



Economic and Revenue Forecasts: Implications for Michigan's Budget

**Presentation for
Michigan House of Representatives**

February 5, 2009

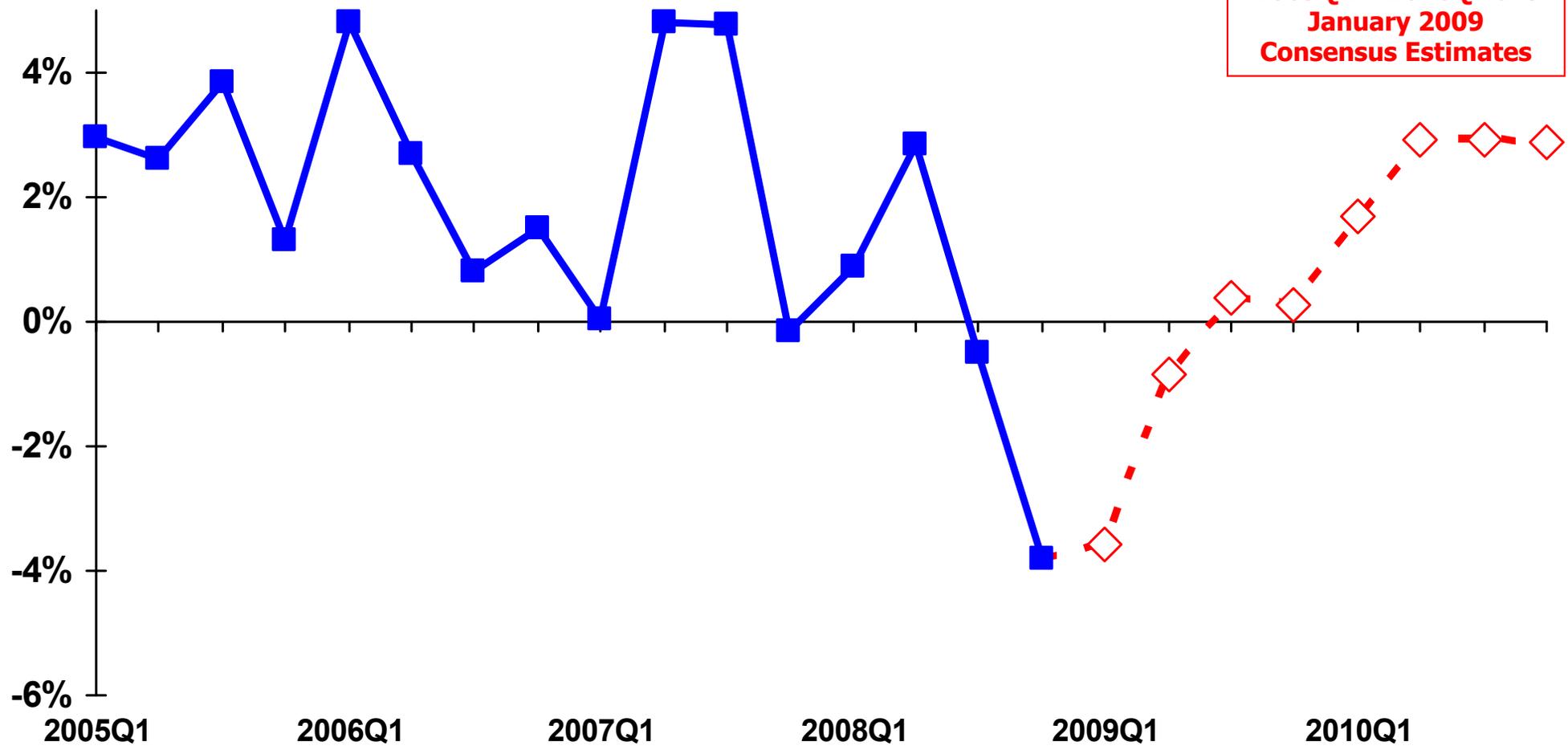


Mitchell E. Bean, Director



GDP Forecast

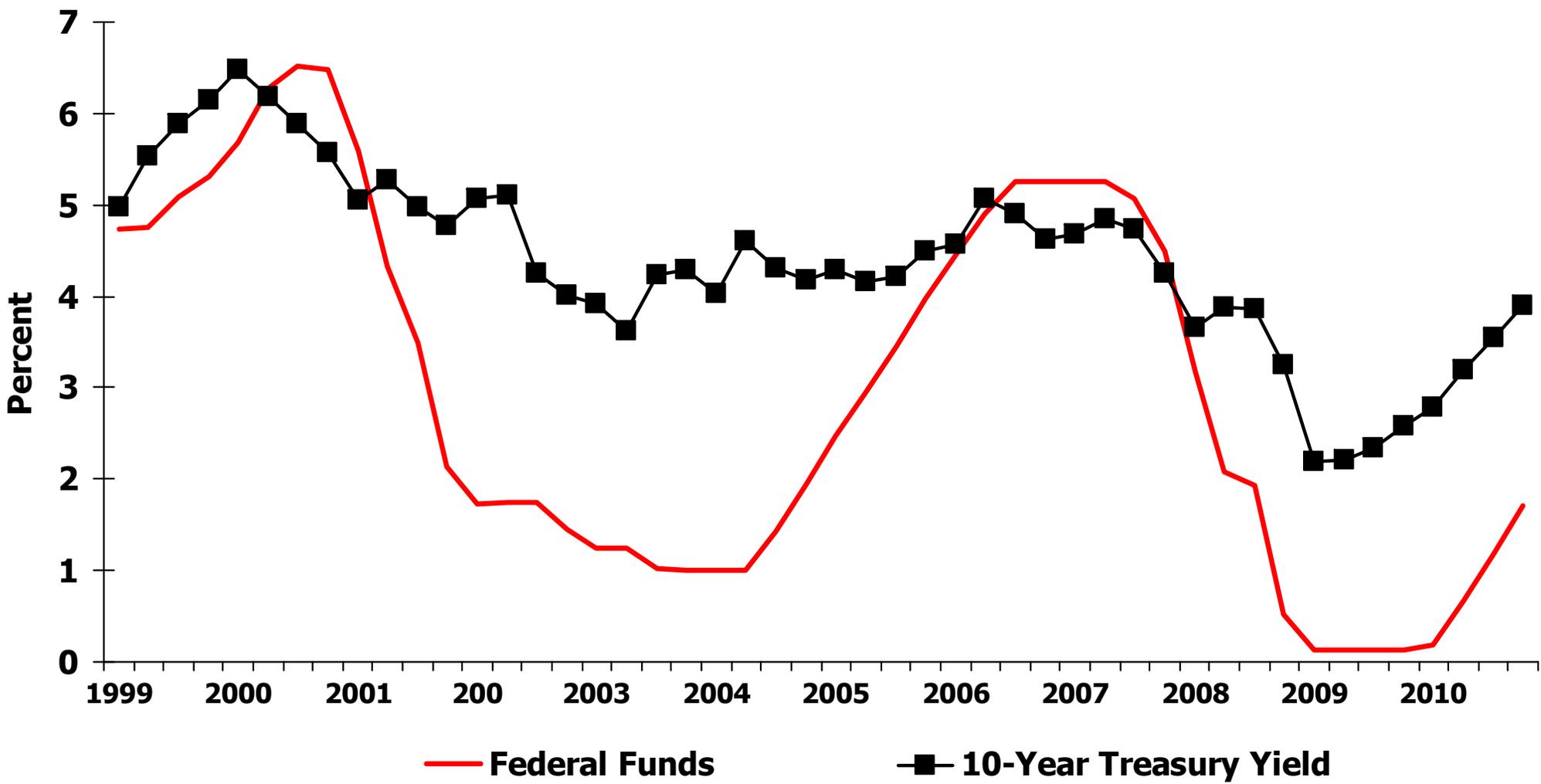
Percent Change



2009Q1 – 2010Q4 are
January 2009
Consensus Estimates



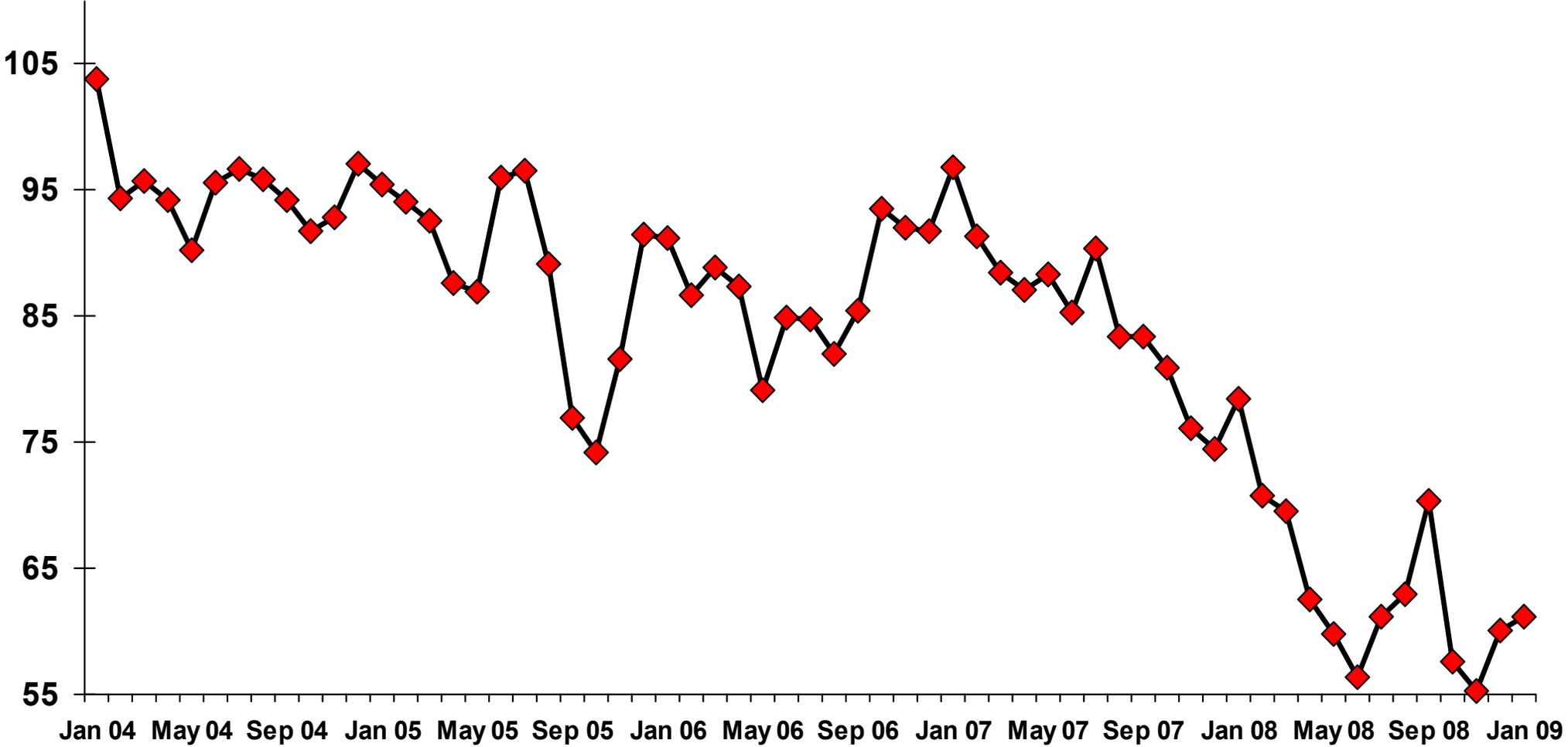
Interest Rates





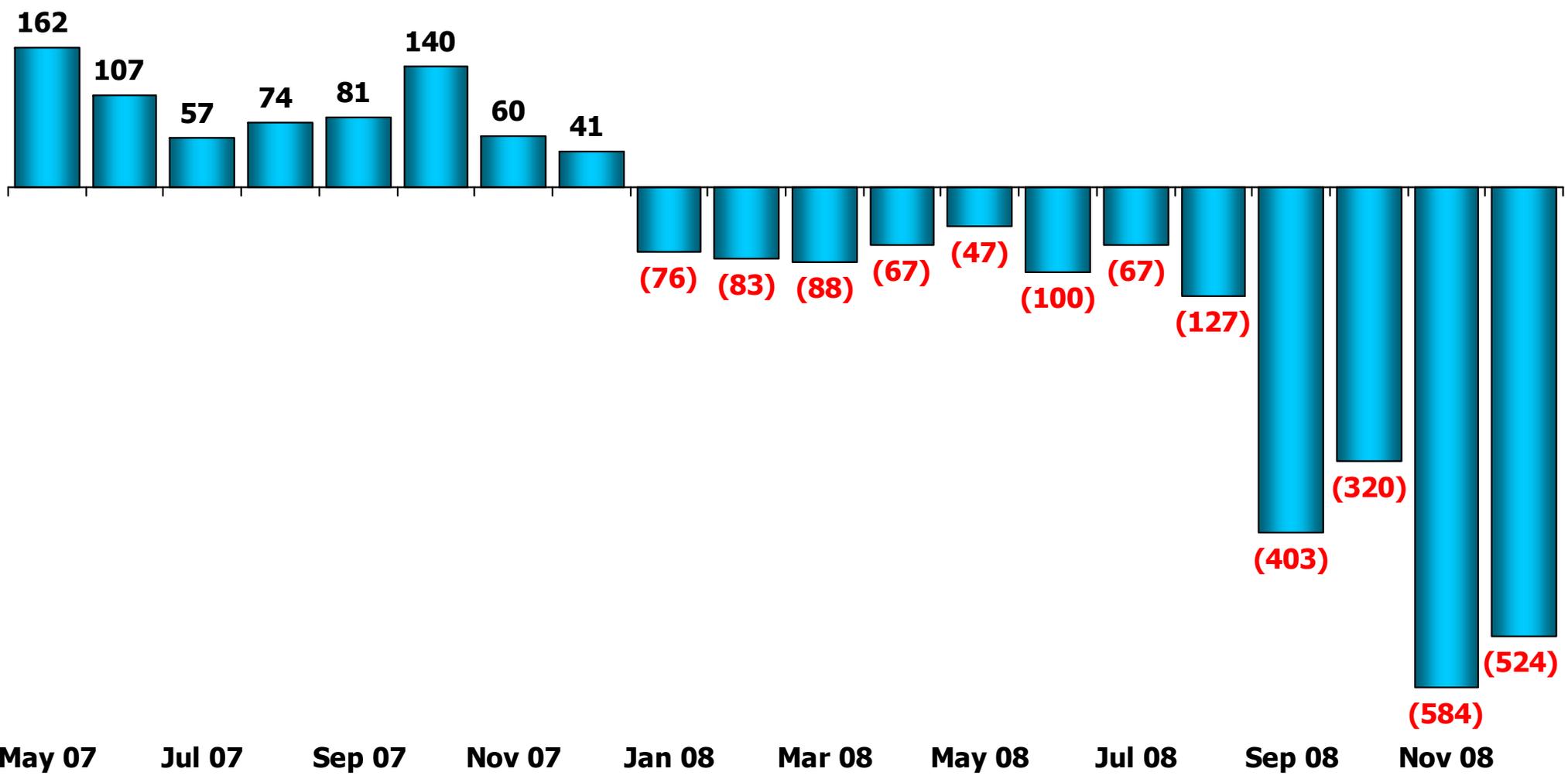
Index of Consumer Sentiment

January 2004 Through January 2009



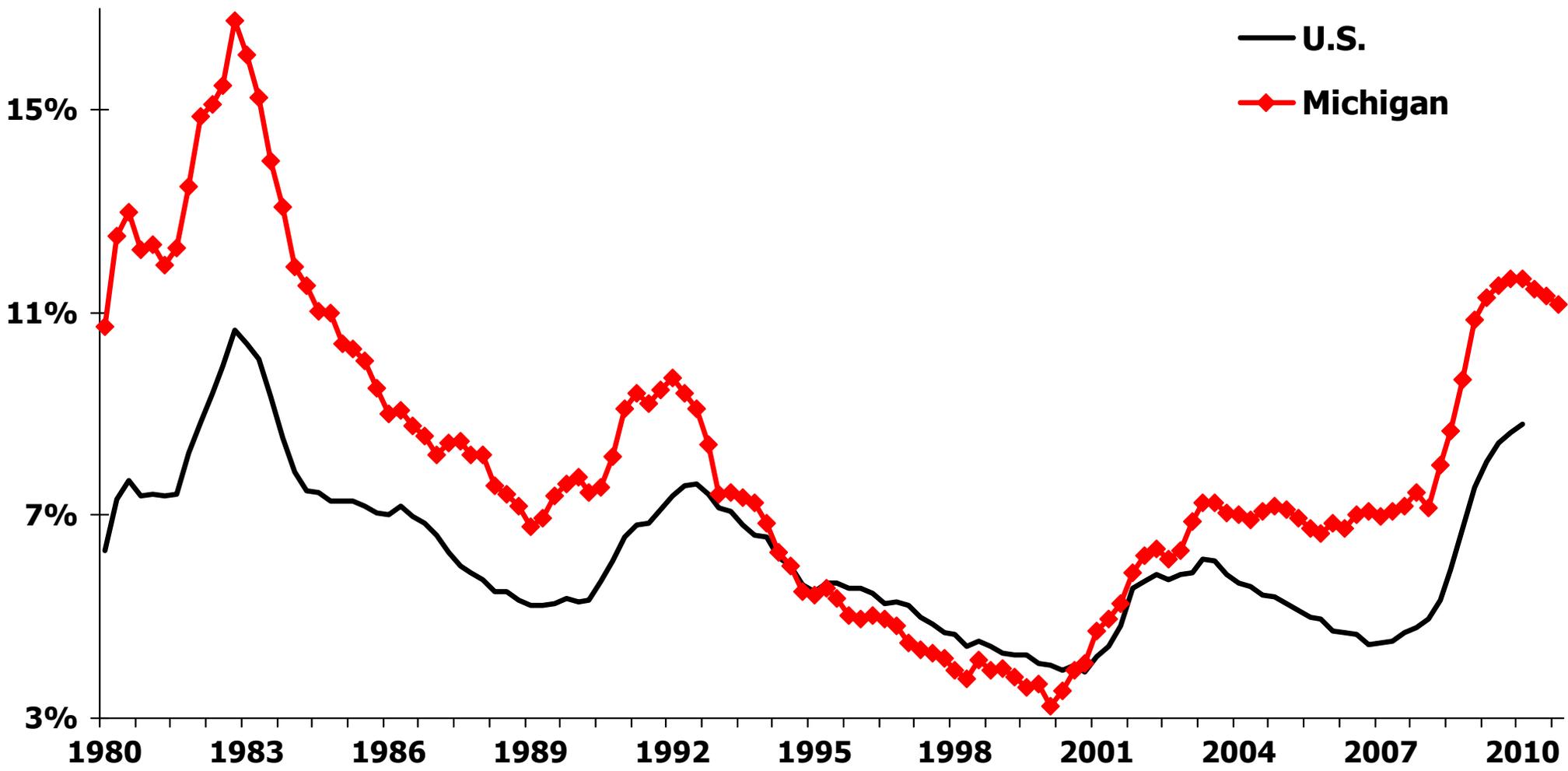


U.S. Economy Has Lost 1.8 Million Jobs in Four Months





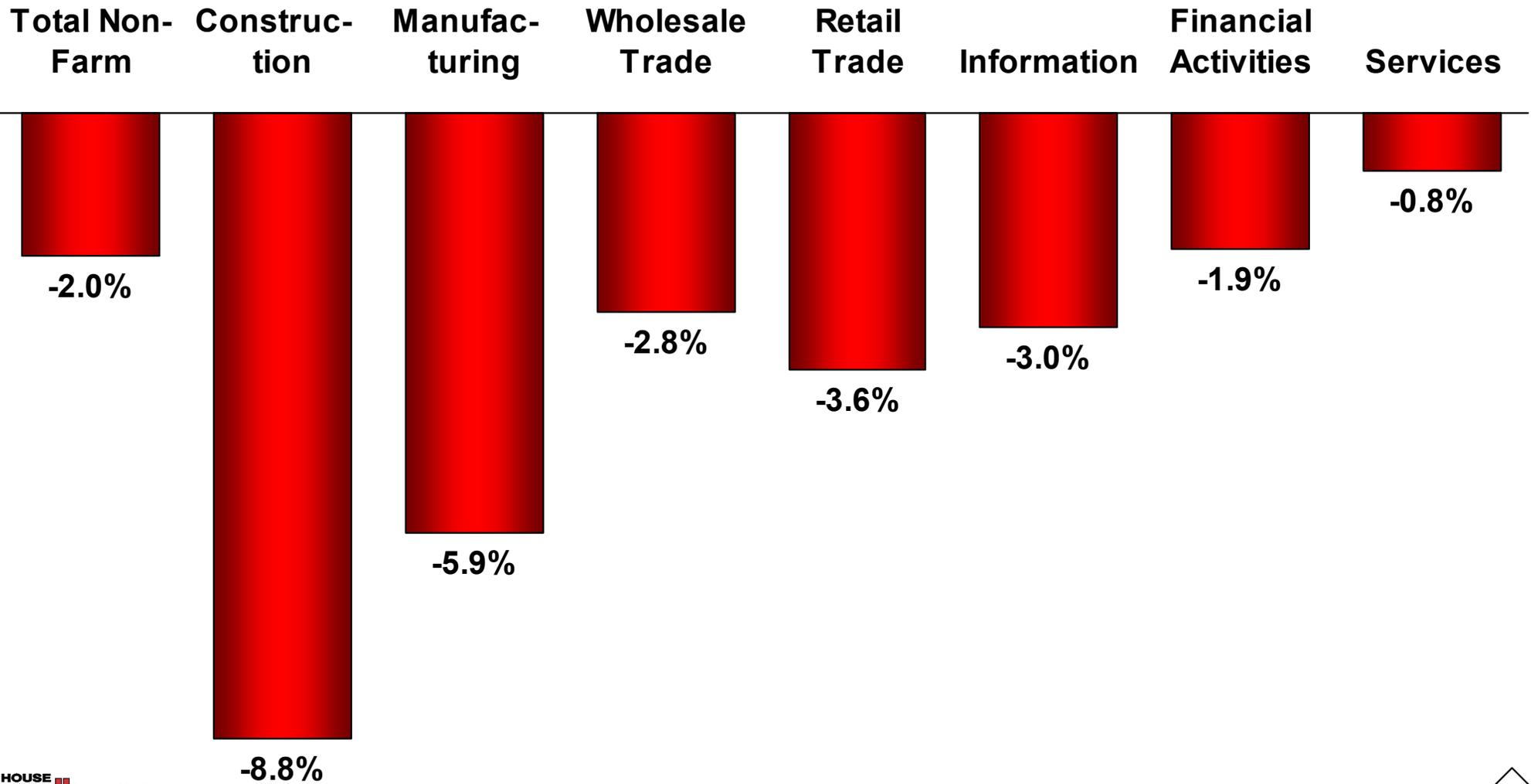
