

# Michigan's Revenue, Economy, and Budget

Presentation for  
Michigan Association of Counties  
February 10, 2009



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House Fiscal Agency



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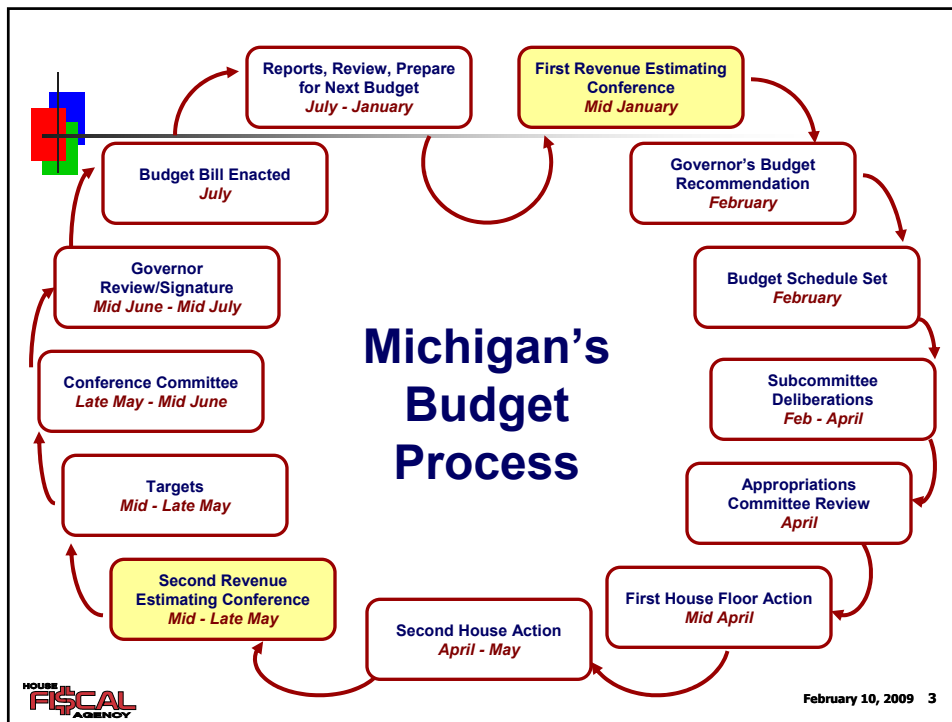


# MICHIGAN'S REVENUE ESTIMATING PROCESS



Mitchell E. Bean, Director  
House Fiscal Agency

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## Consensus Revenue Estimating Conference

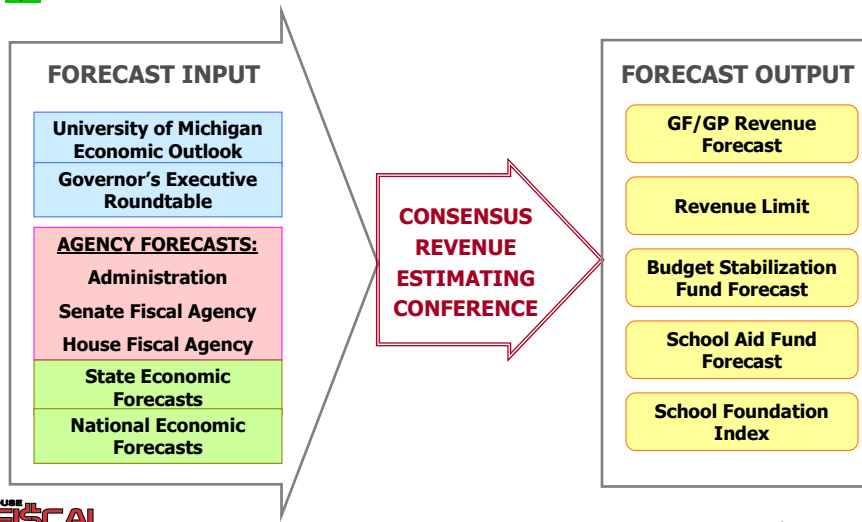
- Conferences held each January and May
  - January forecast used for Executive budget
  - May forecast used to revise Legislature's proposed budget
- Conference principals are HFA and SFA Directors and State Budget Director or Treasurer (or designees)
- Conference principals confer to reach agreement on official forecasts
- Agreement among principals **MUST BE unanimous**

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## Economic/Revenue Forecasting Process



## January 2009 Consensus Estimates

- **Consensus Economic Forecast**
  - HFA memo Table 1 provides consensus estimates of various state and national economic variables
  - Forecast indicates real gross domestic product (GDP)
    - Will decrease 1.9% in calendar year (CY) 2009
    - Will increase 1.6% in CY 2010
  - Michigan personal income forecast to
    - Decrease 1.3% in CY 2009
    - Grow 0.8% in CY 2010



## January 2009 Consensus Estimates

- **Consensus estimates of GF/GP and SAF**
  - **HFA memo Table 2 provides**
    - Preliminary final estimates for FY 2007-08 revenue
    - Revised estimates for FY 2008-09 revenue
    - Initial estimates for FY 2009-10 revenue
  - **Net GF/GP and SAF revenue is estimated to**
    - Decrease \$1,198.1 million or 5.7% in FY 2008-09
    - Decrease \$444.5 million or 2.3% in FY 2009-10



## January 2009 Consensus Estimates

- **HFA memo Table 3 provides consensus estimate for Budget and Economic Stabilization Fund (BSF) Calculation**
  - \$431.9 million withdrawal estimated for FY 2008-09
  - \$55.5 million withdrawal estimated for FY 2009-10
- **Pay-ins and withdrawals from the BSF are based on growth in real adjusted personal income (Management and Budget Act, 1984 PA 431, Section 352)**



## January 2009 Consensus Estimates

- **HFA memo Table 4 provides consensus estimate of Constitutional Revenue Limit Calculation**  
(i.e., calculations of the amounts that revenues exceed or do not exceed the constitutional state revenue limit established in Article IX, Section 26 of the Constitution of the State of Michigan)
- **Total state revenue subject to the limit is estimated to be**
  - \$6.24 billion below the limit in FY 2008-09
  - \$7.35 billion below the limit in FY 2009-10



