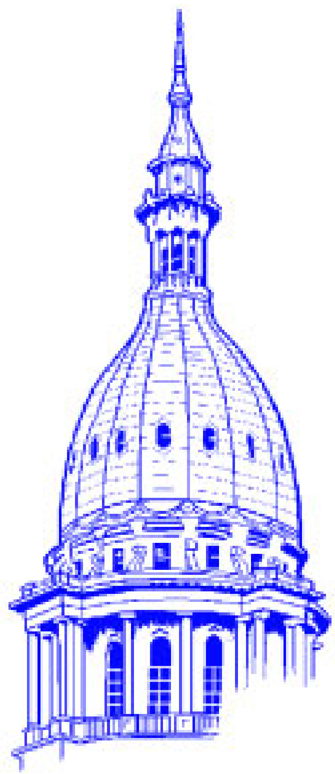
CONSENSUS REVENUE AGREEMENT
FINAL REPORT
AUGUST 17, 2005

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



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CONSENSUS FINAL AGREEMENT
AUGUST 17, 2005

EXECUTIVE SUMMARY

Revenue Review and Outlook

- FY 2004-05 General Fund/General Purpose (GF/GP) revenue is projected to decrease 0.6% to $7,994.0 million, a $79.3 million increase from the May 2005 Consensus estimate. School Aid Fund (SAF) revenue is expected to grow 2.1% to $10,840.3 million, $10.2 million less than the May Consensus estimate.

- FY 2005-06 GF/GP revenue is projected to increase 2.7% to $8,212.9 million, an increase of $218.8 million from FY 2004-05, and $77.8 million more than expected by the May 2005 Consensus estimate. School Aid Fund revenue is projected to rise 3.6% to $11,233.1 million, $392.7 million above the estimate for FY 2004-05 but $11.0 million less than expected in May.

2005 and 2006 U.S. Economic Outlook

- Inflation-adjusted Gross Domestic Product growth is forecast to average 3.6% in 2005 and 3.0% during 2006.

- The U.S. unemployment rate is forecast to average 5.1% in both 2005 and 2006.

- Consumer price inflation is forecast to be moderate, averaging 3.2% in 2005 and 3.0% in 2006.

- Wage and commodity price pressures are expected to continue building, helping to push up interest rates over the forecast period. The interest rate on 3-month Treasury bills is expected to increase to an average of 3.2% in 2005 and 4.3% in 2006.

- Light vehicle sales are forecast to total 17.0 million units in 2005 and drop slightly, to 16.8 million units, in 2006. The share of sales composed of imports will increase over the period.

2005 and 2006 Michigan Economic Outlook

- On an annual basis, Michigan wage and salary employment is expected to decline again in 2005, by 0.3%, before posting the first annual increase since 2000 in 2006, with a gain of 0.5%.

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

- Wage and salary income is predicted to rise 3.0% in 2005, followed by a 4.1% increase during 2006. Personal income growth will accelerate throughout the forecast horizon, rising 4.6% and 5.3% in 2005 and 2006, respectively.

- In FY 2004-05 and FY 2005-06, Michigan wage and salary income is anticipated to grow 2.8% and 3.4%, respectively. Disposable income is expected to rise 3.6% in FY 2004-05 and 4.4% in FY 2005-06.

Forecast Risks

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

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

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

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

- Inflationary pressures may be greater than expected. A rapidly falling dollar, while helping the manufacturing sector and exports, could also spur inflation and lead to instability for U.S. financial markets. Slower equity price growth or outright declines could slow consumption and investment spending. Other inflationary pressures, among them higher energy prices, rising health care and pension costs, and the increased obsolescence of current production capacity, could be stronger than expected and result in higher interest rates, lower inflation-adjusted consumption and investment spending, and greater financial uncertainty in U.S. financial markets.

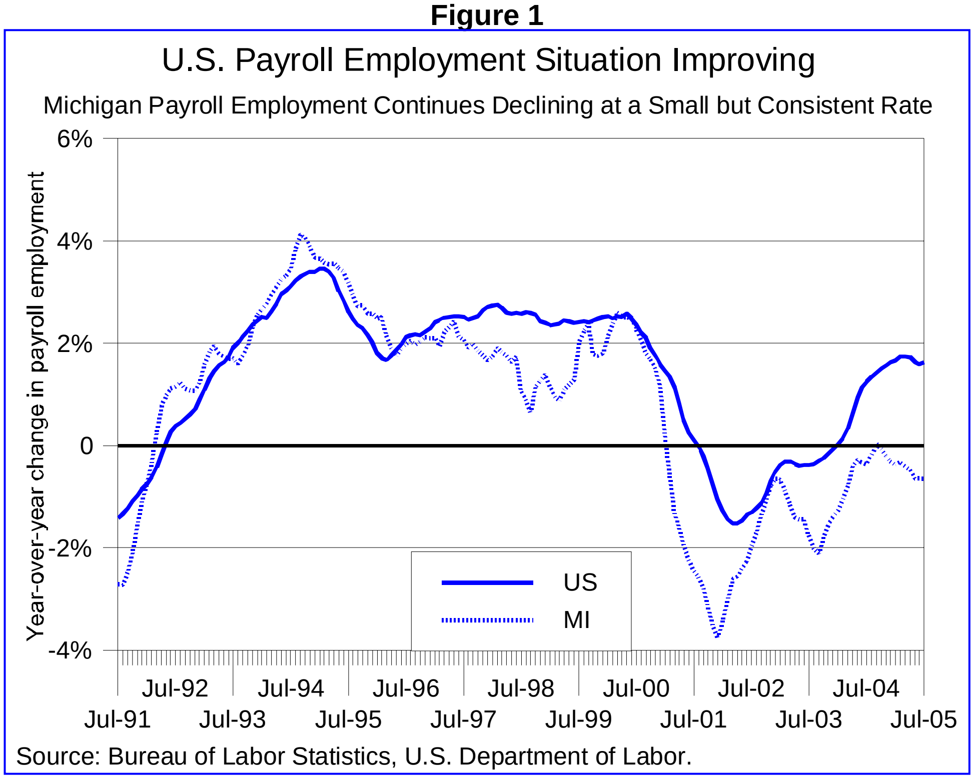
ECONOMIC REVIEW AND CONSENSUS OUTLOOK - AUGUST 17, 2005

Current U.S. Economic Situation

The current recovery, according to the National Bureau of Economic Research, is now almost four years old, having begun in November 2001. Over the past eight quarters, real Gross Domestic Product (GDP) growth has exceeded 3.0% each quarter and consumption growth has generally remained strong over this period. Similarly, equipment and software investment has grown at double-digit rates in six of the last eight quarters, spurred by higher profits and Federal tax incentives that expired at the end of 2004. Light vehicle sales have remained strong throughout the recovery, boosted by record incentives and low financing rates. Supported by historically low interest rates, new and existing home sales have also remained strong and housing starts have risen to levels not seen consistently since the 1970s.

However, employment growth has lagged behind the recovery. Wage and salary employment declined for nine consecutive quarters, including six quarters after the recovery officially began. While employment has grown in each of the past eight quarters, that growth has been uneven. Further, despite recent growth, U.S. payroll employment did not surpass its February 2001 peak until January 2005 and was only 1.2 million above that peak in July 2005 (Figure 1). Continued job growth will be a key factor to sustained economic growth.

Figure 1

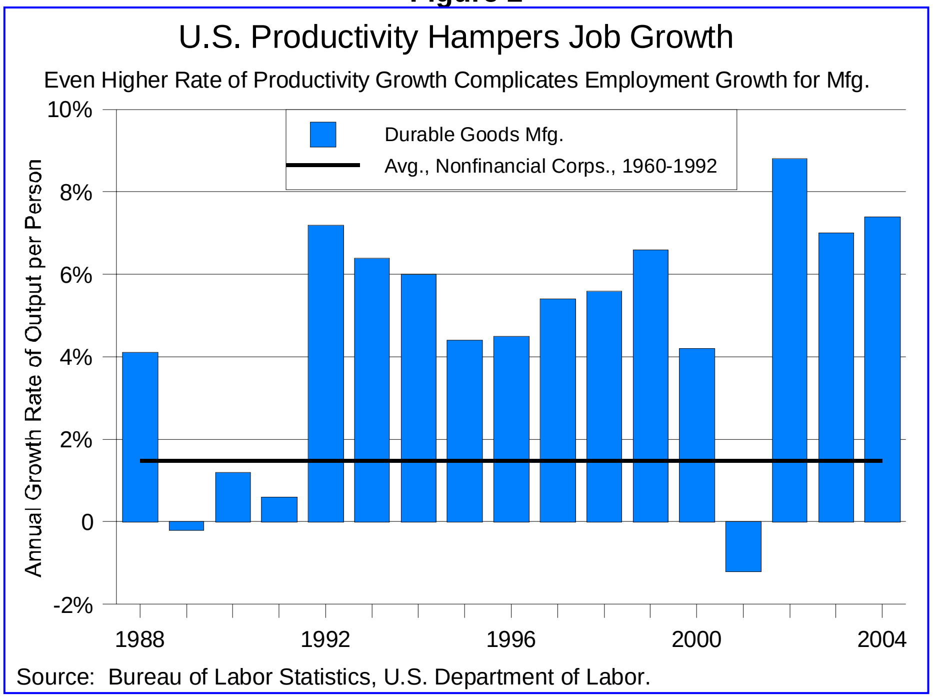


Source: Bureau of Labor Statistics, U.S. Department of Labor.

