

MI Economic Review & Outlook

Michigan Community College
Business Officers Association
2013 Spring Meeting

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Key Topics

- MI's economy has "turned the corner"
- Major factor that impacts MI economy is U.S. economy, so . . .
- Will also summarize U.S. economic outlook
- Discuss State Gov't revenue trends/issues
- Personal Property Tax Reform

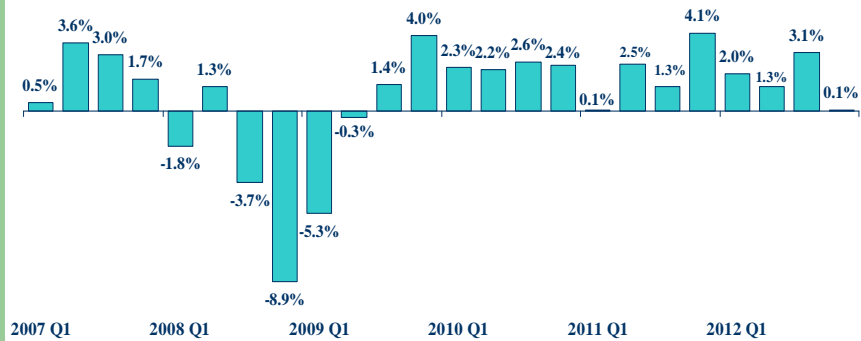
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U.S. ECONOMY

GDP Grows 14 Consecutive Quarters

Real GDP Growth Rate

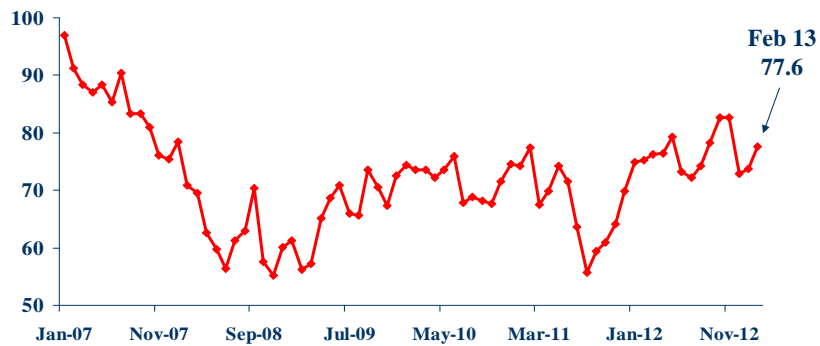


Figures are annualized percent change from preceding quarter in 2005 chained dollars.

Source: U.S. Bureau of Economic Analysis (2/28/2013).

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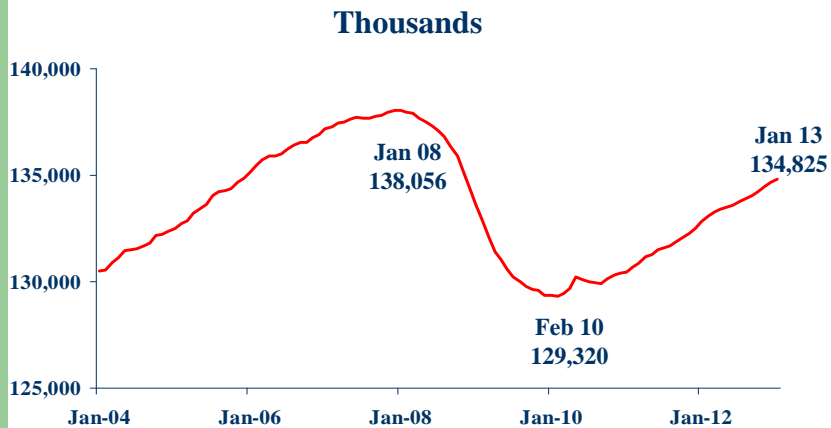
Consumer Sentiment Increases in February



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Source: University of Michigan, Surveys of Consumers & MI Dept. of Treasury, 3/6/13.

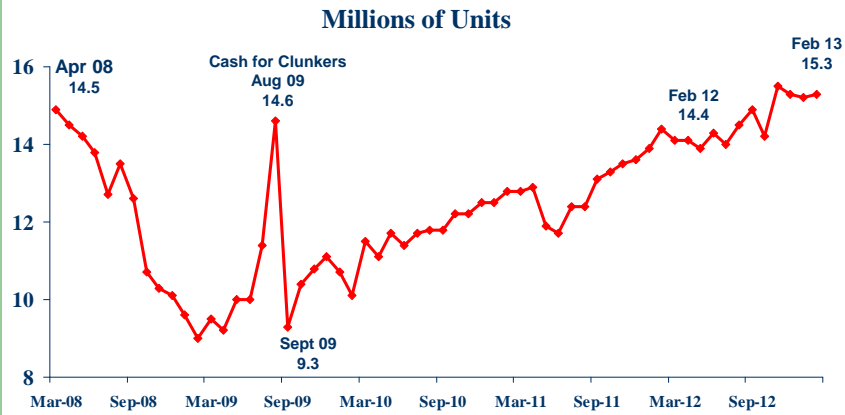
U.S. Payroll Employment Increasing, But Still Below Pre-Recession Peak



