



CITIZENS RESEARCH COUNCIL OF MICHIGAN

Update on Revenue Outlook

Michigan School Business Officials

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Citizens Research Council

- Founded in 1916
- Statewide
- Non-partisan
- Private not-for-profit
- Promotes sound policy for state and local governments through factual research – accurate, independent and objective
- Relies on charitable contributions of Michigan foundations, businesses, and individuals
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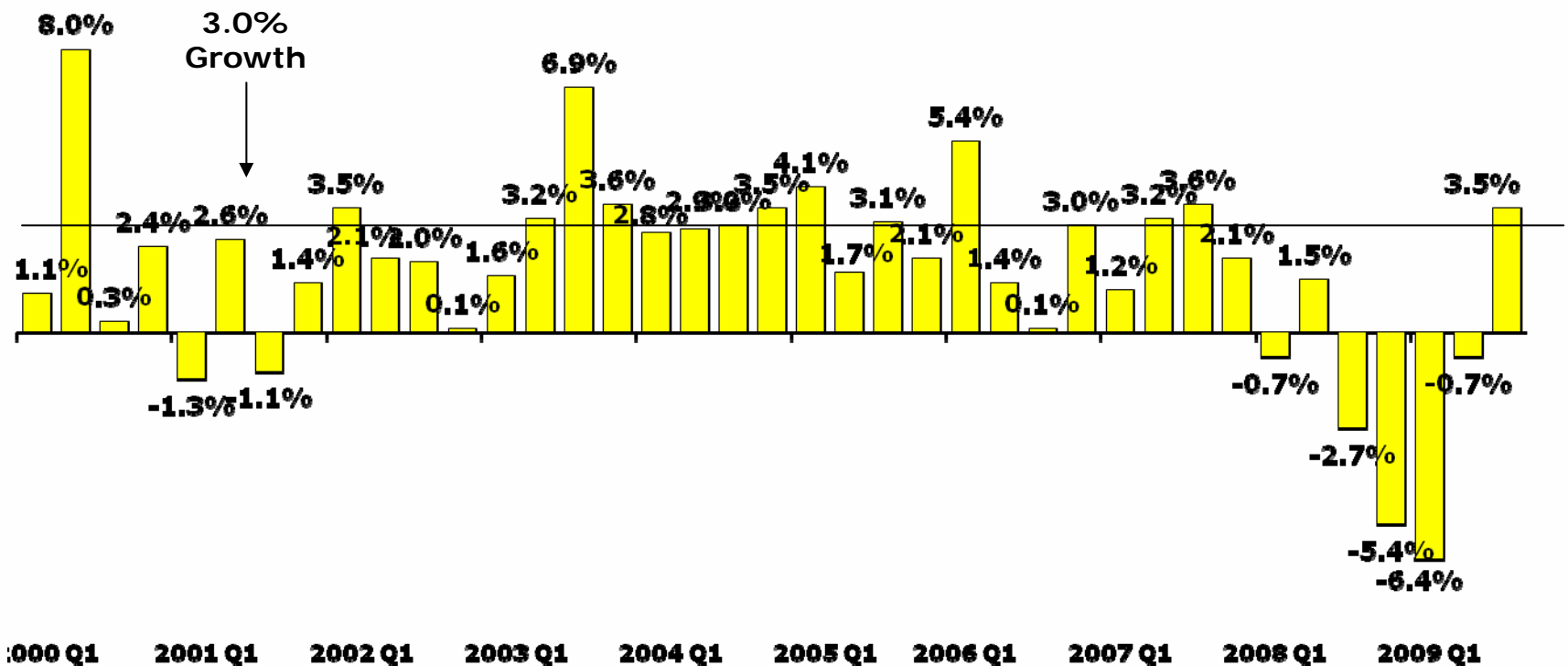
Where are We Now?

- U.S. recession probably ended over summer, but employment growth still several months off
- Michigan employment growth will trail U.S., but we could see growth towards the end of next year
- Recovery is tenuous and we could easily slip back into recession
- It could have been worse, we did not enter a depression, and Ford, GM, and Chrysler are still here



Recession Over?