The manufacturing sector has exhibited particularly poor job growth. Even before the recession, the manufacturing sector was losing jobs. Beginning in August 2000, U.S. manufacturing employment fell for 43 consecutive months. Manufacturing employment then reported solid gains in early 2004. However, in recent months, manufacturing employment has continued to decline. Between February 2001, when the recession began, and July 2005, the manufacturing sector lost approximately 2.8 million jobs.

Rapid productivity gains have allowed firms to reduce payroll employment even as they continued to increase output (Figure 2). Both overall productivity growth and productivity in the manufacturing sector have remained strong. Output per person for all nonfinancial corporations has grown at an annual rate of more than 7.0% in three of the last four quarters while for the durable goods manufacturing sector output per person has exceeded 4.0% in five of the last six quarters, down from four quarters of double-digit growth during 2002 and 2003.

Figure 2

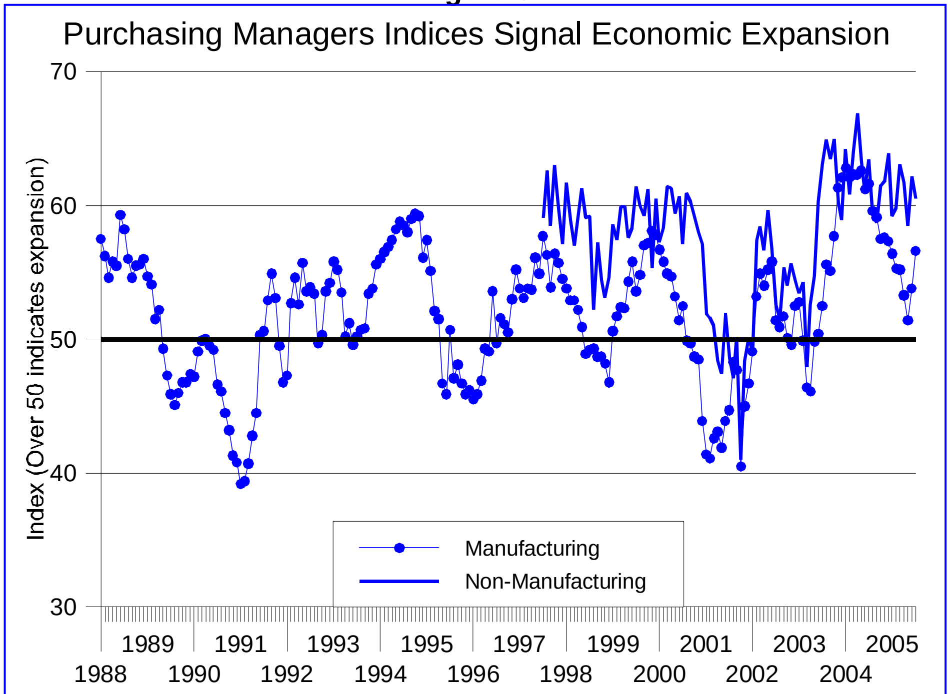


Interest rates have remained at historically low levels, but are expected to rise as the economy continues to exhibit solid growth. The Federal Reserve Board of Governors has increased the target Federal funds rate 25 basis points at each Open Market Committee meeting since June 2004. As a result, the Federal funds rate has risen from 1.0% in May 2004 to 3.5% in August 2005. Other short-term interest rates have risen, with the rate on 90-day Treasury bills rising from 1.0% to 3.5% over the same period and the prime rate on business loans rising from 4.0% to 6.5%.

Inflationary pressures, ranging from the declining value of the dollar, to higher commodity prices, to higher wage costs from rising health care costs, pension costs and a tighter labor market, also will put additional pressure on the Federal Reserve to increase interest rates. Energy prices, most notably oil prices, are increasing due to a restricted supply and growing world demand. Despite a brief drop in December, oil prices have hovered near the $55-a-barrel mark for five months. Similarly, natural gas prices in the second quarter of 2005 were more than 12.0% above year-ago levels and nearly 30.0% above the level in September 2004. Security concerns for oil supplies are also in the forefront with tensions high in Iraq and elsewhere in the Middle East, as well as in a number of other oil-producing nations.

Other indicators for the national economy point to continued economic growth. The Institute for Supply Management's manufacturing index and nonmanufacturing index both have remained above 50, and while the manufacturing index has declined fairly steadily over most of 2005, the last two months have seen improvement and the July reading was the highest since December 2004 (Figure 3). The nonmanufacturing index has consistently indicated growth, although at a weaker level than a year ago. A reading above 50 indicates a growing sector.

Figure 3



Source: Institute for Supply Management

While new durable goods orders have trended upward, capacity utilization remains near 20-year lows. Recent retail sales growth has been somewhat uneven but has consistently trended upward, although it has been heavily dominated by spending on gasoline and motor vehicles. Similarly, consumer sentiment has remained strong. A slight general decline in confidence during the first half of the year was essentially wiped out by the readings in June and July. However, after declining during 2003, the burden of servicing consumer debt has been rising as a share of disposable income as interest rates have risen and debt levels have resumed increasing.

Rebates, coupled with low financing rates, have helped maintain vehicle sales above 16 million units. In 2003, light vehicle sales averaged 16.6 million units and 2004 light vehicle sales averaged 16.8 million units. However, over the past few years, imports and transplants have continued to increase their market share (Figure 4). This erosion of market share for the traditional "Big Three" domestic vehicle manufacturers is a particular concern for the Michigan economy, where roughly one-fourth of domestically manufactured vehicles are produced and nearly one-third of "Big Three" vehicles are produced (Figure 5).

