



Michigan Update

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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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The State of the National Economy



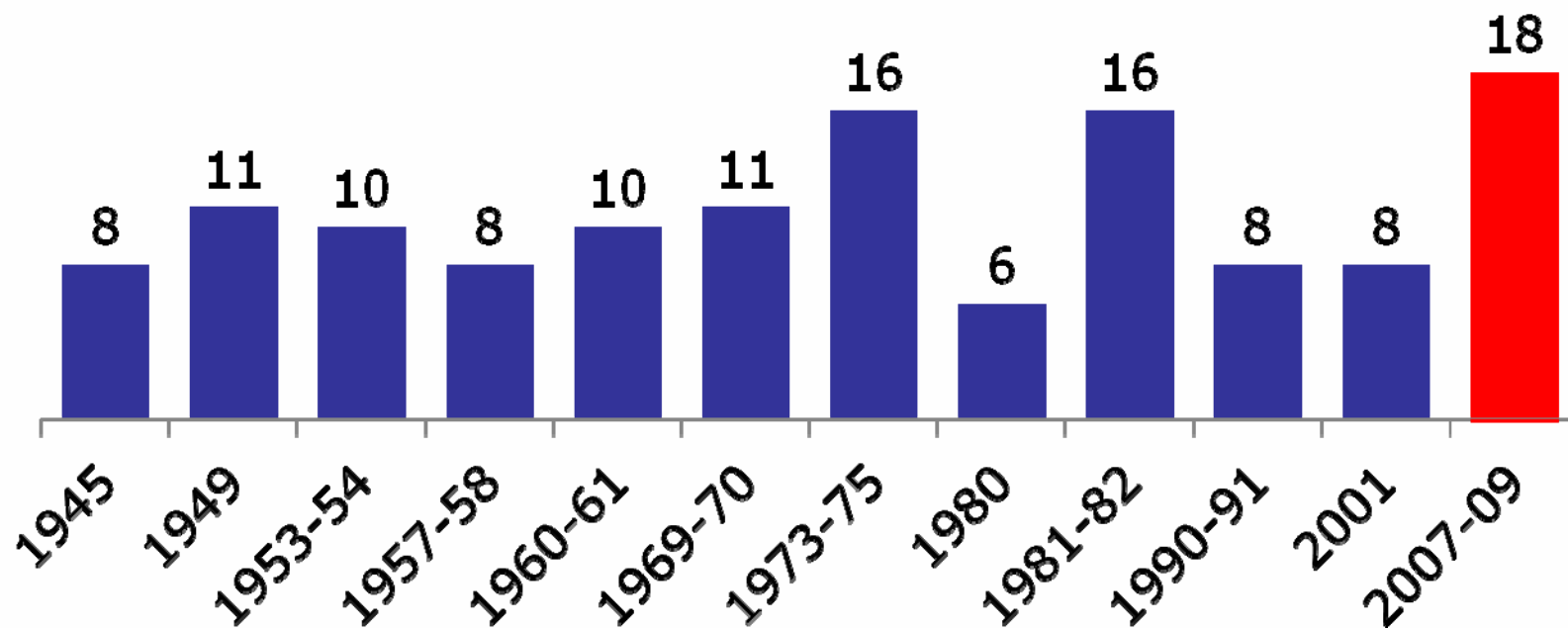
Recession is Over – For Now...

- National recession ran from December 07 to June 09
- National recession lasted 18 months, longest post-war recession
- Output has been growing since 2009Q3
- Recovery appears to have stalled – currently little to no growth and risk of double dip is high
- Risk to outlook abound: Europe debt crisis, U.S. fiscal policy uncertainty; consumer sentiment



