



CITIZENS RESEARCH COUNCIL OF MICHIGAN

# Michigan Economic and Revenue Update

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# Citizens Research Council

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- Relies on charitable contributions of Michigan foundations, businesses, and individuals
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# State of the National Economy



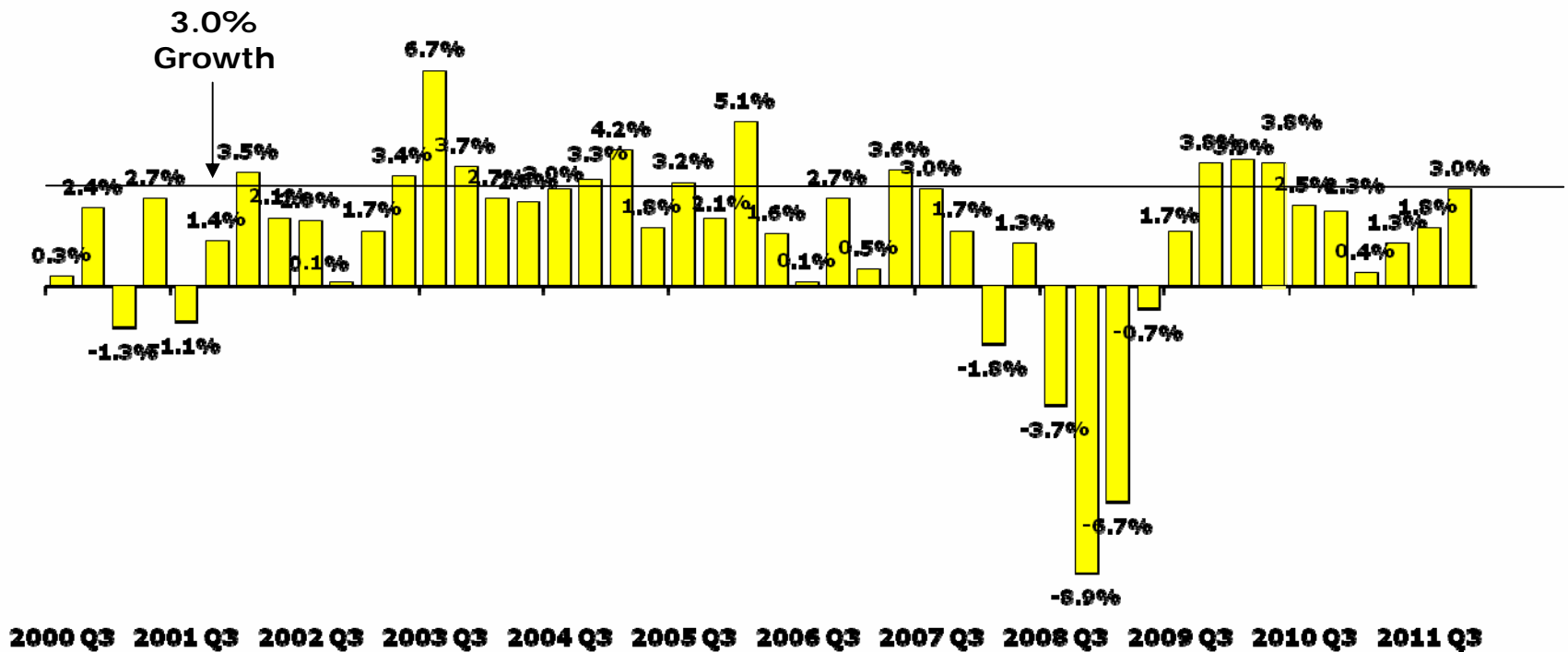
## Overview

- National recession has been over for 3 years
- Recovery has been uneven and halting risk of double dip very high last spring
- Lately economy has been strengthening: auto sales, stock market, employment growth have all been better
- Risks to outlook include oil prices, Europe, and federal fiscal policy



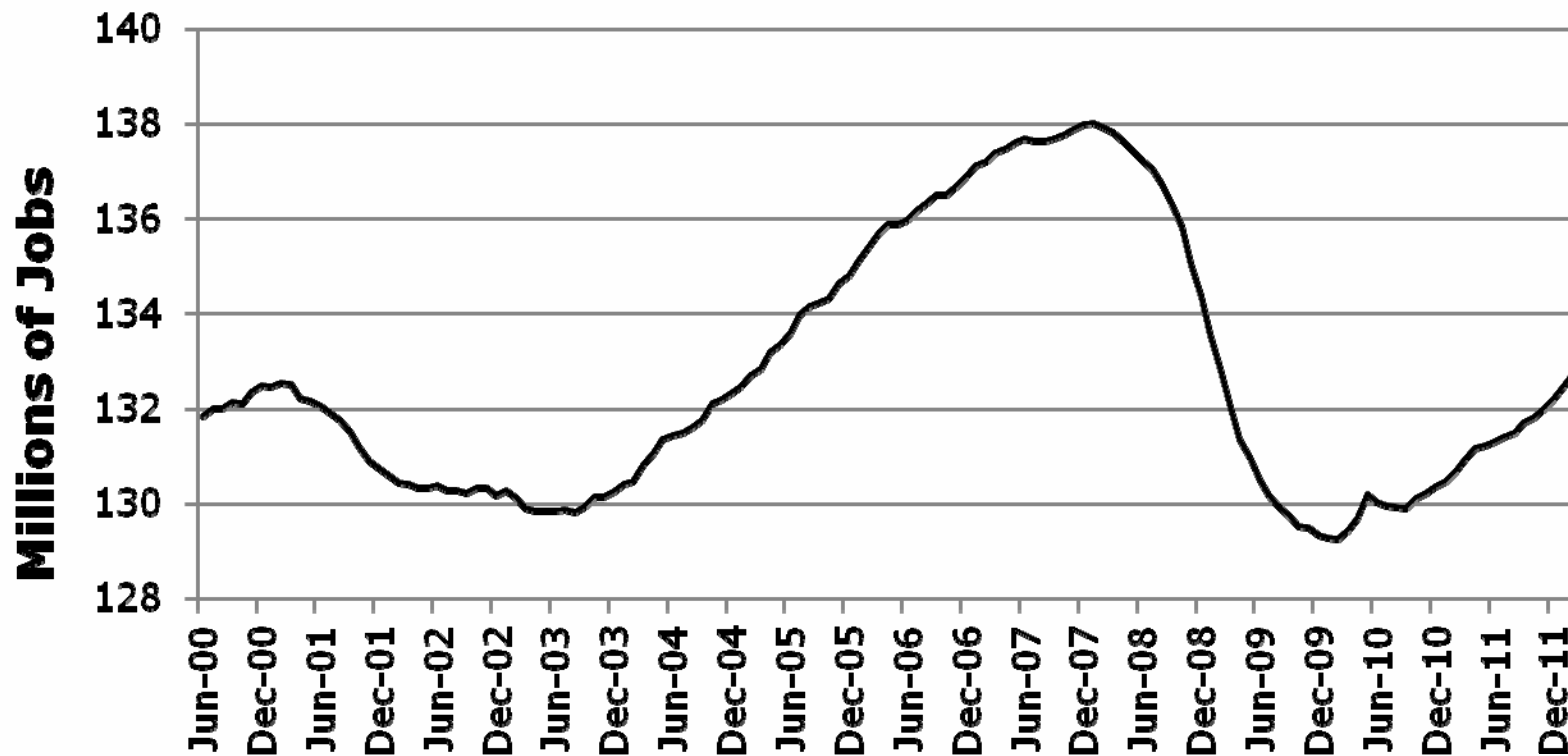
# Recession Has Been Over for Almost 3 Years

