

Michigan Economic and Budget Outlook

Robert Kleine
State Treasurer

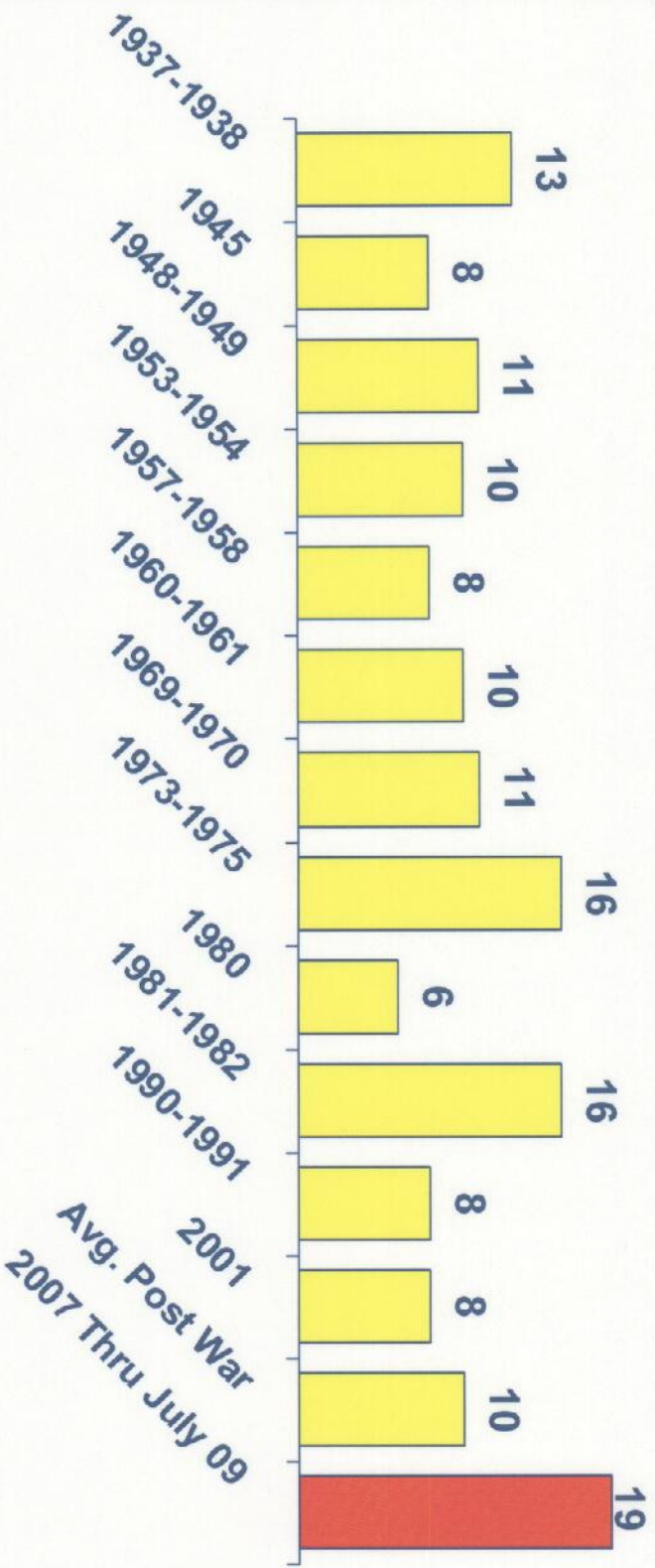
January 26, 2010



U.S. Economic Developments

Current Recession Longest Since Great Depression

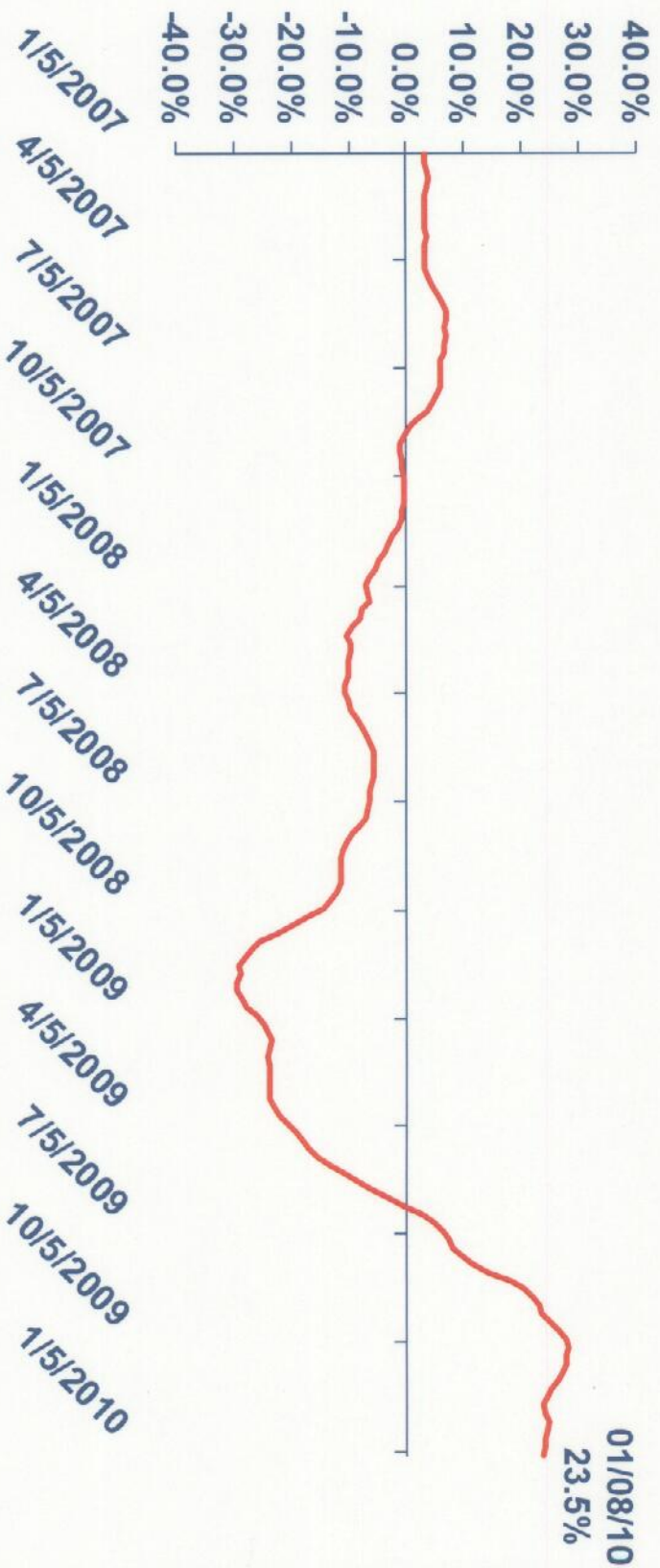
Number of Months from Peak to Trough
U.S. Recessions



Source: NBER, Assumes recession ends beginning of 3rd quarter 2009.

Leading Indicators Point to National Recovery

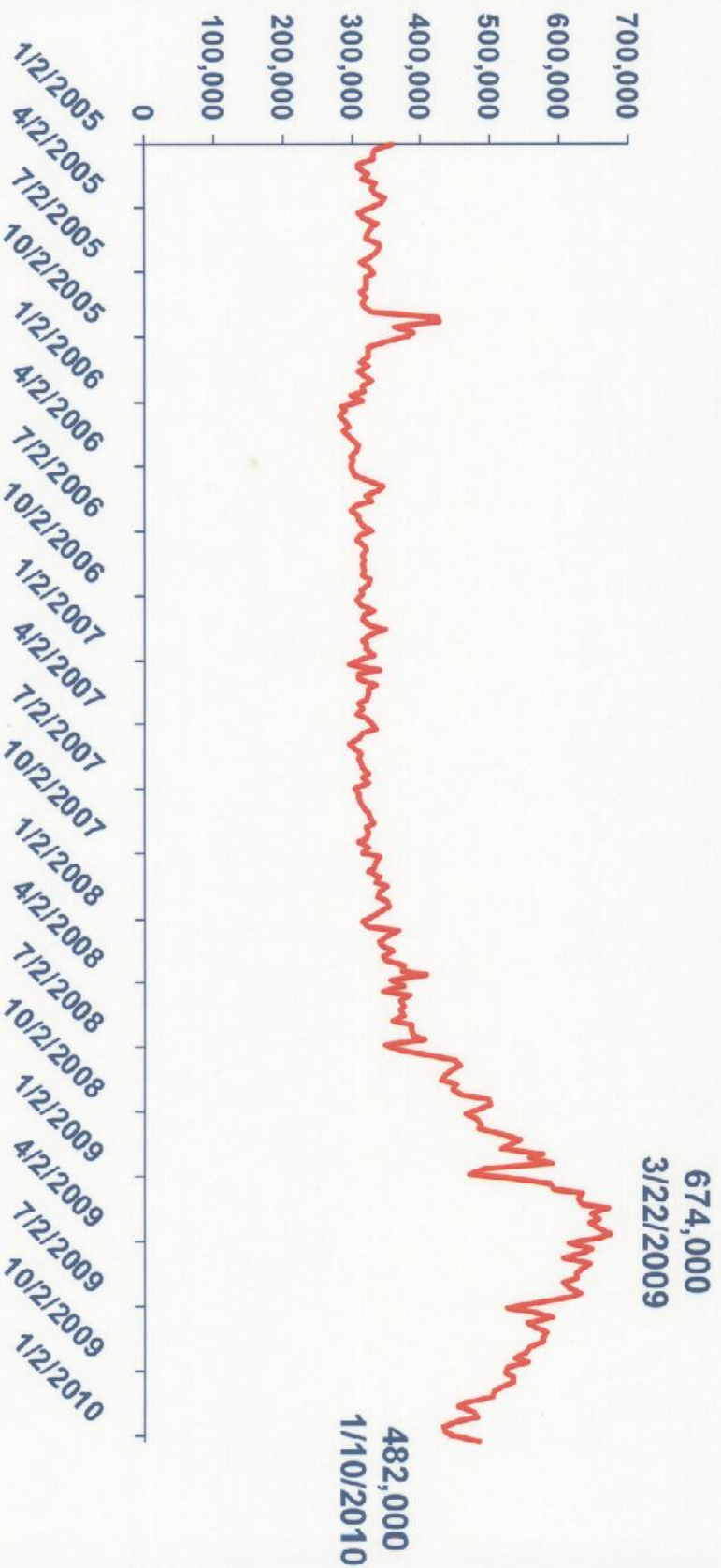
Weekly Leading Index, Smoothed Annual Growth Rate



Source: Economic Cycle Research Institute.