Current Michigan Economic Conditions

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

Figure 4

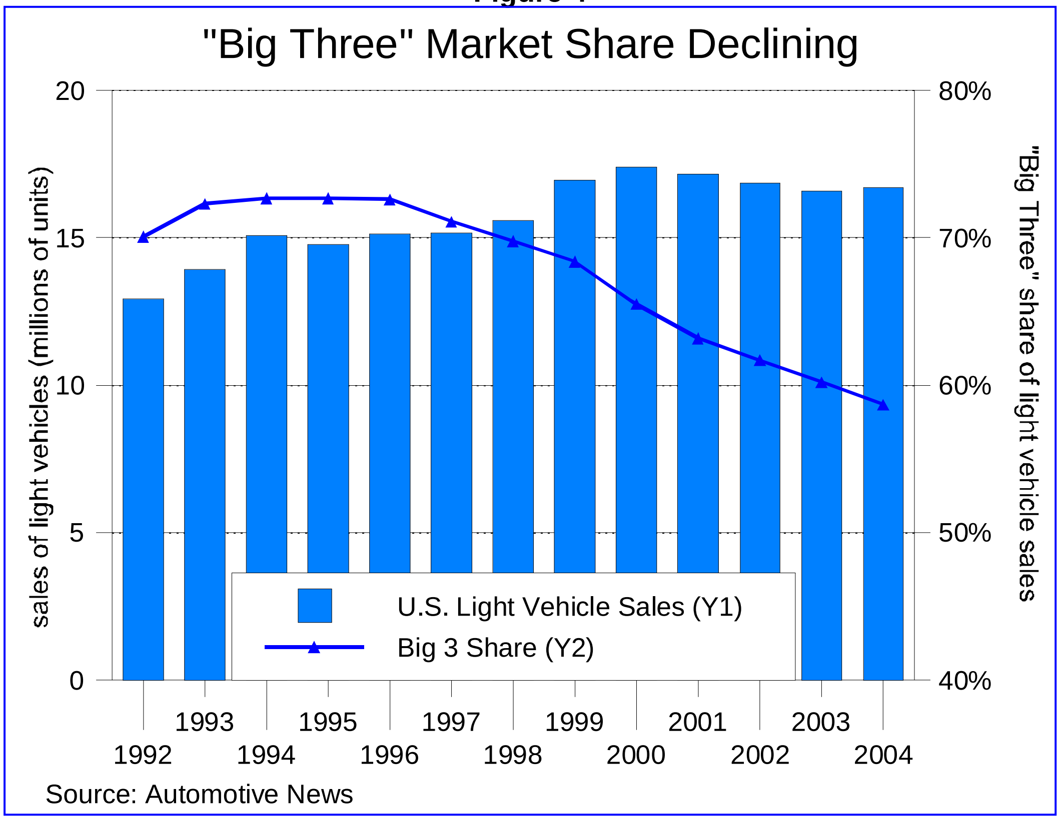


Figure 5

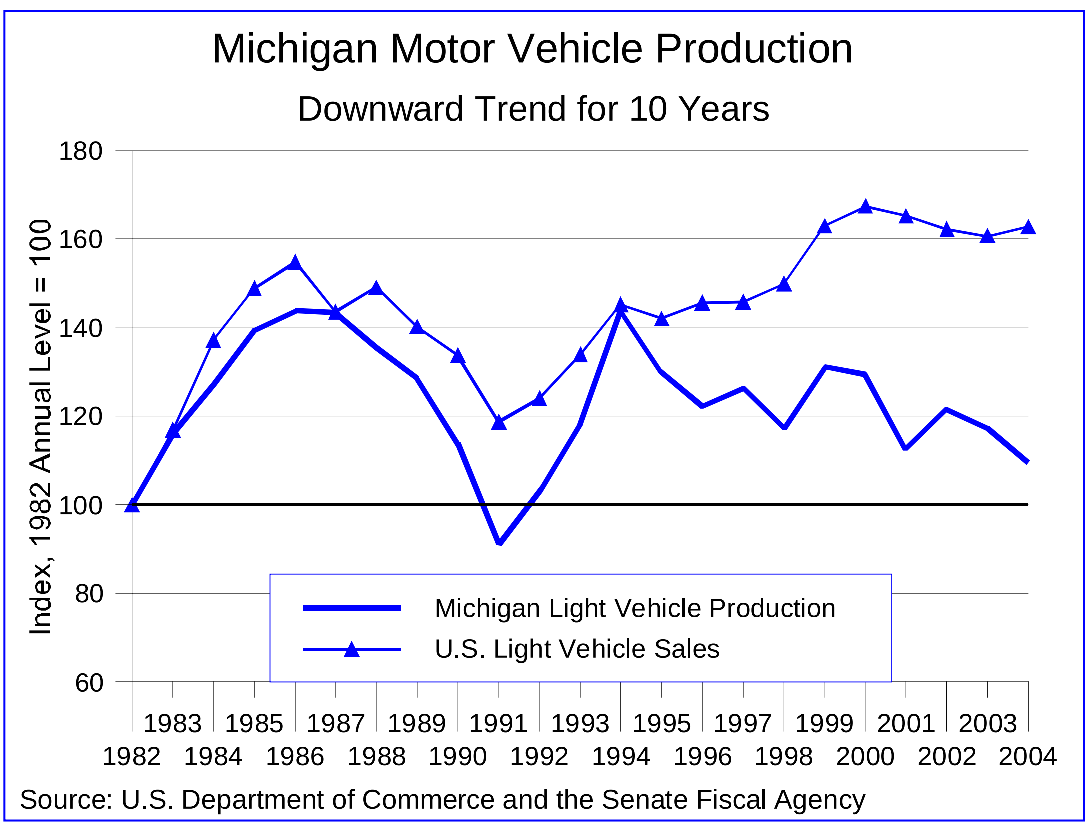
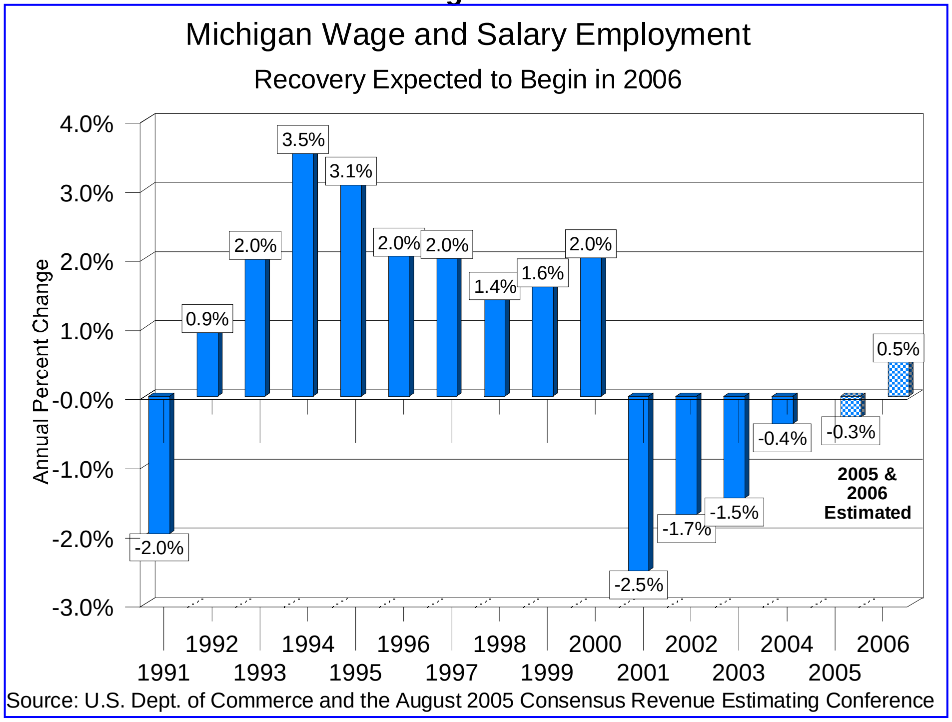


Figure 6



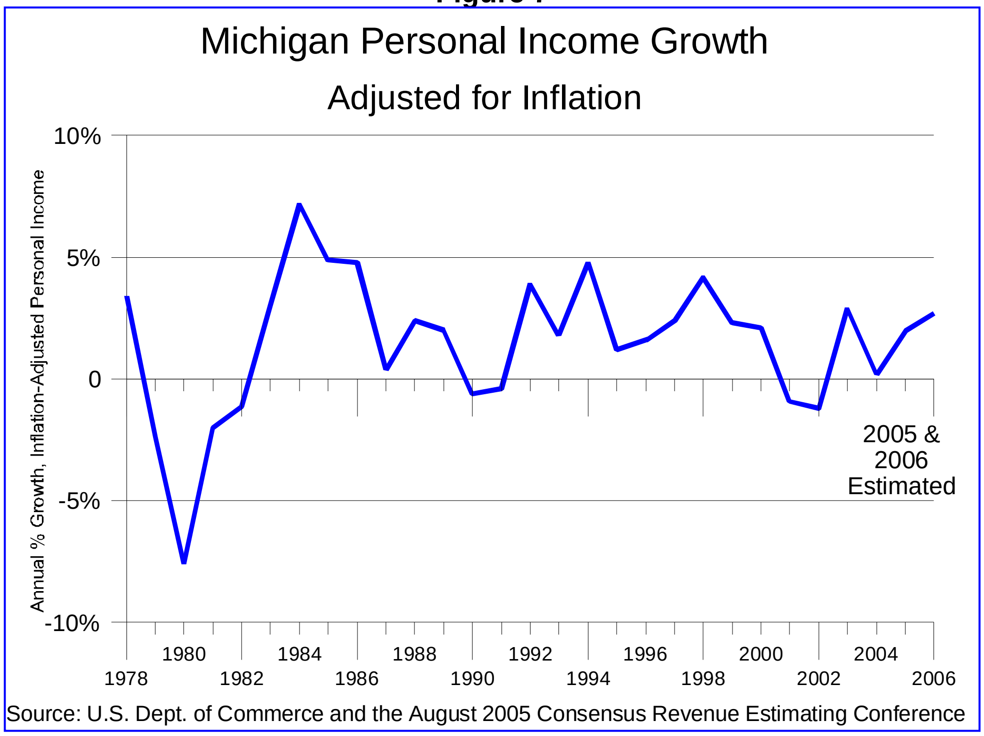
Substantial productivity gains in the vehicle industry have also contributed to Michigan's sub-par employment performance. Productivity growth in the durable goods sector, a sector in which Michigan industry is disproportionately concentrated, has grown significantly (Figure 2). Productivity growth in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

Over the past four years, the annual average for wage and salary employment has fallen. Through July 2005, Michigan wage and salary employment was approximately 0.7% lower than one year ago. From Michigan's employment peak in June 2000 (nine months before employment peaked nationally) to July 2005, Michigan wage and salary employment declined by 345,300 jobs, a 7.4% drop. By this time after the 1990-1991 recession, Michigan employment had risen approximately 209,700 jobs *above* its pre-recession peak, a 5.2% increase. However, while both total payroll employment and manufacturing employment have trended down since June 2000, the rate of that decline has occasionally shown signs of stabilizing. For example, Michigan wage and salary employment increased in two of the three months over the February-April period—the best performance since August-October 2003, although April 2005 employment was still 28,500 jobs below the level in April 2004.