## Real GDP Growth



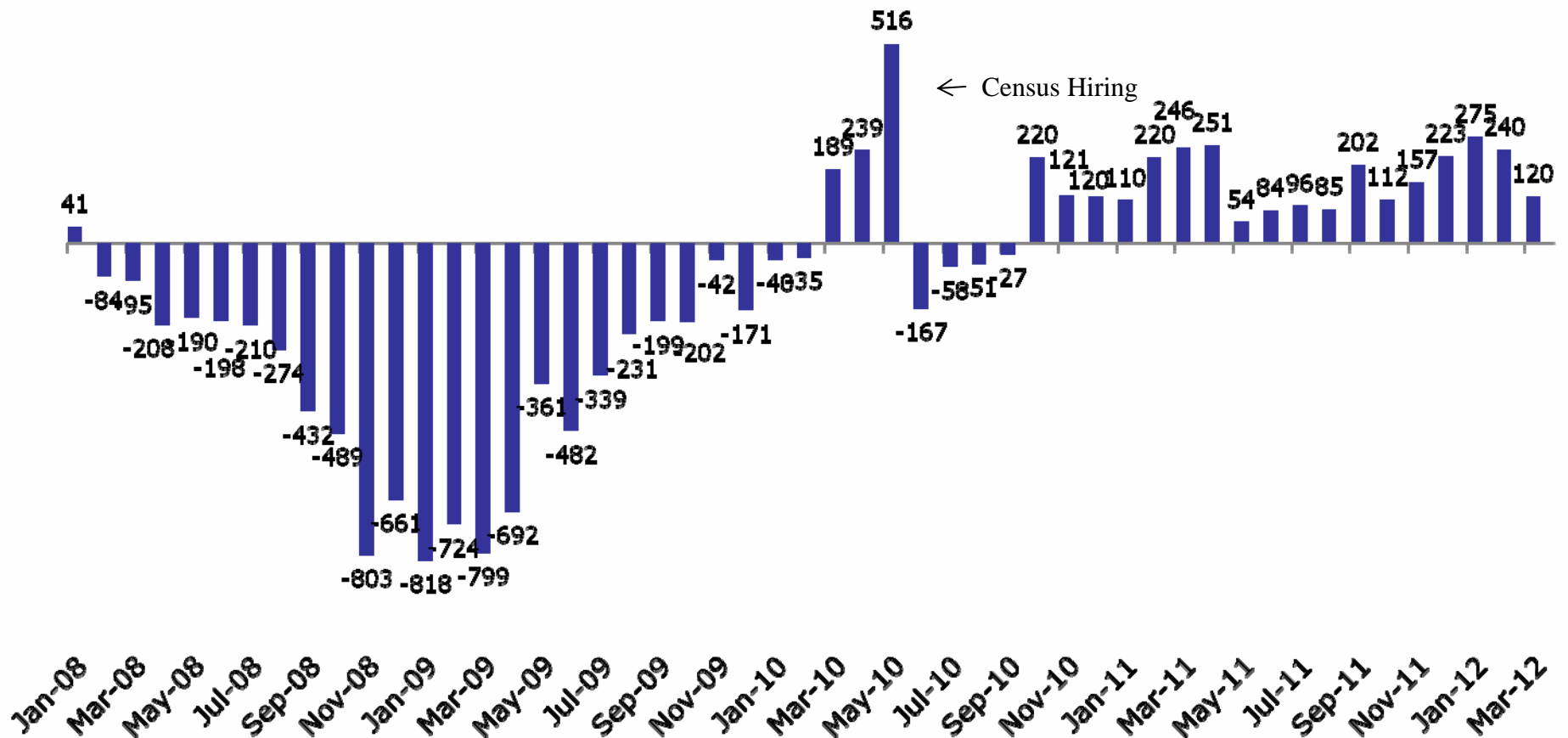


# U.S. Employment Growing But Still Down 5.3 Million Jobs from Peak





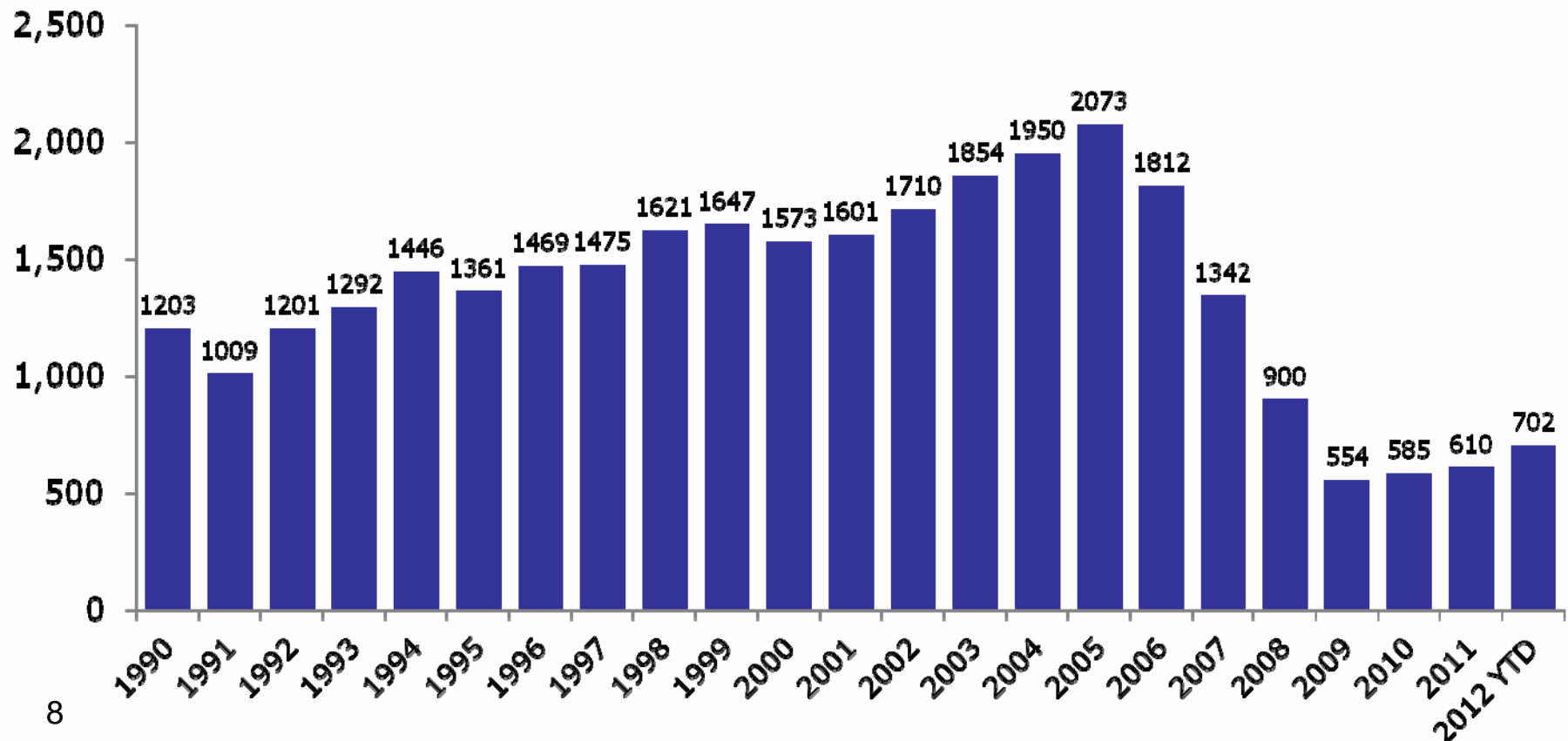
# Monthly Employment Growth Improving





# Housing Starts Improving But Remain Extremely Depressed

Between 1959 and 2007 Total Never Below 1M



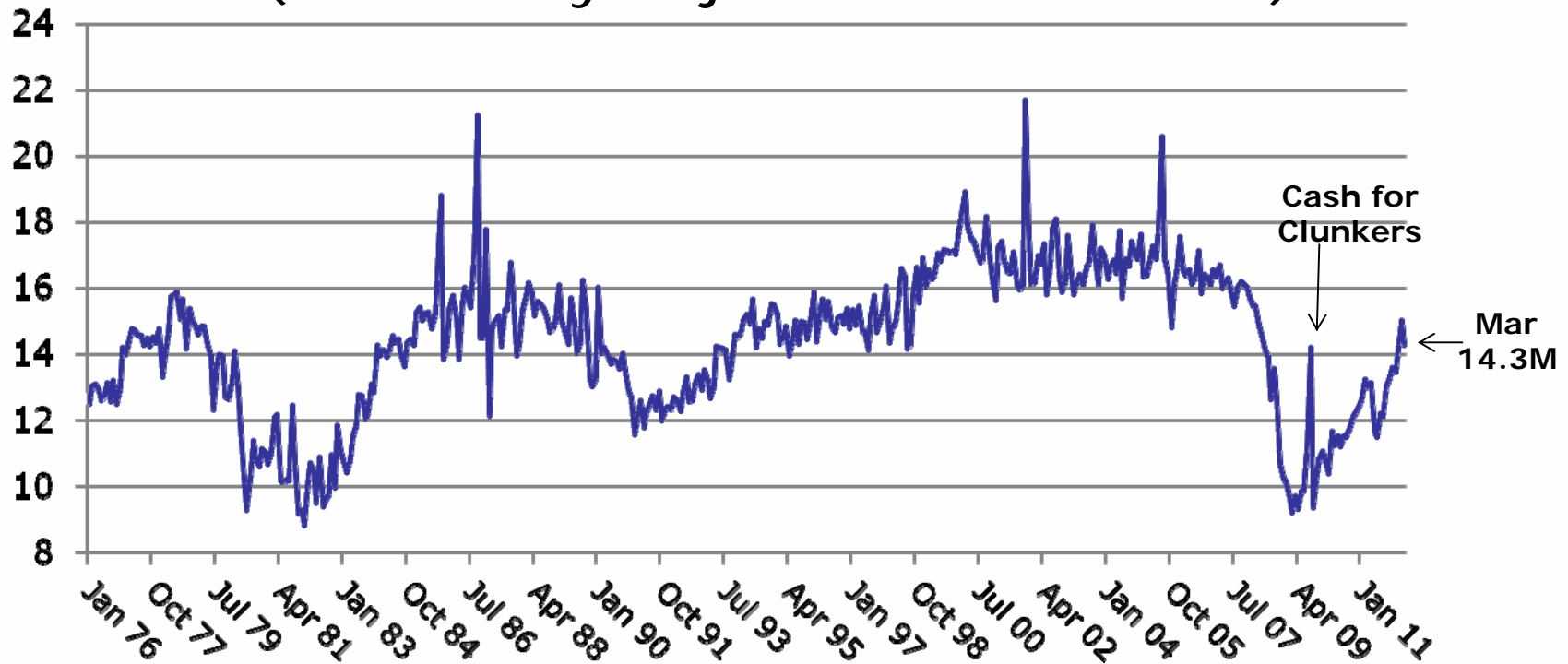
Source: Newly Privately Owned Housing Starts St. Louis Fed (FRED) 2012 annualized Jan and Feb avg..





