $8,582.5 million in FY 1997-98 and are expected to increase 2.2% (to $8,774.2 million) in FY 1998-99. Additional detail on year-end balances and adjustments is provided in the Balance Sheet on page 45.

TABLE 4

GF/GP REVENUE ESTIMATES
(In Millions of Dollars and Fiscal Years)

				1998-99 over 1997-98	
	1996-97	**1997-98**	**1998-99**	**%Change**	**$Change**
Personal Income Taxes @ 23% SAF Dedication	$4,335.6	$4,725.0	$4,917.9	4.1%	$192.9
Sales and Use Taxes	800.7	811.2	862.7	6.3%	51.5
SBT and Insurance Taxes	2,406.5	2,410.4	2,520.0	4.5%	109.6
Other Taxes	629.5	644.4	660.8	2.5%	16.4
GF/GP Baseline Tax Revenues	**$8,172.3**	**$8,591.0**	**8,961.4**	**4.3%**	**$370.4**
Non-Tax Revenue	193.6	112.9	110.4	-2.2%	(2.5)
Total GF/GP Baseline Revenues	**$8,365.9**	**$8,703.9**	**9,071.8**	**4.2%**	**$367.9**
Adjustments to Baseline	6.6	(121.4)	(297.6)		
Actual GF/GP Revenues	**$8,372.5**	**$8,582.5**	**$8,774.2**	**2.2%**	**$191.7**

School Aid Fund Revenue by Source

- **Sales and Use Taxes**
  Baseline sales tax revenues will increase by 4.0% in FY 1997-98 and by 4.5% in FY 1998-99; baseline use tax revenue to the SAF will increase by 2.2% in FY 1997-98 and by 4.6% in FY 1998-99. Combined sales and use tax revenue dedicated to the SAF equaled $4,295.5 million in FY 1996-97 and will increase by 3.9% (to $4,462.3 million) in FY 1997-98, and by 4.6% (to $4,665.5 million) in FY 1998-99.

- **Income Tax**
  Beginning in FY 1996-97, 23.0% of gross income tax revenue ($1,582.9 million) is dedicated to the School Aid Fund. Baseline dedicated income tax revenue will increase 8.8% (to $1,722.4 million) in FY 1997-98, and by 4.0% (to $1,792.0 million) in FY 1998-99.

- **State Education Tax**
  All of the 6-mill state education tax (SET) is dedicated to the SAF. Revenues from the SET were $1,156.1 million in FY 1996-97. SET revenues are expected to increase 5.0% (to $1,214.0 million) in FY 1997-98, and 4.6% (to $1,270.0 million) in FY 1998-99.

- **Lottery**
  Lottery revenues contributed approximately $587.7 million to the SAF in FY 1996-97. Baseline lottery revenues to the SAF are projected to increase 5.5% (to $620.0 million) in FY 1997-98, and by 3.5% (to $641.7 million) in FY 1998-99.

  Baseline revenue estimates do not include the impact of Detroit Casinos. Additional Casino revenues are not likely to accrue to the SAF until FY 1999-00.

- **Tobacco Taxes**
  Approximately 64.0% of gross tobacco tax revenue is dedicated to the School Aid Fund. The School Aid Fund received approximately $350.5 million from tobacco taxes in FY 1996-97.

The demand for tobacco products is expected to decline slowly over the duration of the forecast. Total baseline tobacco tax revenues are expected to decrease to $336.3 million in FY 1997-98, and to $328.7 million in FY 1998-99. Actual tobacco tax revenues are expected to be $16.6 million higher in FY 1998-99 as a result of tax stamps (designed to reduce smuggling). Actual revenues are reflected in baseline adjustments in **Table 5**.

- **Transfer Tax**

  A tax based on 0.75% of the value of real estate transferred in Michigan took effect on January 1, 1995. Revenues are dedicated to the School Aid Fund. The transfer tax contributed $192.8 million to the SAF in FY 1996-97, and will contribute $208.0 million to the SAF in FY 1997-98 and $215.0 million in FY 1998-99.