Real GDP Growth

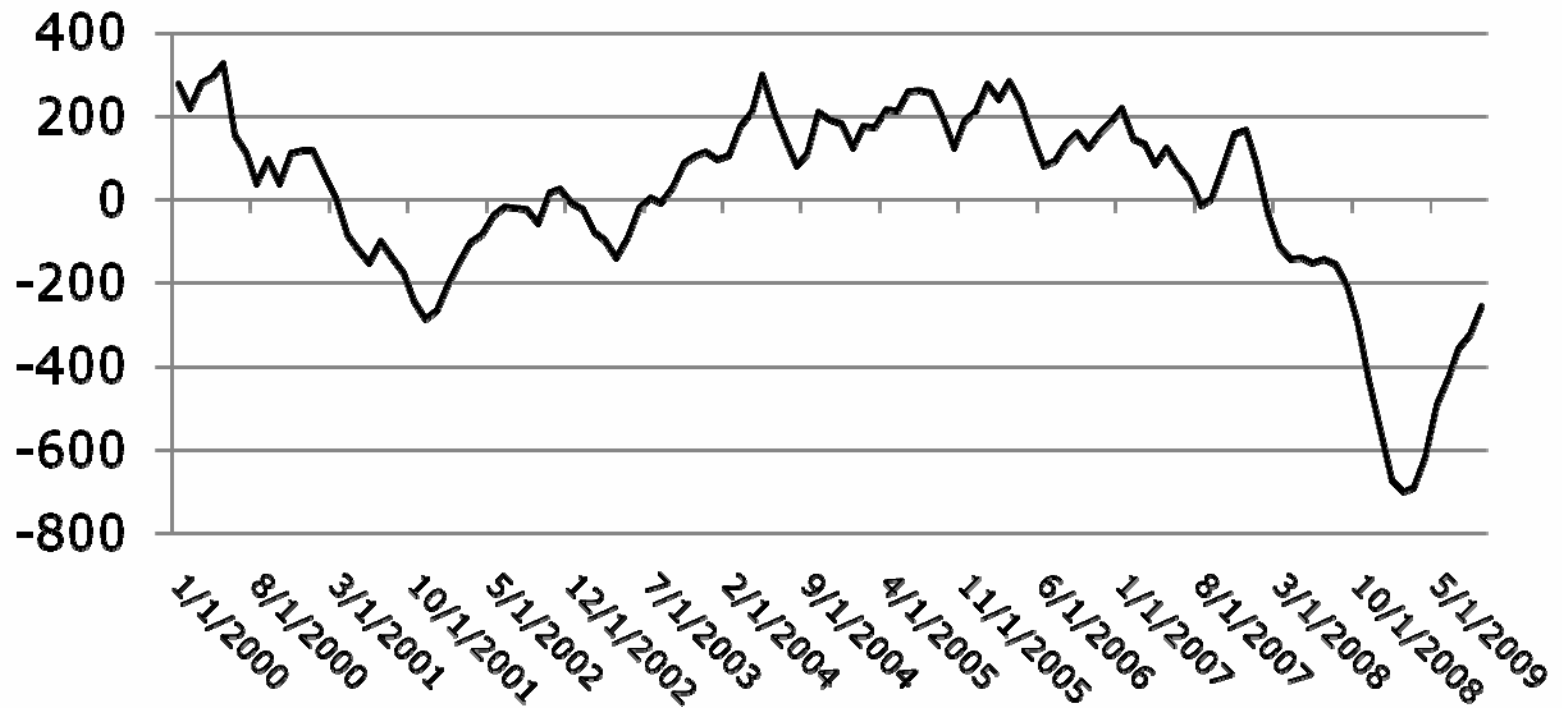


4 Figures are annualized percent change from preceding quarter in 2000 chained dollars.
Source: Bureau of Economic Analysis.



