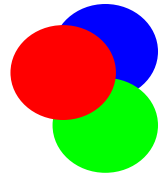


Michigan's Economy and Budget

July 1, 2010

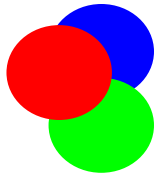


Mitchell E. Bean, Director



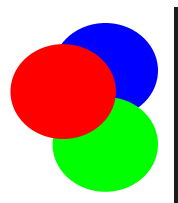
Current GF/GP and Restricted Cuts (Approximately \$850 million)

- **\$500 million in GF/GP reductions and \$350 million in reductions to restricted fund appropriations**
- **Most operational departments' budgets cut about 10%**
- **Statutory Revenue Sharing for cities/villages/townships reduced by \$73.8 million (19.0% reduction)**
- **Michigan Promise Grant Program eliminated and \$59.2 million GF/GP to need-based financial aid programs cut**
- **Medicaid provider rates cut by 8.0% (\$94.9 million) and non-Medicaid Community Mental Health services reduced by \$40 million GF/GP**
- **Human Services budget reduced by over \$238 million**



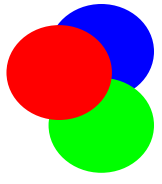
School Aid FY 2009-10

- **\$165 per pupil reduction (\$263 million)**
- **ISD operation reduction of 20% (\$16.3 million)**
- **Elimination and reduction of specific categorical programs totaling \$32.8 million**
- **Governor vetoed the Sec. 20J payments which reduced funding to 39 districts by a total of \$51.5 million**



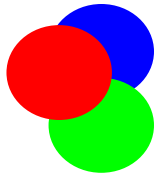
Structural Budget Deficits

- **FY 2010-11**
 - **GF shortfall approximately \$1.3 billion**
 - **SAF shortfall approximately \$415 million**
- **FY 2011-12 (under all cuts scenario)**
 - **GF shortfall about 1.4 billion**
 - **Per pupil cut of \$165 plus potential FY 2010-11 per pupil cut of \$255 are not restored**

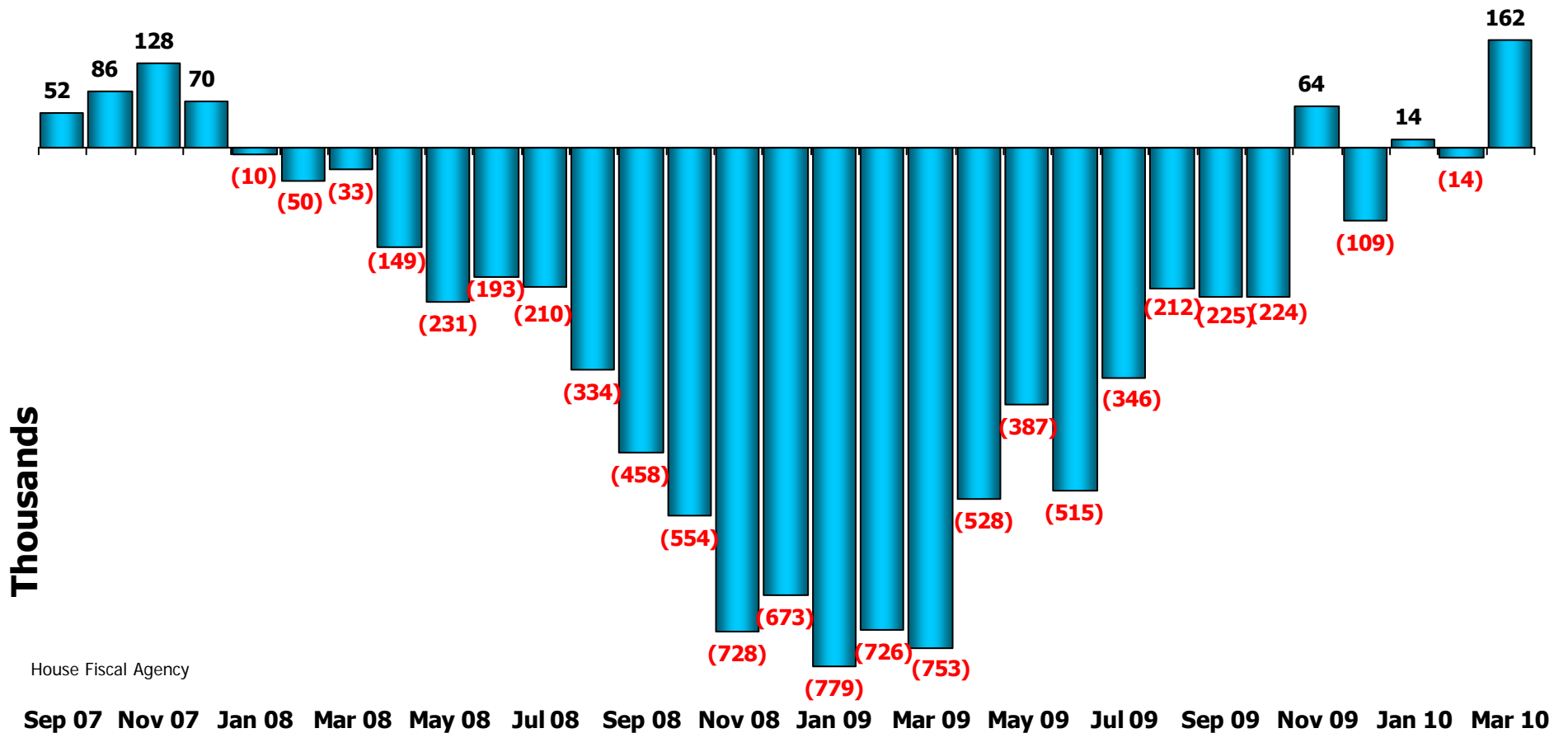


State Budget Shortfalls Caused By

- **Severe economic contraction led by domestic auto industry**
- **State tax policy**
- **Increasing cost of Medicaid and corrections**



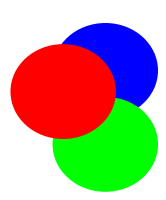
U.S. Economy Lost 8.2 Million Jobs Since Recession Began