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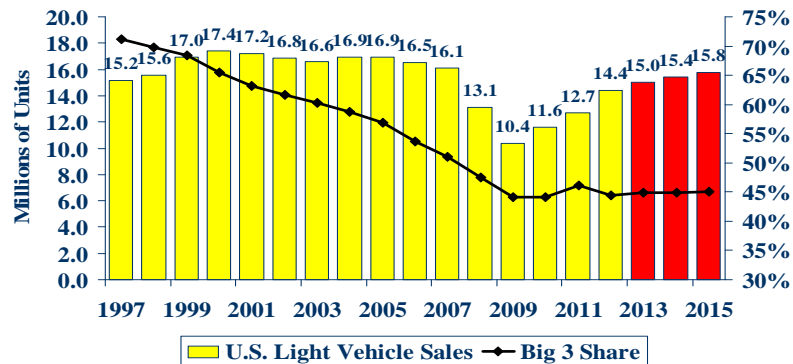
Source: U.S. Bureau of Labor Statistics (02/1/2013).

Light Vehicle Sales at Highest Level Since 2007



Source: Bureau of Economic Analysis. (3/6/2013)

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

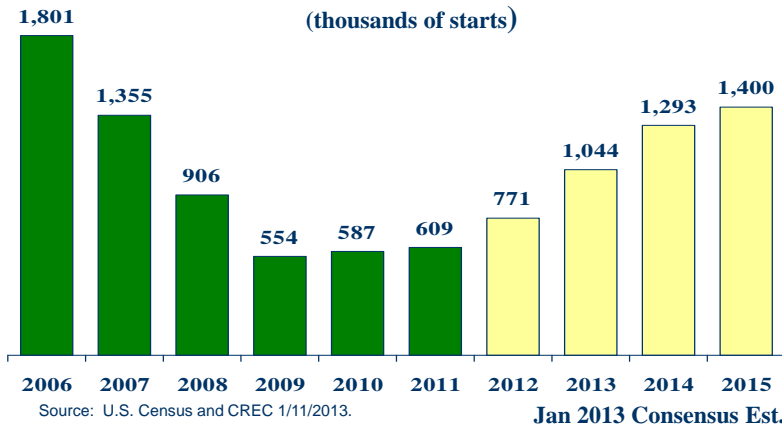


Source: Historical data, Automotive News. 2013-2015 forecast, Consensus Revenue Estimating Conference, Jan 11, 2013.

Consensus
Est.

U.S. Housing Starts Forecast

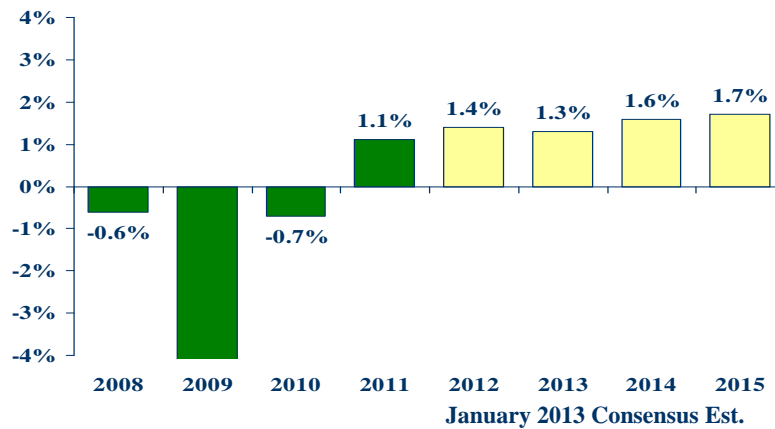
Calendar Year Forecast
(thousands of starts)



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U.S. Payroll Employment Increase Forecast through 2015