# Vehicle Sales Are Recovering

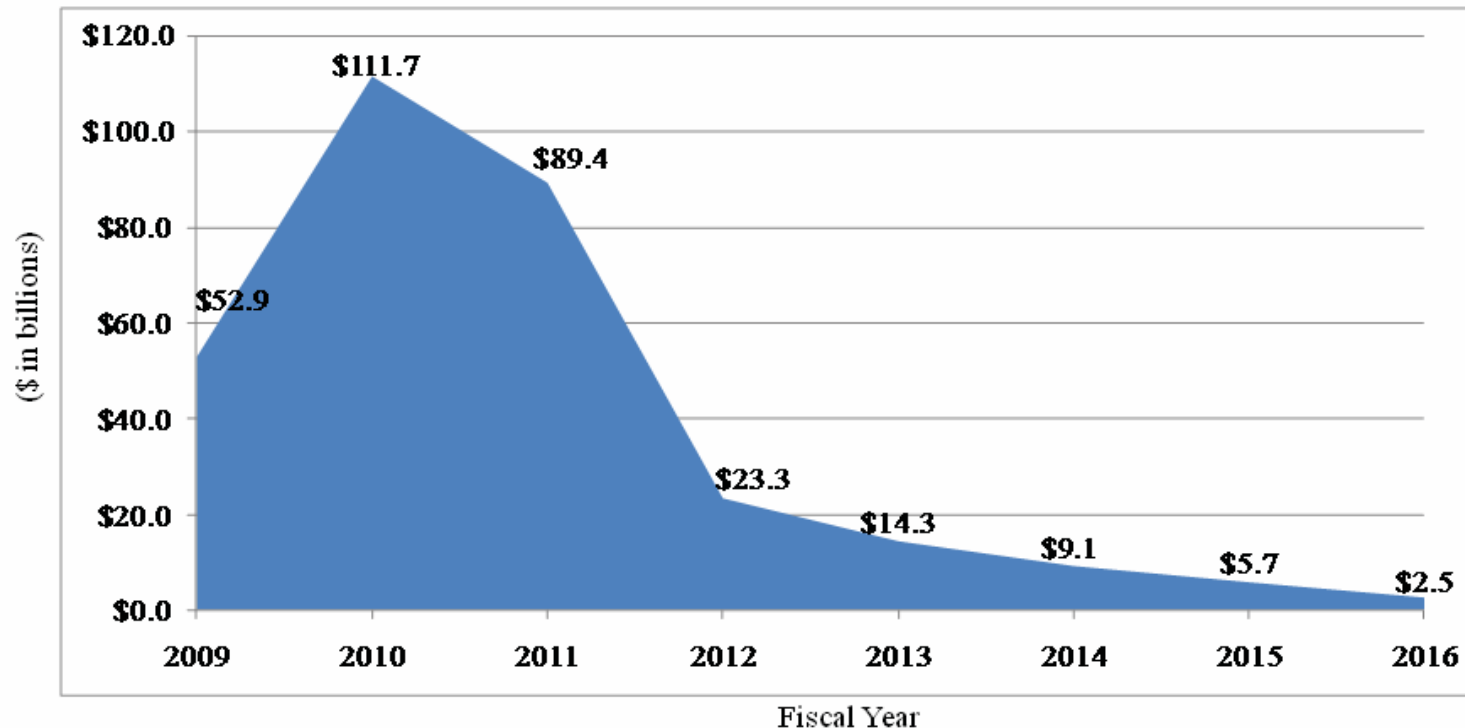
Monthly Light Vehicle Sales  
(Seasonally Adjusted Annual Rate)





# End of ARRA and Other Stimulus Drags on Recovery

Temporary Federal Aid to States



10 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>



## Federal Fiscal Policy

- Federal deficit projected to be 7.6% of GDP in 2012; higher than any year from 1946 to 2008
- Under current law, many tax cuts would expire -- CBO projections have revenues going from 15.8% of GDP in 2012 to 19.8% in 2014, a 25% increase
- If Congress does not pass a bill with \$1.2 trillion in cuts by January, automatic cuts scheduled to go into effect ("sequestration"); cuts would be in defense and nonexempt programs including Medicare
- Unlikely current law will remain in place for taxes or spending, but significant deficit reduction needs to occur representing a risk for both the economic outlook and state and local programs supported by federal spending



# Michigan's Recent Economic Experience

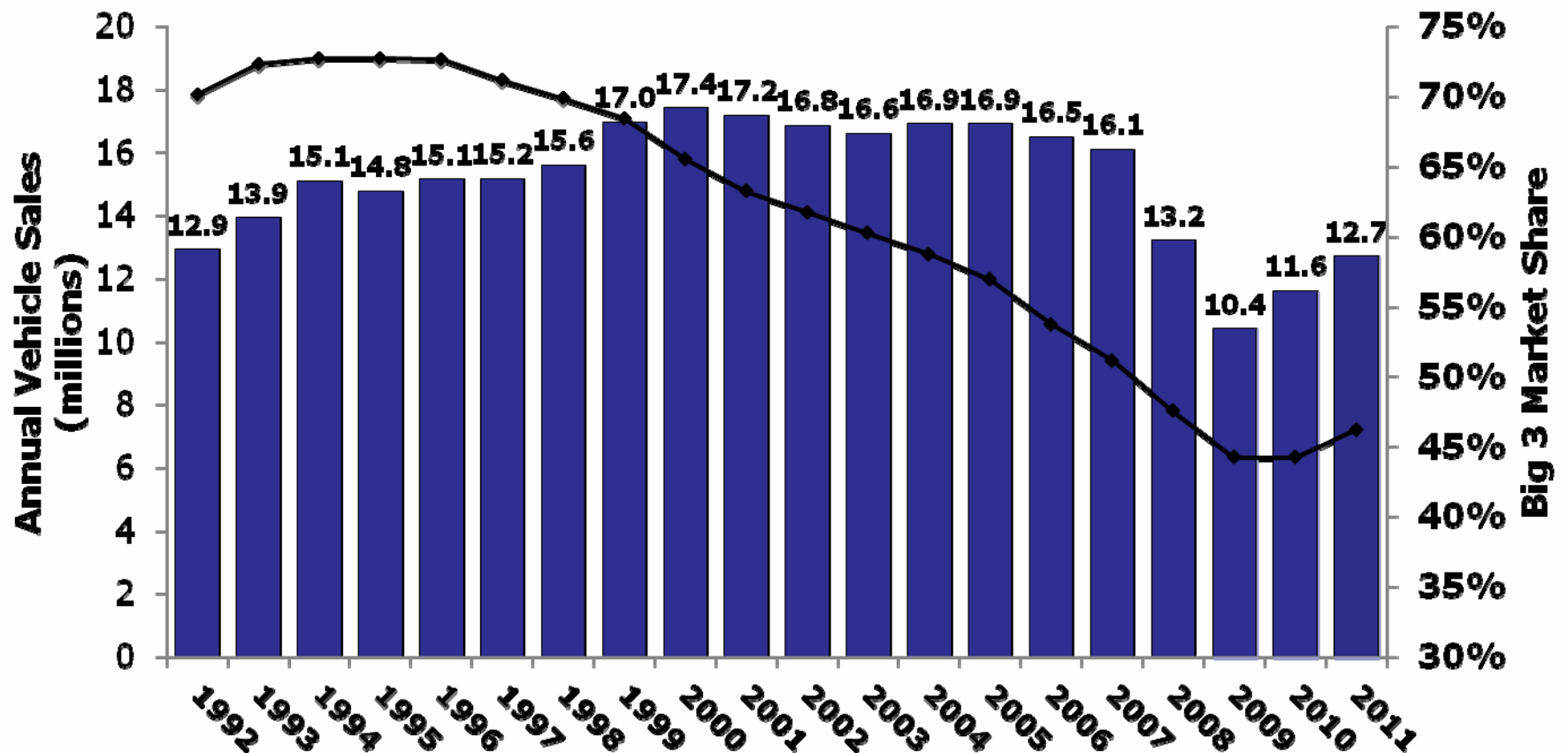


## The Last Decade Was an Economic Disaster for Michigan

	<u>Growth 2000 to 2010</u> <u>U.S.</u>	<u>Growth 2000 to 2010</u> <u>Michigan</u>	<u>Michigan</u> <u>Rank</u>
Population	9.6%	-0.8%	51
Real Per Capita GDP*	6.5%	-6.4%	50
Employment	-0.3%	-17.4%	51
Real Per Capita Income	4.0%	-6.8%	51