House Fiscal Agency

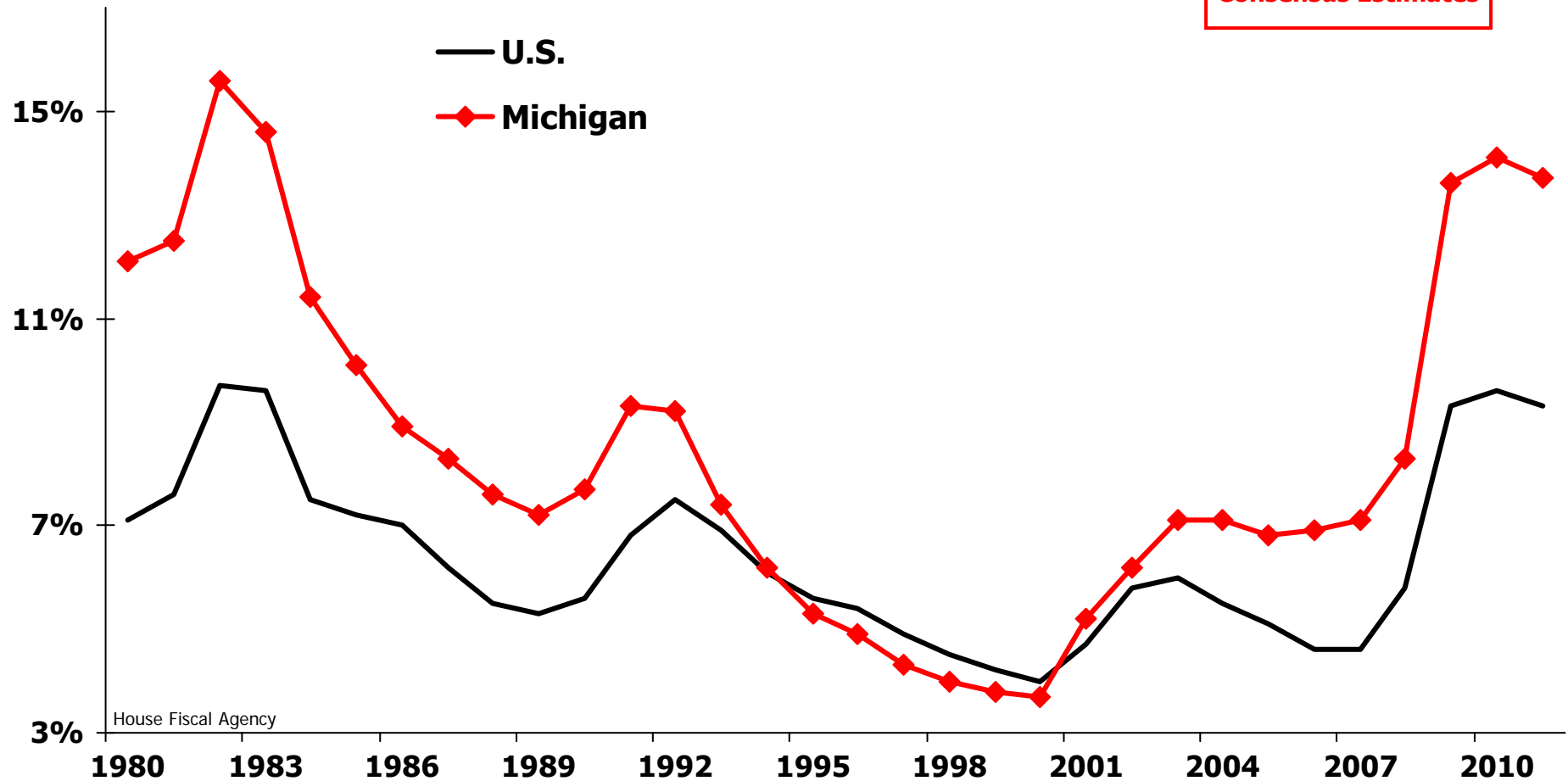


Source: U.S. Bureau of Labor Statistics, U.S. Department of Labor

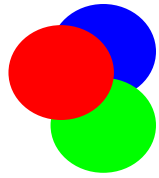


U.S. and Michigan Unemployment Rates

2010 & 2011
are May 2010
Consensus Estimates

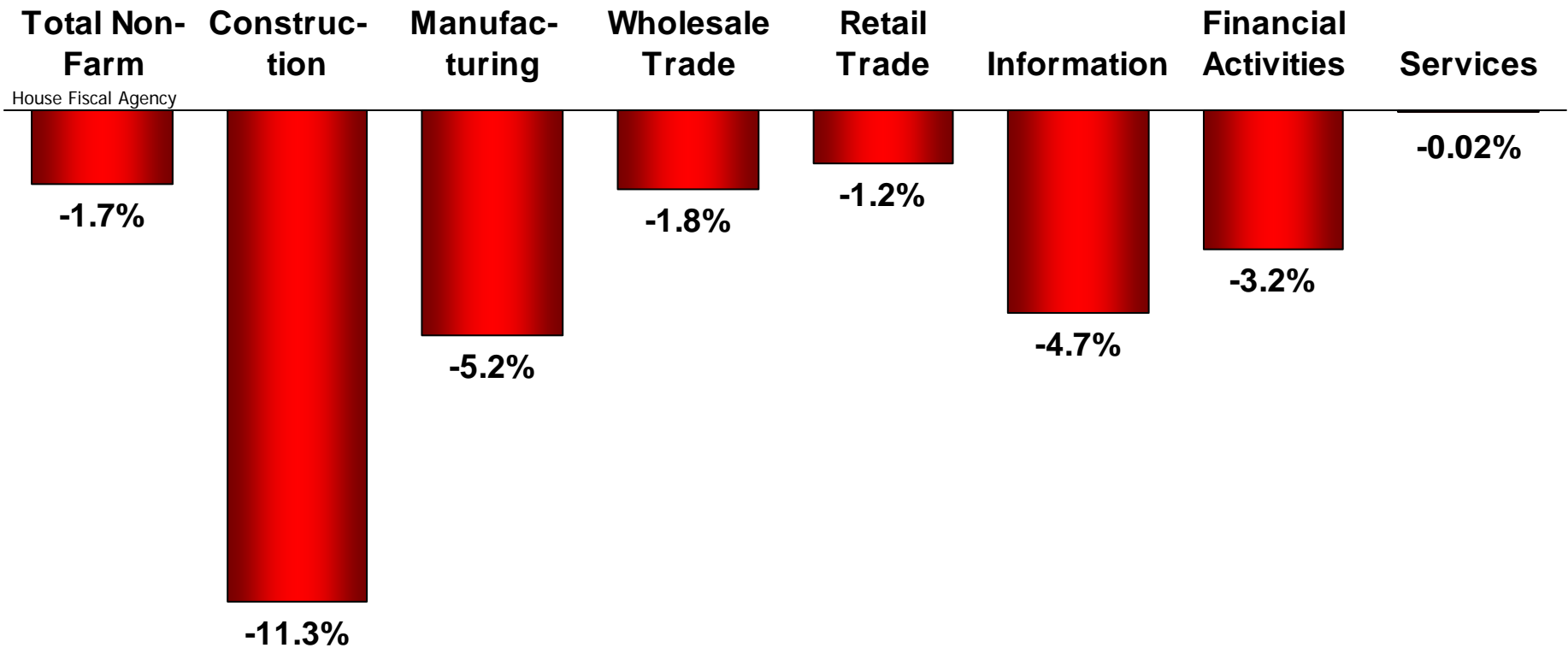


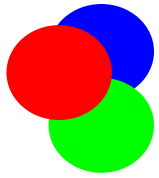
House Fiscal Agency



U.S. % Change in Employment

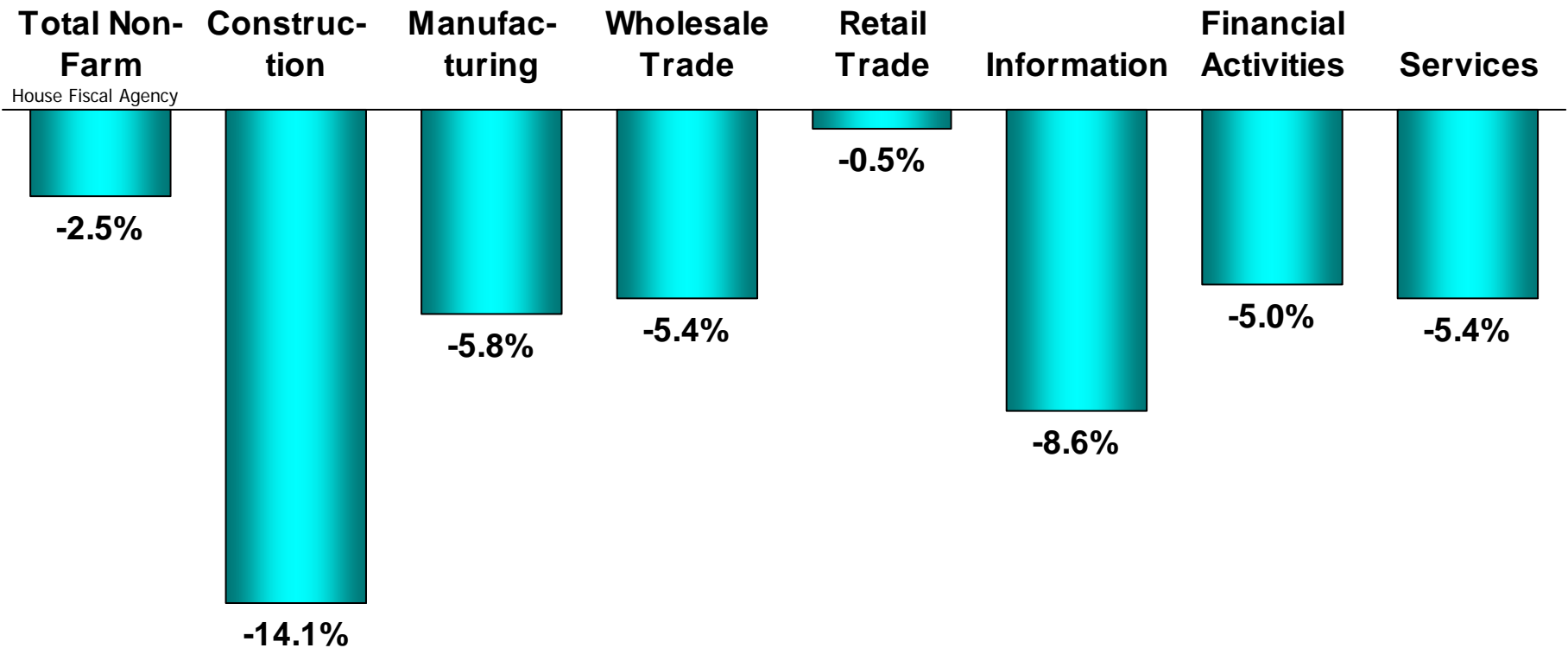
March 2009 Through March 2010

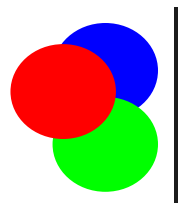




Michigan % Change in Employment

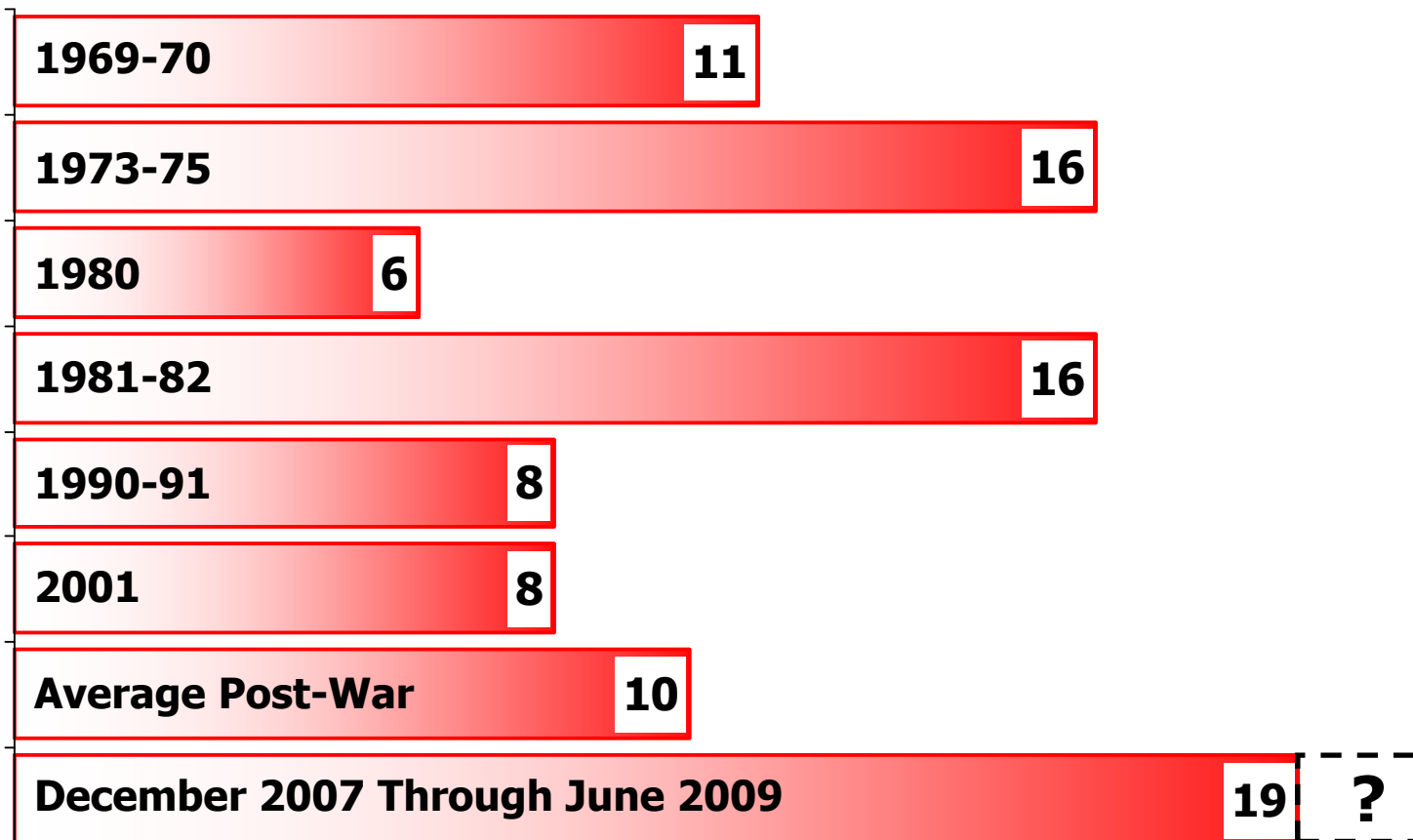
March 2009 Through March 2010



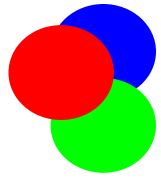


Length of U.S. Recessions

of Months From Peak to Trough

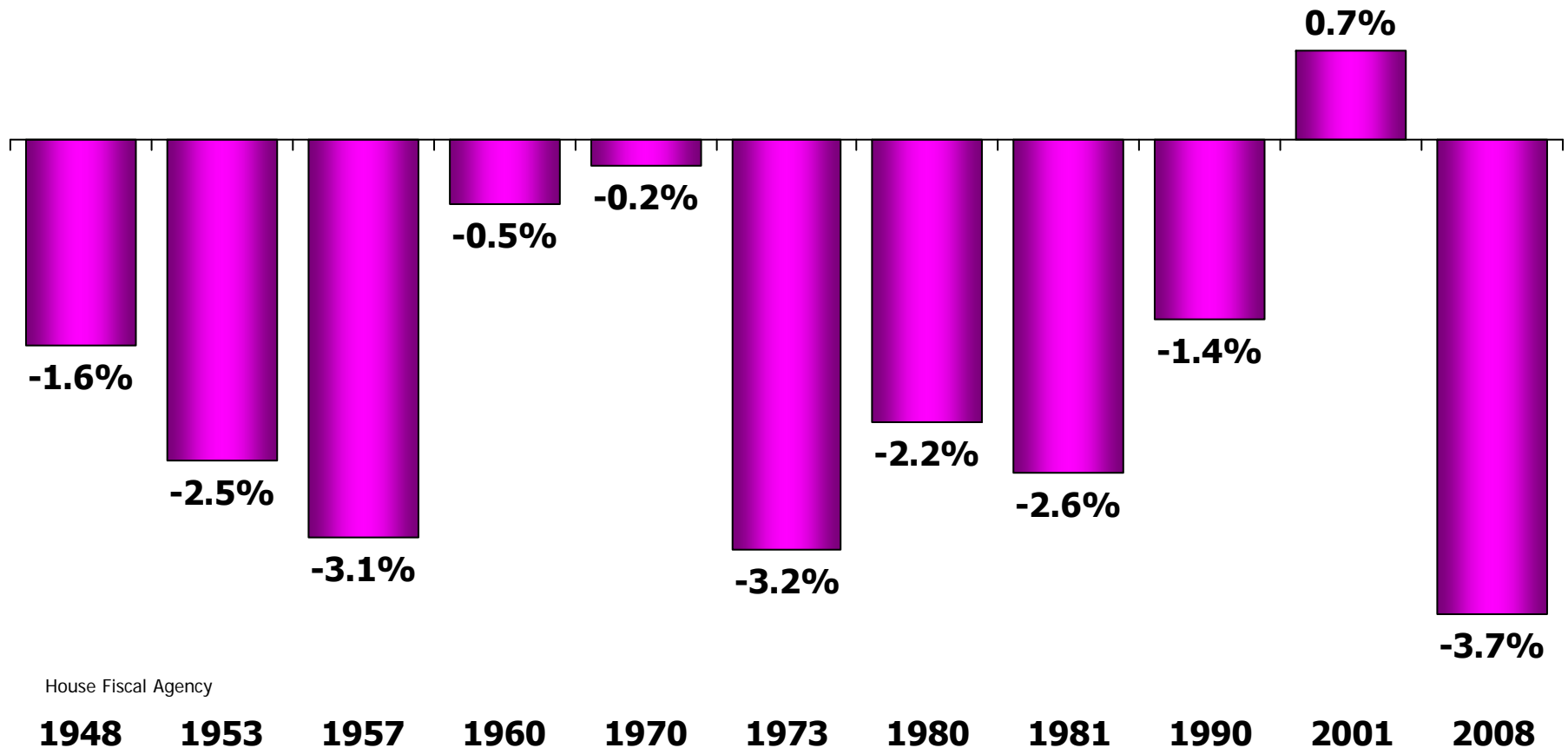


House Fiscal Agency



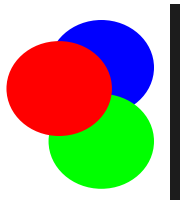
Decline in GDP Steep Compared to Recent Recessions

Peak to Trough GDP Decline

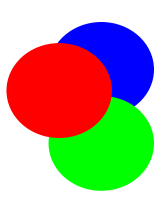


House Fiscal Agency

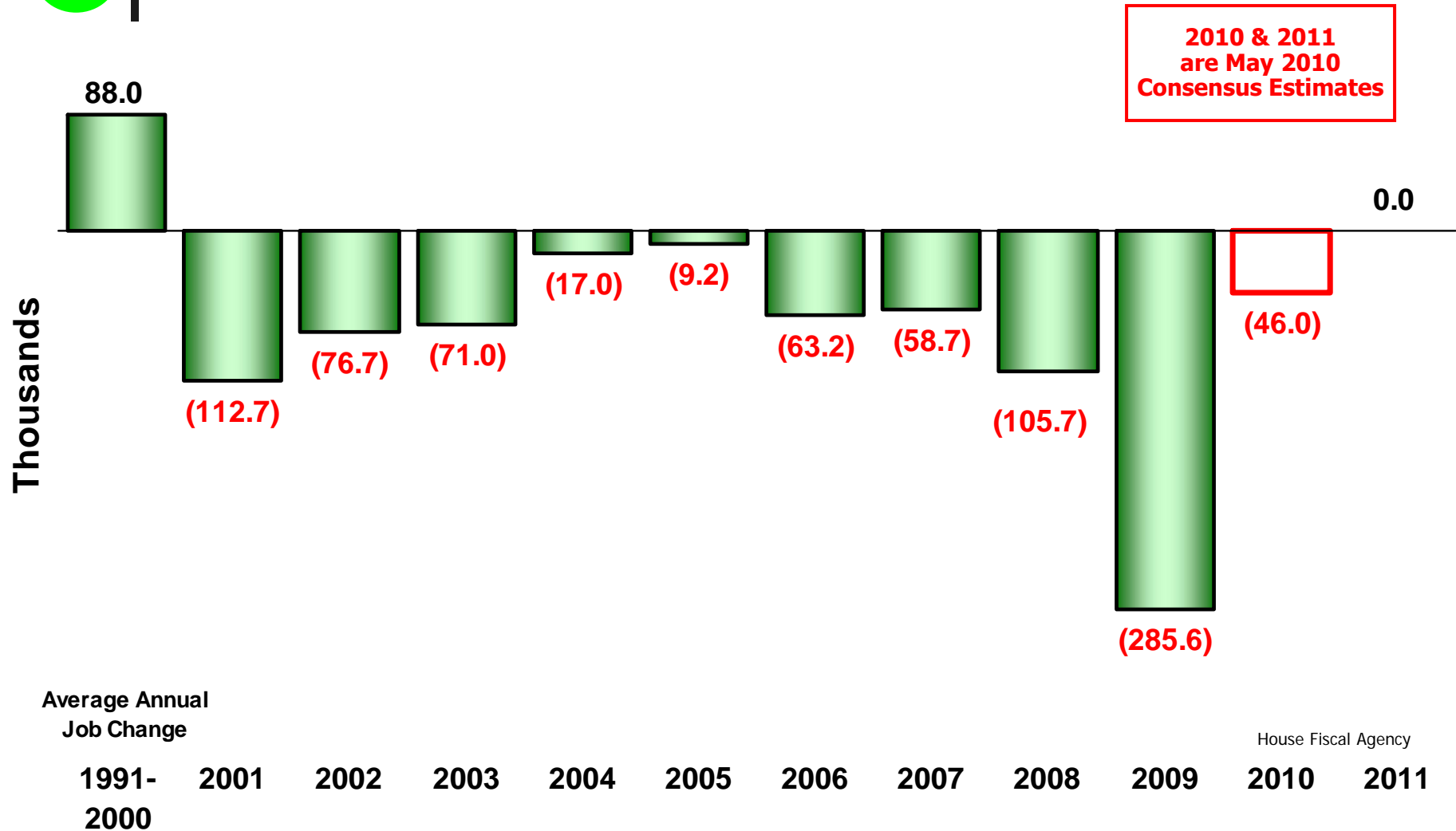
1948 1953 1957 1960 1970 1973 1980 1981 1990 2001 2008