## January 2009 Consensus Estimates

- **HFA memo Table 5**
  - **Reports calculations used to determine**
    - **FY 2009-10 revenue adjustment factor, which is 0.97660**
    - **FY 2009-10 pupil membership adjustment factor, which is 1.0185**
  - **Provides consensus estimates of pupil membership for FY 2008-09 and FY 2009-10, and notes changes from May 2008 estimate**
- **Revenue adjustment factor is multiplied by pupil membership adjustment factor to determine the increase/decrease in the per pupil foundation allowance, (School Aid Index) which is 0.9947 or 0.53%**



# U.S. AND MICHIGAN ECONOMIC FORECAST



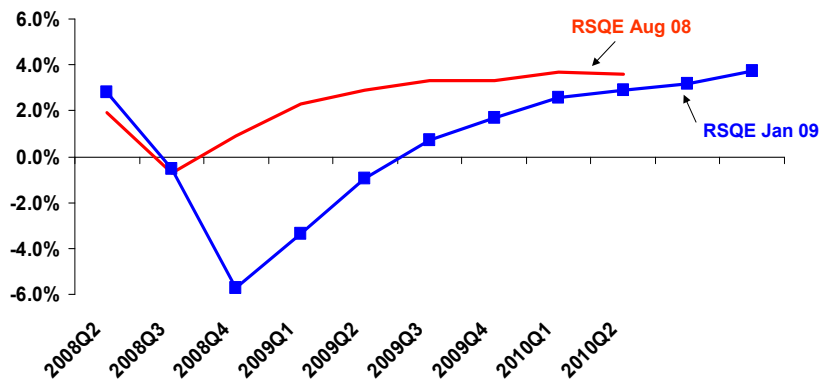
Mark P. Haas, Chief Deputy Treasurer  
State of Michigan

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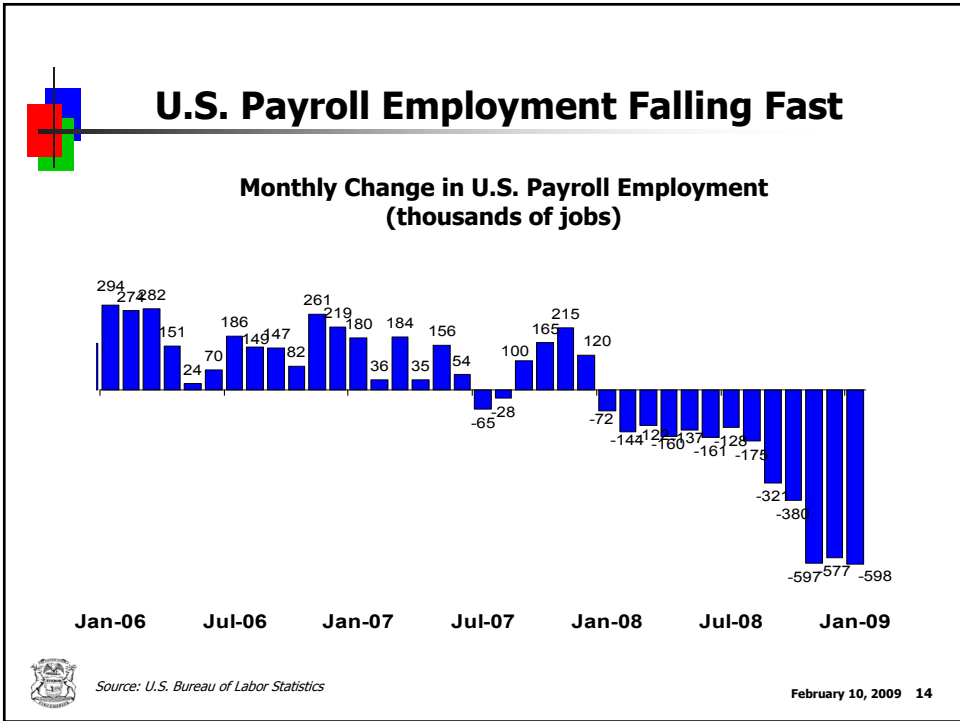
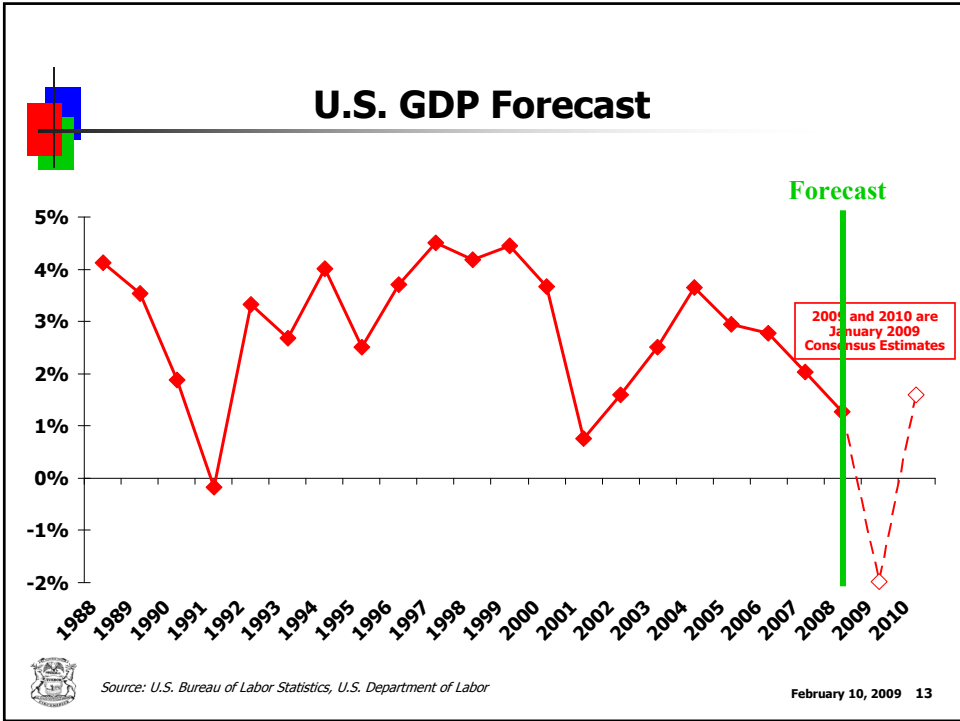
## Financial Crisis Making Downturn Deeper and Longer