2009 Recession Set Post War Record

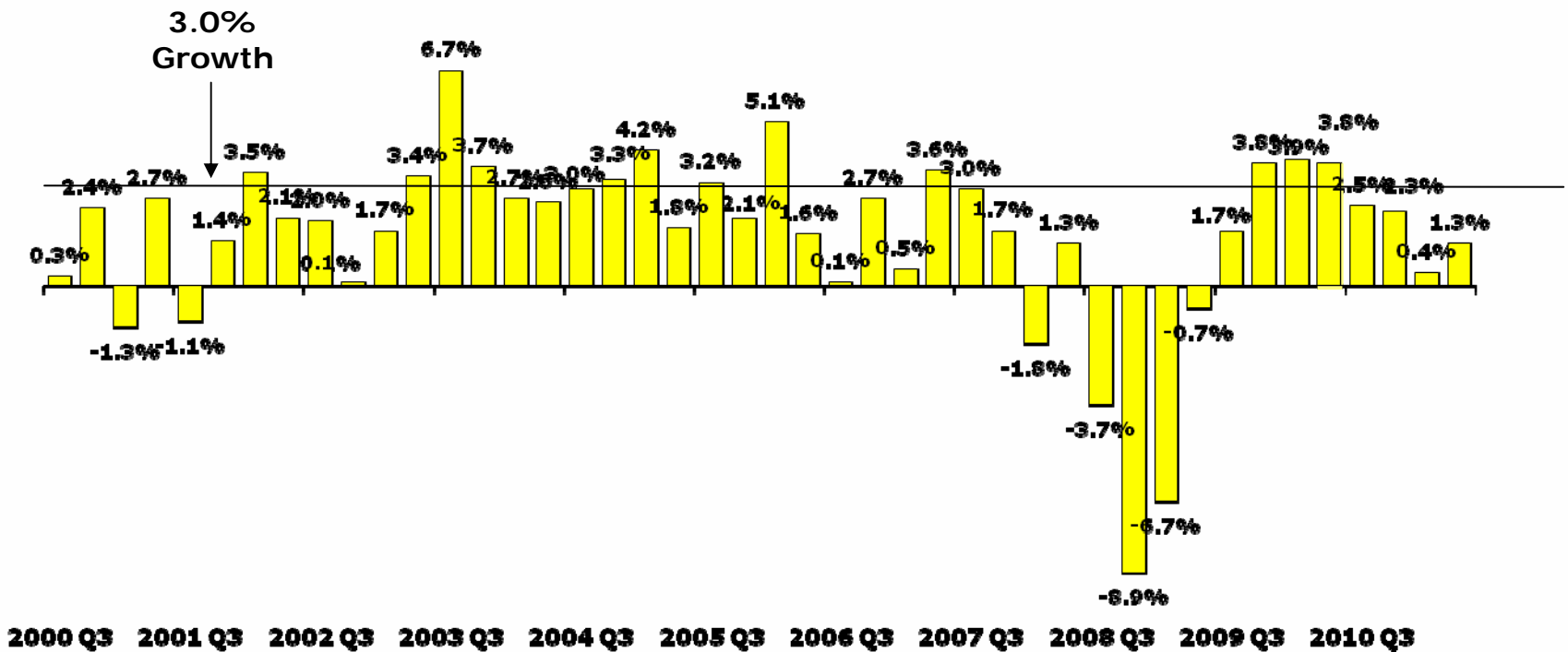
Recession Length in Months





GDP Has Grown for 8 Straight Quarters But Current Growth Barely Above Zero

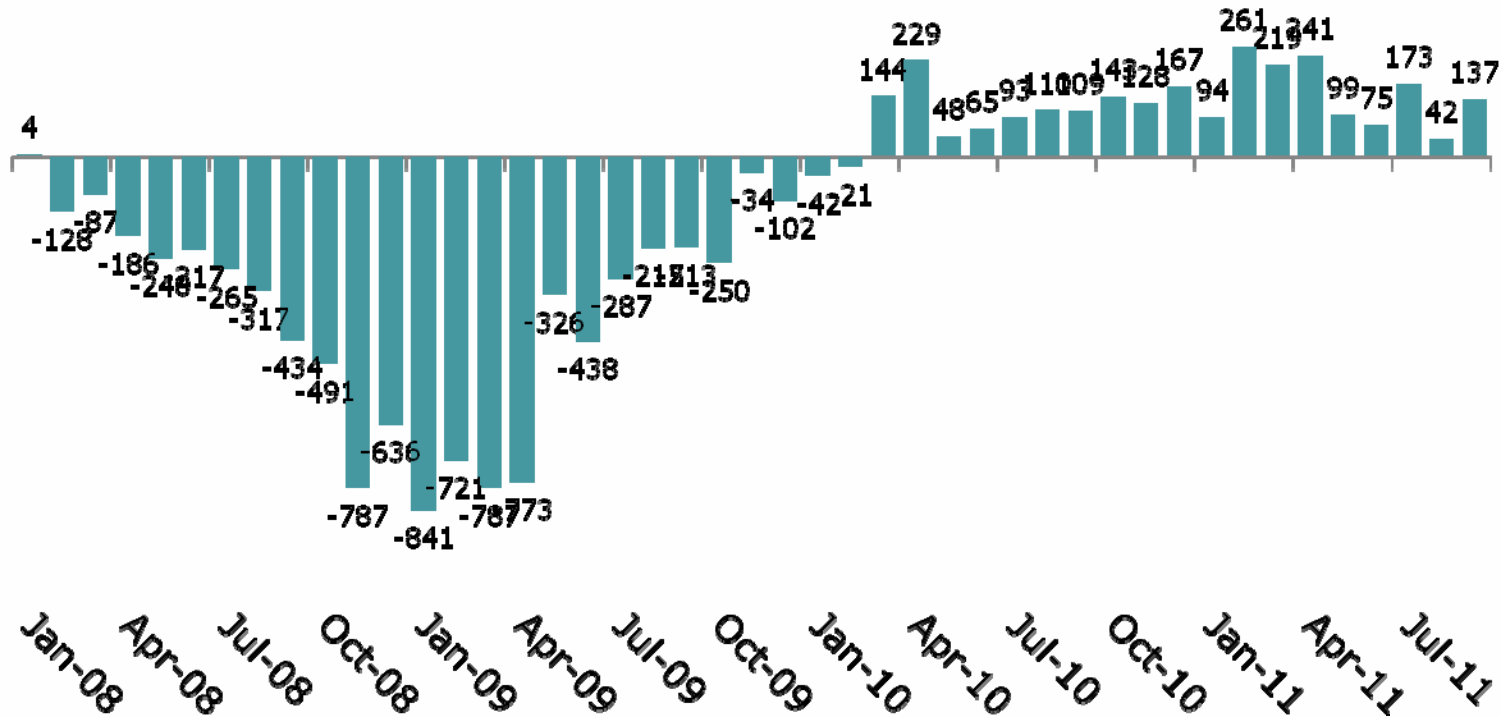
Real GDP Growth





Employment Growth Has Been Disappointing

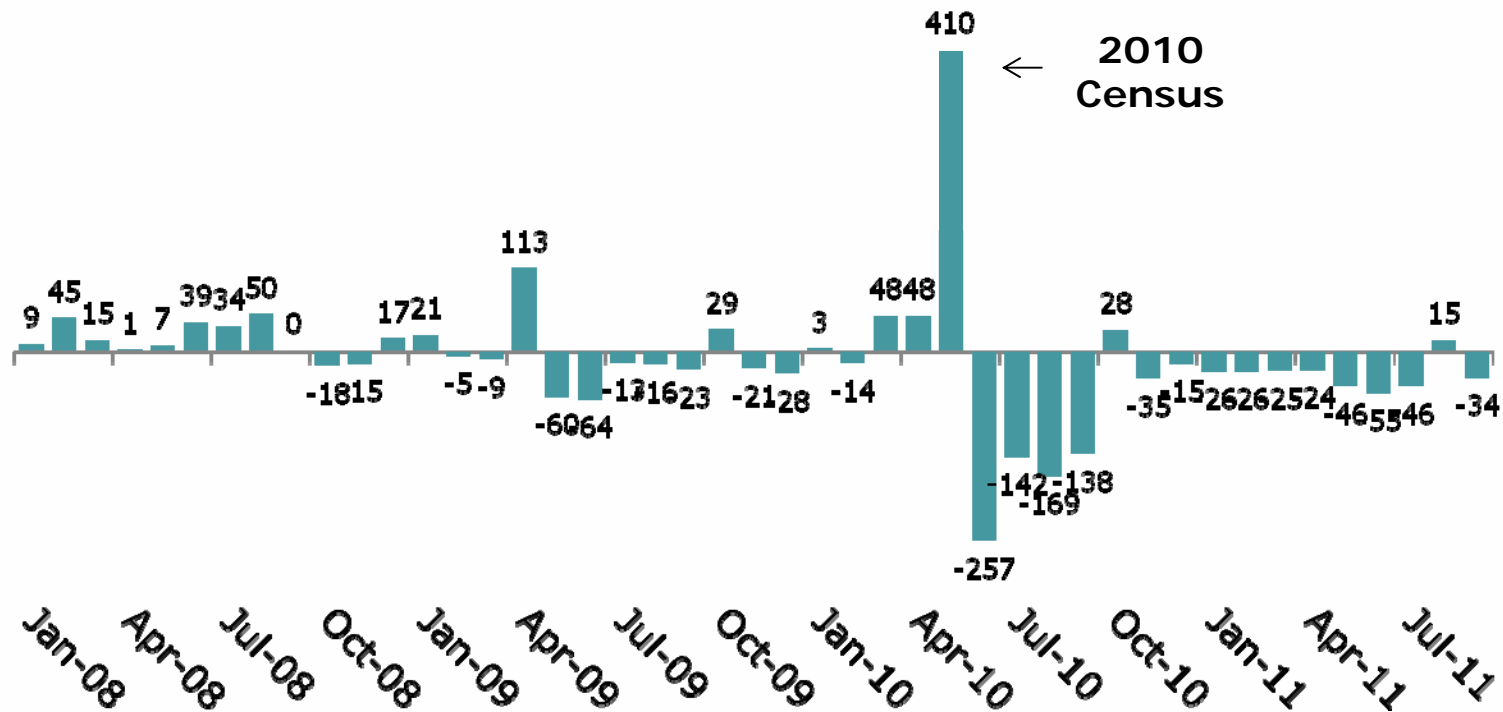
Monthly Change in U.S. Private Employment (thousands)





Public Employment is Declining

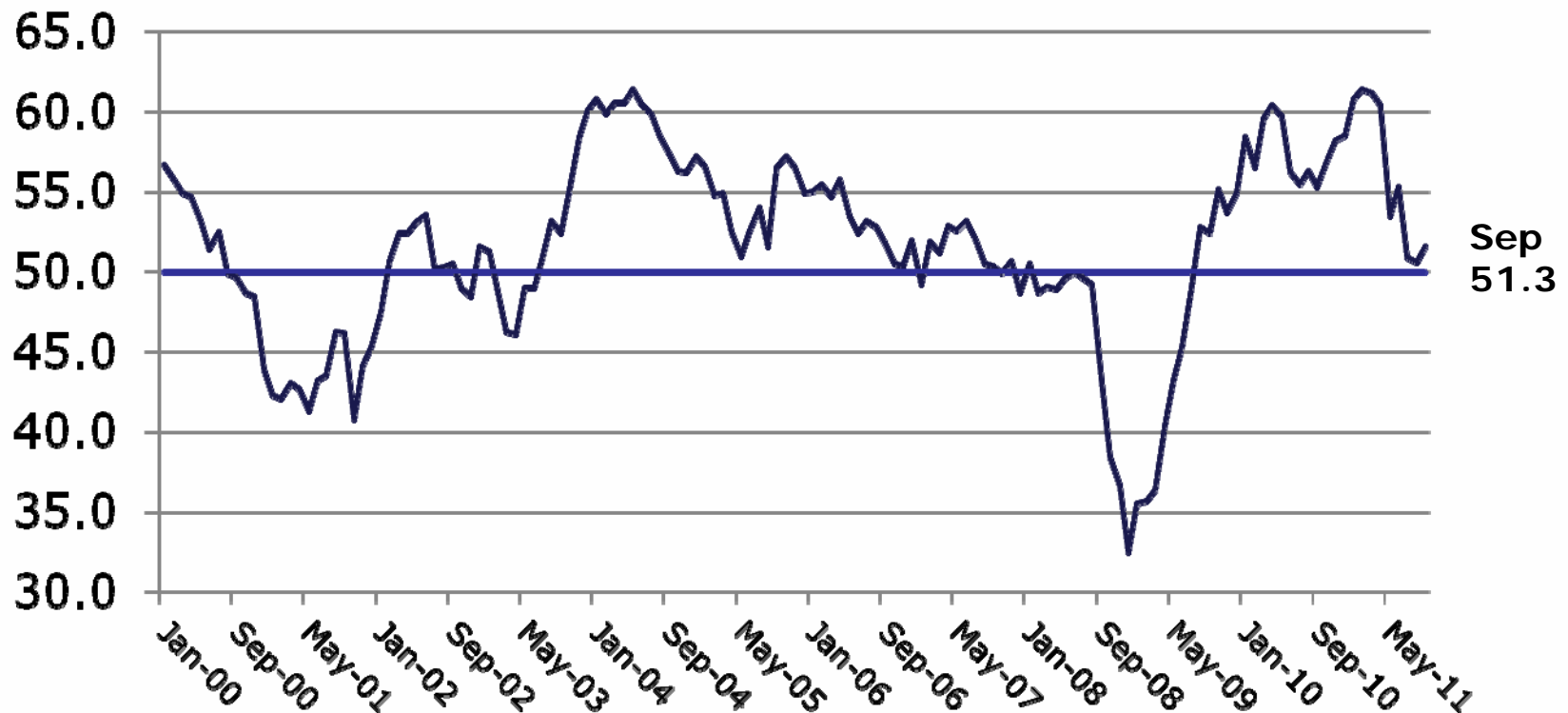
Monthly Change in Government Employment (thousands)