- **Total SAF Baseline Revenues**

  Total SAF baseline revenues were $8,319.2 million in FY 1996-97. Baseline revenues are expected to increase 4.8% (to $8,717.5 million) in FY 1997-98, and 4.0% (to $9,067.4 million) in FY 1998-99.

- **Actual SAF Revenues**

  Actual SAF revenues represent revenues available for expenditure each year before any GF/GP transfers to SAF. Actual SAF revenues are expected to be $8,696.1 million in FY 1997-98 and are expected to increase by 4.1% to $9,049.6 million in FY 1998-99. More detail on year-end balances and adjustments, including GF/GP transfers to SAF, are reported in the Balance Sheet on page 46.

TABLE 5

SCHOOL AID FUND REVENUE ESTIMATES
(In Millions of Dollars and Fiscal Years)

Revenues	1996-97	1997-98	1998-99	1998-99 over 1997-98 % Change	1998-99 over 1997-98 $ Change
Sales and Use Tax	$4,295.5	$4,462.3	$4,665.5	4.6%	$203.2
Income Tax Earmark (23%)	1,582.9	1,722.4	1,792.0	4.0%	69.6
Lottery	587.7	620.0	641.7	3.5%	21.7
Tobacco Taxes	350.5	336.3	328.7	-2.3%	(7.6)
State Education Tax	1,156.1	1,214.0	1,270.0	4.6%	56.0
Transfer Tax	192.8	208.0	215.0	3.4%	7.0
Liquor Excise and Specific Taxes	153.7	154.5	154.5	0.0%	0.0
Baseline SAF Revenues	**$8,319.2**	**$8,717.5**	**$9,067.4**	**4.0%**	**$349.9**
Adjustments to Baseline	5.4	(21.4)	(17.8)		
Actual SAF Revenues (less GF/GP Transfer)	**$8,324.6**	**$8,696.1**	**$9,049.6**	**4.1%**	**$353.5**

Estimates of Year-End Balances

Table 6 reports House Fiscal Agency estimates of year-end balances for GF/GP, the SAF, and the BSF. Year-end balances for the SAF and GF/GP are derived in the Balance Sheets located in the Appendix to this report.

- ♦ Fiscal year 1995-96 and 1996-97 year-end balances for GF/GP and the SAF are those reported in the Comprehensive Financial Annual Report (CAFR).
- ♦ Fiscal year 1997-98 GF/GP and SAF estimates are based on year-to-date appropriations and HFA revenue estimates.
- ♦ Budget Stabilization Fund estimates are based on current FY 1997-98 balance estimates provided by the Michigan Department of Treasury and HFA estimates of future deposits and interest earned.

The FY 1996-97 GF/GP year-end balance carries forward as a beginning balance in FY 1997-98. However, pursuant to 1997 PA 144, any year-end balance in GF/GP for FY 1997-98 and thereafter will be transferred to the BSF.

School Aid Fund revenues are restricted; hence, any year-end balance is carried forward to the subsequent year.

TABLE 6

YEAR-END BALANCE ESTIMATES
(In Millions of Dollars and Fiscal Years)

	1995-96	1996-97	1997-98
General Fund/General Purpose	$91.3	$53.3	$60.0
School Aid Fund	120.2	193.1	171.7
Budget Stabilization Fund	1,153.6	1,152.4	1,029.6

Budget Stabilization Fund Year-End Balances

Table 7 reports a history of BSF deposits, withdrawals, and interest earnings from FY 1989-90 to FY 1996-97. It also includes HFA estimates of deposits, expected interest earnings, and year-end balances for FYs 1997-98, and 1998-99.

A complete list of BSF historical data is available from the HFA upon request.