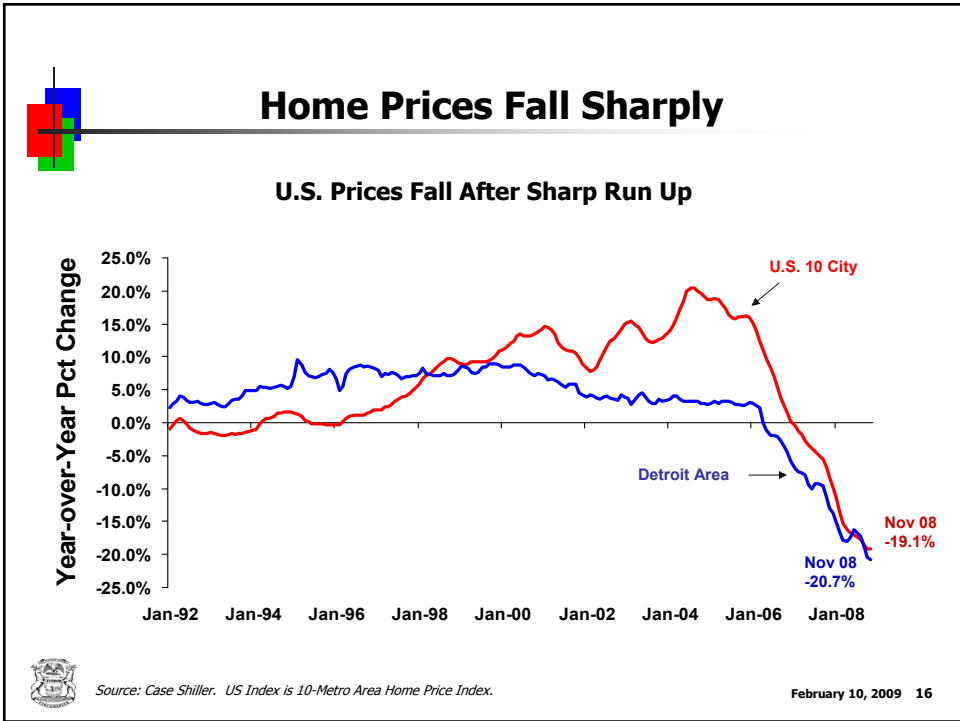
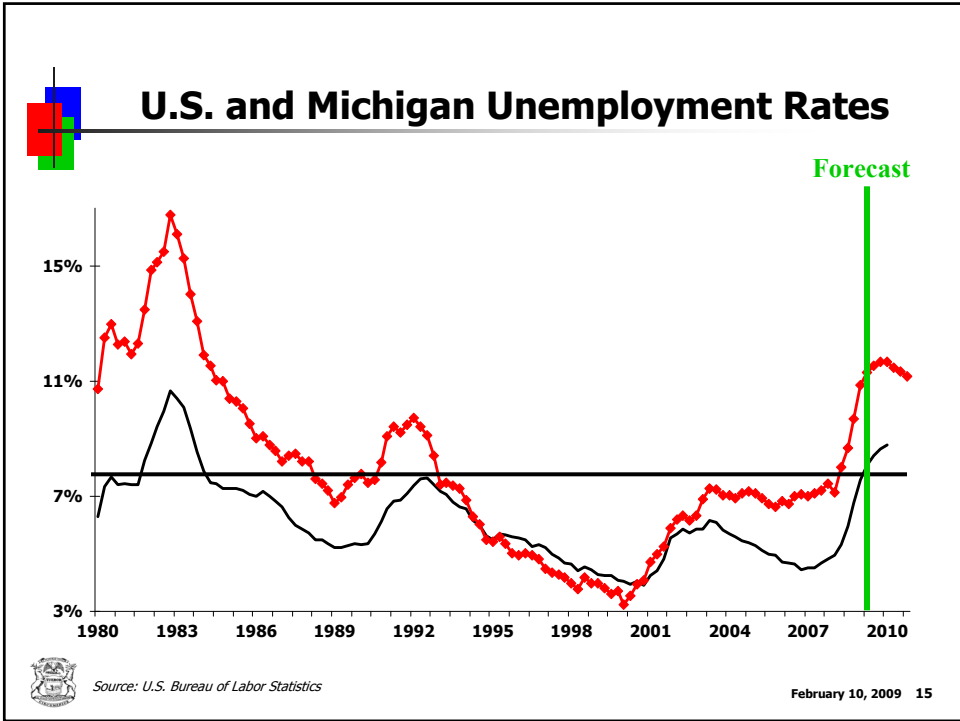
University of Michigan Forecast for GDP Growth



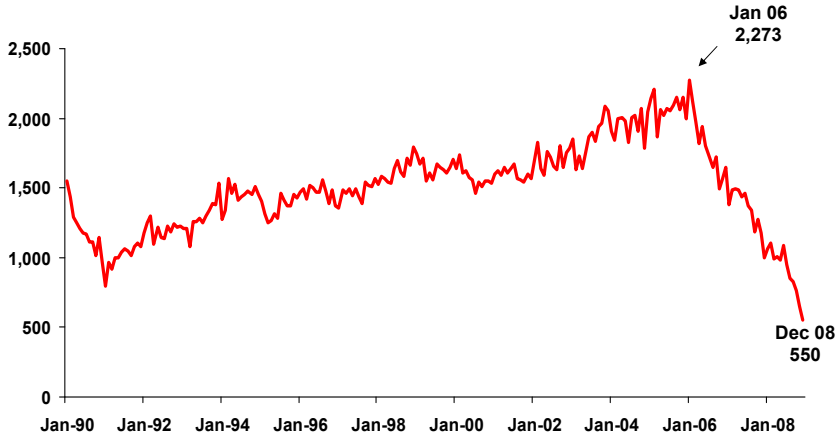
Source: University of Michigan RSQE

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## Record Low U.S. Housing Starts Down 76% from Peak



Source: New Privately Owned Housing Units Started (thousands), U.S. Dept of Commerce

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## Michigan Home Building Falls Precipitously

### New Private Housing Units Authorized in Michigan

Year	Detroit PMSA	Ann Arbor	Grand Rapids	Lansing	Total
2004	22,990	2,708	6,886	2,206	54,721
2005	17,326	1,676	5,826	2,121	45,328
2006	9,592	775	4,278	1,231	29,191
2007	4,376	401	1,849	674	18,690
2008 *	2,633	250	1,105	251	10,623