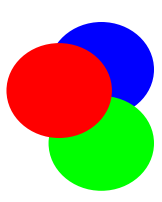


MICHIGAN FORECAST

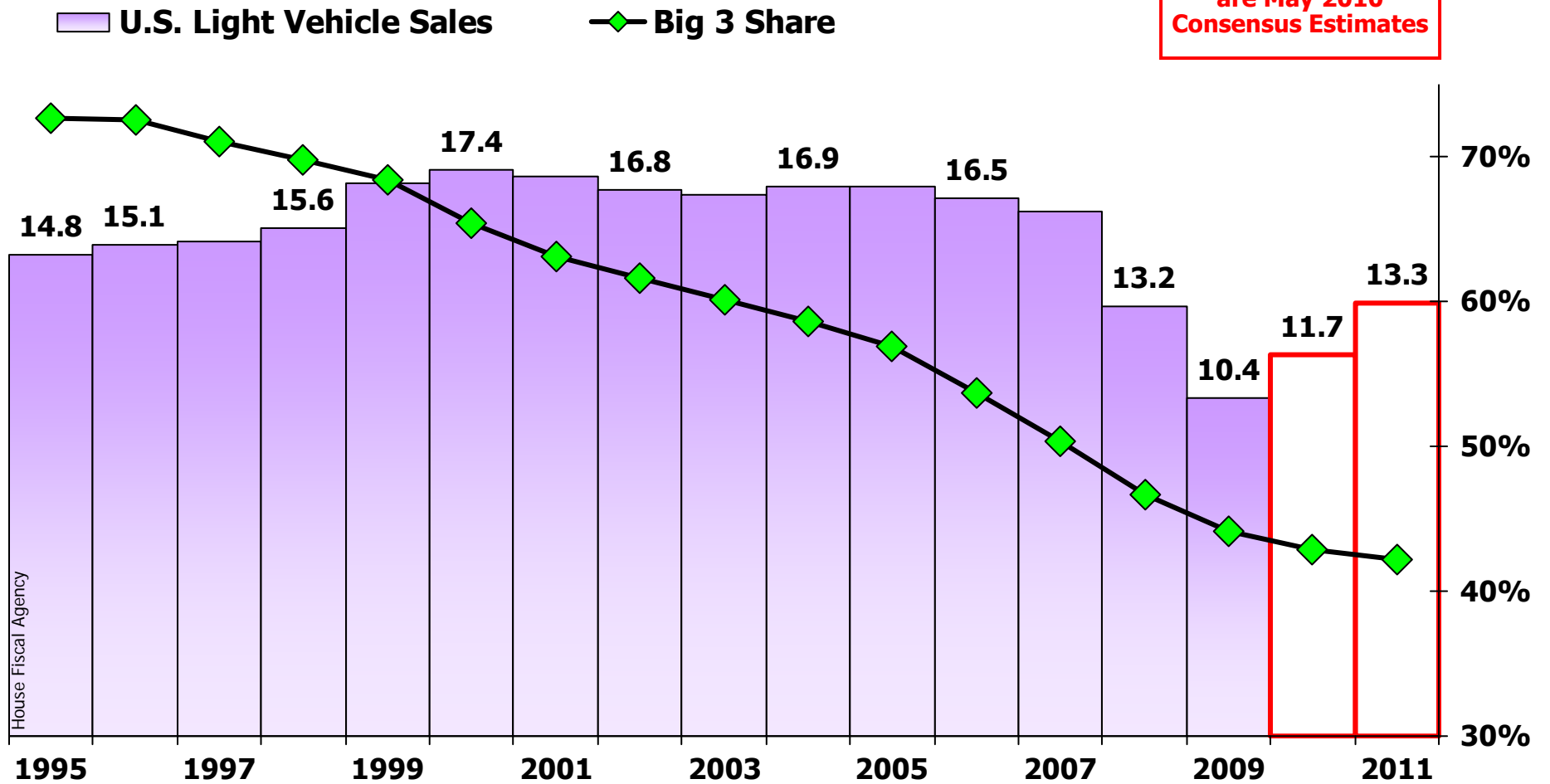


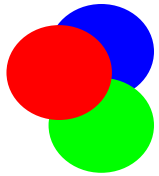
Job Change in Michigan



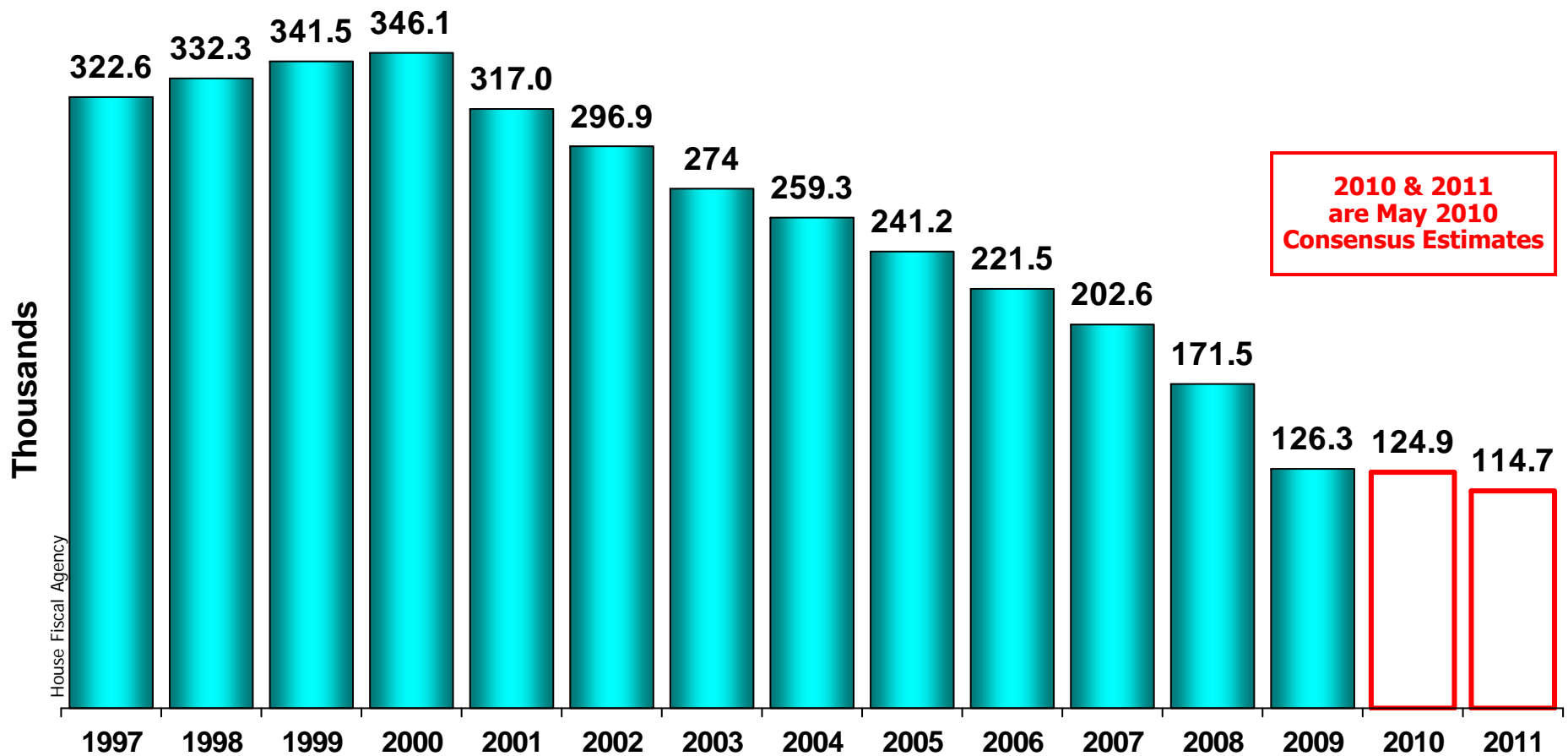


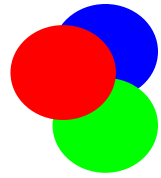
Big 3 Losing Market Share





Michigan Vehicle Employment

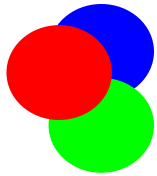




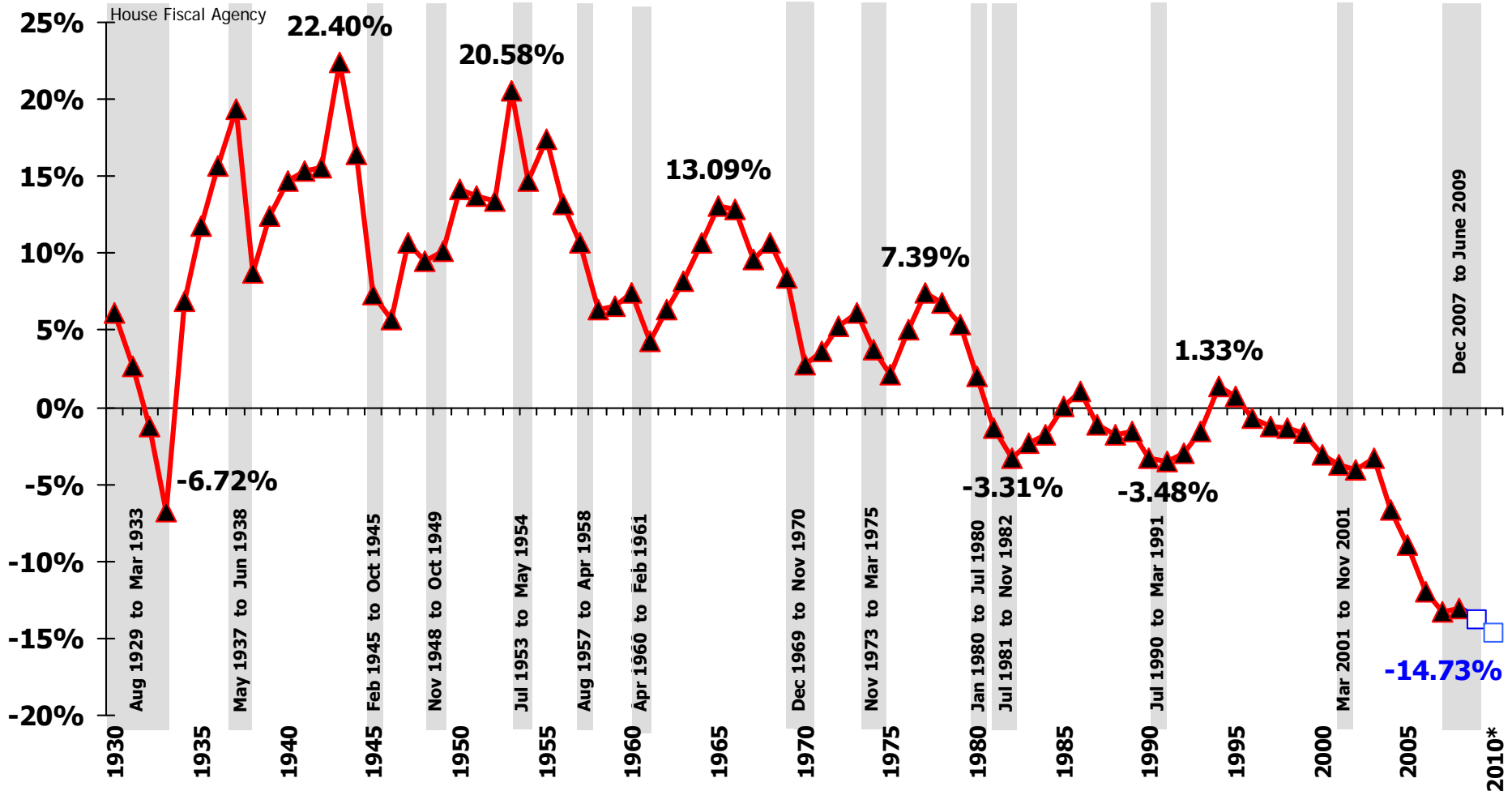
Property Value Growth Slowing

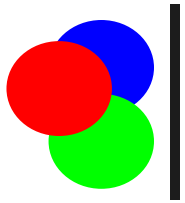
Yearly Change

	<u>Inflation Rate Multiplier for Property</u>	<u>Total SEV Growth</u>	<u>Total Taxable Value Growth</u>
1997	2.8 %	8.2 %	5.7 %
1998	2.7 %	9.5 %	6.1 %
1999	1.6 %	9.9 %	6.0 %
2000	1.9 %	9.0 %	5.5 %
2001	3.2 %	10.0 %	7.1 %
2002	3.2 %	9.8 %	6.7 %
2003	1.5 %	7.5 %	4.8 %
2004	2.3 %	6.3 %	5.7 %
2005	2.3 %	5.9 %	5.6 %
2006	3.3 %	5.0 %	5.8 %
2007	3.7 %	3.8 %	5.2 %
2008	2.3 %	-1.1 %	1.4 %
2009	4.4 %	-5.4 %	-0.8 %
2010	-0.3 %	N/A	-8.0 %
2011	2.5 %	N/A	-4.3 %