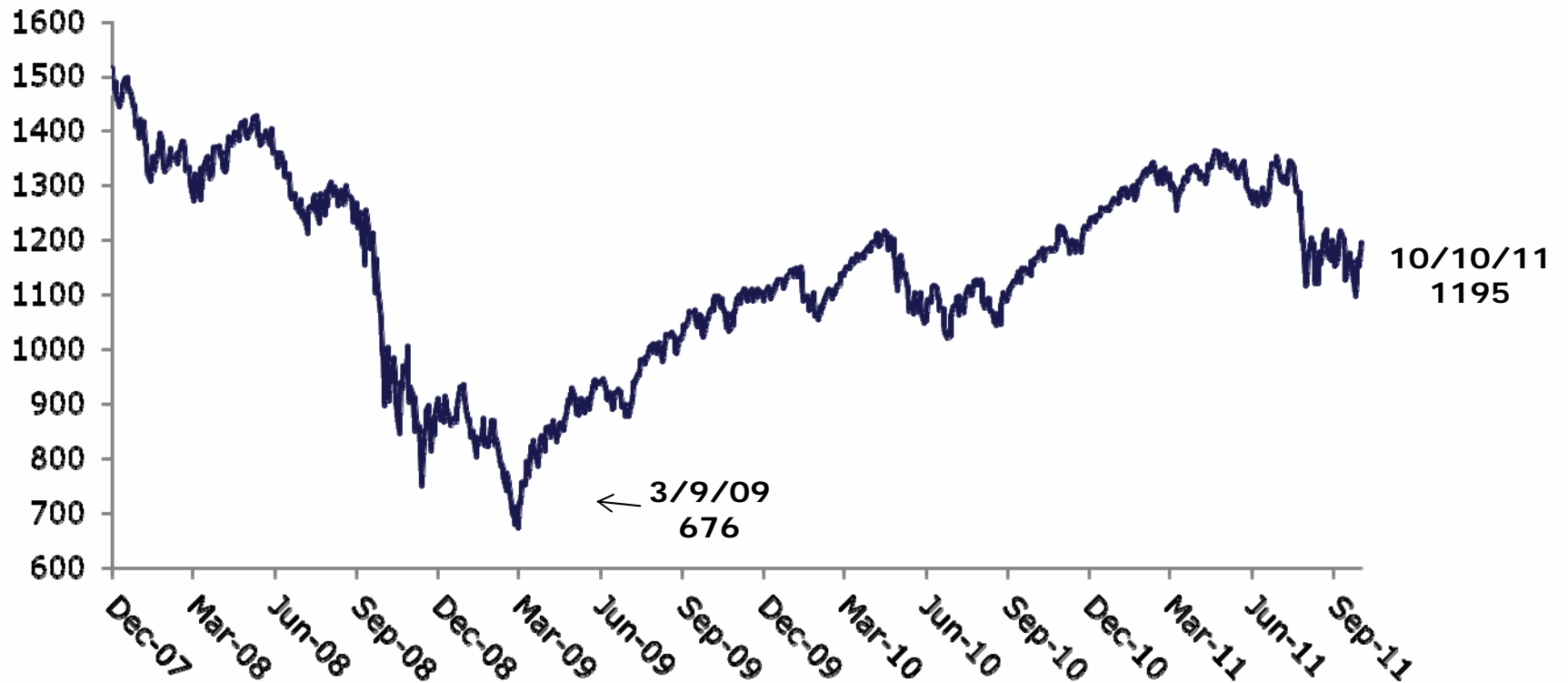
Manufacturing Had Been a Bright Spot But Now Barely Expanding

Institute For Supply Management Index MFR Index





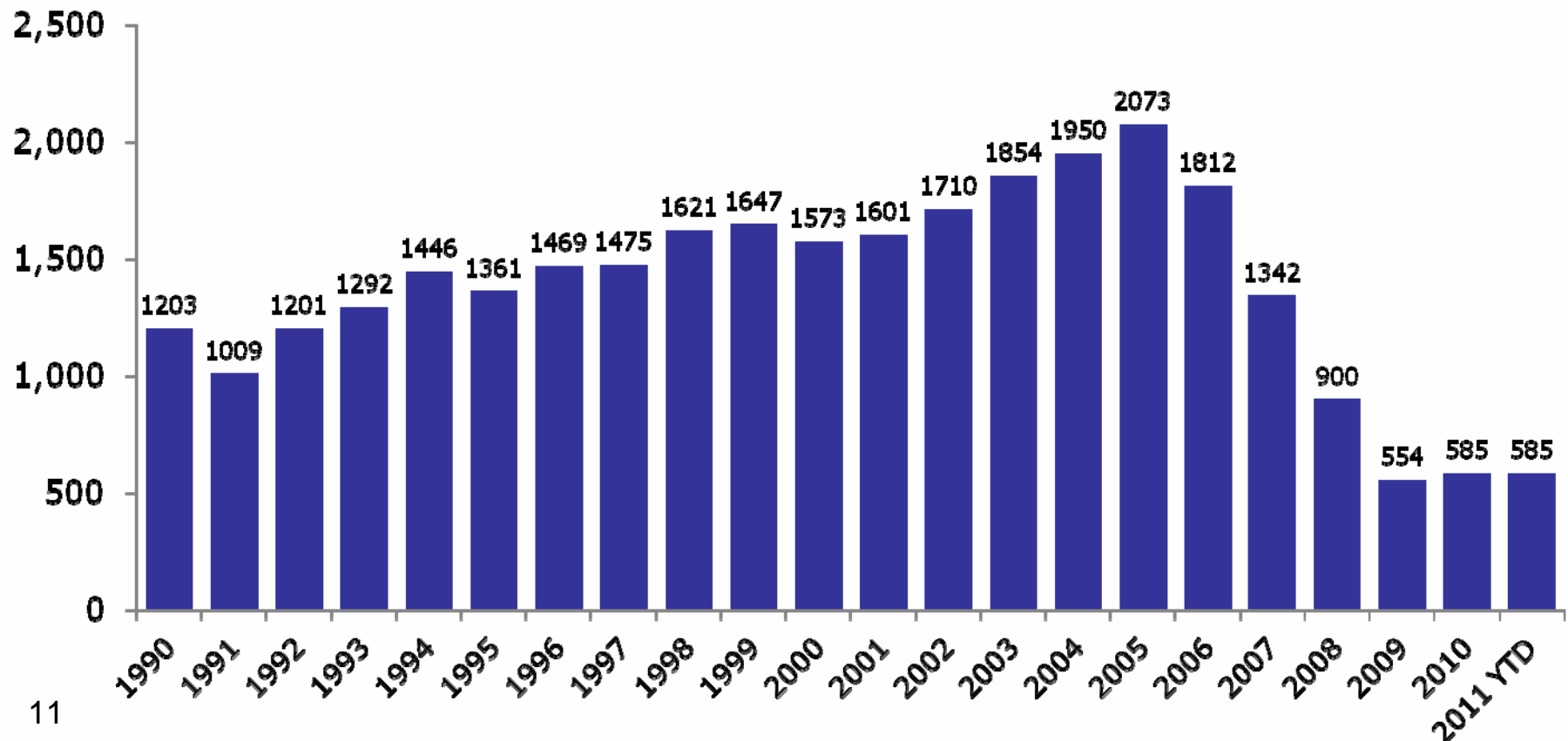
S&P 500 Up 76% From March 09 Low But Down 12% From April 2011





Housing Starts Remain Extremely Depressed

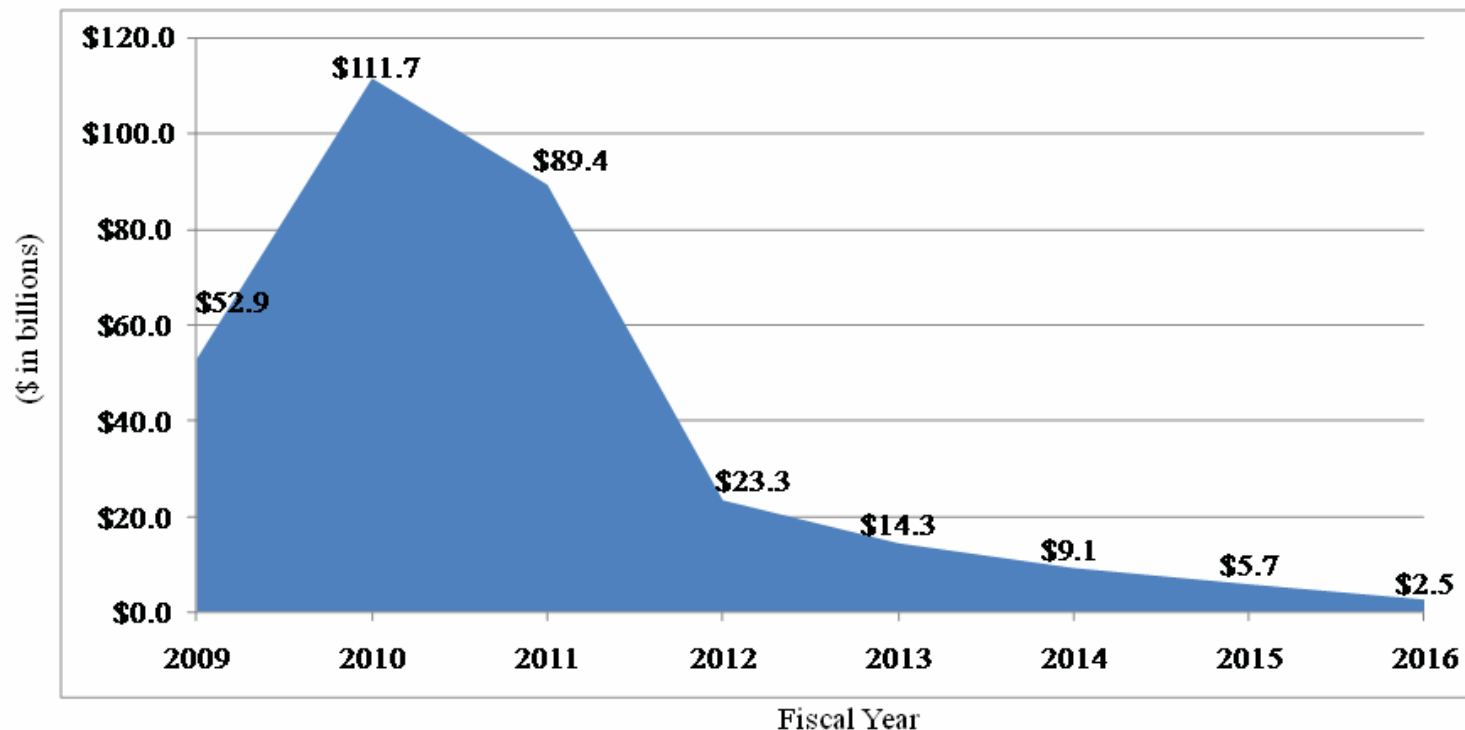
Between 1959 and 2007 Total Never Below 1M