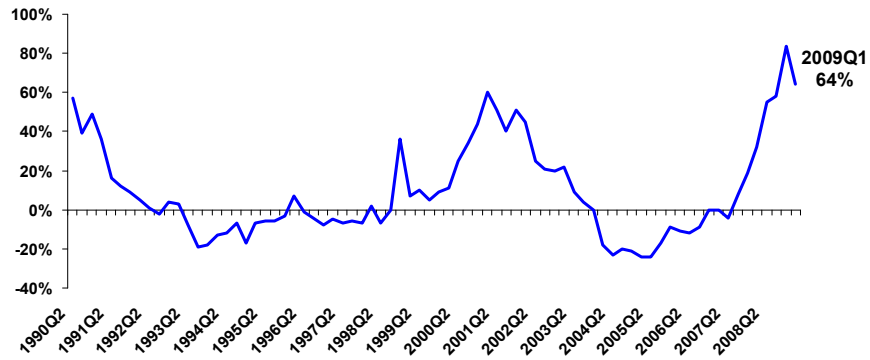
Source: U.S. Department of Commerce, U.S. Census Bureau. \* 2008 is preliminary.

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## Bank Credit Remains Tight

### Percentage of Respondents Tightening Lending Standards to Businesses

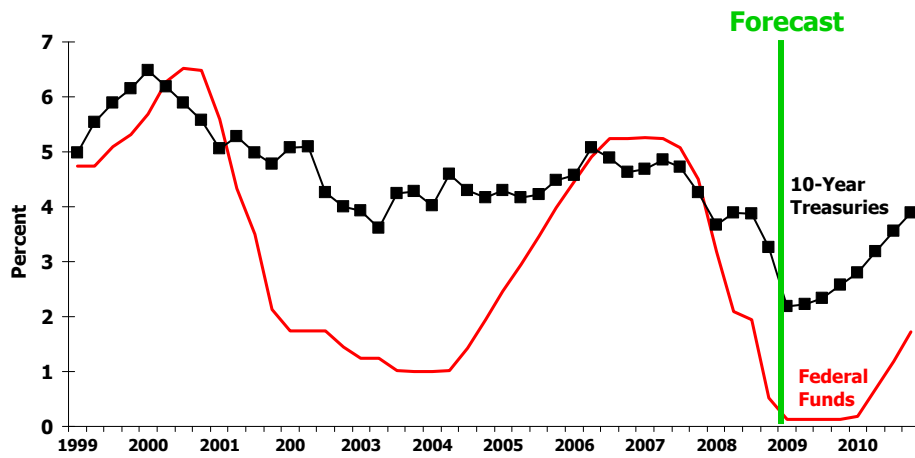


Source: Senior Loan Officer Opinion Survey, Federal Reserve System, Board of Governors.  
Survey response is for loans to large and medium businesses

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## Interest Rates



Source: IHS Global Insight, January 2009

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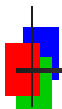
## Stock Market Hammered in Fall 2008

**S&P 500 Dropped 41 Percent in Less Than 3 Month  
Still Down 32 Percent from Early September**



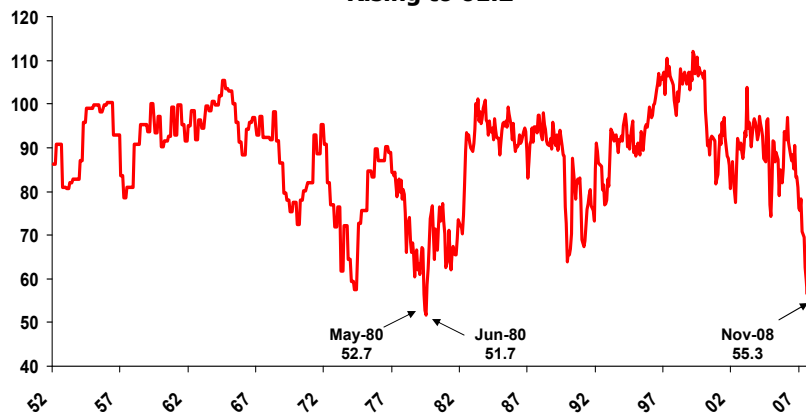
Source: [freelunch.com](http://freelunch.com)