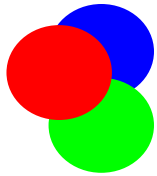


Michigan Per Capita Income Deviation from National Average



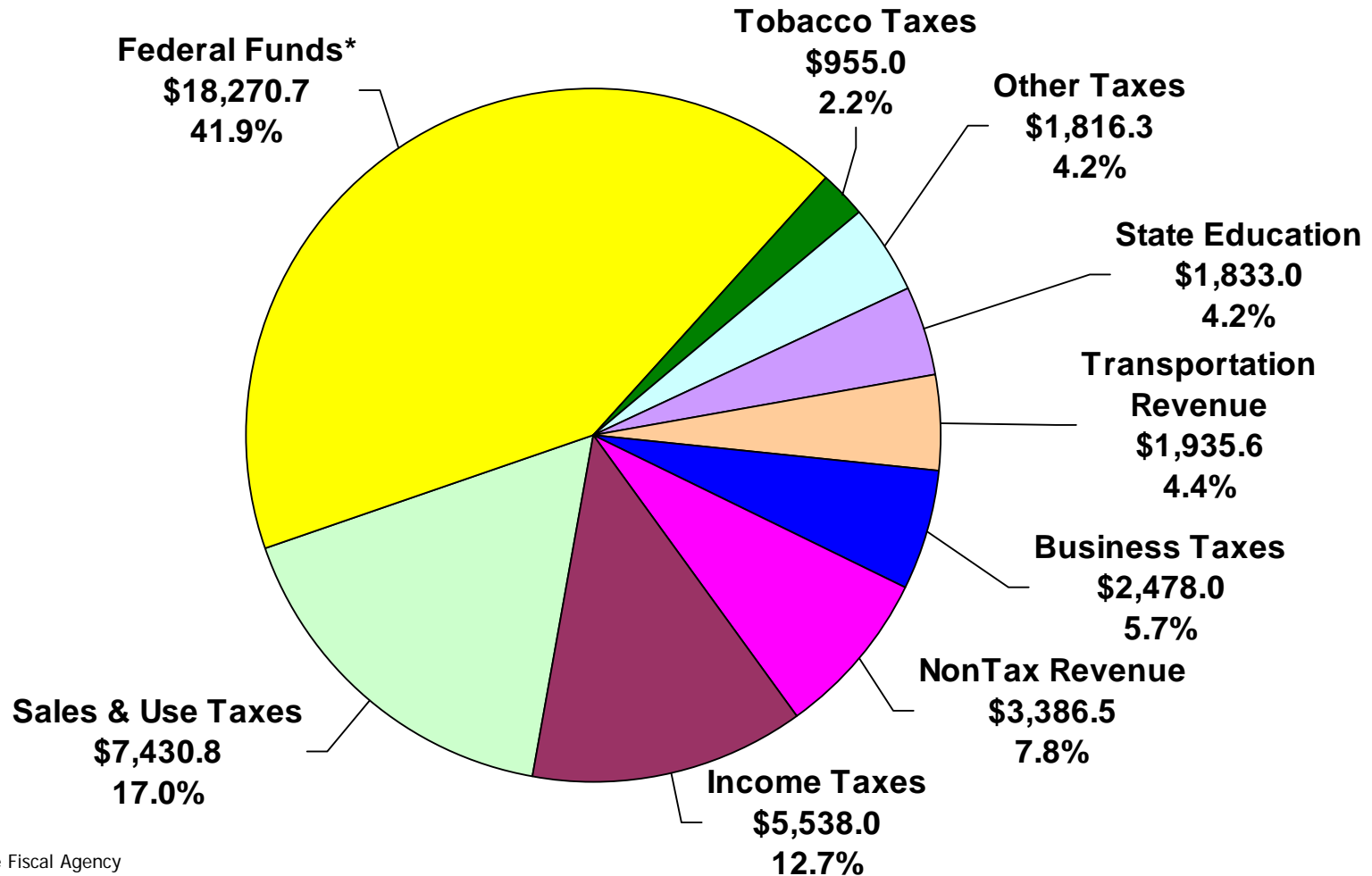


MICHIGAN REVENUE

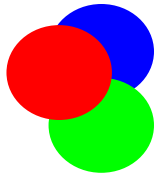


State of Michigan Revenue Sources

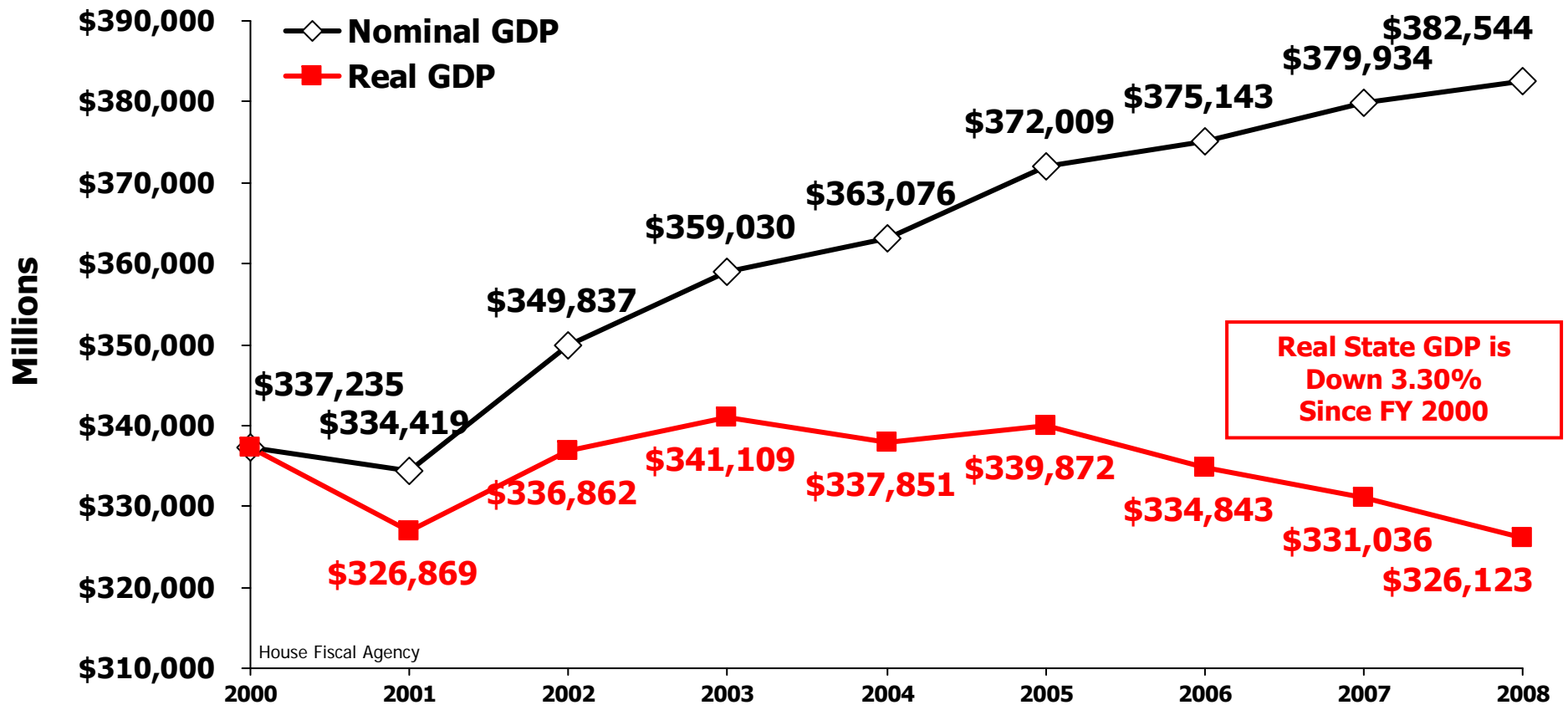
FY 2010-11 Total = \$43,643.9 million

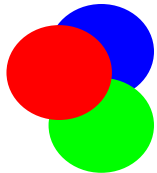


House Fiscal Agency

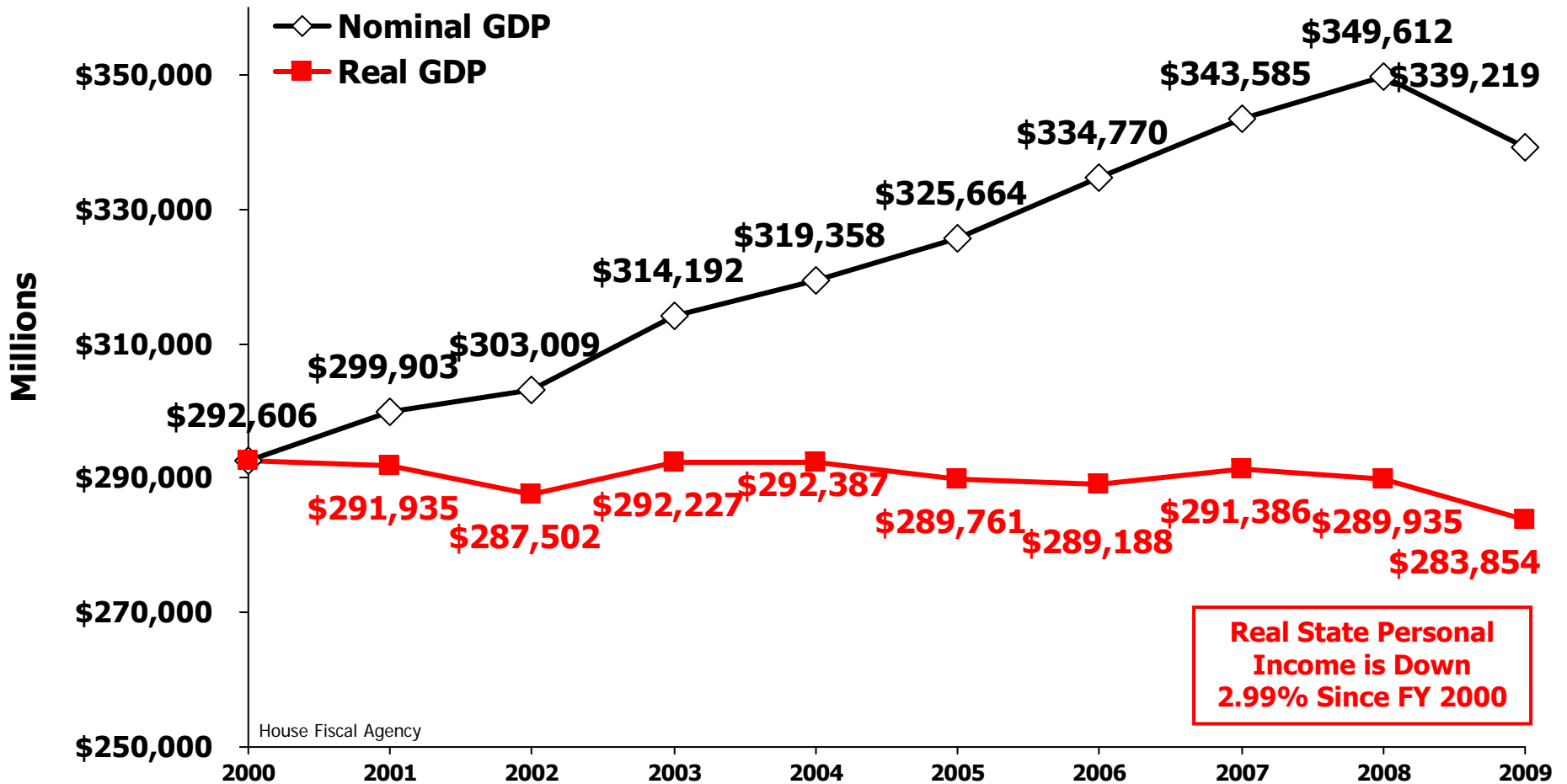


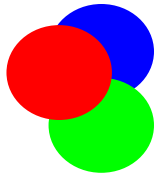
Real and Nominal State GDP



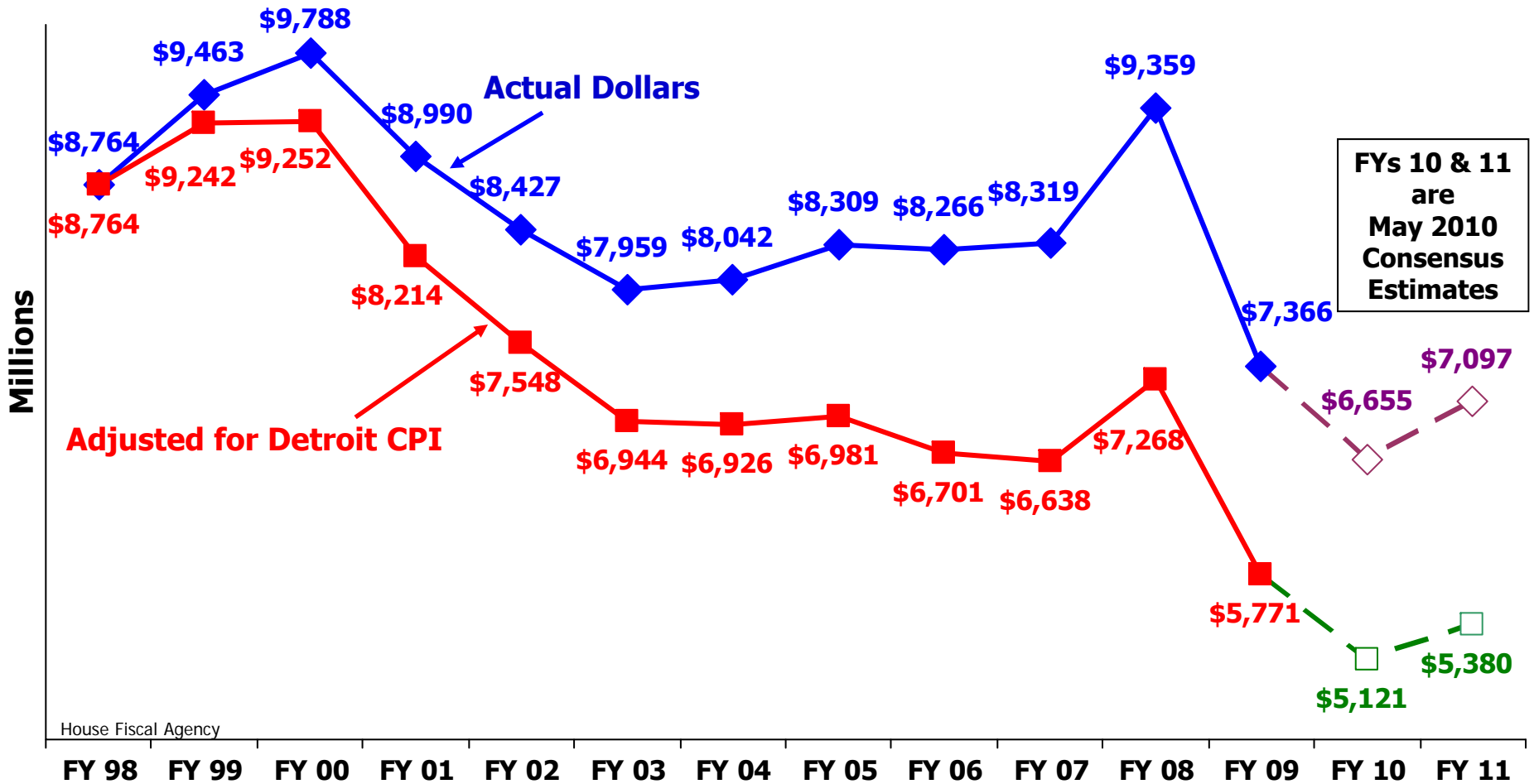


Real and Nominal State Personal Income

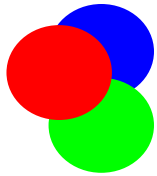




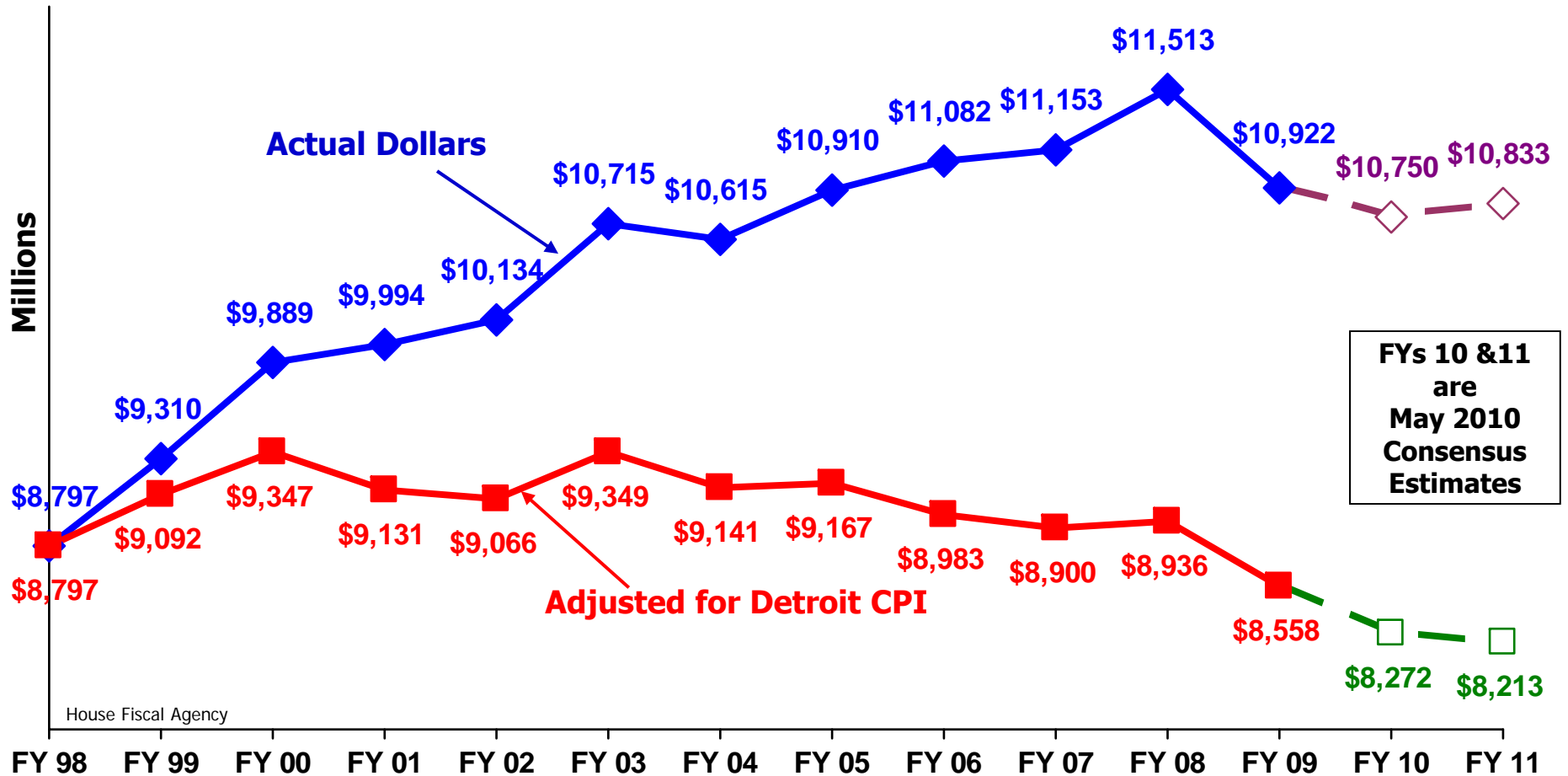
Inflation Adjusted GF/GP Revenue Down 42% Since FY 2000

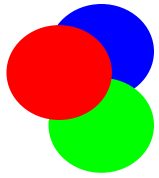


House Fiscal Agency

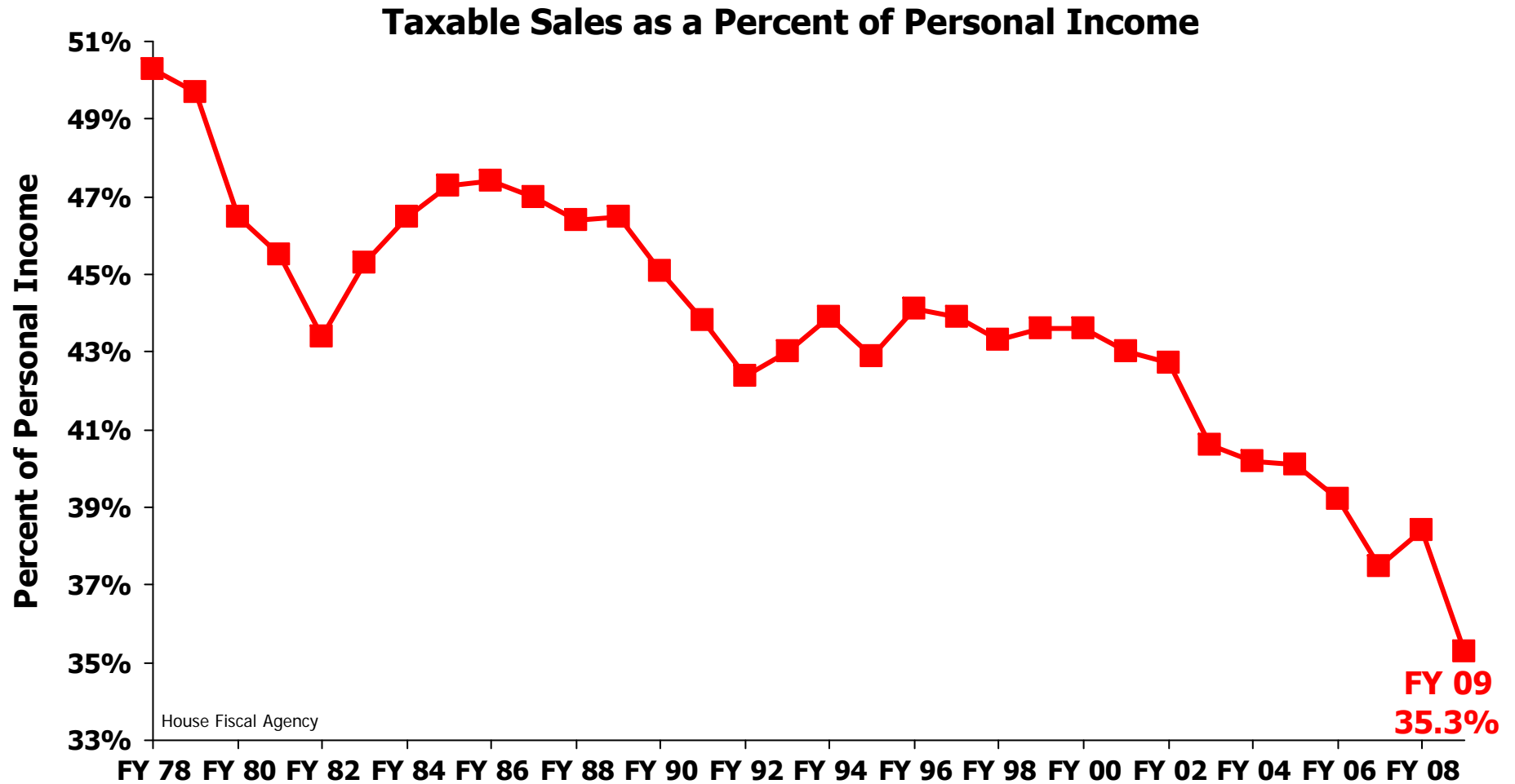


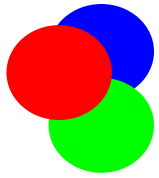
Inflation Adjusted SAF Net Revenue Down 12% Since FY 2000



