

Michigan Economic and Budget Outlook

Bond Club of Detroit
and
Municipal Advisory Council of MI
Annual Spring Conference

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MI Department of Treasury

Key Topics

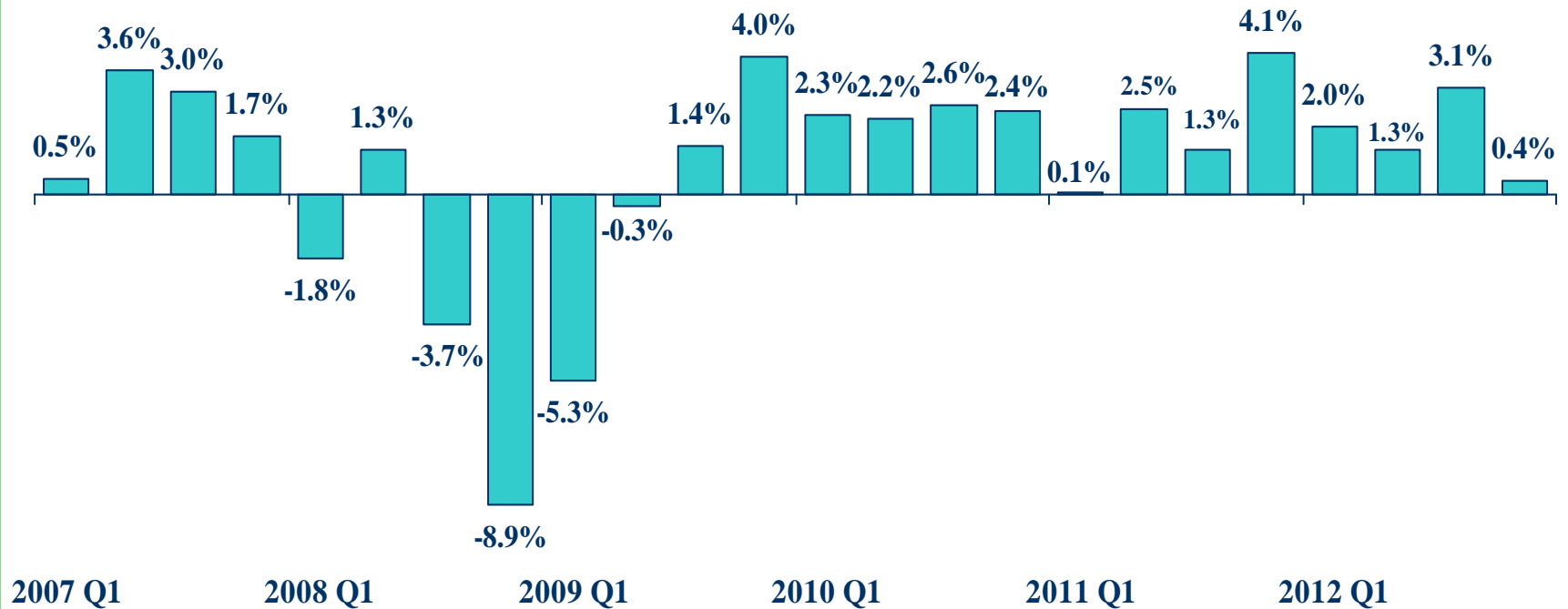
- U.S. Economic Review & Outlook
- Michigan Economic Review & Outlook
- Major Forecast Risks
- State Gov't Revenue Estimates & Trends
- Governor's Proposed Budget Plan
- Personal Property Tax Reform



U.S. ECONOMY

GDP Grows 14 Consecutive Quarters

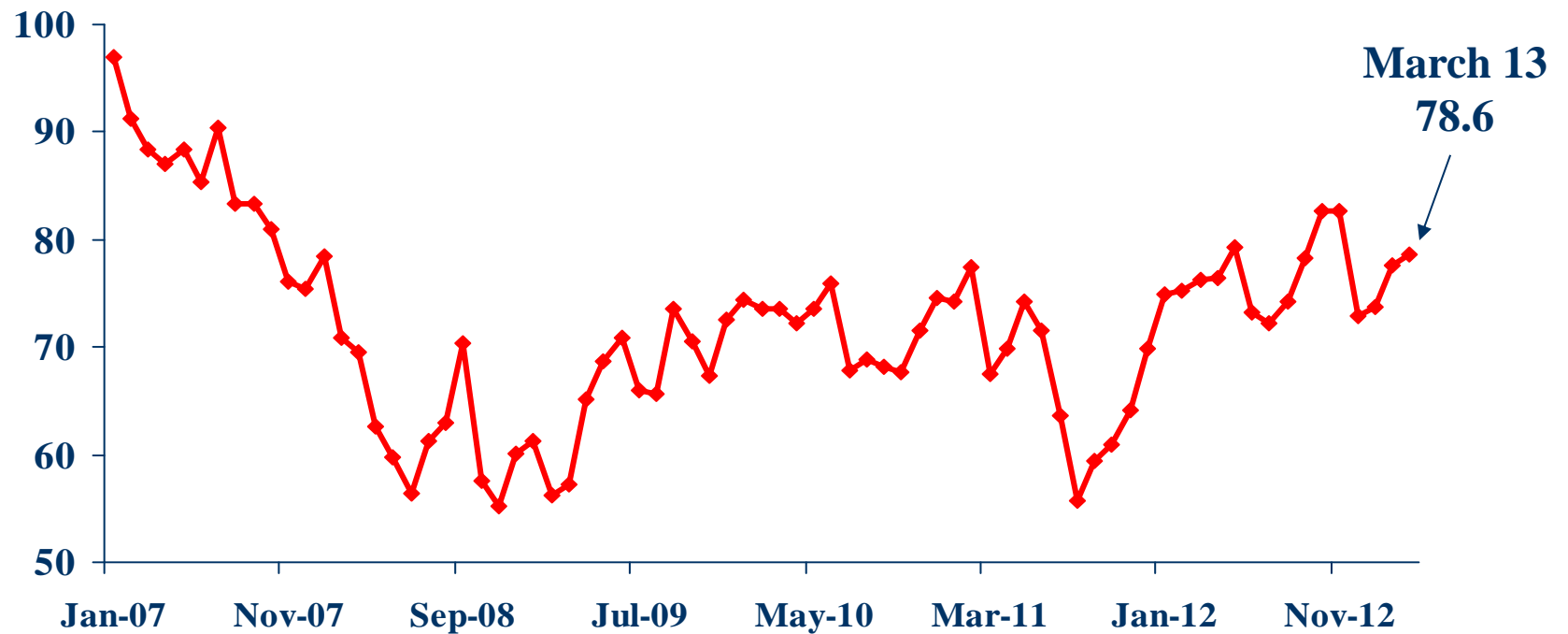
Real GDP Growth Rate



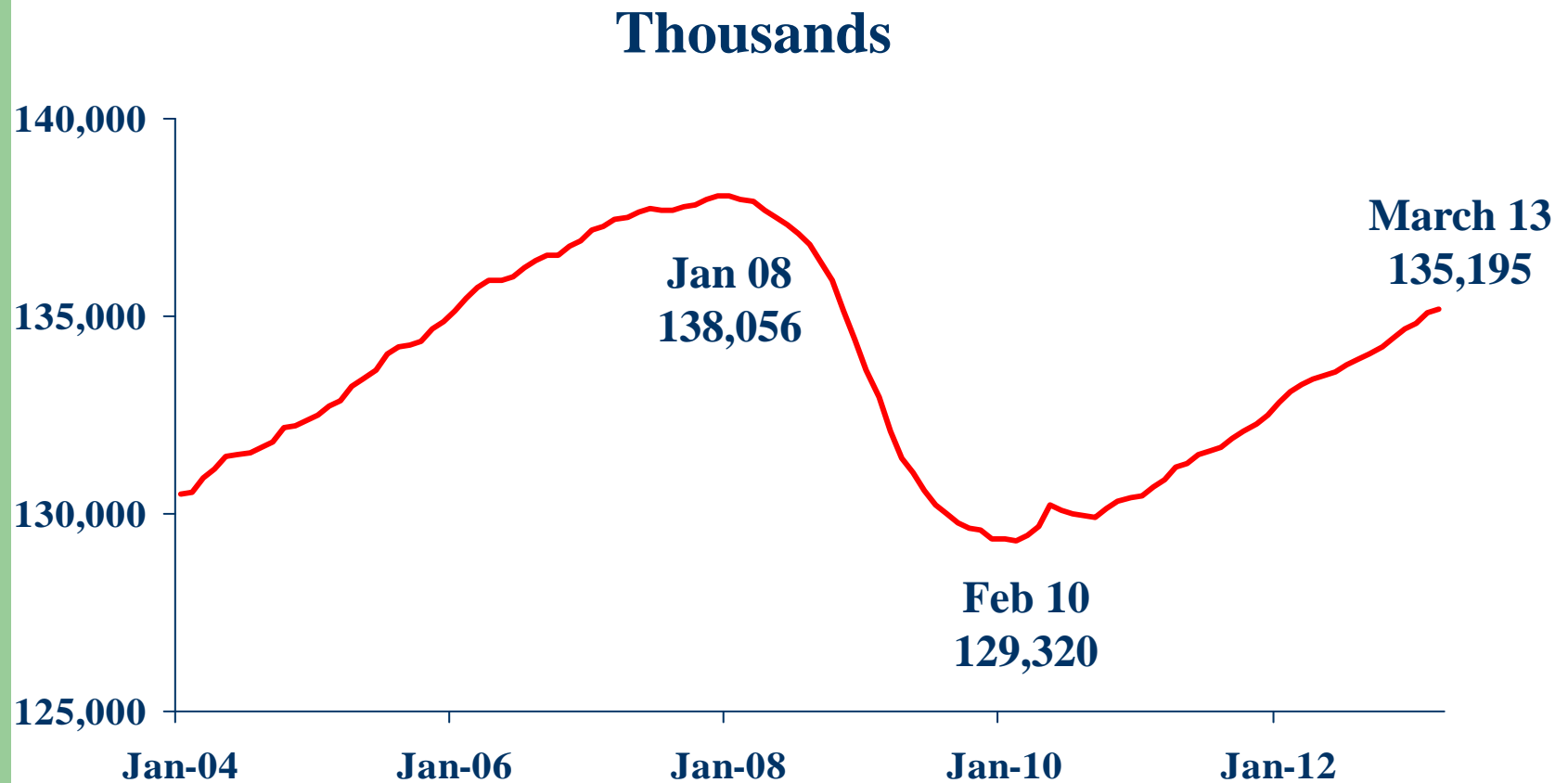
Figures are annualized percent change from preceding quarter in 2005 chained dollars.

Source: U.S. Bureau of Economic Analysis (3/28/2013).