Unemployment Claims Lower than Last Year

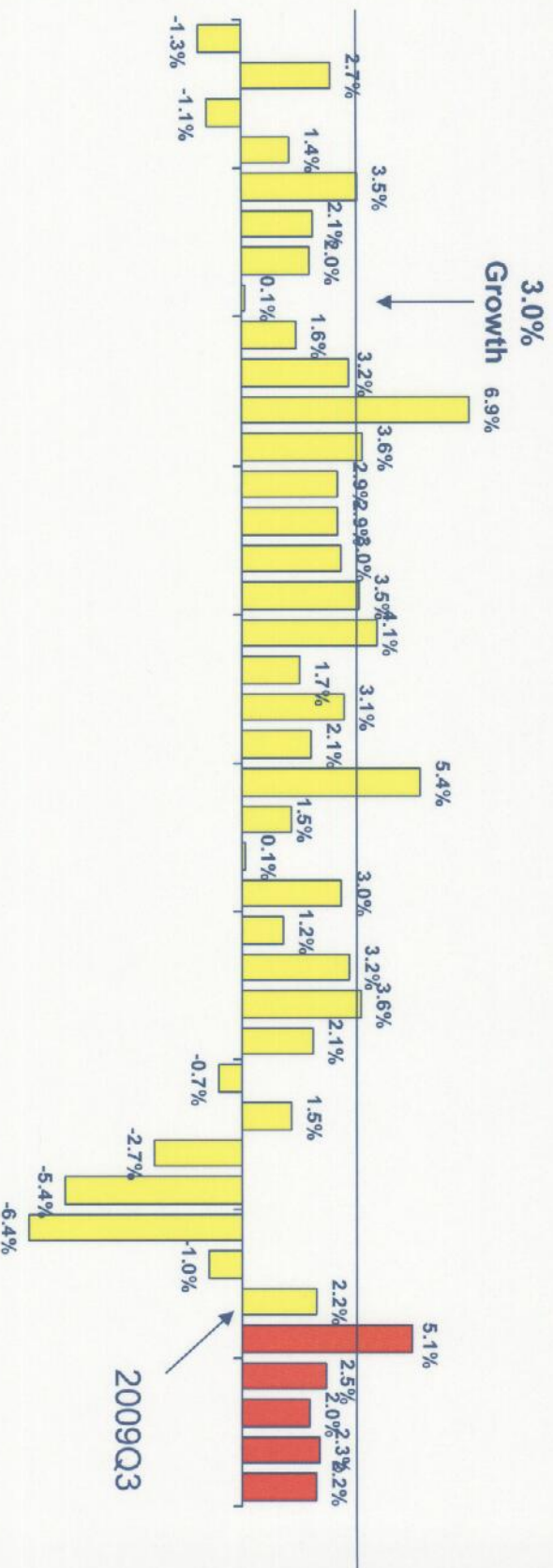
Initial Claims for Unemployment Benefits



Source: Employment and Training Administration

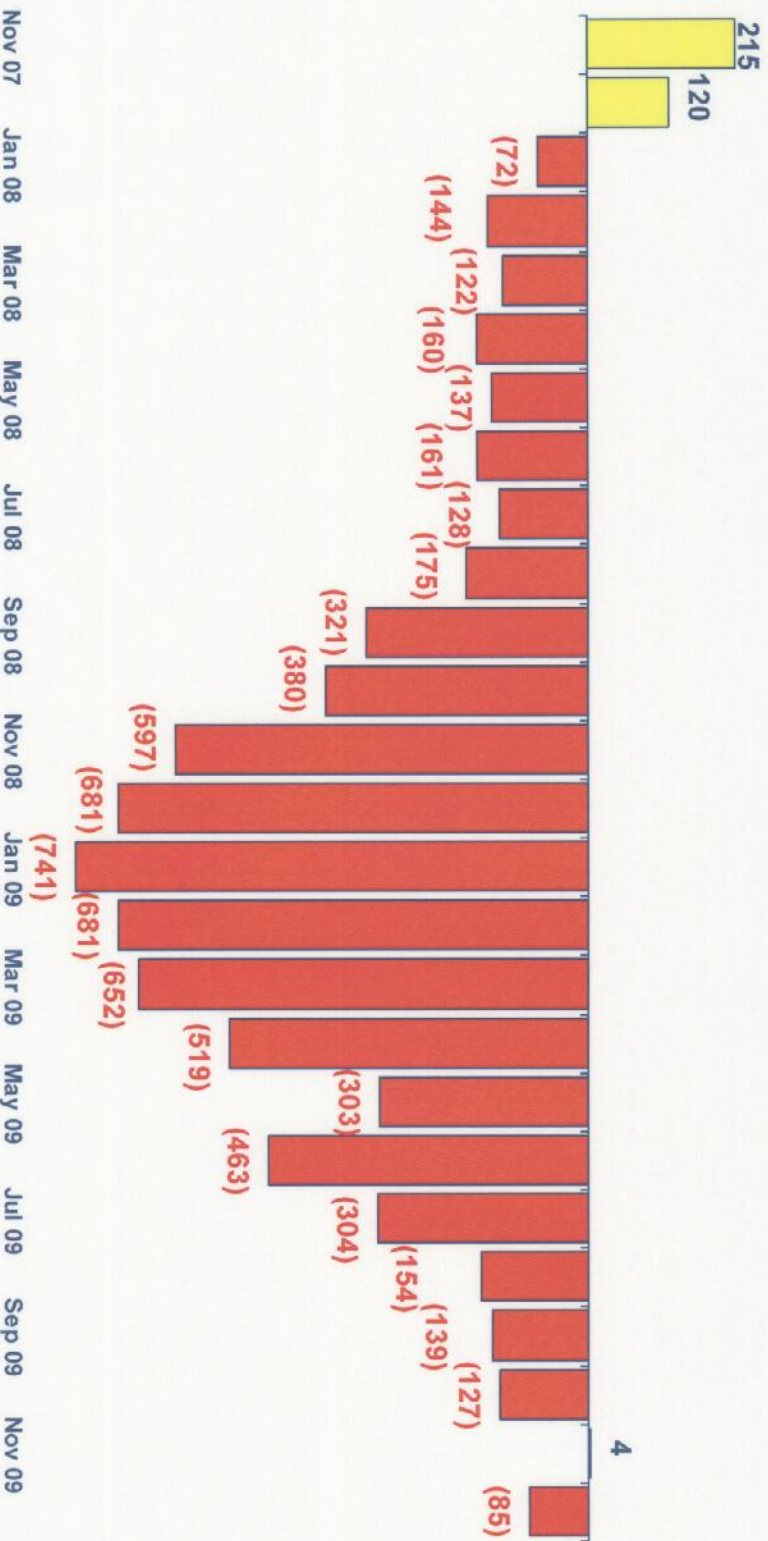
Recovery Observed in 3rd Quarter 2009

Real GDP Growth



Figures are annualized percent change from preceding quarter in 2005 chained dollars.
 Source: Bureau of Economic Analysis. Forecast quarters in red are the January 2010 Global Insight forecast.

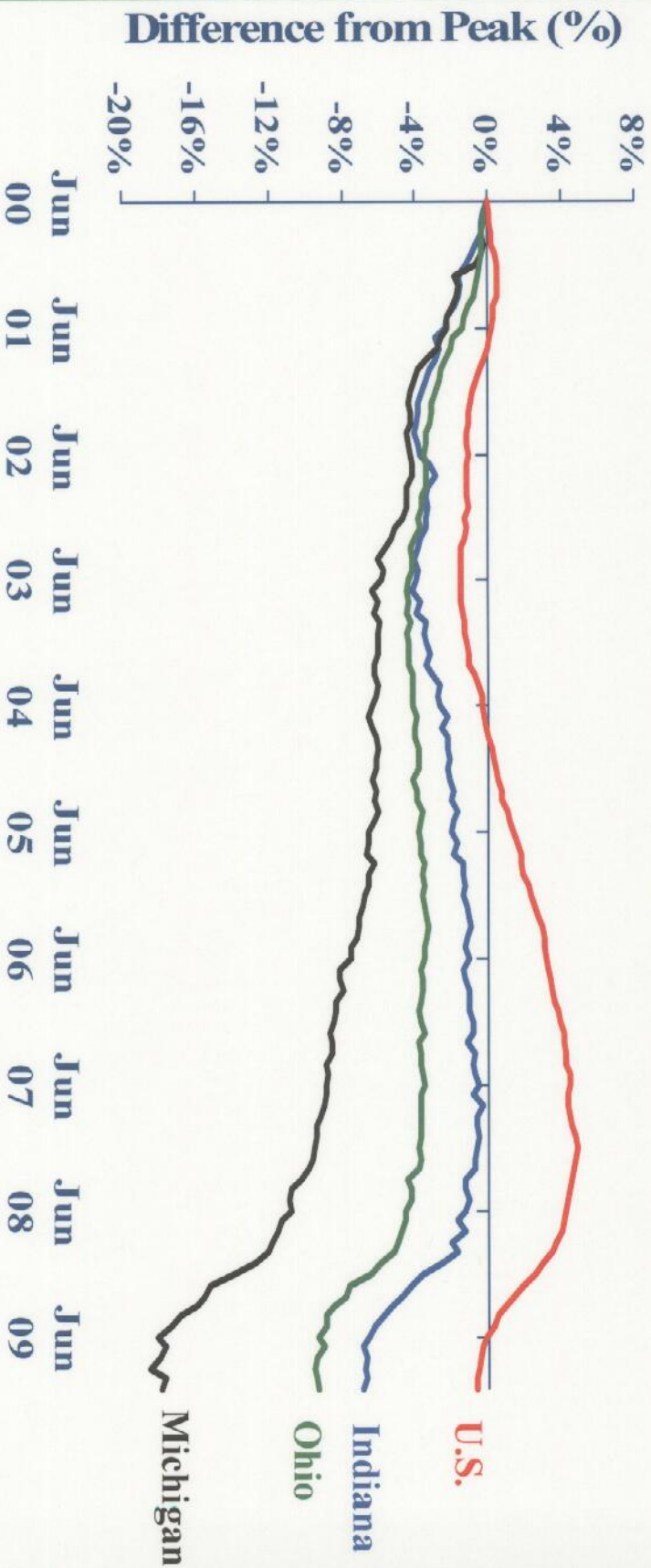
U.S. Has Lost 7.2 Million Jobs Since December 2007



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

What about Michigan?

Michigan Employment Never Recovered in Past Expansion

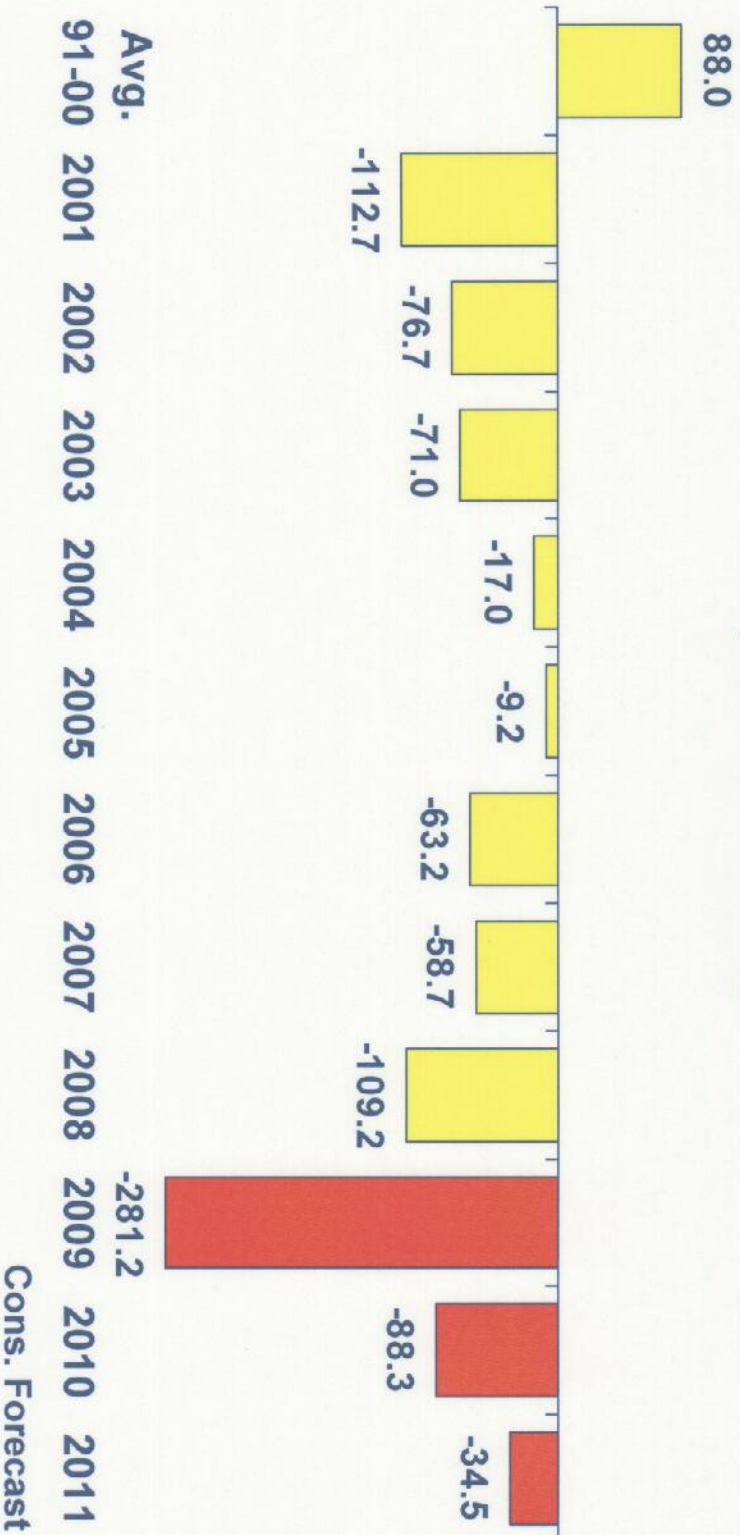


Note: Peak is calculated from Michigan's June 2000 Peak.