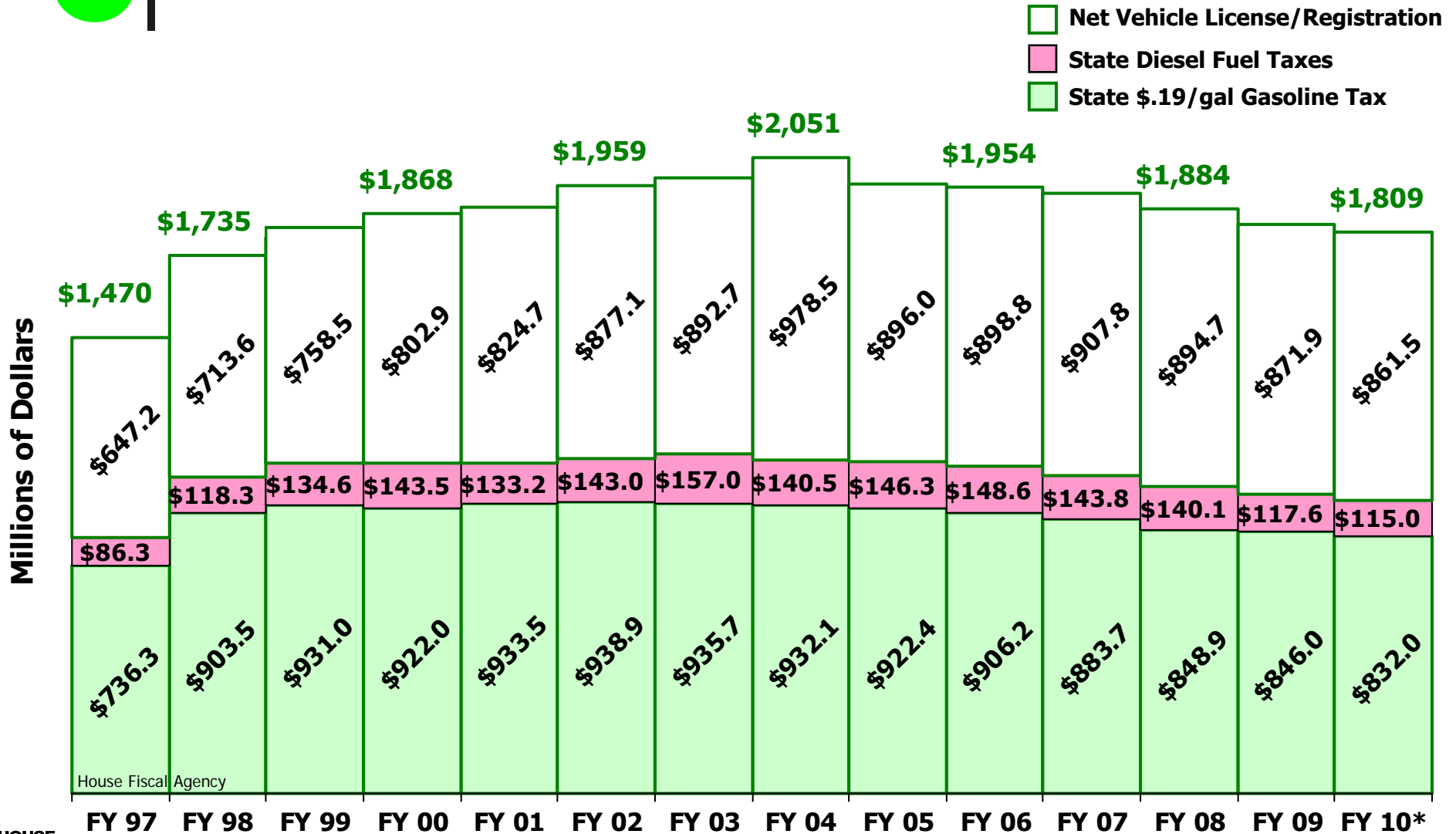


Sales/Use Tax Share Declining

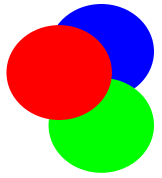




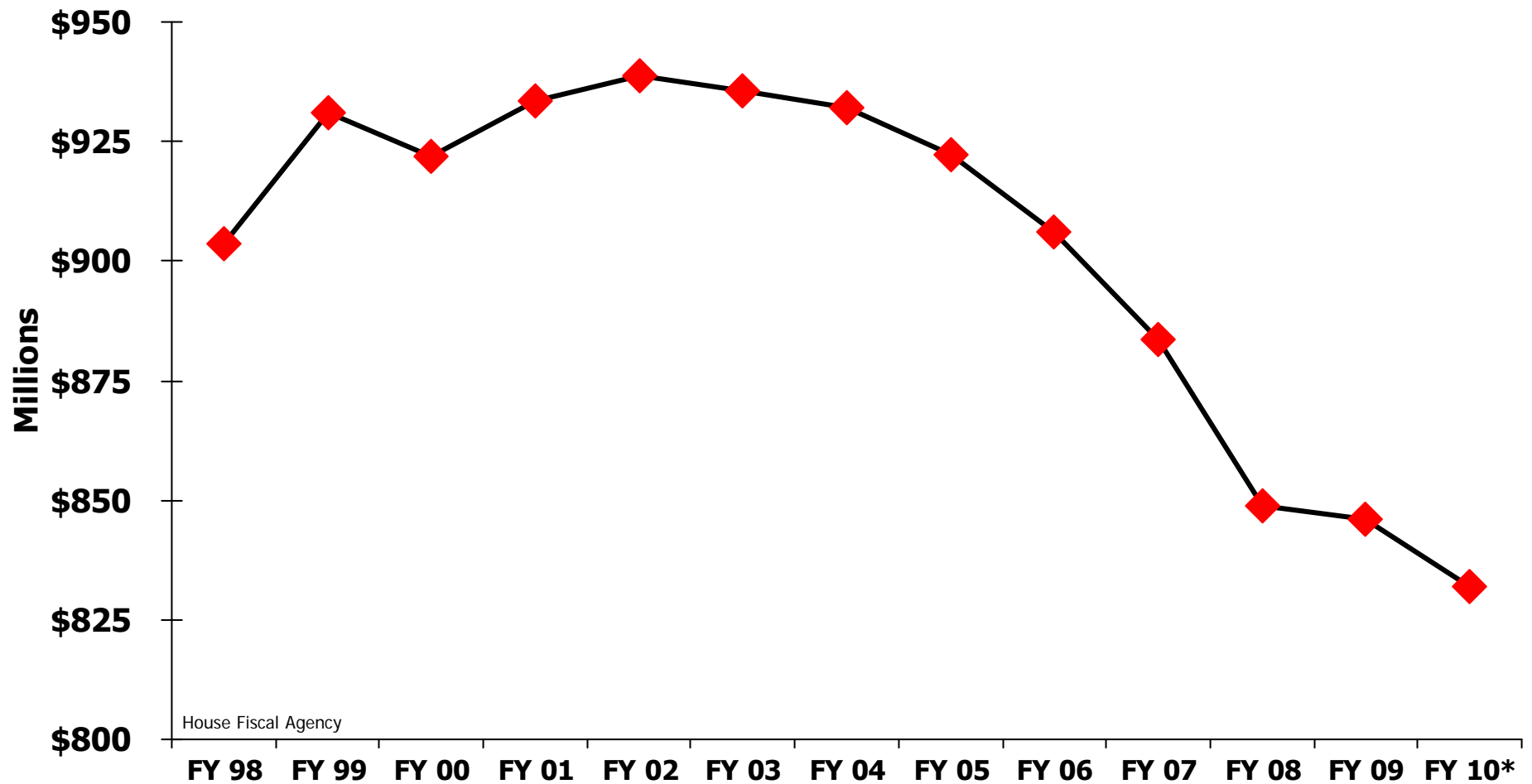
Transportation Revenue



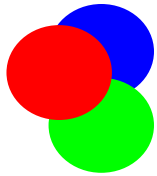
House Fiscal Agency



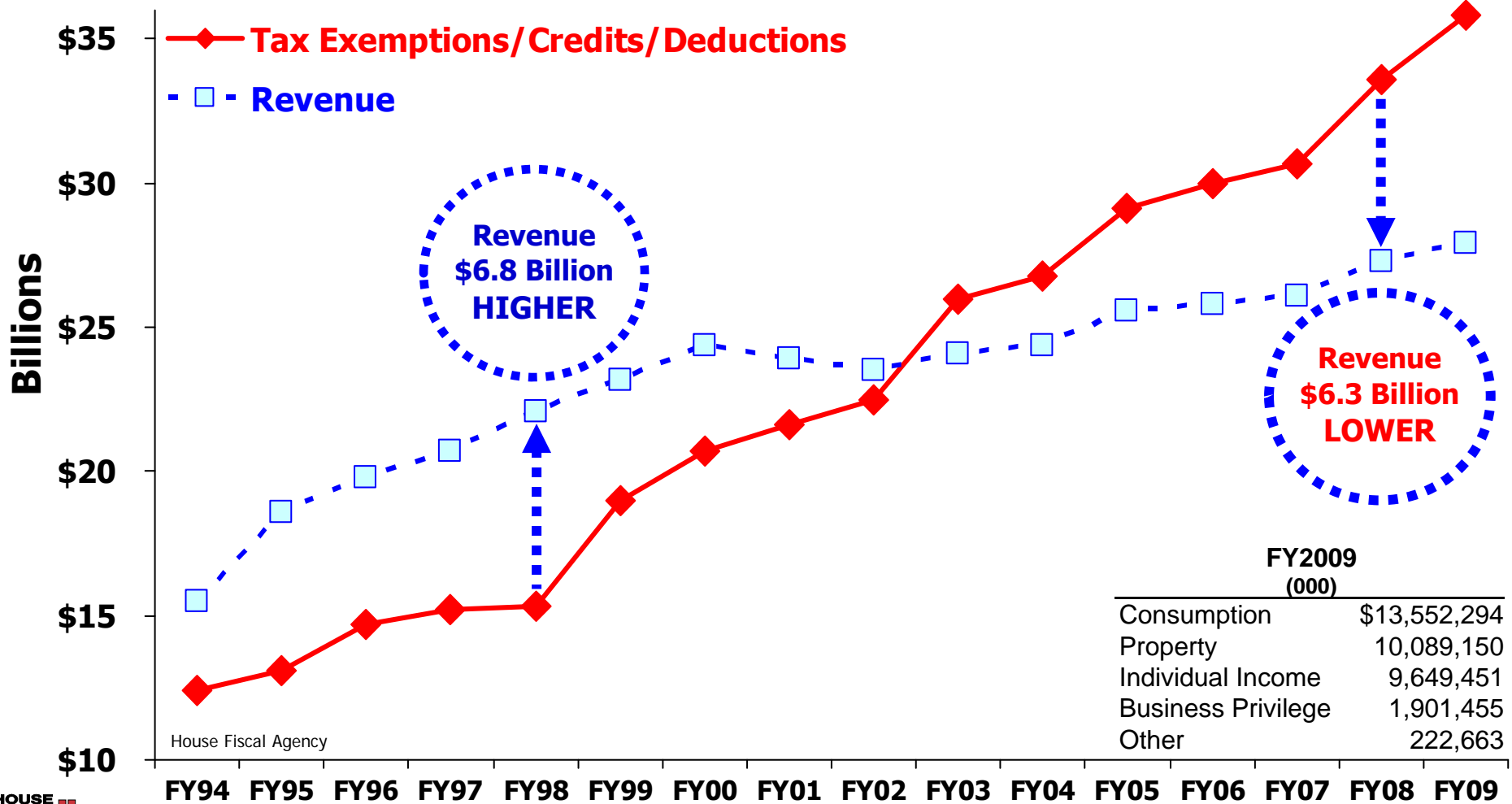
Michigan Gasoline Tax Revenue



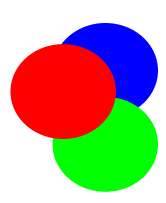
House Fiscal Agency



Impact of Tax Exemptions/Credits/Deductions

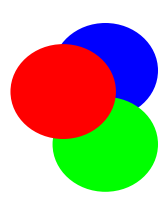


FY94 FY95 FY96 FY97 FY98 FY99 FY00 FY01 FY02 FY03 FY04 FY05 FY06 FY07 FY08 FY09



Impact of Recent Tax Cuts on Future Revenues

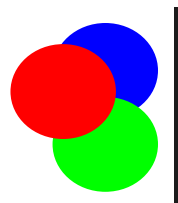
	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Reducing Michigan Income Tax Rate	\$0.0	\$0.0	\$0.0	(\$150.0)	(\$329.0)	(\$522.5)
Alternative Energy Credits - Income Tax	(\$16.0)	(\$46.0)	(\$47.0)	(\$42.0)	\$0.0	\$0.0
Michigan EITC	(\$140.0)	(\$325.0)	(\$338.0)	(\$358.3)	(\$379.8)	(\$402.6)
Eliminating MBT Surcharge			Eliminated in Tax Year 2017			
MBT Battery Credits (Assumes Maximum Used)	\$0.0	\$0.0	\$0.0	(\$40.0)	(\$268.0)	(\$278.0)
MBT Film Production Credit	(\$37.5)	(\$100.0)	(\$125.0)	(\$125.0)	(\$125.0)	(\$125.0)
Photovoltaic Technology - Facility & Manufacturing	\$0.0	(\$0.8)	(\$9.8)	(\$12.5)	(\$12.5)	(\$15.0)
Polycrystalline Manufacturing Credit	\$0.0	\$0.0	\$0.0	\$0.0	(\$25.0)	(\$25.0)
MBT Gross Receipt Changes	(\$115.8)	(\$80.5)	(\$93.4)	(\$117.8)	(\$129.9)	(\$132.7)
Decouple Bonus Depreciation/Production Activities	\$172.5	\$23.4	\$19.2	\$45.3	\$52.3	\$60.0
Historic Preservation Credits	\$0.0	\$0.0	(\$5.0)	(\$8.6)	(\$9.6)	(\$10.6)
Promise Zones - SET	\$0.0	(\$1.0)	(\$4.0)	(\$10.0)	(\$15.0)	(\$20.0)
IFT Exemption for Commercial Real Land	\$0.0	(\$2.0)	(\$2.0)	(\$2.0)	(\$2.0)	(\$2.0)
Use Tax Bad Debt Deduction Change (Court Case)	(\$2.0)	(\$25.5)	(\$16.6)	(\$17.1)	(\$17.7)	(\$18.4)
Exempt Supplies for Cobo Center	\$0.0	\$0.0	(\$2.5)	(\$2.5)	(\$3.5)	(\$1.5)
Totals in Millions	(\$138.8)	(\$557.4)	(\$624.1)	(\$840.5)	(\$1,264.7)	(\$1,493.3)



Potential GF/GP Revenue Growth (millions)

	<u>Consensus FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Baseline Revenue				
* Assume 3% Growth	\$6,968.4	\$7,177.5	\$7,392.8	\$7,614.6
Adjust for Tax Change Not Built Into FY 2011	N/A	(\$194.4)	(\$591.5)	(\$789.1)
Net GF/GP Revenue	N/A	\$6,983.1	\$6,801.3	\$6,825.5
Percent Change from Prior Year	N/A	0.2%	(2.6%)	0.4%

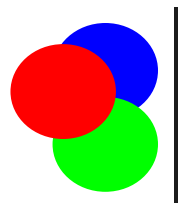
* Note: 3% baseline growth has not been achieved since 2000.



Senior Tax Preferences

■ Income Tax

- Fully exempts social security, military, federal, state and local government pension/retirement income
- Exempts private pensions up to \$45,120 single/\$90,240 joint (TY 2009); indexed to inflation
 - Annual cost all pension income exemption = \$725 million
- Deduction for senior investment income \$10,058 single/\$20,115 joint; indexed to inflation
 - Annual cost = \$40 - \$50 million



Senior Tax Preferences

■ Income Tax

- Additional Personal Exemption \$2,300 single/\$4,600 joint (TY 2009)
- Annual cost = \$55 million

■ Property Tax

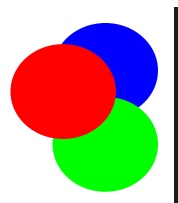
- Homestead Property Tax Credit
 - Under age 65 – credit is 60% of the amount by which property taxes exceed 3.5% of household income, up to a maximum of \$1,200
 - 65 and older – credit is 100% of the difference
Annual cost = \$320 million



Demographics

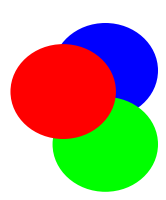
- **Michigan's population is aging**
 - **2000 – 12.3% pop age 65+**
 - **2010 – 12.8% pop age 65+**
 - **2020 – 16.0% pop age 65+**
 - **2030 – 19.5% pop age 65+**

- **Senior tax preferences will get more expensive**



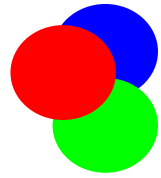
Fewer People Pay Income Tax

	<u>2000</u>	<u>2008</u>
Tax Liability < \$0	19.5%	25.6%
Tax Liability = \$0	8.0%	8.0%
Tax Liability < \$100	33.6%	38.6%



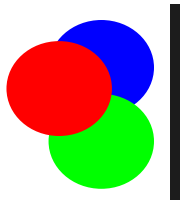
Refundable Credits on the Michigan Income Tax

- **Homestead Property Tax Credit (\$987.5 million in FY2009-10)**
- **Earned Income tax Credit (\$333.0 million in FY2009-10)**
- **Alternative Energy/Qualified Home Improvement Credit (\$46.0 million in FY2009-10)**
- **Adoption Credit (\$1.0 million in FY2009-10)**
- **Stillbirth Credit (\$41,000 in FY2009-10)**

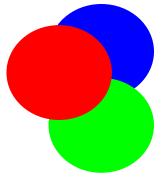


Indexed Provisions of the Michigan Income Tax

- **Personal Exemption**
- **Special Exemptions for Seniors and/or Disabled Individuals**
- **Special Exemption for Qualified Disabled Veterans**
- **Income Threshold for Pension Income Deduction**
- **Income Threshold for Deduction of Interest and Capital Gains Earned by Seniors**
- **Home Heating Credit**
- **Stillbirth Credit**



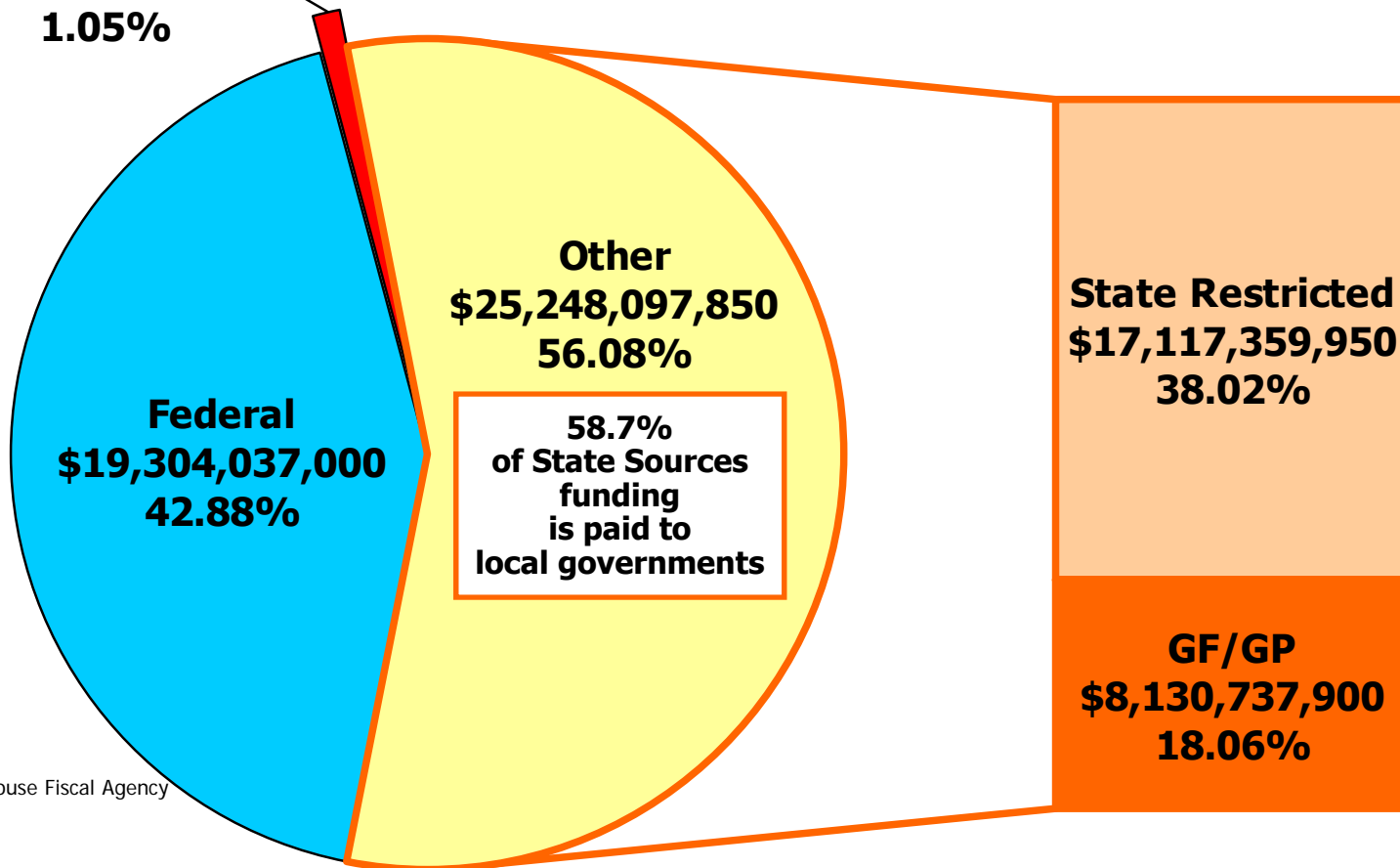
MICHIGAN'S BUDGET



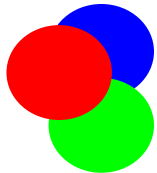
FY 2009-10 Budget Adjusted Gross Funding Sources