Employment Declines Were Massive But Are Abating

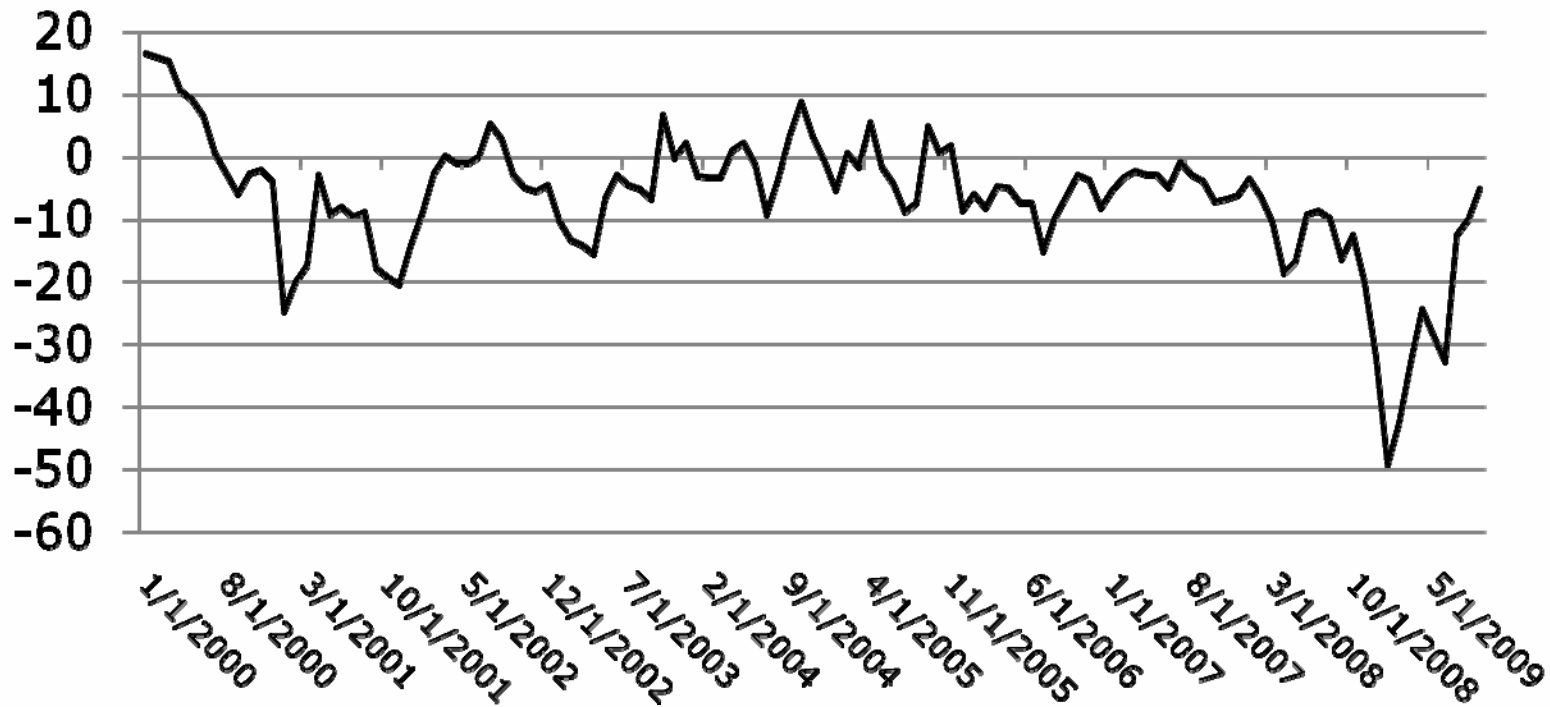
U.S. Employment Change
Month to Month (3 month average in thousands)