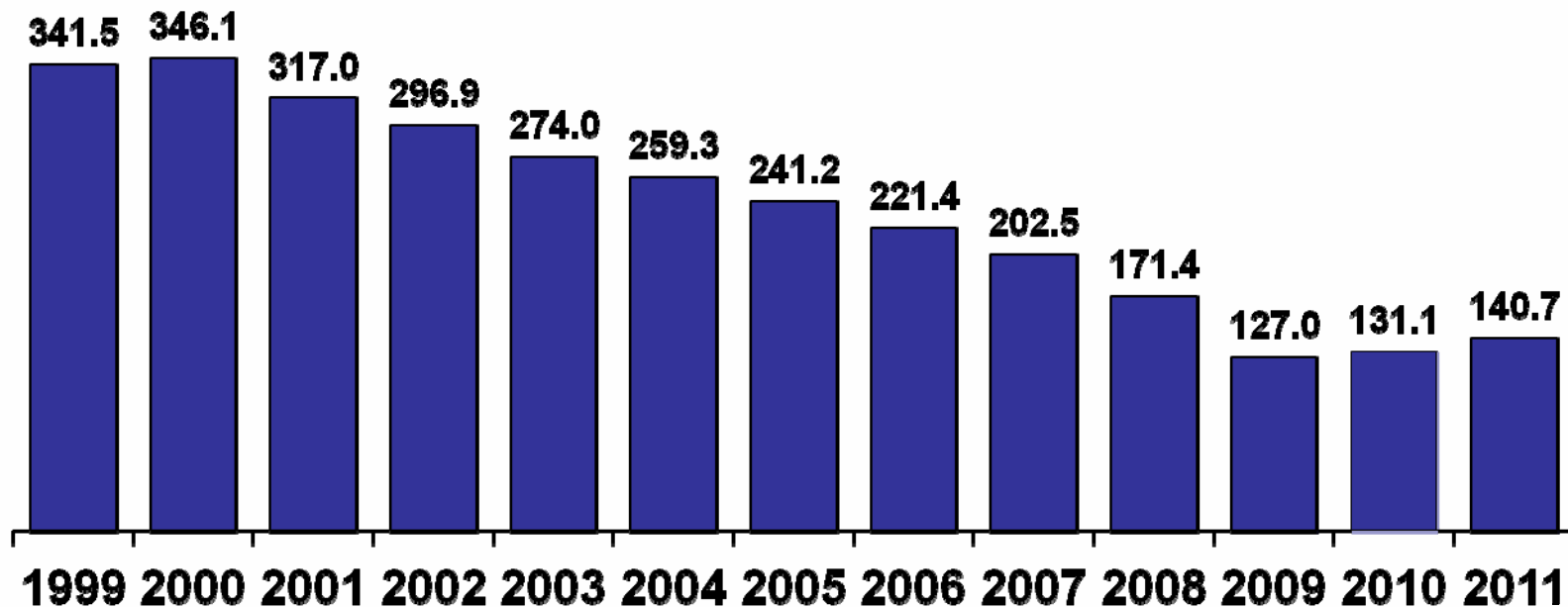
# Big 3 Market Share Plummet





# 200,000 Transportation Equipment Jobs Lost

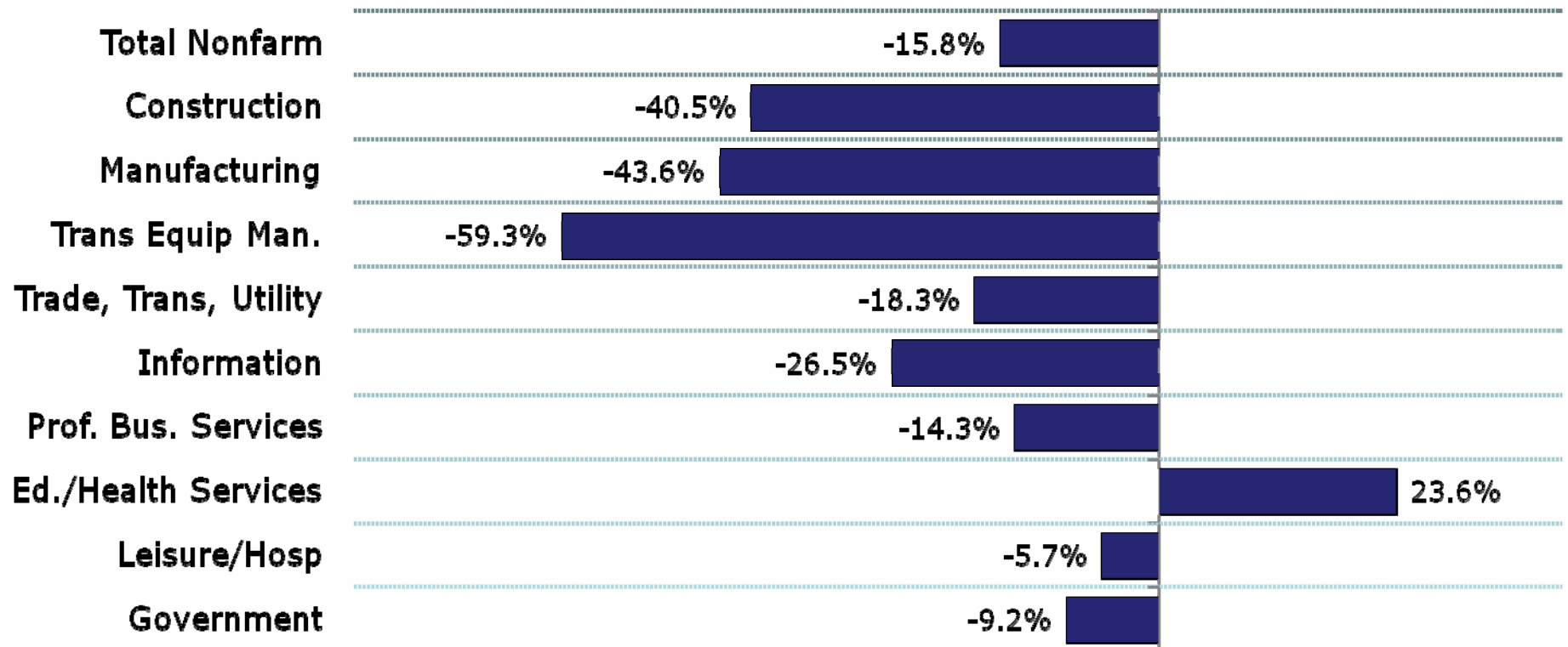
Michigan Transportation Equipment Employment  
(In Thousands)