U.S. and Michigan Unemployment Rates





U.S. % Change in Employment

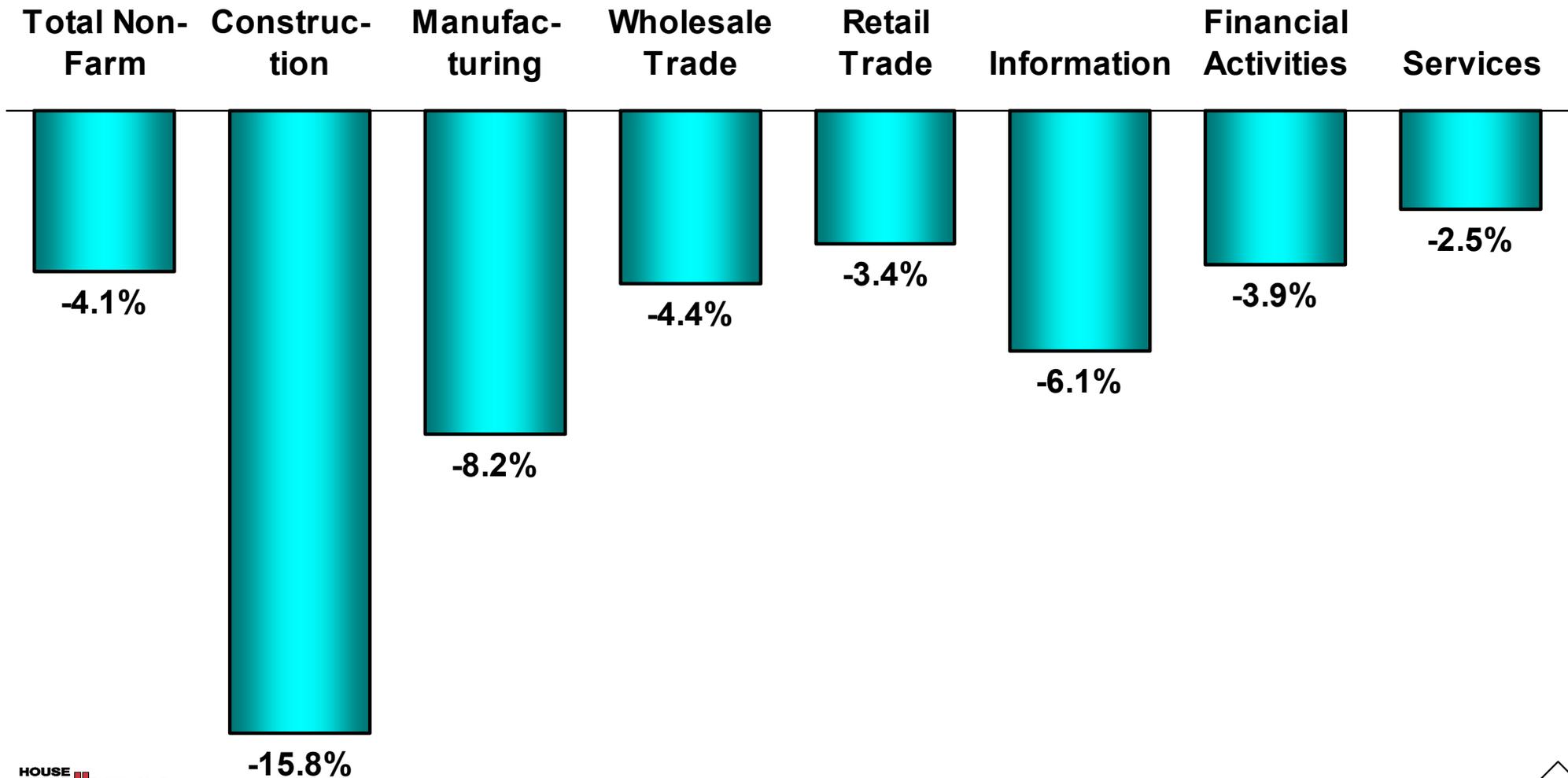
December 2007 Through December 2008





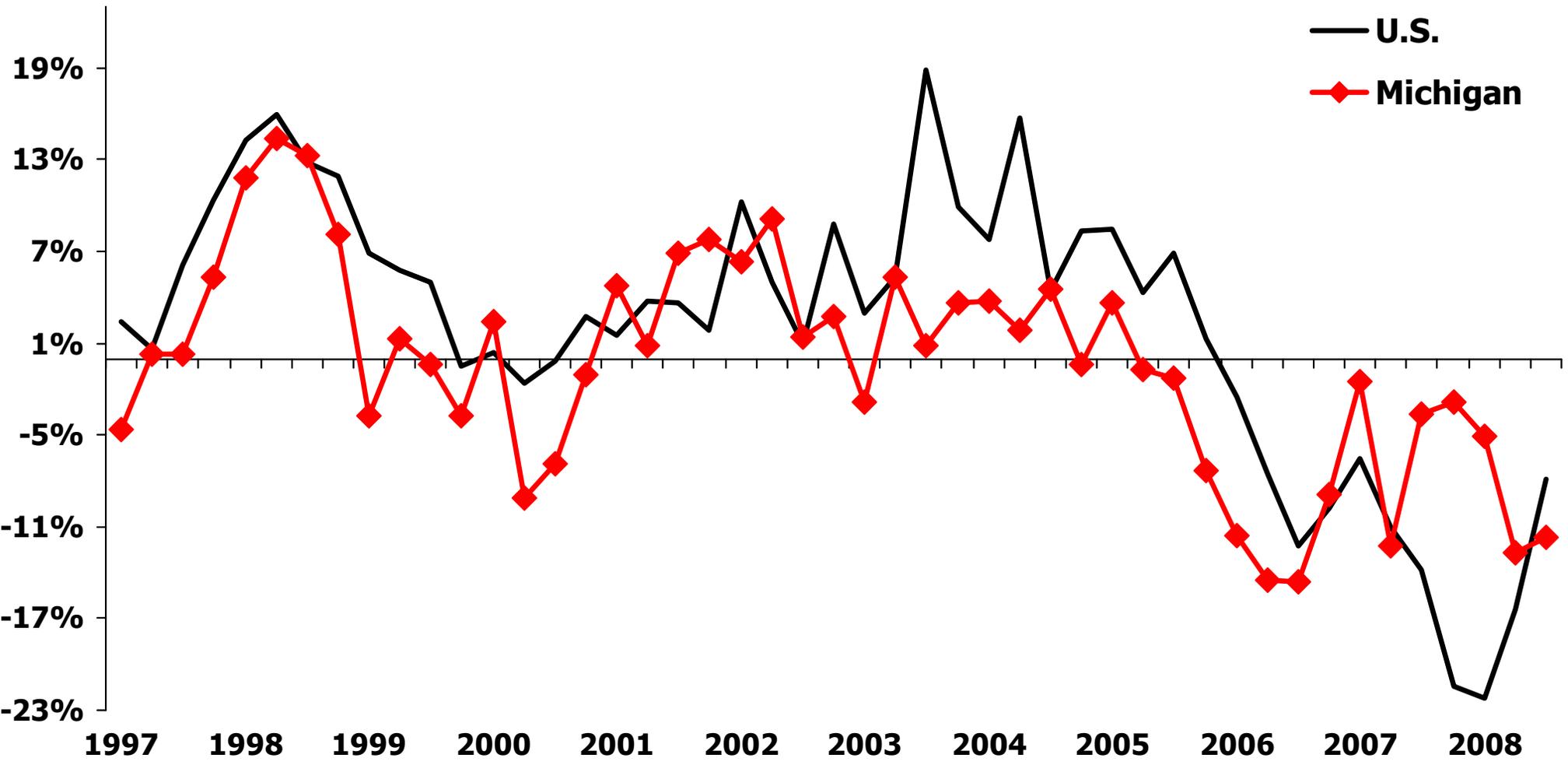
Michigan % Change in Employment

December 2007 Through December 2008



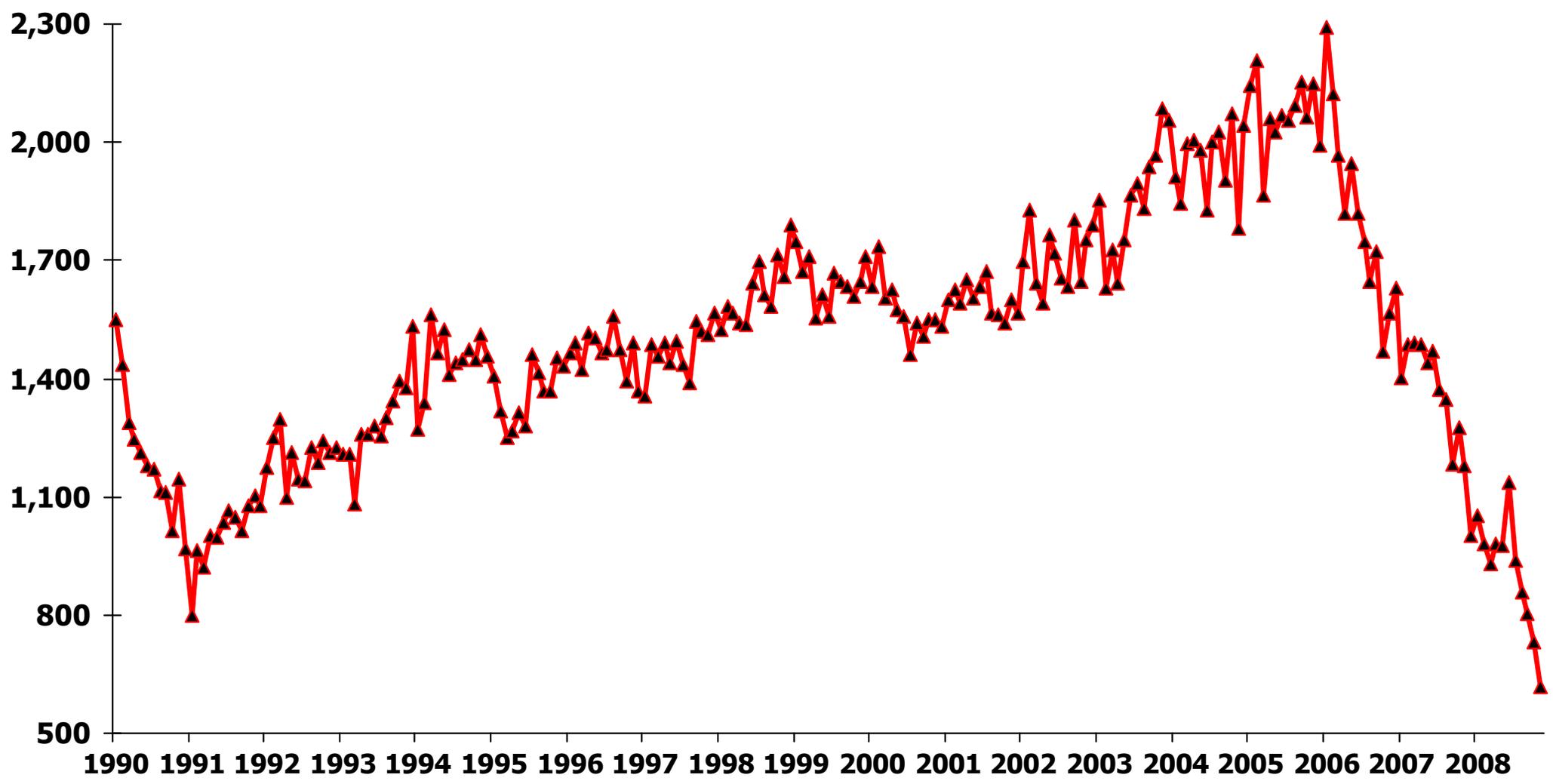


Total Existing Home Sales



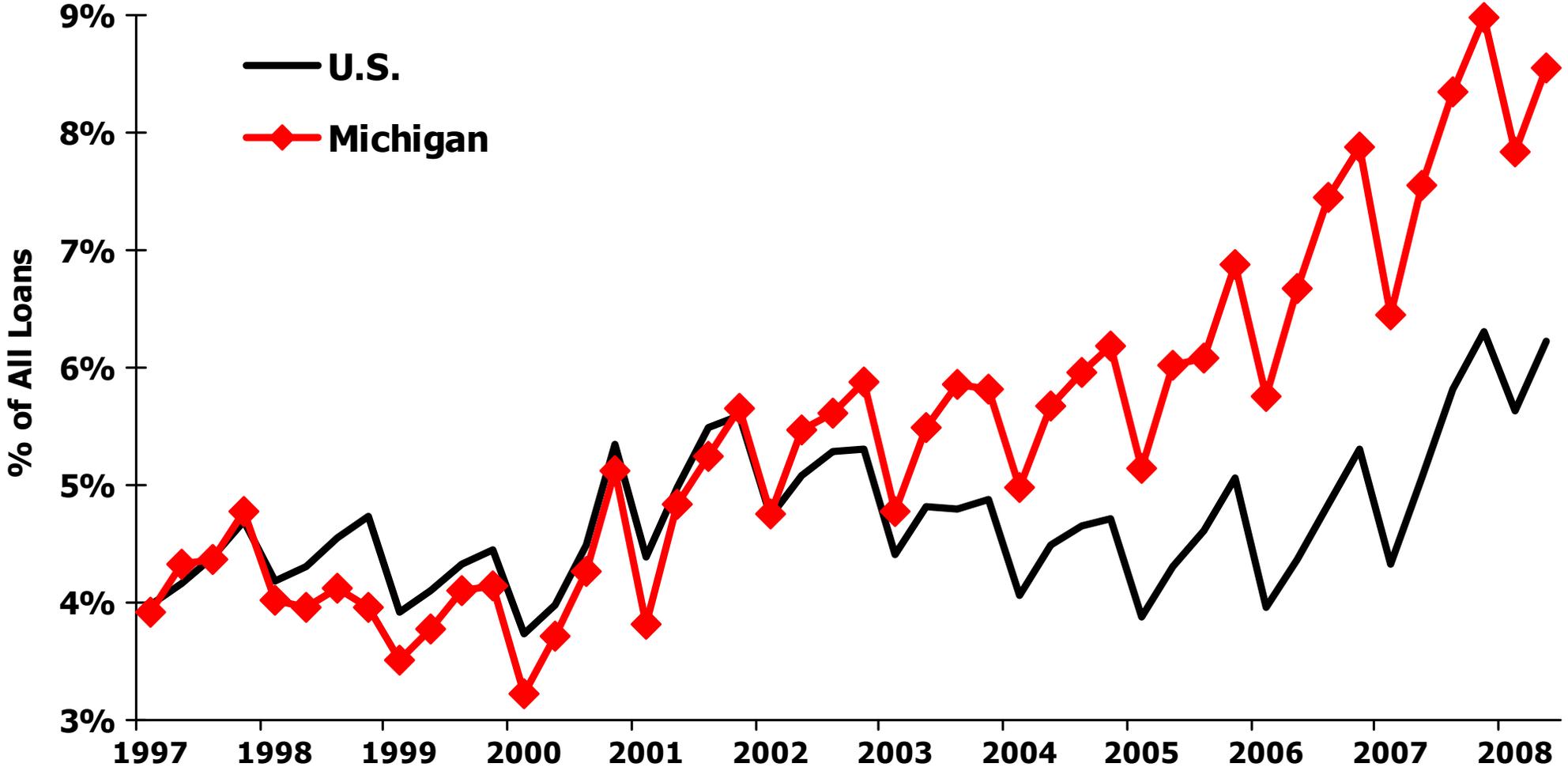


U.S. Housing Starts Drop 73% From January 2006



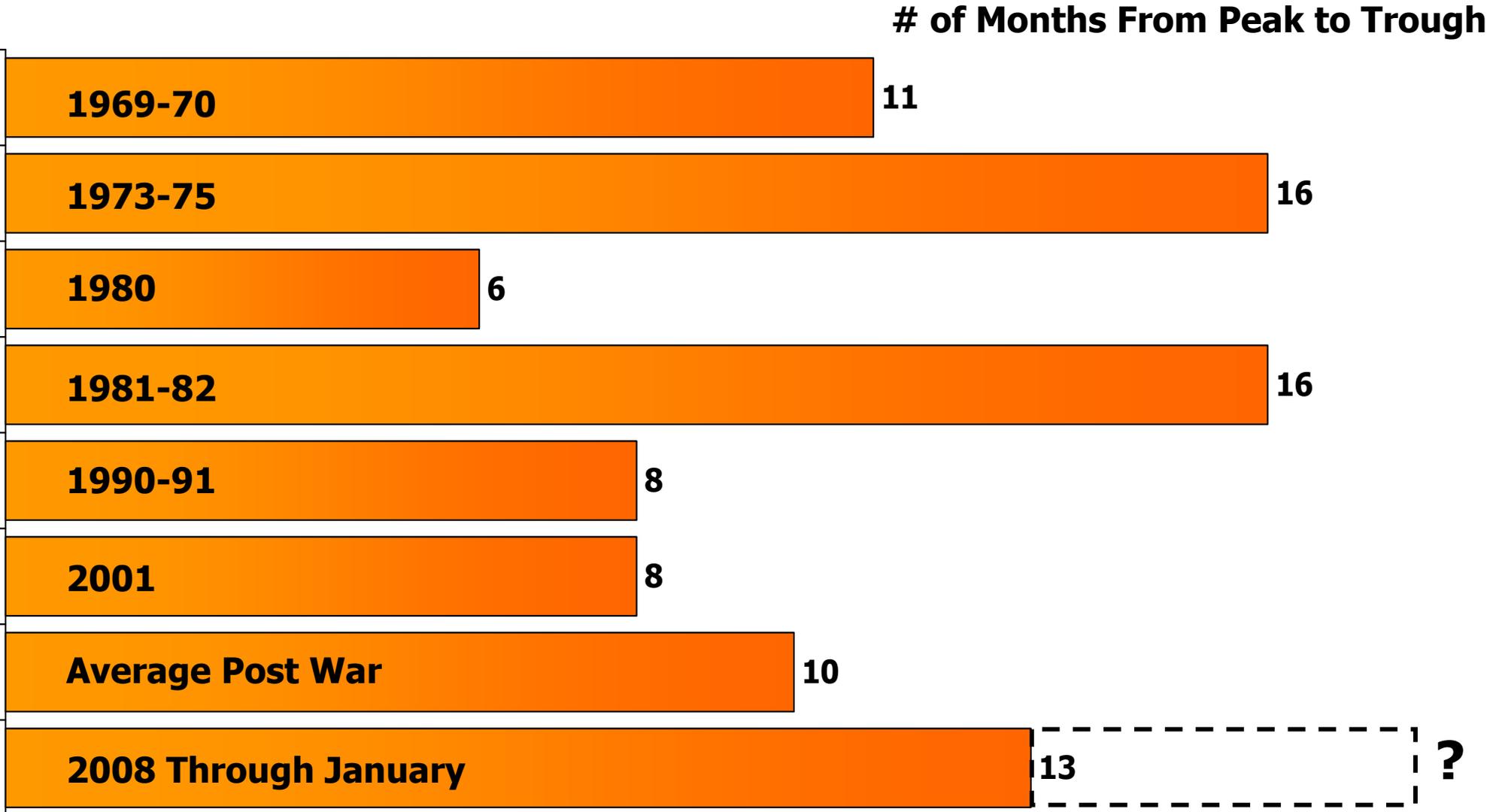


Total Delinquencies





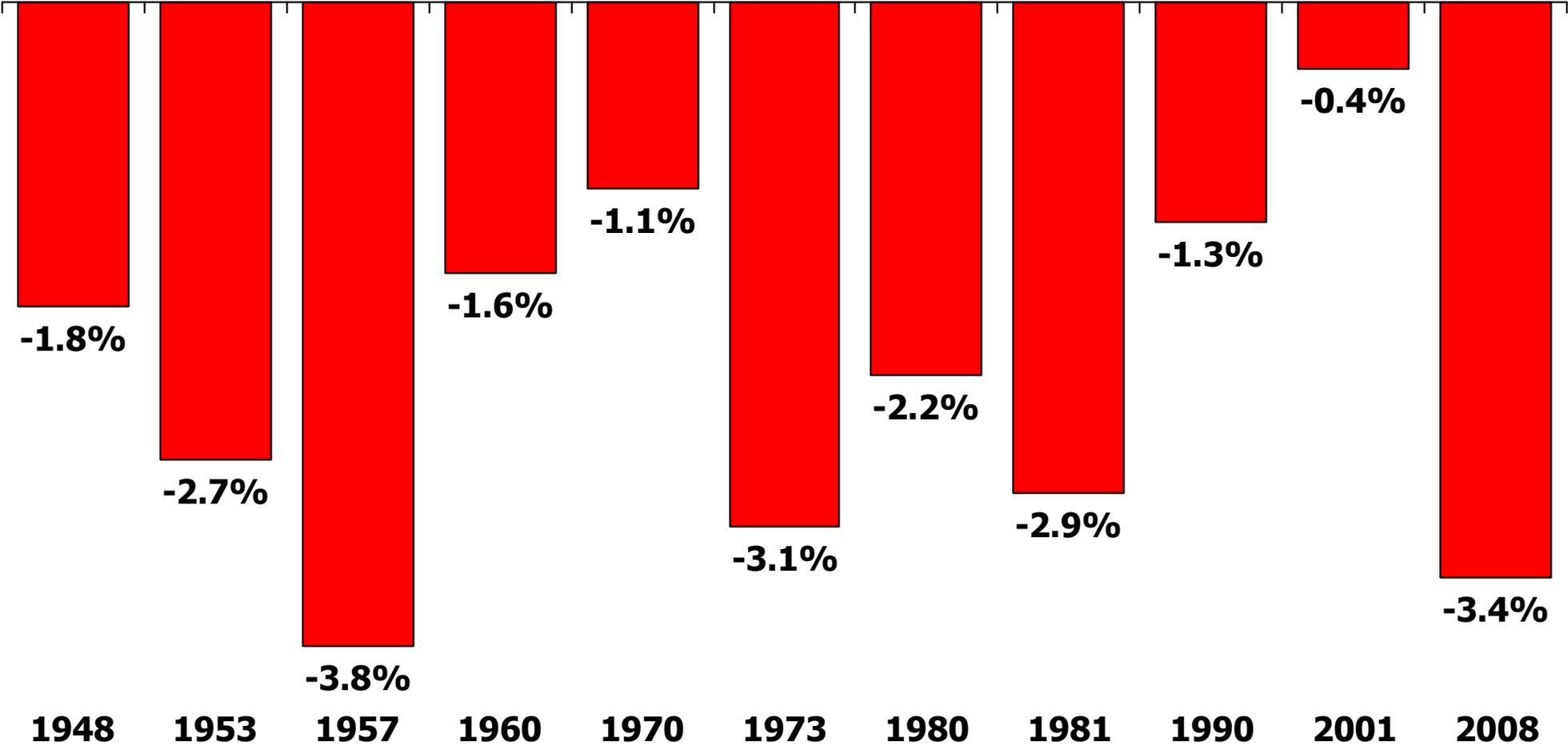
Length of U.S. Recessions





Decline in GDP Steep Compared to Recent Recessions

Peak to Trough GDP Decline





What Ends the Recession?