Source: Bureau of Labor Statistics

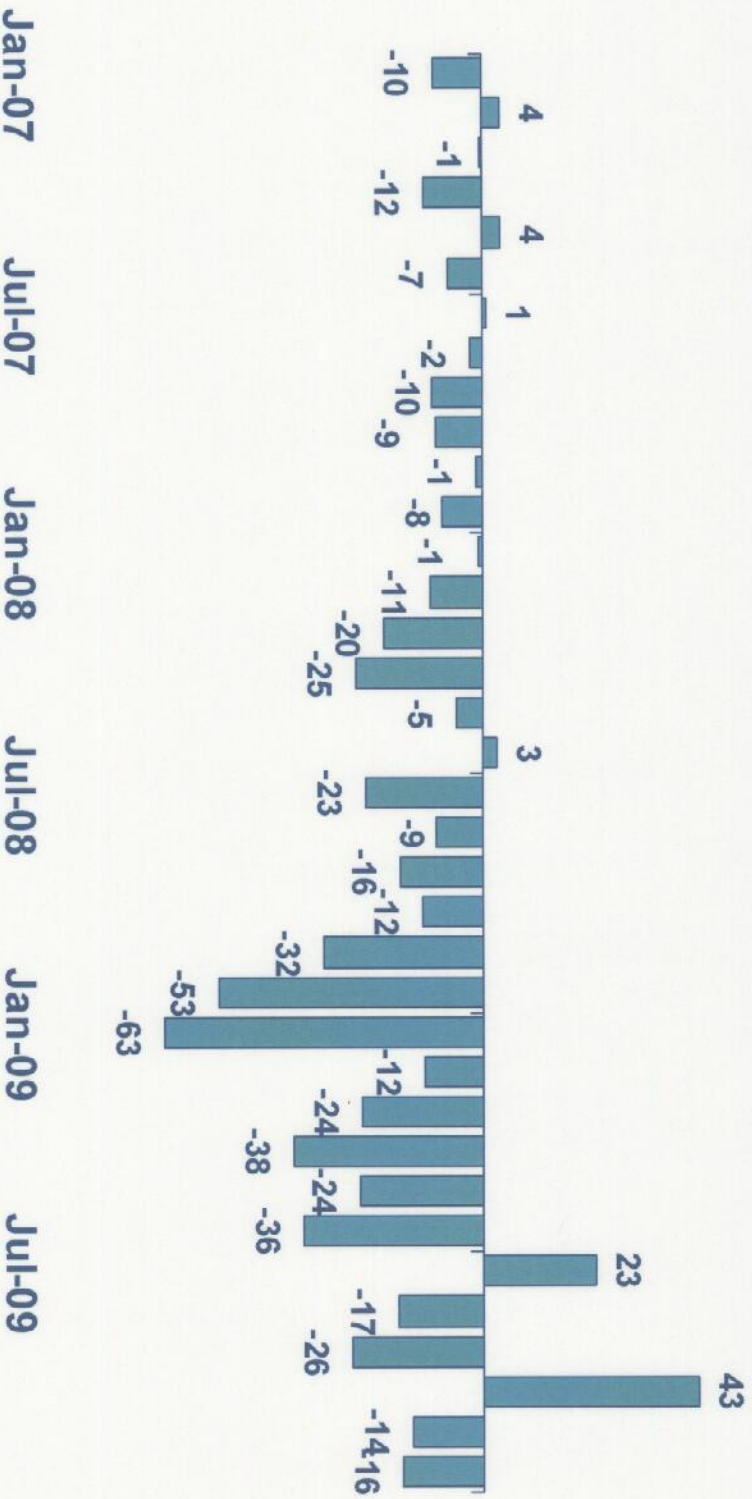
Michigan Loses Nearly 1 Million Jobs

Michigan Wage and Salary Employment Year-Over-Year Change (In Thousands)



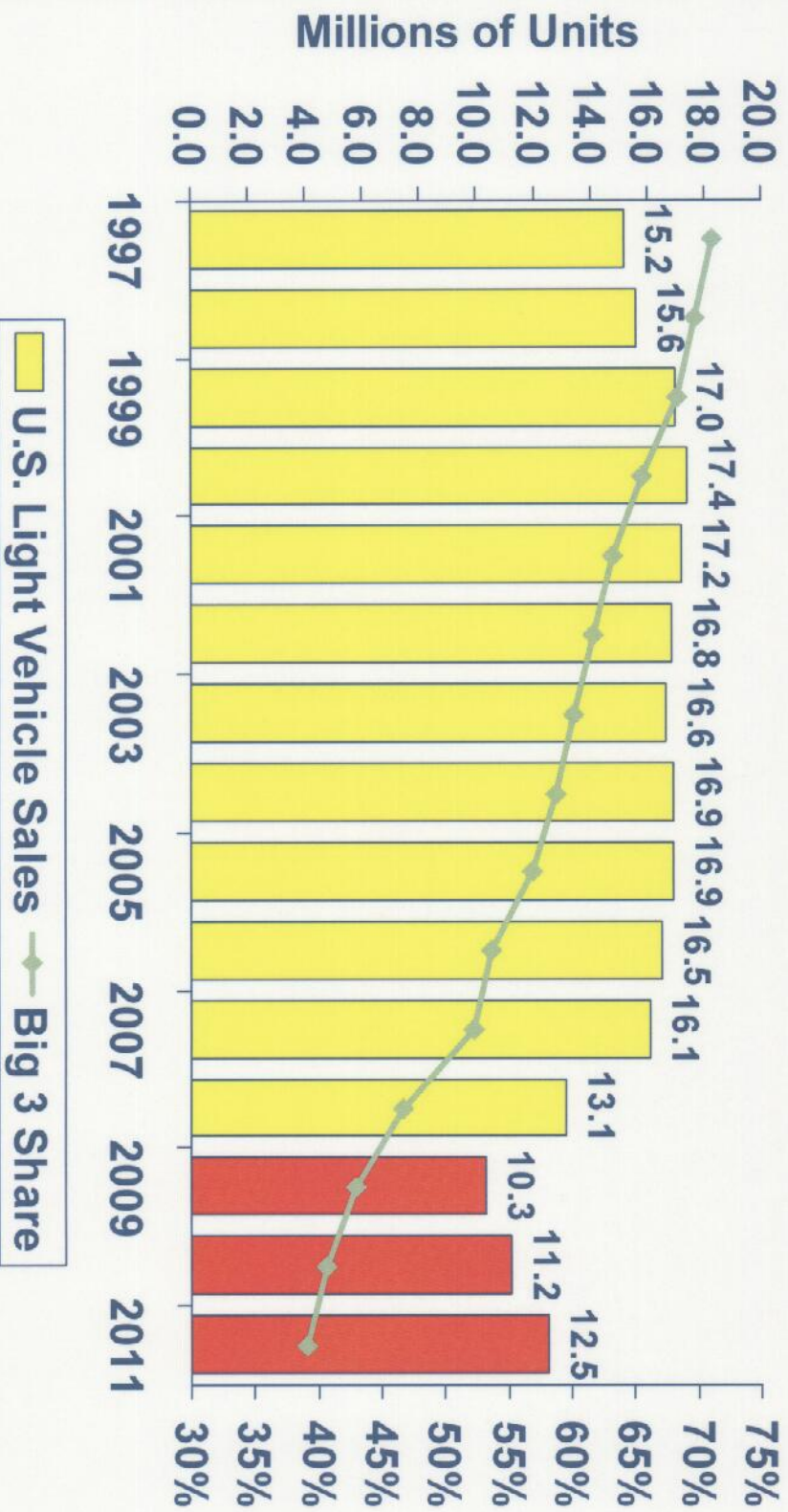
Note: Bureau of Labor Statistics. 2009-2011 estimates are from the January 2010 Consensus Forecast.

Michigan Payroll Employment Monthly Change (Thousands)



Source: Bureau of Labor Statistics.

Big 3 Losing Market Share

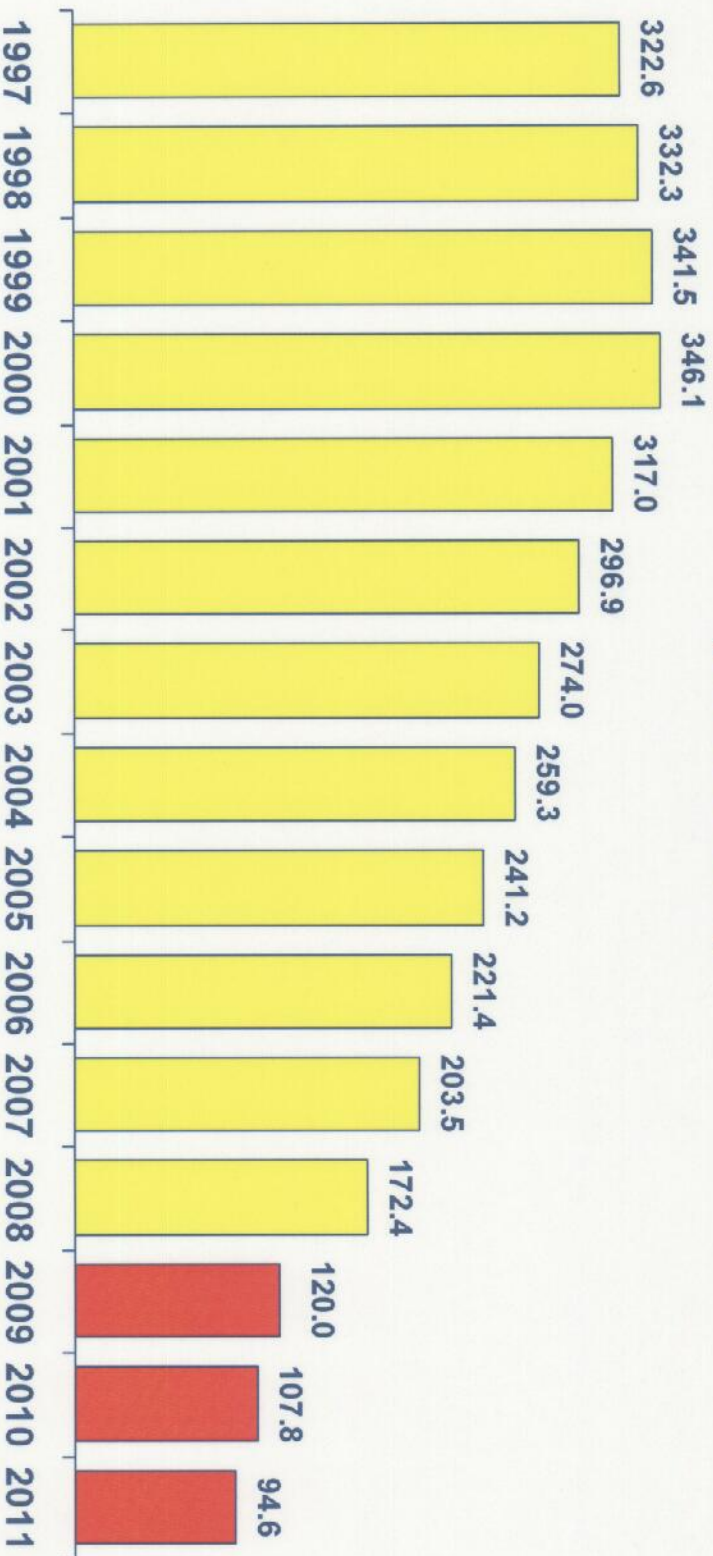


Source: Automotive News and January 2010 CREC.