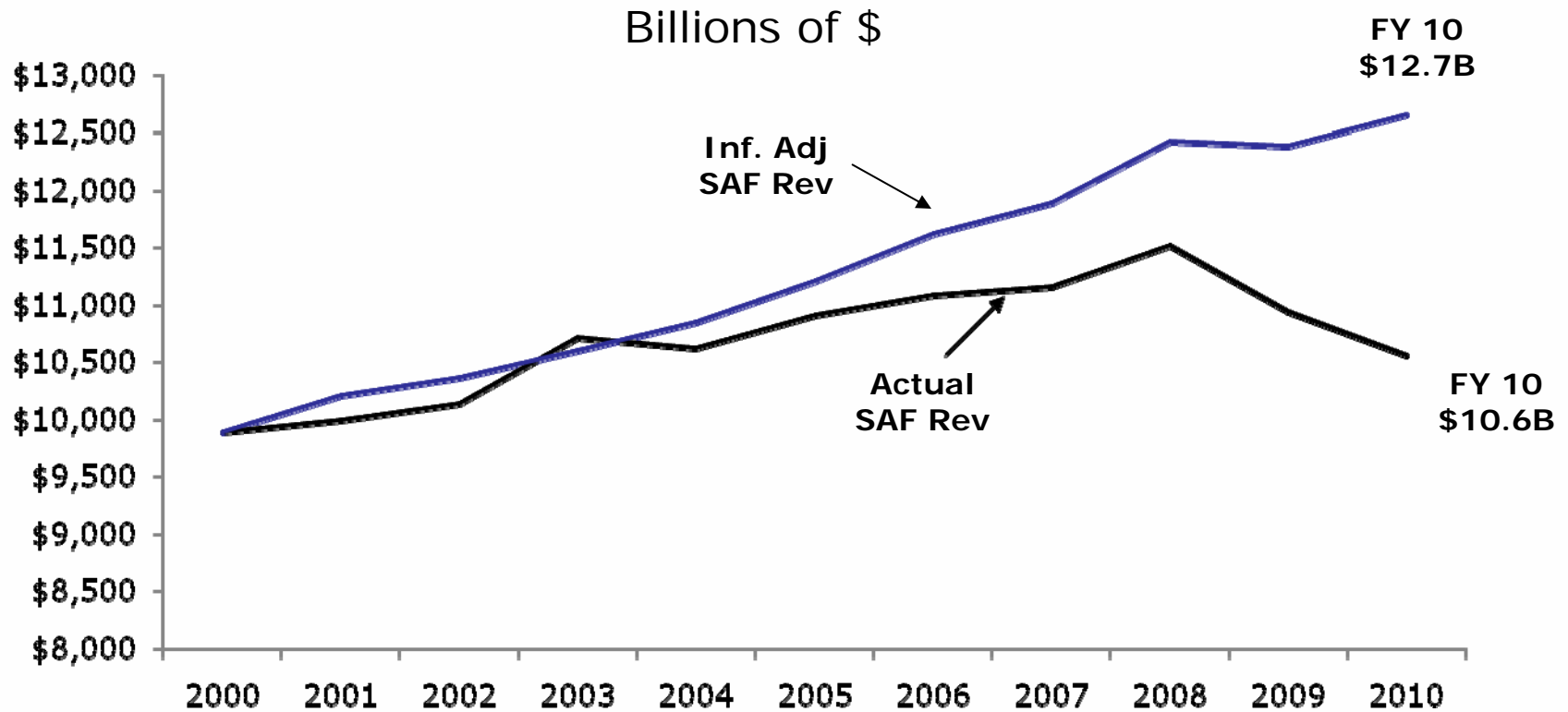
Michigan Employment Declines Are Also Abating

Michigan Employment Change
Month to Month (3 month average in thousands)





SAF Revenues Trail Inflation By \$2 Billion Since 2000





Administration and Senate Are Using Different SAF Revenue Estimates

	<u>SFA Estimate</u>	<u>Treasury Estimate</u>	<u>Difference</u>	<u>Notes</u>
Revenue				
Beginning Balance	\$201.5	\$95.3	(\$106.2)	Difference in 09 Est.
May Consensus Est.	\$10,563.0	\$10,563.0	\$0.0	
Reductions to FY 10 CREC	\$0.0	(\$128.7)	(\$128.7)	Difference in 10 Est.
Assumed Rev. Increase	\$100.0	\$0.0	(\$100.0)	Sen. Rep. Tax Plan
GF/GP Grant	\$30.2	\$30.2	\$0.0	
Federal Aid	\$1,601.8	\$1,601.8	\$0.0	
ARRA Money Used	\$450.0	\$450.0	\$0.0	
Total Estimated Revenue	\$12,946.5	\$12,611.6	(\$334.9)	
Expenditures				
Enrolled Appropriations	\$12,877.5	\$12,877.5	\$0.0	
Governor's Vetoes	(\$54.0)	(\$54.0)	\$0.0	
Total Appropriations	\$12,823.5	\$12,823.5	\$0.0	
Ending Balance	\$123.0	(\$211.9)	(\$334.9)	



So Who's Right?

- Difference consists of:
 - Revenue estimates: \$75.7 million in 09 and \$128 in FY 2010
 - Assumption that revenues will be increased by \$100 million
 - Assumption regarding one-time lottery revenues of \$30.5 million
- Difference in revenue estimates well within forecast error
 - Estimates about 1% apart; May CREC adj was 3%
- 9 • Consensus process is supposed to prevent this from happening