Consumer Sentiment Increases in March

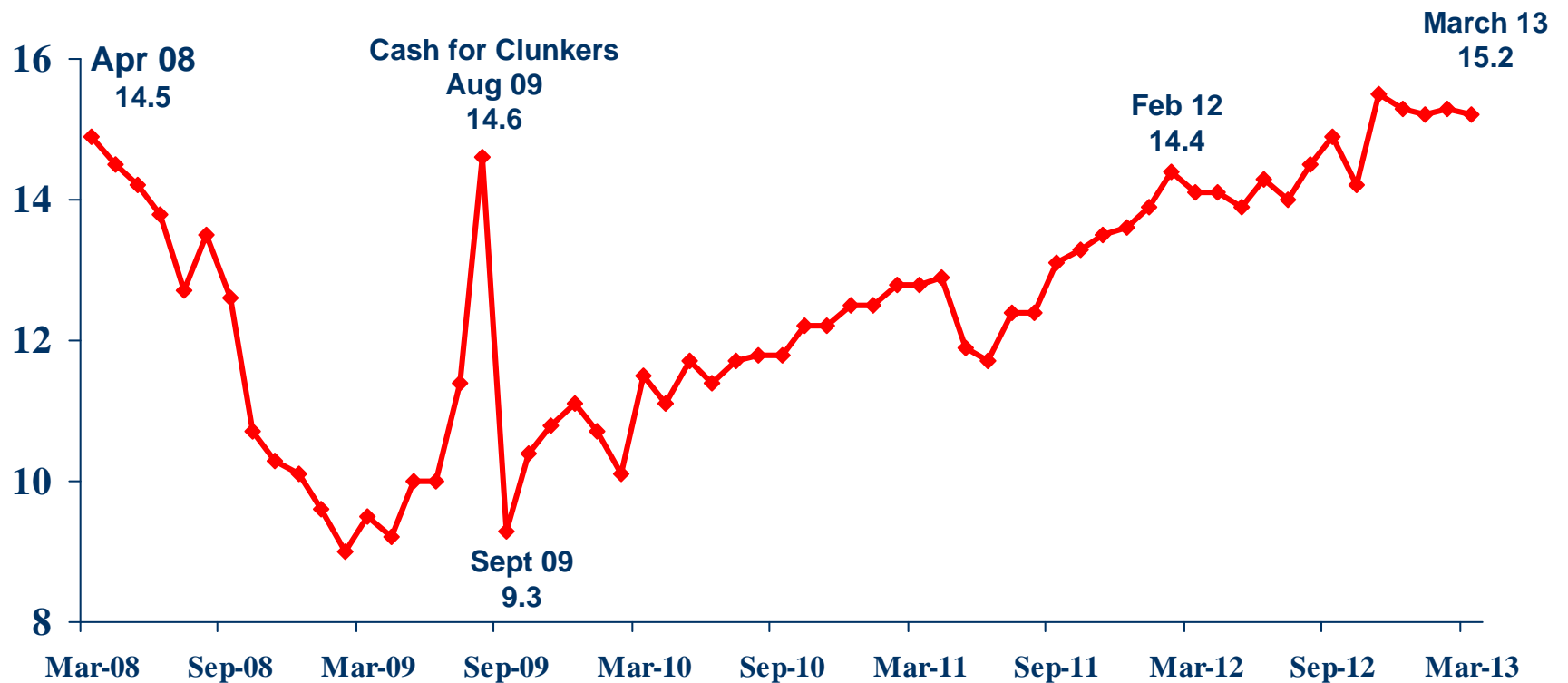


U.S. Payroll Employment Increasing, But Still Below Pre-Recession Peak



Light Vehicle Sales at Highest Level Since 2007

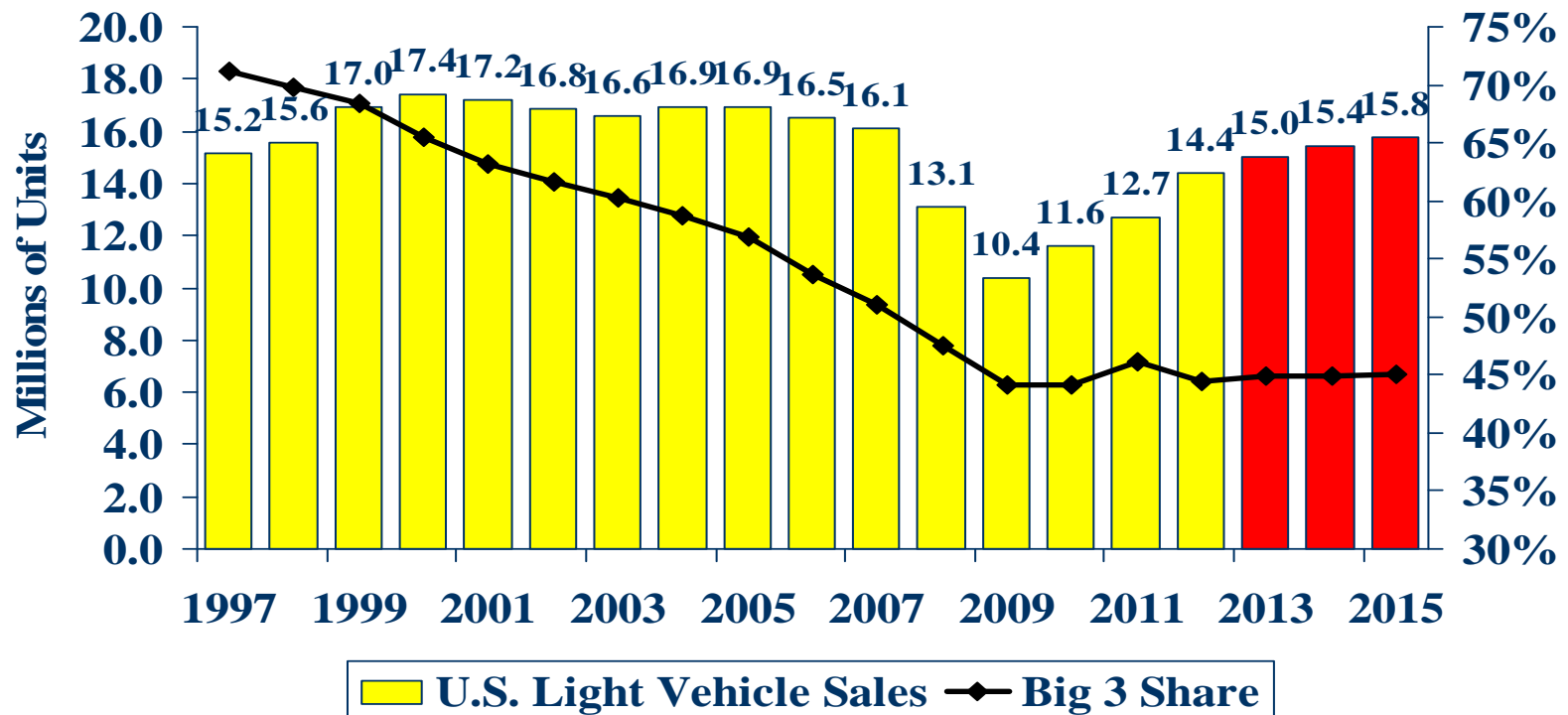
Millions of Units



Note: Sales are shown at seasonally adjusted annual rate.

Source: Bureau of Economic Analysis. (4/8/2013)

Light Vehicle Sales: Growth Through 2015 With Stable Detroit 3 Market Share

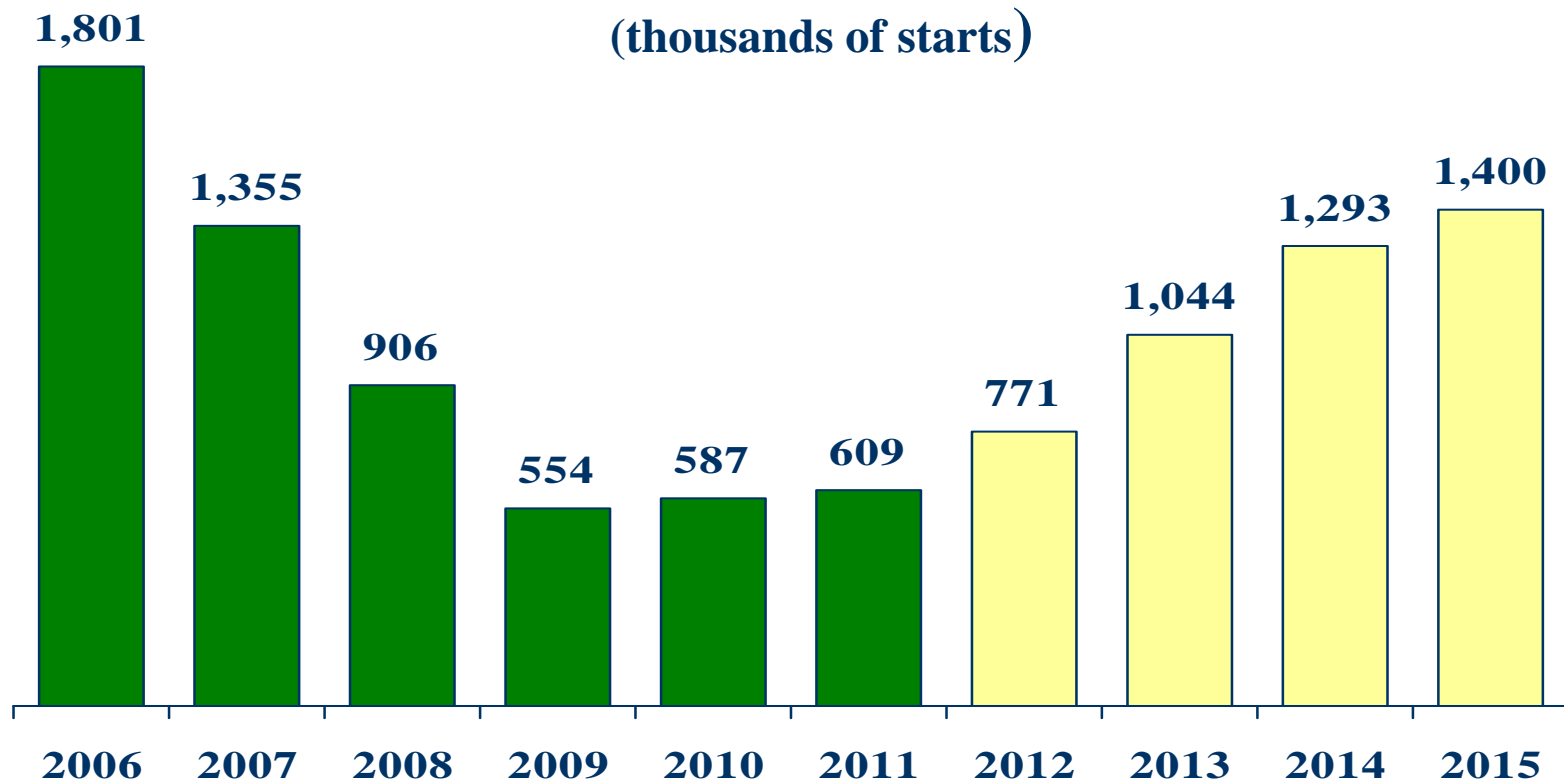


Source: Historical data, Automotive News. 2013-2015 forecast, Consensus Revenue Estimating Conference, Jan 11, 2013.

**Consensus
Est.**

U.S. Housing Starts Forecast

Calendar Year Forecast (thousands of starts)

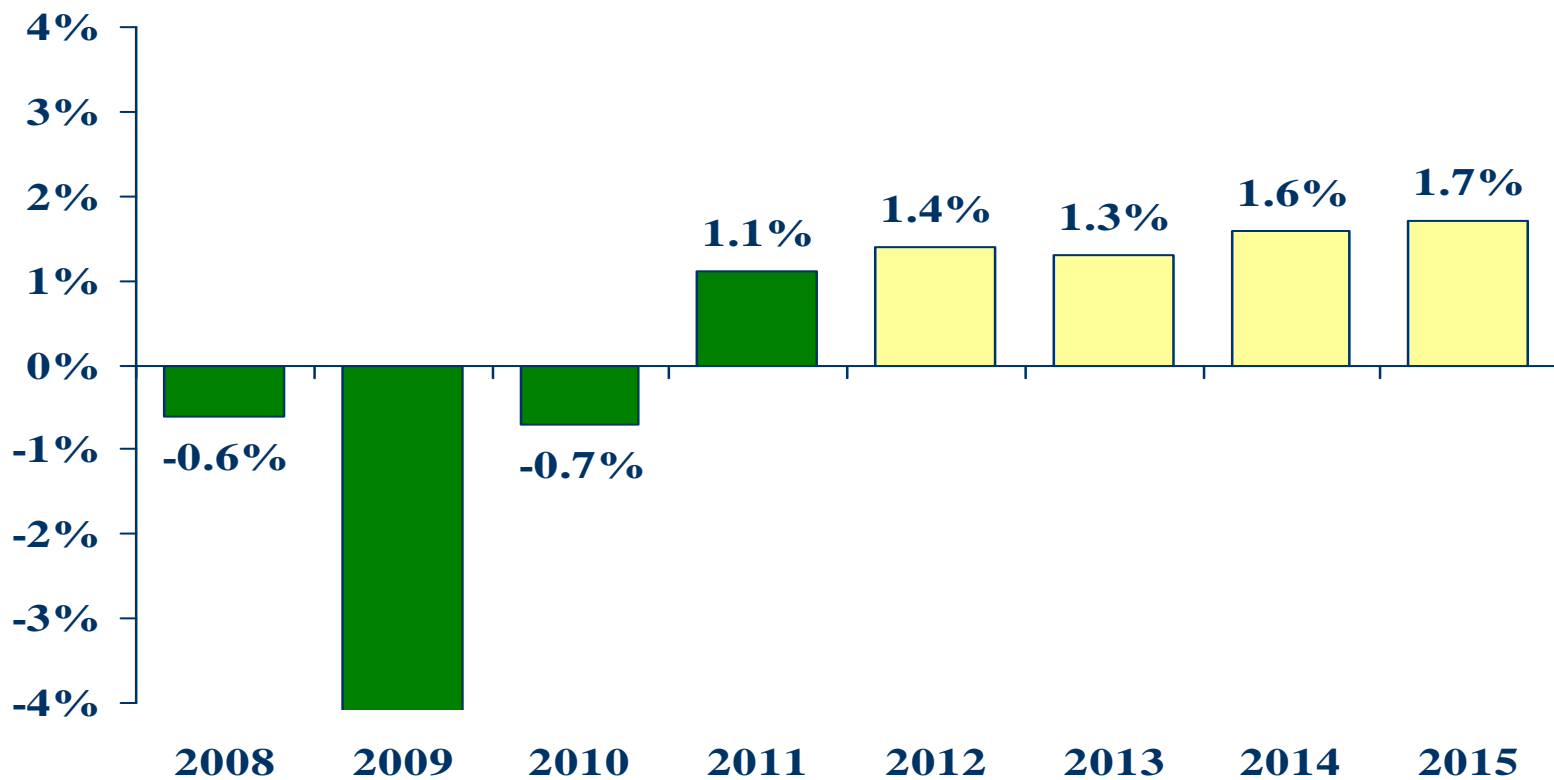


Source: U.S. Census and CREC 1/11/2013.

Jan 2013 Consensus Est.

U.S. Payroll Employment Increase Forecast through 2015

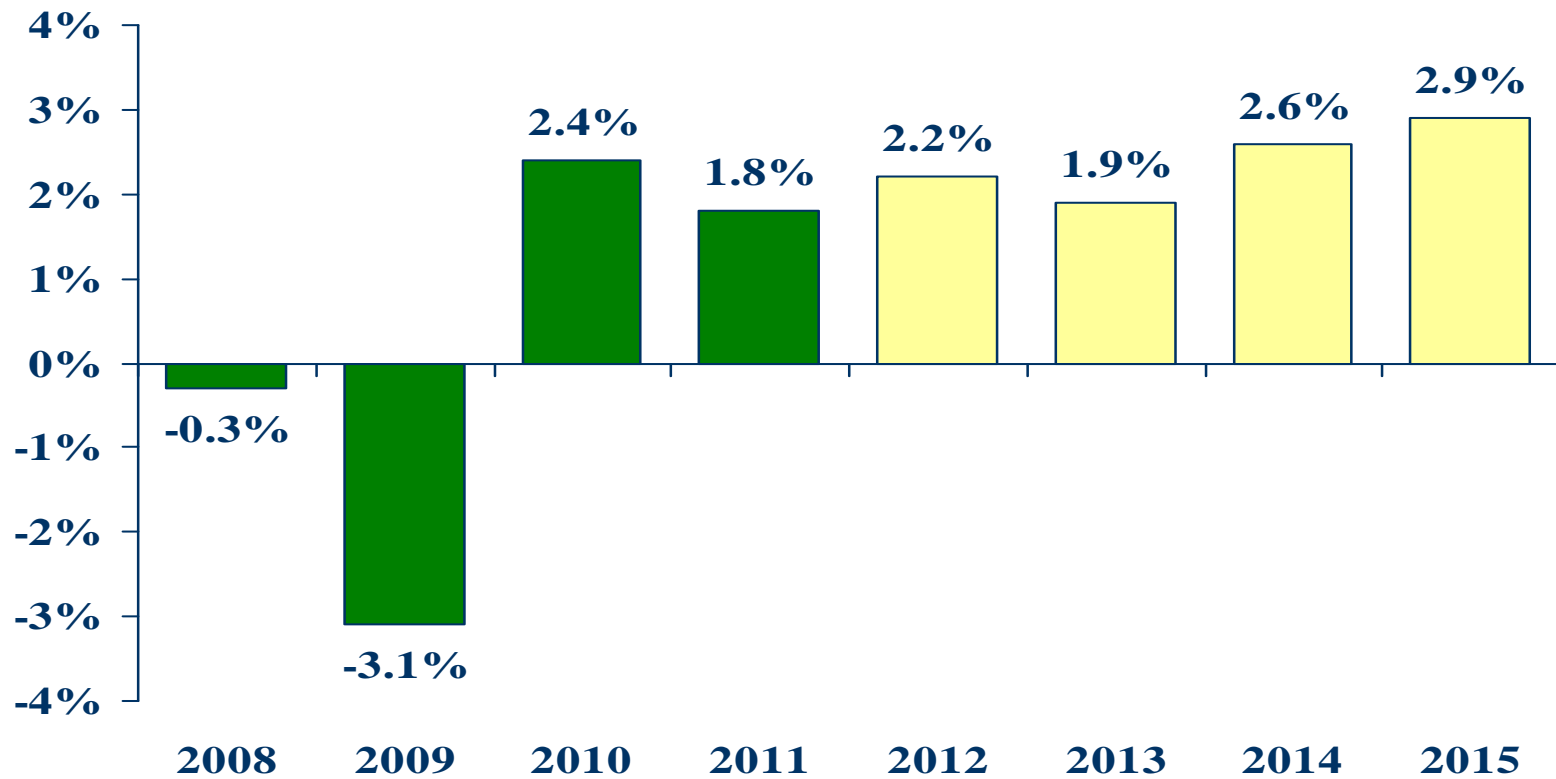
Calendar Year Forecast



January 2013 Consensus Est.

Real GDP Forecast

Calendar Year Forecast



January 2013 Consensus Est.