Average Agency Forecasts

Michigan Vehicle Employment

Transportation Equipment Employment Declines (Thousands)

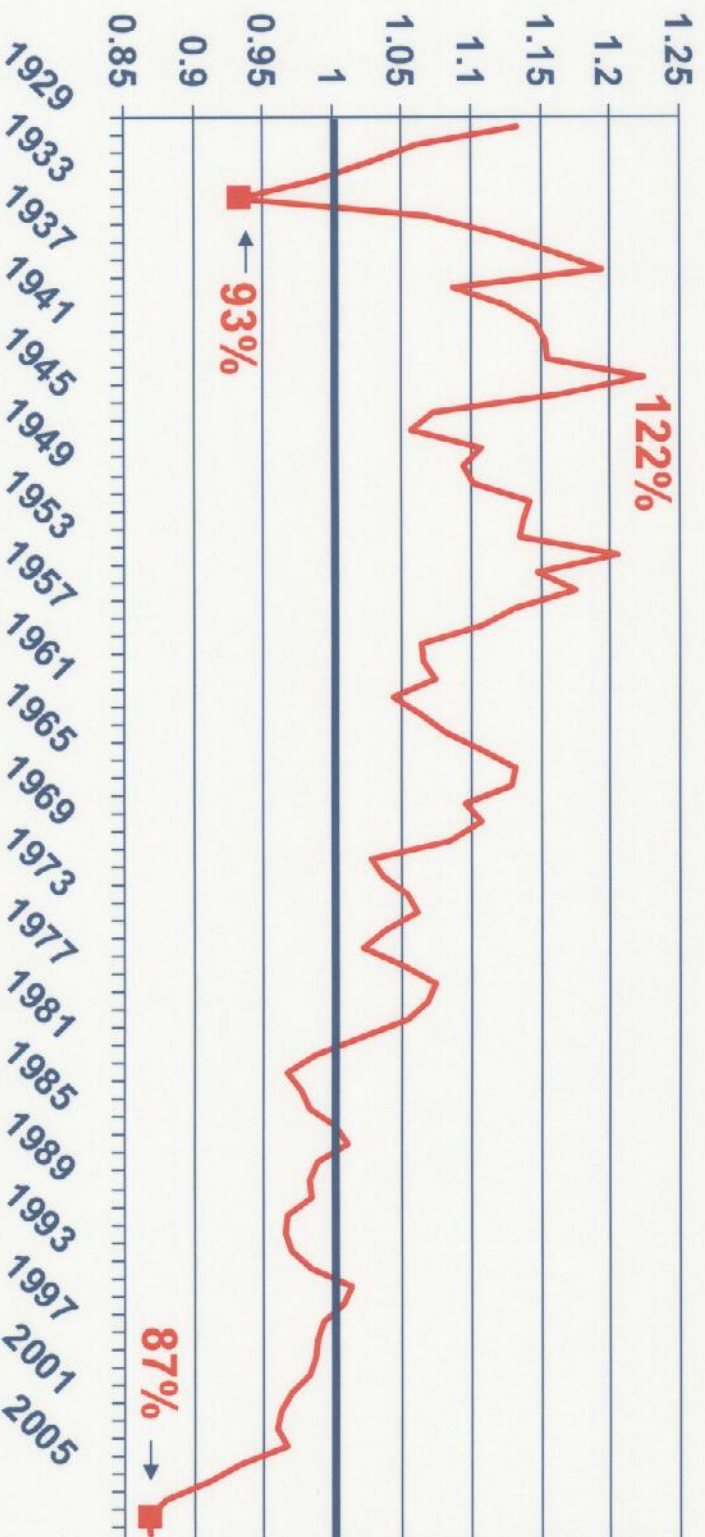


Source: Bureau of Labor Statistics.

Average Agency Forecasts

Michigan Personal Income Falling Relative to U.S.

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



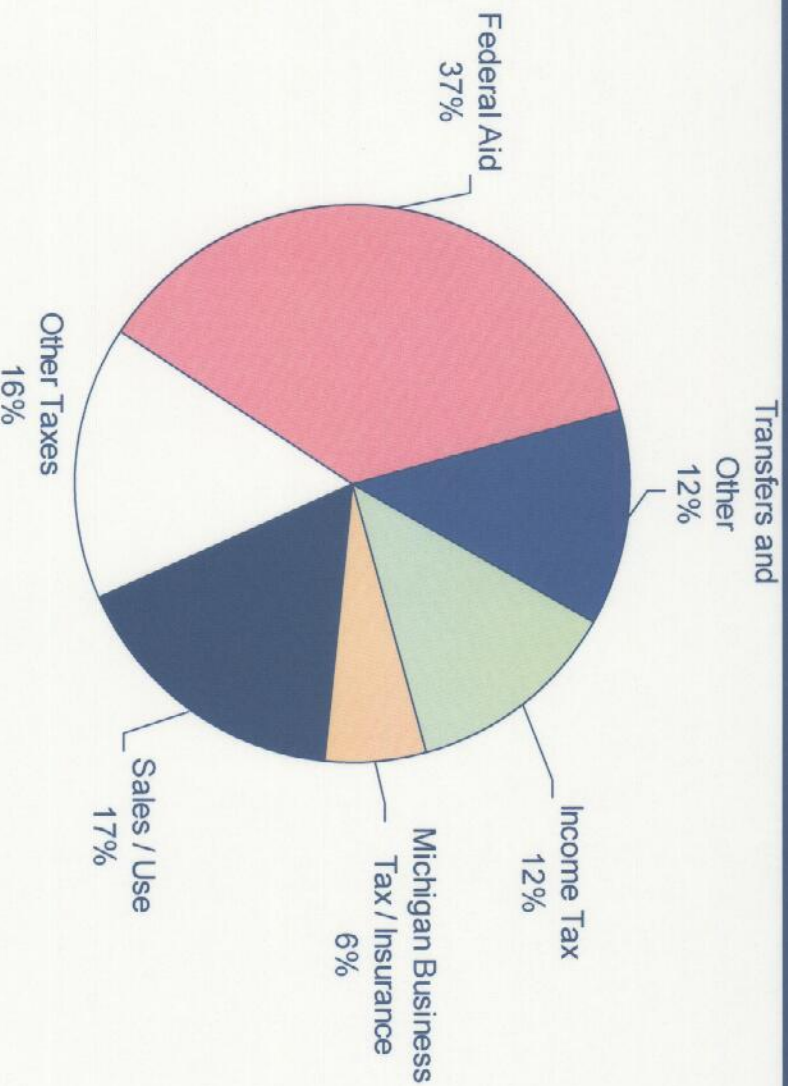
Source: Department of Treasury calculations from Bureau of Economic Analysis data.

State Government Revenues Are Being Negatively Affected By:

- **Difficult Economic Times**
- **Tax Reductions**
- **Tax Structure Problems**

Michigan's Revenue Sources

FY 2010 Total Revenue: \$42.2 Billion

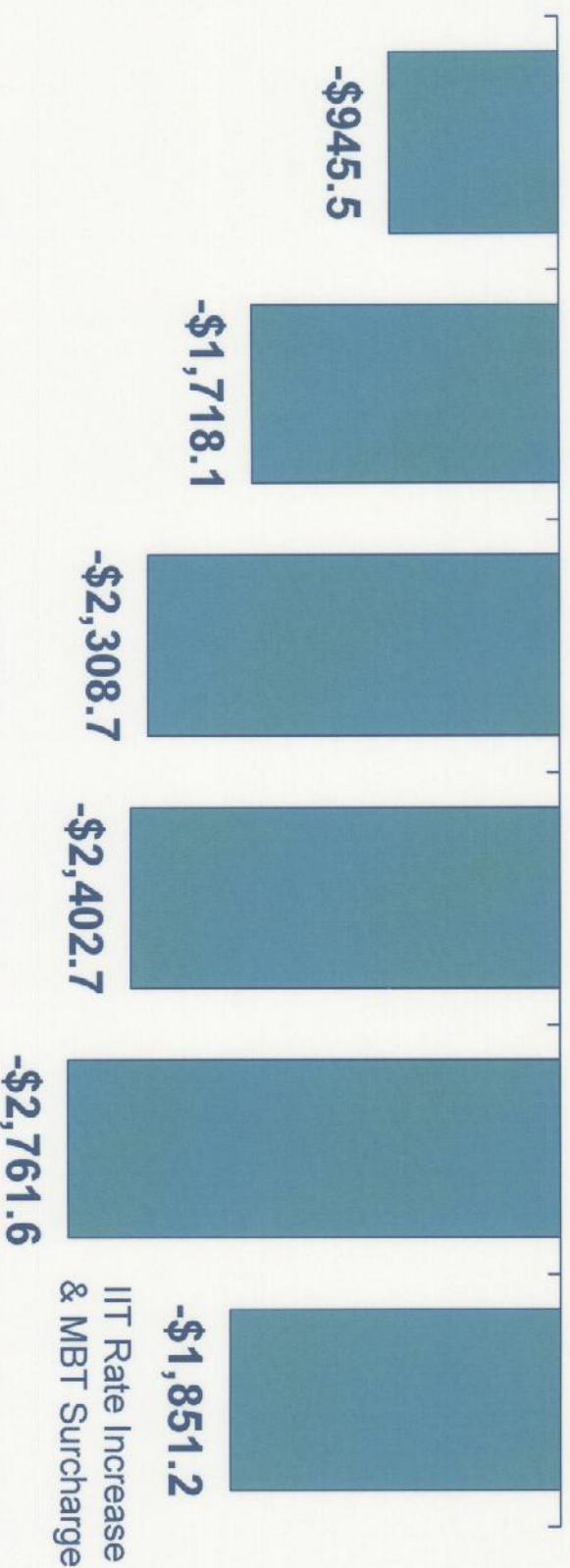


Various taxes provide 51% of total state revenues, while 37% comes from the Federal government.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury, 1/11/10

Michigan Cut Taxes Significantly from 1995 to 2005

FY Tax Cuts in Millions



Source: Michigan Department of Treasury; does not include Proposal A property tax cut

Significant Tax Cuts Will Cut 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 IIT Rate	\$0.0	\$0.0	\$0.0	(\$150.0)	(\$329.0)	(\$522.5)
Alternative Energy Credits IIT	(\$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(1)	\$0.0	\$0.0	\$0.0	(\$40.0)	(\$268.0)	(\$278.0)
MBT Film Credits & Infrastructure(2)	(\$37.5)	(\$100.0)	(\$125.0)	(\$125.0)	(\$125.0)	(\$125.0)
Photovoltaic Technology - Facility & Manufacturing F	\$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)
FASB 109	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
MEGA Legislative Changes	NA	NA	NA	NA	NA	NA
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	(\$2.0)	(\$2.0)	(\$2.0)	(\$2.0)	(\$2.0)	(\$2.0)
Use Tax Bad Debt Deduction Change	\$0.0	(\$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	(\$138.8)	(\$557.4)	(\$624.1)	(\$840.5)	(\$1,264.7)	(\$1,493.3)

Michigan Taxes Decline as a Percent of Personal Income

Michigan State Tax Revenue as a Percent of Personal Income



Note: FY 2009 and FY 2010 tax estimates based on May 2009 Consensus.
FY 2009 and FY 2010 personal income uses RSQE estimates 9/2009.

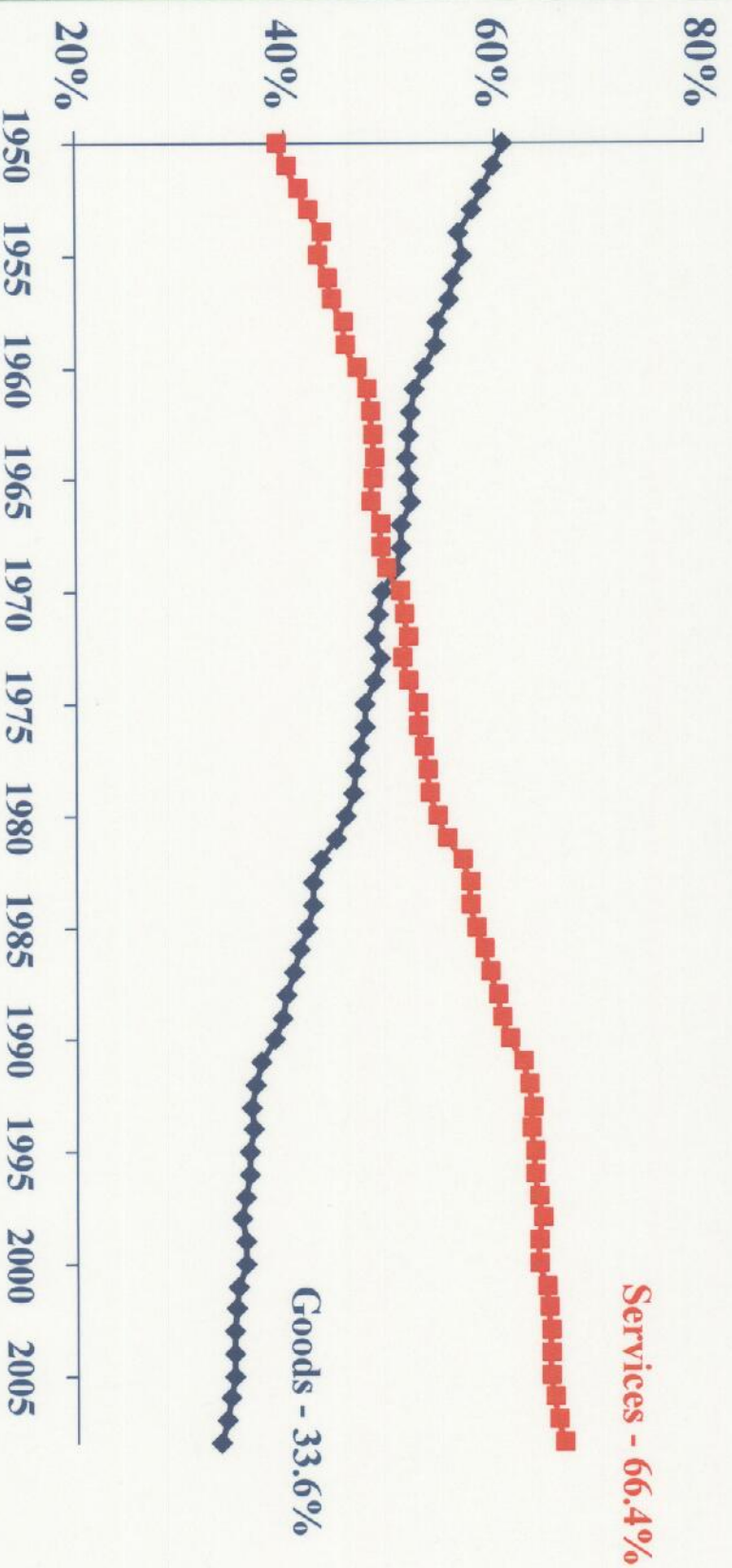
GF-GP & SAF Revenue Decline as a Percent of Personal Income