Michigan manufacturing employment has declined even more sharply than total employment. Between June 2000 and July 2005, Michigan manufacturing employment fell by approximately 245,300 jobs, a 27.1% decline. Michigan has lost more than one out of every four manufacturing jobs it had at the State's employment peak and lost almost twice as many manufacturing jobs as it gained during the 1990s.

Between November 2001, when the national recession officially ended, and July 2005, the Michigan economy lost 153,400 payroll jobs--the most lost by any state in the nation. As a result, inflation-adjusted Michigan personal income has struggled, falling 0.9% in 2001 and 1.9% in 2002. Personal income rose by 2.9% in 2003 (Figure 7), although much of the increase reflects payments to pension plans that were made by the "Big Three". Inflation-adjusted Michigan personal income increased 0.2% in 2004, reflecting both a weak economy and the effect of the 2003 pension plan payments.

Figure 7



Without adjusting for inflation, Michigan's personal income increased 4.9% in 2003 but only 1.8% in 2004, while wages and salaries rose 1.8% in 2003 and 2.0% in 2004. (The large contributions by the "Big Three" automobile manufacturers to employee pension and health insurance plans in 2003 also largely account for the apparent incongruity between overall personal income growth and wage and salary growth. These contributions also artificially boosted the growth rate in personal income during 2003 and artificially lowered it in 2004.)

Michigan's annual average unemployment rate for 2003 was 7.1%, the highest level since 1993, and remained at that level in 2004. Although the Michigan unemployment rate is above both the U.S. average of 5.6% for 2004, and its pre-recession lows of roughly 3.0%, the rate is well below the 10.1% rate exhibited in 1985 three years after the end of the 1981-1982 recession and below the rate during the 1991-92 recession.

2004 and 2005 U.S. Economic Outlook

Inflation-adjusted GDP is forecast to grow 3.6% in 2005 and 3.0% 2006, after growing 4.2% in 2004 (Table 1 and Figure 8). Light vehicle sales are projected to remain relatively stable with sales of 17.0 million units in 2005 and 16.8 million units in 2006, compared with the 16.9 million units sold in 2004 (Figure 9).

Inflation will remain moderate throughout the forecast horizon. As measured by the consumer price index (CPI), consumer prices are expected to rise 3.2% and 3.0% in 2005 and 2006, respectively (Figure 10). Interest rates are forecast to remain historically low even as the Federal Reserve continues to tighten and rates on 90-day Treasury bills rise from 1.4% in 2004 to 3.2% in 2005 and 4.3% in 2006.

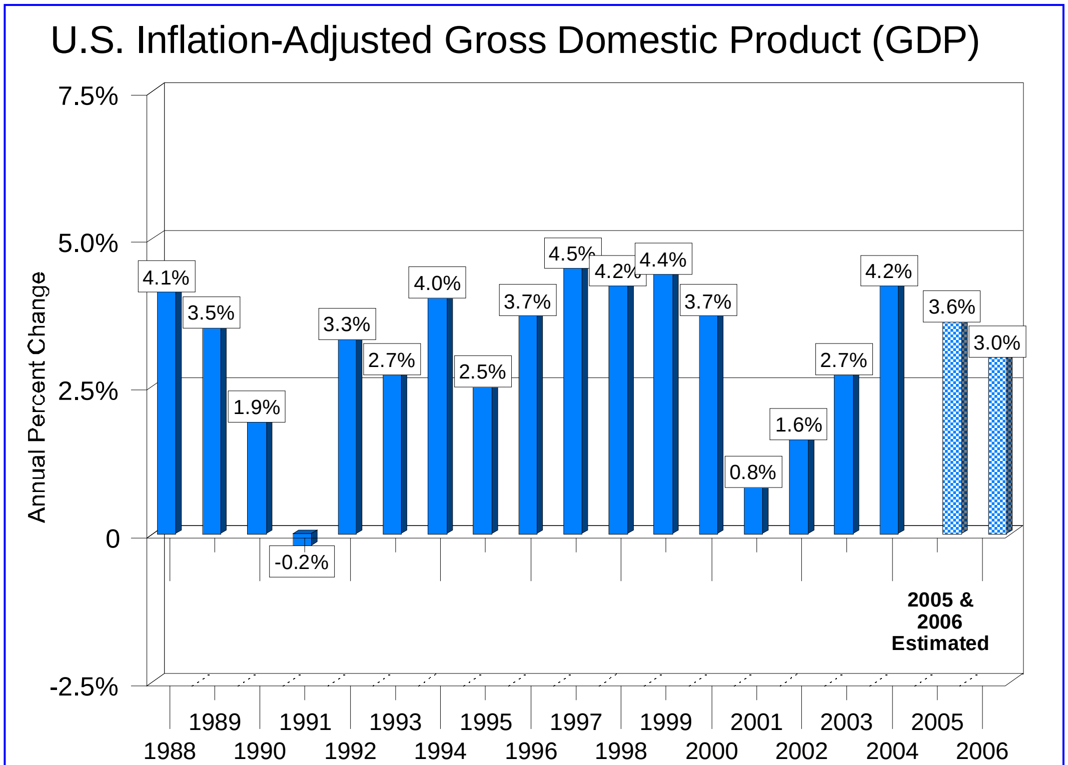
Employment is projected to continue growing over the forecast horizon. As a result, the U.S. unemployment rate is expected to decline from 5.5% in 2004 to 5.1% in 2005 and 2006.

Table 1

Consensus Economic Forecast
August 2005

	Calendar 2003 Actual	Calendar 2004 Forecast	% Change from Prior Year	Calendar 2005 Forecast	% Change from Prior Year	Calendar 2006 Forecast	% Change from Prior Year
United States							
Real Gross Domestic Product (Billions of Chained 2000 Dollars)	$10,321	$10,756	4.2%	$11,143	3.6%	$11,477	3.0%
Implicit Price Deflator GDP (2000 = 100)	106.3	109.1	2.6	112.0	2.7	115.4	3.0
Consumer Price Index (1982-84 = 100)	184.0	189.0	2.7	195.0	3.2	200.9	3.0
Personal Consumption Deflator (2000 = 100)	105.5	108.2	2.6	111.1	2.7	113.9	2.5
3-month Treasury Bills Interest Rate (percent)	1.0	1.4		3.2		4.3	
Aaa Corporate Bonds Interest Rate (percent)	5.7	5.6		5.6		6.4	
Unemployment Rate - Civilian (percent)	6.0	5.5		5.1		5.1	
Light Vehicle Sales (millions of units)	16.6	16.9	1.3	17.0	0.8	16.8	(1.2)
Passenger Car Sales (millions of units)	7.6	7.5	(1.4)	7.7	2.6	7.6	(1.3)
Light Truck Sales (millions of units)	9.0	9.4	3.7	9.3	(0.7)	9.2	(1.1)
Import Share of Light Vehicles (percent)	19.9	20.2		20.2		21.4	
Michigan							
Wage and Salary Employment (thousands)	4,410	4,391	(0.4)%	4,378	(0.3)%	4,400	0.5%
Unemployment Rate (percent)	7.1	7.1		7.2		7.4	
Personal Income (millions of dollars)	$314,346	$322,636	2.6	$337,477	4.6	$355,364	5.3
Real Personal Income (millions of 1982-84 dollars)	$172,244	$173,816	0.9	$177,246	2.0	$182,051	2.7
Wages and Salaries (millions of dollars)	$176,646	$180,007	1.9	$185,407	3.0	$193,009	4.1
Detroit Consumer Price Index (1982-84 = 100)	182.5	185.4	1.6	190.4	2.7	195.2	2.5
Detroit CPI Fiscal Year (1982-84 = 100)	182.0	184.4	1.3	189.0	2.5	194.1	2.7