Local/Private
\$471,421,600
1.05%

Adjusted Gross = \$45,023,556,450

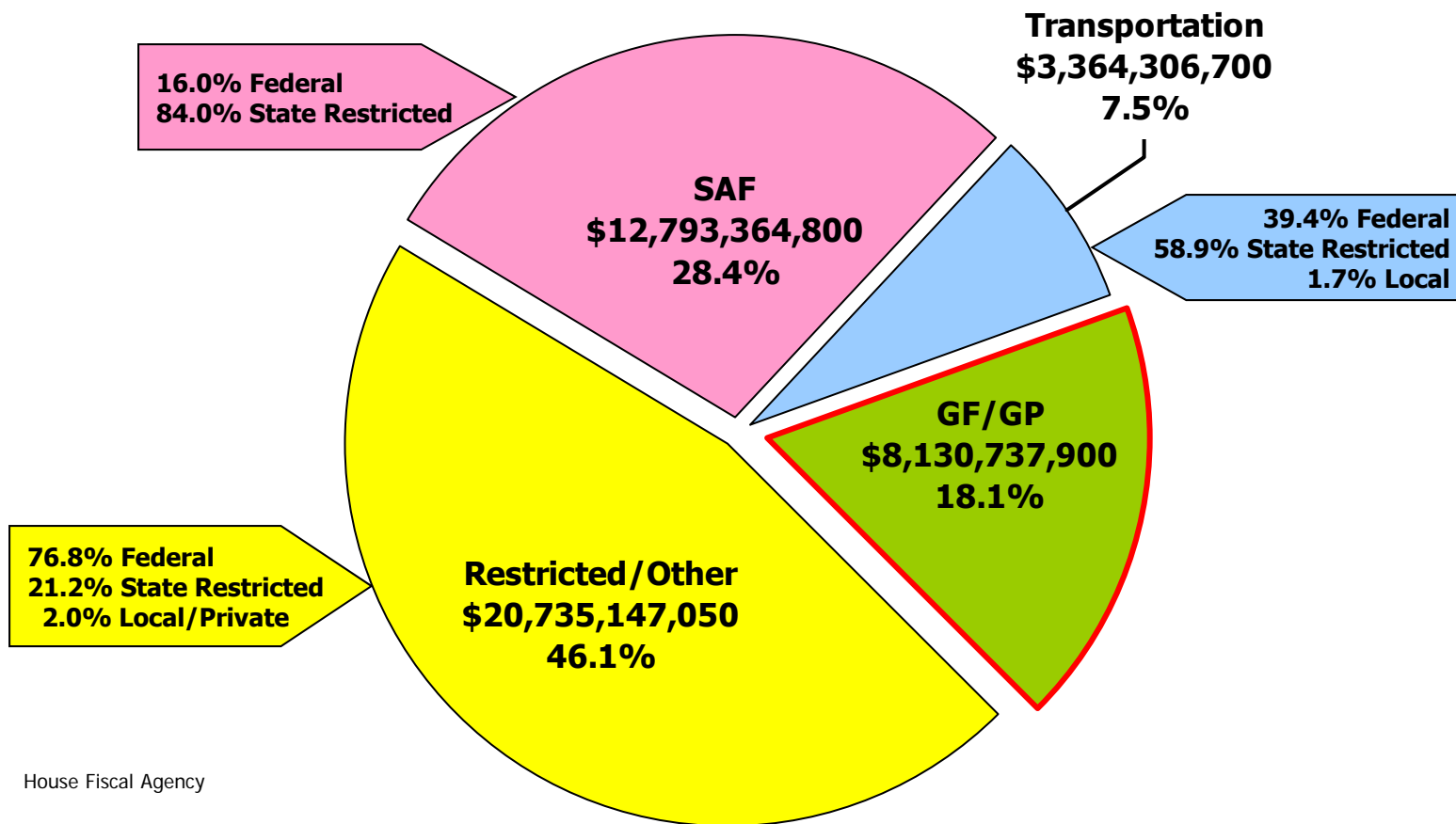


House Fiscal Agency

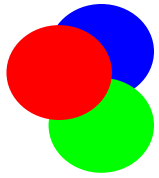


FY 2009-10 Appropriations Funding

Adjusted Gross = \$45,023,556,450

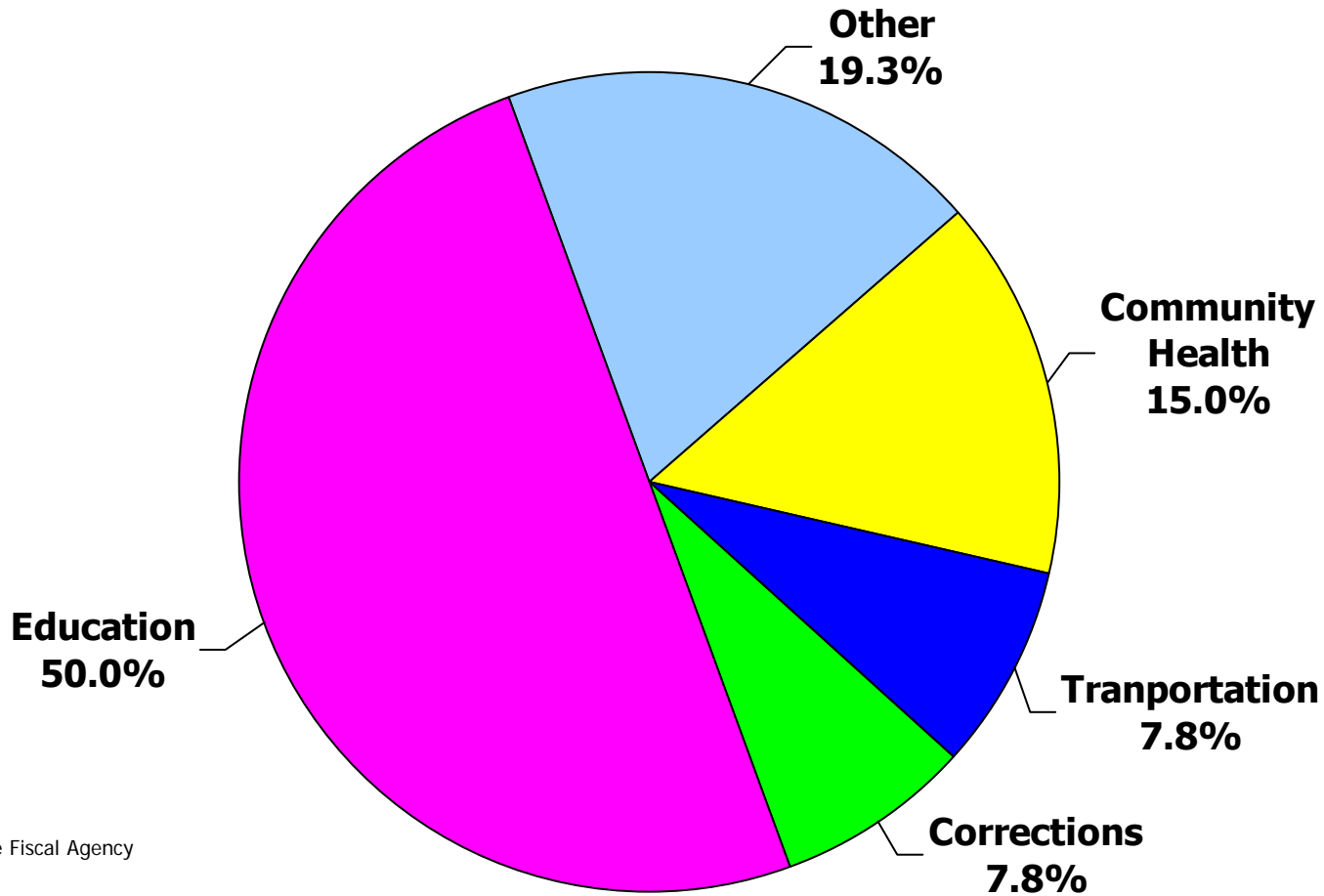


House Fiscal Agency

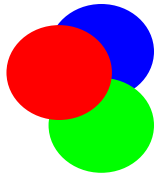


State Taxes and Fees FY 2009-10

FY 2009-10 Total = \$25,248,097,850

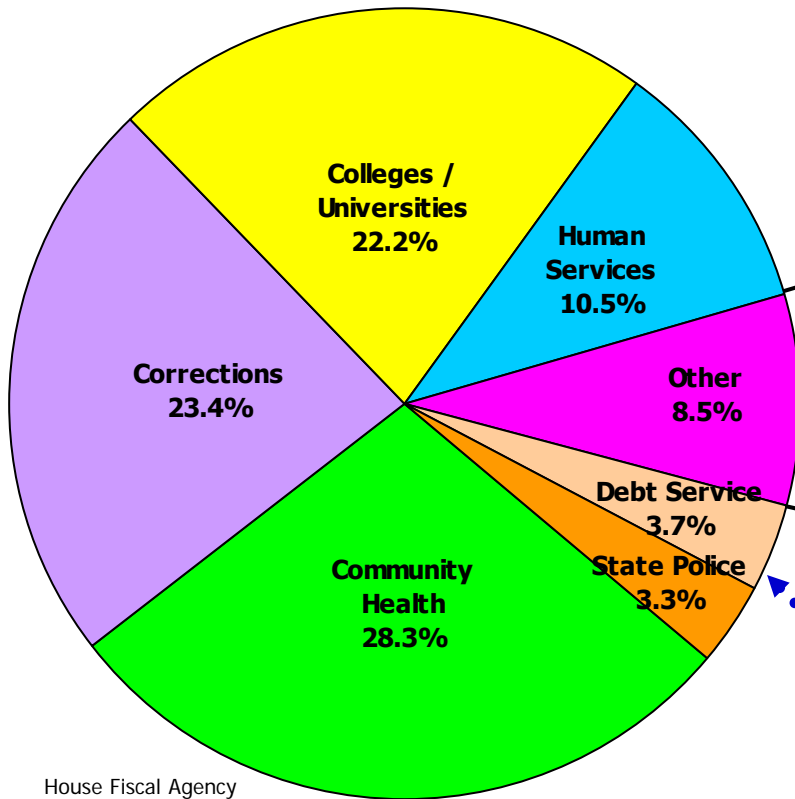


House Fiscal Agency

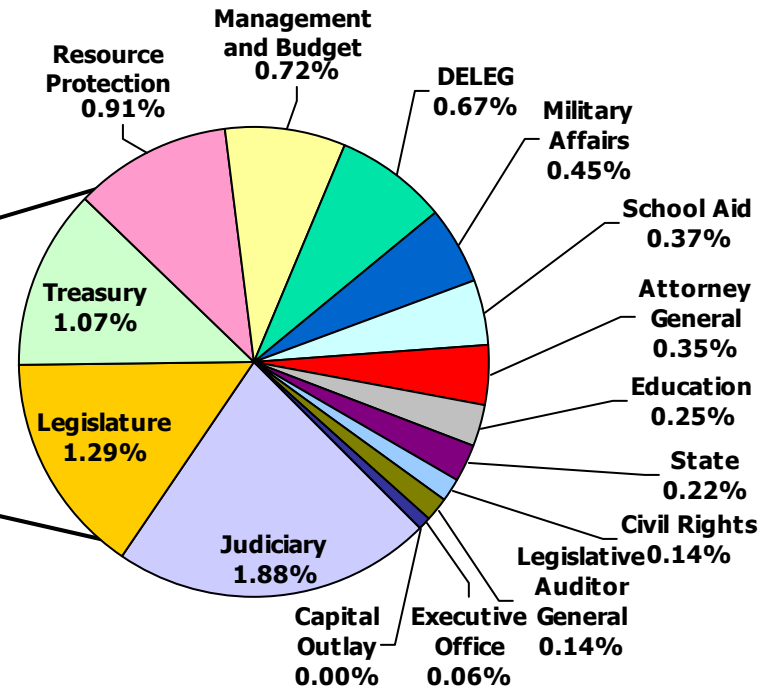


FY 2009-10 GF/GP

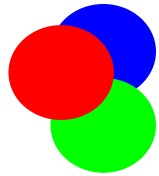
FY 2009-10 Total = \$8,130,737,900



House Fiscal Agency



3.7%
\$300 million
Debt Service and SBA Rent

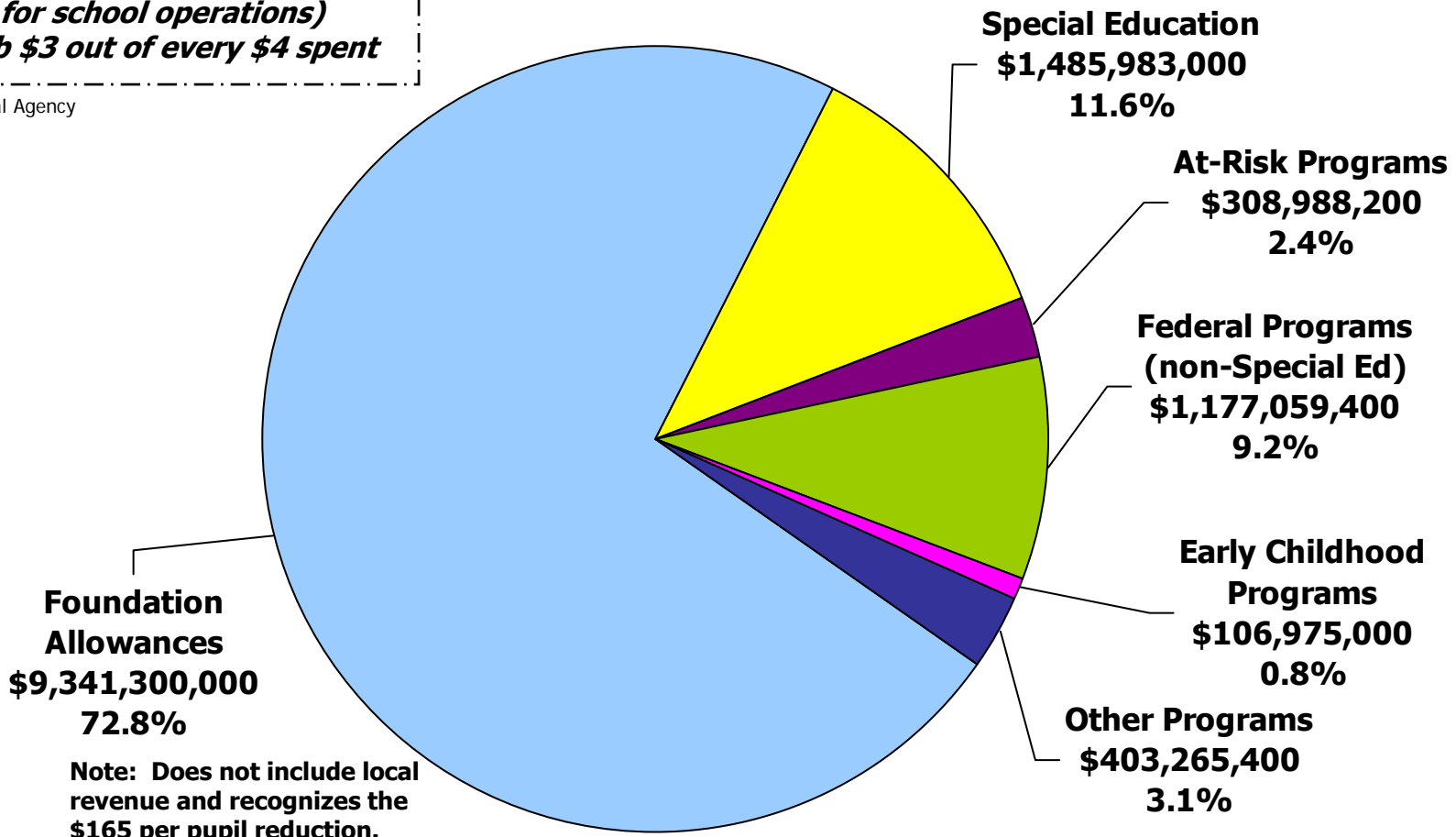


School Aid Major Spending Categories

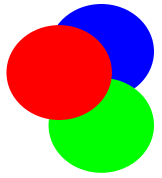
FY 2009-10 Total = \$12,823,571,000

*Foundation allowances
(used for school operations)
absorb \$3 out of every \$4 spent*

House Fiscal Agency

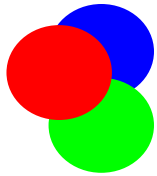


Note: Does not include local revenue and recognizes the \$165 per pupil reduction.

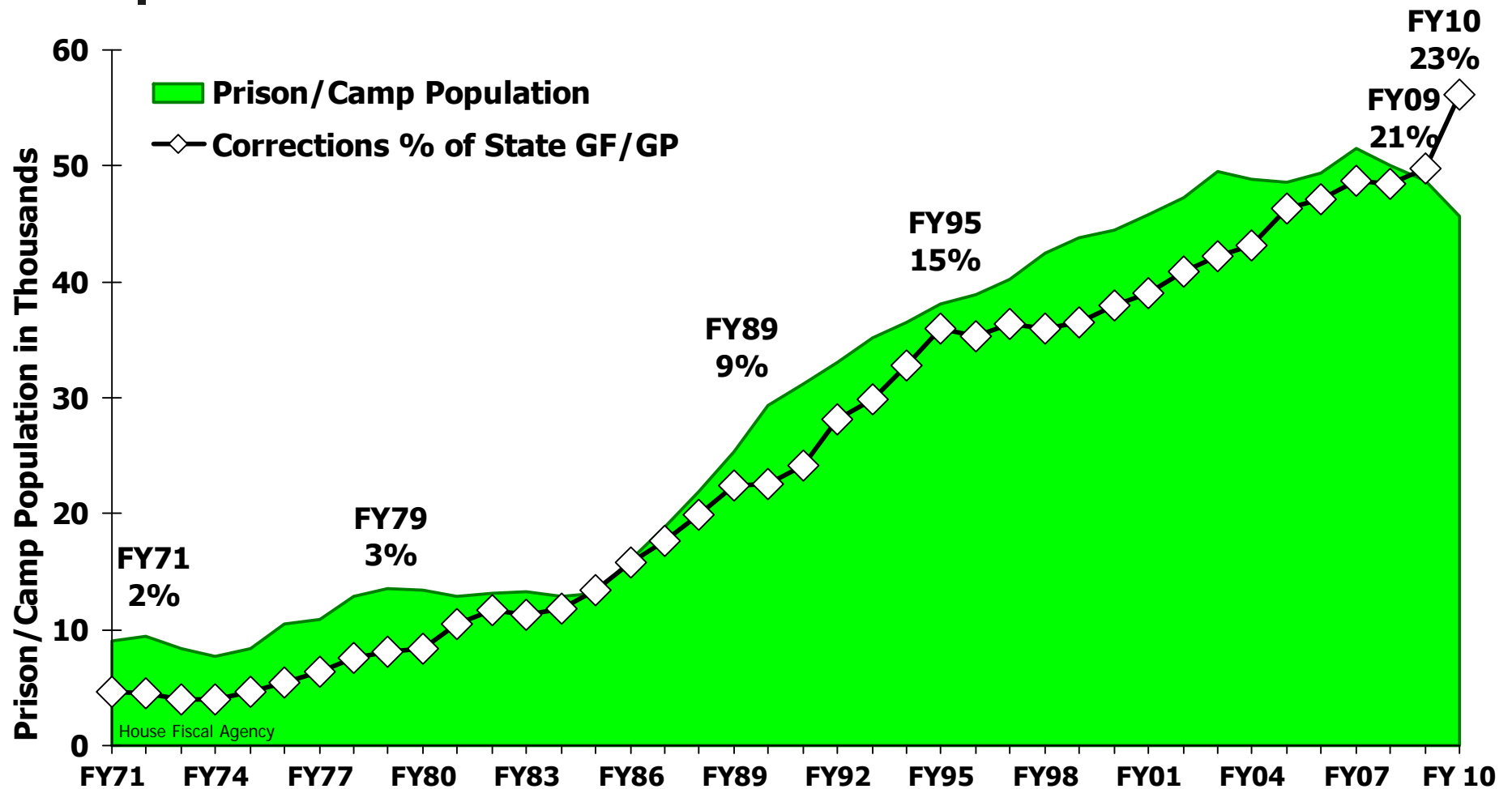


Medicaid Impact on Michigan Budget

- For FY 10, approximately 17.7% of Michigan GF/GP revenue is appropriated for Medicaid
- 1 of 6 Michigan residents were eligible for Medicaid in April 2009
- 42% of births and 70% of nursing home expenditures in Michigan are financed through Medicaid
- Total state and federal Medicaid appropriation is over \$10.7 billion in FY 10
- Since FY 1999-2000
 - 109.8% increase in Medicaid funding
 - 52.6% growth in Medicaid caseload (559,400 cases)

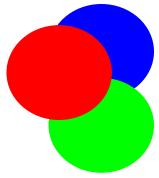


Corrections Budget Increases



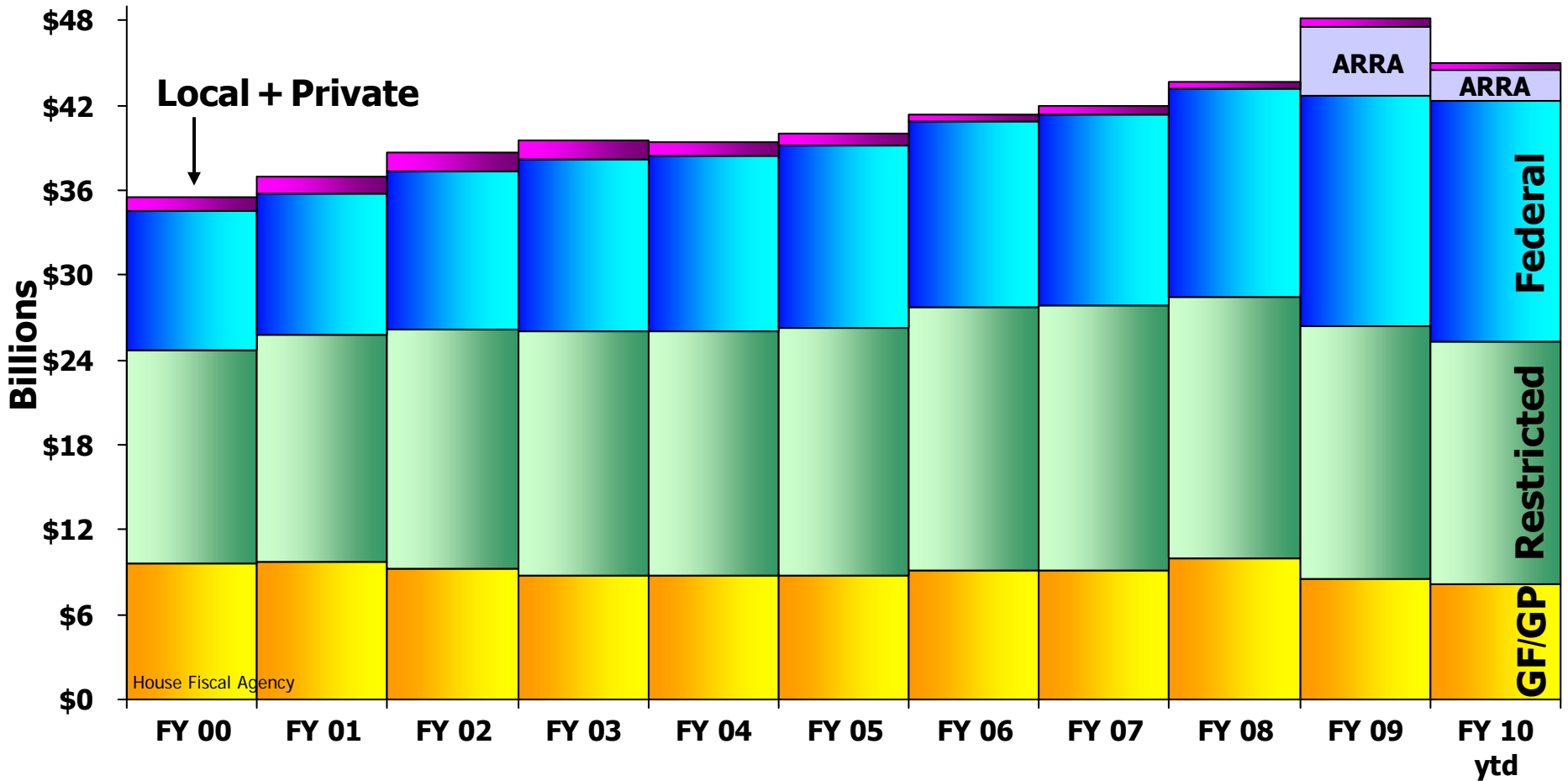
Fiscal Year 2008-09 includes GF/GP reductions due to appropriation of federal ARRA funds.