<u>Fiscal</u> <u>Year</u>	<u>General Fund/ General Purpose</u> <u>Revenue</u>	<u>School</u> <u>Aid Fund</u> <u>Revenue</u>	<u>GF/GP & SAF</u> <u>Revenue as a %</u> <u>of MPI</u>
1994-95	\$8,074.0	\$7,010.4	6.7%
1999-00	\$9,788.2	\$9,889.4	6.7%
2000-01	\$8,989.7	\$9,994.1	6.3%
2001-02	\$8,427.1	\$10,133.9	6.1%
2002-03	\$7,958.9	\$10,714.7	5.9%
2007-08	\$9,359.7	\$11,513.2	6.0%
2008-09	\$7,365.6	\$10,922.1	5.4%
2009-10	\$6,898.5	\$10,458.1	5.1%
2010-11	\$6,968.4	\$10,480.5	5.0%

Note: FY 2010 and FY 2011 estimates based on Jan 2010 Consensus.

Service Economy Overtakes Goods Driven Economy

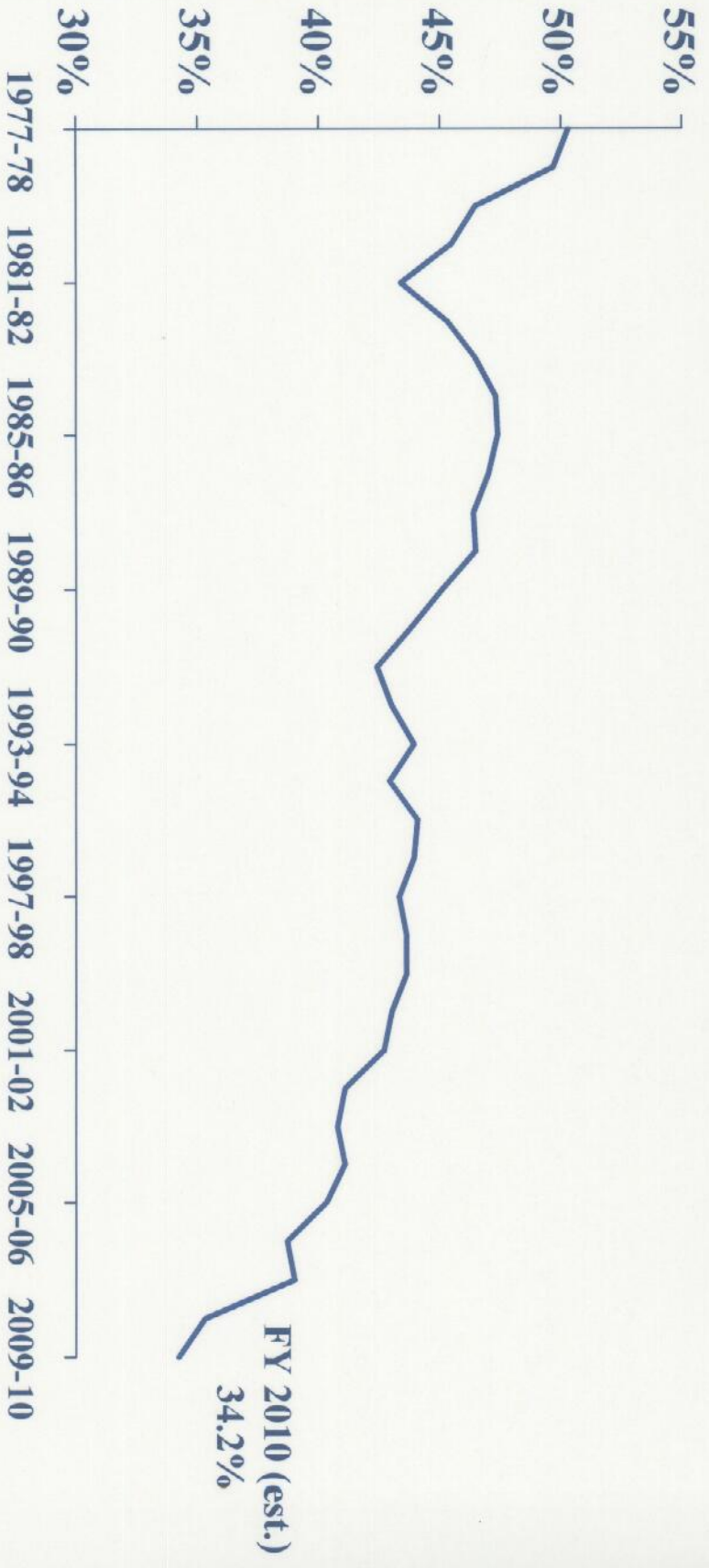
Personal Consumption Expenditures by Percentage



Source: Bureau of Economic Analysis

Sales and Use Tax Base Not Growing With Economy

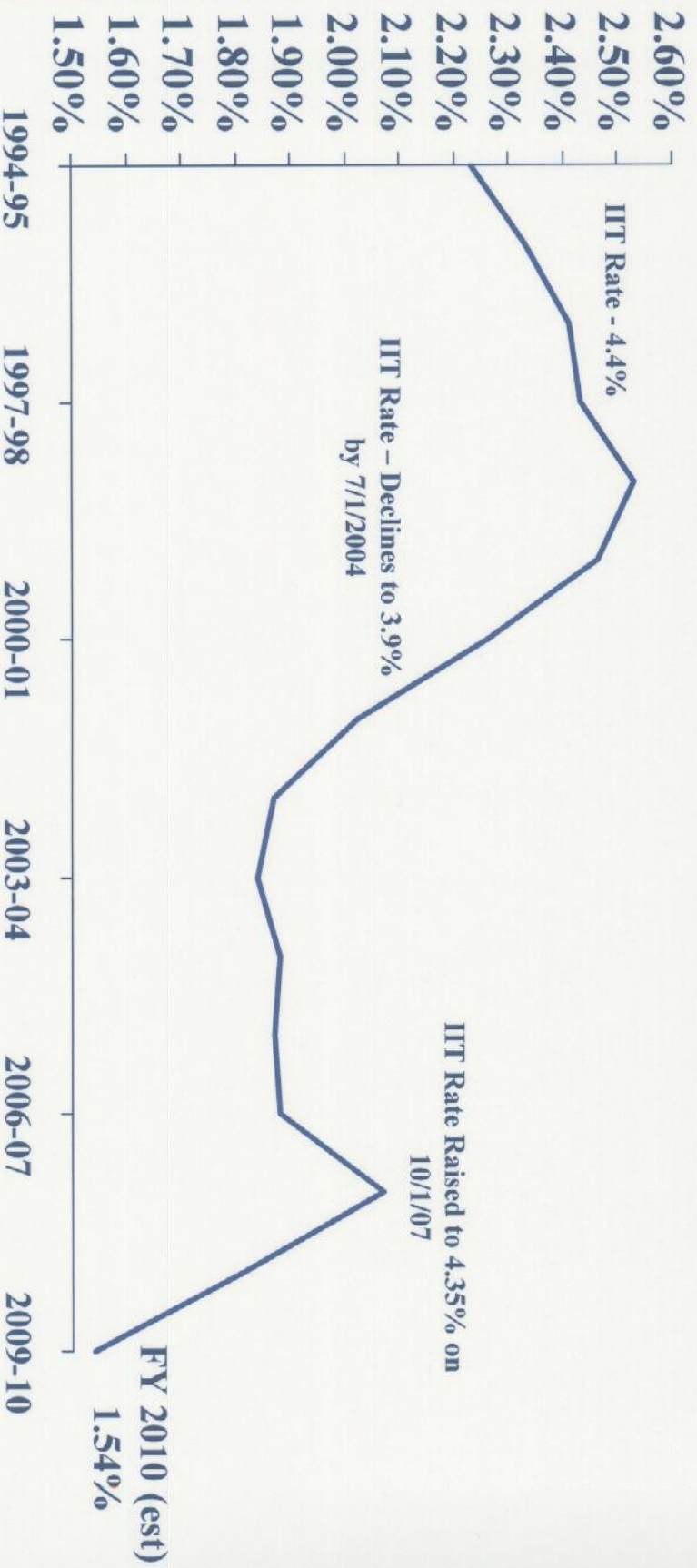
Michigan Sales and Use Tax Base as a % of Personal Income



Source: Senate Fiscal Agency, Bureau of Economic Analysis & Michigan CAFR (various years).

State Income Tax Revenue Decreases with Tax Cuts and Economy

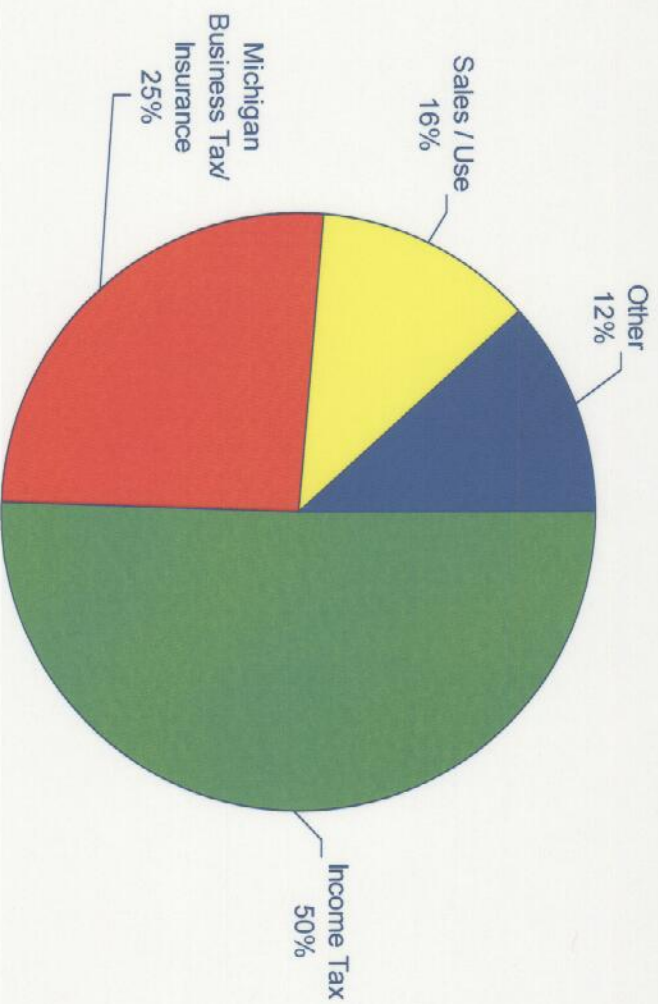
State Personal Income Tax Revenue as a % of Personal Income



Source: Bureau of Economic Analysis, Michigan CAFR (various years) & January 2010 CREC.