Figure 8



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

Figure 9

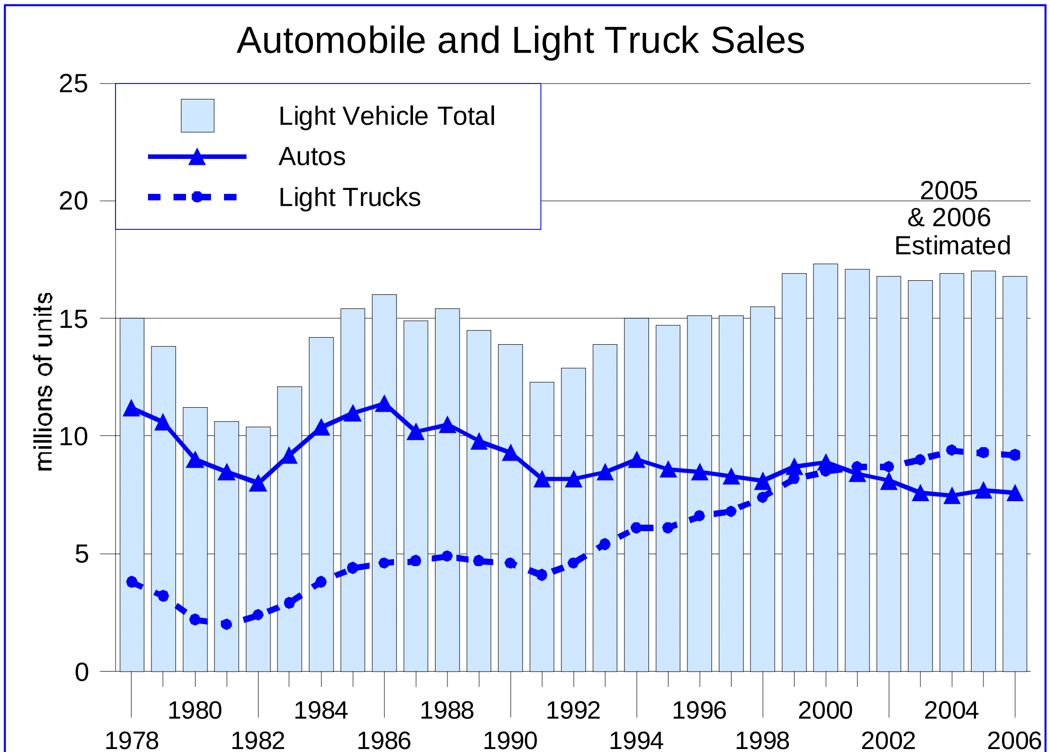


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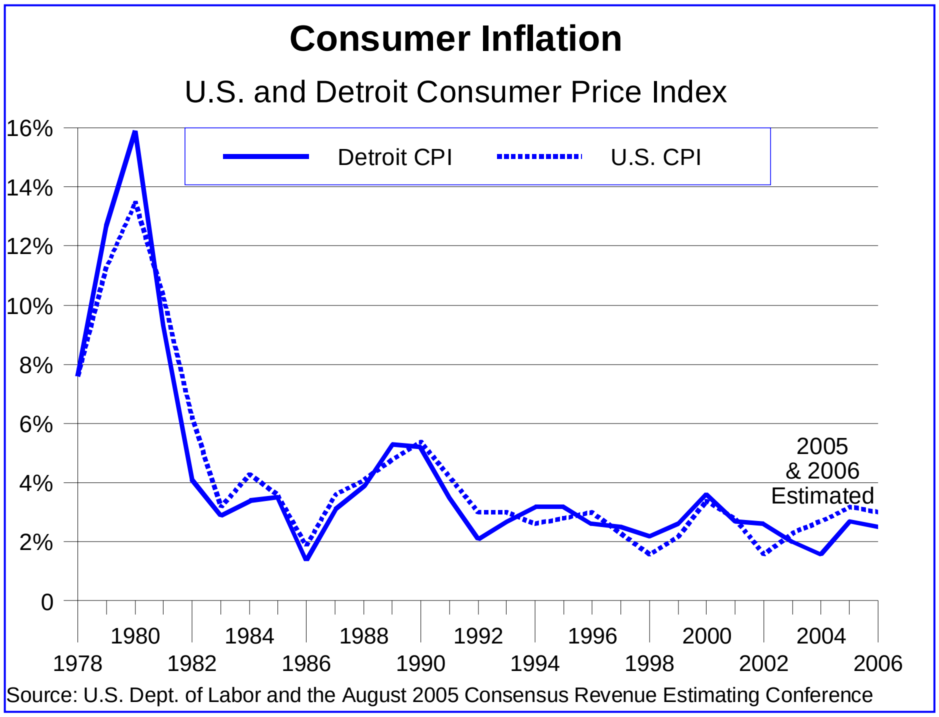
Figure 10



2004 and 2005 Michigan Economic Outlook

Michigan employment declined, on an annual basis, for the fourth straight year in 2004 and is expected to continuing decline in 2005, by 0.3%. However, wage and salary employment is expected to exhibit modest growth in 2006 (Table 1). Weak growth in manufacturing employment will constrain gains in overall Michigan employment. Consistent gains in total wage and salary employment are expected to begin in early 2006, such that the annual average should show an increase of 0.5% (Figure 6). The number of entrants to the labor force is expected to exceed job growth over the forecast, causing Michigan's unemployment rate to rise from 7.1% in 2004 to 7.2% in 2005 and 7.4% in 2006.

Sluggish employment growth is expected to mitigate the growth of income, although 2005 and 2006 are expected to exhibit stronger growth than in 2004. Wage and salary income rose 1.9% in 2004, and is predicted to increase by 3.0% in 2005 and 4.1% in 2006. Michigan personal income rose 2.6% in 2004 and is forecast to grow 4.6% and 5.3% in 2005 and 2006, respectively.

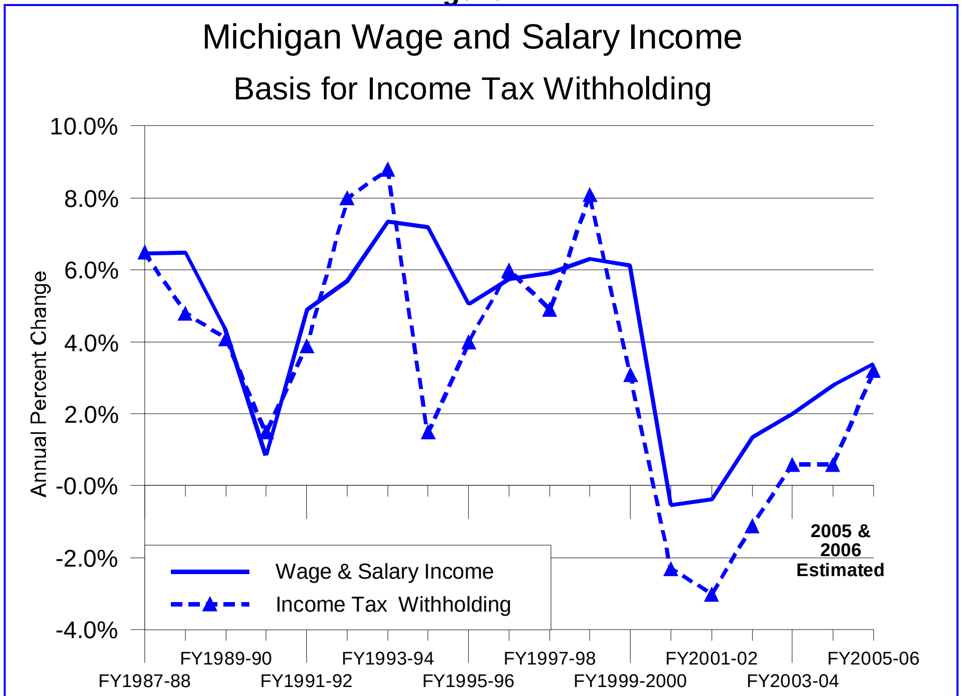
Inflation, as measured by the Detroit CPI, increased 1.6% in 2004. The rise in prices is expected to be slightly faster over the forecast, with increases of 2.7% in 2005 and 2.5% in 2006 (Figure 10). As a result, inflation-adjusted Michigan personal income is expected to grow 2.0% in 2005 and 2.7% in 2006, compared with an increase of 0.9% in 2004 (Figure 7).

Fiscal Year Economics

Most of the revenue Michigan receives is from three taxes: the individual income tax (an expected $6.0 billion in FY 2004-05, which includes refunds) and the sales and use taxes ($8.0 billion). Income tax withholding is the largest component of individual income tax revenue. Withholding ($6.4 billion) is most affected by growth in wages and salaries (Figure 11). Michigan wages and salaries grew 2.0% in fiscal year (FY) 2003-04 and are forecasted to increase 3.3% in FY 2004-05 and 3.8% in FY 2005-06. The predicted FY 2004-05 and FY 2005-06 increases are substantially slower than the growth reported through much of the 1990s, but represent a substantial improvement from FY 2003-04.