End of ARRA and Other Stimulus Drags on Recovery

Temporary Federal Aid to States

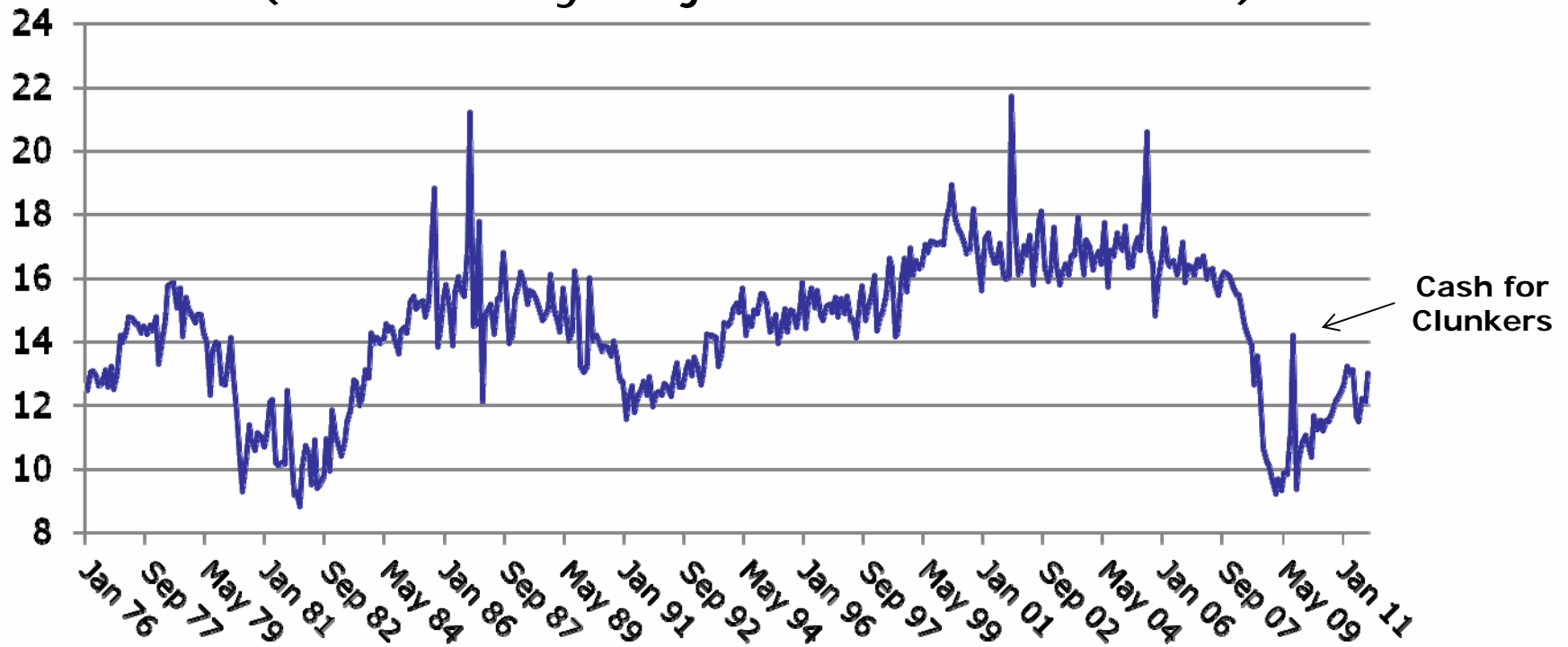


- 12 Source: Government Accounting Office as presented by NASBO in *Preliminary Summary of NGA/NASBO Spring 2011 Fiscal Survey of the States*.
<http://www.nasbo.org/LinkClick.aspx?fileticket=IW3fw0p2k0A%3D&tabid=38>



Vehicle Sales Are Slowly Recovering

Monthly Light Vehicle Sales
(Seasonally Adjusted Annual Rate)





Economic Outlook

- U.S. recovery has been slow and uneven and appears to have lost steam
- High commodity prices, low housing starts, declines in government spending, and the Japanese earthquake have all weighed on growth
- Economy very vulnerable at the moment; may avoid recession but low housing starts, federal govt spending pull back, and debt fears will keep economy weak, at least in short run



What is Happening in Michigan?

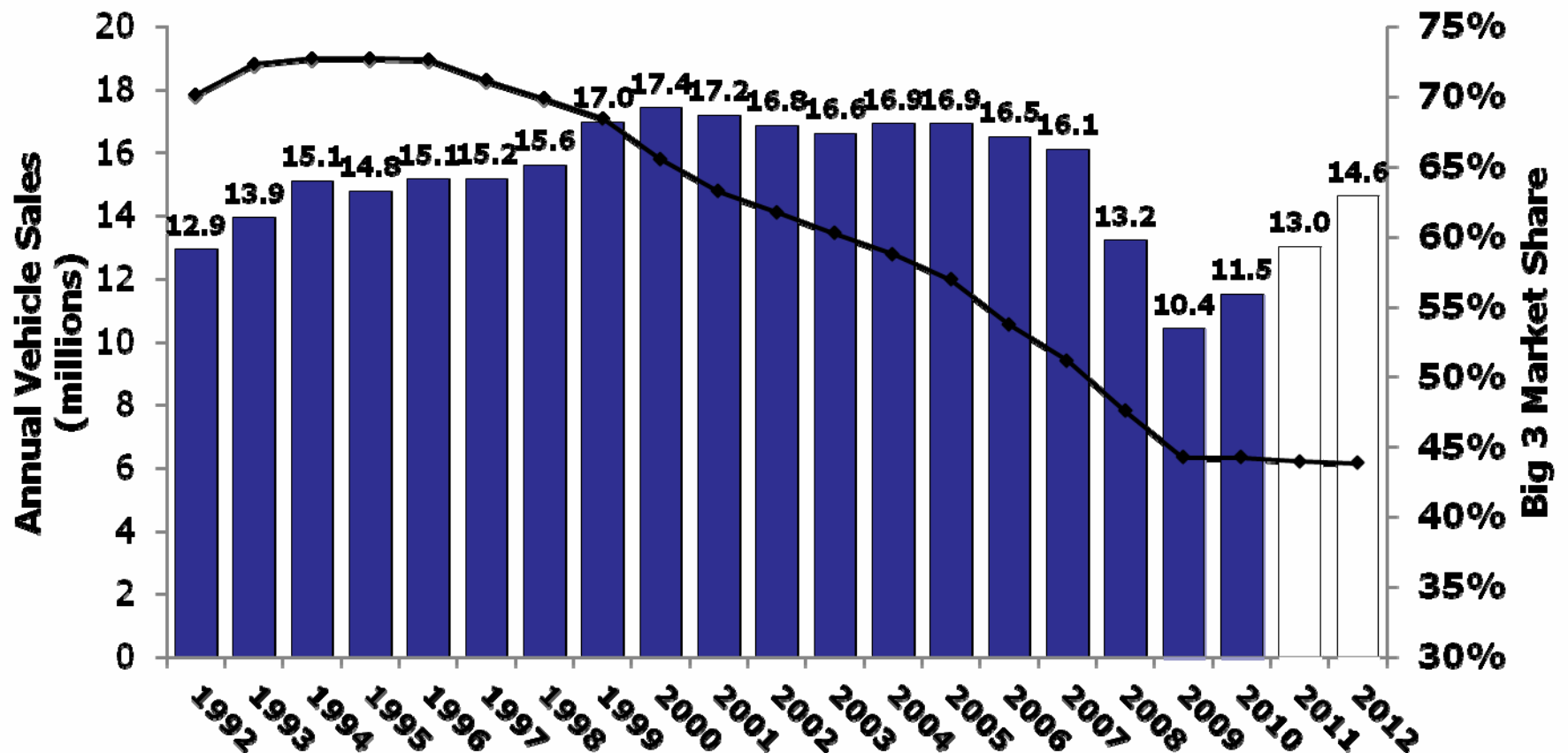


The Last Decade Was an Economic Disaster for Michigan

	Growth 2000 to 2010		Michigan Rank
	U.S.	Michigan	
Population	9.5%	-0.2%	51
Real Per Capita GDP*	6.7%	-6.4%	50
Employment	-1.5%	-17.4%	51
Real Per Capita Income* *	5.7%	-4.4%	50