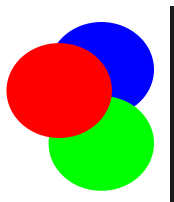
Fiscal Year 2009-10 includes the impact of gubernatorial vetoes of negative line items in the MDOC budget.



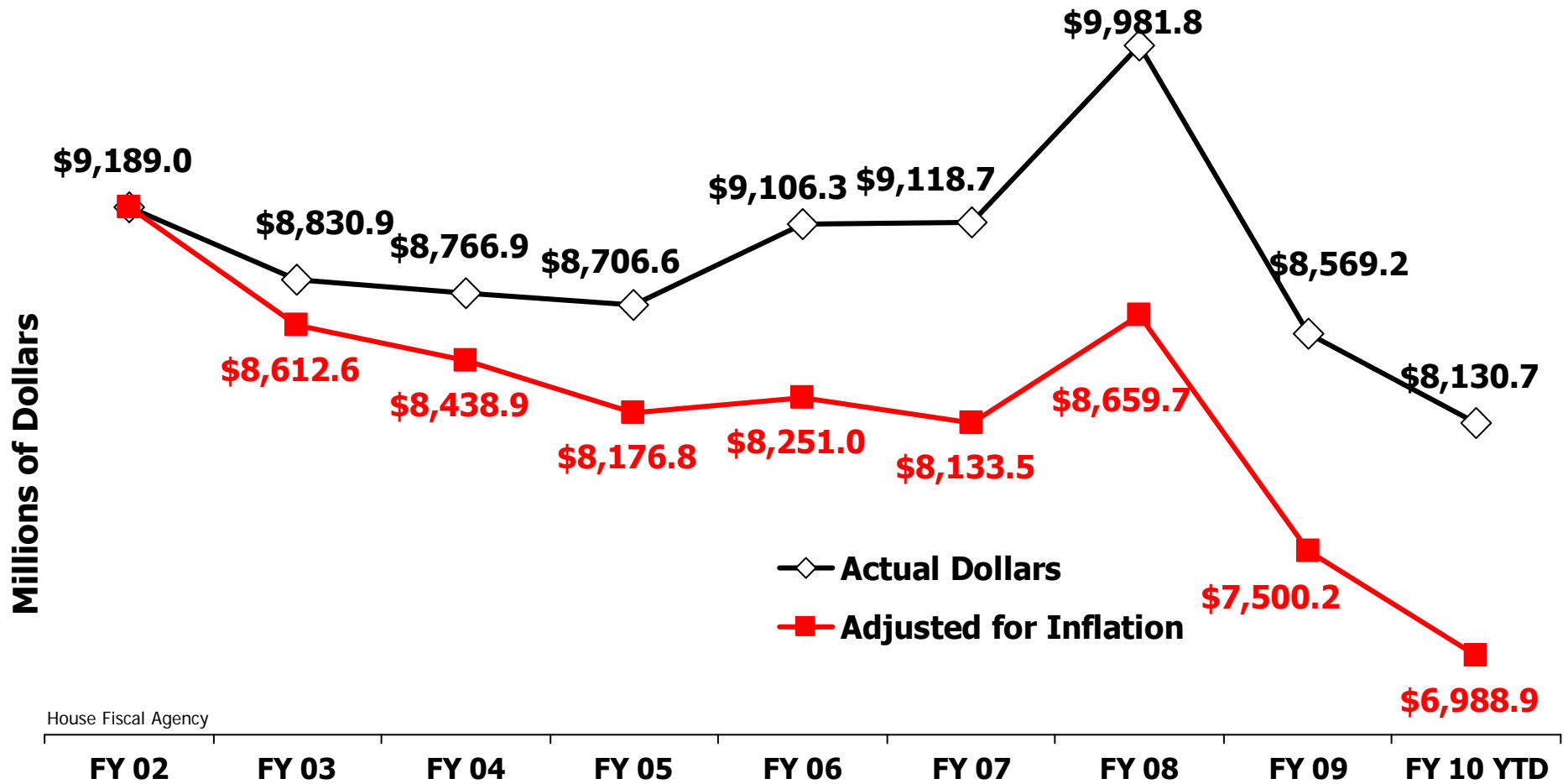
Adjusted Gross Appropriations by Fund Source

Excluding federal funds, FY 00 = FY 10 adjusted gross appropriations

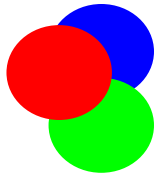




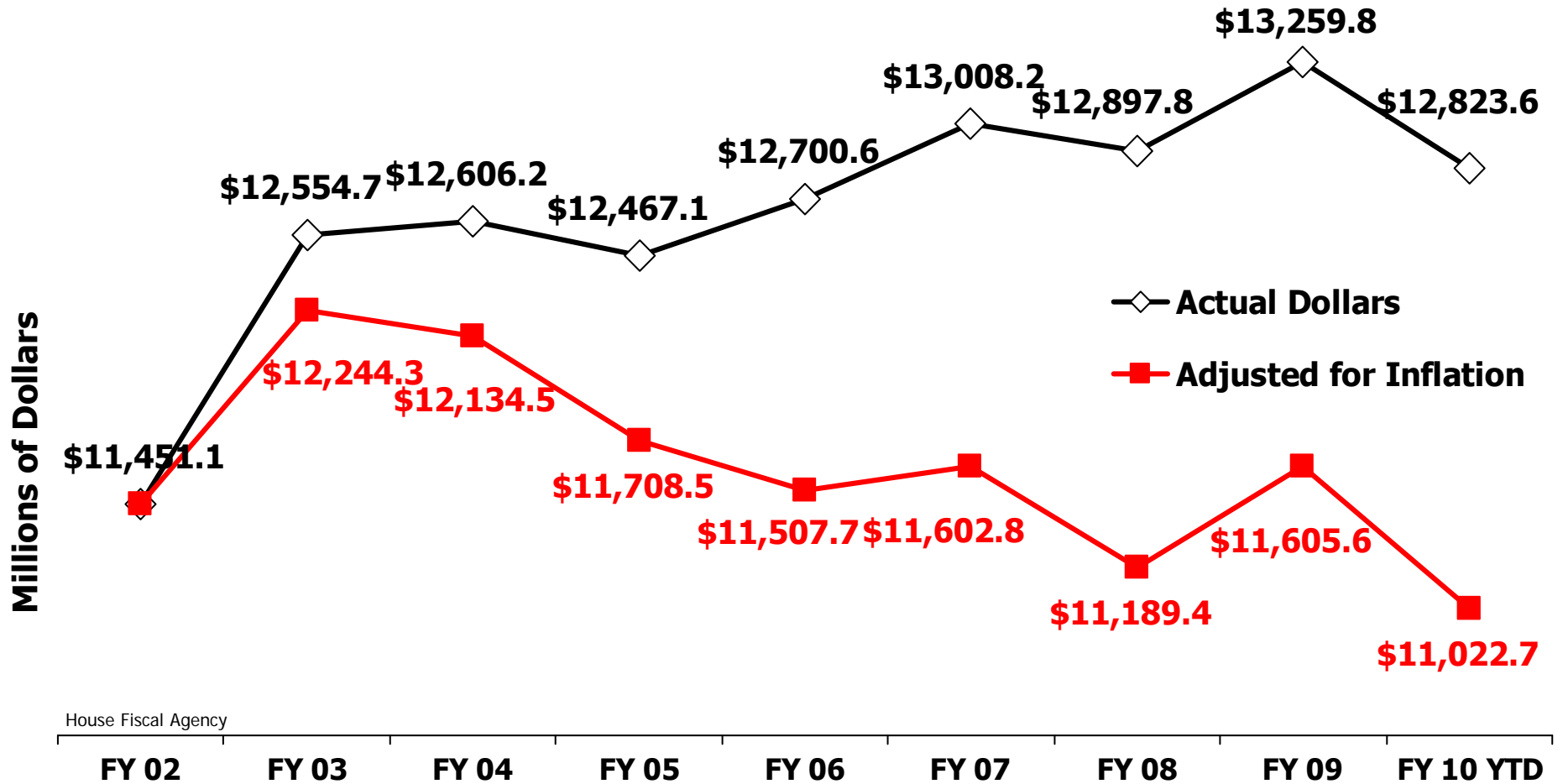
GF/GP Appropriations



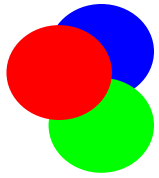
House Fiscal Agency



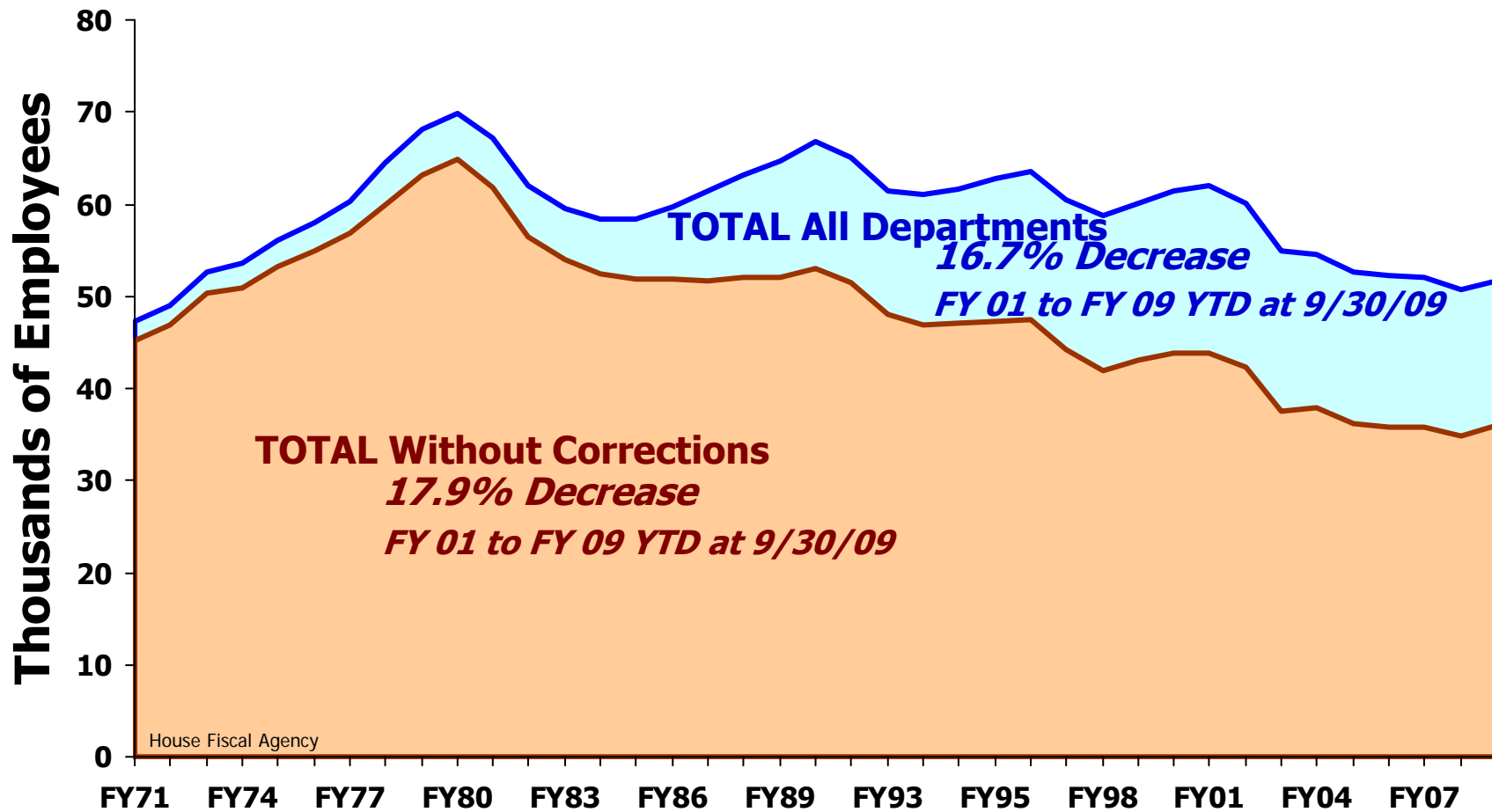
School Aid Budget Adjusted Gross Appropriations

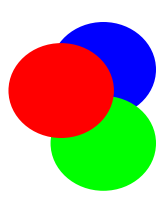


House Fiscal Agency



Average Number of Classified State Employees

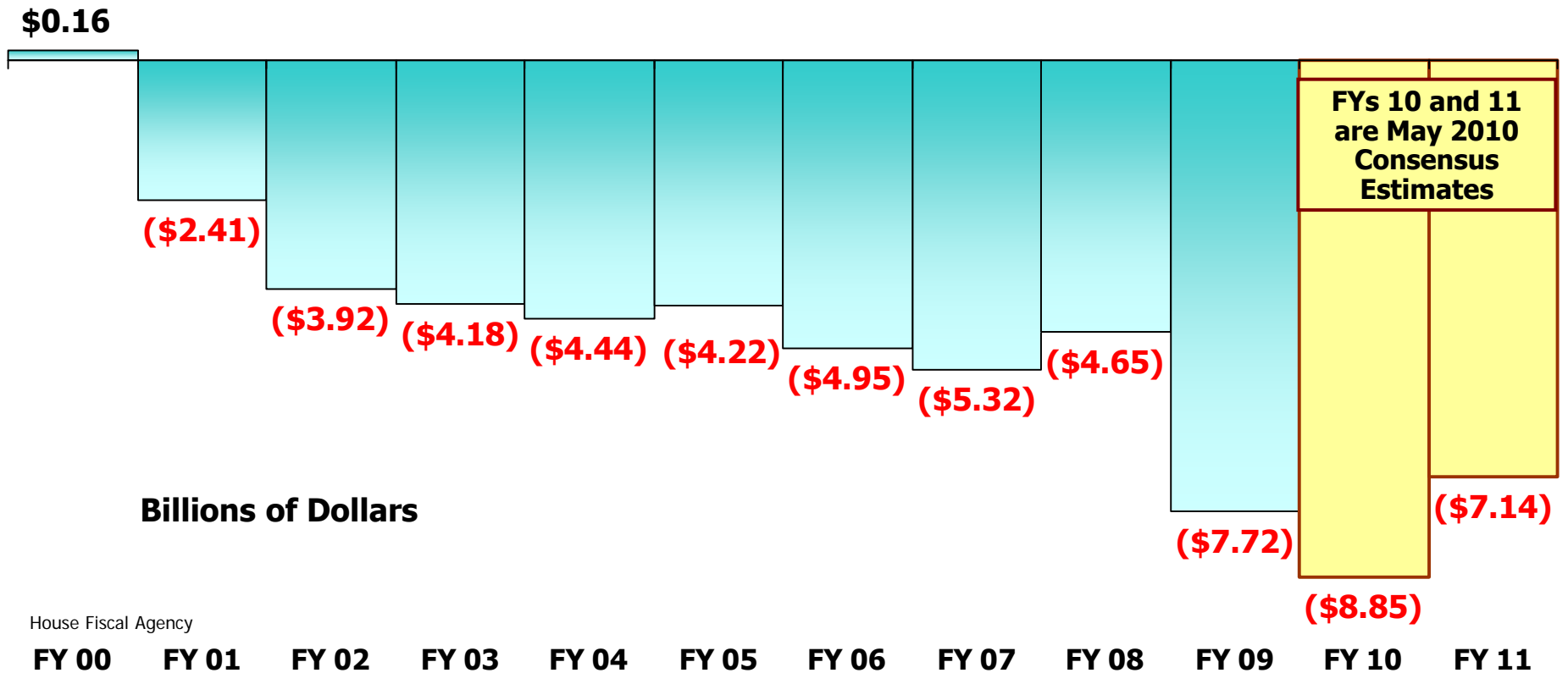




Constitutional Revenue Limit

Average growth of Michigan personal income = 1.7% per year from 2000 through 2011

Average decline of Michigan revenue = 0.5% per year from 2000 through 2011

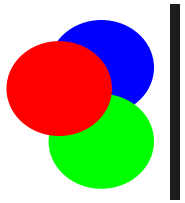


Billions of Dollars

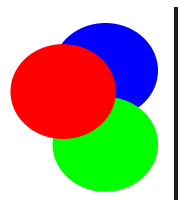
House Fiscal Agency

FY 00 FY 01 FY 02 FY 03 FY 04 FY 05 FY 06 FY 07 FY 08 FY 09 FY 10 FY 11



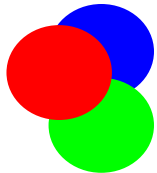


CURRENT ISSUES

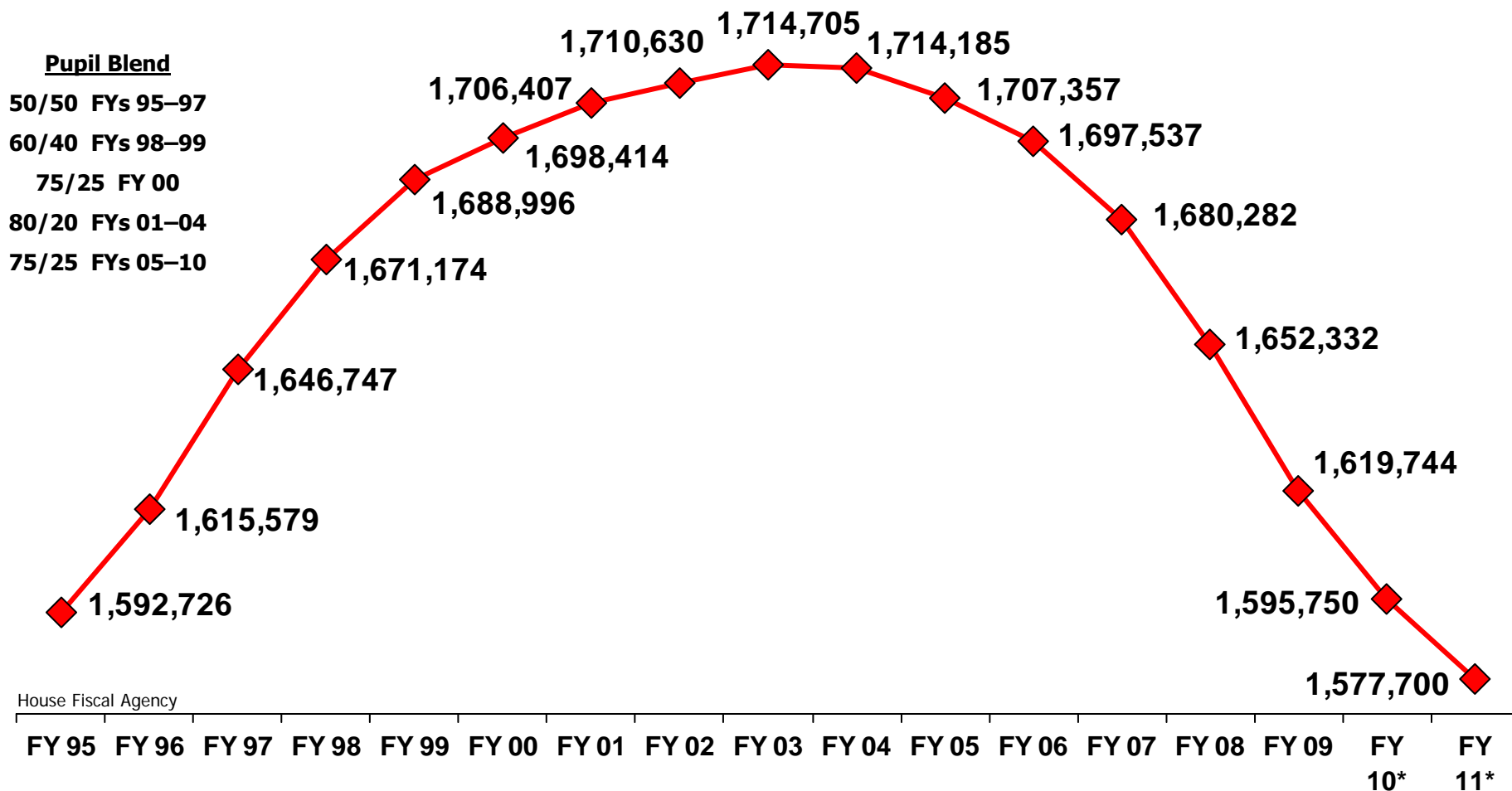


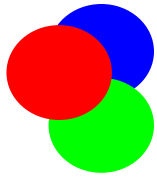
Major School Aid Issues

- **Funding levels**
- **Declining enrollment**
- **Future issues:**
 - **Retirement costs**
 - **Infrastructure financing**
 - **Local property taxes**