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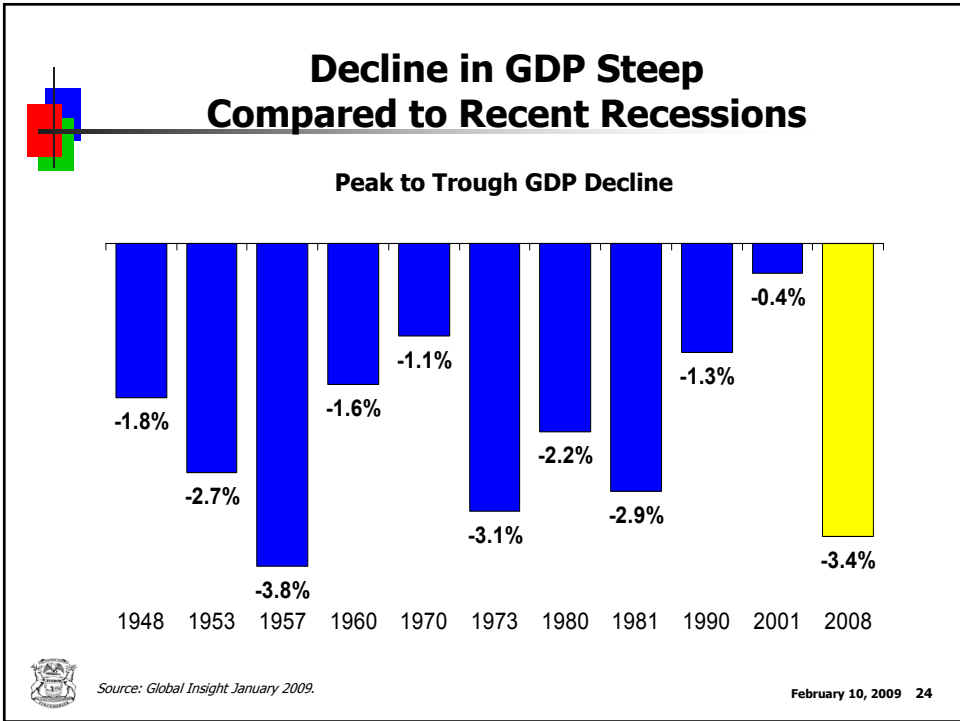
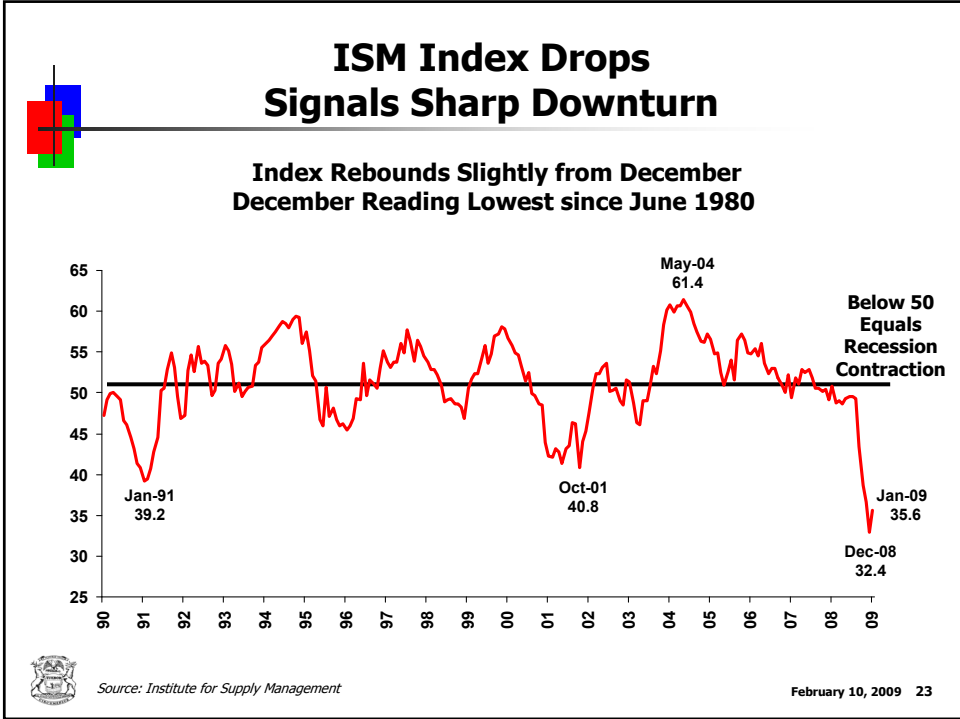
## November Consumer Sentiment 3<sup>rd</sup> Lowest on Record

**Rebounds Modestly in December and January  
Rising to 61.2**



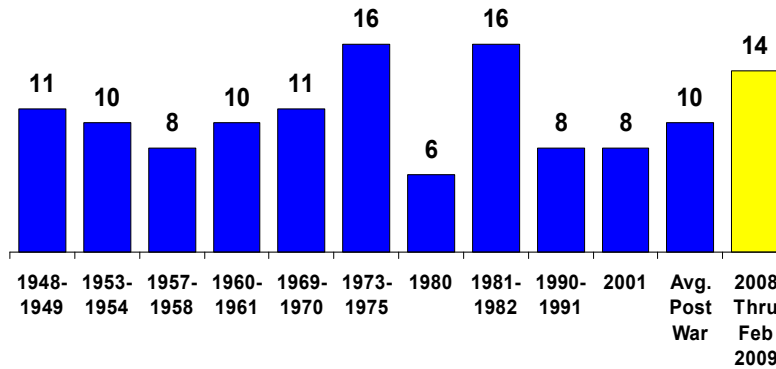
Source: University of Michigan, Survey Research Center

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## Downturn Among Longest U.S. Recessions

Number of Months from Peak to Trough  
U.S. Recessions



Source: National Bureau of Economic Research.

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## One for the Record Books

### Calendar 2009 Estimate

	January		Comments
	April 2008 Forecast	2009 Forecast	
Light Vehicle Sales (millions)	15.2	10.3	1982: 10.5 million
Oil (West Texas) \$ per barrel	\$84.17	\$34.25	Lowest Since 2003
Housing Starts (million units)	1.131	0.604	Lowest Back to 1959
US Unemployment Rate	5.8%	8.5%	Highest Since 1983
US Payroll Employment (% chg)	0.4%	-2.6%	Lowest Since 1958
US Personal Income (% chg)	3.6%	0.8%	Lowest Since 1949



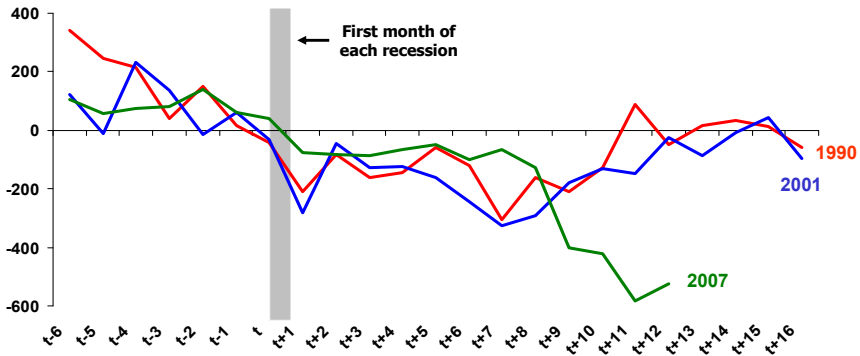
Source: Estimates Compare April 2008 and January 2009 Global Insight Forecasts

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## U.S. Labor Market Follows Severe Recession Script



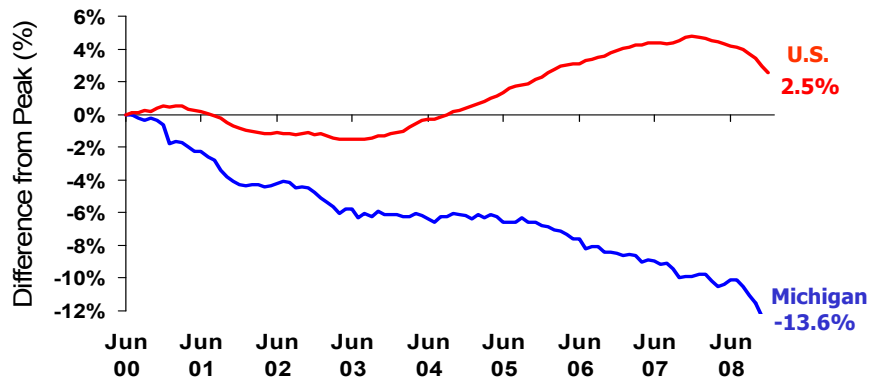
Nonfarm Payroll Change, thousands



Source: Bureau of Labor Statistics based on Economy.Com graph

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## Michigan Employment Never Recovered in Past Expansion