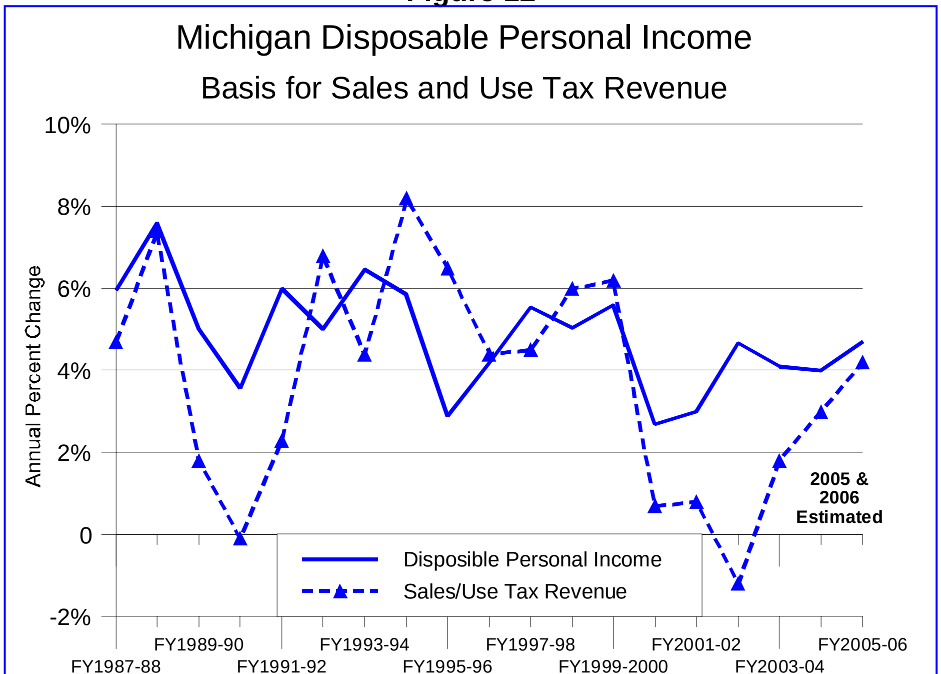
Sales and use tax revenue depends primarily on Michigan disposable (after tax) income and inflation (Figure 12). Michigan disposable income is estimated to have risen 4.1% in FY 2003-04 and is predicted to grow by 4.0% in FY 2004-05 and 4.7% in FY 2005-06. The Detroit Consumer Price Index rose 1.3% in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

Figure 11



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

Figure 12



Source: RSQE at University of Michigan and the May 2005 Consensus Revenue Estimating Conference

Changes from the May 2005 Forecast

Compared with the May 2005 Consensus forecast, the forecast for the U.S. economy during 2005 is slightly stronger but substantively unchanged. Inflation-adjusted GDP growth, inflation, interest rates, and light vehicle sales are all expected to be somewhat higher than in May. However, growth in the Michigan economy during 2005 is predicted to be weaker than was expected in May. The forecast for wage and salary employment growth was lowered from a decline of 0.1% to a decline of 0.3% and wage and salary income growth was lowered from 3.4% to 3.0%. Combined with the expectation of greater inflation in the Detroit consumer price index, inflation-adjusted personal income growth is expected to grow more slowly than in May, falling from 2.4% to 2.0% the same level predicted in January.

The May 2005 forecast generally predicted growth during 2006 in both the U.S. and Michigan economies would be slower than in 2005. The current forecast from August retains that pattern, although the gap between the economy's performance during 2005 compared with 2006 is greater. The forecast for inflation at both the State and national levels is higher. The forecast for inflation-adjusted GDP growth has been lowered from 3.1% in 2006, to 3.0%, while the forecast for the increase in the consumer price index was raised from 2.6% to 3.0%. Similarly, for Michigan the forecast for wage and salary employment growth during 2006 was lowered from 0.8% to 0.5%, while the rate of increase in the Detroit CPI was increased from 2.3% to 2.5%.

Forecast Risks

Although U.S. wage and salary employment has increased each month for over a year, and finally exceeded the pre-recession peak in January, employment gains are still well below the levels experienced historically more than three and half years after the end of a recession. Michigan employment is still well below both the pre-recession peaks and growth historically experienced during a recovery. If employment gains continue not to materialize, due to any number of factors ranging from greater-than-expected growth in productivity, to slower-than-expected export growth, to high consumer and corporate debt burdens, to below-forecast inventory accumulation and/or consumption growth, then businesses and/or consumers may lose confidence in the expansion. If businesses and/or consumers lose confidence in the expansion, either because of these factors or external shocks, such as increases in oil prices or international geopolitical issues, then both national and Michigan employment growth may be slower than forecast.

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

Continued higher oil and natural gas prices could curb growth by reducing consumers' discretionary income and increasing production costs. A measure of this factor is responsible for the changes in the forecast between May and August. Weaker growth abroad could also slow domestic growth as exports decline. Slower growth or outright declines in equity prices could slow consumption and investment spending. If the U.S. dollar declines sharply, inflation risks would increase and financial markets may be roiled. Other significant inflation pressures also may be greater than expected, resulting in higher interest rates and slower employment and economic growth. Geopolitical concerns continue to pose a risk to the forecast.

CONSENSUS REVENUE ESTIMATES - AUGUST 17, 2005

This section of the report presents the consensus revenue estimates adopted at the August 17, 2005, Consensus Revenue Estimating Conference. These estimates include General Fund/General Purpose (GF/GP) revenue, School Aid Fund (SAF) revenue, the constitutional revenue limit, Budget Stabilization Fund pay-in, and the School Aid foundation allowance index.

General Fund/General Purpose and School Aid Fund Revenue Estimates

At the August 17, 2005, Consensus Revenue Estimating Conference, consensus agreements were reached on revised revenue estimates for FY 2004-05 and FY 2005-06. General Fund/General Purpose and SAF revenues include the following three components: 1) estimates for baseline revenue, which measures what revenues would be without any changes in the State's tax structure from one year to the next; 2) tax adjustments, which represent the estimated fiscal impact of enacted tax changes that are not reflected in the baseline revenue; and 3) net revenue, which equals baseline revenue plus the impact of the tax adjustments. In addition, the consensus revenue estimates primarily include GF/GP revenue from ongoing revenue sources and SAF revenue from earmarked taxes and the lottery. The consensus revenue estimates do not typically include the impact of one-time revenue adjustments including, but not limited to, withdrawals from the Budget Stabilization Fund, transfers from other funds, or proceeds from the sale of State property.

Revised Revenue Estimates for FY 2004-05

General Fund/General Purpose and SAF revenue is expected to total $18.83 billion in FY 2004-05, which is up 0.9% from FY 2003-04. Compared with the May 19, 2005, consensus estimate, this revised estimate is up $69.0 million. This modest revision in the FY 2004-05 revenue estimate reflects the fact that through July, tax collections were tracking slightly ahead of the May consensus revenue estimates. The most significant upward revisions were made in income and single business tax estimates, but some of these gains were offset by downward revisions in the sales, tobacco, real estate transfer, and industrial facility tax collections. The revised GF/GP and SAF revenue estimates for FY 2004-05 are summarized in Table 2.

General Fund/General Purpose. General Fund/General Purpose revenue will total an estimated $7.99 billion in FY 2004-05, which is down 0.6% from FY 2003-04. This revised GF/GP revenue estimate is up $79.3 million from the May consensus estimate and this increase is due to upward revisions in estimates for income and single business tax revenue. The projected decline from the FY 2003-04 revenue level is based on three major factors: 1) a $120.0 million decline in the amount of tobacco tax revenue earmarked to the General Fund; 2) a $40.0 million decline in estate tax revenue due to the ongoing phased repeal of this tax; and 3) a loss of an estimated $59.0 million in income tax revenue due to the full-year impact of reducing the income tax rate to 3.9% on July 1, 2004. Partially offsetting these revenue declines will be a $39.0 million increase in casino wagering tax revenue due to the full-year impact of the increase in the tax rate that was effective September 1, 2004.