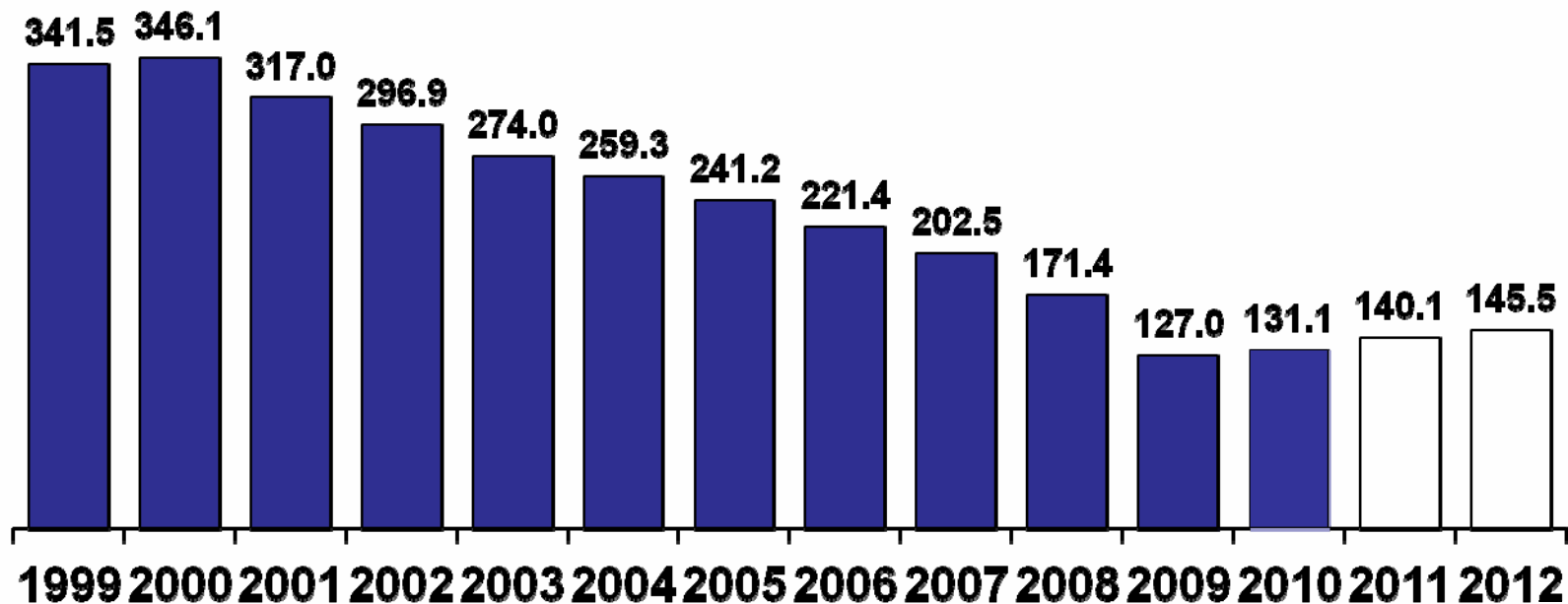
Big 3 Market Share Plummet





2 in 3 Auto Jobs Lost

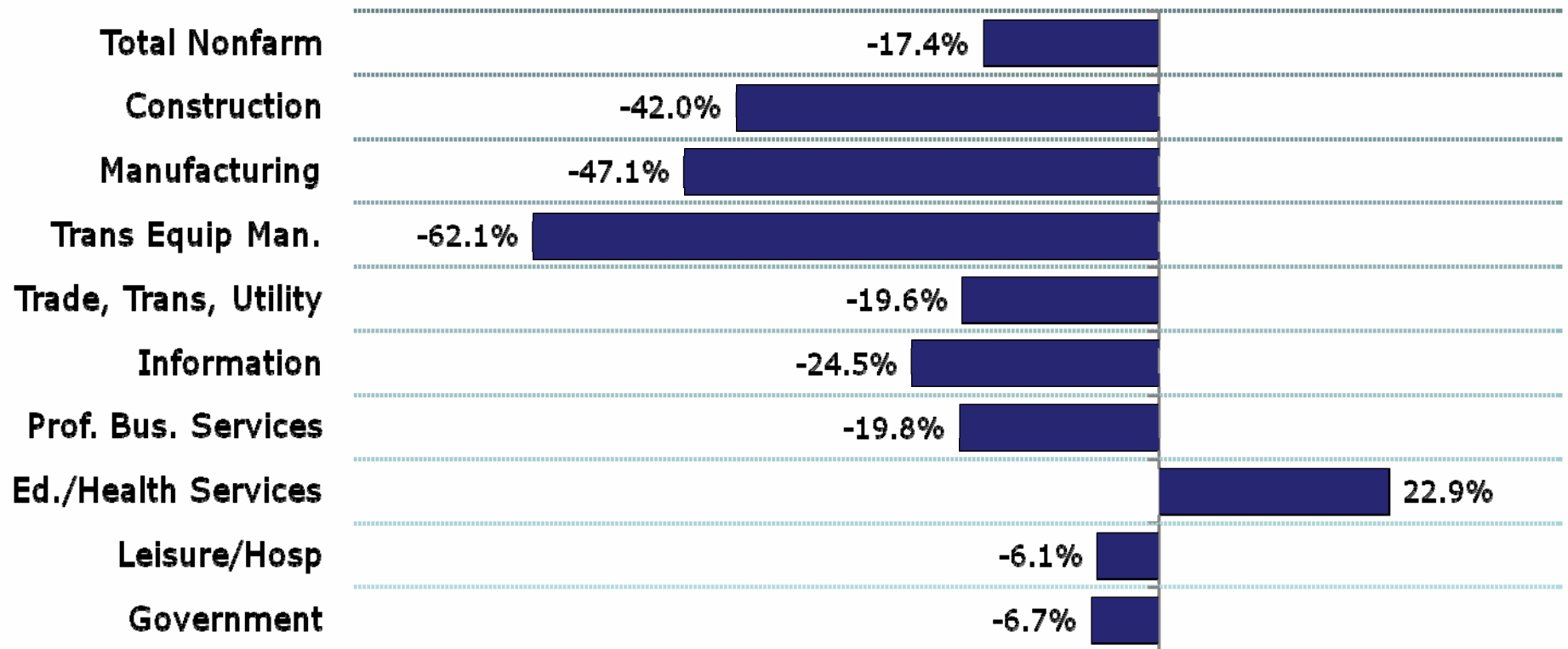
Michigan Transportation Equipment Employment
(In Thousands)