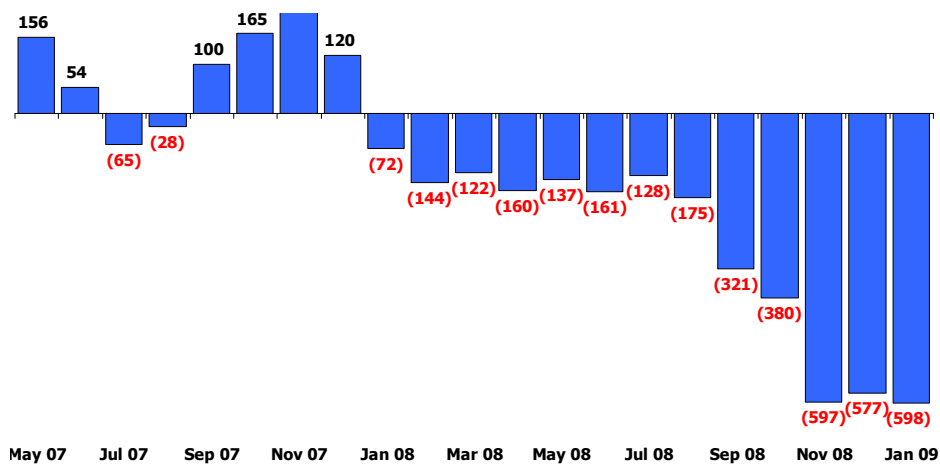
Note: Peak is calculated from Michigan's June 2000 Peak. Data through December 2008.



Source: Bureau of Labor Statistics

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## U.S. Economy Has Lost 2.5 Million Jobs in Five Months



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

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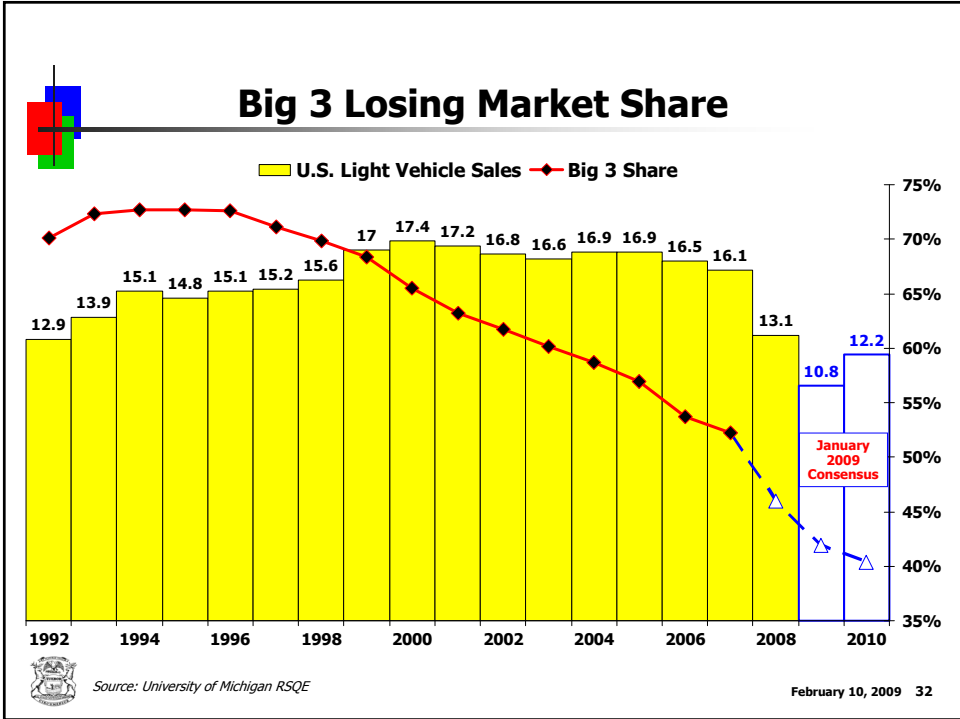
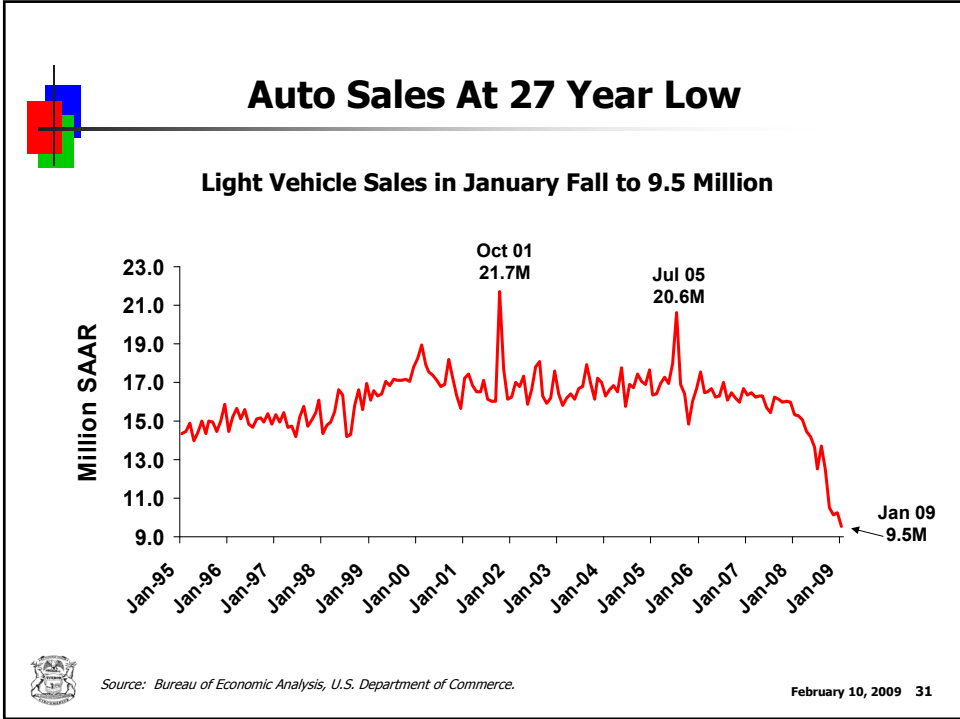
## Employment Location Quotients by Industry: Michigan 2006