- ◆ **High oil and gasoline prices helped create the recession, but sharply declining prices are now acting as a stimulus**
- ◆ **Massive federal intervention into financial markets prevented complete financial collapse and will help spur recovery**
- ◆ **Significant federal stimulus anticipated of as much as \$1 trillion over two years, including aid to the states**
- ◆ **Time will also help heal the U.S. economy**



How Does It Compare?

Calendar 2009 Estimate

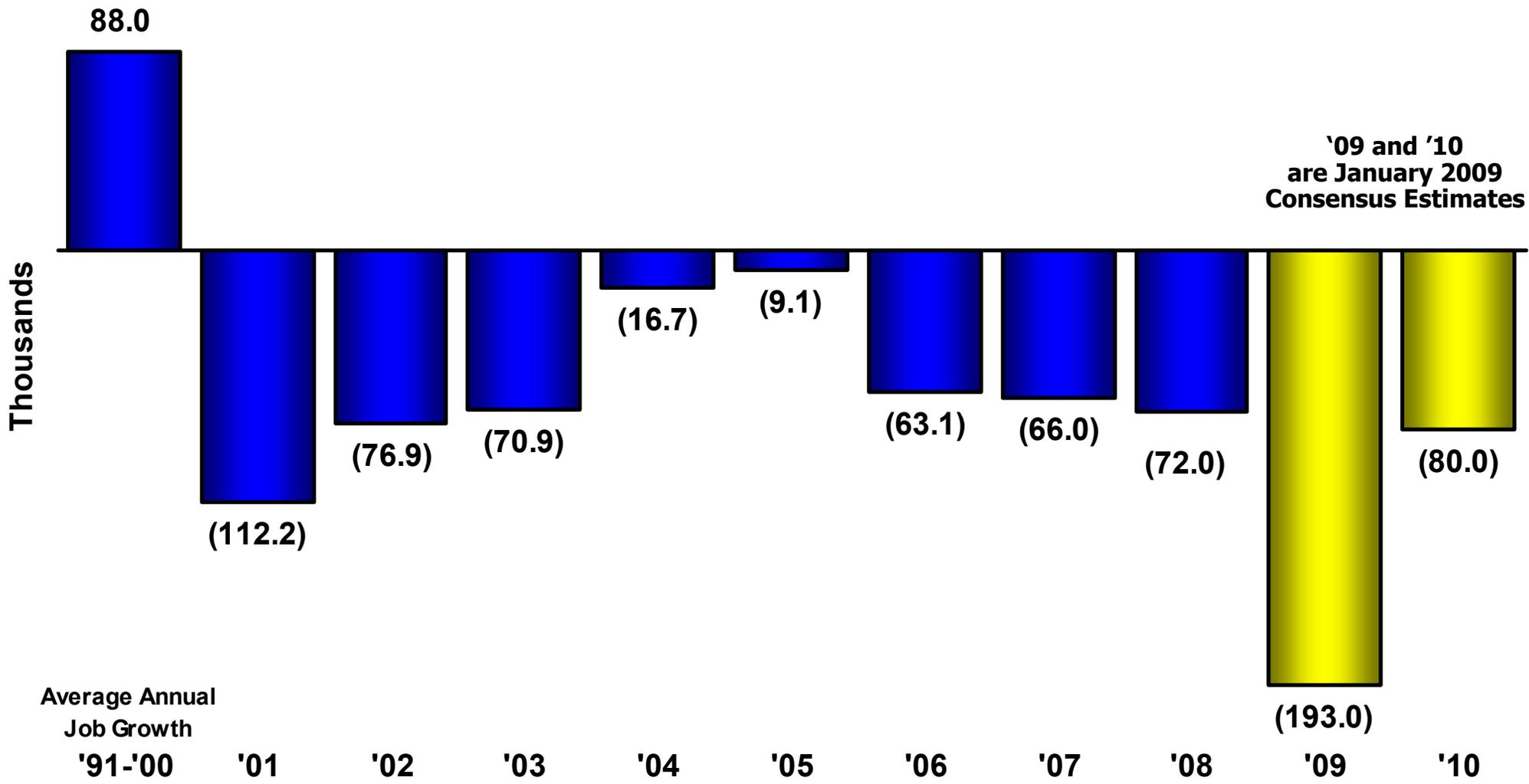
	<u>January 2009 Forecast</u>	<u>Comments</u>
Light Vehicle Sales (millions)	10.3	1982: 10.5 million
U.S. Unemployment Rate	8.5%	Highest Since 1983
Housing Starts (million units)	0.604	Lowest Back to 1959
U.S. Payroll Employment (% change)	-2.6%	Lowest Since 1958
U.S. Personal Income (% change)	0.8%	Lowest Since 1949
Oil (West Texas) \$ per barrel	\$34.25	Lowest Since 2003



MICHIGAN FORECAST



Job Growth in Michigan



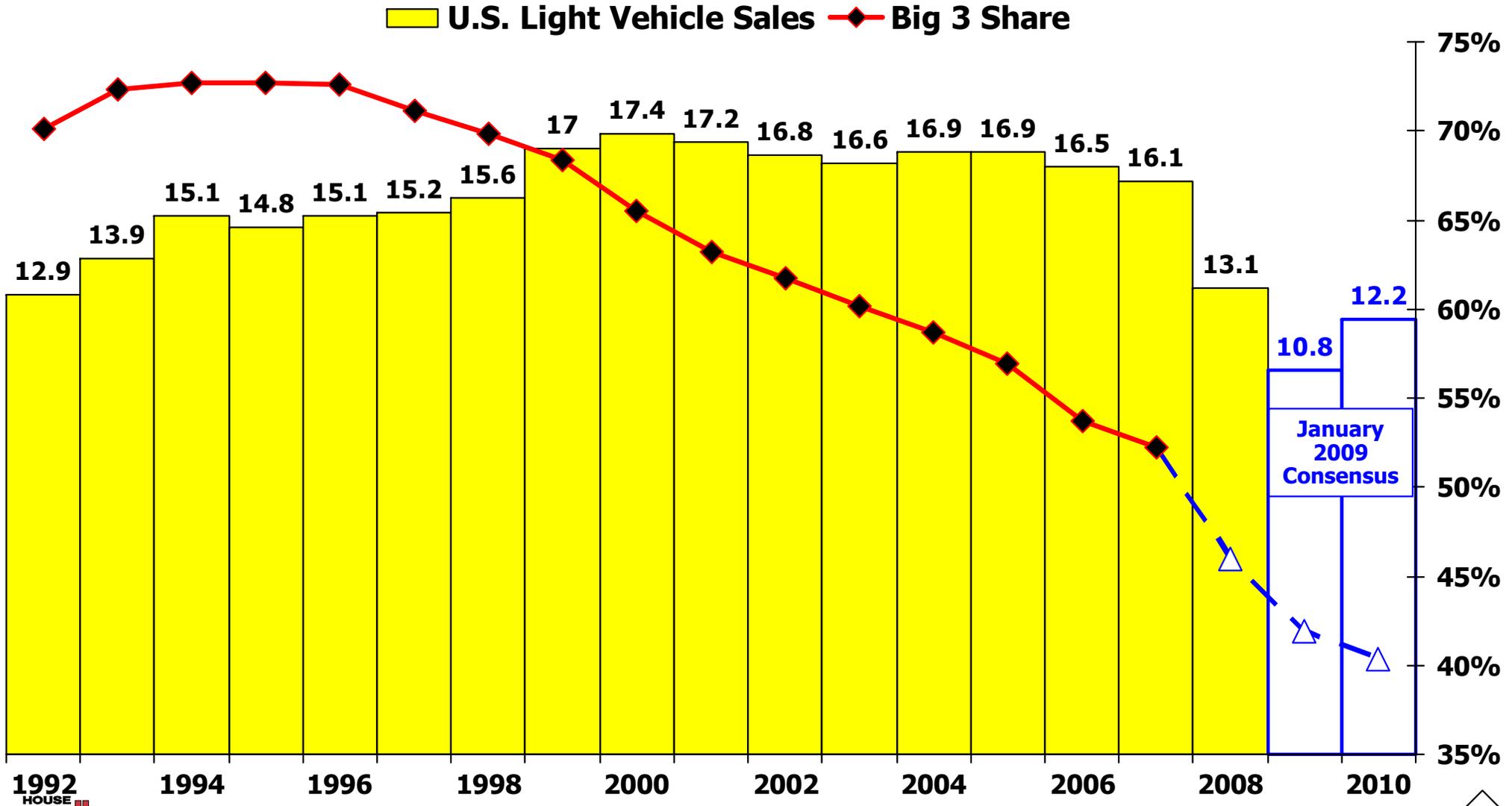


Employment Location Quotients by Industry: Michigan 2006

<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

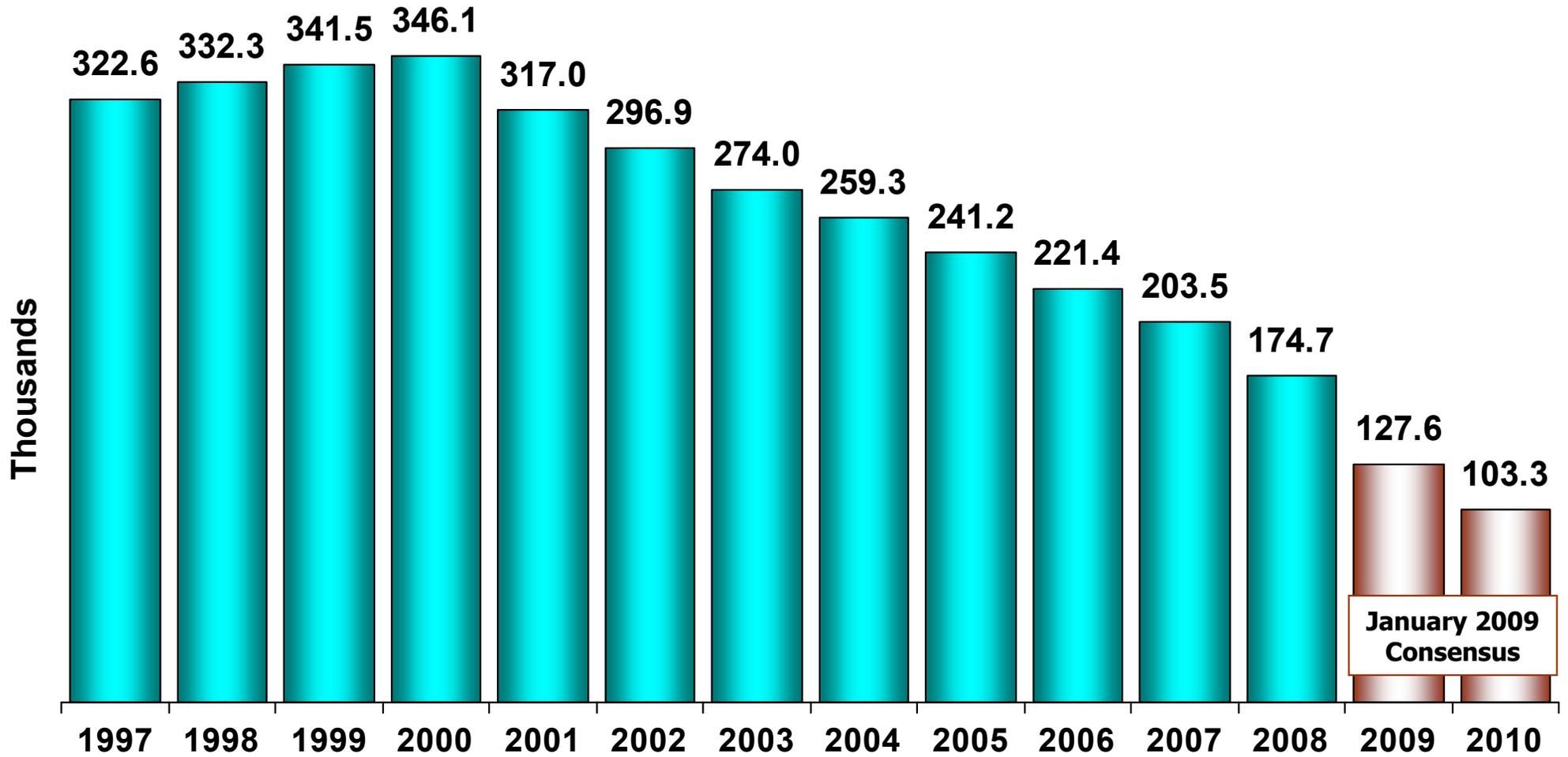


Big 3 Losing Market Share



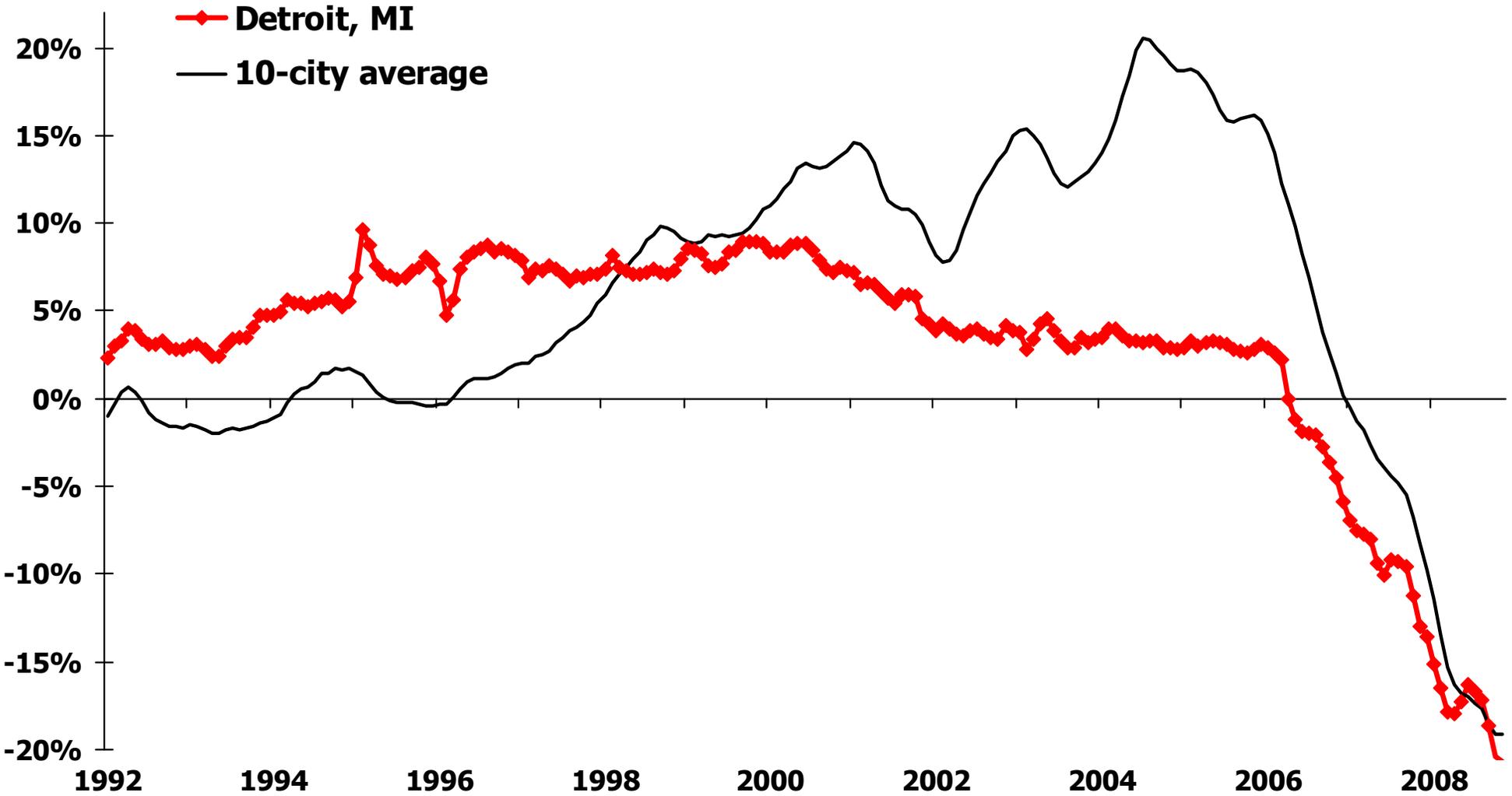


Michigan Vehicle Employment





Home Prices Fall Sharply





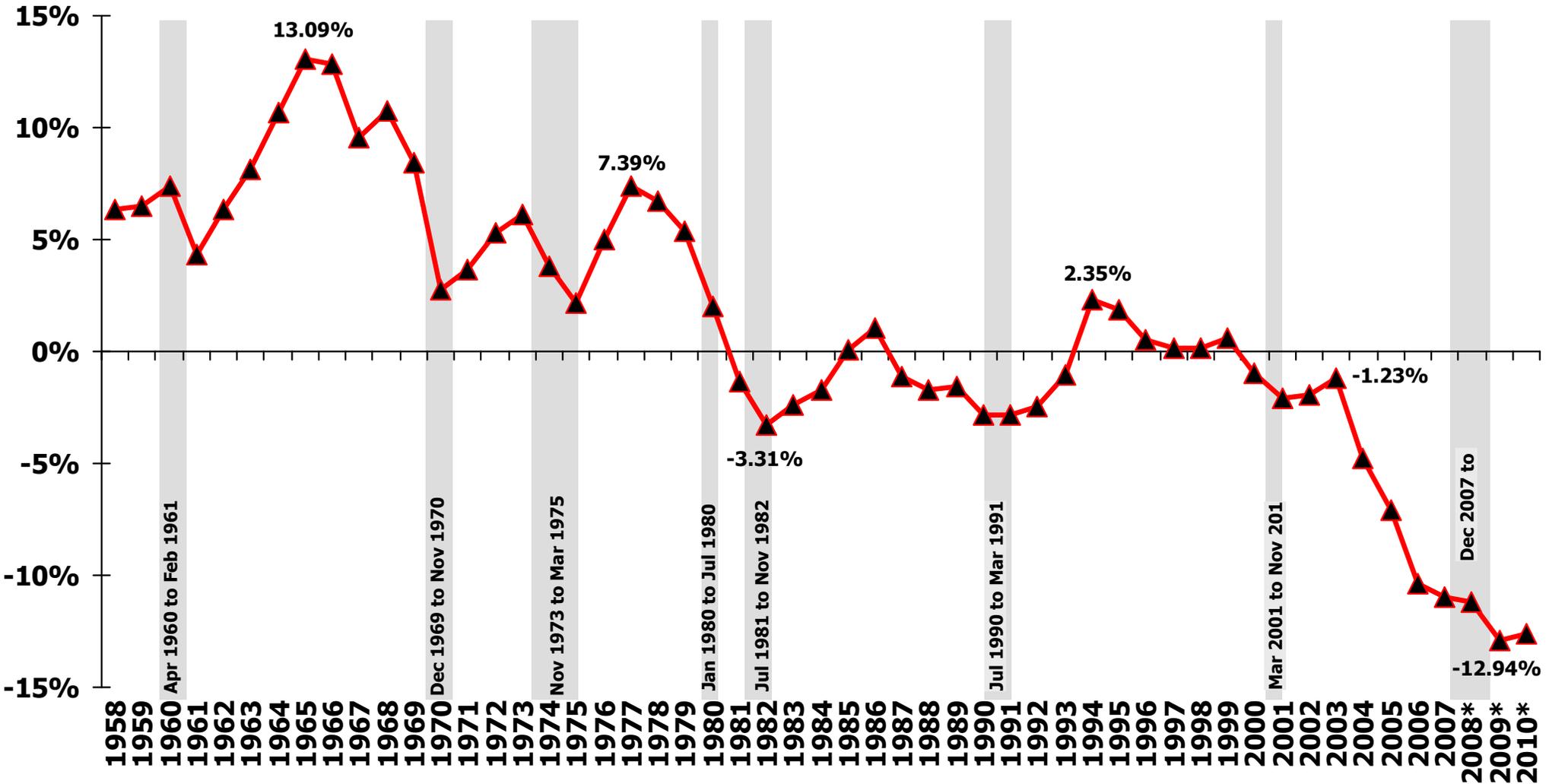
Property Value Growth Slowing

Yearly Change

	<u>Inflation Rate Multiplier for Property</u>	<u>Total SEV Growth</u>	<u>Total Taxable Value Growth</u>
1996	2.8%	7.5 %	5.1 %
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	4.1%	-5.0%	-3.5%