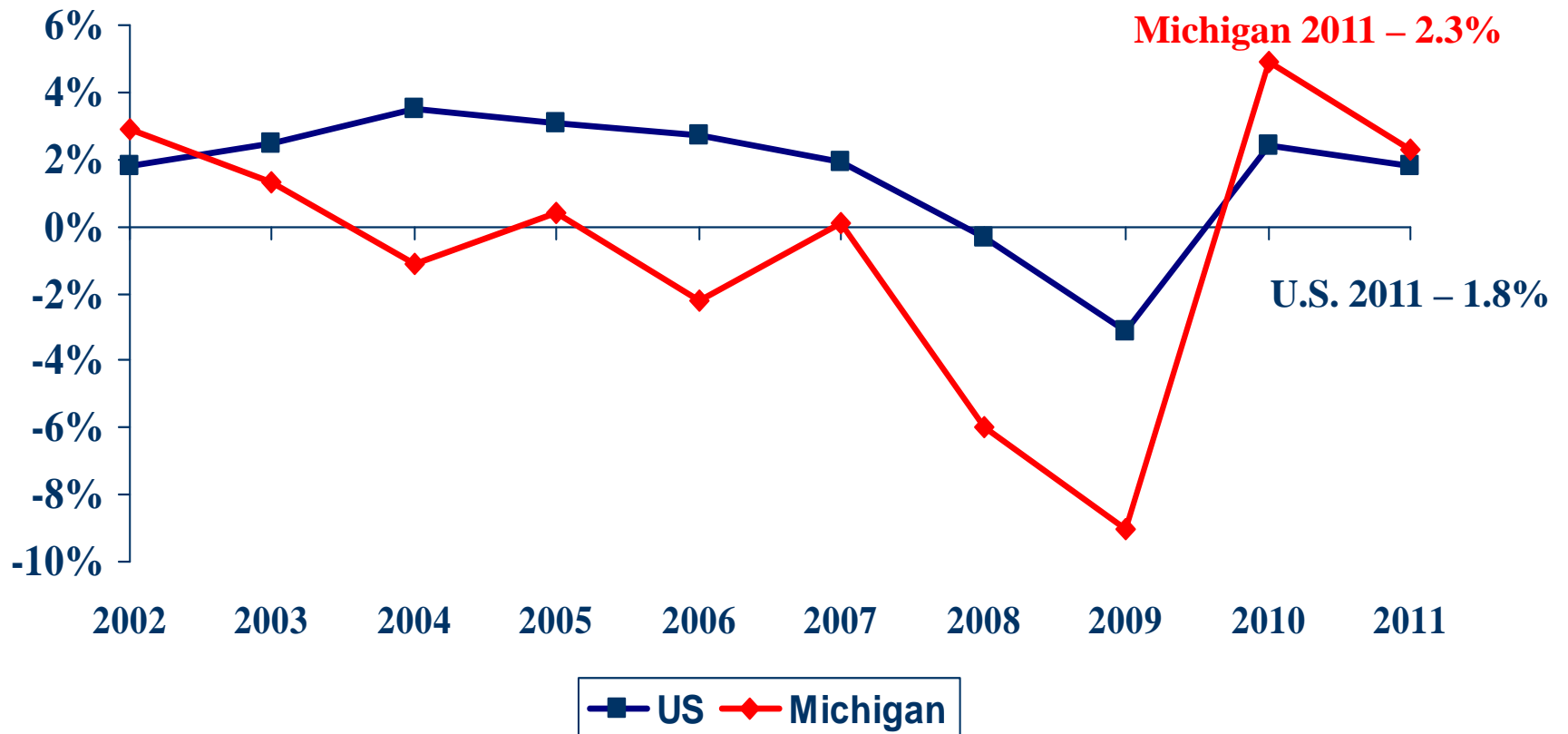


MICHIGAN ECONOMY

Michigan Economy Has Turned The Corner

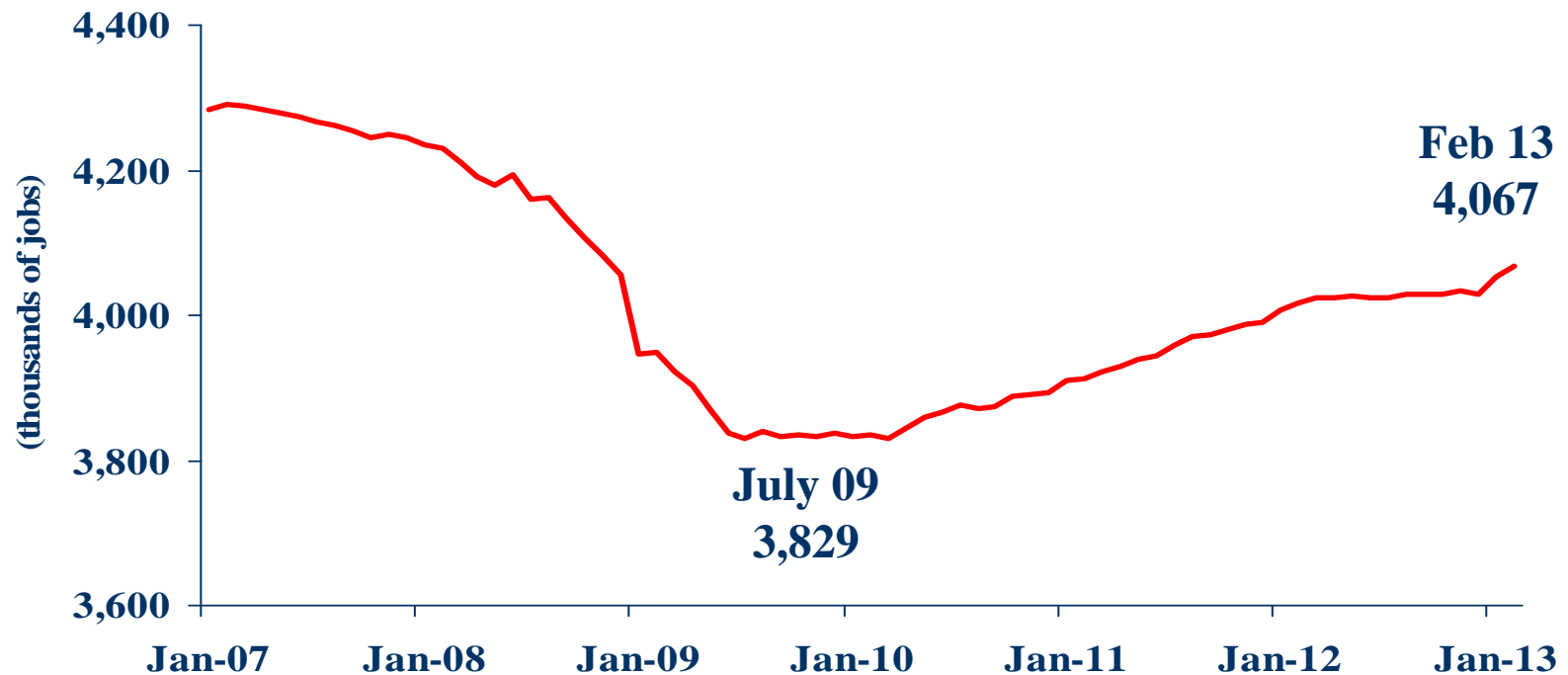
- Payroll employment is growing again.
- Employment growth 5th strongest among the states in 2011.
- MI Personal income growth 14th strongest among the states in 2011 (ranked 49th or 50th from 2004 to 2008).
- Real per capita income 2012Q3 9th strongest.
- MI motor vehicle production is improving.
- Housing market activity is increasing.

Michigan and U.S. Real GDP Growth Rates: Michigan Grows Faster in 2010 & 2011



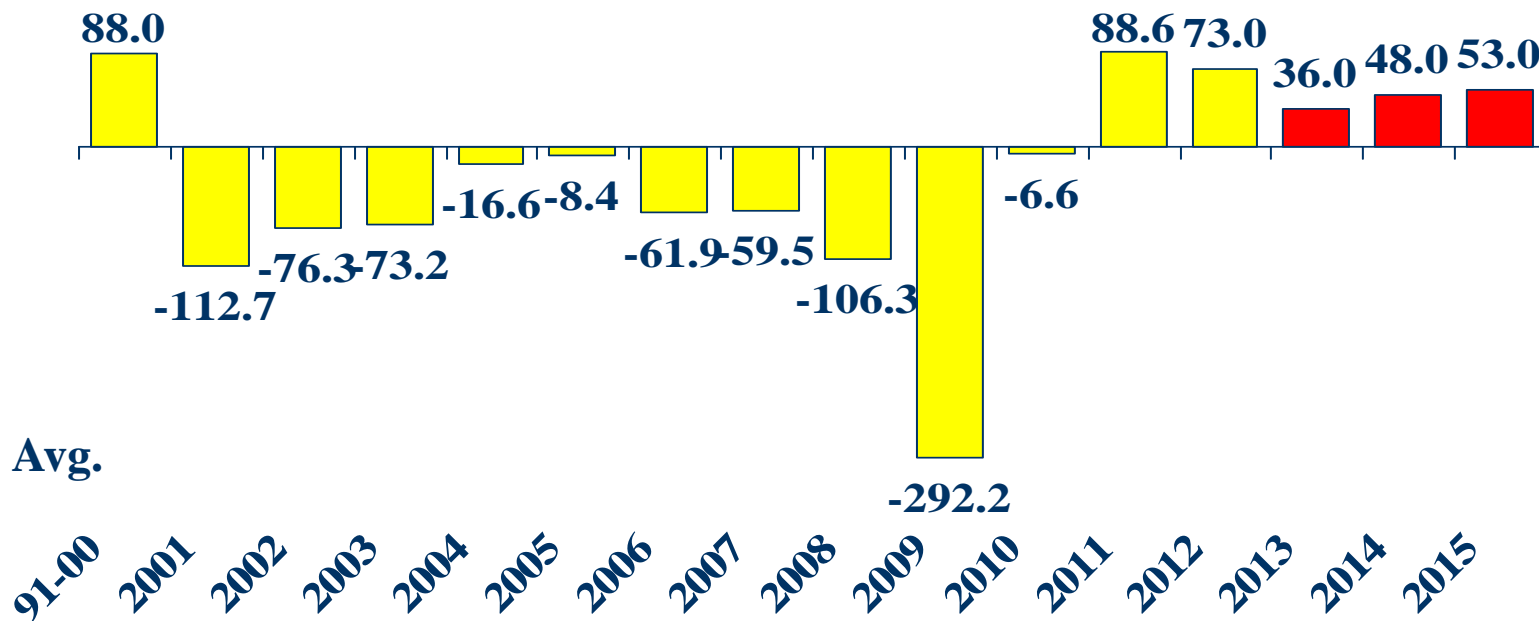
Michigan Employment Up 238,000 From Recession Low

MI Payroll Employment



Continued Job Growth Expected in MI

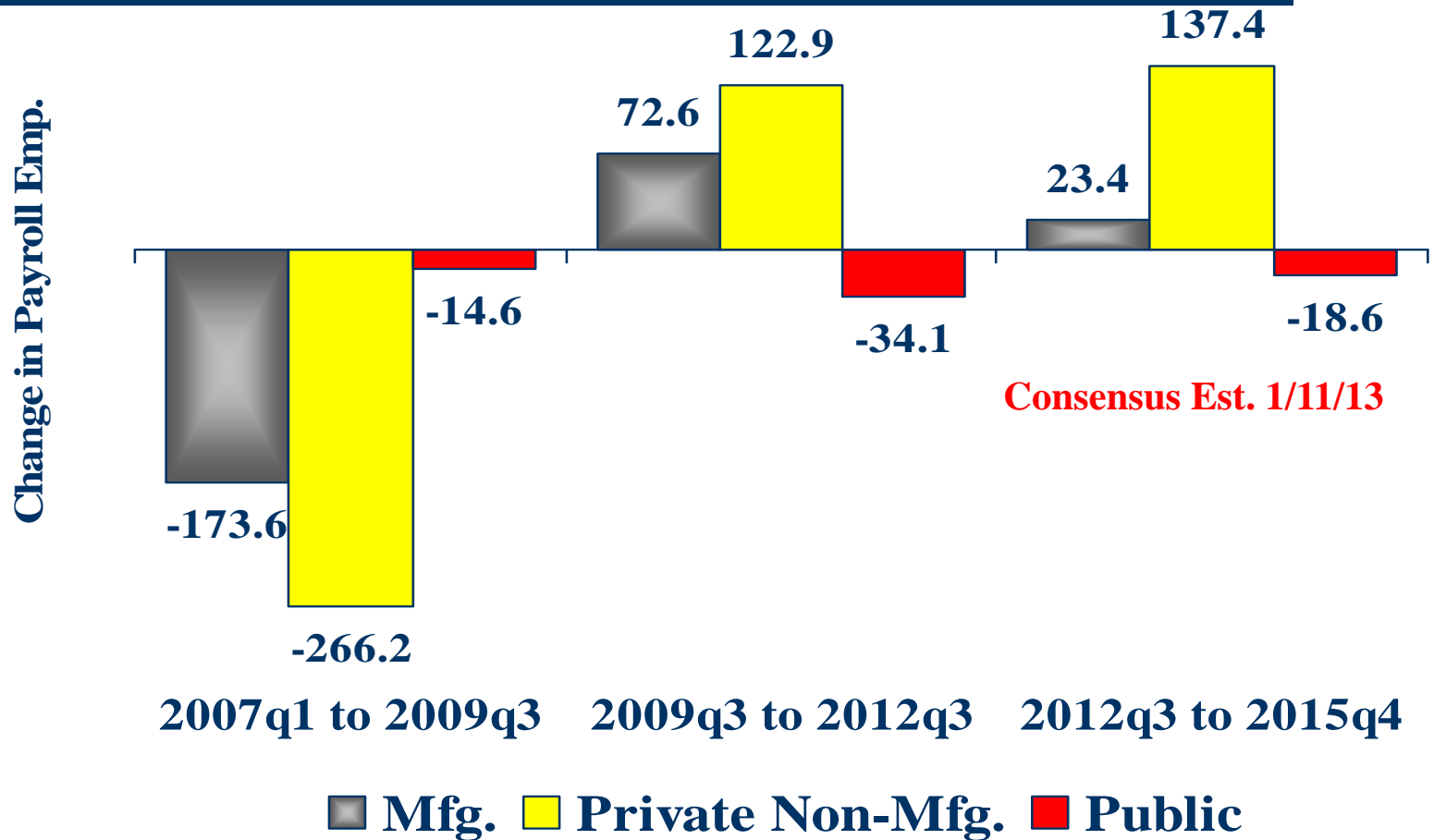
815,000 jobs lost 2001-2010, 299,000 job gain expected 2011-2015
Thousands