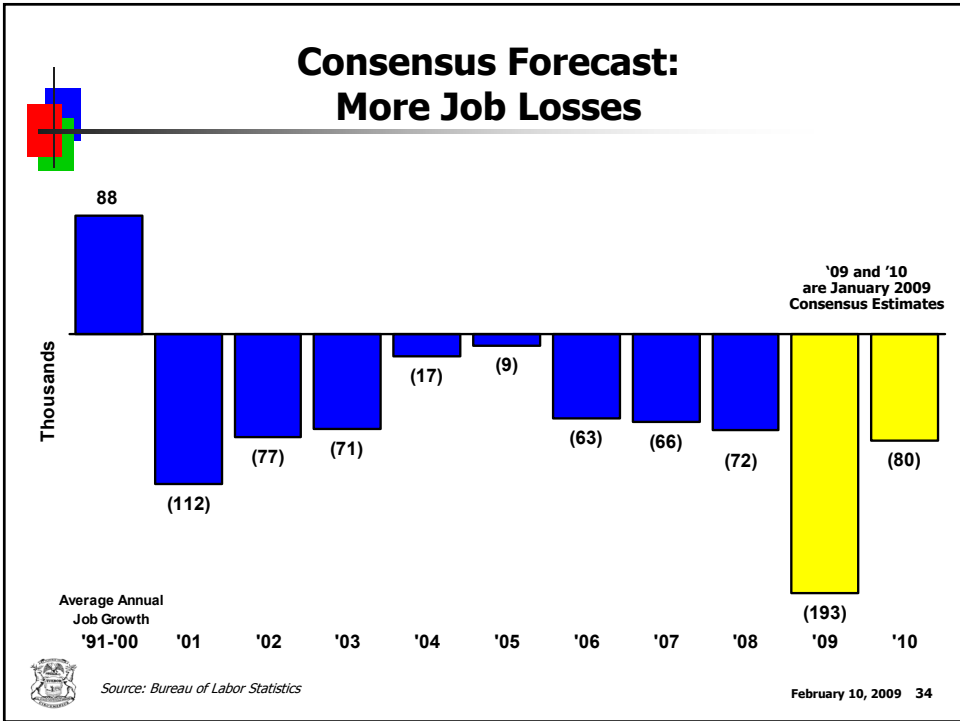
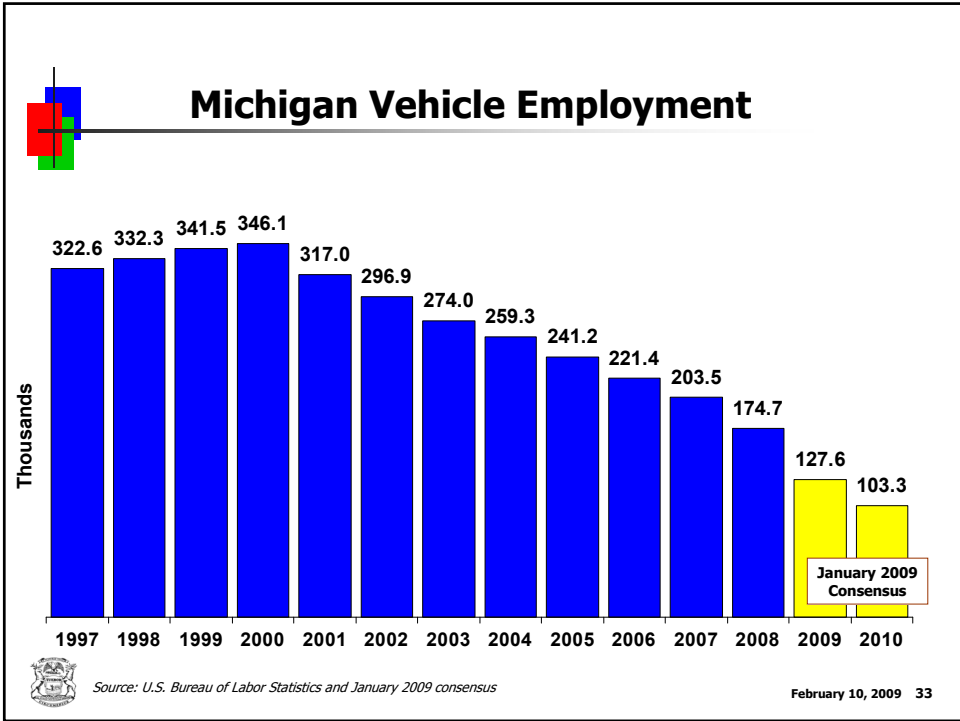
<u>Industry</u>	<u>Location Quotient</u>
Automobile, light truck, and parts manufacturing	7.15
Detroit 3 vehicle and parts manufacturing (end of 2005)	12.29
Manufacturing except autos and parts	1.05
Private non-manufacturing	0.95



Source: University of Michigan RSQE

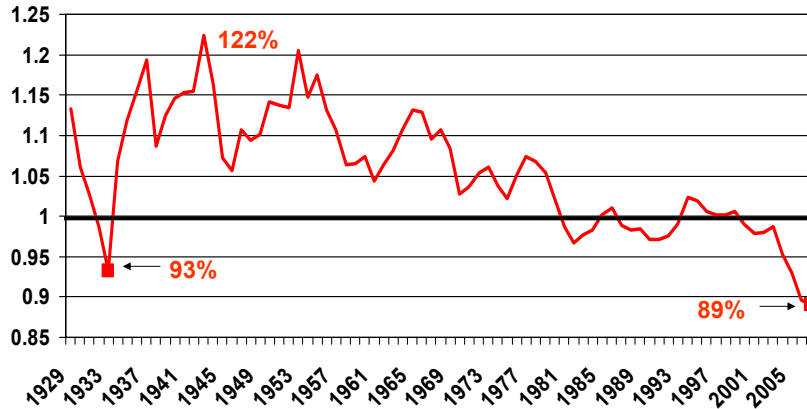
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## Michigan Personal Income Falling Relative to U.S.