# Almost Every Sector in Michigan Has Lost Jobs

**2000 to 2011**

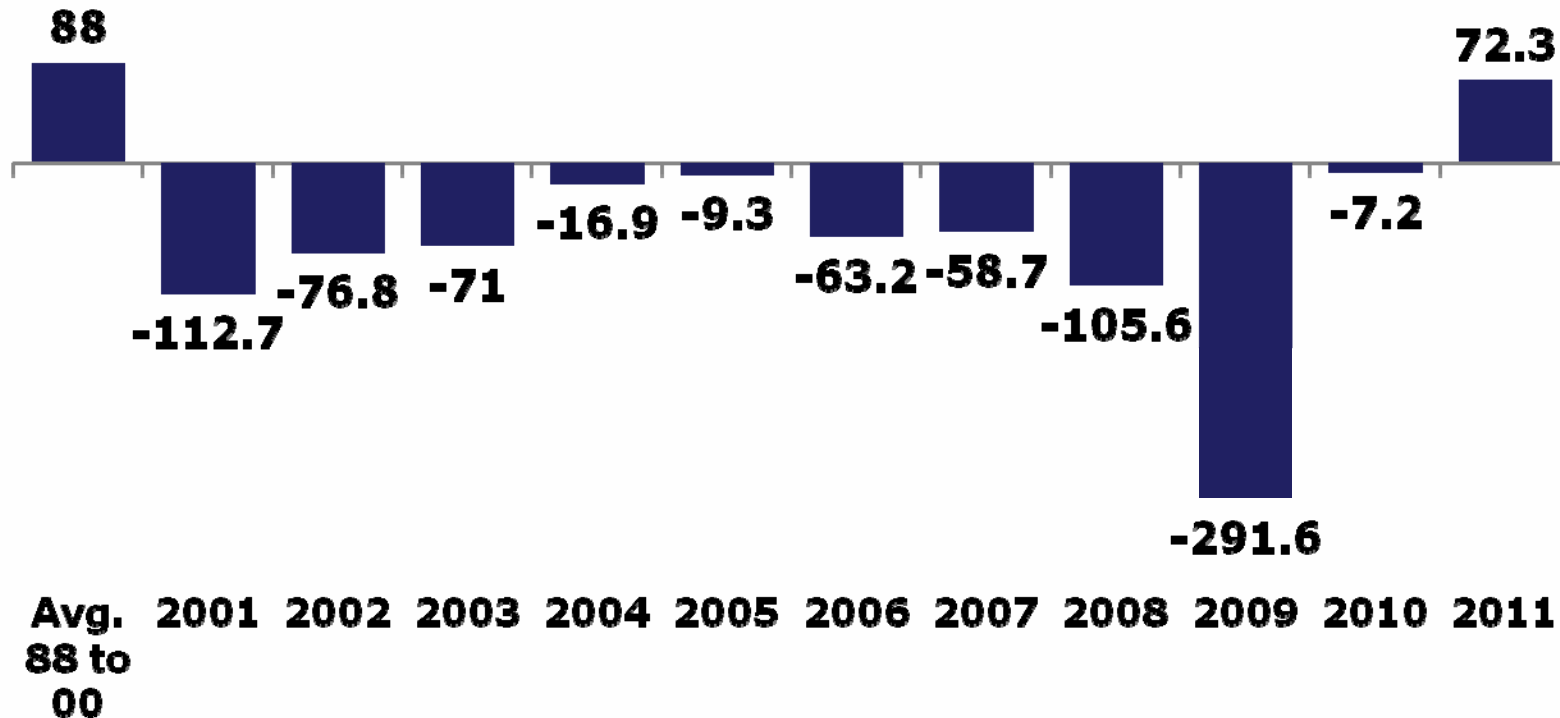






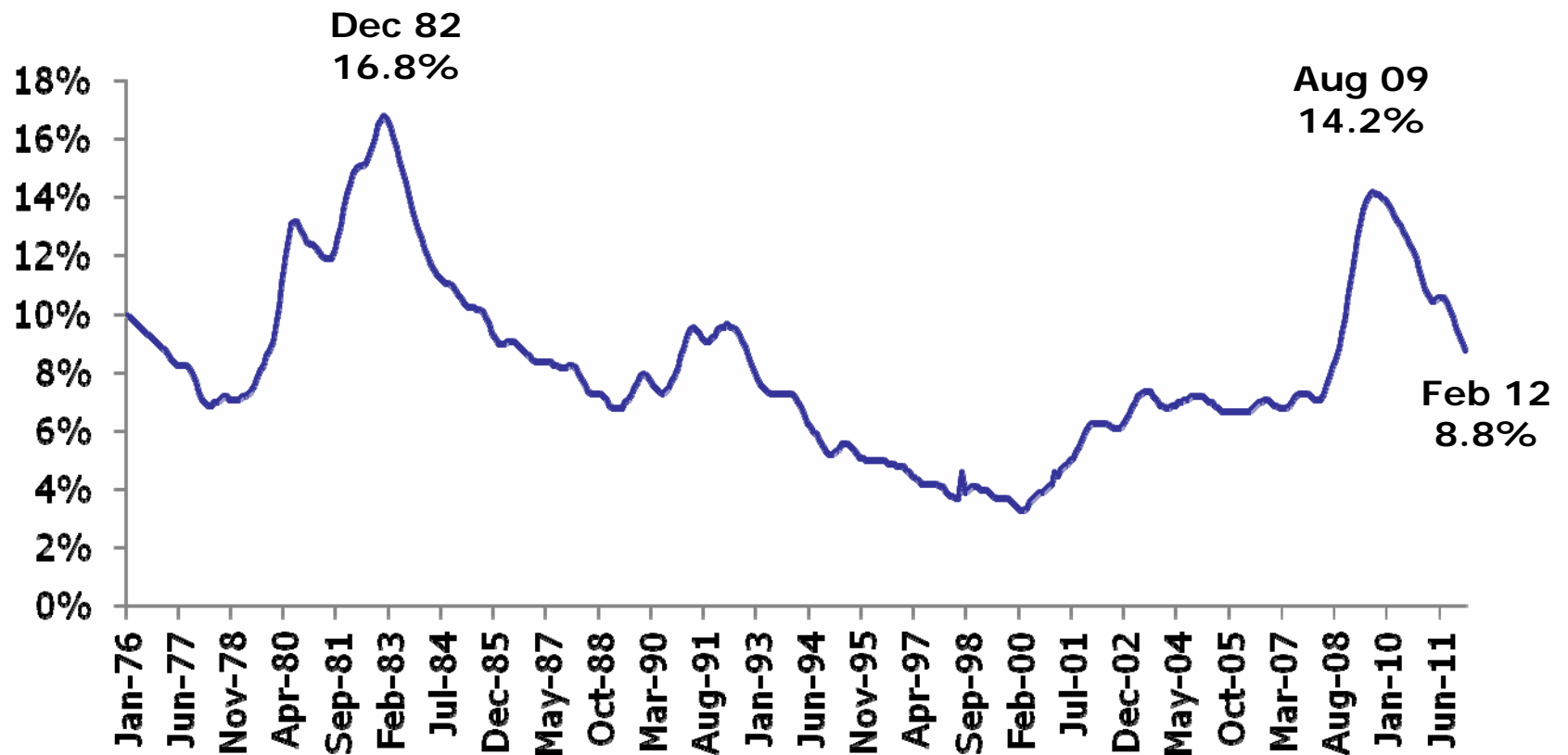
# After 10 Years of Decline Michigan Added Jobs in 2011

Annual Change in Payroll Employment (thousands)





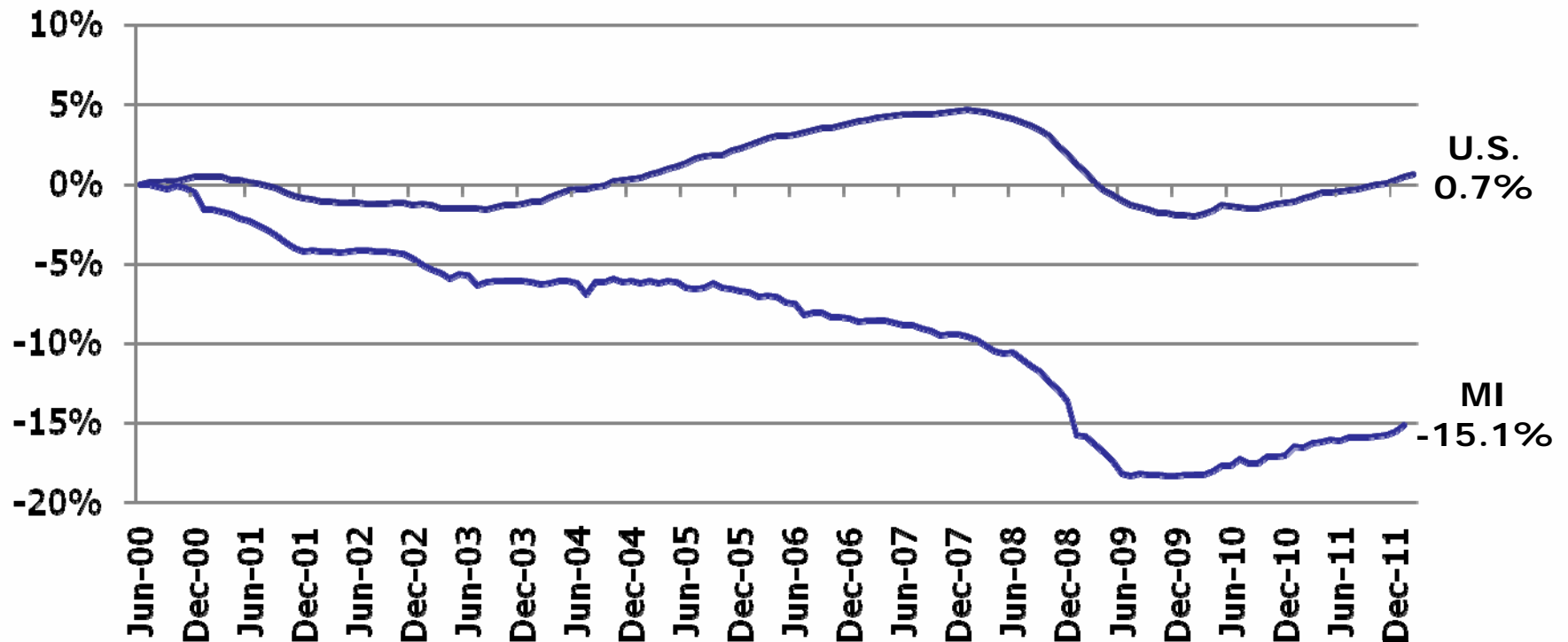
# Michigan's Y-O-Y Unemployment Rate Drop Largest in U.S.