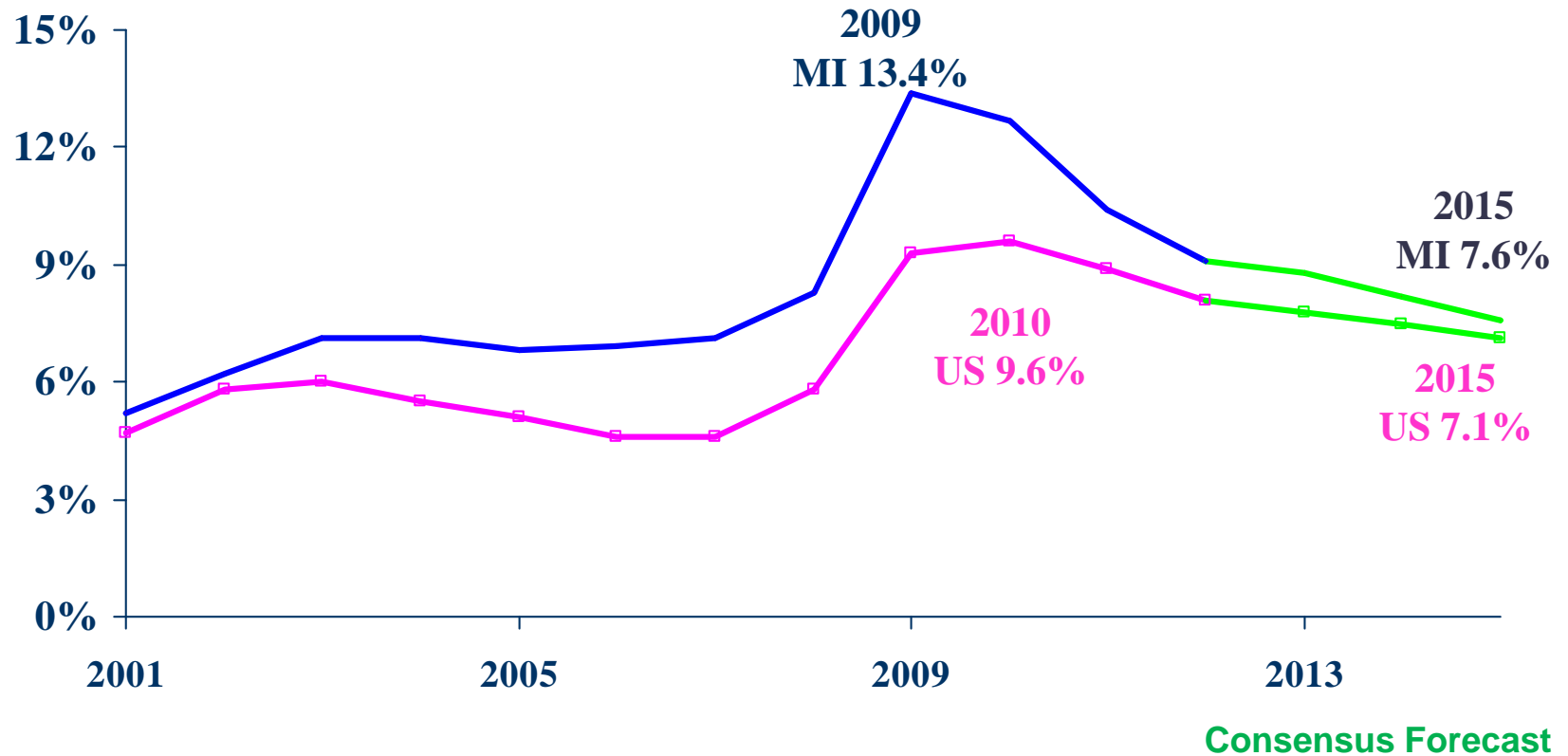
Avg.

Dynamics of Michigan Payroll Employment

Thousands of Jobs



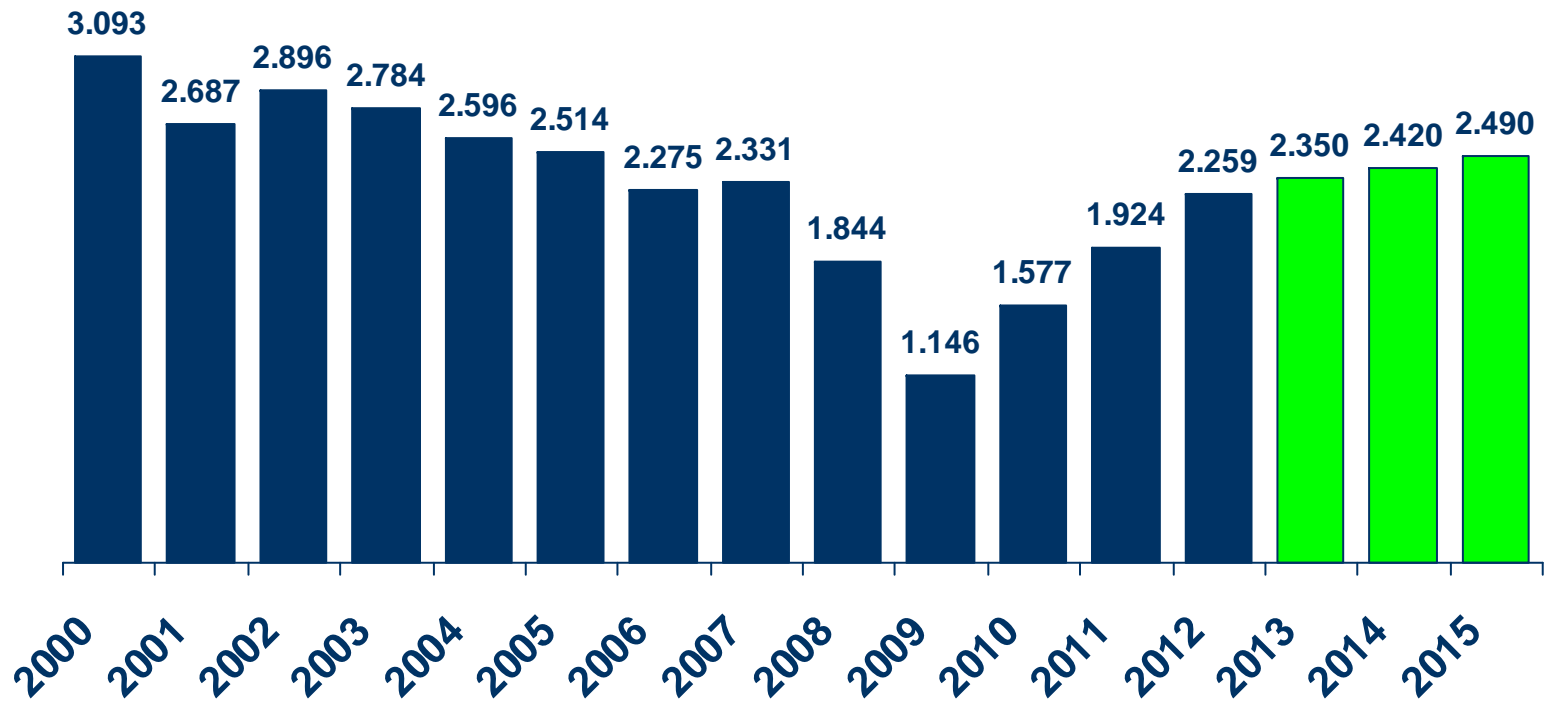
MI Unemployment Rate is Improving Faster Than U.S.



Source: U.S. Bureau of Labor Statistics. 2013-2015, 1/11/13 Consensus Forecast. 3/6/13

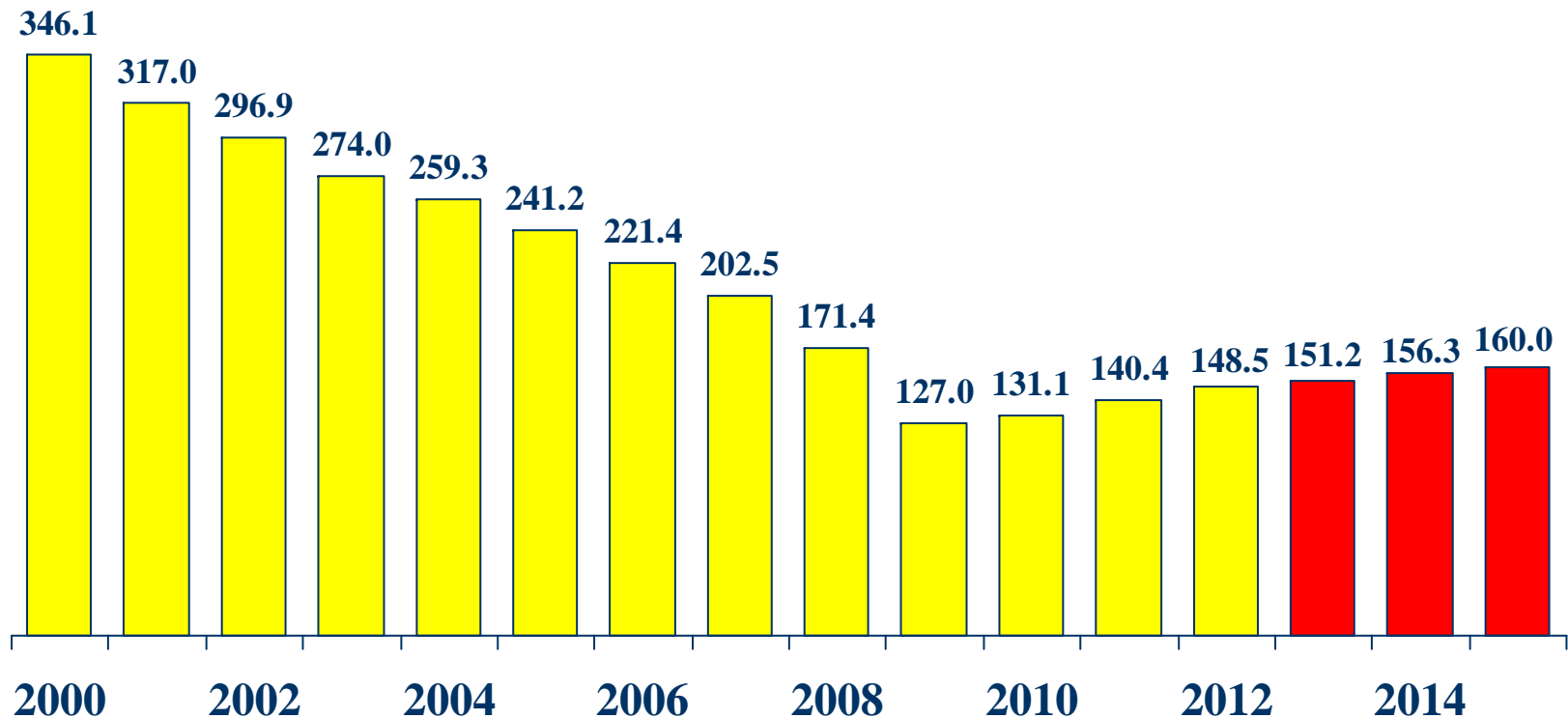
Michigan Motor Vehicle Production is Rebounding

(millions)



Michigan Vehicle Employment

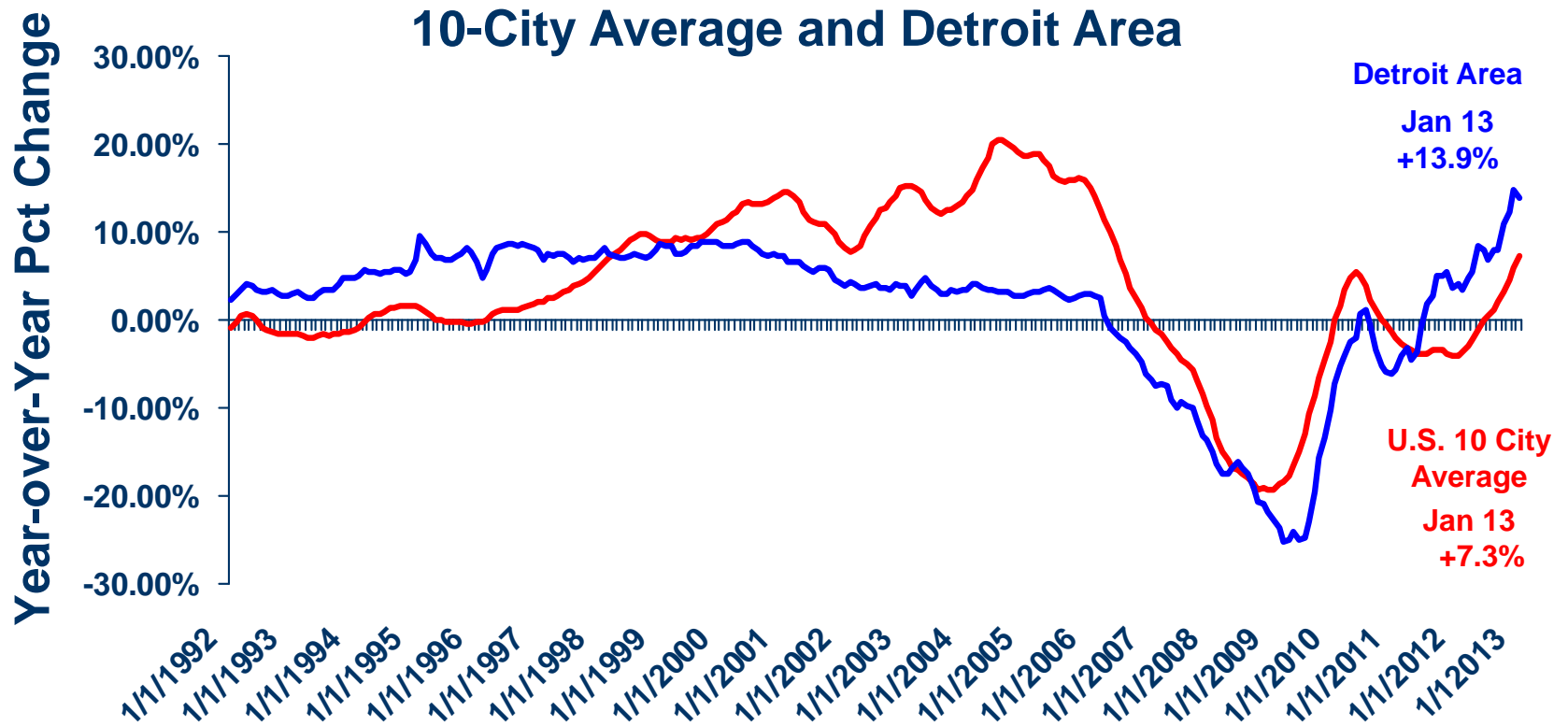
Transportation Equipment Employment Edging Up, But Expected to Stay Below Pre-Recession Levels (millions)