Michigan Per Capita Income Deviation from National Average





Conclusion

- ◆ **U.S. in the worst recession in decades**
- ◆ **What will eventually end the recession?**
 - ◆ **Lower oil prices**
 - ◆ **Financial bailout**
 - ◆ **Government stimulus**
 - ◆ **Time**
- ◆ **Michigan has been in a long-term recession due to the auto sector**
- ◆ **Michigan recovery will require**
 - ◆ **U.S. recovery**
 - ◆ **Stability in the auto sector**

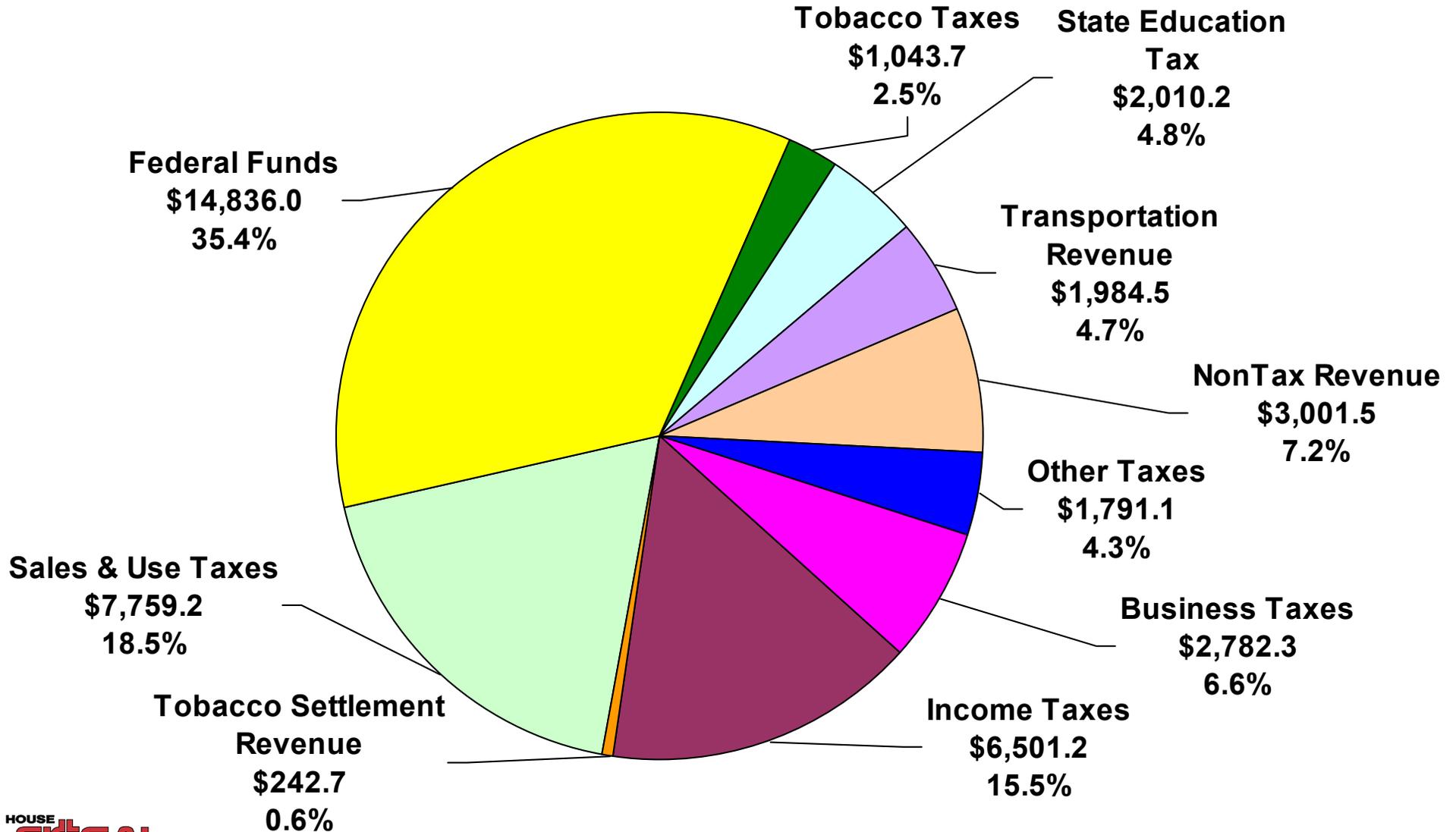


MICHIGAN REVENUE



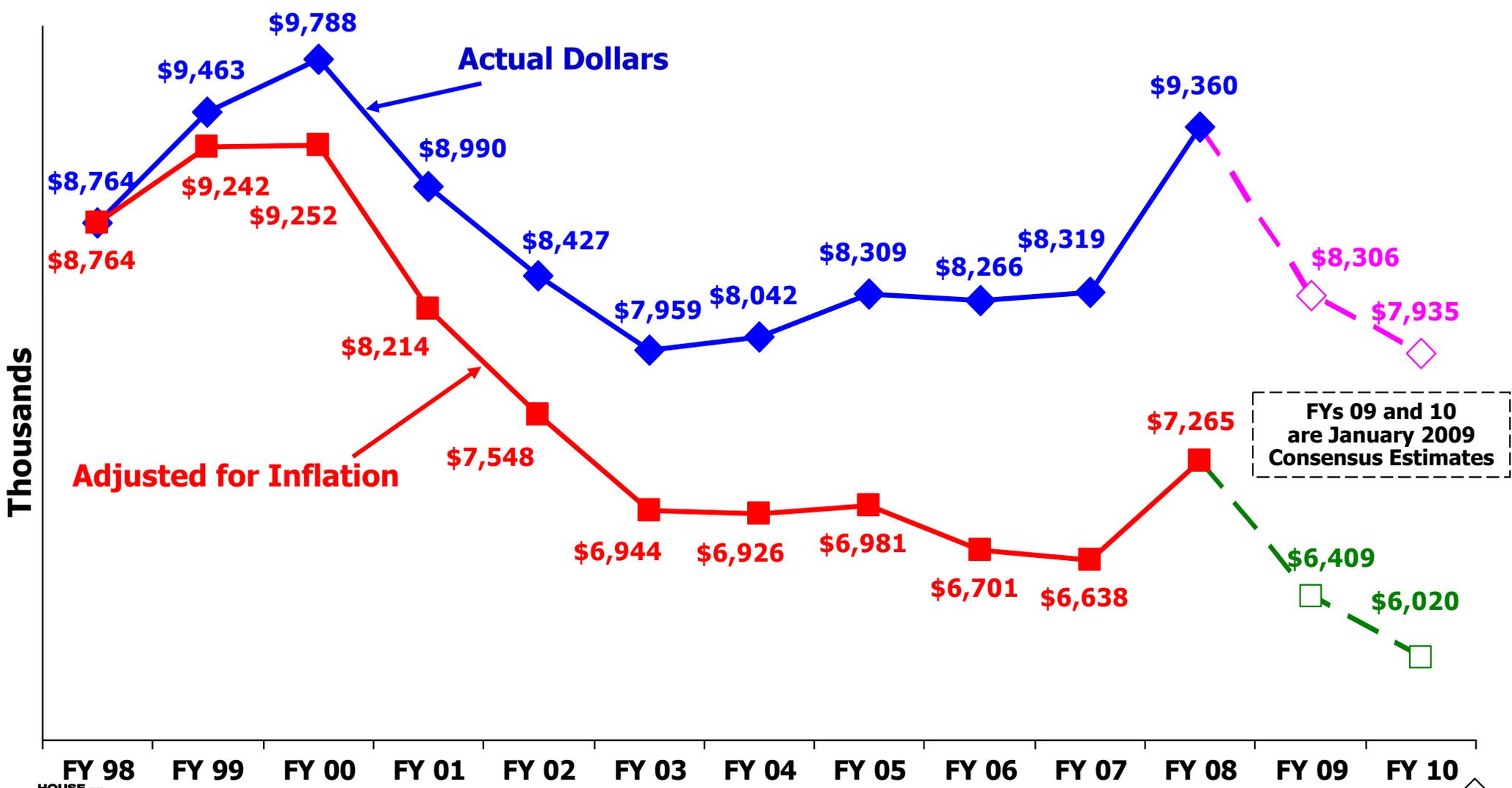
State of Michigan Revenue Sources

FY 2008-09 Total = \$41,952.4 million



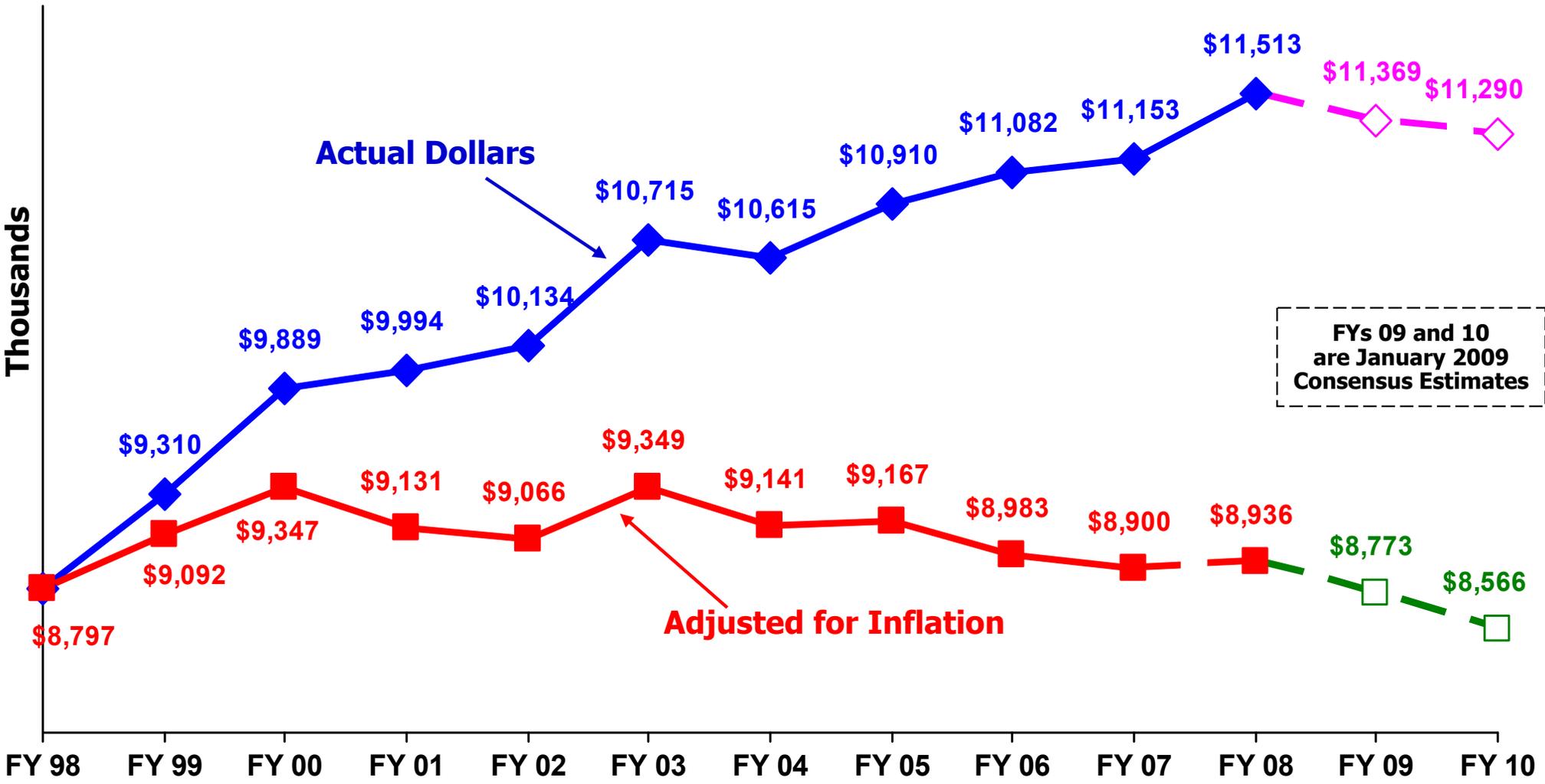


Inflation Adjusted GF/GP Revenue Down 35% Since FY 2000





Inflation Adjusted SAF Net Revenue Down 8% since FY 2000

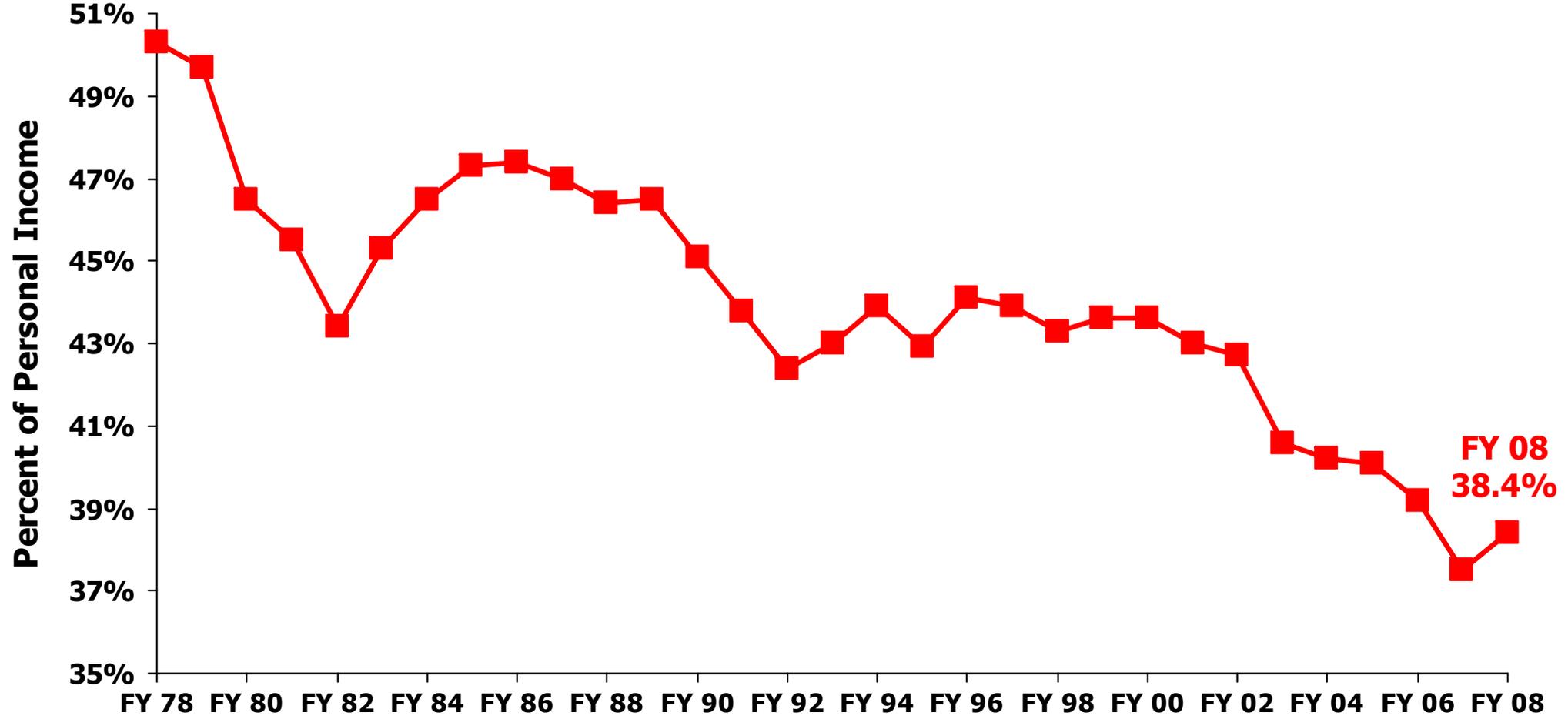


FYs 09 and 10 are January 2009 Consensus Estimates



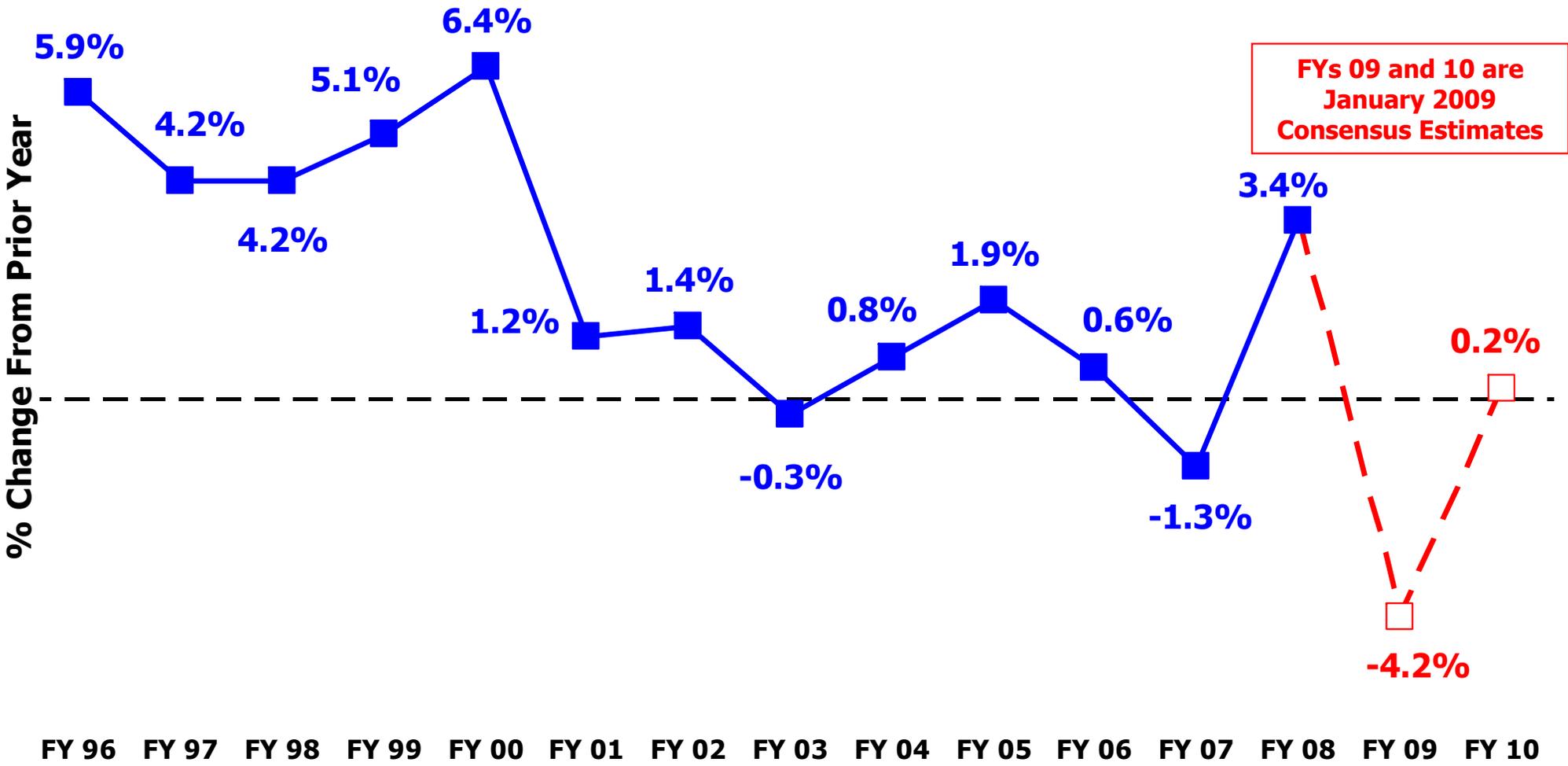
Sales/Use Tax Share Declining

Taxable Sales as a Percent of Personal Income



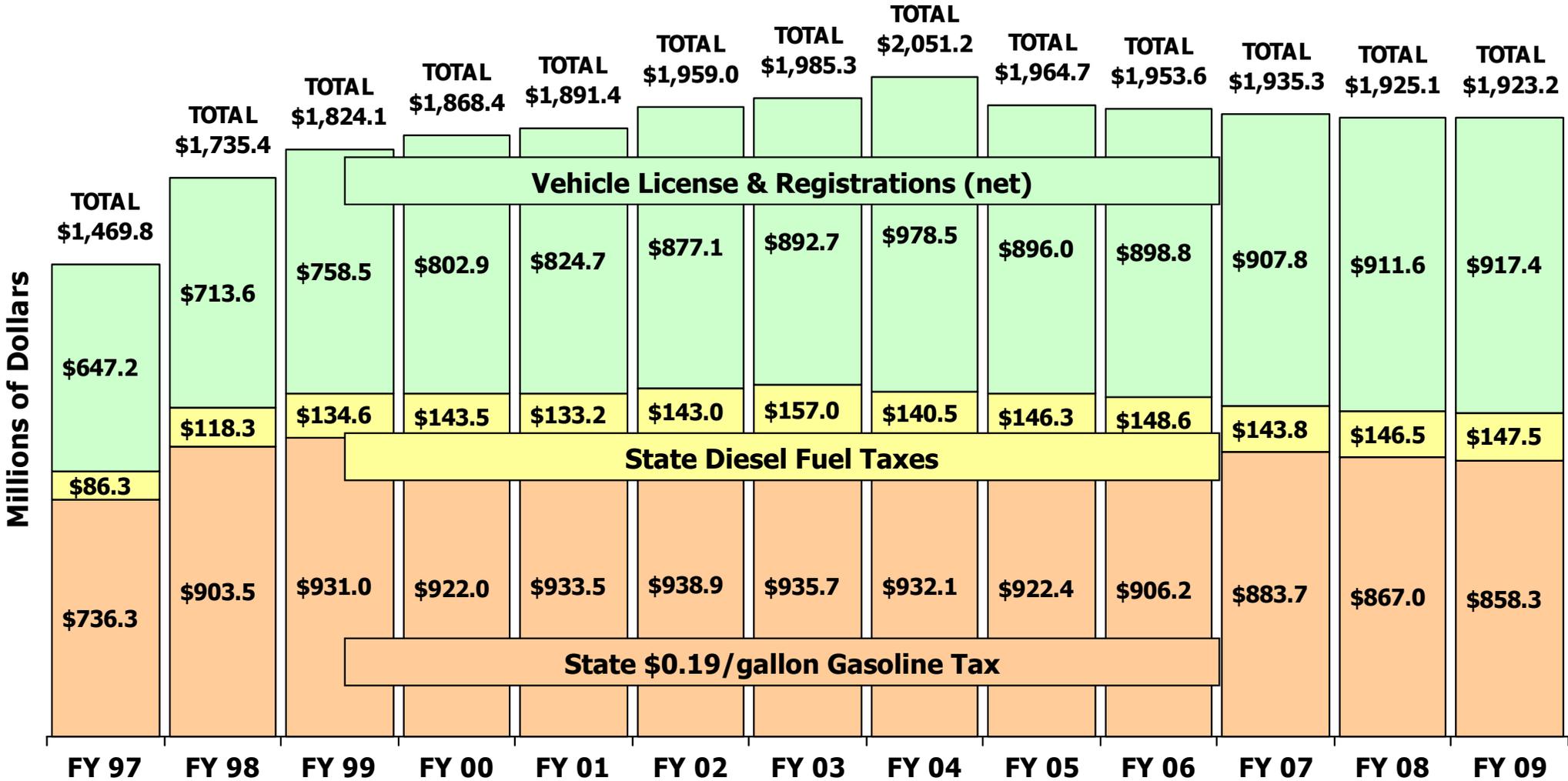


Sales Tax Revenue





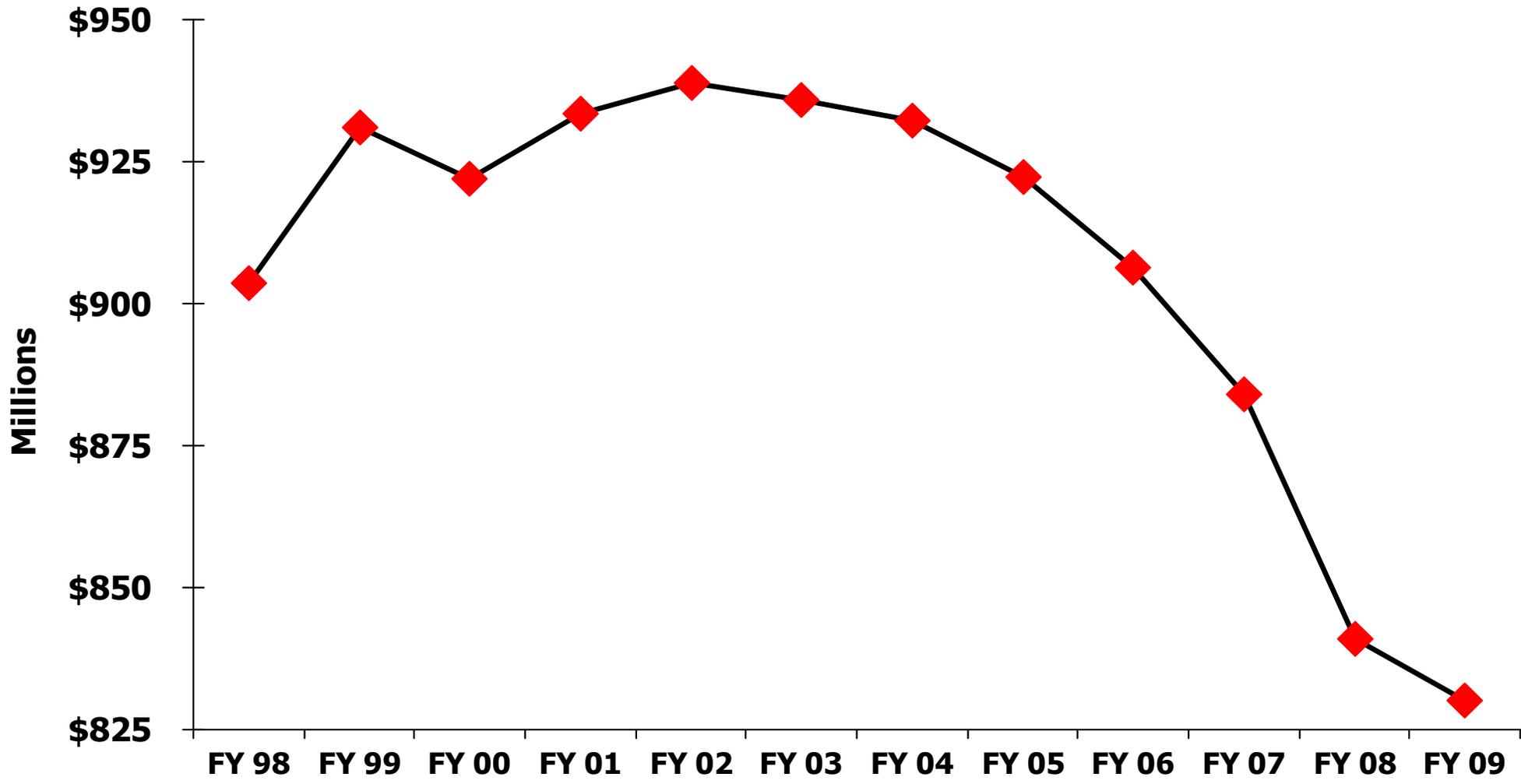
Transportation Revenue



FYs 08 and 08 are estimates



Michigan Gasoline Tax Revenue





Estimated Budget Shortfalls

(Millions of Dollars)

	<u>FY 2008-09</u>	<u>FY 2009-10</u>
<u>Unreserved Fund Balances</u>		
GF/GP	\$458.0	N/A
SAF	\$255.0	N/A
TOTAL	\$713.0	
<u>Revenue Forecast Reductions</u>		
GF/GP	(\$578.5)	(\$371.6)
SAF	(\$338.7)	(\$72.9)
TOTAL	(\$917.2)	(\$444.5)
<u>Estimated Budget Shortfalls</u>		
GF/GP	(\$166.0)	(\$1,200.0)
SAF	(\$38.2)	(\$235.0)
TOTAL	(\$204.2)	(\$1,435.0)