# Michigan Employment Improving But Has a Long Way to Go

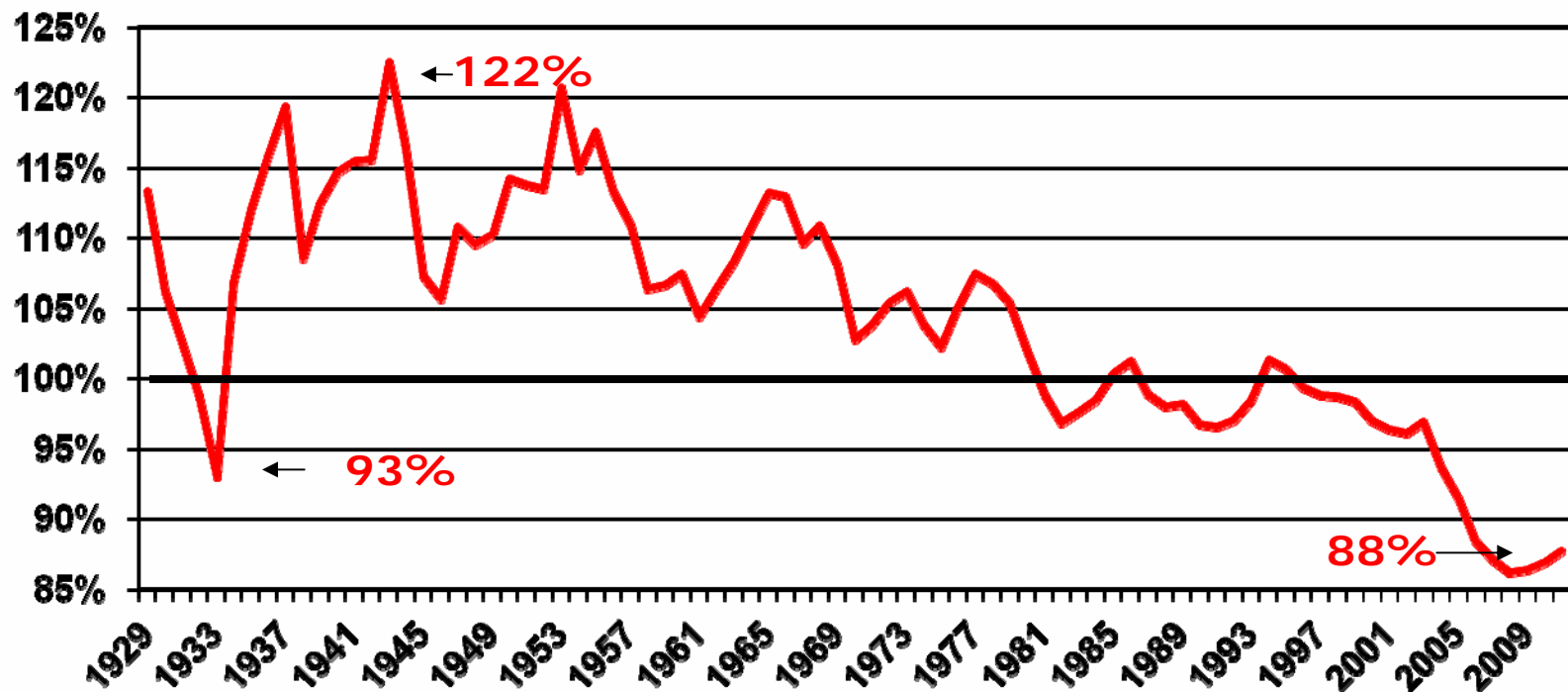
Cumulative Percent Change in Employment Since June 2000





## 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 20<sup>th</sup> in 2001 to 37<sup>th</sup> in 2011



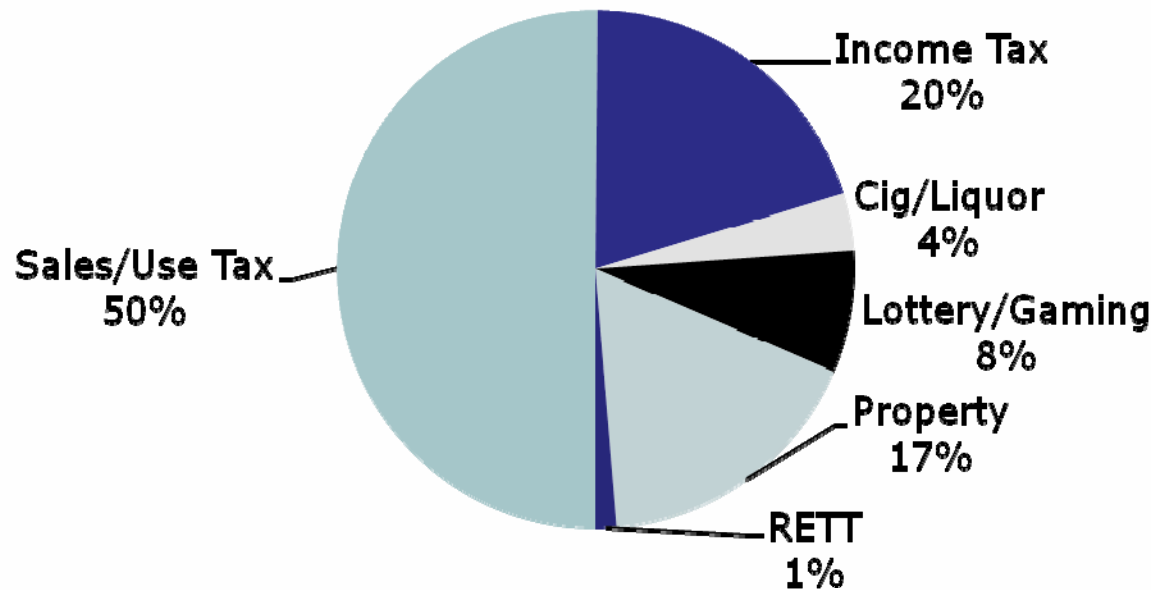


# School Aid Fund



# State School Aid Fund Revenues Total \$11.1 Billion in FY 2013

## School Aid Fund





## Recent Tax Changes

- In 2008, MBT replaced SBT and some school taxes levied on industrial and commercial personal property
- In FY 2011, \$739 million of MBT earmarked to SAF
- In 2012, CIT replaced MBT – no CIT earmarked to SAF
- IIT increases raise approximately \$100 million for SAF in FY 2013 (out of the \$1.4B in IIT increase)