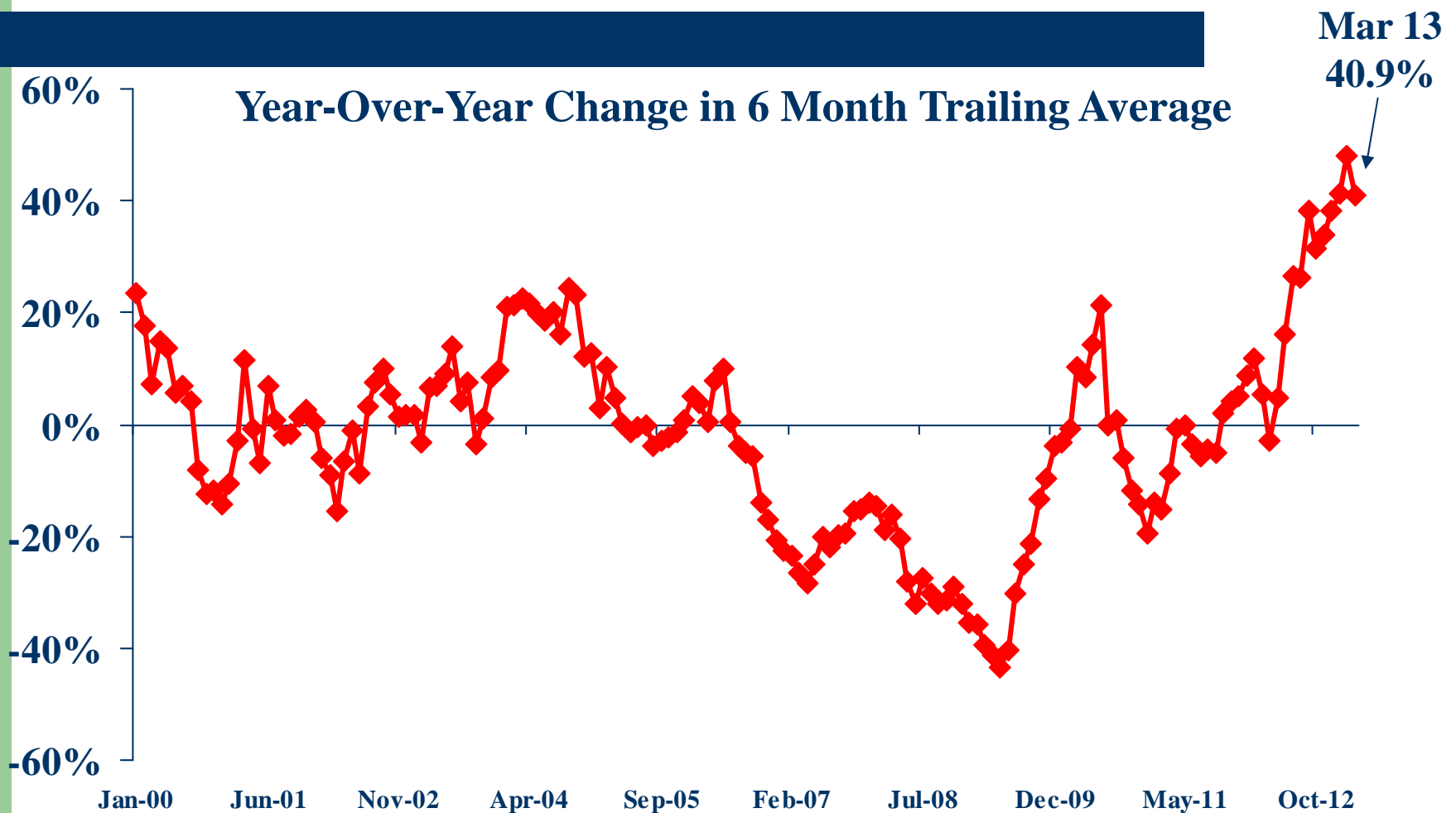
Source: Bureau of Labor Statistics.

Cons. Est. 1/11/13

Recovery in Housing Prices – Metro Detroit

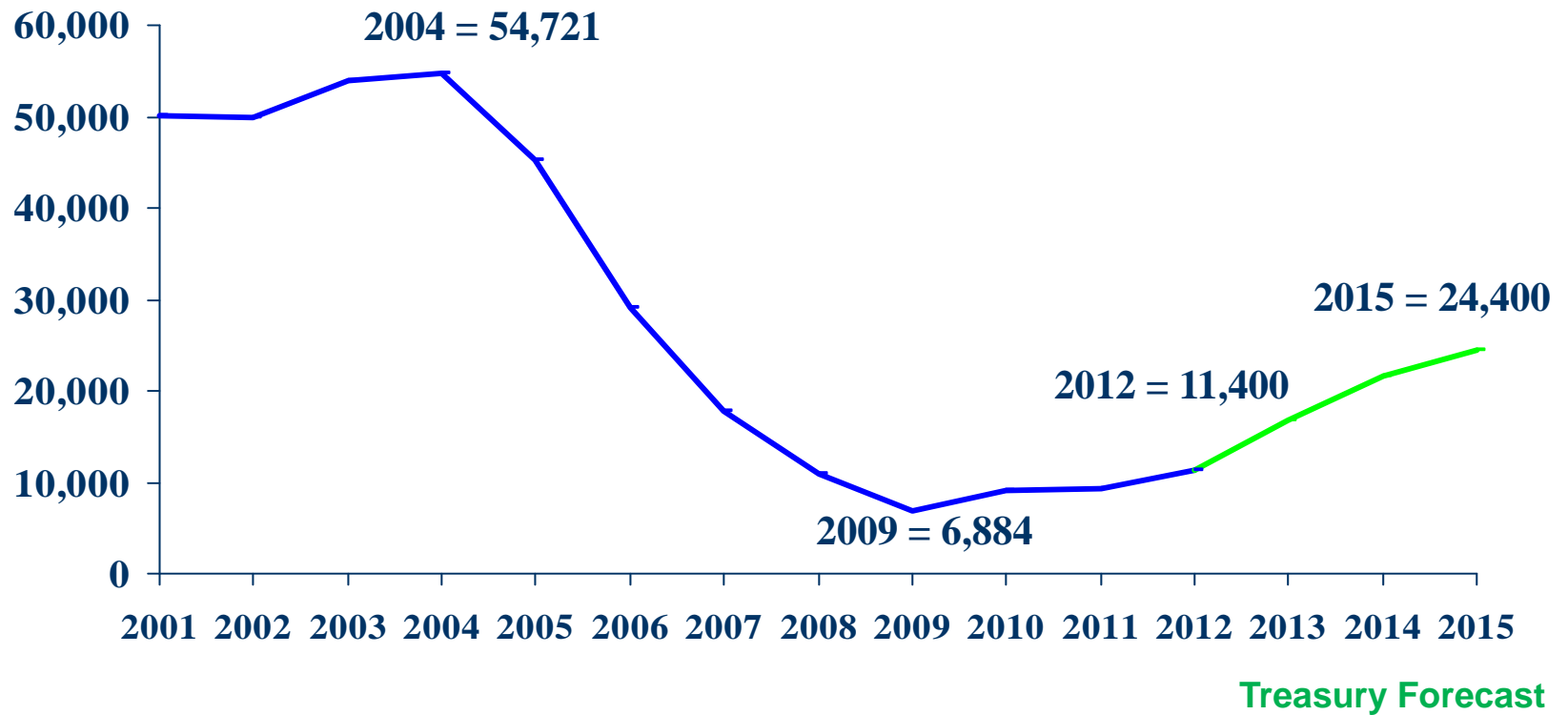


Real Estate Transfer Tax Reflects Increased Activity

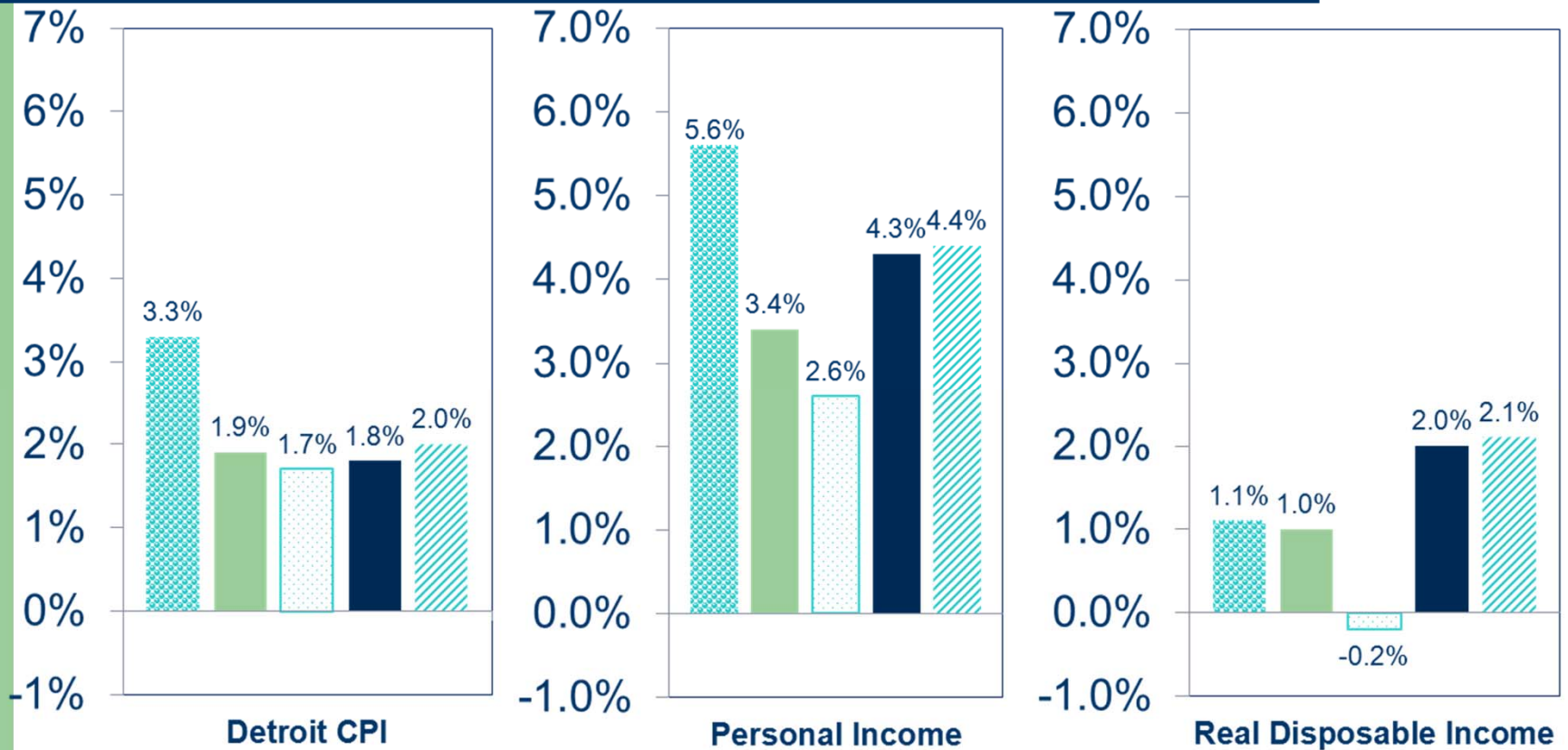


Source: Michigan Department of Treasury, 3/6/2013.

Michigan Housing Starts Are Rebounding



Michigan Inflation & Income Growth



Major Negative Risks to Economic Growth

- **U.S. Fed Gov't Fiscal/Deficit Issues** – major risk, sequestration, debt limit, continuing resolution.
- **European Sovereign Debt Crisis** – ongoing risk to economic growth.
- **World Economic Growth Slowdown** – if China rebound lasts, could be positive risk.
- **Oil Prices** – always a risk (negative & positive) because prices can change fast.

Major Positive Risks to Economic Growth

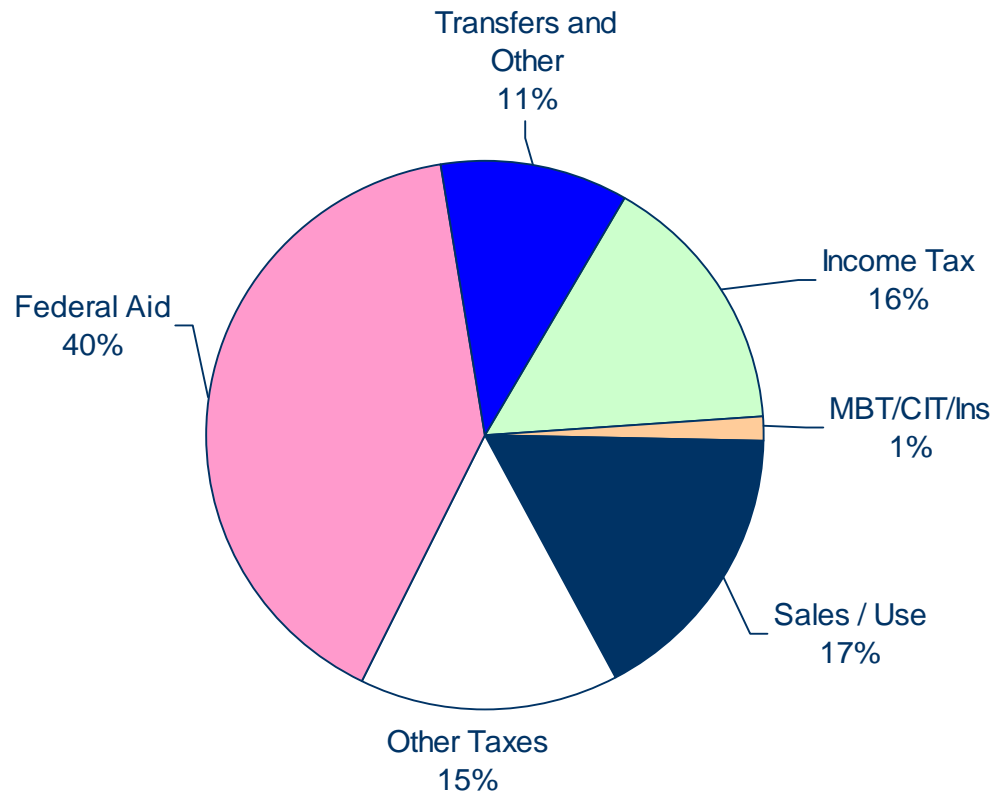
- **Housing Prices:** could increase faster than expected and could help boost consumer confidence and spending.
- **Housing Starts:** The comeback in housing could be stronger than forecast.
- **Business Profits and Investment:** Cost cutting during past few years could help bolster profits and investment in next couple years.



STATE GOVERNMENT REVENUE ESTIMATES & TRENDS

Michigan State Gov't Budget

FY 2014 Total Revenue Est: \$51.8 Billion

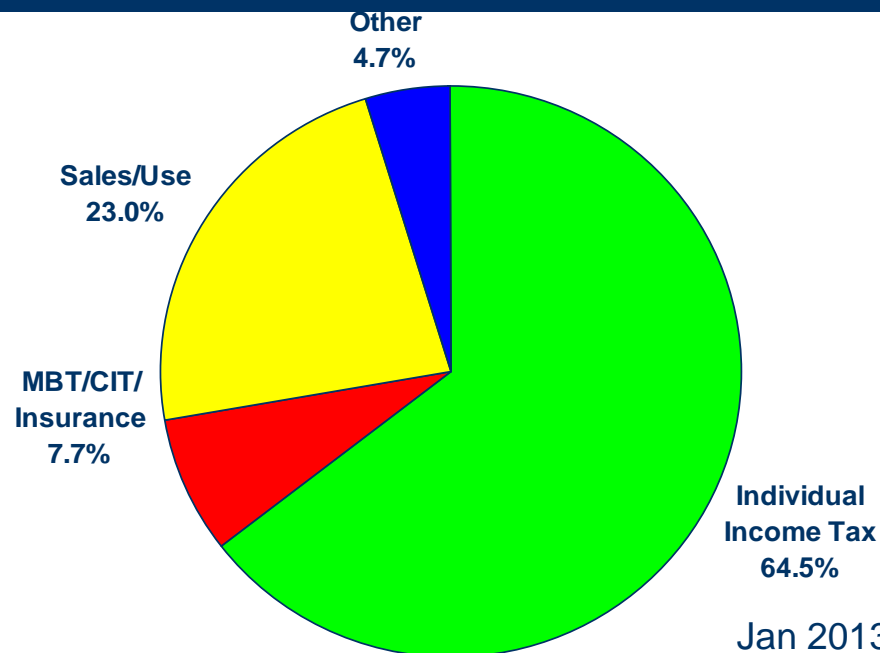


Taxes provide 49% of total state revenues, while 40% comes from the Federal government.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury, 2/07/13, based on the January 2013 consensus revenue estimates and the detailed revenue estimates presented in the FY 2014 & FY 2015 Executive Budget Recommendation.