General Fund Sources

FY 2010 Revenue: \$6.9 Billion

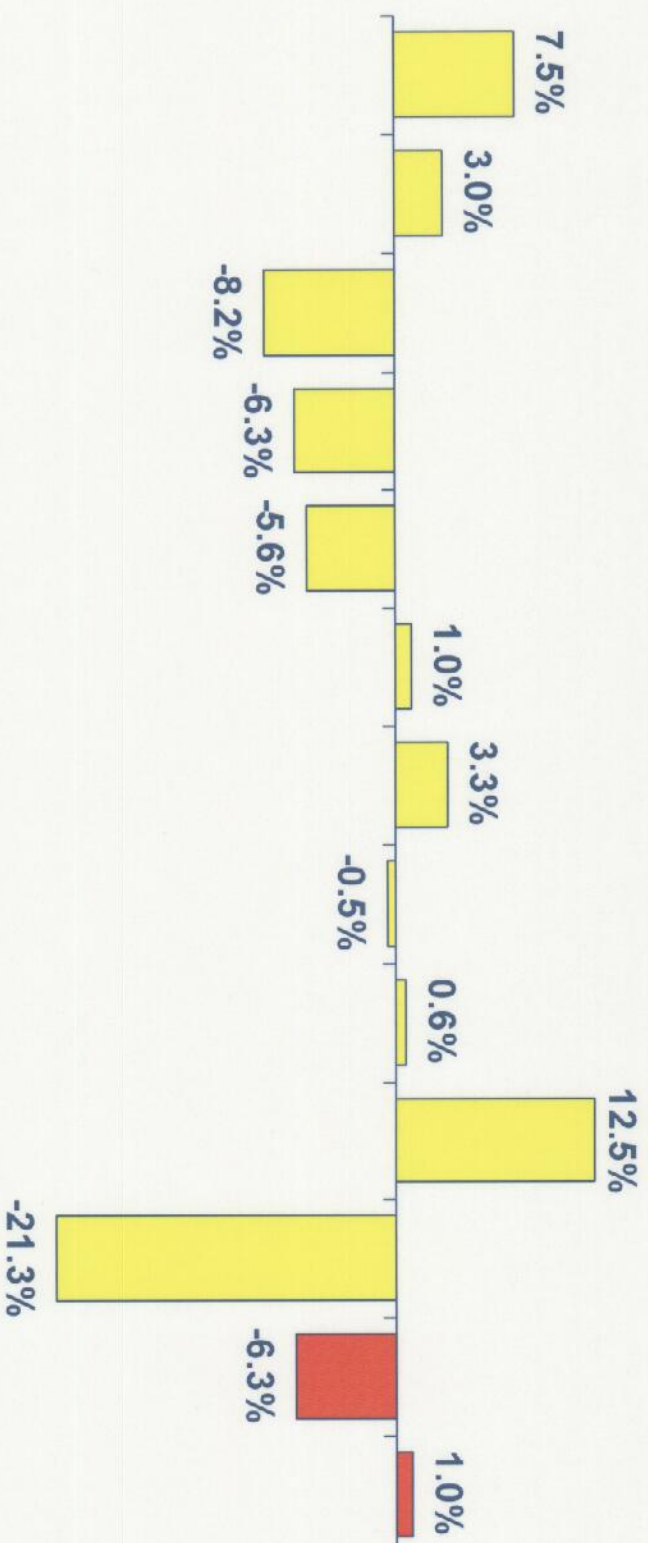


75% of general fund revenues come from Personal Income Tax and Michigan Business Tax.

Source: January 2010 Consensus

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

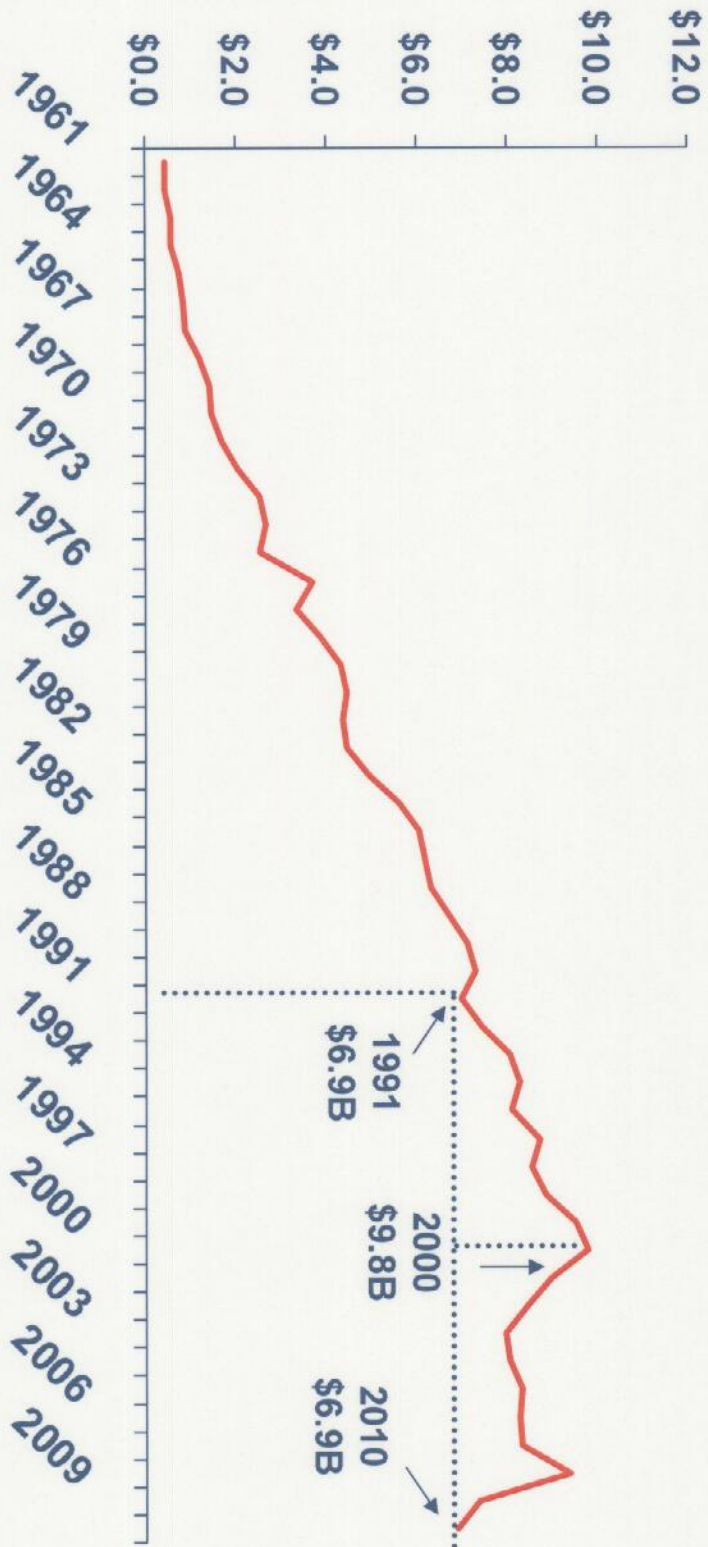
GF-GP Revenues
Year-Over-Year Percent Change



Source: January 2010 Consensus Conference.

State GF-GP Revenue at FY '91 Level Down 19% Since 2000

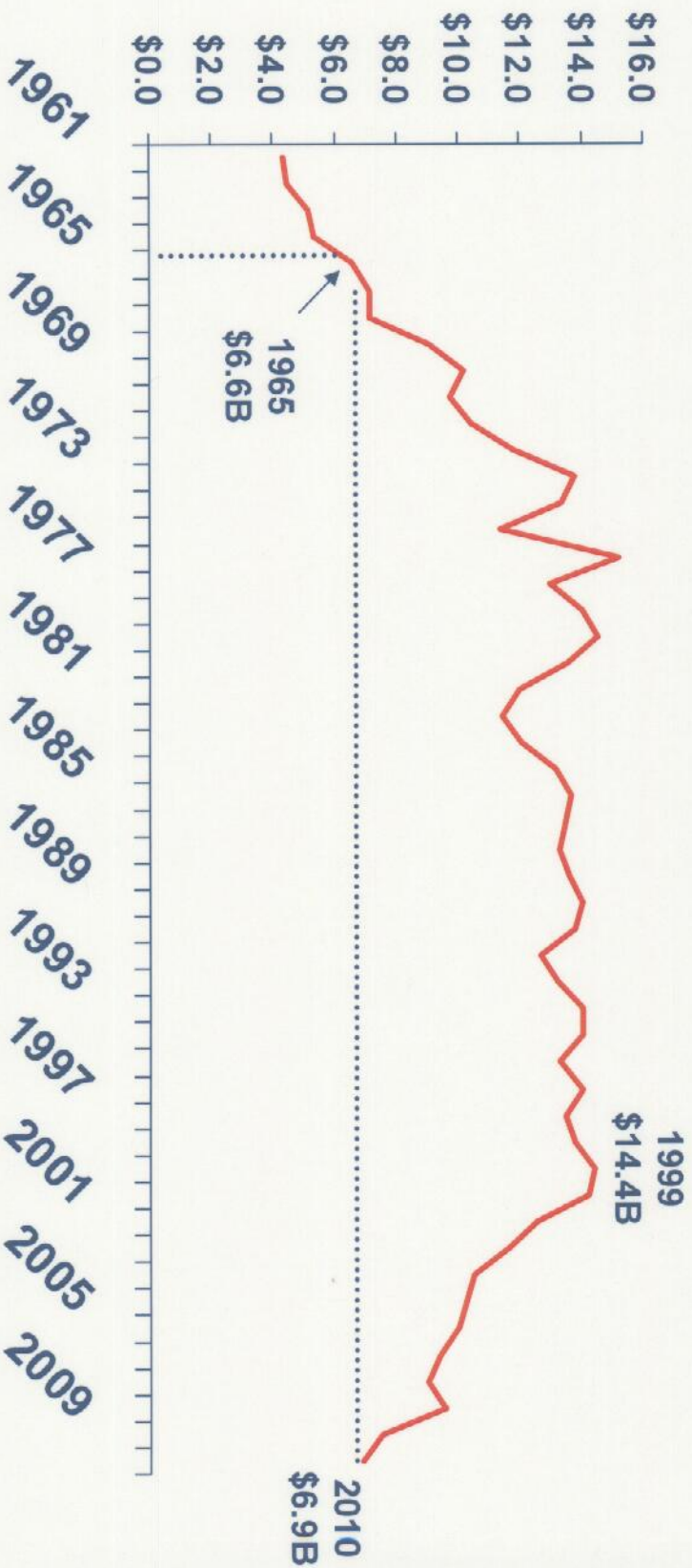
Billions of Dollars



Note: GF-GP figures are presented on a Consensus basis. 2010 estimated.

Inflation Adjusted GF-GP Lowest Since 1965

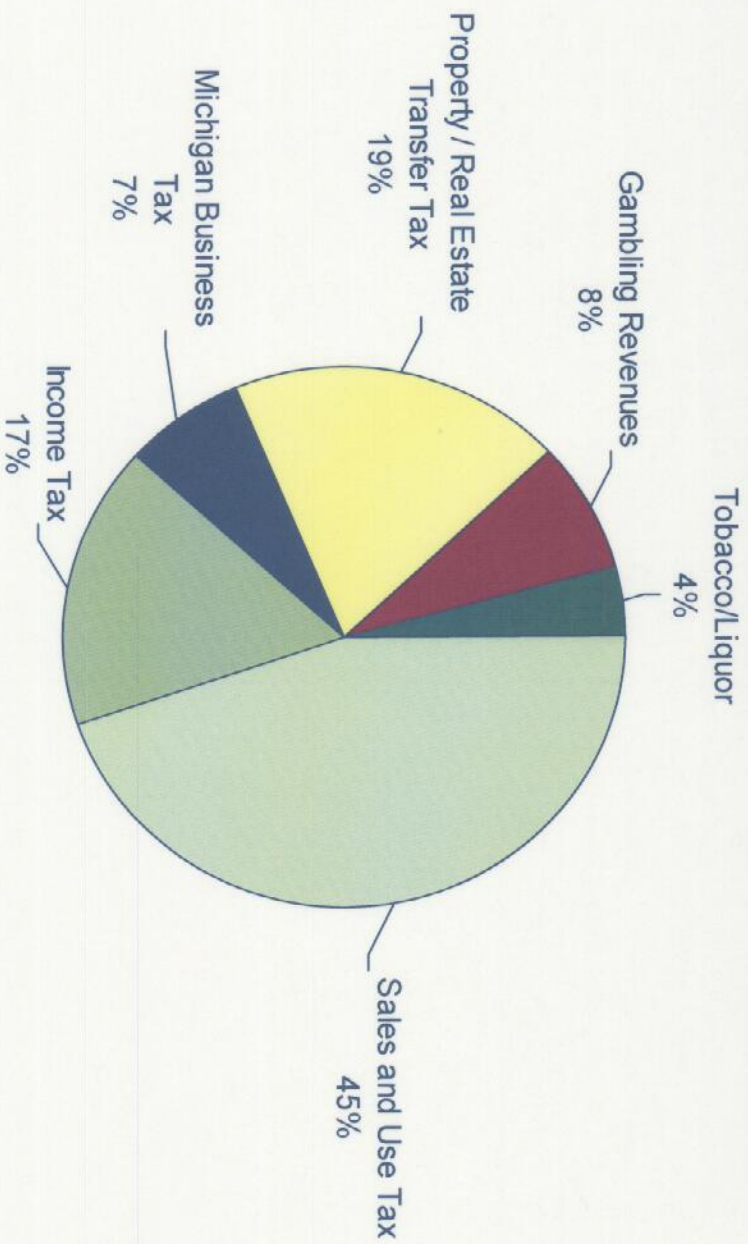
Billions of 2010\$



Note: GF-GP figures are presented on a Consensus basis and adjusted for inflation to 2010 dollars using the state and local government price deflator. FY 2010 is the Jan 2010 Consensus estimate.