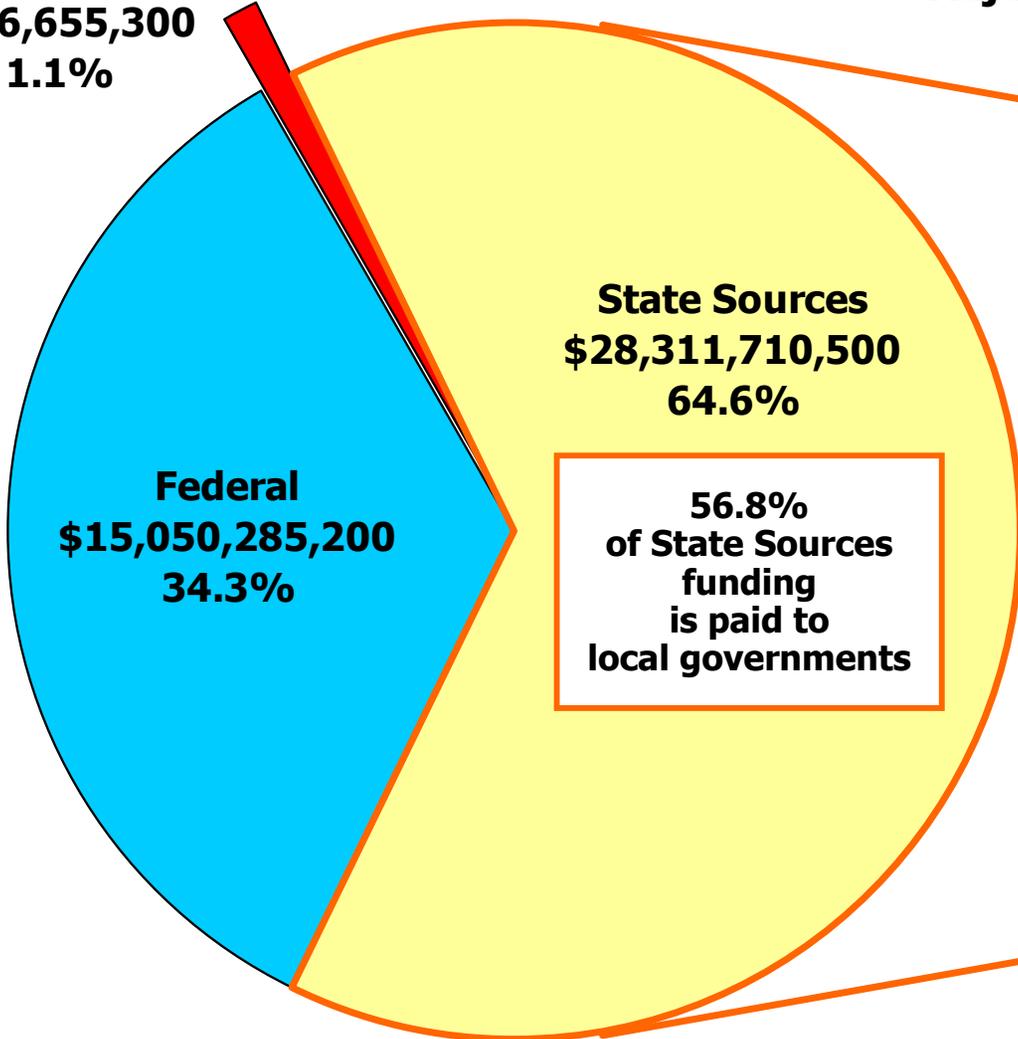
MICHIGAN'S BUDGET



FY 2008-09 Budget Adjusted Gross Funding Sources

Adjusted Gross = \$43,858,651,000*

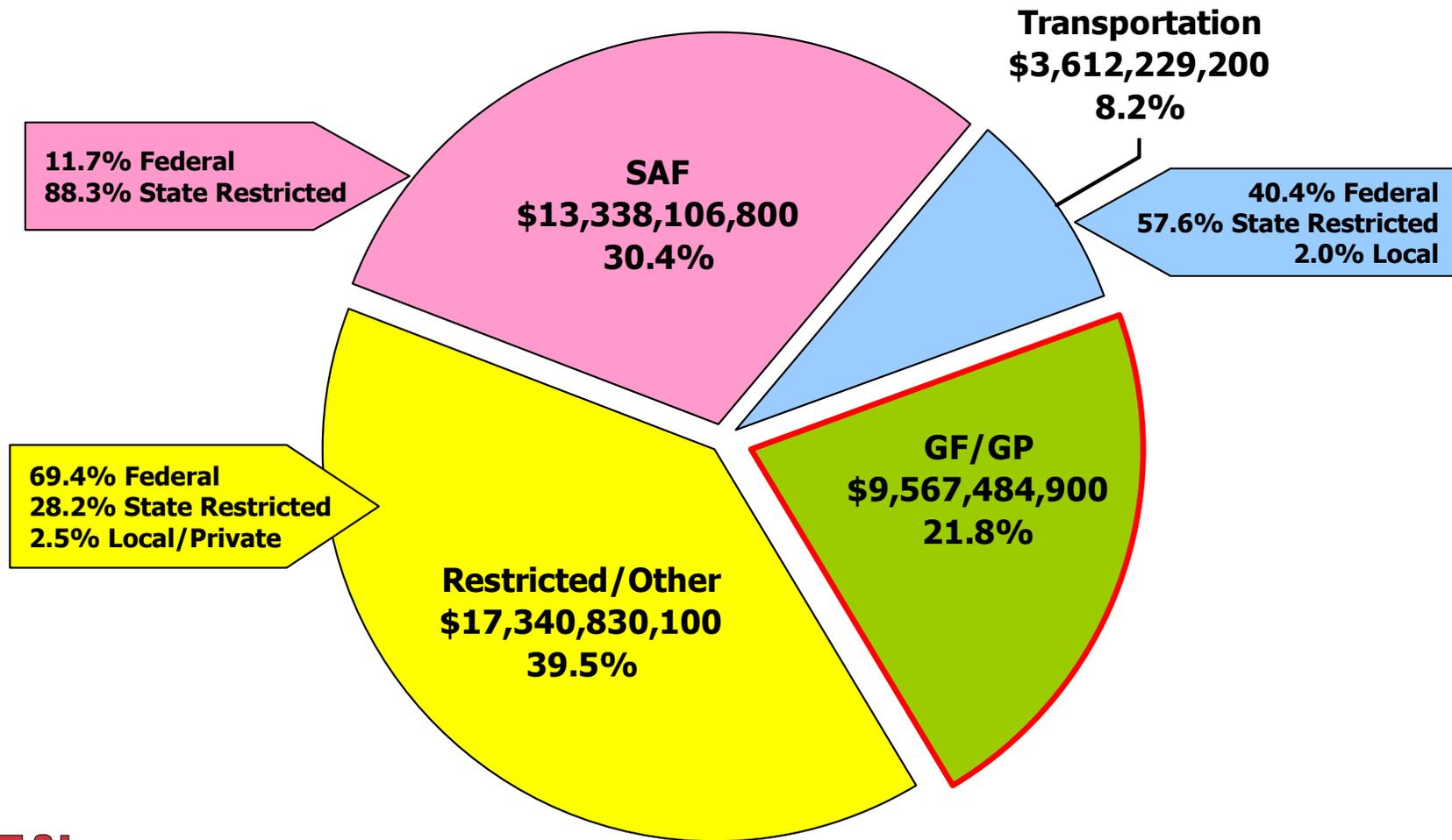
Local/Private
\$496,655,300
1.1%





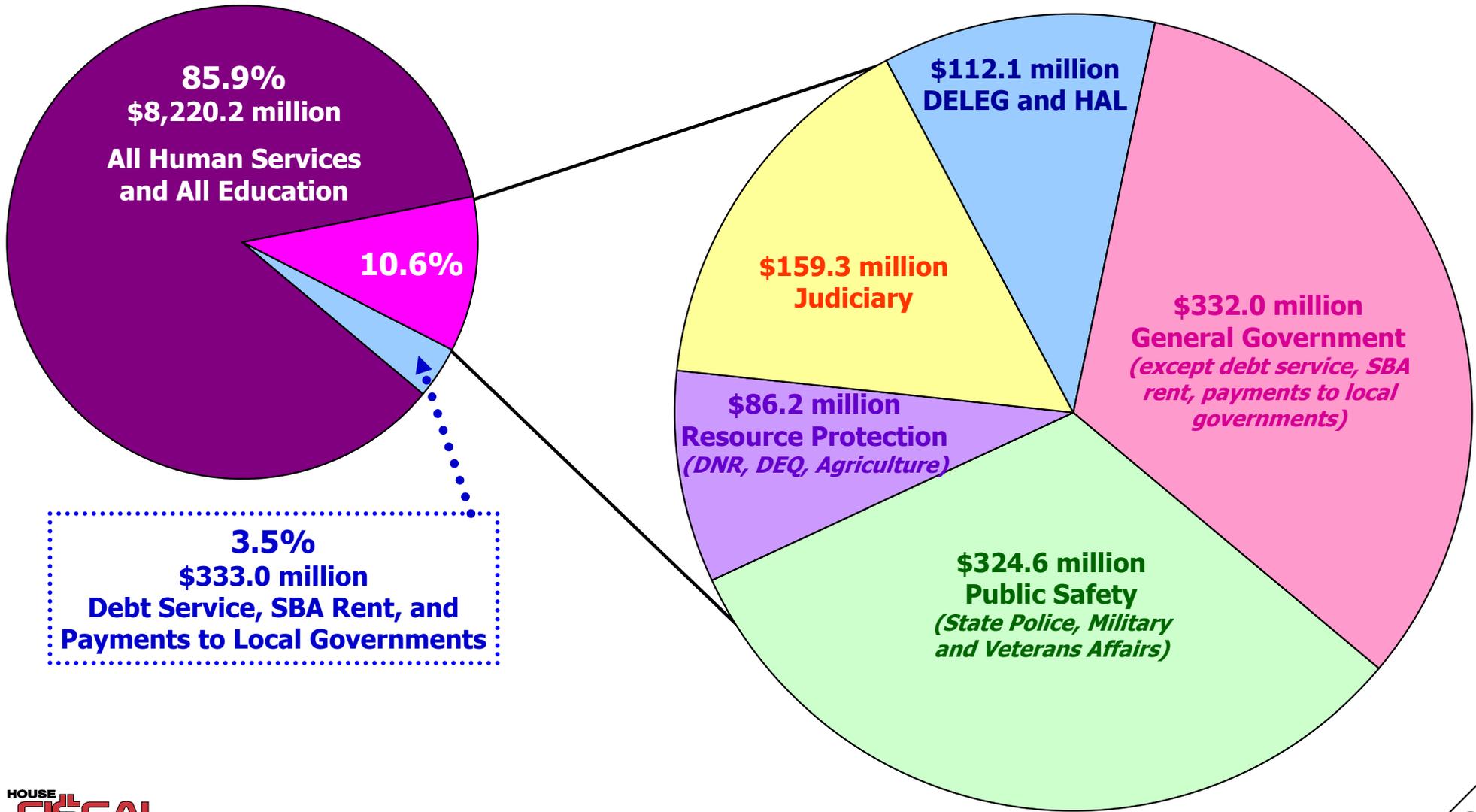
FY 2008-09 Appropriations Funding

Adjusted Gross = \$43,858,651,000*





FY 2008-09 GF/GP*

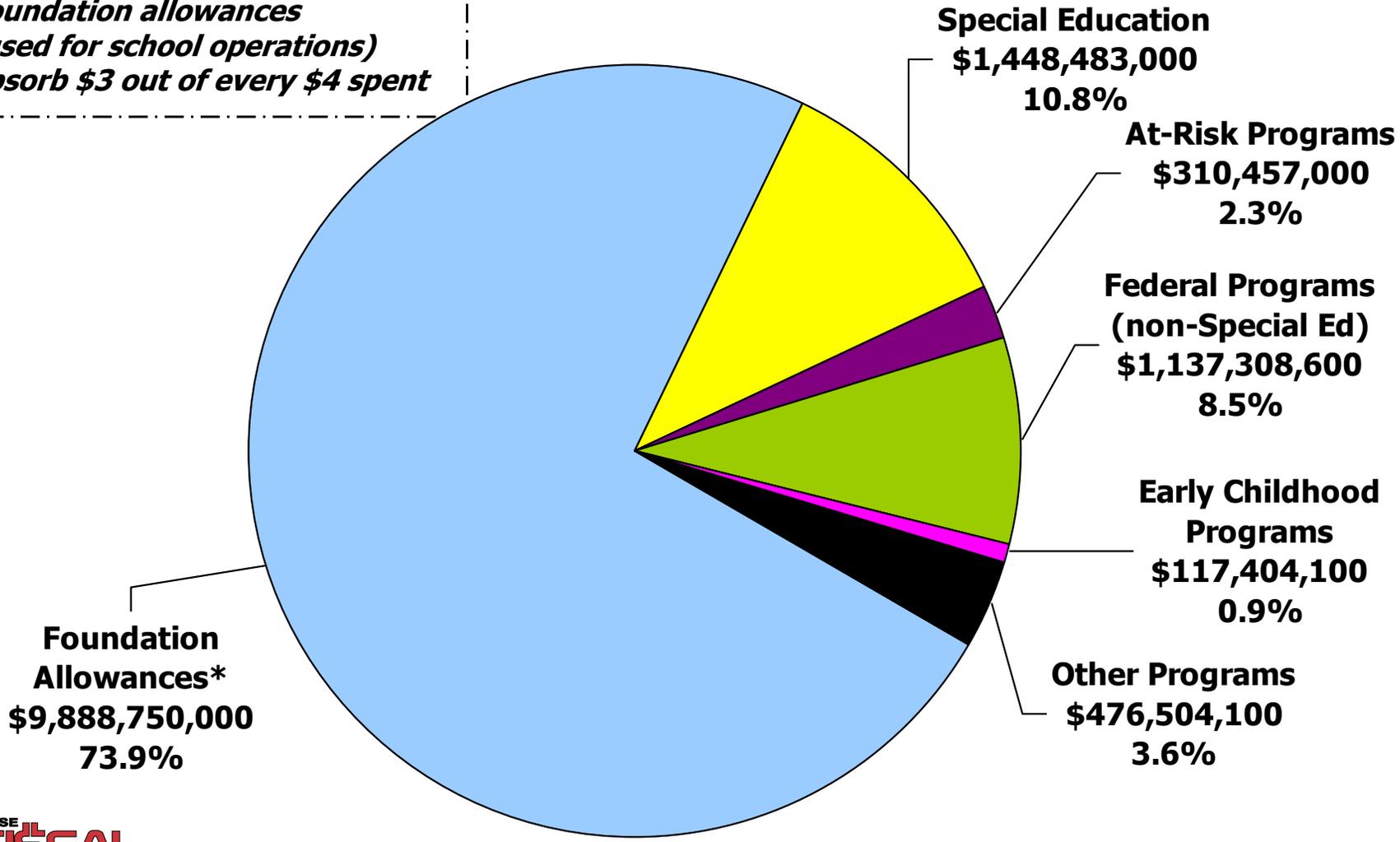




School Aid Major Spending Categories

FY 2008-09 Total = \$13,378,906,800

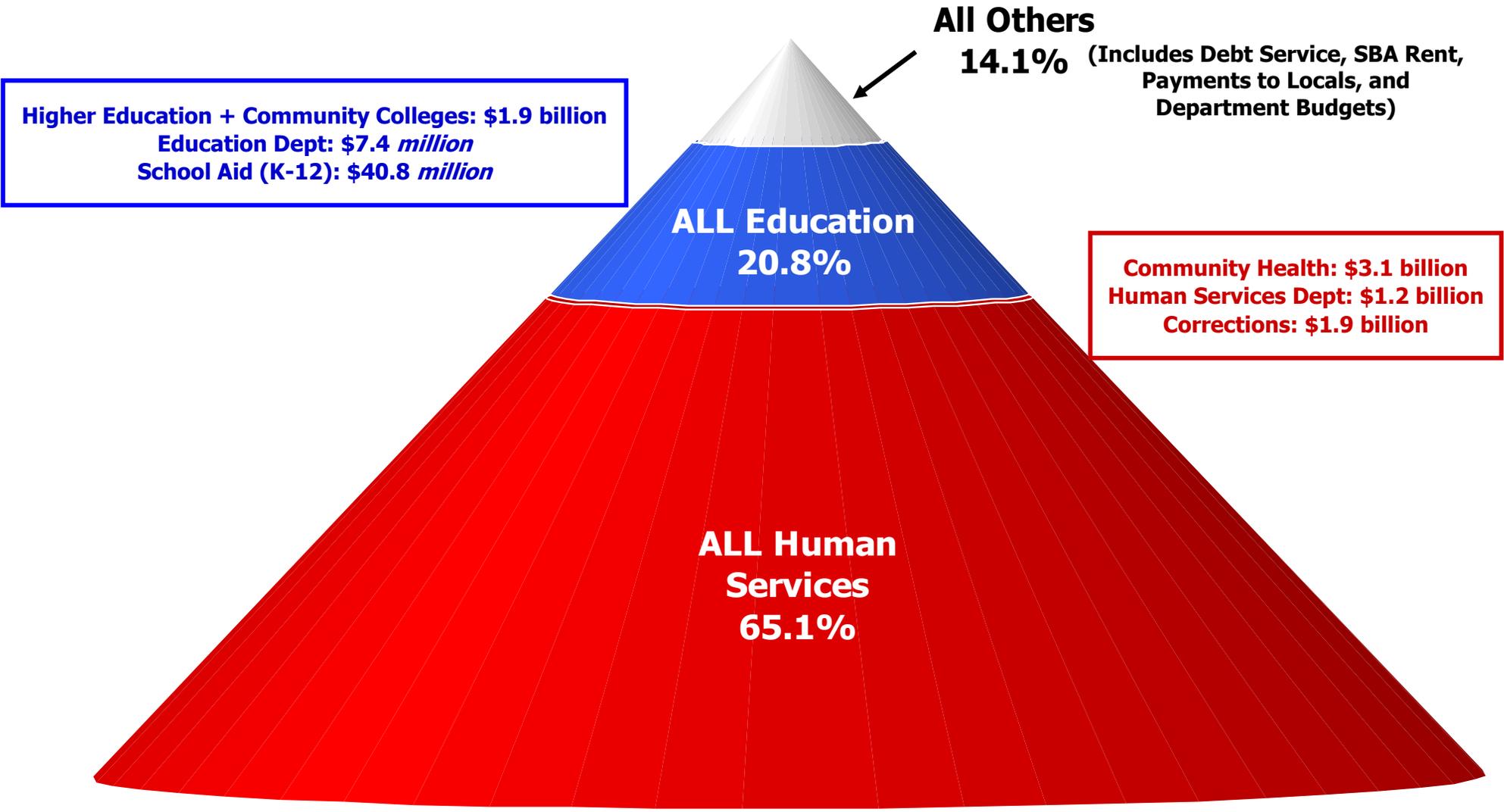
*Foundation allowances
(used for school operations)
absorb \$3 out of every \$4 spent*



* Does not include local revenue



FY 2008-09 GF/GP Appropriations



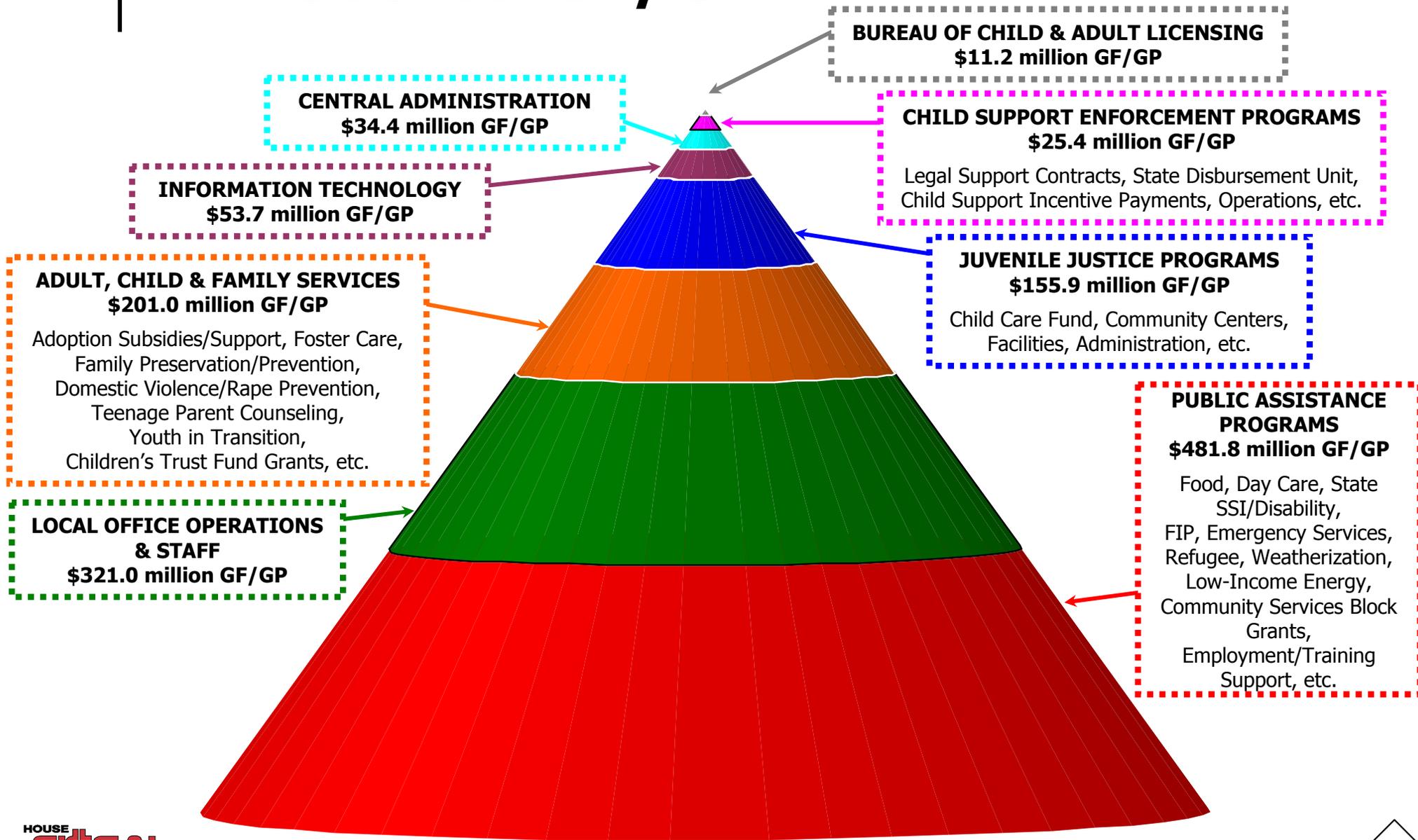


Medicaid Impact on Michigan's Budget