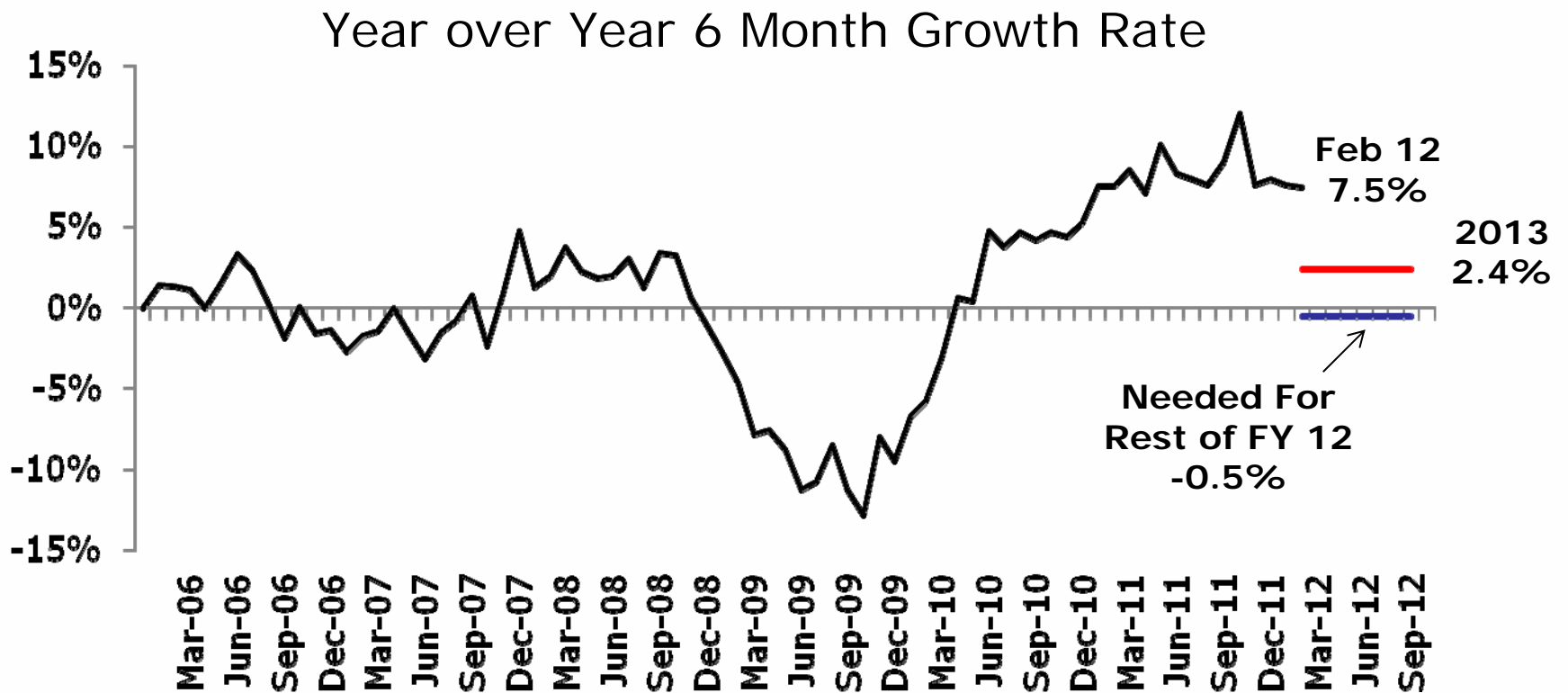
## Sales/Use Tax

- Roughly half of state School Aid revenues come from the sales/use tax so it is the most important revenue source
- **Sales Tax** – 6% tax on the sale of tangible property for use or consumption
  - Approximately 73% of tax is constitutionally restricted for the School Aid Fund
  - Tax projected to total \$7.1 billion in FY 2013 with \$5.1 going to the SAF (roughly \$3,300 per pupil)
- **Use Tax** – 6% tax on the use of certain types of property and certain services (hotels, leases, etc.)
  - 1/3 constitutionally restricted to SAF
  - Projected to raise \$1.2 billion in FY 2013 with \$414 million to SAF (roughly \$270 per student)





# Sales Tax Growth Has Been Strong Lately





## Outlook For Sales Tax

- Sales tax growth has been strong driven in part by the rapid increase in gas prices, but economic recovery is also a significant contributor (high gas prices bad in long run, but can boost short term growth)
- Growth will slow as year over year change in gas prices becomes smaller and economic growth moderates
- **FY 12 target will likely be raised significantly** in May
- FY 13 level will likely be raised as well, but change to growth rate is unclear



## Sales Tax from Gasoline Can be Volatile and May Be Driving Recent Growth

<u>Fiscal Year</u>	<u>Average Price Per Gallon</u>	<u>Estimated Sales Tax Gasoline (millions)</u>	<u>Annual Change</u>
2007	\$2.71	\$656.1	
2008	\$3.51	\$837.7	27.7%
2009	\$2.29	\$529.4	-36.8%
2010	\$2.75	\$641.7	21.2%
2011	\$3.50	\$821.3	28.0%



## Long-Term Issues With Michigan's Sales Tax

- Most services are not taxed and services are a growing share of the economy; therefore, sales tax growth will trail overall economic growth
- Losses from taxes not remitted on internet and mail order sales are growing; the Michigan Department of Treasury estimates lost sales taxes will total \$451 million in FY 2013

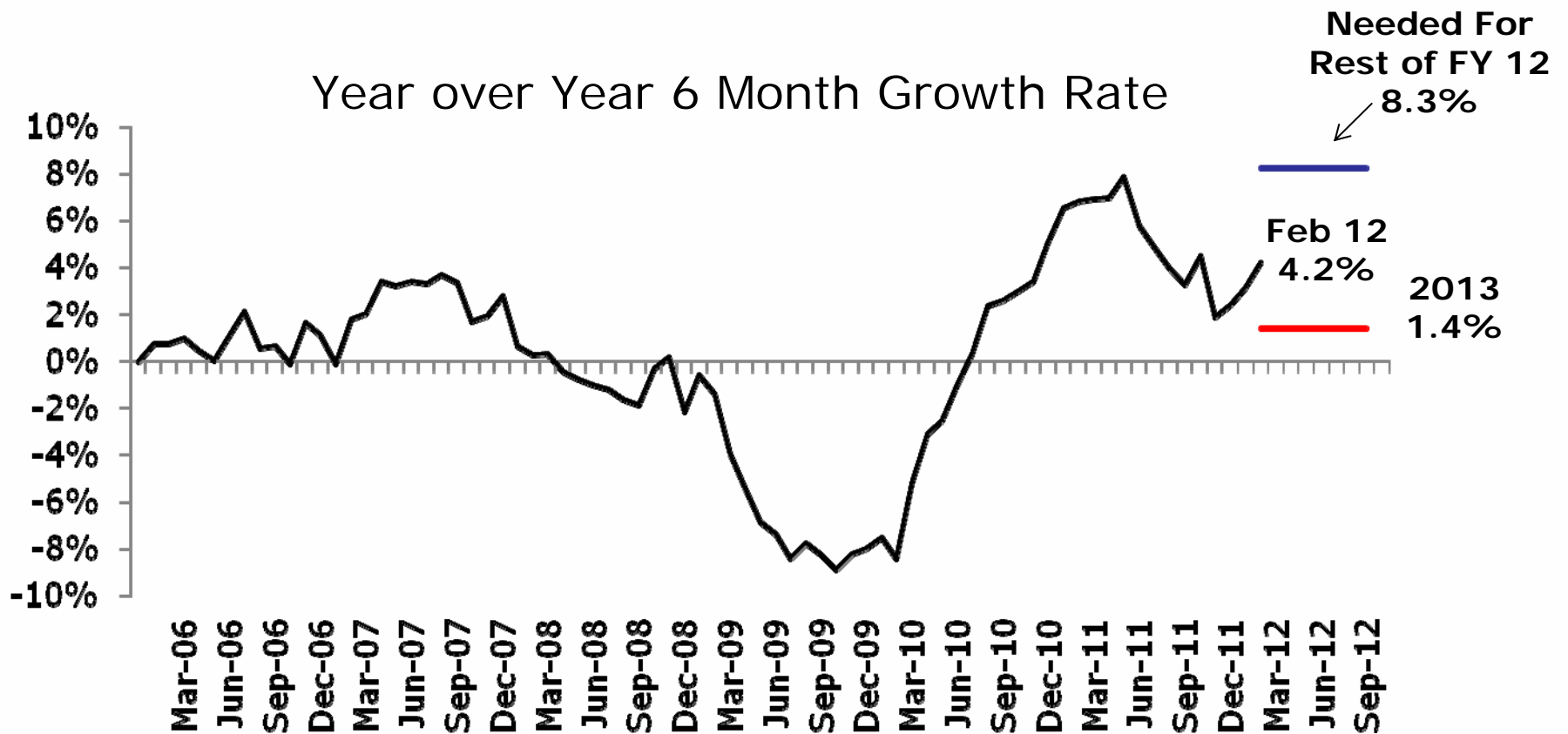


## Income Tax Collections

- **Income Tax Collections** are projected to be \$7.9 billion in FY 2013 with \$2.2 billion going to the SAF (approx. \$1,444 per student)
- Approximately 23.5 percent of gross collections (withholding, estimated, and annual payments) go to the SAF
- IIT rate changes do not affect the SAF
- Income tax refunds are paid out of the General Fund and have no impact on SAF
- Estimated and annual payments make up just 18 percent of gross collections, but are very volatile



# Withholding Growth Rate Strong But Below Level Needed





## Withholding Outlook

- Tax Changes make it hard to assess withholding
- Revenue estimators had to forecast how much the total tax change would raise as well as how much would show up in this year's withholding and estimated payments vs. next year's annual payments – estimates could be too high or too low
- Will be difficult to discern economic changes from tax changes on growth rates
- Rate cut next year will reduce FY 13 growth rate but not FY 13 SAF collections
- Excluding tax changes, withholding forecast to grow 3.6% in FY12 and 3.3% in FY 13; relatively conservative estimates