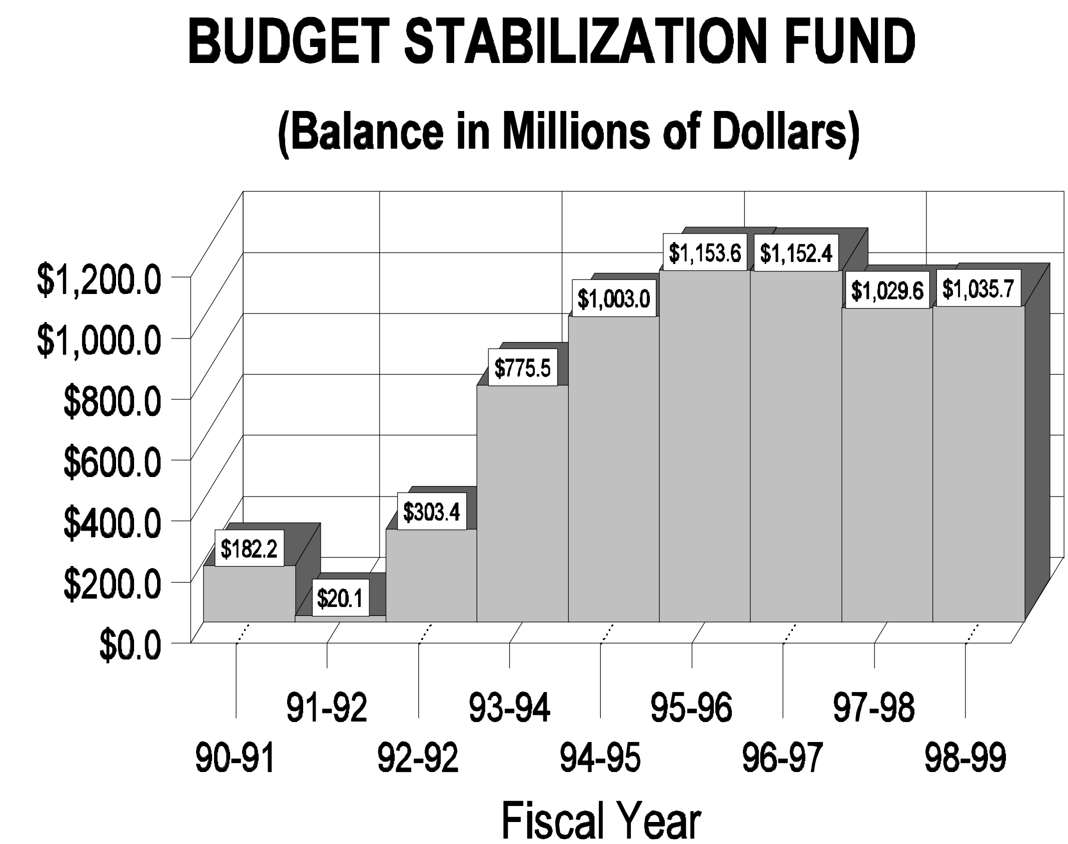
TABLE 7

BUDGET STABILIZATION FUND
(In Millions of Dollars)

Fiscal Year	Deposits	Withdrawals	Interest Earned	Balance
1989-90	$0.0	$69.9	$35.8	$385.1
1990-91	0.0	230.0	27.1	182.2
1991-92	0.0	170.1	8.1	20.1
1992-93	282.6	0.0	0.8	303.4
1993-94	460.2	0.0	11.9	775.5
1994-95	260.1	90.4	57.7	1,003.0
1995-96	91.3	0.0	59.3	1,153.6
1996-97	0.0	69.0	67.8	1,152.4
1997-98*	24.2	212.0	65.0	1,029.6
1998-99*	17.0	73.7	62.8	1,035.7

* Estimates

Figure 12



NOTE: FYs 1997-98 and 1998-99 are estimates.

Compliance with the State Revenue Limit

Table 8 reports HFA estimates of the state revenue limit provided for in Article IX, Section 26, *Constitution of the State of Michigan*, and estimates of total state revenue collections subject to the state revenue limit. As provided for in the *Constitution*, the revenue limit is calculated as 9.49% of total state personal income in the previous full calendar year prior to the fiscal year in which the revenues are measured, as estimated by the Bureau of Economic Analysis, United States Department of Commerce.