Almost Every Sector in Michigan Has Lost Jobs

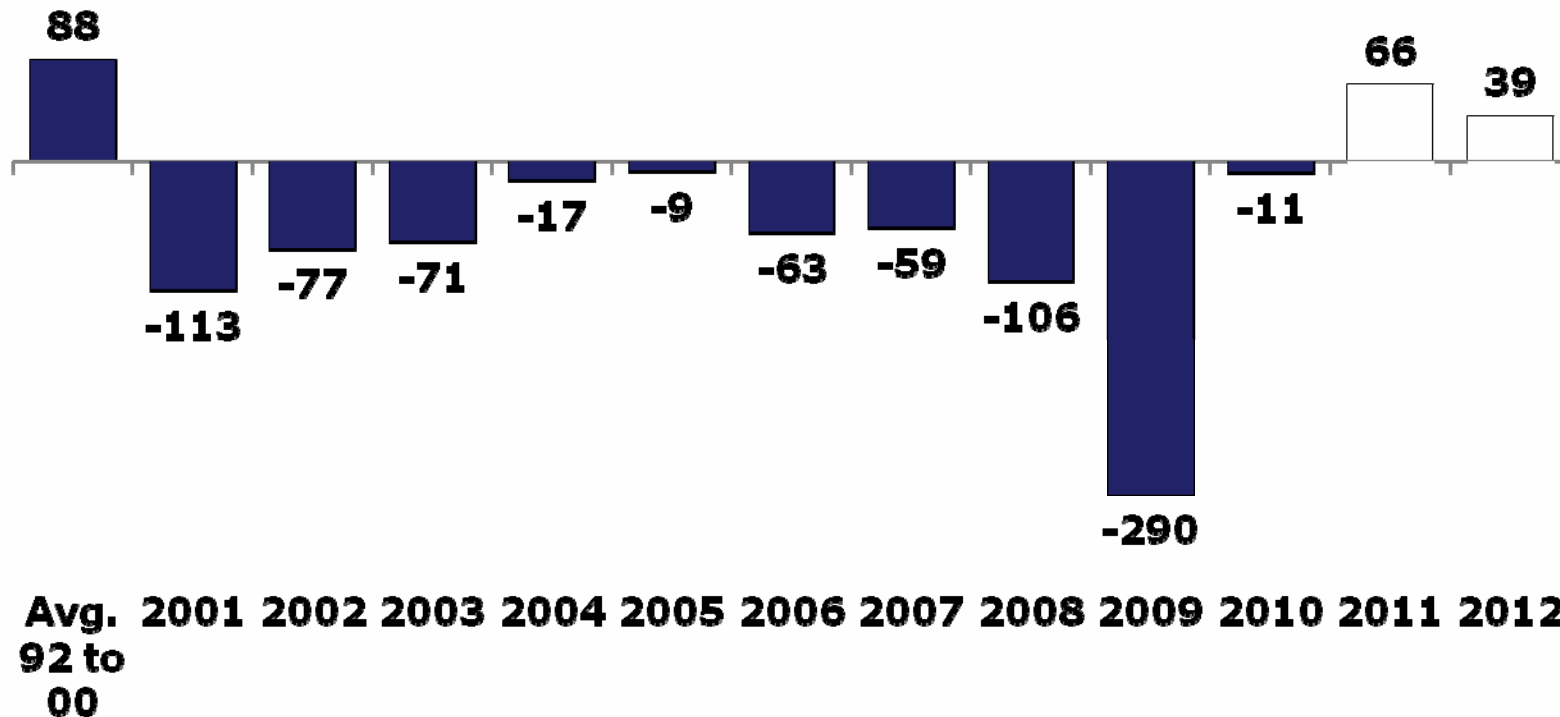
2000 to 2010





Michigan Employment Fell For 10 Straight Years

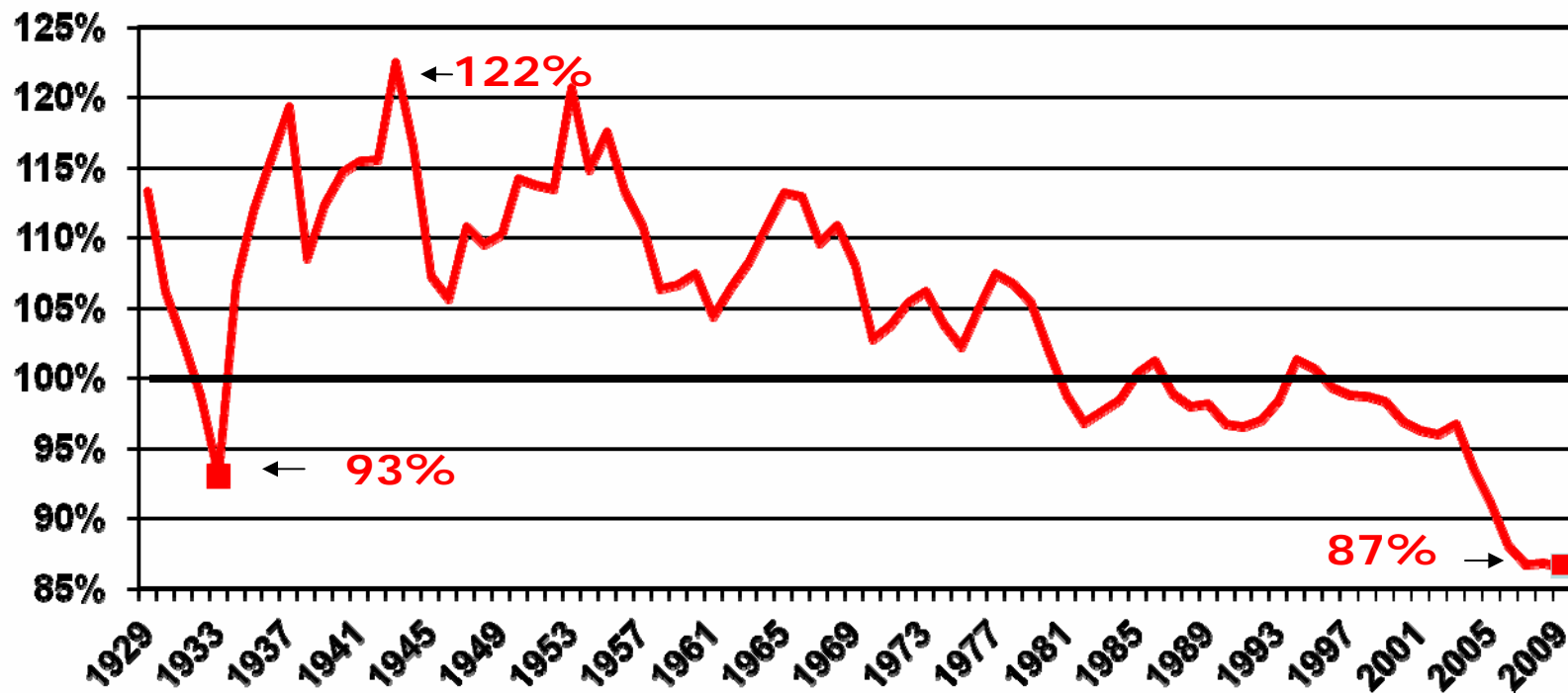
Annual Change in Wage and Salary Employment (000)





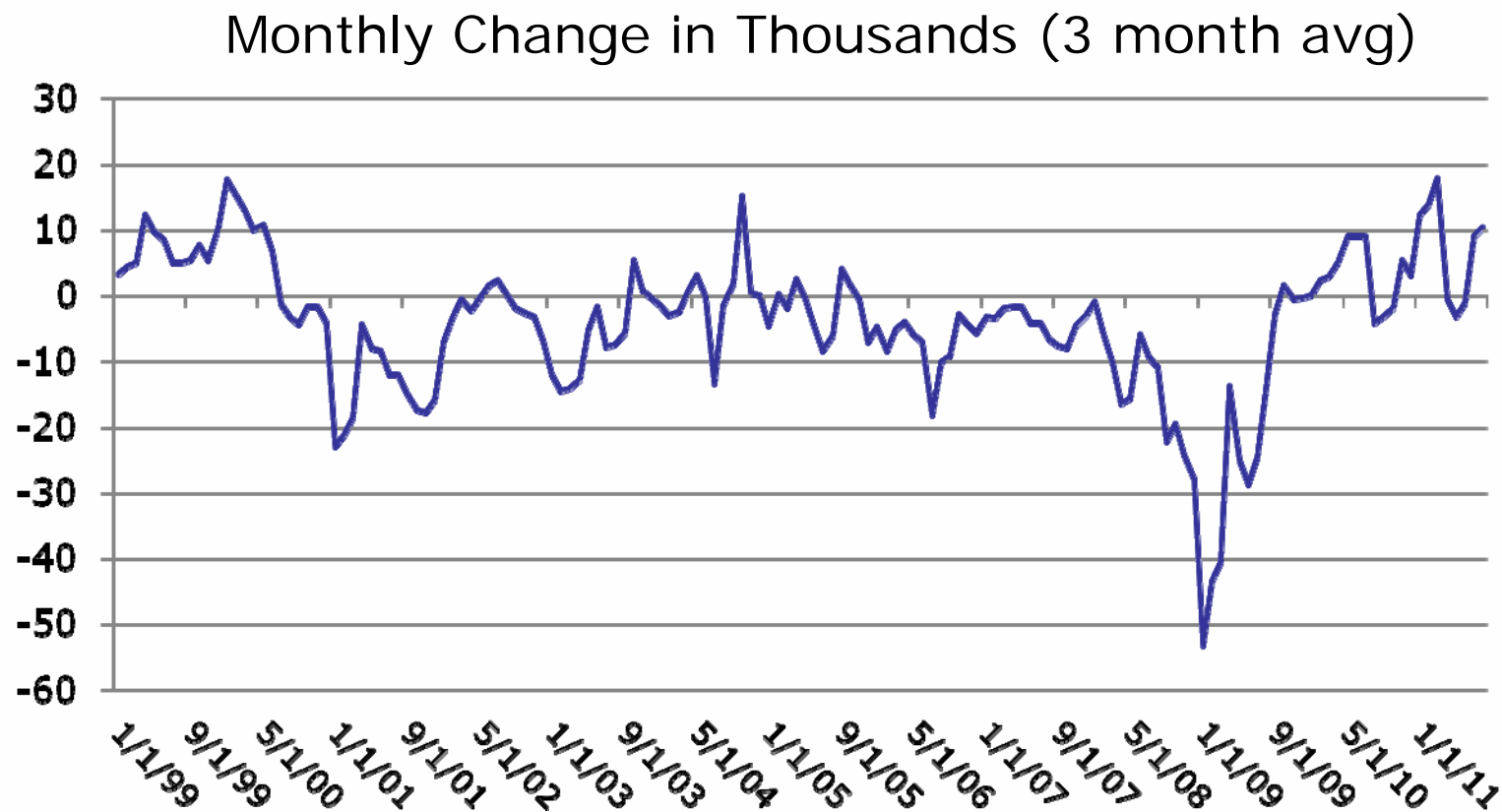
Michigan Has Become Poorer Relative to Other States

Michigan per Capita Income as a Percent of U.S. Per Capita Income Rank has fallen from 20th in 2001 to 37th in 2010





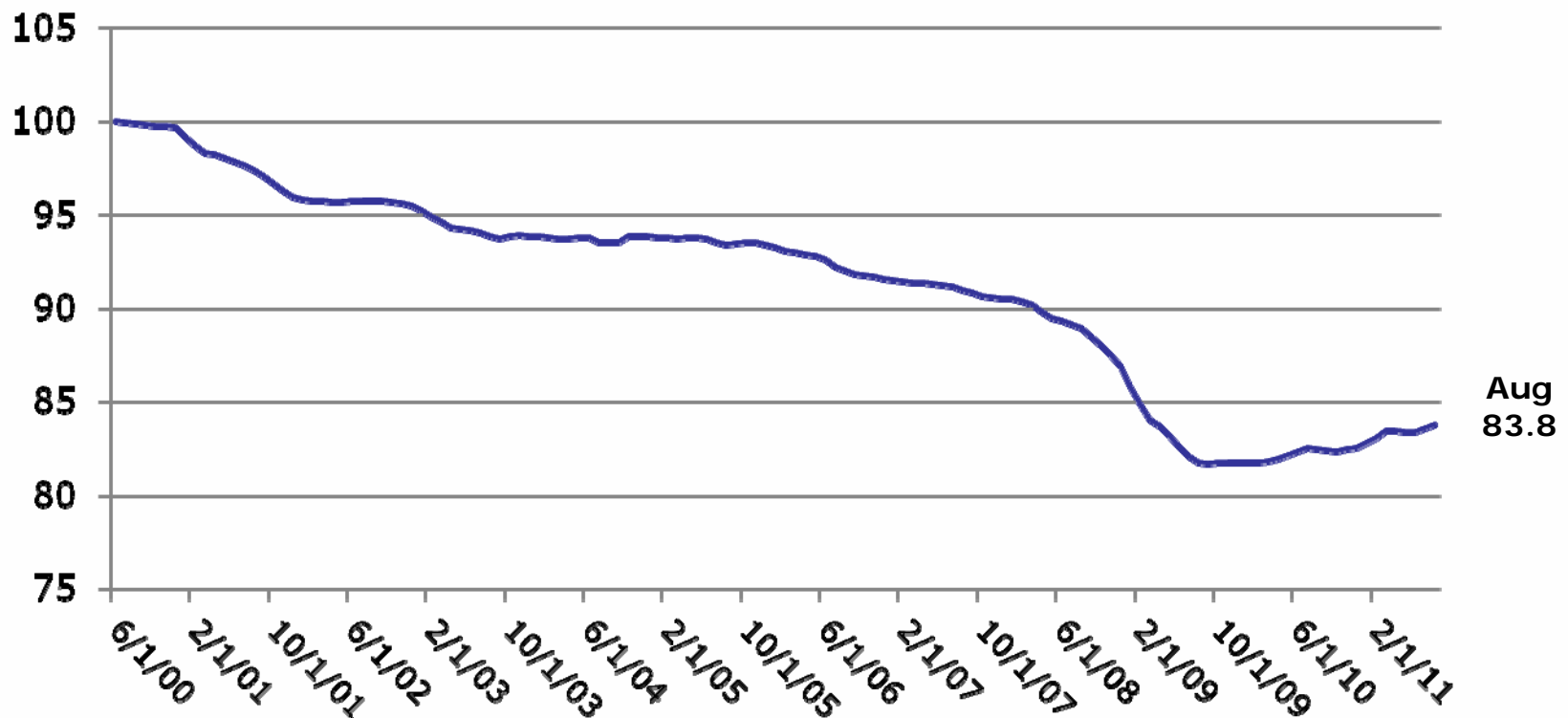
But Michigan Employment Has Recently Shown Modest Growth