- ◆ For FY 09, approximately 22.4% of Michigan GF/GP revenue is appropriated by Medicaid
- ◆ 1 of 7 Michigan residents were eligible for Medicaid in August 2008
- ◆ 37% of births and 70% of nursing home expenditures in Michigan are financed through Medicaid
- ◆ Total state and federal Medicaid appropriation is over \$9.9 billion in FY 09
- ◆ Since FY 1999-2000
 - ◆ 88.4% increase in Medicaid funding
 - ◆ 46.6% growth in Medicaid caseload (495,100 cases)

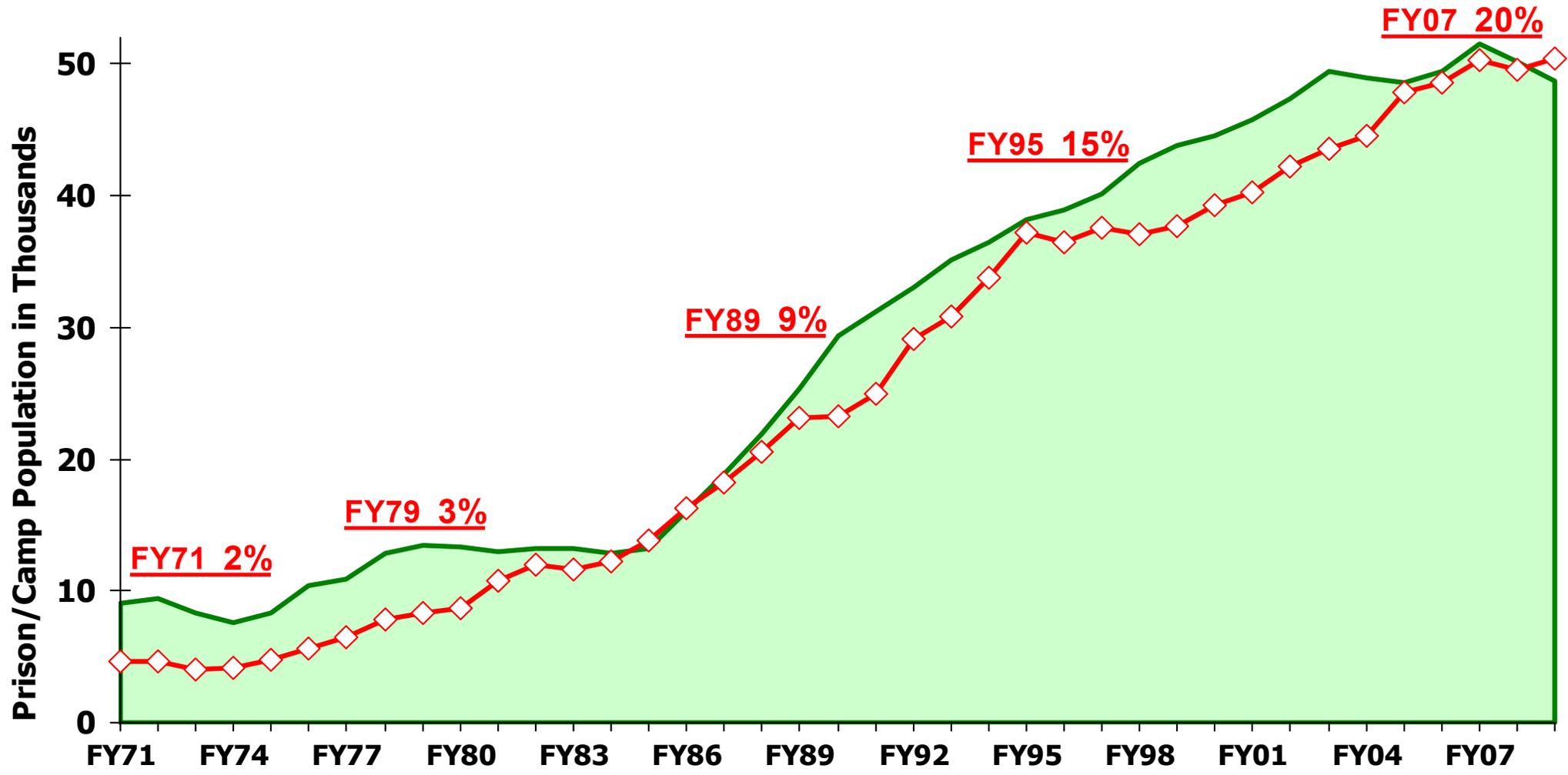


Department of Human Services FY 2008-09 GF/GP*





Corrections Budget Increases



Prison/Camp Population

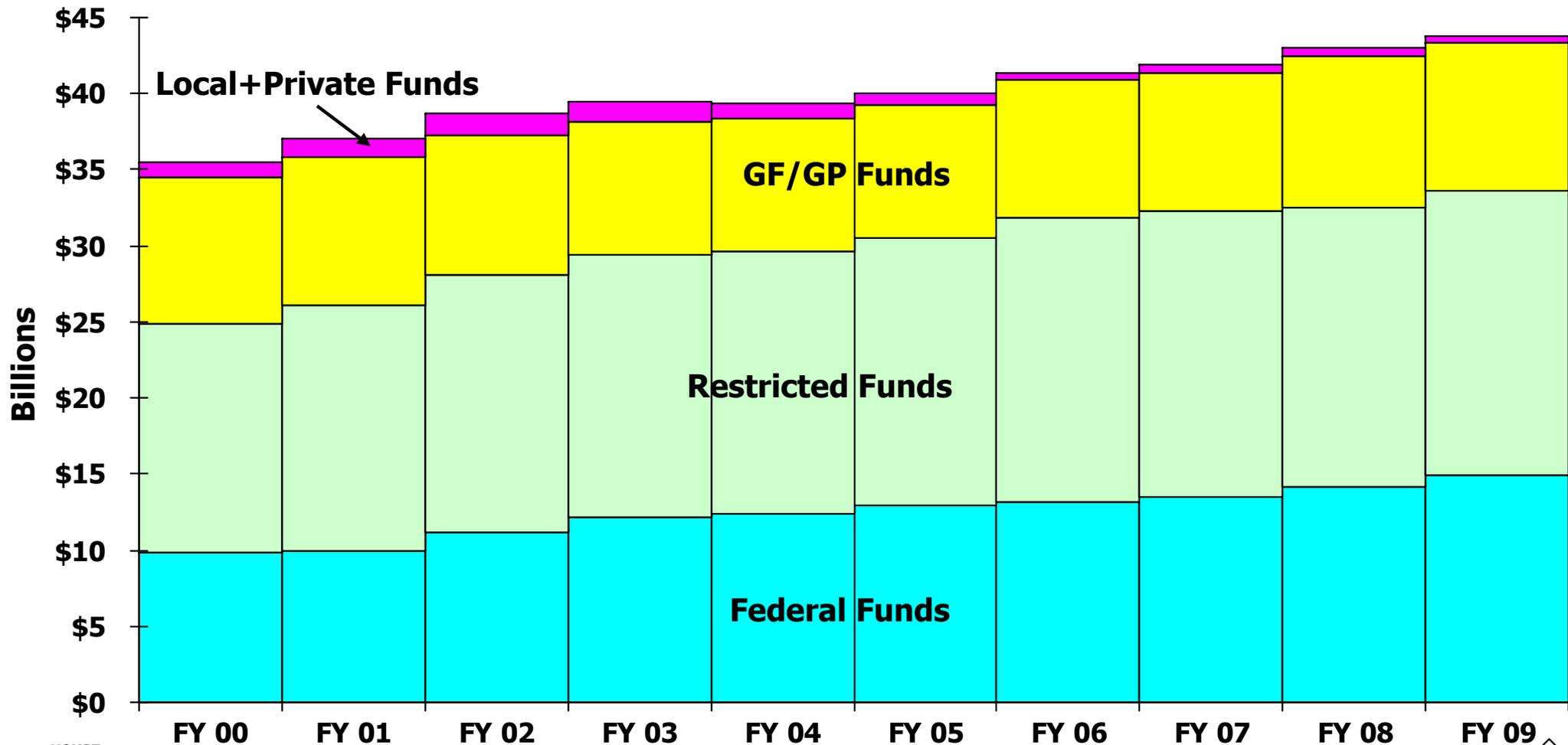
Corrections % of State GF/GP

FYs 08 and 09 based on year-to-date appropriations



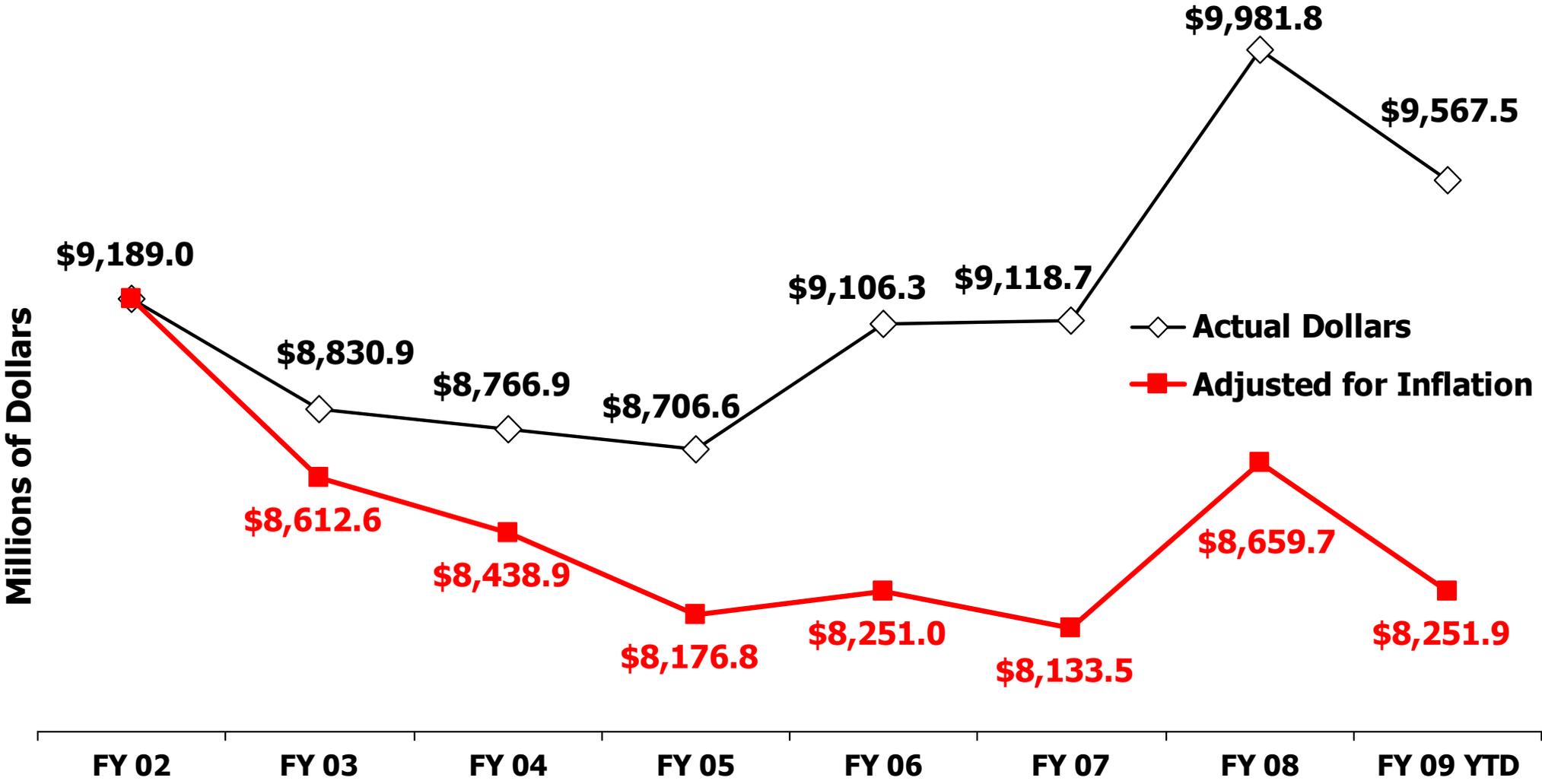
Adjusted Gross Appropriations by Fund Source