General Fund Sources

FY 2014 Revenue Est: \$9.3 Billion

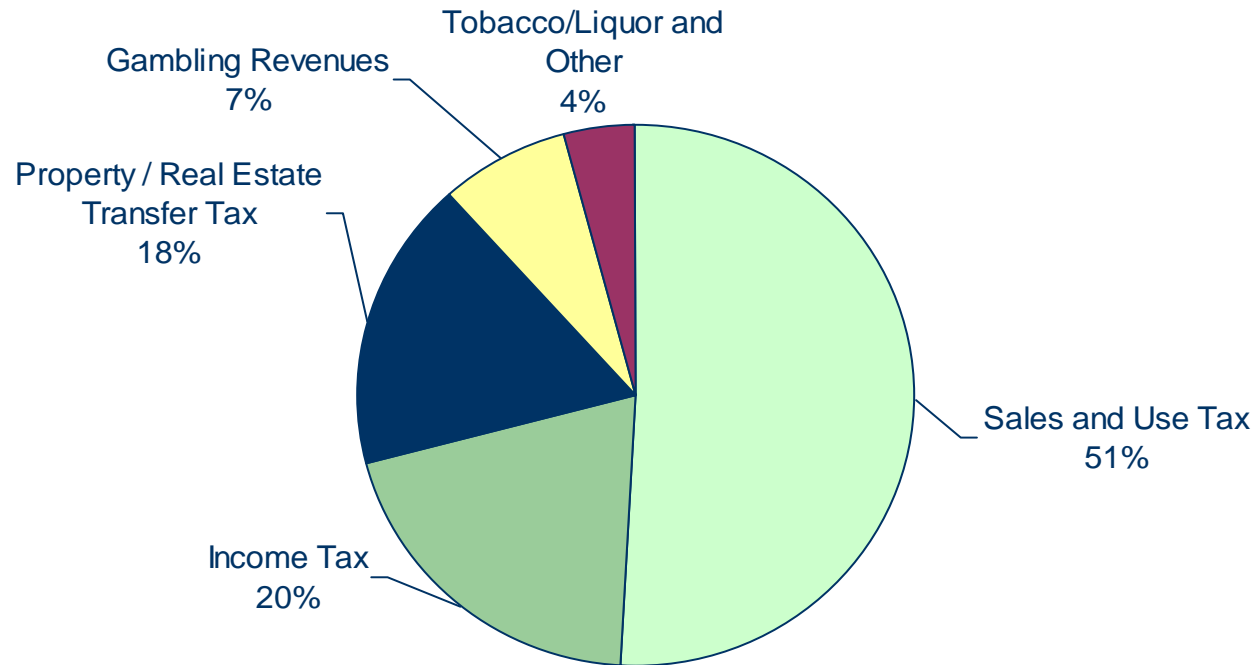


Jan 2013 Consensus Estimates

65% of general fund revenue comes from Individual Income Tax.

School Aid Sources

FY 2014 Revenue Estimate: \$11.4 Billion



Sales and Use Taxes provide the largest share of earmarked funding for SAF.

Source: Jan 2013 consensus estimates, Office of Revenue and Tax Analysis, Michigan Department of Treasury, 1/11/13.

Jan 2013 Consensus GF/GP & SAF Revenue Estimates

(millions)

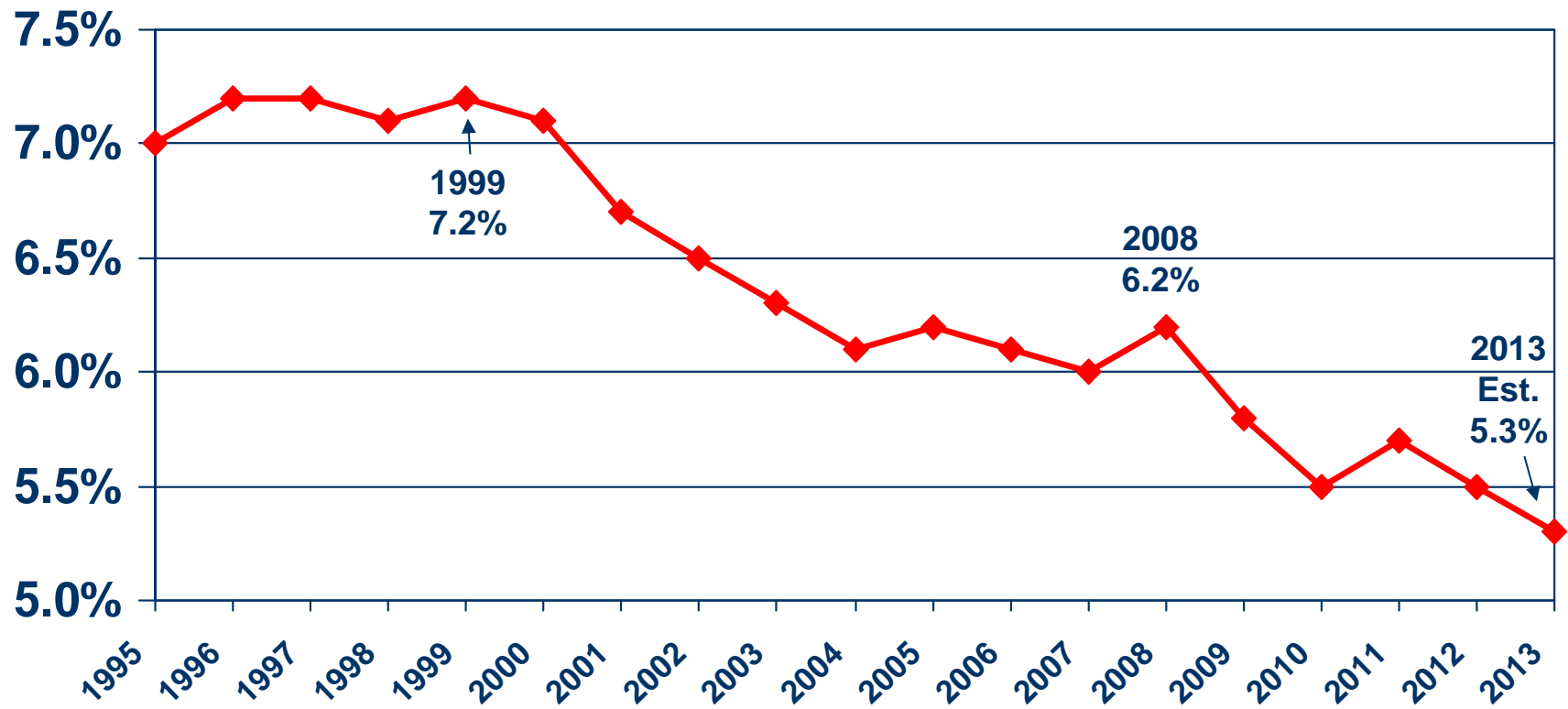
Fund	FY13	FY14	FY15
GF/GP	\$8,792.2	\$9,264.4	\$9,639.9
% Chg	-5.1%	5.4%	4.1%
\$ Chg	(\$472.9)	\$472.2	\$375.5
SAF	\$11,127.7	\$11,432.5	\$11,768.8
% Chg	2.3%	2.7%	2.9%
\$ Chg	\$249.0	\$304.8	\$336.3
Total	\$19,919.9	\$20,696.9	\$21,408.7
% Chg	-1.1%	3.9%	3.4%
\$ Chg	(\$223.9)	\$777.0	\$711.8

Source: January 2013 Consensus Revenue Estimating Conference.

Key Factors Affecting Tax Rev

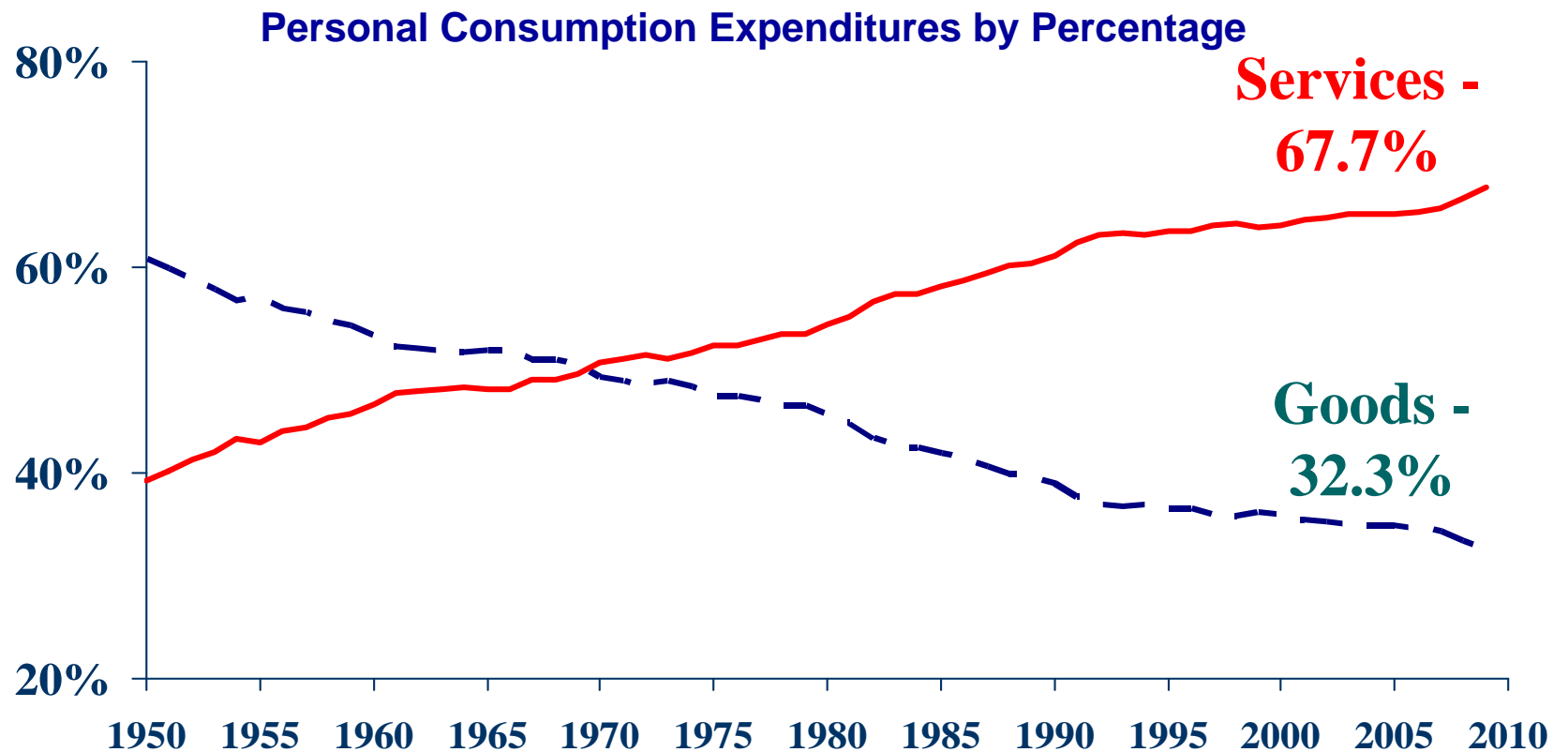
- Level of Economic Activity
- Tax Changes
- Tax Structural Issues

GF-GP & SAF Rev Declines as a Percent of Personal Income



Source: Office of Revenue and Tax Analysis, Michigan Dept. of Treasury, 1/11/2013.

Service Economy Overtakes Goods Driven Economy



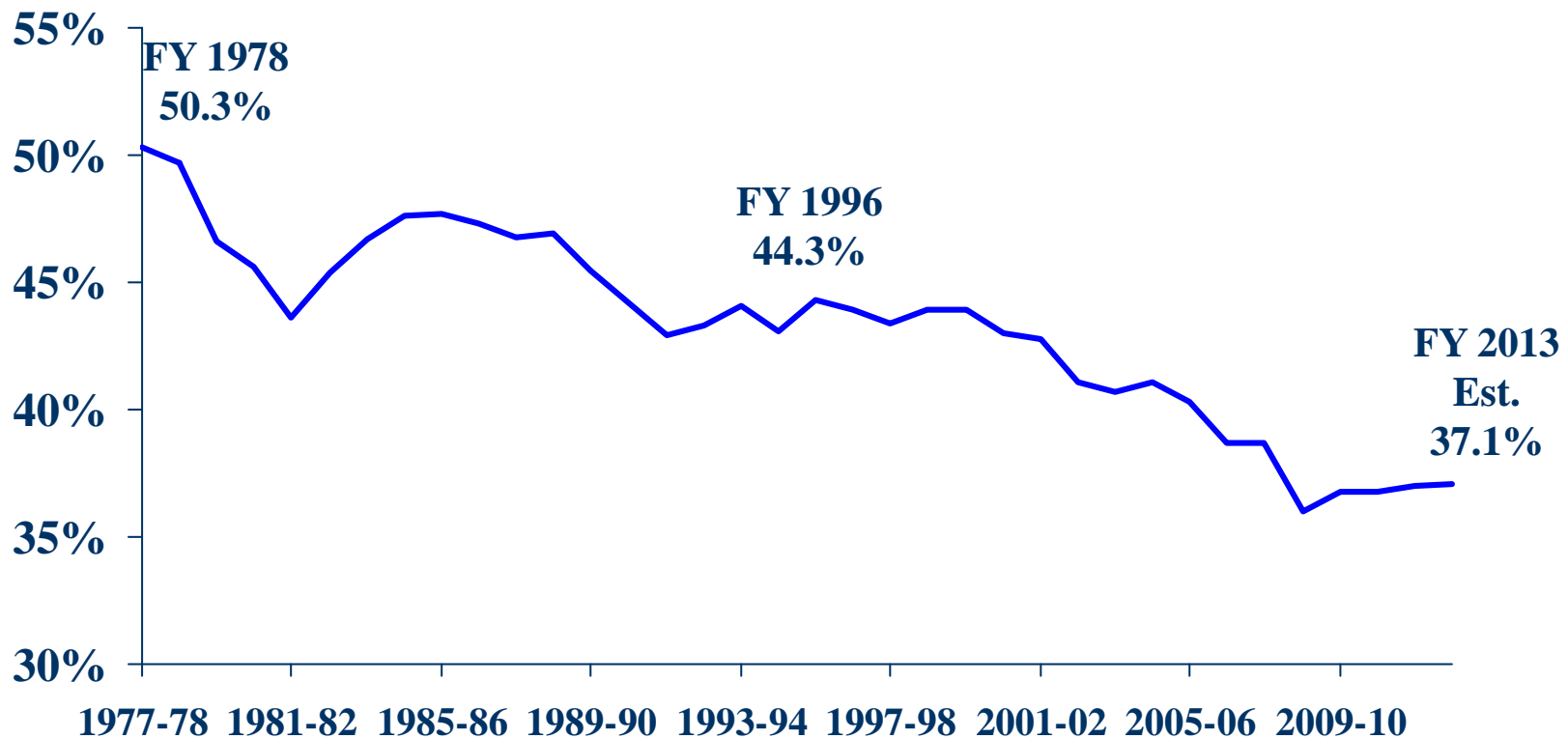
Estimated Michigan Use Tax Loss from Untaxed Remote Sales