TABLE 8

COMPLIANCE WITH THE STATE REVENUE LIMIT
(In Millions of Dollars and Fiscal Years)

Revenue Limit Calculations	**1996-97**	**1997-98**	**1998-99**
Personal Income			
Calendar Year	CY 1995	CY 1996	CY 1997
Amount	$228,369	$239,330	$250,308
X Limit Ratio	9.49%	9.49%	9.49%
State Revenue Limit	**$21,672.2**	**$22,712.4**	**$23,754.2**
Total Revenues Subject to Revenue Limit	20,793.6	21,500.6	22,167.1
Amount Under (Over) State Revenue Limit	**$878.6**	**$1,211.8**	**$1,587.1**

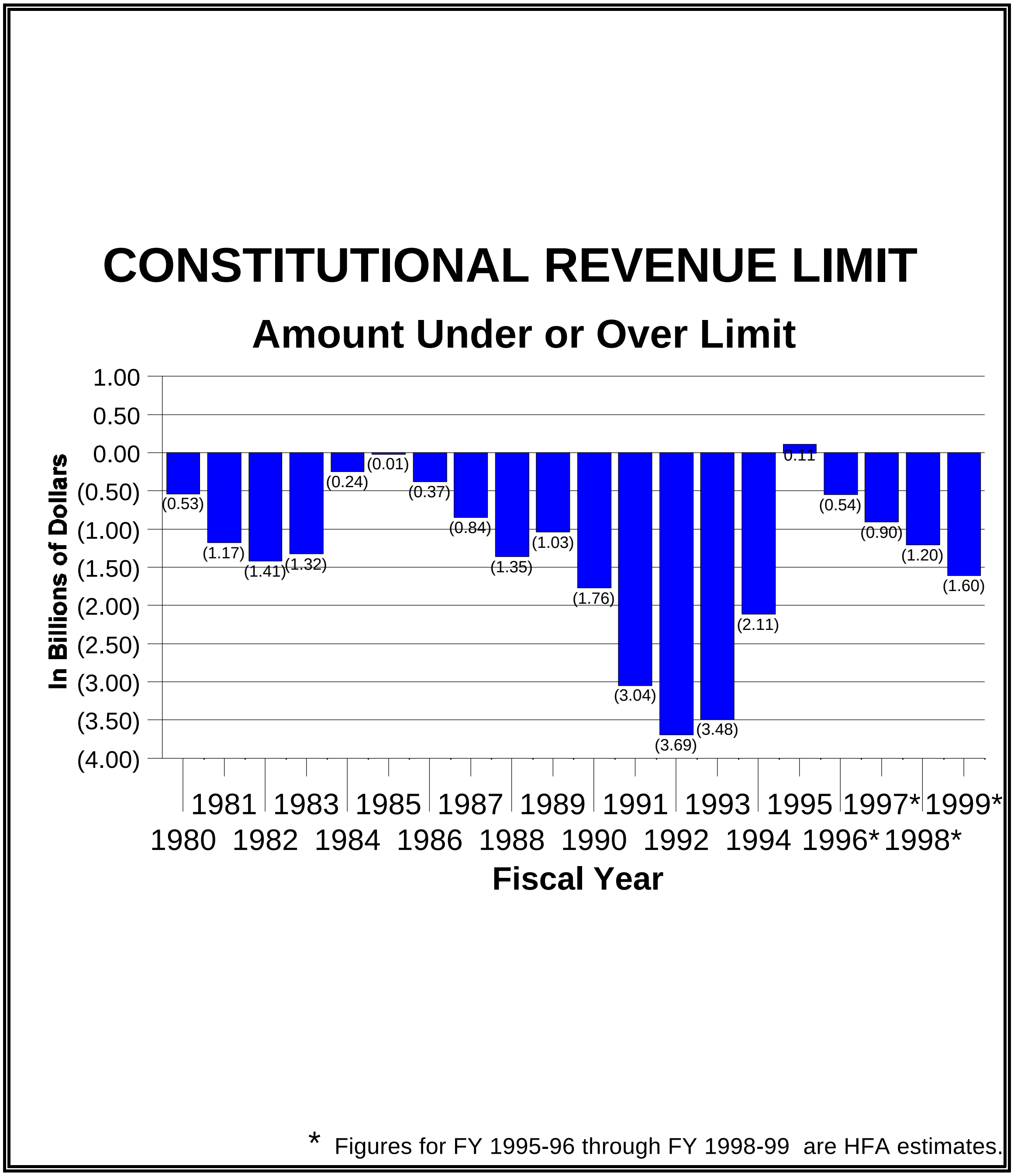
Implications of Exceeding the State Revenue Limit