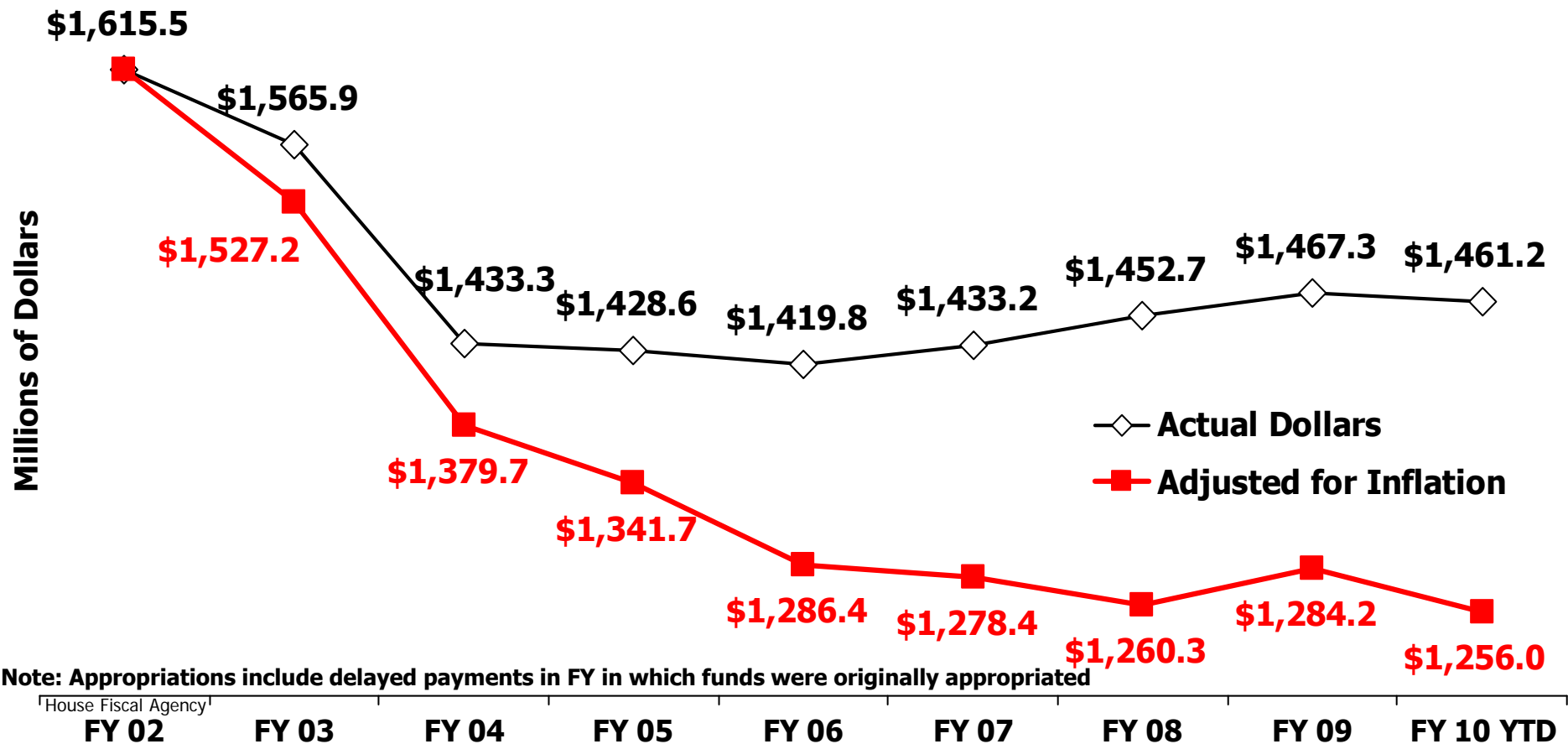


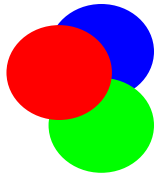
Total Membership Pupil Counts



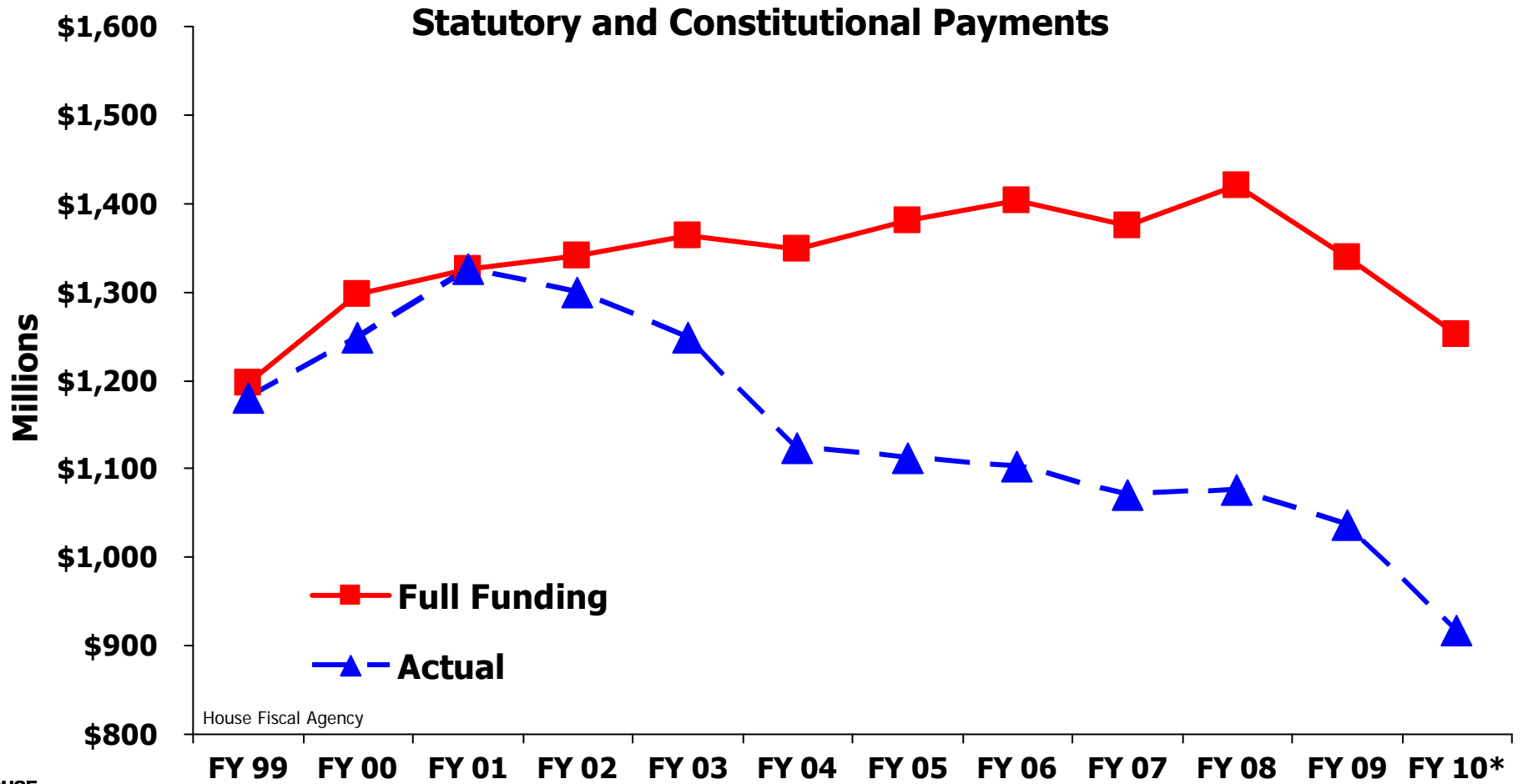


Total Appropriations for State University Operations

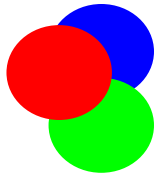




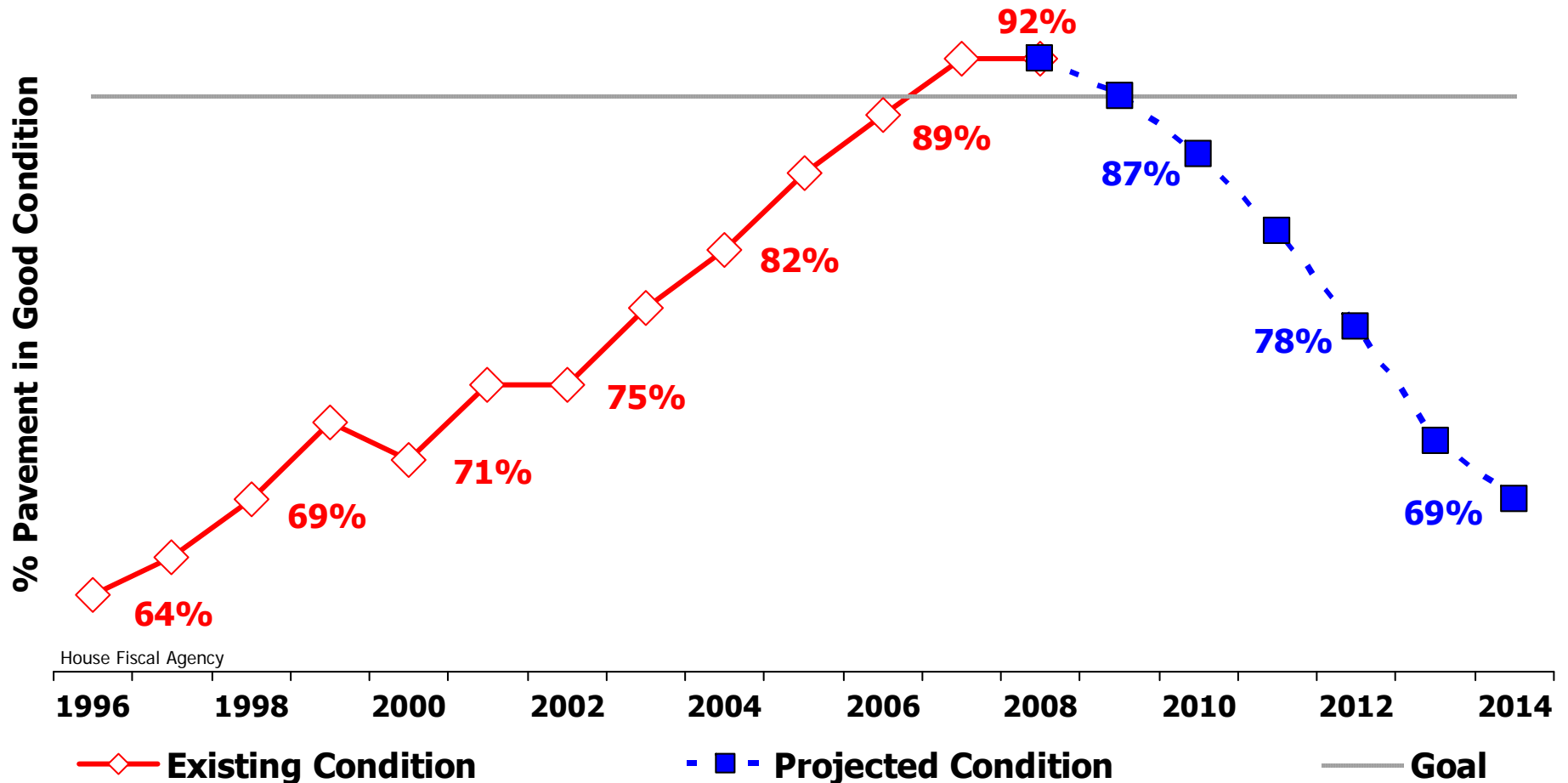
Revenue Sharing Payments to Cities, Villages, and Townships



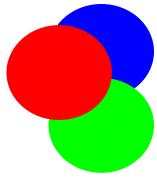
House Fiscal Agency



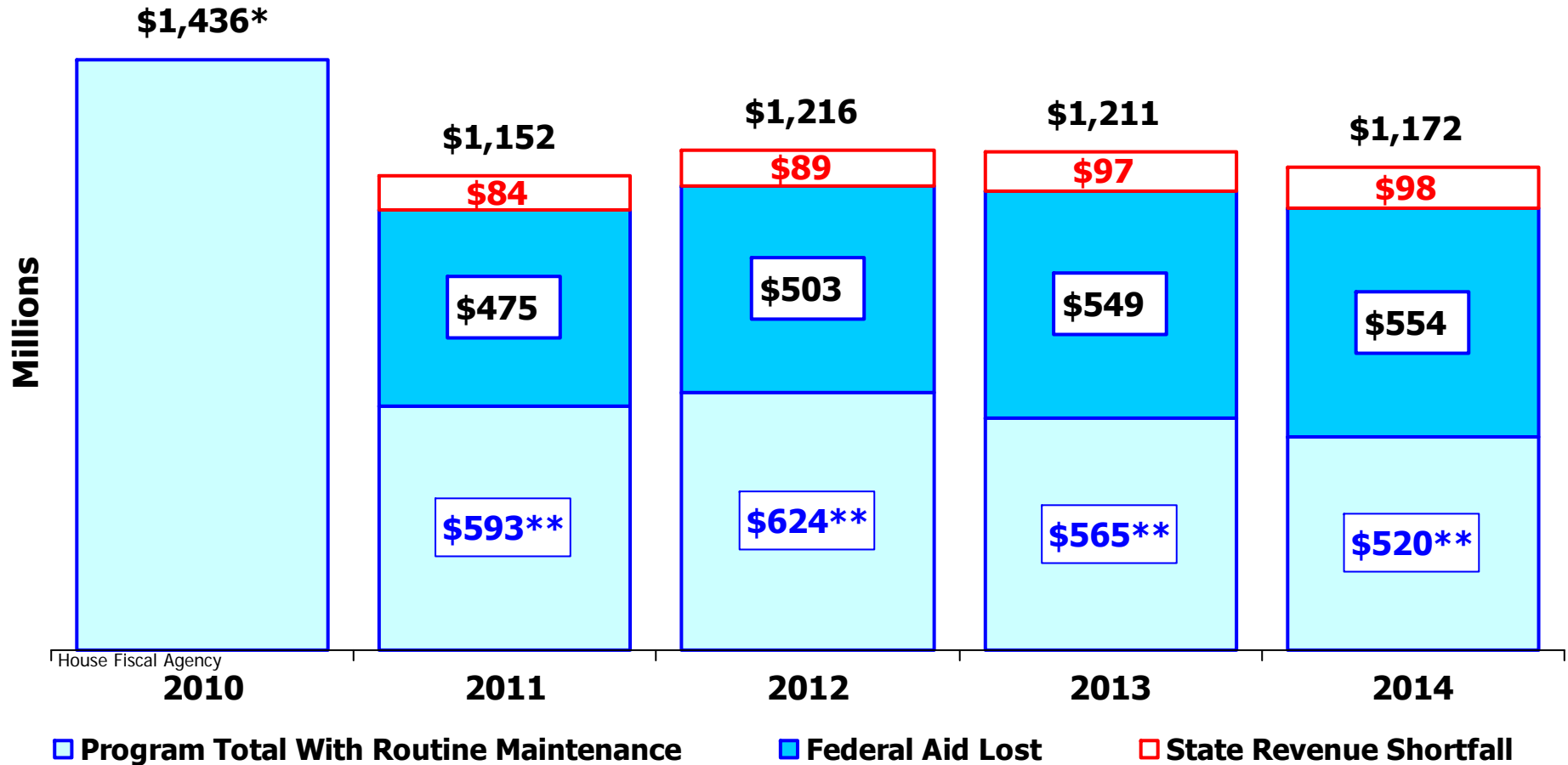
Statewide Pavement Condition Combined Freeway and Non-Freeway



House Fiscal Agency

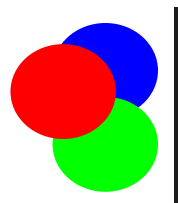


Reduced State Revenue May Lead to Loss of Federal Aid



*2010 Proposed Highway and Maintenance Capital Program with anticipated ARRA

**Estimated Resulting Program Amount (with declining state revenue and inability to match available federal aid)



Summary

- **This year, the GF/GP and SAF budgets are probably OK**
- **In FY 2011, the GF shortfall is about \$1.3 billion and the SAF shortfall is about \$415 million**
- **In FY 2012, the GF shortfall about 1.4 billion**
- **Transportation revenue shortfalls could lead to loss \$2.0 billion federal transportation funds by 2014**
- **Revenue is about \$7.1 billion below the Headlee limit in FY 2011**
- **The state economy has contracted about 3.5% since 2000 — due primarily to the restructuring of the auto industry**
- **Real GF/GP revenue is down 42% since FY 2000**
- **Real SAF revenue is down 12% since FY2000 — and 6.6% since first year of Proposal A**
- **A 3.5% contraction in the state economy doesn't fully explain revenue declines**
- **The structure of the state tax code is a real problem**

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