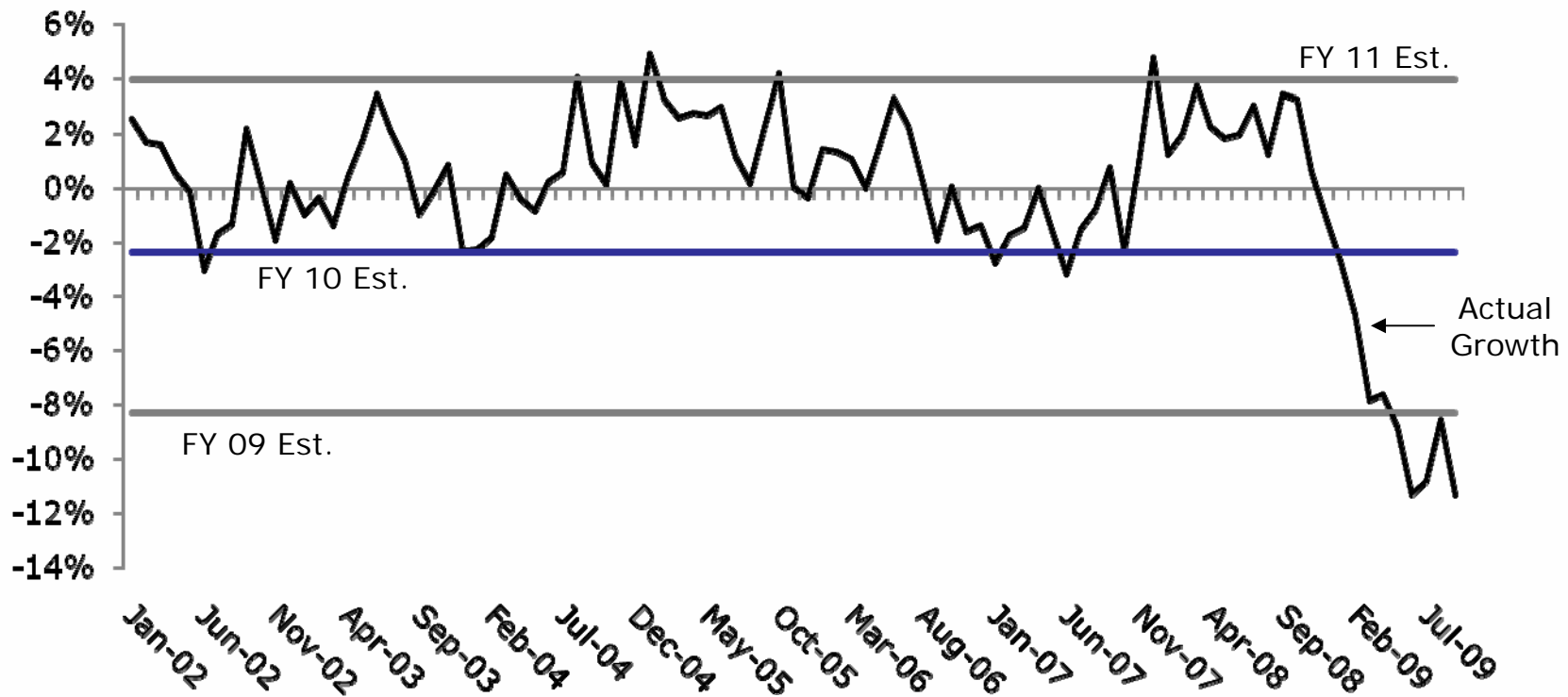
Senate Republican Plan Adds \$100 Million to FY 2010 SAF

	<u>FY 2010 SAF Revenue</u>	<u>FY 2011 SAF Revenue</u>
Tax Amnesty	\$10.5	\$0.0
Business Tax Enforcement	\$3.2	\$3.2
Lottery Revenue Increase	\$15.0	\$15.3
Increase MBT Earmark	\$71.3	\$0.0
Total	\$100.0	\$18.5



Sales Tax Collections Have Been Awful

Year over Year Growth Rate (6 month average)





Notes on Sales Tax

- Represents 40 percent of state SAF revenues
- Recent months have been down 8 to 12 percent from a year ago
- FY 2010 assumes a substantial improvement in the sales tax growth rate, but:
 - No drag from falling gasoline prices in FY 10
 - Year-over-year comparisons are much more favorable
- FY 2011 estimate of 4.0 percent not likely to occur without an economic rebound in Michigan
- FY 10 and FY 11 recovery assumptions for other taxes are similar



Budget Balancing Measures

- FY 2010 SAF revenues projected to be \$1.0 billion below FY 2008
- Enacted FY 10 Cuts:
 - \$165 per pupil (\$263M)
 - ISD reduction (\$16M)
 - 20j veto (\$52M)
 - Other Cuts (\$35M)
- Proposed proration \$127 per pupil (\$212M)
- Stimulus money in budget:
 - FY 09 \$600M
 - FY 10 \$450M
 - FY 11 \$184M



Conclusion

- Recession ending – while it could have been worse, the damage has been done to the SAF
- Senate and Treasury numbers are both equally possible
- FY 2010 revenue numbers assume continued declines, but also assume a significant growth improvement from FY 2009
- FY 2011 assumes solid revenue growth – while assumption is certainly possible, there is significant downside risk to the FY 2011 estimates