Article IX, Section 26, *Constitution of the State of Michigan*, provides that:

> . . .For any fiscal year in the event that Total State Revenues exceed the limit established in this section by 1% or more, the excess revenues shall be refunded pro rata based on the liability reported on the Michigan income tax and single business tax (or its successor tax or taxes) annual returns filed following the close of such fiscal year. If the excess is less than 1%, this excess may be transferred to the State Budget Stabilization Fund. . . .

Furthermore, the state is prohibited from spending any current-year revenue in excess of the limit established in Section 26 by Article IX, Section 28.

Figure 13


CONSTITUTIONAL REVENUE LIMIT
Amount Under or Over Limit
In Billions of Dollars
1.00
0.50
0.00
(0.50)
(1.00)
(1.50)
(2.00)
(2.50)
(3.00)
(3.50)
(4.00)
(0.53)
(1.17)
(1.41)
(1.32)
(0.24)
(0.01)
(0.37)
(0.84)
(1.35)
(1.03)
(1.76)
(3.04)
(3.69)
(3.48)
(2.11)
0.11
(0.54)
(0.90)
(1.20)
(1.60)
1981 1983 1985 1987 1989 1991 1993 1995 1997* 1999*
1980 1982 1984 1986 1988 1990 1992 1994 1996* 1998*
Fiscal Year
* Figures for FY 1995-96 through FY 1998-99 are HFA estimates.

APPENDIX

TABLE 9

House Fiscal Agency
General Fund/General Purpose Balance Sheet
(In Millions of Dollars)

	FY 1996-97	FY 1997-98	FY 1998-99
Beginning Balance	$0.0	$53.3	$0.0
Baseline Estimate	8,365.9	8,803.9	9,071.8
Tax Changes and Adjustments	6.6	(121.4)	(297.6)
ESTIMATED RESOURCES	**$8,372.5**	**$8,635.8**	**$8,774.2**
Enacted Appropriations	$8,412.4	$8,602.2	
Supplemental Appropriations		58.0	
Projected Lapses	(93.2)	(84.4)	
ESTIMATED EXPENDITURES	**$8,319.2**	**$8,565.8**	
YEAR-END BALANCE	**$53.3**	**$60.0**	
BSF TRANSFER	**$0.0**	**$60.0**	

TABLE 10

House Fiscal Agency
School Aid Fund Balance Sheet
(In Millions of Dollars)

	FY 1996-97	FY 1997-98	FY 1998-99
Beginning Balance	$120.3	$193.1	$171.7
Baseline Estimate	8,319.2	8,717.5	9,067.4
Tax Changes	5.4	(21.4)	(17.8)
Own-Source Resources	$8,444.9	$8,889.2	$9,221.3
GF/GP Transfer	277.9	377.9	420.6
Federal Aid	73.0	95.9	120.0
BSF Transfer	0.0	212.0	73.7
TOTAL RESOURCES	**$8,795.8**	**$9,575.0**	**$9,835.6**
ESTIMATED EXPENDITURES	**$8,602.7**	**$9,403.3**	**$9,650.5**
YEAR-END BALANCE	**$193.1**	**$171.7**	**$185.1**

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