## Estimated and Annual IIT Payments

- Combined total approx. \$1.4 billion per year
- Can be quite volatile: 2009 growth -27%; 2010 growth -10.8%; 2011 growth +21 percent
- Growth largely driven by stock market changes
- Assumed growth before tax changes: a conservative 5% for FY 12; 6.9% for FY 13
- April very important for these payments (and reason conference is in May)



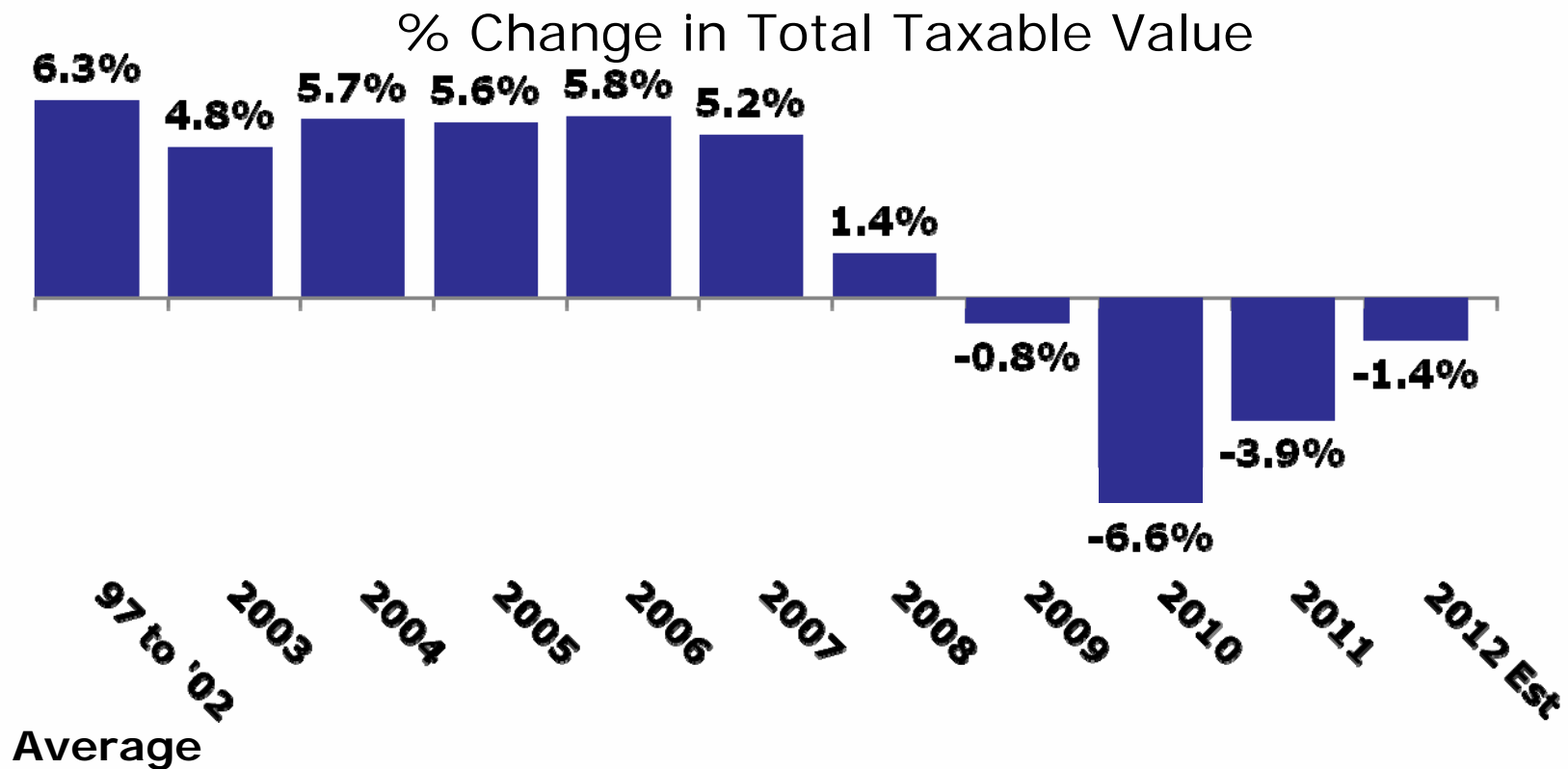


## Property Taxes

- State education tax estimated to raise \$1.8 billion in FY 2013 (approx. \$1,193 per pupil)
  - SET grew well for most of decade but housing market collapse hurting collections – SET down 4.4% in FY 2011
  - Tax is levied in July so cannot judge how FY 12 collections are doing; taxable value will be available just prior to Consensus Conference allowing revenue estimators to modify estimates
- 33 • Jan Estimates: FY 12 -1.4%; FY 13 +1.2%



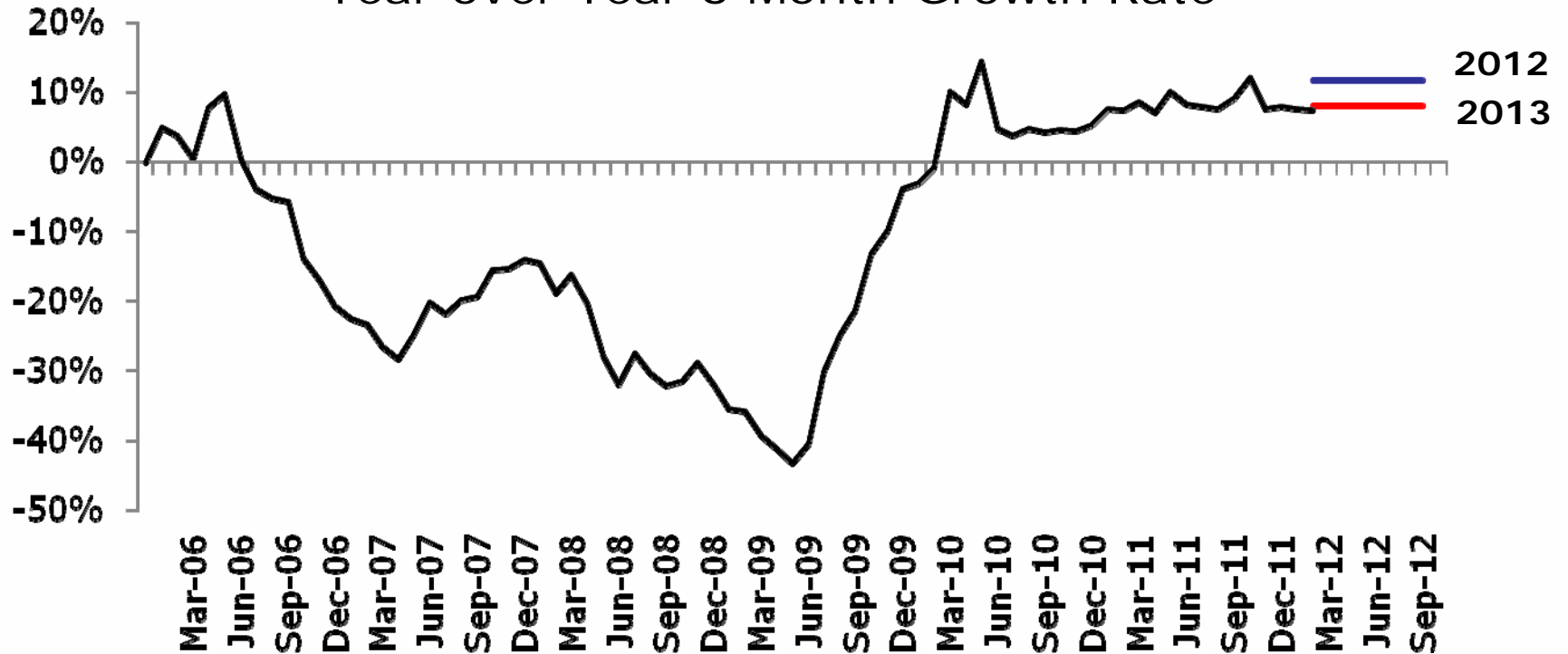
# Property Taxes Had Held Up Well But That Has Changed





# Real Estate Transfer Tax

Year over Year 6 Month Growth Rate





## Real Estate Transfer Tax

- Tax equal to 0.75% of the sale price of property
- Tax only raised \$123 million in FY 2011, down from \$317 in FY 2004
- Tax projected to raise \$144 million in FY 2013 (approx. \$93 per pupil)
- With a housing market recovery, this tax could generate significantly more revenue than it does now



**Questions?**



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