Overall Employment Remains 16% Below June 2000 Peak

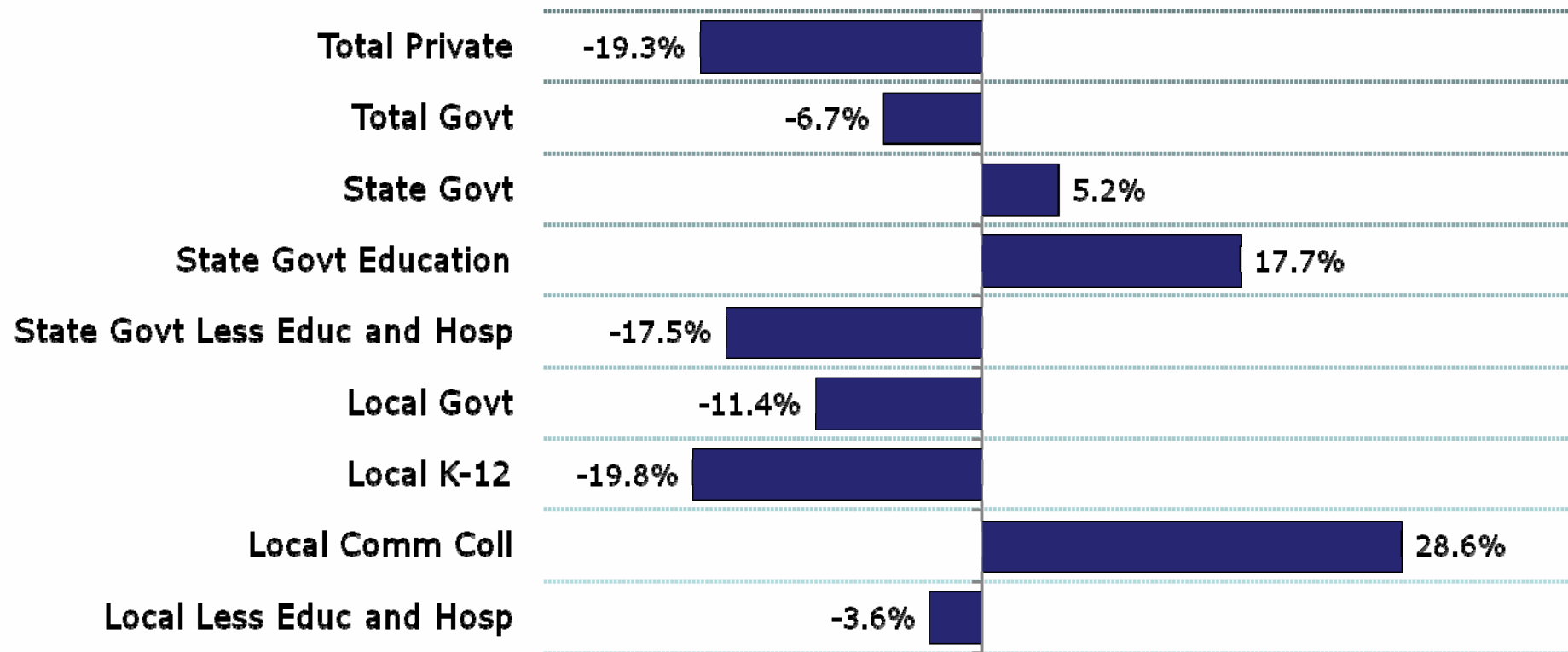
Michigan Employment – June of 2000 indexed to 100





Public Sector Employment Changes Vary Significantly By Sector

2000 to 2010





Michigan's Budget

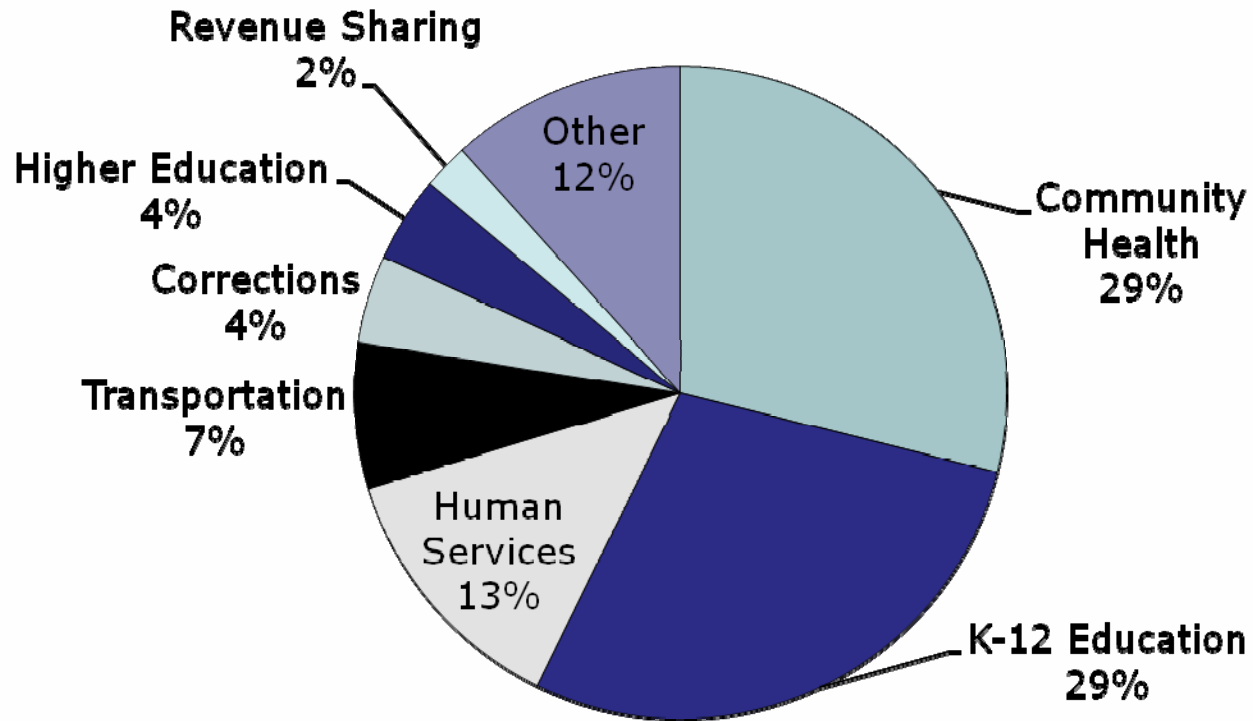


Important Budget Facts

- State is mostly a pass-through entity – most money sent elsewhere:
 - School Aid – local school districts
 - Higher ed – universities and community colleges
 - Medicaid – doctors, hospitals, nursing homes
 - Human Services – welfare payments to individuals, daycare providers, etc.
 - Transportation – road funds to counties and cities
 - Revenue Sharing – unrestricted aid to general purpose governments
- Salaries of state employees represent only 11% of the budget
- Unrestricted (GF) spending represents roughly 1/5th of state spending
- Healthcare is everywhere in budget and is the leading cost driver



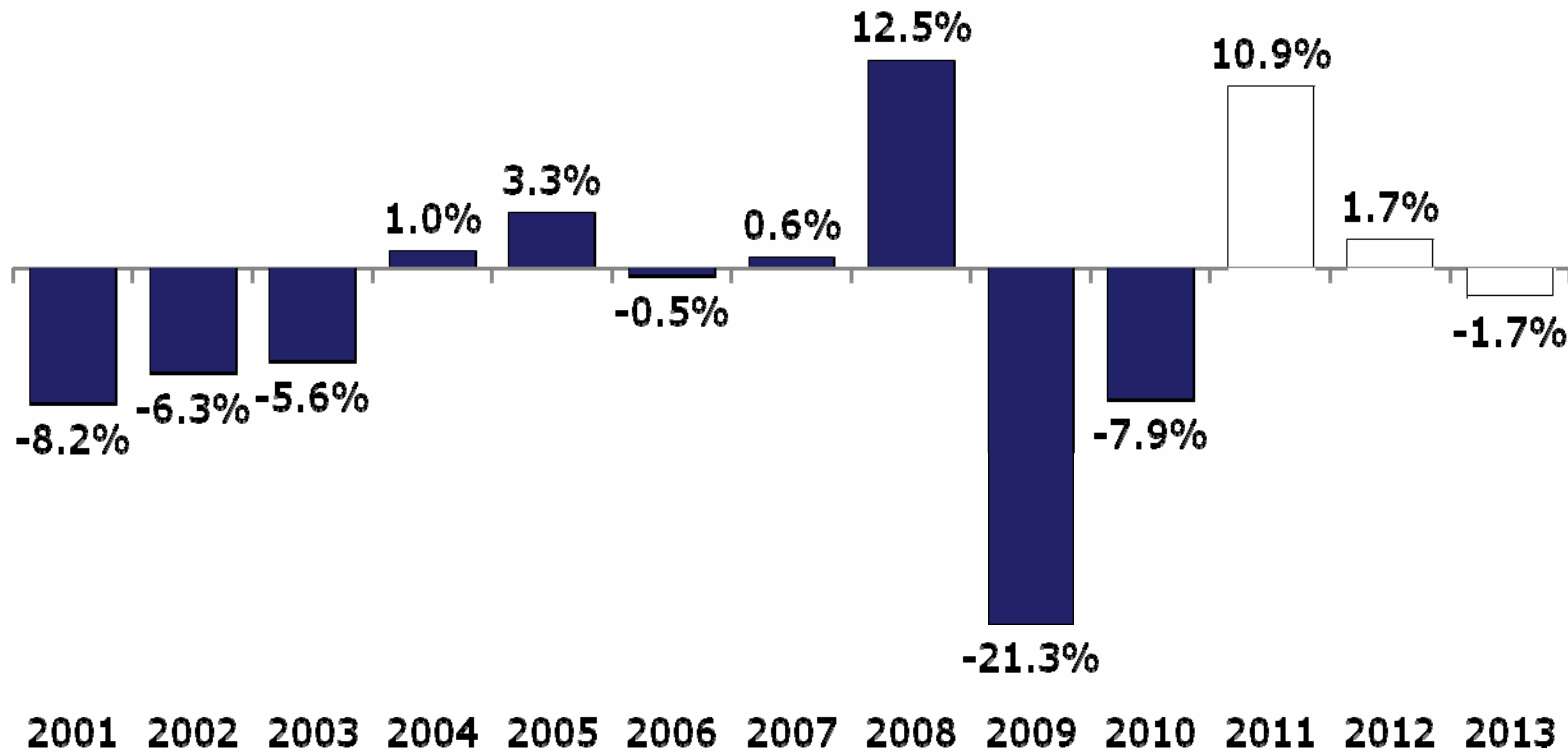
Where Does the Money Go? FY 2010 Spending By Category