School Aid Fund. School Aid Fund revenue from earmarked taxes and the lottery is expected to total $10.84 billion in FY 2004-05, which is up 2.1% from the FY 2003-04 level. This estimate reflects a downward revision of $10.2 million from the May consensus estimate. While estimates of collections from the income tax, State education property tax, and lottery earnings were revised up slightly, these gains were more than offset by downward revisions in the revenue estimates for the sales, real estate transfer, tobacco, and industrial facility taxes. The SAF revenue estimate for FY 2004-05 is also summarized in Table 2.

Table 2

FY 2004-05 Consensus Revenue Estimate General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) August 17, 2005, Consensus Revenue Estimating Conference (Millions of Dollars)	FY 2003-04 Final	Previous FY 2004-05 Consensus Estimate May 19, 2005	**FY 2004-05 Revised Consensus Estimate Aug. 17, 2005**	$ Change From May 2005 Consensus Estimate	% Change From FY 2003-04
General Fund/General Purpose:					
Baseline *	$7,992.6	$8,177.7	$8,260.2	$82.5	3.3%
Tax Adjustments	49.3	(263.0)	(266.2)	(3.2)	---
Net GF/GP Revenue	$8,041.8	$7,914.7	$7,994.0	$79.3	(0.6)%
School Aid Fund:					
Baseline *	$10,533.5	$10,850.7	$10,855.4	$4.7	3.1%
Tax Adjustments	82.0	(0.2)	(15.2)	(15.0)	---
Net SAF Revenue	$10,615.5	$10,850.5	$10,840.3	$(10.2)	2.1%
TOTAL GF/GP & SAF:					
Baseline *	$18,526.1	$19,028.4	$19,115.6	$87.2	3.2%
Tax Adjustments	131.3	(263.3)	(281.4)	(18.1)	---
Net GF/GP & SAF Revenue	**$18,657.4**	**$18,765.1**	**$18,834.2**	**$69.1**	**0.9%**

* Baseline base year equals FY 2003-04.

Revised Revenue Estimates for FY 2005-06

It is estimated that GF/GP and SAF revenue will total $19.45 billion in FY 2005-06, which represents an increase of 3.2%, or $611.8 million, from the revised estimate for FY 2004-05, as presented in Table 3. Total GF/GP and SAF baseline revenue will increase at a projected rate of 3.0%, which will mark its strongest increase since FY 1999-2000. This revised estimate of GF/GP and SAF revenue for FY 2005-06 is up $66.8 million from the May consensus estimate. While the consensus economic forecast is little changed for 2006 compared with the May forecast, most of this upward revision in the revenue estimates is due to the fact that revenue in FY 2005-06 will be growing from a higher base due to the revised revenue estimates for FY 2004-05. Most of this upward revision is due to anticipated increases in income, single business, and State education property taxes, and interest and lottery earnings.

General Fund/General Purpose Revenue. General Fund/General Purpose revenue will total an estimated $8.21 billion in FY 2005-06, which represents a 2.7%, or $218.9 million, increase from the revised estimate for FY 2004-05. This increase will be primarily generated by the income, sales, use, single business, and insurance taxes, and interest earnings. In addition, scheduled changes in the earmarking of cigarette tax revenue will help boost GF/GP cigarette tax revenue by $104.0 million in FY 2005-06. These revenue gains will, however, be partially offset by expected declines in the revenue generated from the estate, and oil and gas severance taxes, and in nontax revenue. In addition, telephone and telegraph tax collections are expected to be down $10.0 million due primarily to a new income property valuation procedure that will be in effect for the first time. On a baseline basis, GF/GP revenue is expected to increase 2.3% in FY 2005-06. Compared with the May consensus estimate, this revised GF/GP revenue estimate is up $77.8 million, due primarily to upward revisions in the revenue estimates for income, single business, insurance, and oil and gas severance taxes, and interest earnings.

School Aid Fund. School Aid Fund revenue from all earmarked taxes and the lottery will total an estimated $11.23 billion in FY 2005-06, which represents an increase of 3.6%, or $392.8 million, from the revised estimate for FY 2004-05. As with the May consensus estimate, this revised estimate reflects a general improvement in most of the taxes that are earmarked to the SAF from their FY 2004-05 levels. Sales tax collections are expected to increase 4.2% to $5.04 billion, which will account for almost 45.0% of total SAF revenue derived from the earmarked taxes and lottery revenue. In addition, use tax revenue will be up an estimated 4.3% to $481.8 million, income tax revenue will be up 2.9% to $2.05 billion, and State education property tax revenue will be up an estimated 5.6% to $1.96 billion. Lottery revenue will total an estimated $654.3 million in FY 2005-06, which represents an increase of 2.1%. This revised estimate for SAF earmarked taxes and lottery revenue represents a downward revision of $11.0 million from the May consensus estimate. Most of this downward revision is due to a lowering of the sales, real estate transfer, tobacco, and industrial facility tax revenue estimates.

Table 3

FY 2005-06 Consensus Revenue Estimate
General Fund/General Purpose (GF/GP) and School Aid Fund (SAF)
August 17, 2005, Consensus Revenue Estimating Conference
(Millions of Dollars)

	FY 2004-05 Revised Consensus Estimate Aug. 17, 2005	Previous FY 2005-06 Consensus Estimate May 19, 2005	**FY 2005-06 Revised Consensus Estimate Aug. 17, 2005**	$ Change From May 2005 Consensus Estimate	% Change From FY 2004-05
General Fund/General Purpose:					
Baseline*	$8,260.2	$8,368.3	$8,449.1	$80.8	2.3%
Tax Adjustments	(266.2)	(233.3)	(236.3)	(3.0)	---
Net GF/GP Revenue	$7,994.0	$8,135.1	$8,212.9	$77.8	2.7%
School Aid Fund:					
Baseline*	$10,855.4	$11,236.2	$11,231.7	$(4.5)	3.5%
Tax Adjustments	(15.2)	7.9	1.4	(6.5)	---
Net SAF Revenue	$10,840.3	$11,244.1	$11,233.1	$(11.0)	3.6%
TOTAL GF/GP & SAF:					
Baseline *	$19,115.6	!19,604.5	$19,680.8	$76.3	3.0%
Tax Adjustments	(281.4)	(225.4)	(234.9)	(9.5)	---
Net GF/GP & SAF Revenue	**$18,834.2**	**$19,379.2**	**$19,446.0**	**$66.8**	**3.2%**

* Baseline base year equals FY 2003-04.

Detailed Revenue Estimates

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

Table 4

General Fund/General Purpose and School Aid Fund
Detailed Revenue Estimates: FY 2004-05 and FY 2005-06
August 17, 2005 Consensus Revenue Estimates
(Millions of Dollars)

	FY 2003-04		FY 2004-05		FY 2005-06	
Fund/Revenue Source	**Final**	**% Chg.**	**Estimate**	**% Chg.**	**Estimate**	**% Chg.**
GEN'L FUND/GEN'L PURPOSE:						
Personal Income Tax						
Gross Collections	$7,467.0	1.4%	$7,676.3	2.8%	$7,901.4	2.9%
Less: Refunds	(1,594.2)	2.8%	(1,660.7)	4.2%	(1,725.0)	3.9%
Net Income Tax Collections	$5,872.8	1.1%	$6,015.6	2.4%	$6,176.4	2.7%
Less: Earmarking to SAF	(1,893.5)	2.5%	(1,992.3)	5.2%	(2,051.0)	2.9%
Campaign Fund	(1.5)	(21.1)%	(1.5)	(0.0)%	(1.5)	(0.0)%
Net Income Tax to GF/GP	$3,977.8	0.4%	$4,021.8	1.1%	$4,123.9	2.5%
Other Taxes						
Single Business Tax	$1,827.6	(0.8)%	$1,885.7	3.2%	$1,913.8	1.5%
Sales	102.1	60.5%	107.6	5.4%	114.7	6.6%
Use	877.4	7.1%	923.7	5.3%	963.7	4.3%
Cigarette	242.7	(16.1)%	117.5	(51.6)%	228.1	94.1%
Insurance Co. Premiums	230.3	(0.3)%	236.3	2.6%	240.0	1.6%
Telephone & Telegraph	101.3	(18.4)%	97.3	(3.9)%	81.3	(16.4)%
Estate	75.5	(23.4)%	30.0	(60.3)%	8.0	(73.3)%
Oil & Gas Severance	57.1	19.2%	65.0	13.8%	60.0	(7.7)%
Casino Tax	3.2	---	42.5	1,228.1%	43.1	1.4%
All Other	110.4	(17.2)%	114.1	3.4%	114.5	0.4%
Subtotal Other Taxes	$3,627.6	(0.6)%	$3,619.7	(0.2)%	$3,767.2	4.1%
Total Nontax Revenue	436.4	26.0%	352.5	(19.2)%	321.8	(8.7)%
TOTAL GF/GP REVENUE	$8,041.8	1.1%	$7,994.0	(0.6)%	$8,212.9	2.7%
SCHOOL AID FUND:						
Earmarked Taxes						
Sales	$4,716.7	0.8%	$4,824.3	2.3%	$5,028.4	4.2%
Use	439.1	7.0%	461.9	5.2%	481.8	4.3%
State Education Property	1,824.5	(14.2)%	1,854.0	1.6%	1,956.9	5.6%
Real Estate Transfer	317.5	15.2%	316.0	(0.5)%	316.0	0.0%
Income	1,893.5	2.5%	1,992.3	5.2%	2,051.0	2.9%
Tobacco	484.8	(0.9)%	470.7	(2.9)%	463.1	(1.6)%
Casino	95.8	5.4%	98.4	2.7%	99.7	1.3%
Other Taxes	198.7	(3.7)%	181.7	(8.6)%	181.9	0.1%
Subtotal Taxes	$9,970.6	(1.6)%	$10,199.3	2.3%	$10,578.8	3.7%
Lottery Revenue	644.9	10.1%	641.0	(0.6)%	654.3	2.1%
TOTAL SAF REVENUE	**$10,615.5**	**(0.9)%**	**$10,840.3**	**2.1%**	**$11,233.1**	**3.6%**
TOTAL GF/GP & SAF REVENUE	**$18,657.4**	**(0.1)%**	**$18,834.2**	**0.9%**	**$19,446.0**	**3.2%**
Total Revenue for Major Taxes:						
Sales Tax	$6,473.5	0.8%	$6,624.5	2.3%	$6,905.0	4.2%
Use Tax	1,316.5	7.0%	1,385.6	5.2%	1,445.5	4.3%
Cigarette Tax	968.4	11.5%	1,132.1	16.9%	1,113.4	(1.7)%
Other Tobacco Products Tax	24.4	15.6%	32.1	31.6%	32.1	0.0%
Total Tobacco Taxes	$992.8	11.4%	$1,164.2	17.3%	$1,145.5	(1.6)%
Casino Tax	99.5	9.5%	147.0	47.7%	149.0	1.4%