School Aid Revenues

FY 2010 Total Earmarked Resources: \$10.5 Billion

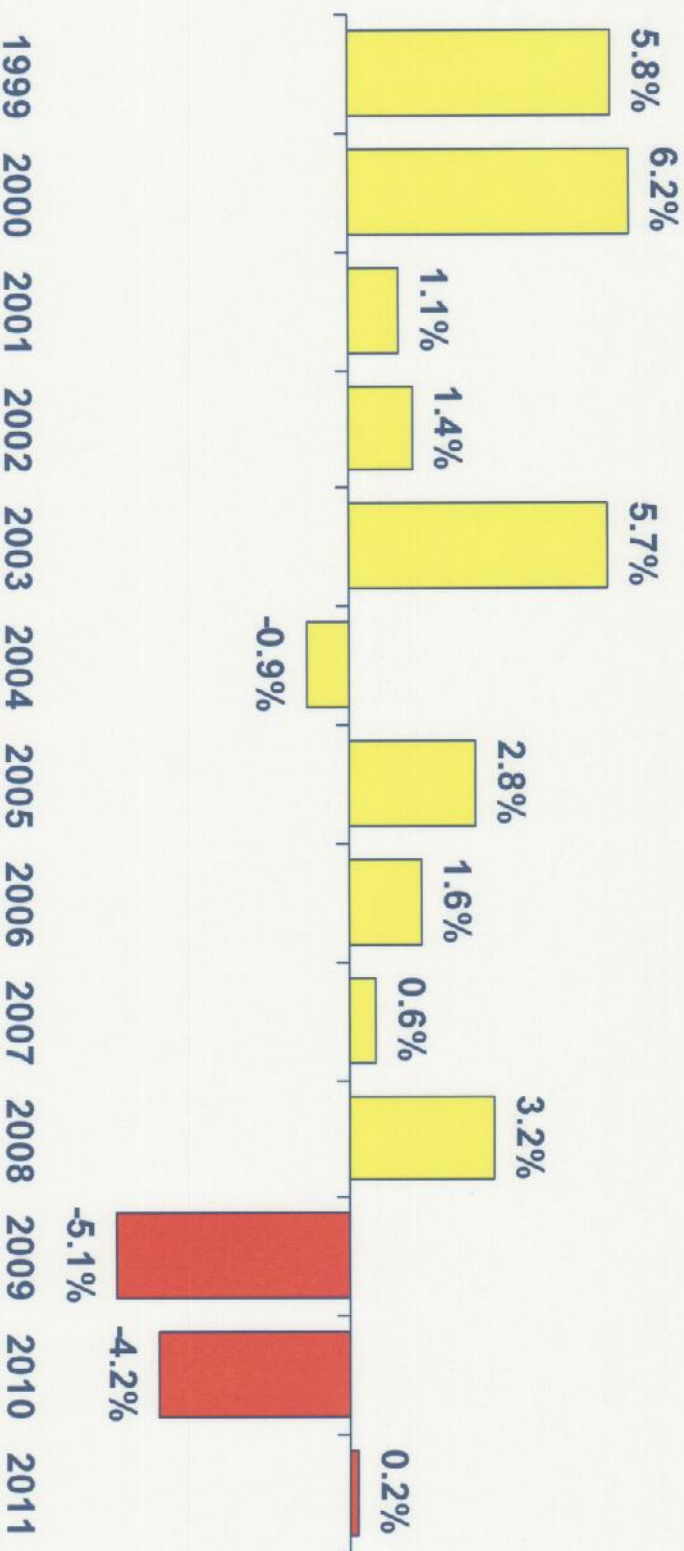


Almost half of the School Aid revenues come from the Sales and Use Tax.

Source: January 2010 Consensus

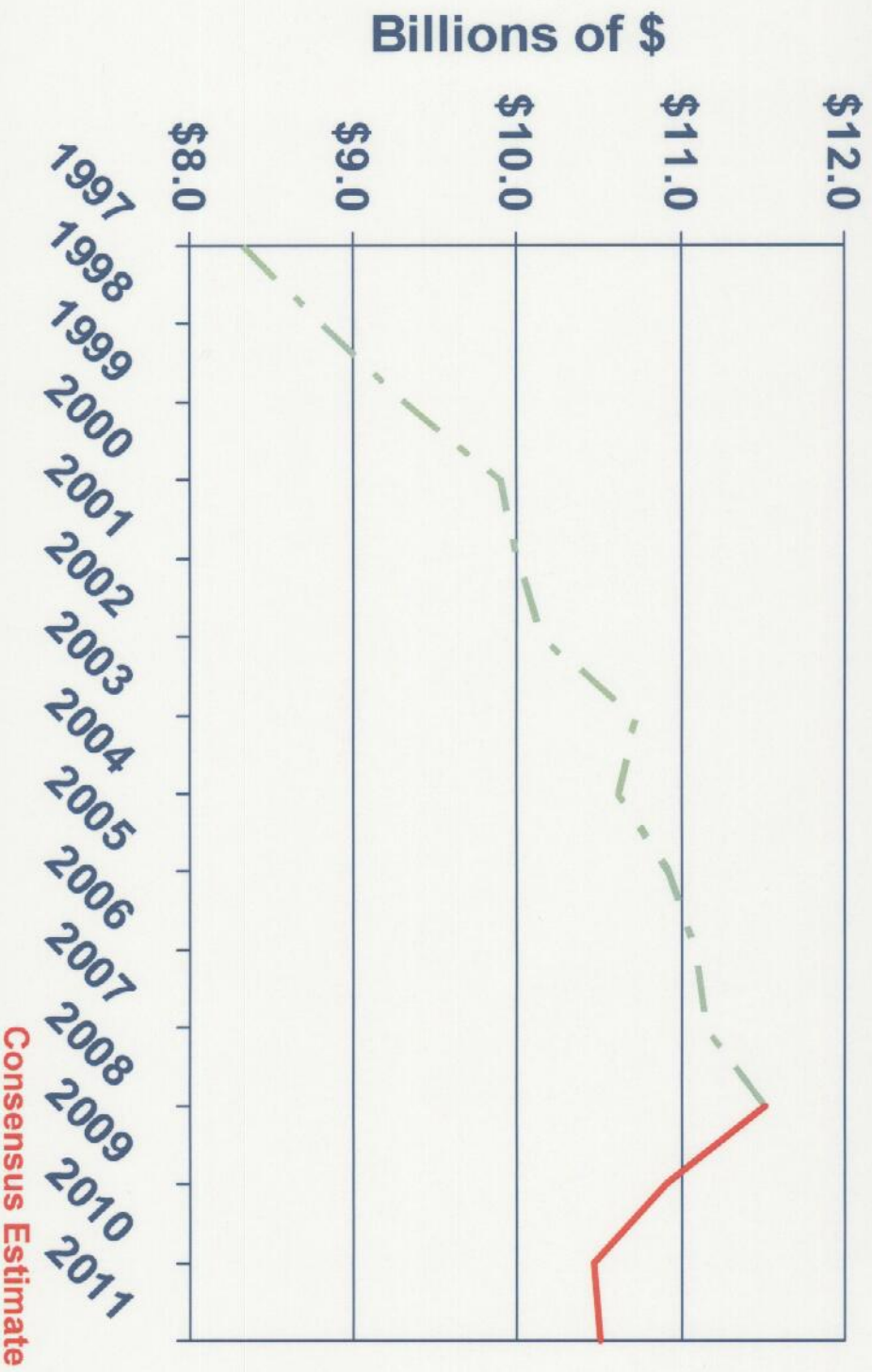
SAF Revenues Drop in FY 2009 and FY 2010

SAF Revenues
Year-Over-Year Pct. Change



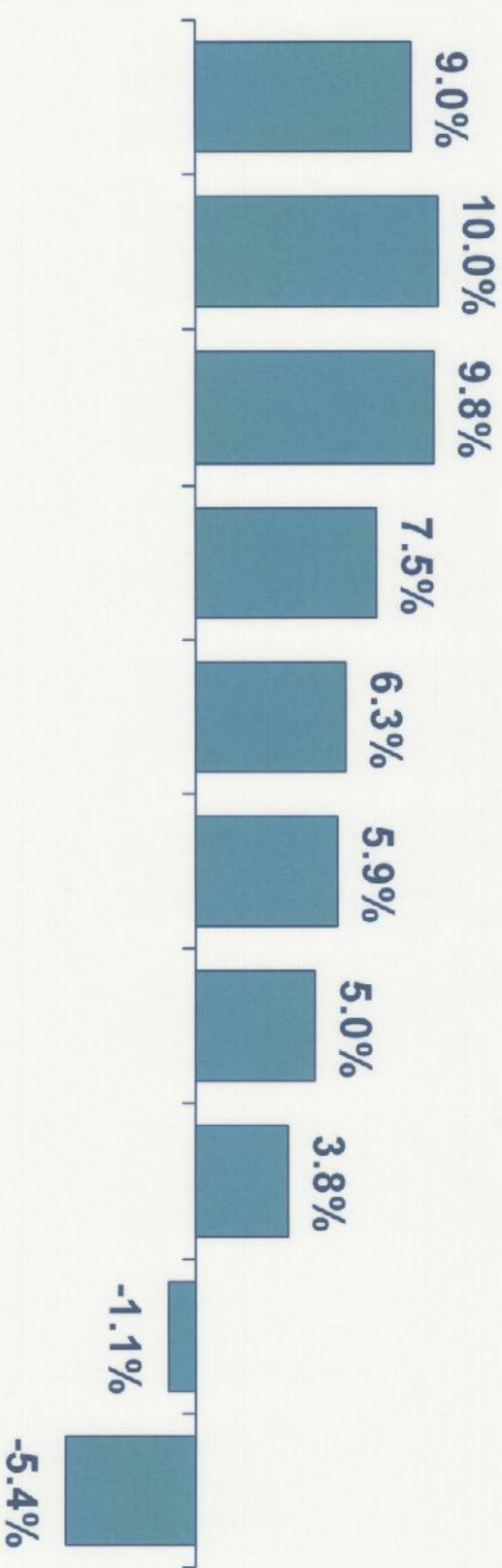
Source: January 2010 Consensus Conference.