Michigan per Capita Income as a Percent of U.S. Per Capita Income



Source: Department of Treasury calculations from Bureau of Economic Analysis data.

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## Growing and Declining Industries in Michigan: 2002 – 2007

Industry employment change:

Growing Industry Employment	204,923	<b>\$36,095</b>
Declining Industry Employment	(403,920)	<b>\$49,996</b>
Stable Industry Employment	<u>15,649</u>	<b>\$40,355</b>
<b>Net Job Loss</b>	<b>(183,348)</b>	

Average Wage 2007



Source: University of Michigan RSQE

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## Local Governments Facing Similar Budget Problems

- Revenue from State and Federal sources not growing.
- Property tax revenue growing slower.
- Spending pressures increasing.
- Difficult to downsize.



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## Overall Michigan Property Value Growth Slowing

### Yearly Percent Change

	<u>Inflation Rate</u> Multiplier for <u>Property</u>	<u>Total SEV</u> <u>Growth</u>	<u>Total</u> <u>Taxable Value</u> <u>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%	-1.3%	1.4%
2009 est.	4.4%	NA	-3.5%
2010 est.	1.2%	NA	-2.0%



Source: State Tax Commission and January 2009 Consensus Conference.

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## **Business Failures Hurt Local Governments**

- **Five Townships issued bonds to provide water and sewer for development projects.**
- **Developers bankrupt as economic downturn stopped work on development projects.**
- **Developers unable to pay property taxes needed by locals to pay debt service on bonds.**
- **Debt service equal to one-half of five townships' annual operating budget.**



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## **Questions to Ask Yourself**

- **How many local units in this fiscal position?**
- **What is your plan to assist them?**
- **Do they need help from the Treasury Rapid Response Team (TRRT)?**
- **If so, please call (517) 373-8562.**



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## Cash Flow Problem Possible

- **Financial market turmoil reducing credit availability.**
- **Economic downturn reduces revenue, which affects cash flow.**
- **Some states and local governments unable to secure cash flow financing.**
- **Possible problem with delinquent property tax borrowings.**



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## What Ends the Recession

- **High oil and gasoline prices helped create the recession; declining prices now acting as a stimulus.**
- **Massive federal intervention into financial markets prevented complete financial collapse.**
- **Significant federal stimulus anticipated of as much as \$1 trillion over two years including aid to states and local governments.**
- **Time will also help heal the U.S. economy as individual people and businesses get their balance sheets in order.**

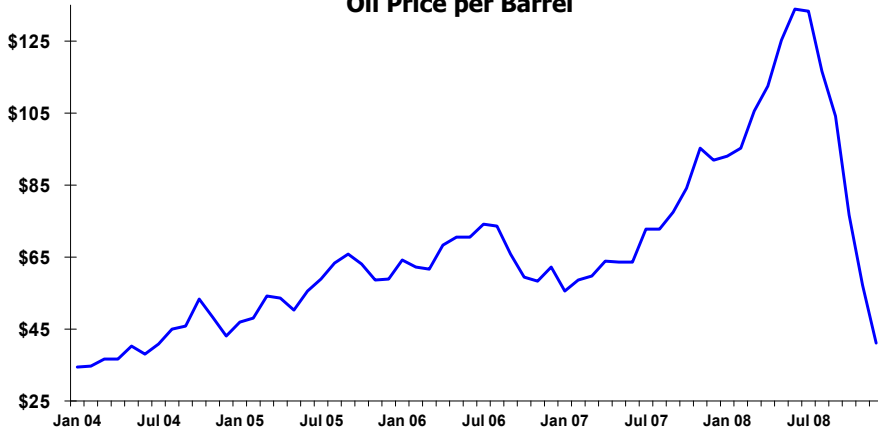


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## Dramatic Oil Price Decline Will Help U.S. Economy



West Texas Intermediate Crude  
Oil Price per Barrel



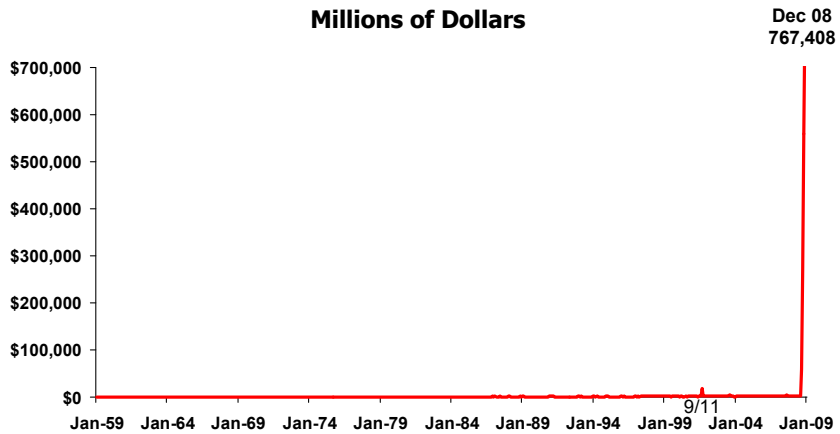
Source: Energy Information Administration

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## Total Excess Bank Reserves Spike Upward



Millions of Dollars



Source: Federal Reserve Board H.3 release. Total Reserves minus Required Reserves (NSA).

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## Obama's Stimulus Package Key Elements

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- **Extend Unemployment Insurance Benefits**
- **Individuals Tax Cuts**
- **Business Tax Cuts**
- **Infrastructure Spending**
- **Mortgage Reform**
- **Monies to state and local governments**



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## Conclusion

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- **U.S. in worst recession in decades.**
- **Lower oil prices, financial bailout, government stimulus, and time will eventually end recession.**
- **Michigan has been in a long-term recession due to auto sector.**
- **Michigan recovery will require U.S. recovery and stability in the auto sector.**



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**CONSENSUS REVENUE ESTIMATES  
YEAR-END BALANCE ESTIMATES  
FEDERAL STIMULUS PACKAGE**



**Gary S. Olson, Director  
Senate Fiscal Agency**

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