Excluding federal funds, average annual growth rate = 1.3%



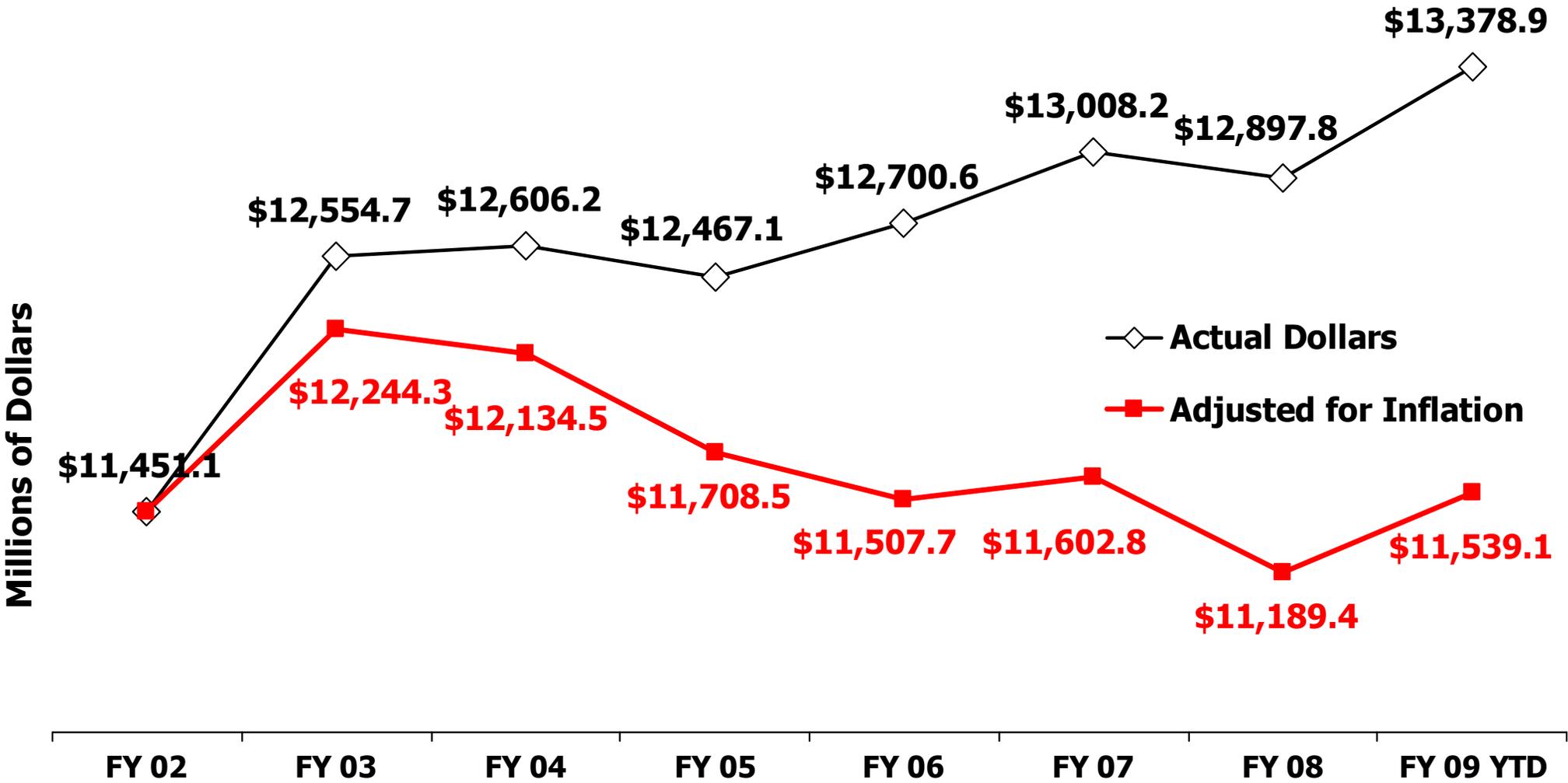


GF/GP Appropriations



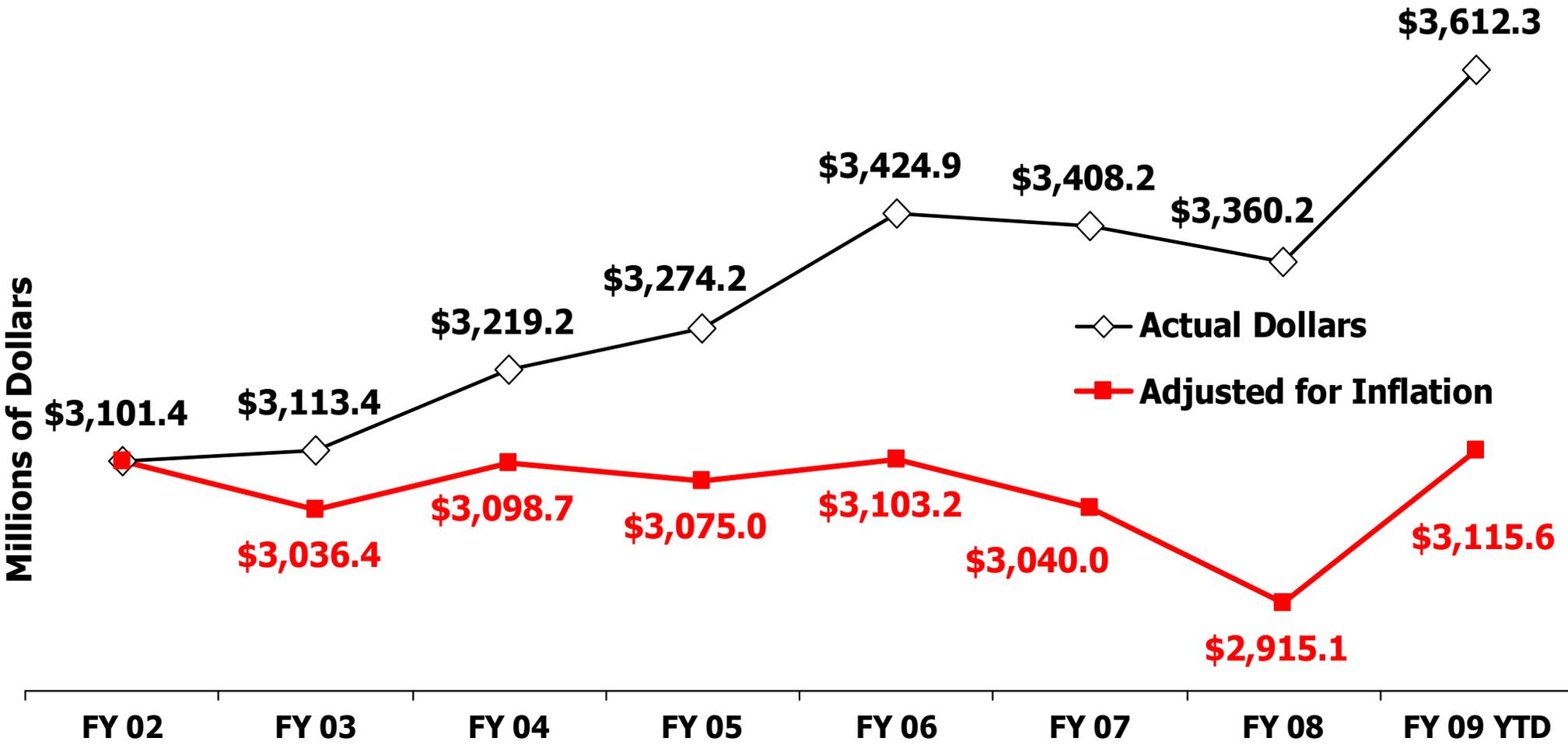


School Aid Budget Adjusted Gross Appropriations



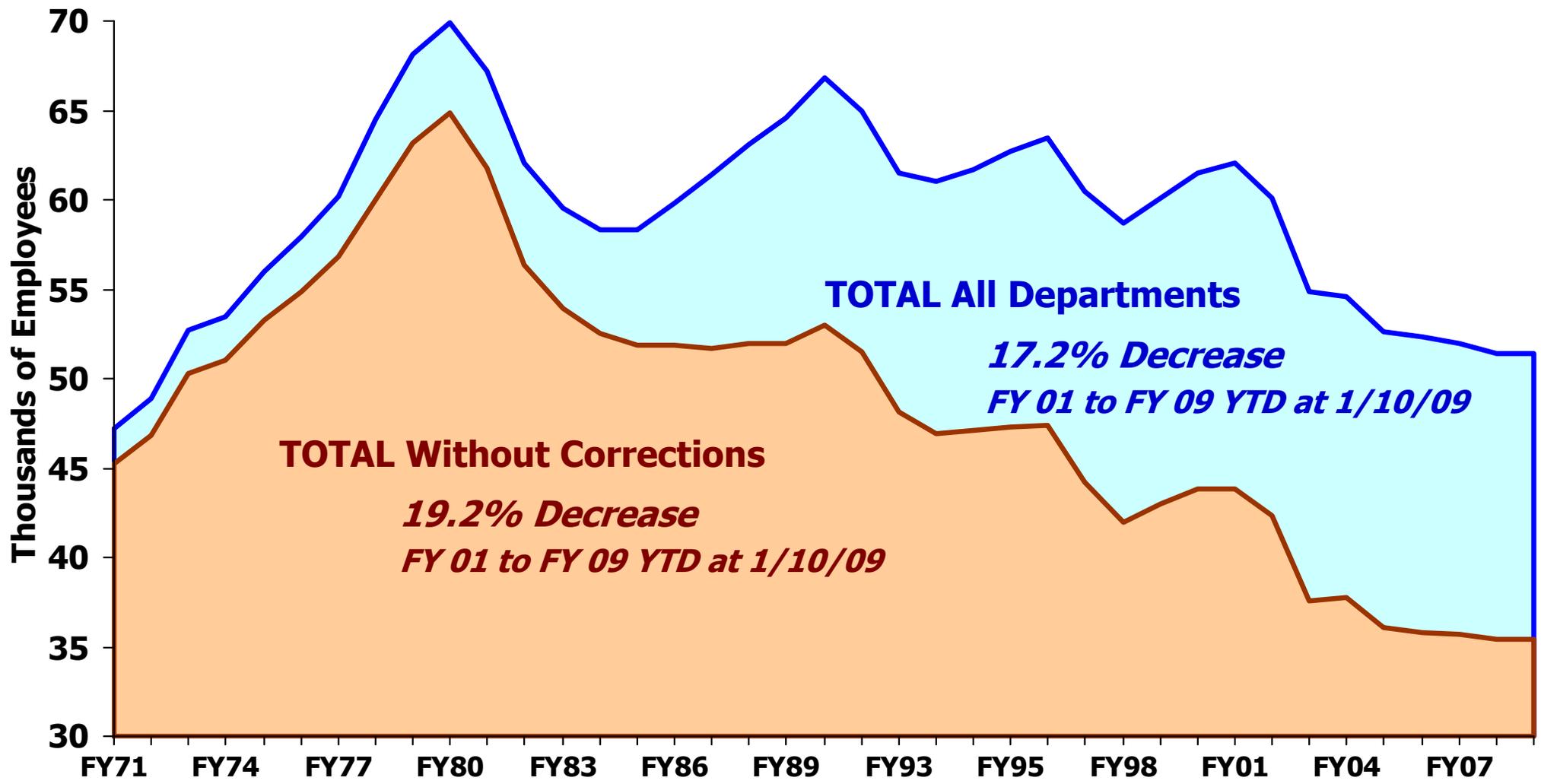


Transportation Budget Adjusted Gross Appropriations





Average Number of Classified State Employees





CURRENT ISSUES

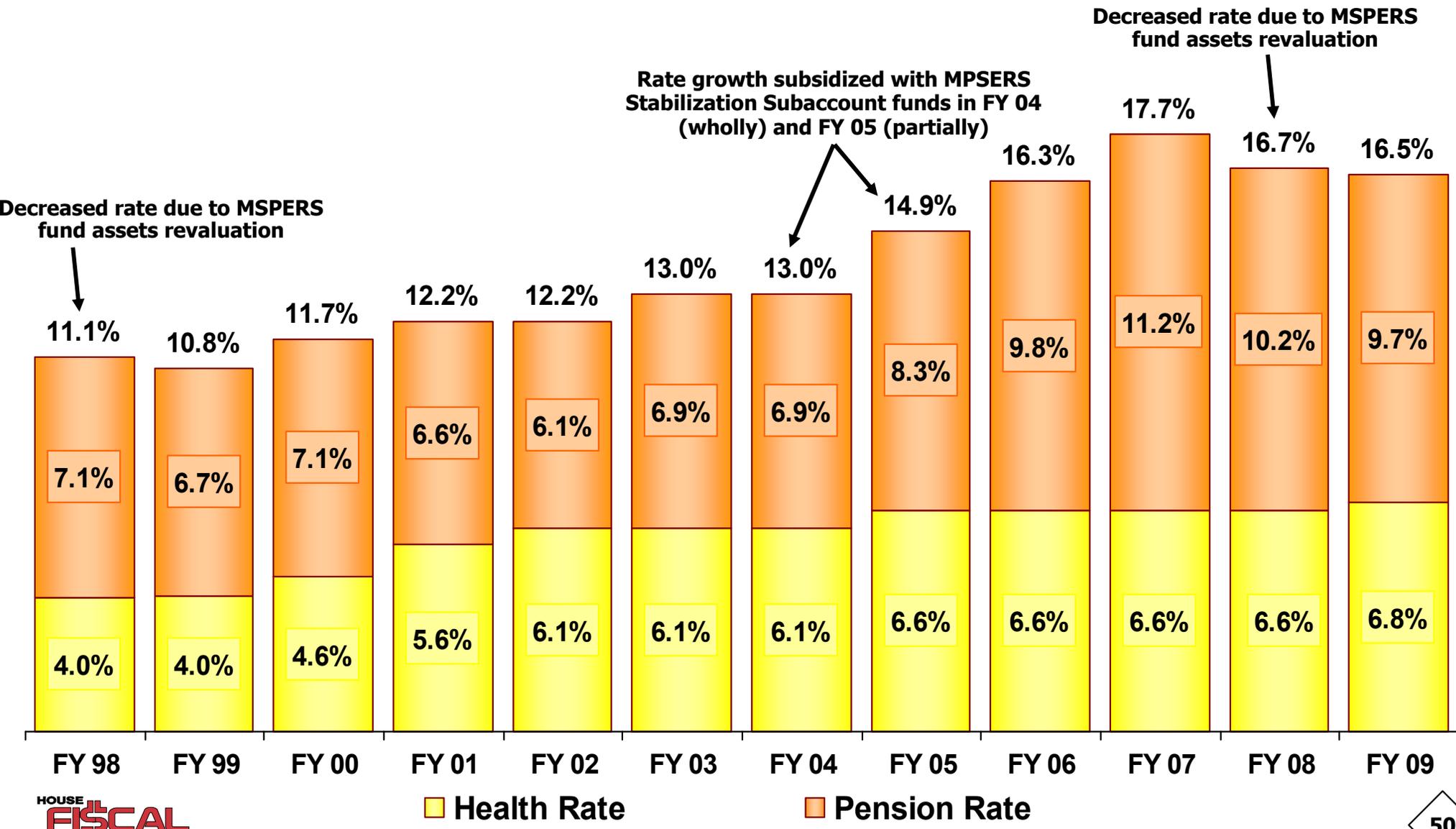


Major School Aid Issues

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



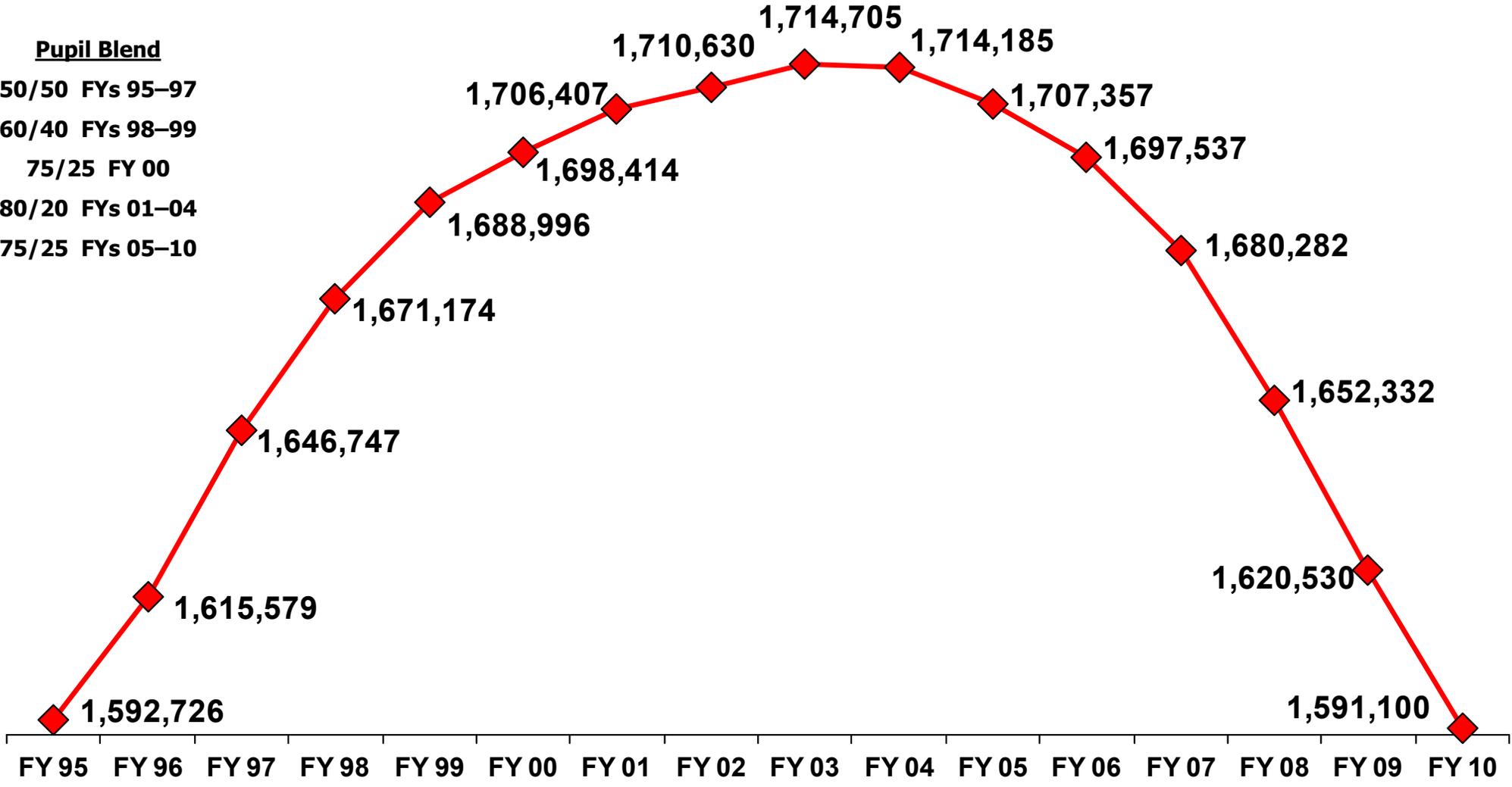
School Retirement Contribution Rate





Total Membership Pupil Counts

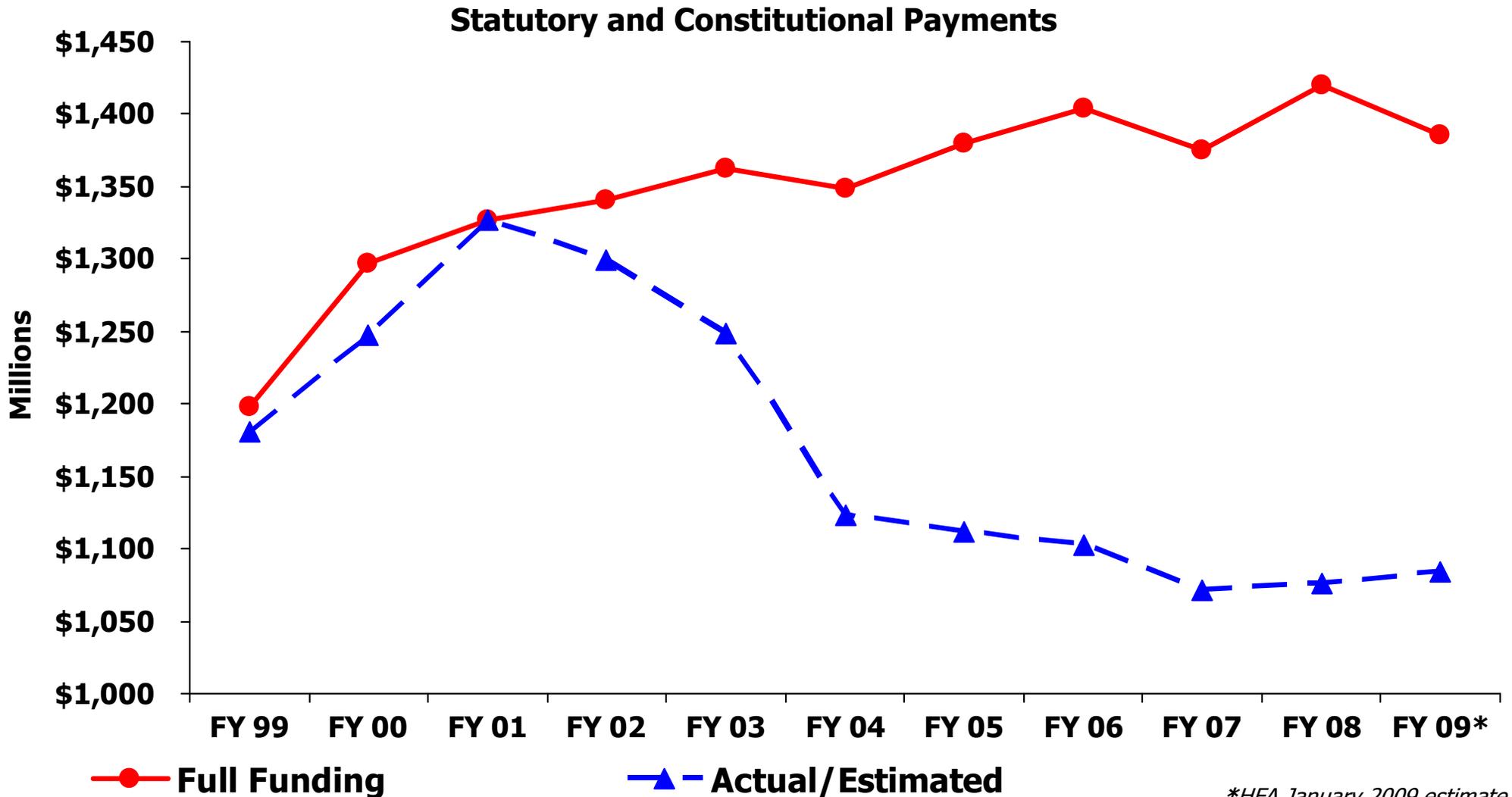
Pupil Blend
 50/50 FYs 95-97
 60/40 FYs 98-99
 75/25 FY 00
 80/20 FYs 01-04
 75/25 FYs 05-10