Constitutional Revenue Limit

Article IX, Section 26, of the Michigan Constitution establishes a limit on the amount of revenue State government can collect in any given fiscal year. The revenue limit for a given fiscal year is equal to 9.49% of the State's personal income for the calendar year prior to the year in which the fiscal year begins. For example, calendar year (CY) 2003 personal income is used to set the revenue limit in FY 2004-05. If revenue exceeds the limit by less than 1.0%, the State may deposit the excess into the Budget Stabilization Fund (BSF). If revenue exceeds the limit by more than 1.0%, the excess revenue must be refunded to taxpayers via the income and single business taxes.

In FY 2003-04, revenue subject to the revenue limit fell below the limit by $4.4 billion or 15.4%. Given the consensus economic forecast and revenue estimates for FY 2004-05 and FY 2005-06, it is projected that revenue will remain well below the revenue limit in both FY 2004-05 and FY 2005-06. As shown in Table 5, revenue subject to the revenue limit will fall below the revenue limit by an estimated $5.2 billion, or 17.4%, in FY 2004-05 and $5.1 billion, or 16.7%, in FY 2005-06.

Table 5
COMPLIANCE WITH CONSTITUTIONAL REVENUE LIMIT CONSENSUS ESTIMATE
(Millions of Dollars)

	FY 2002-03 Actual	FY 2003-04 Actual	FY 2004-05 Consensus	FY 2005-06 Consensus
Revenue Subject to Limit	**$24,061.6**	**$24,384.7**	**$24,652.6**	**$25,512.0**
Revenue Limit				
Personal Income:				
Time Period	CY 2001	CY 2002	CY 2003	CY 2004
Level	$297,609	$303,745	$314,460	$322,636
Revenue Limit %	9.49%	9.49%	9.49%	9.49%
Revenue Limit	$28,243.1	$28,825.4	$29,842.2	$30,618.2
Amount Under (Over) Limit	**$4,181.5**	**$4,440.7**	**$5,189.6**	**$5,106.2**
Percent Under (Over) Limit	**14.8%**	**15.4%**	**17.4%**	**16.7%**

Budget Stabilization Fund Calculation

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

Based on the consensus economic forecast, real Michigan personal income less transfer payments will increase an estimated 2.1% in calendar year 2005, which when combined with the GF/GP revenue estimate for FY 2004-05 translates into a suggested payment into the BSF of $8.0 million in FY 2005-06. This calculation is presented in Table 6.

Table 6

Counter Cyclical Budget and Economic Stabilization Fund Pay-in Calculation for FY 2005-06 (Millions of Dollars)		
	CY 2004	**CY 2005**
Michigan Personal Income (MPI)	$322,636[a)]	$337,477[b)]
Less: Transfer Payments	49,101[a)]	51,949[b)]
Personal Income Net of Transfers	$273,535	$285,528
Detroit Consumer Price Index	1.837[c)]	1.878[c)]
for 12 months ending in:	June 2004	June 2005
Real Michigan Personal Income Less Transfers	$148,903	$152,038
Percent Change in Real Adjusted Personal Income	---	2.1%
Excess Over 2%	---	0.1%
GF/GP Revenue in FY 2004-05		$7,994.0
BSF Formula Estimated Pay-In in FY 2005-06[d)]		$8.0

[a)] U.S. Department of Commerce, Bureau of Economic Analysis, June 2005. [b)] Consensus Economic Forecast, August 17, 2005. [c)] U.S. Department of Labor, Bureau of Labor Statistics, average for 12 months ending in June for each year. [d)] For a payment into the BSF actually to occur, it must be appropriated by the Legislature and approved by the Governor.

School Aid Foundation Allowance Index

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

Pupil Membership Adjustment Factor

The pupil membership adjustment factor equals the pupil count in the previous year (FY 2004-05) divided by the pupil estimate for the current year (FY 2005-06). Based on consensus pupil estimates, the pupil membership adjustment factor for FY 2005-06 equals 1,707,843/1,704,000 or 1.0023. This estimate was adopted at the May 2005 Consensus Revenue Estimating Conference and was not changed at the August 2005 Conference.

Revenue Adjustment Factor

The School Aid Fund (SAF) revenue adjustment factor for FY 2005-06 is calculated using the following two steps: 1) all SAF earmarked tax and lottery revenue estimates for FY 2003-04 through FY 2005-06 are put on a baseline basis using FY 2005-06 as the base year; and 2) the sum of FY 2004-05 and FY 2005-06 baseline SAF earmarked revenue is divided by the sum of FY 2003-04 and FY 2004-05 baseline SAF earmarked revenue. Based on the August 2005 consensus revenue estimates, the SAF revenue adjustment factor equals 1.0326 for FY 2005-06. This calculation is presented in Table 7.

School Aid Foundation Allowance Index

Using the above consensus estimates for the pupil membership adjustment factor and the revenue adjustment factor, the School Aid foundation allowance index for FY 2005-06 equals the pupil index (1.0023) times the revenue adjustment factor (1.0326), which equals 1.0350. This means that the FY 2005-06 basic foundation allowance should increase by at least 3.5% from the FY 2004-05 basic foundation allowance of $6,700, for an increase of at least $235. Due to budget constraints, however, the Governor recommended, and the Legislature approved, an increase in the basic foundation allowance for FY 2005-06 of $175 per pupil.

Table 7

Consensus School Aid Revenue Adjustment Factor: FY 2005-06 (Millions of Dollars)			
	FY 2003-04	**FY 2004-05**	**FY 2005-06**
School Aid Fund Consensus Revenue Estimate:			
(August 2005, Base Year = FY 2003-04)			
Baseline School Aid Fund Revenue	$10,533.5	$10,855.4	$11,231.7
Enacted Tax/Revenue Adjustments	82.0	(15.2)	1.4
Net School Aid Fund Revenue	$10,615.5	$10,840.2	$11,233.1
Base Year FY 2005-06 Adjustments	$(80.6)	$16.6	$0.0
Baseline Revenue (FY 2005-06 Base Year)	$10,534.9	$10,856.8	$11,233.1
School Aid Fund Revenue Adjustment Calculation: FY 2005-06			
Sum of Baseline FY 2003-04 and FY 2004-05	$10,534.9 + $10,856.8 = $21,391.8		
Sum of Baseline FY 2004-05 and FY 2005-06	$10,856.8 + $11,233.1 = $22,089.9		
FY 2005-06 Revenue Adjustment Factor (FY05+FY06)/(FY04+FY05):	**1.0326**		