(millions of dollars)

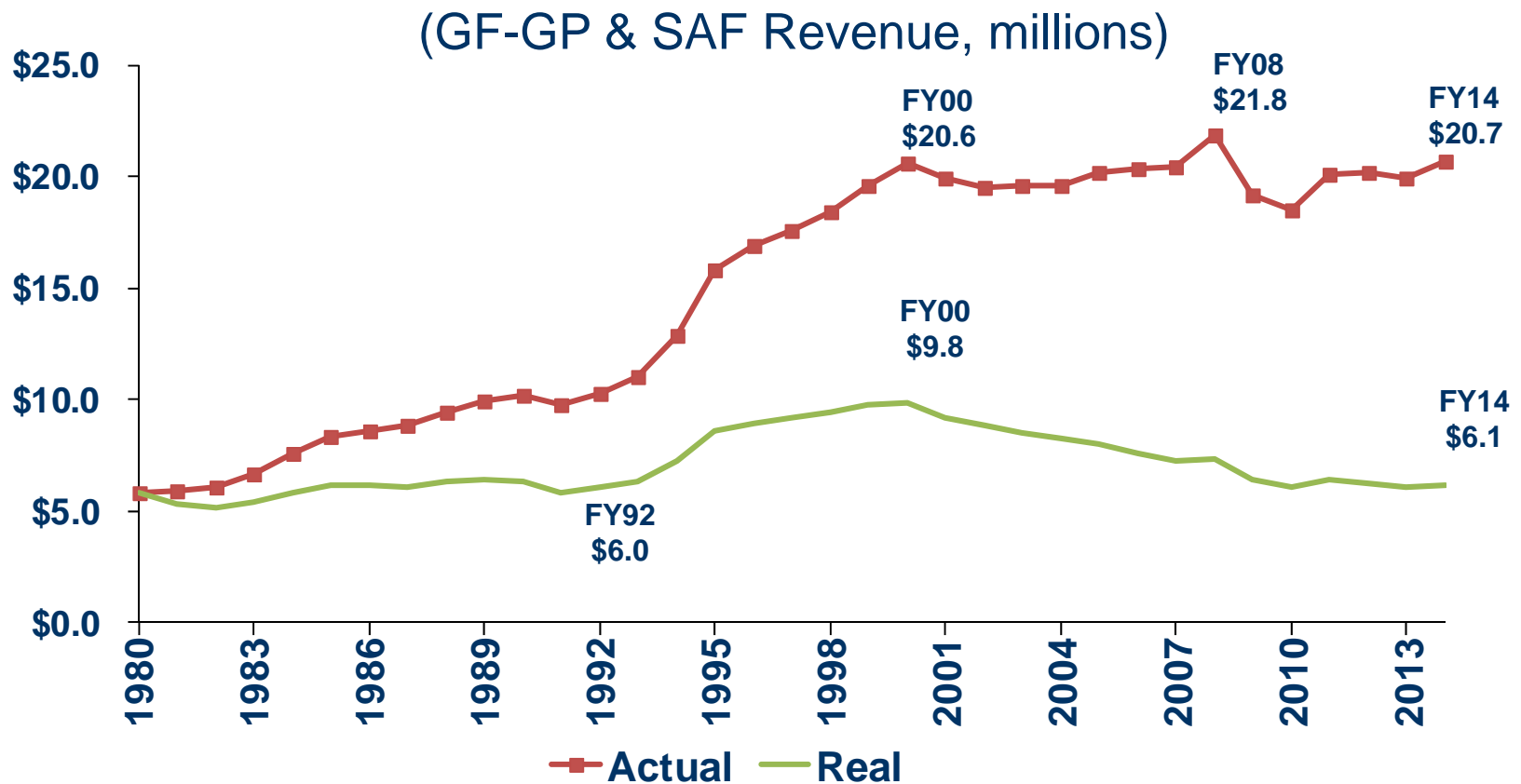
<u>Fiscal Year</u>	<u>Uncollected Use Tax</u>	<u>Annual % Chg</u>
2006	\$305.6	11.3%
2007	\$331.7	8.5%
2008	\$339.4	2.3%
2009	\$342.1	0.8%
2010	\$366.9	7.2%
2011	\$399.1	8.8%
2012	\$428.9	7.5%
2013	\$459.6	7.2%
2014	\$491.1	6.9%

Sales and Use Tax Base Not Growing With Economy

Michigan Sales and Use Tax Base as a % of Personal Income



FY '14 GF-GP & SAF Rev at FY '00 Level, Down 5% from FY 2008





STATE GOVERNMENT BUDGET & OTHER ISSUES

The year ended: Fiscal Year 2012

- \$1.5 billion deficit
- Rainy Day Fund depleted
- Structural imbalance - one-time money supported ongoing spending
- By year end, an improved financial position
 - General fund balance of \$979 M up \$425 M from FY 2011 balance
 - Rainy Day Fund balance of \$365.1 M up \$362.9 M from FY 2011 balance

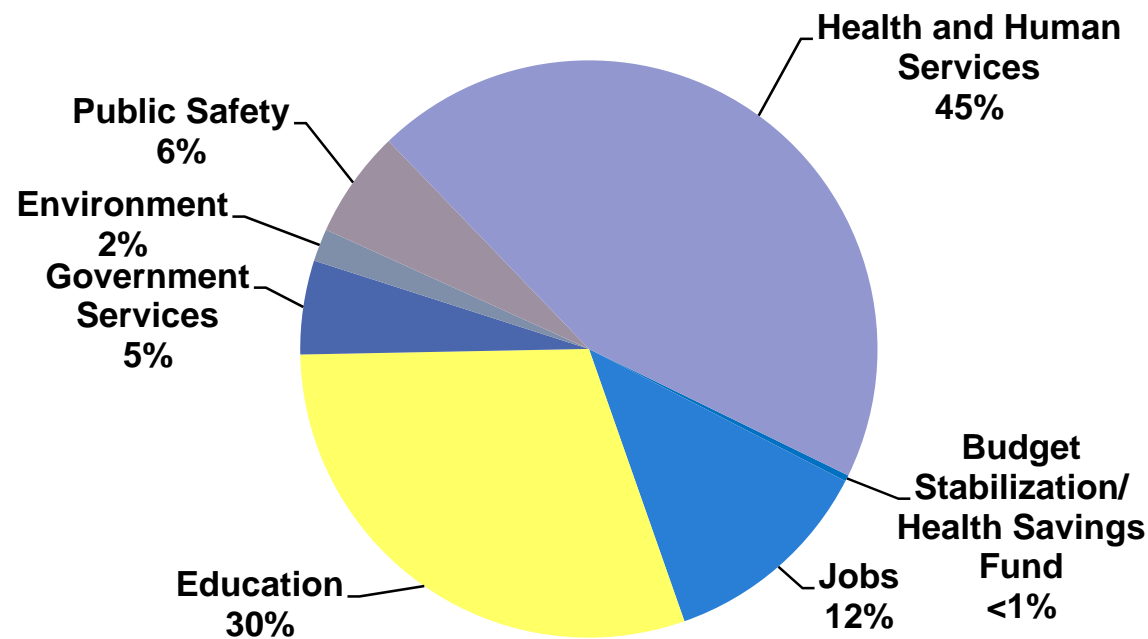
Sequestration Impact on State Budget: FY 2013 & FY 2014

- March 1, 2013 Fed gov't canceled about \$85 billion in spending.
- MI will lose \$150.5 million (\$59 m. FY13, \$91 m. FY14).
- Most large programs (Medicaid, food assistance, temporary assistance to needy families) are exempt from sequestration;
- However, many other programs will be affected (low income heating assistance, WIC, job training and education programs).
- The State will not replace the reduced federal funds with state funds, but no state employees will be laid off.
- FY13: MI state budget \$48.2 billion; Federal aid equals 42% or \$20 billion. Loss of \$150.5 million is < 0.4% of total budget.

The Proposed Budget: Fiscal Year 2014

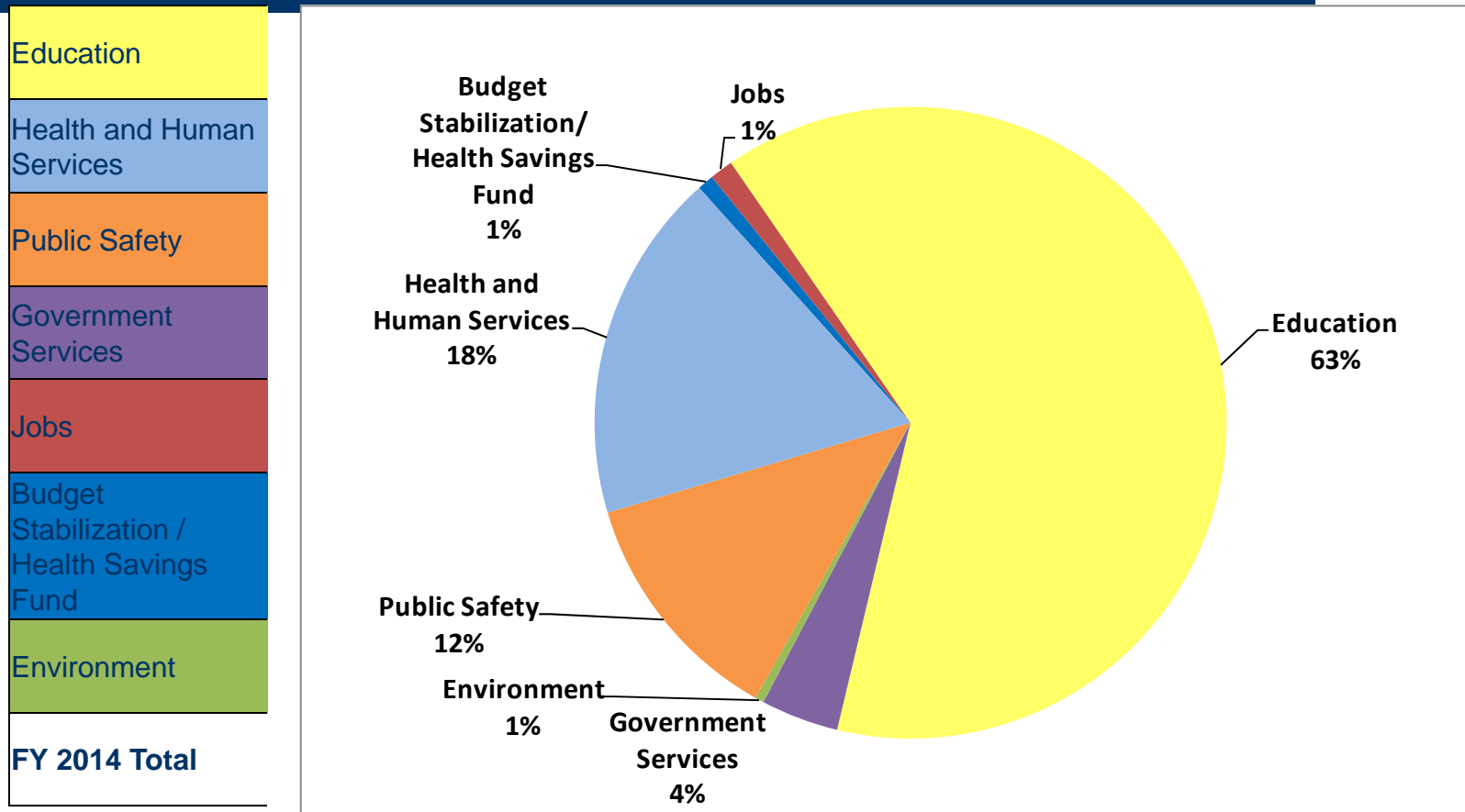
- Governor recommends third structurally balanced budget in a row
- Makes strategic funding investments
- Increases savings accounts for future risks
- Continues to pay and lower post-retirement liabilities
- Encourages local government best practices through incentive funding

Nearly 75% of Total Spending is Dedicated to Education and Health and Human Services



Total FY 2014 Adjusted Gross Executive Budget : \$50.9

Over 60 Percent of State General Fund and School Aid Fund Resources are Devoted to the State's Public Education System



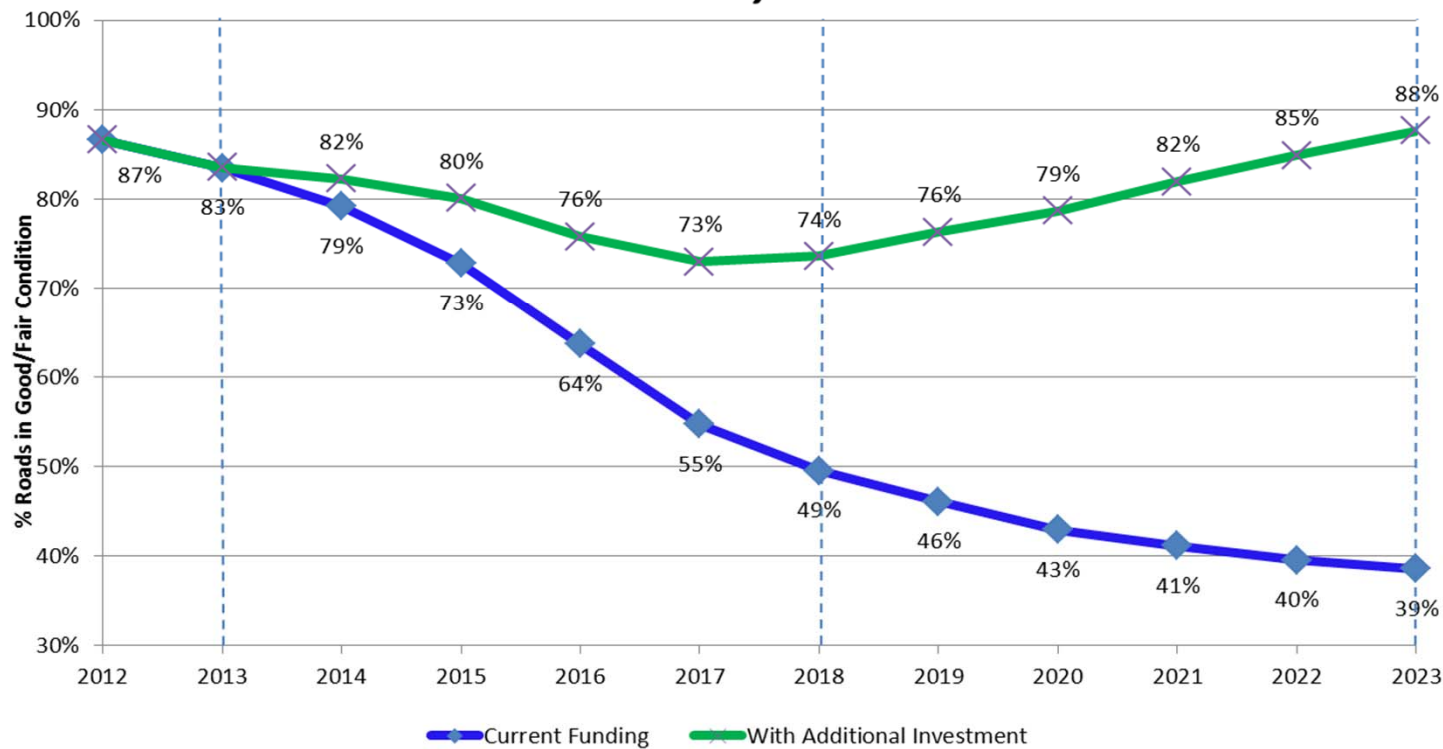
Total FY 2014 Executive Recommendation: \$20.9 Billion

Proposed FY 2014 Strategic Investment: Transportation

- \$1.2 billion increase for transportation and infrastructure.
- Motor fuel taxes would be increased to 33 cents/gal.
- Disparity between gasoline and diesel tax rates would be eliminated.
- Beginning in FY16, fuel tax rate would be adjusted to preserve FY14 road constr/repair purchasing power.
- Motor vehicle registration taxes would be increased 60% for light vehicles and 25% for heavy vehicles.
- Majority of increase proposed to improve roads in the “commercial corridor” which are essential to economic development.