SAF Revenue Below FY 2003 Level



Total State SEV Declines for 2nd Year in a Row

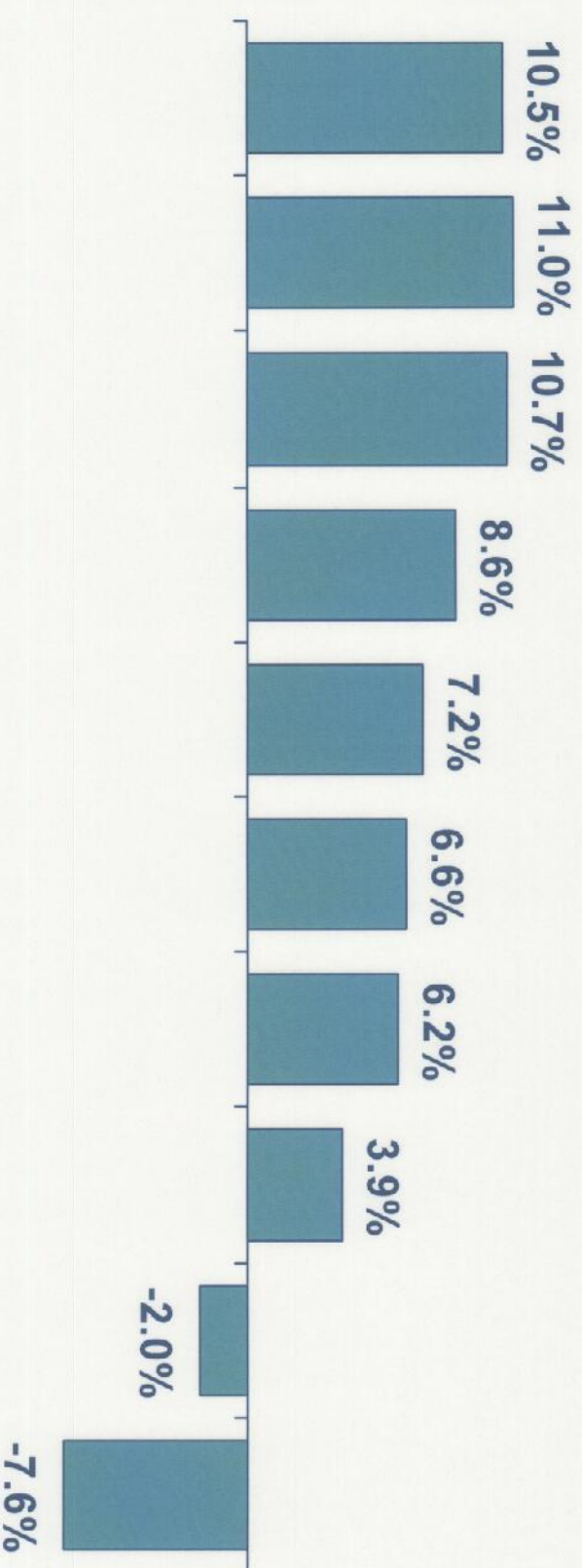
% Change in Total Real and Personal SEV



Source: State Tax Commission

Michigan Residential SEV Declines Faster Than Total SEV

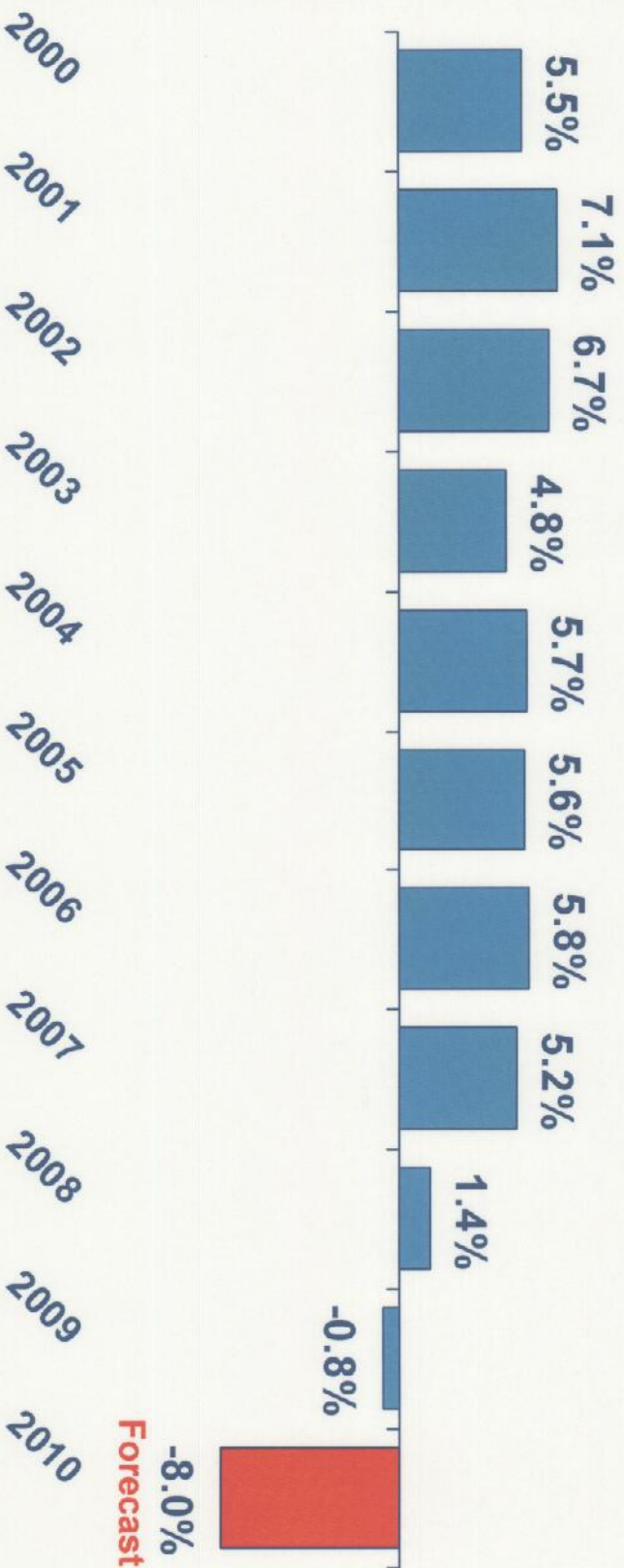
% Change in Total Real Residential SEV



Source: State Tax Commission

TV More Stable Due to Cap But Starting to Decline

% Change in Total Taxable Value



Source: State Tax Commission.

Overall Michigan Property Value Growth Slowing

Yearly Percent Change

	Multiplier for		
	<u>Property</u>	<u>Total SEV Growth</u>	<u>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%	-1.3%	1.4%
2009	4.4%	-5.4%	-0.8%
2010est	-0.3%	NA	-8.0%
2011est	2.5%	NA	-4.3%

Source: State Tax Commission and January 2010 Consensus Conference.



How Does The State Budget Look?

Balancing FY 2011 GF/GP Will Be Difficult

	<i>Billions</i>
Consensus Revenue Estimate	\$7.0
Other Resources	<u>\$1.0</u>
Total Estimated Resources	\$8.0
Expenditures: Current Services Estimate	<u>\$9.6</u>
Projected Year End Balance *	(\$1.6)

* ARRA funding available to offset GF expenditures will decline from \$1.2 billion in FY10 to \$0.2 billion in FY11.

Source: Michigan Department of Treasury

Balancing FY 2011 SAF Budget Still a Challenge

	FY 2011 (billions)
Beginning Balance	\$0.1
Consensus Revenue Estimate	\$10.5
Fed Aid and GF Grant (assume FY 10 Amt)	\$1.6
ARRA Funds	<u>\$0.2</u>
Total Estimated Resources	\$12.4
Expenditures Current Services Estimate	<u>\$12.8</u>
Projected Year End Balance	(\$0.4)

Source: Michigan Department of Treasury

Two-Thirds of All State Taxes are Earmarked for Special Purposes

(Millions)

	FY 2010 <u>Amount</u>	Amount <u>Earmarked</u>	<u>% Earmarked</u>
<u>Tax</u>			
Income	\$5,273.3	\$1,778.9	34%
Sales	\$5,894.5	\$5,465.8	93%
Use	\$1,143.0	\$381.0	33%
MBT/Insur	\$2,479.4	\$726.7	29%
Tobacco	\$981.8	\$784.8	80%
Other	<u>\$5,648.6</u>	<u>\$5,406.9</u>	<u>96%</u>
	\$21,420.6	\$14,544.1	68%

Source: Jan 2010 Consensus
 Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury, 01/11/10

Michigan State Government 14,000 Fewer Employees than 1978

Fiscal Year	Governor	Number		Corrections Employees
		State Employees	Non-Corrections State Employees	
1973	Milliken	52,673	50,316	2,357
1978	Milliken	64,456	59,990	4,466
1989	Blanchard	64,560	52,038	12,522
2000	Engler	61,493	43,841	17,652
2008	Granholtm	50,799	34,855	15,944
% Change 1978-2008		-21%	-42%	257%
% Change 2000-2008		-17%	-20%	-10%

Source: Michigan Department of Treasury

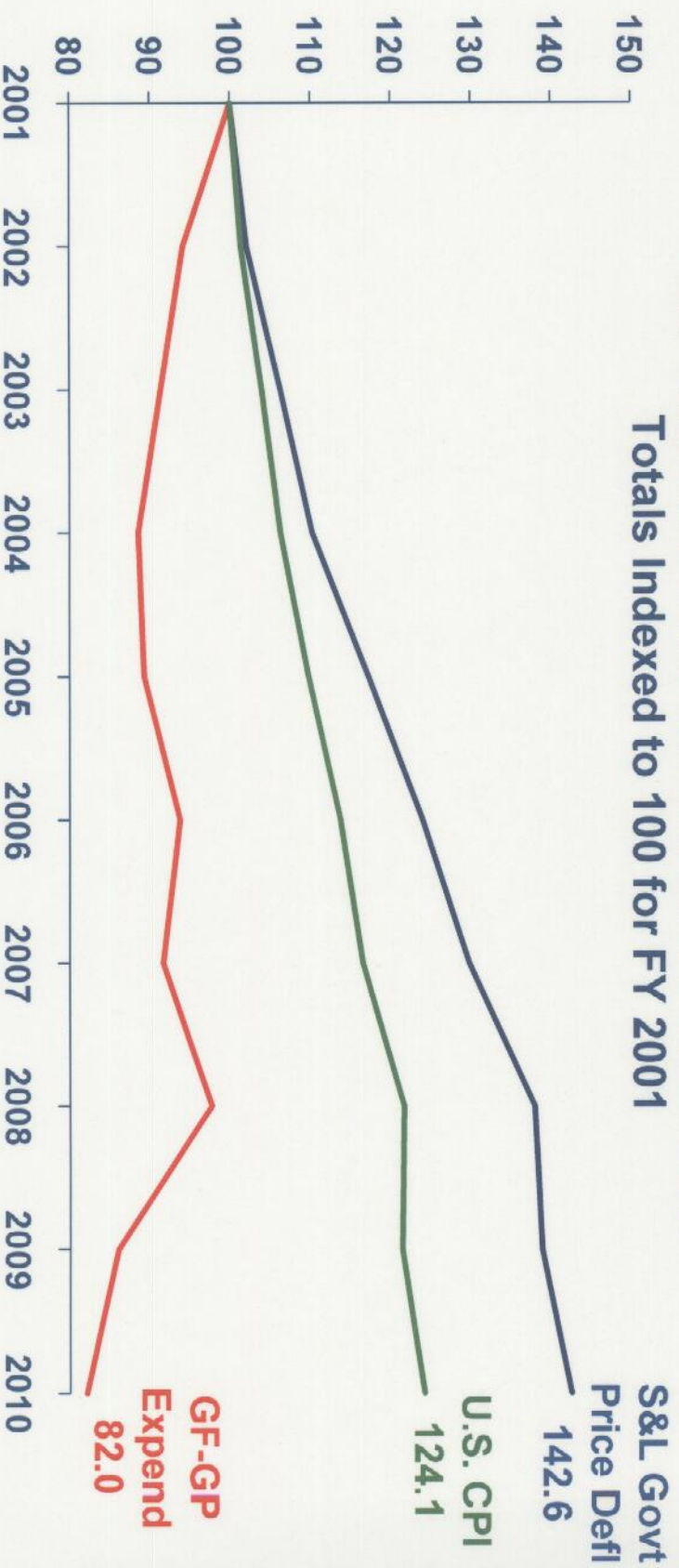
Government Not Large Compared to Other States

State	State and Local Govt. Employees Per 10,000 of Population	Rank
Indiana	554	27
Ohio	538	32
Minnesota	536	34
Illinois	504	42
Wisconsin	504	42
Michigan	475	48
U.S. Average	549	

Source: Bureau of the Census, 2008 State and Local Government Employment Survey

GF-GP Expenditure Growth Well Below Inflation

GF-GP Expenditures, U.S. CPI,
and State and Local Government Price Deflator
Totals Indexed to 100 for FY 2001



Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury, 11/12/09

Michigan Expenditure Growth Lowest Among States

	GF Growth		Total Expend. Growth	
	2001 to 2008	Rank	2001 to 2008	Rank
Illinois	26%	44	25%	48
Indiana	27%	42	36%	40
Michigan	0%	50	16%	50
Ohio	22%	46	34%	41
Wisconsin	22%	45	29%	46
Missouri	7%	49	27%	47
U.S. Avg.	41%		47%	

Source: Office of Revenue and Tax Analysis, Michigan Dept. of Treasury, 12/30/09 based on NASBO State Expenditure Surveys 2001 and 2008.