GF-GP Revenues Drop Sharply in FY 2009 and FY 2010

GF-GP Revenues
Year-Over-Year Pct. Change





State Spending From State Sources Down Sharply in Real Terms

- From FY 2000 to FY 2010
- Inflation up approx. 27.8%
- Total state expenditures up 31% but increases in federal aid drove increase; state spending from state sources up 3.1%
- Spending changes from state sources:
 - K-12 +6.3%
 - Community Colleges -2.2%
 - Universities/financial aid -16.2%
 - Revenue sharing -34%
 - Corrections +29.1%
 - Medicaid +27%



Defining the FY2012 GF Problem

Loss of Federal \$ and Cost Increases Contribute

- FY2012 on-going revenues: \$8.2B
- Current-year spending with adjustments: \$9.6B
- Major adjustments include:
 - \$900M in temp. federal (mostly stimulus)
 - \$193M caseload increase in Human Services and Community Health
 - \$98M increase in debt service payments
 - \$105M increase in employee costs/early out
- Bottom line: \$1.4B structural imbalance in GF



Balancing the FY 2012 GF Budget

- Community colleges cut 4%
- Universities cut 15%
- Use approximately \$400M in School Aid Fund revenues to support higher ed (frees up GF dollars)
- Eliminate statutory revenue sharing and replace with EVIP at 2/3 former spending amount (approx. \$100M cut)
- Initial request of \$145M in GF employee concessions
- Human services cut 2.8% including 4 year welfare limit
- 31 • Corrections cut 2.8%



Employee Concessions

- FY 2012 budget assumed \$145 million in GF savings from employee concessions
- These savings were replaced with:
 - Dept of Corrections: Close a prison, privatize a prison, privatize mental health and health care (\$50M)
 - Eliminate 367 funded vacancies (\$33M)
 - Required DB contribution of 4% (\$19M)
 - 4 furlough days for union employees \$19M (union employees received a 3% raise while nonunion did not)
 - Refinance debt \$20M
- \$15M in unidentified corrections reforms



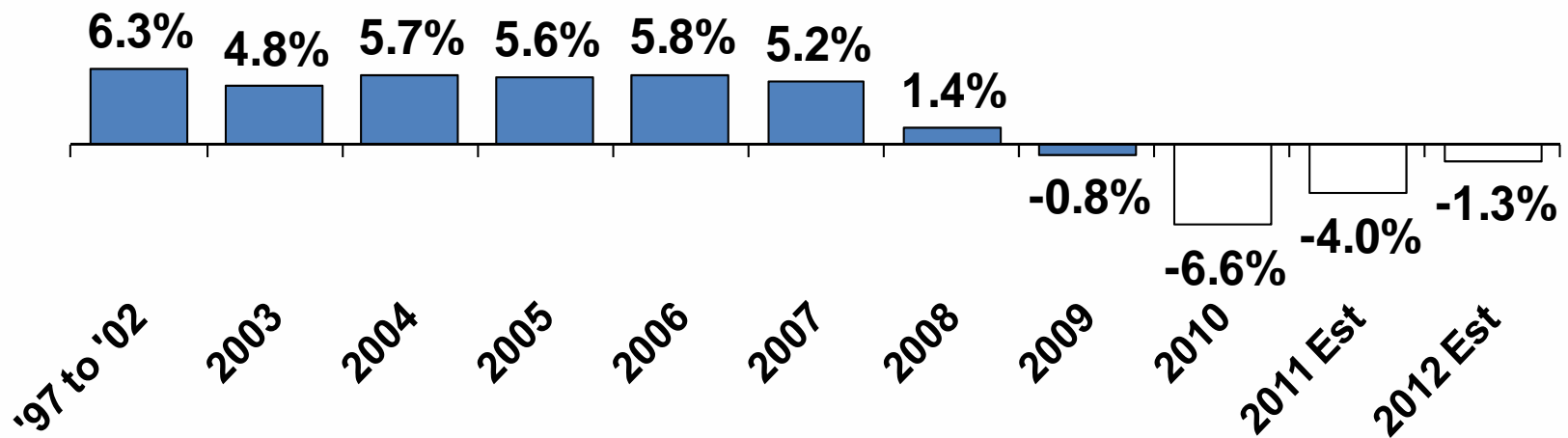
FY 2012 School Aid Budget

- FY 2011 projected year-end surplus in May was \$645M
- FY 2012 SAF resources reduced by the following:
 - End of federal stimulus: -\$500M
 - Tax code reforms: -\$690M
 - Fund Universities and Higher Ed: -\$400
- FY 2012 Appropriation:
 - Per pupil reduction \$170 + \$300: -\$452M
 - One time “best practice” award \$100pp: +\$154M
 - One time MPSERS offset ~\$100pp: +\$155M
- FY 2012 Projected year-end balance: \$0.2M



After Stable Annual Growth, Property Tax Revenues Decline

% Change in Total Taxable Value



Source: State Tax Commission and Michigan Department of Treasury Estimates.



Outlook for Many Local Governments in Michigan is Grim

% Change in Total Taxable Value

<u>County</u>	<u>2000 to 2011</u>	<u>2008 to 2011</u>
Livingston	51%	-14%
Macomb	23%	-19%
Oakland	14%	-22%
St. Clair	25%	-14%
Washtenaw	46%	-10%
Wayne	17%	-18%
CPI	31%	4%



State Changes Affecting Local Government Fiscal Health

- Statutory revenue sharing replaced by EVIP with funds cut by 1/3
- Public Act 4 of 2011 strengthened the state's ability to address local governments in fiscal distress (but at the expense of local control and collective bargaining)
- State has passed limits on the amounts that can be paid for government employee health benefits (but locals can opt out)
- Personal property tax changes could have a large effect



Tax Changes



Business Tax Key Features

- Replace MBT (gross receipts less purchases and business income) with a corporate income tax
- Repeal all credits (except one small business credit)
- Exempt noncorporate entities
- Lower tax burden with a \$1.6 billion cut



Full Year Estimate of Business Tax Change (millions of \$)

	<u>FY2013 Estimate</u>
MBT Revenues	\$1,990.6
6% Corporate Income Tax	\$799.1
Financial Institutions Tax	\$43.9
Legacy Credits	<u>(\$500.0)</u>
Net Corporate Tax Revenues	\$343.0
Net Tax Change	(\$1,647.6)



Income Tax Changes

- Eliminate scheduled rate reduction from 4.35% to 3.9% (rate will fall to 4.25%)
- Repeal nonrefundable credits: city income tax; public contribution; etc.
- Reduce EITC from 20% to 6%
- Reduce HPTC: reduce income cap; set max house value; change factor for seniors
- Reduce public and private pension reductions
- Phase-out personal exemption for high income
- Net individual income tax increase \$1.4B (approx. 22% increase)



Full Year Estimate of Income Tax Change (millions of \$)

	<u>FY2013 Estimate</u>
Freeze IIT Rate at 4.25%	\$223.0
Repeal Nonrefundable credits	\$104.5
Reduce EITC	\$261.6
Reduce HPTC	\$270.2
Reduce Pension Exemptions	\$343.4
Phase out Personal Exemp.	\$83.4
Other Changes	<u>\$137.6</u>
Net Income Tax Change	\$1,423.7



Pension Provisions

- For taxpayers **born before 1946** (i.e. turn 66 in 2011) **no change in retirement or pension exemptions** from current law
- Taxpayers **born 1946 to 1952** (i.e. turn 59 to 65 in 2011):
 - **Exemption for retirement income eliminated while taxpayer is under 67** (but SS exemption retained) – but new \$20k/\$40k pension income exemption added
 - **After 67 \$20k/\$40k exemption applies to all income**, SS exemption retained; \$20k/\$40k exemption phased out for high income taxpayers (\$75k/\$150k)
- **Born after 1952** (i.e. will not turn 59 until after 2011)
 - **Pension exemption eliminated** (but SS exemption retained) **until taxpayer is 67**
 - **After 67, \$20k/\$40k exemption applied against all income including SS**
 - Exemption phased out for high income taxpayers (\$75k/\$150k)



Will It Help Economic Growth?

- ↑ Reduction in business tax improves return on investment in Michigan
- ↑ Lower tax, simpler structure will improve MI's reputation among businesses
- ↓ Repeal of PPT credit means large multistate mfrs with a lot of personal property pay more
- ↓ Increase in income tax reduces consumption, net tax cut reduces government spending
- ? Net Impact unknown but likely small (but small differences compounded over time can make a big difference)



Questions?



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