Investing in Our Roads

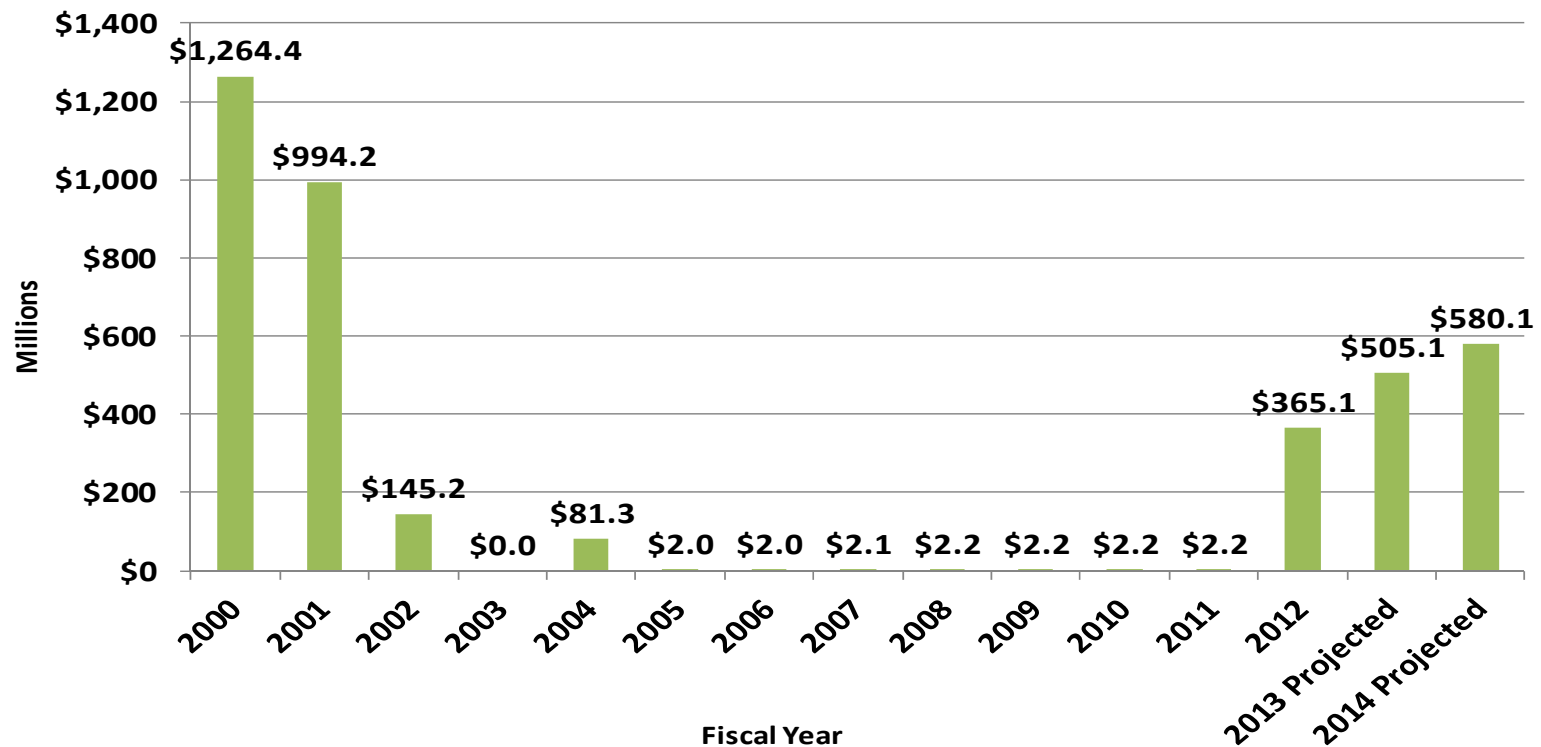
**State Trunkline Pavement Condition Forecast:
Additional Investment Needed to Avoid
Drastic Declines in System Condition**



**\$25B
Gap**

Budget Stabilization Fund

The Budget Stabilization Fund peaked at \$1.3 billion in 2000, but was quickly depleted. Michigan has started to rebuild the balance, which is projected to be \$580 million by the end of 2014.



Revenue Sharing FY 2001 to FY 2014

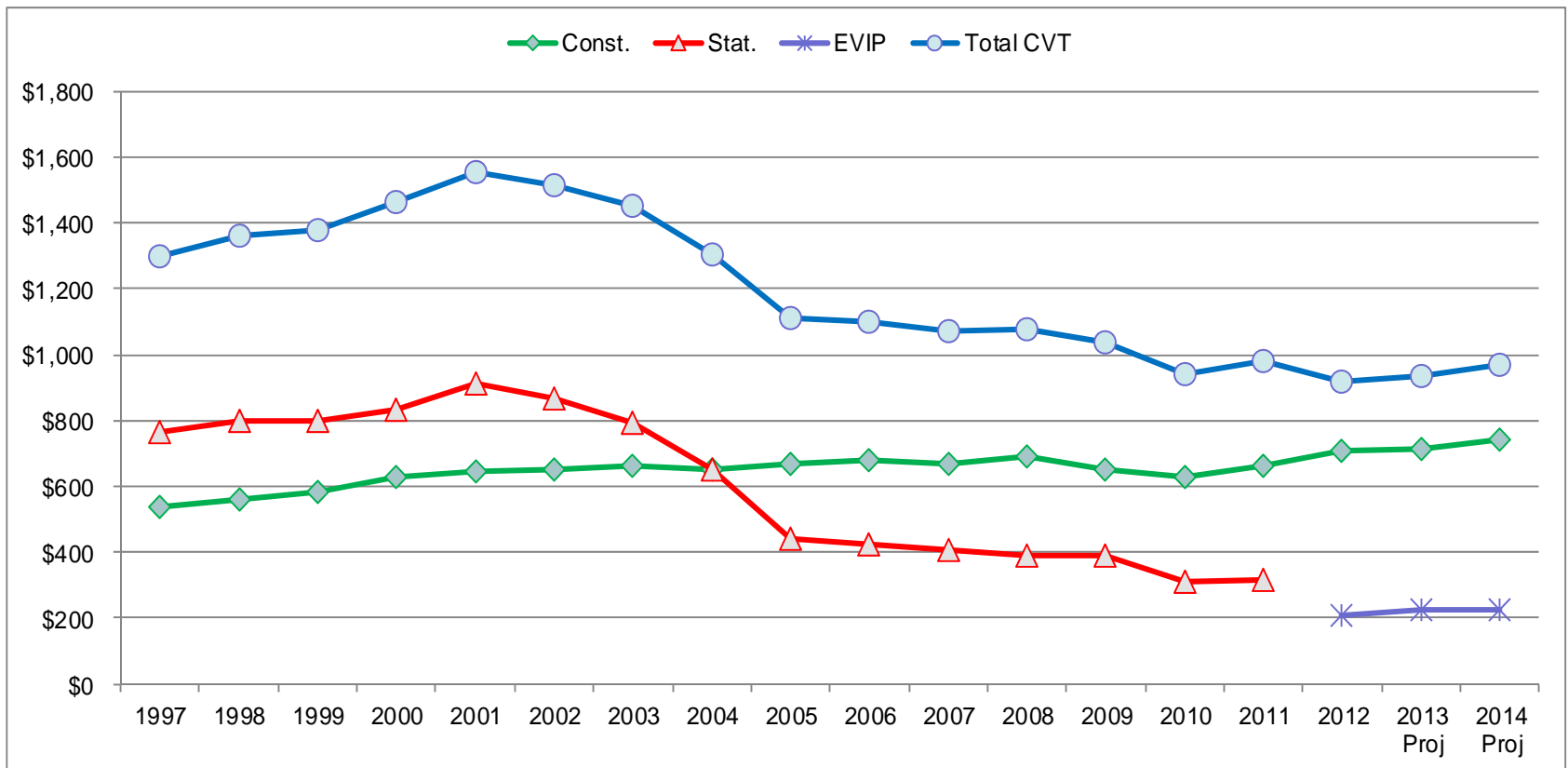
(Millions)

	<u>FY 2001</u>		<u>FY 2014 (Proj)</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Constitutional	\$642.8	48.5%	\$742.5	76.7%
Statutory	683.9	51.5%		
EVIP			225.0	23.3%
Total	<u>\$1,326.7</u>	<u>100.0%</u>	<u>\$967.5</u>	<u>100.0%</u>

Does not include counties

Revenue Sharing By Fiscal Year

(millions)



Financial Accountability for Local Government (Public Act 436)

- Public Act 436 of 2012 is effective March 28, 2013
- Helps local governments come to grips with their financial difficulties and implement long-term solutions
- Currently, six local governments (Allen Park, Benton Harbor, Detroit, Ecorse, Flint, Pontiac) and three school districts (Detroit, Highland Park and Muskegon Heights) in receivership with an appointed Emergency Financial Manager
- In addition to the above local units, two cities currently operate under a consent agreement with a Financial Review Team: Inkster and River Rouge

Starting a Positive Course for Detroit

- Emergency financial manager began March 25
- Mayor Bing is participating in the process
- Three immediate areas of focus
 - Improved services to citizens
 - Short term cash management
 - Long term assets and liabilities
- Eighteen-month timeline to correct fundamentals

MI's Bond Rating Upgraded

- Fitch Ratings upgraded Michigan's General Obligation credit rating to AA stable from AA- positive.
- Standard and Poor's revised Michigan's credit rating from AA- stable to AA- positive.
- Moody's revised Michigan's bond rating from Aa2 stable to Aa2 positive.



Personal Property Tax Reform

PERSONAL PROPERTY TAX REFORM

- Small Taxpayer Exemption – Beginning in 2014, all of a taxpayer’s industrial and commercial personal property within a local tax collecting unit will be exempt, so long as the combined taxable value of such property within the unit is less than \$40,000.
- Exemption for New Personal Property – Beginning in 2016, Eligible Manufacturing Personal Property (EMPP) first placed in service after 2012 will be 100% exempt.
- Existing Personal Property Exemptions – Starting in 2016, EMPP first placed in service in 2005 or earlier will be 100% exempt. In each subsequent year, one additional year would be added until all existing EMPP would be exempt in 2023.

PERSONAL PROPERTY TAX REFORM (cont.)

- Eligible Manufacturing Personal Property (EMPP) – All industrial and commercial personal property (PP) located on a parcel of real property if the PP is used more than 50% of the time in industrial processing or direct integrated support.
- Existing Property Tax Abatements – Beginning in 2014, existing PA 198, PPT abatements would be extended until, or terminate on, the date the property qualifies for the new exemptions
- PA 328 (MCL 211.9f) exemptions will continue until the later of that date or the original exemption expiration date.
- Exemptions tied to approval of Local Use Tax Legislation at August 2014 Statewide Election

PERSONAL PROPERTY TAX PLAN REIMBURSEMENT

- For 2014 & 2015, requirement to reimburse for loss of debt taxes.
- Beginning in 2016, Use Tax and SAF reimbursement would begin. SET and basic school operating mills reimbursement would be made from payment from state use tax to the SAF through appropriation.
- ISD Operating and Debt Loss would be 100% reimbursed by the Use Tax through the Metropolitan Authority.
- All Community Colleges would be reimbursed at an estimated 80% by the Use Tax through the Metropolitan Authority.
- Hold Harmless and Out of Formula School Districts would be 100% reimbursed by the Use Tax through the Metropolitan Authority

PERSONAL PROPERTY TAX PLAN REVENUE SOURCES

- Use Tax – Portion of State use tax currently going to the State's General Fund would be levied by the Metropolitan Authority to reimburse local units and schools for their PPT revenue loss
- Certificated Credit Savings – Savings from the decrease in Certificated Credits from the Michigan Business Tax would offset the loss of use tax revenue and SAF reimbursement costs.
- Essential Services Assessments (ESA) – Counties, cities, townships and villages may levy an ESA to replace PPT revenue lost for essential services.

PERSONAL PROPERTY TAX PLAN BASICS

- Debt will be reimbursed for obligations approved by voters before Jan 1, 2013
- Community colleges and other local units will need to know how much personal property is located within the district in 2013 to provide a baseline to calculate revenue loss
- PA 407 of 2012 provides the framework of how reimbursement will work

PERSONAL PROPERTY TAX PLAN - REIMBURSEMENT TABLE

Local Government Reimbursements

<u>Funding Source</u>	<u>Type of Service/Cost</u>	<u>Rate of Reimbursement</u>
Special Assessment for essential services (local option)	Essential Services (police, fire, ambulance, and jail)	Up to 100% of lost PPT revenue
Portion of state use tax is dedicated to school aid fund	K-12 operating costs	100% of lost PPT revenue
Portion of 6% use tax is levied by Statewide Metropolitan Authority	ISD operating costs and existing K-12 and ISD school bond debt	100% of lost PPT revenue
	Sinking fund and recreational mills & Non-essential services (all services except police, fire, jail, and ambulance)	Estimated 80% of lost PPT revenue to all community colleges, and other municipalities losing over 2.3% of taxable value to PPT exemptions

Questions?