Note: FY 09 unaudited count; FY 10 January 2009 consensus estimate

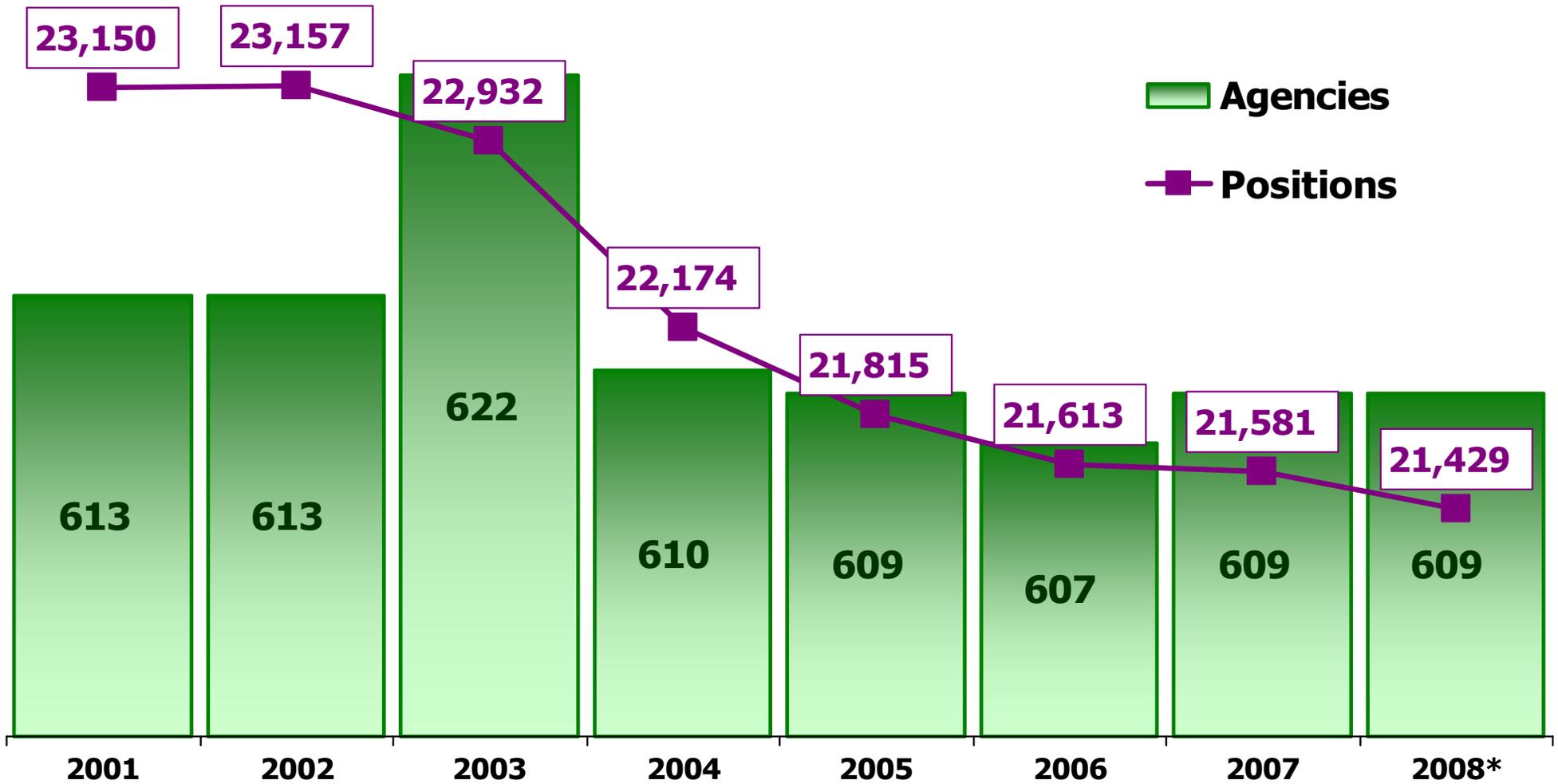


Revenue Sharing Payments to Cities, Villages, and Townships



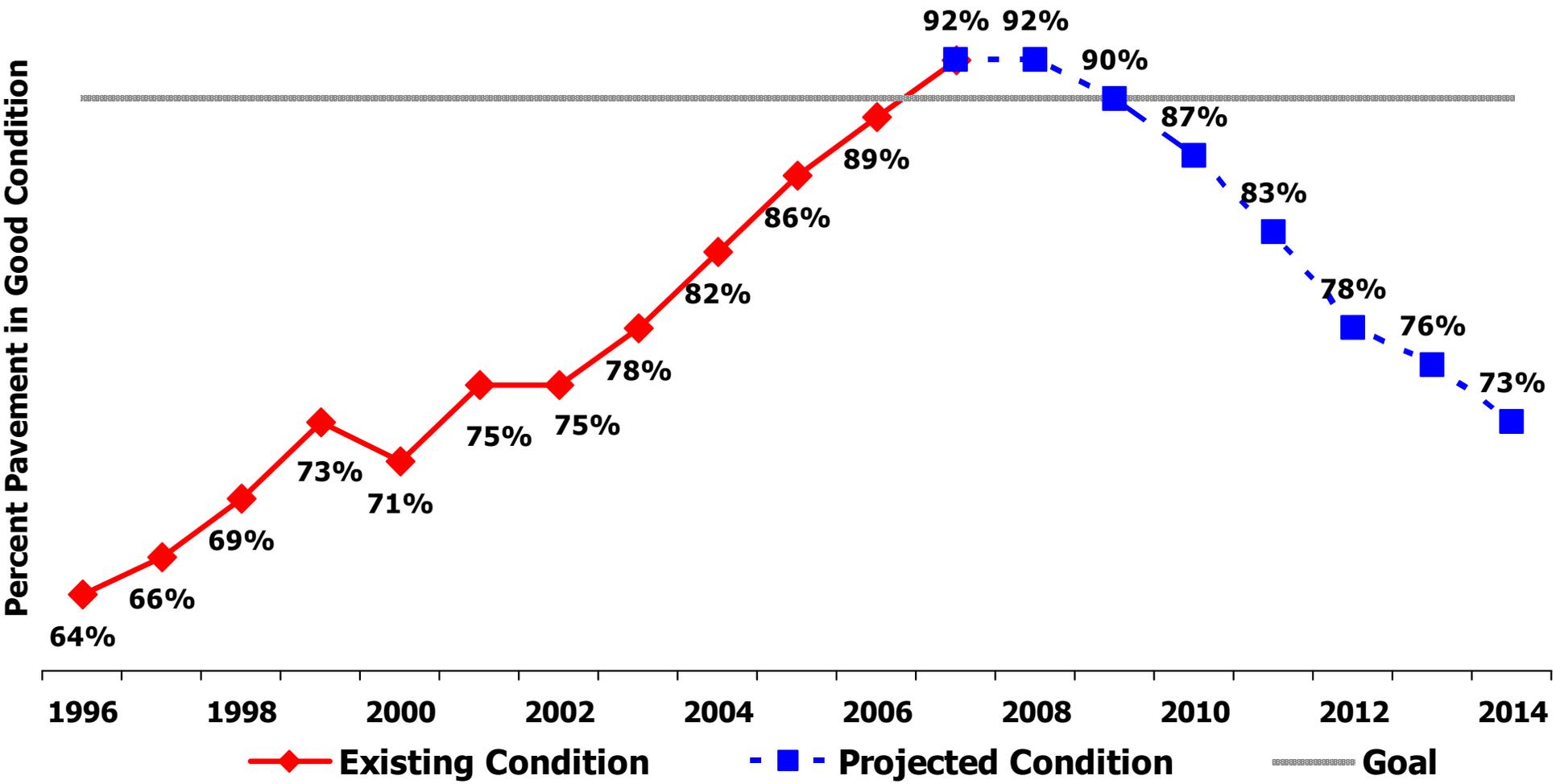


Law Enforcement



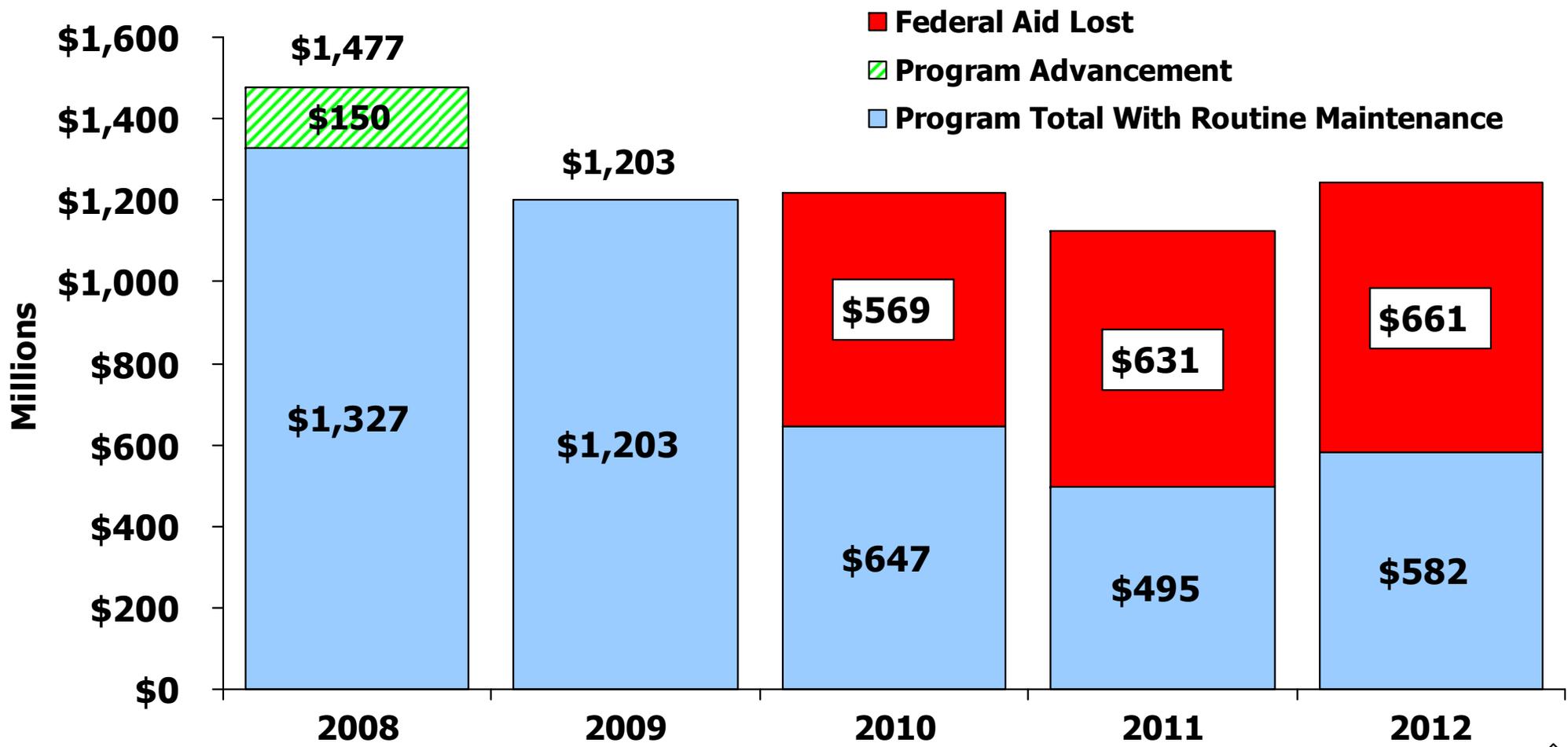


Statewide Pavement Condition Combined Freeway and Non-Freeway



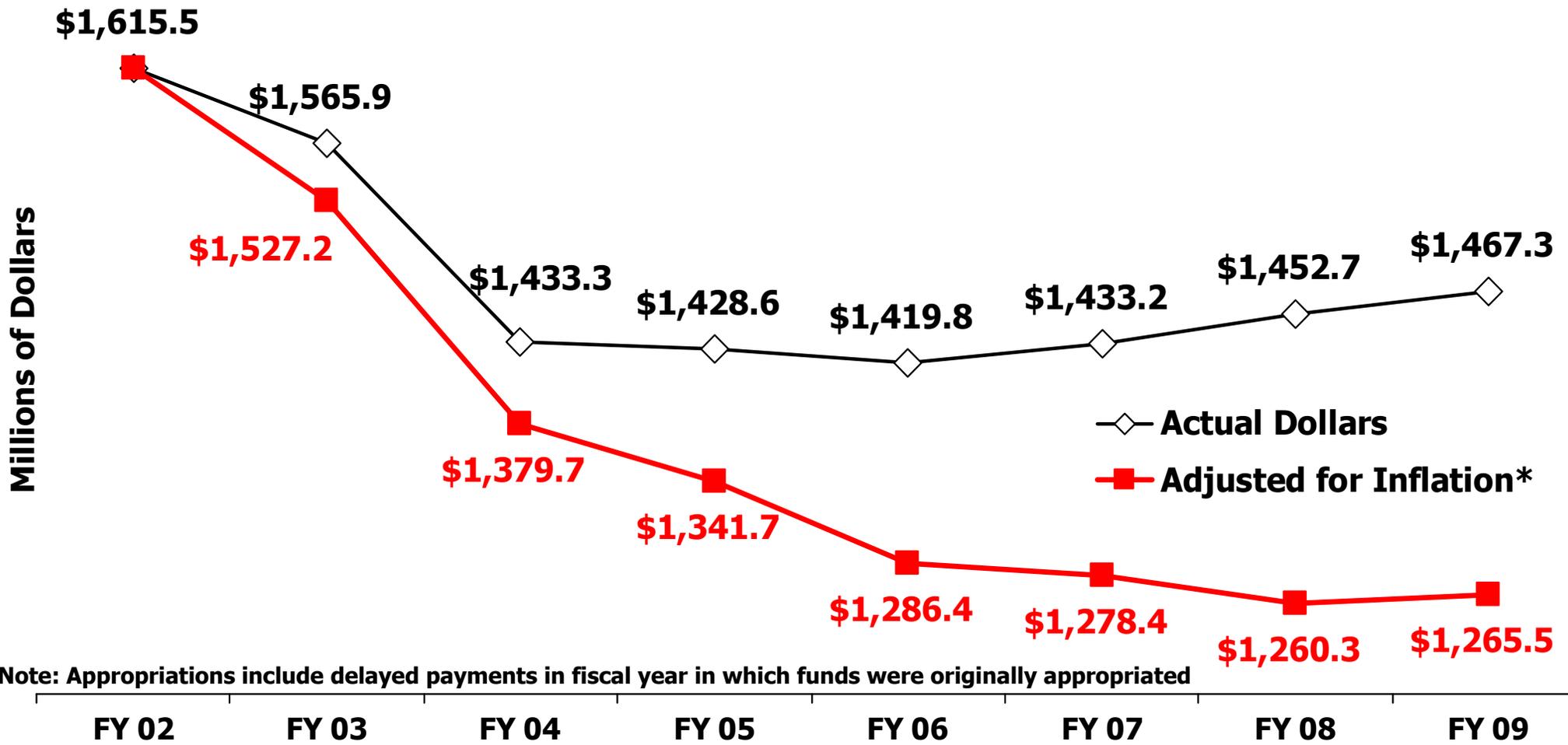


Reduced State Revenue May Lead to Loss of Federal Aid





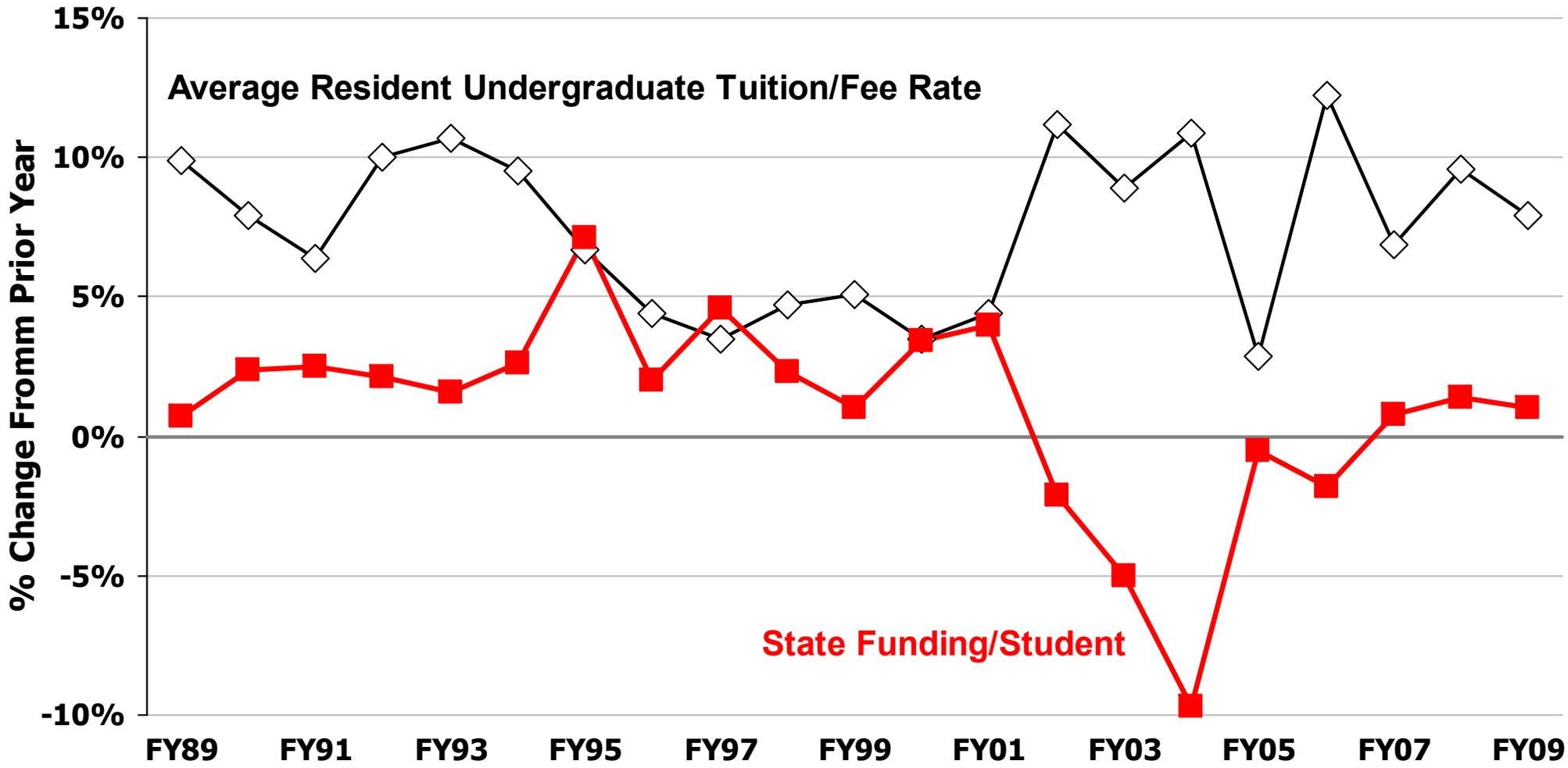
Total Appropriations for State University Operations



Note: Appropriations include delayed payments in fiscal year in which funds were originally appropriated



State University Tuition Rates and State Funding

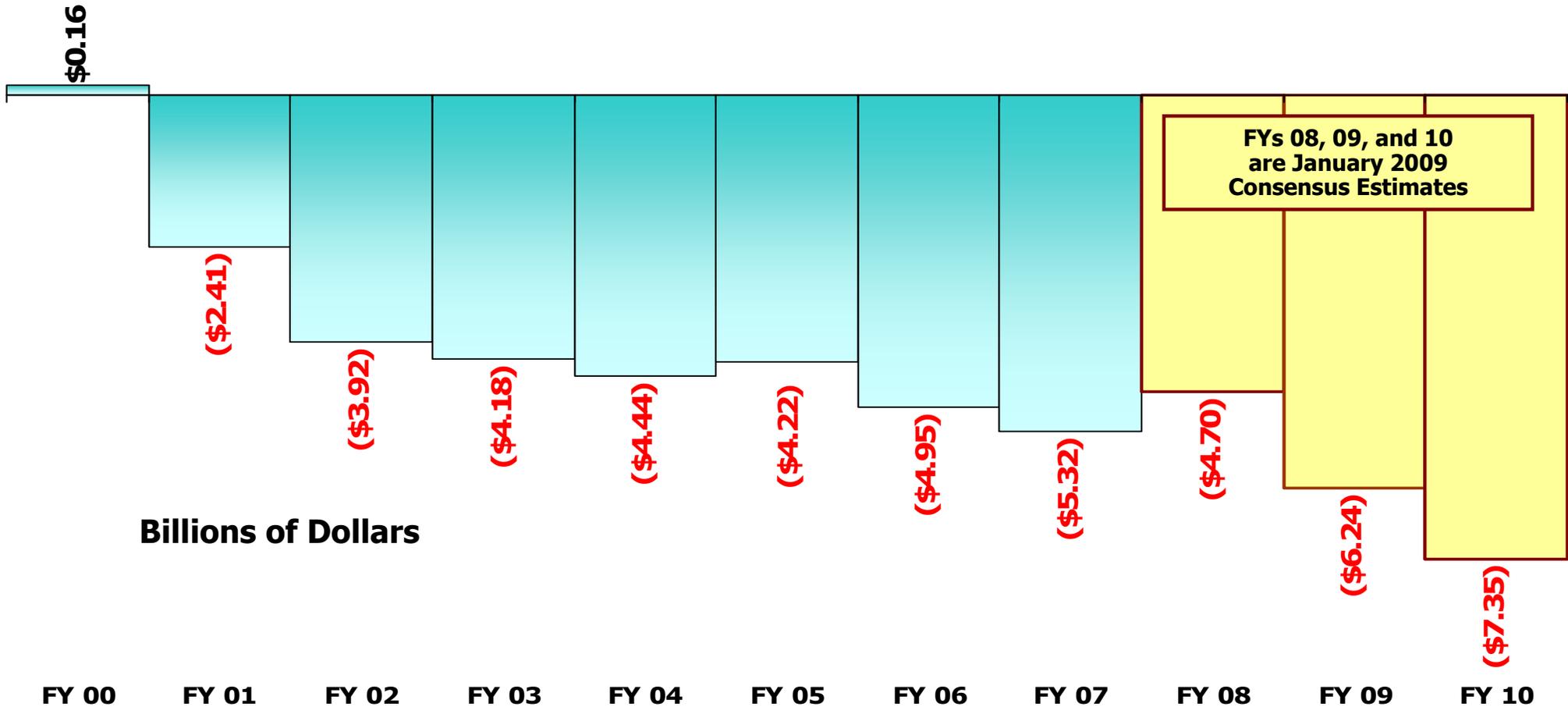




Constitutional Revenue Limit

Average growth of Michigan personal income = 1.8% per year from 2000 through 2010

Average growth of Michigan revenue = 0.84% per year from 2000 through 2010



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