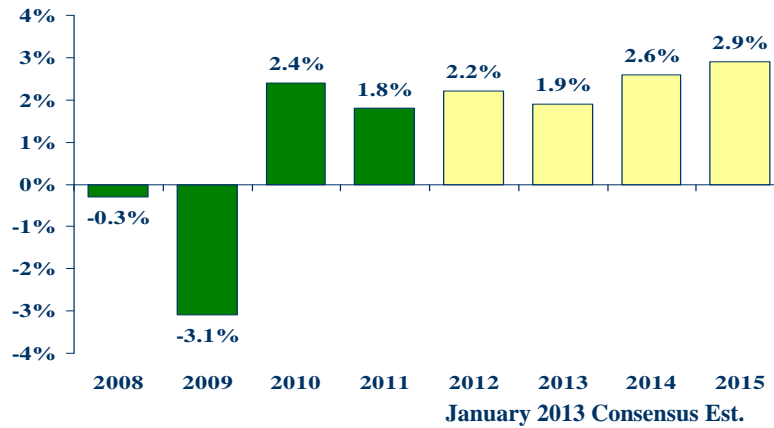
Calendar Year Forecast



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Real GDP Forecast

Calendar Year Forecast



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MICHIGAN ECONOMY

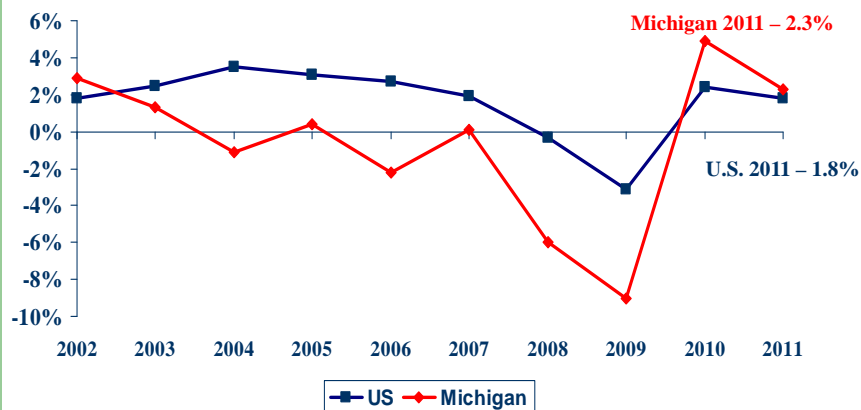
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Michigan Economy Has Turned The Corner

- 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.

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

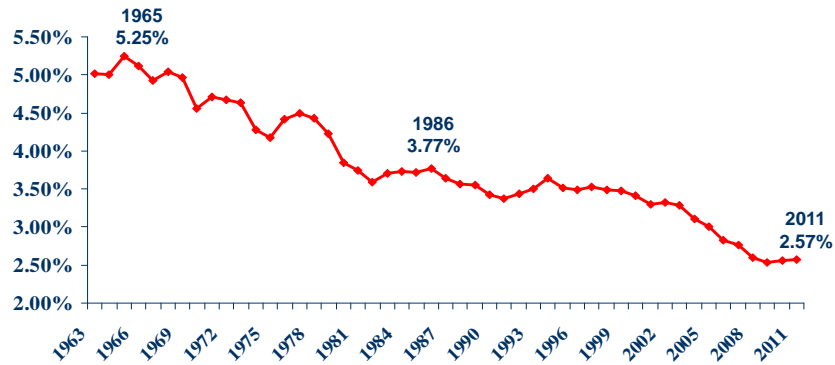


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Source: U.S. Bureau of Economic Analysis. Graph prepared by MI Dept. of Treasury, 9/17/12.

Michigan GDP as a Percent of U.S. GDP

Percent

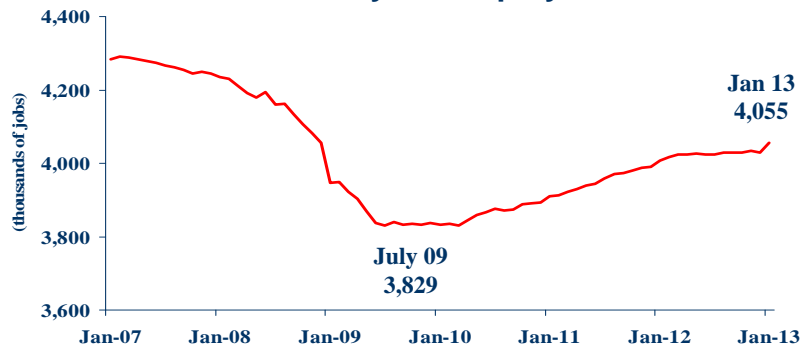


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Source: U.S. Bureau of Economic Analysis.
(SIC code data 1963-1996; NAICS data 1997-2011)

Michigan Employment Up 226,000 From Recession Low

MI Payroll Employment



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Source: Bureau of Labor Statistics.

Employment Change in Michigan by Average Industry Wage

Third Quarter 2009 to Third Quarter 2011

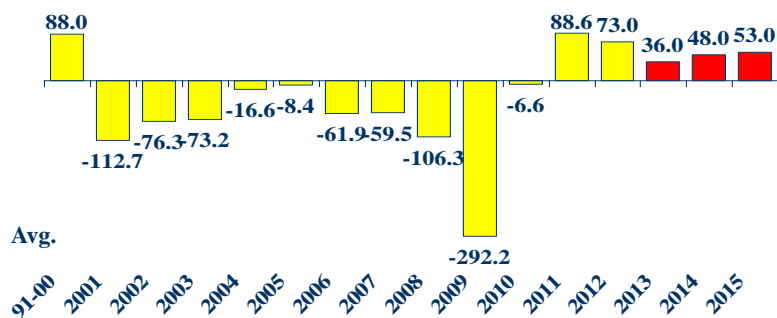
	Average Annual Wage 2010	Michigan Employment Change 2009 Q3 to 2011Q3	Employment Percent Change 2009 Q3 to 2011Q3	
			Michigan	United States
Total Employment	\$44,439	95,900	2.5%	1.0%
High-Wage Industries	\$71,914	38,867	4.2%	1.0%
Middle-Wage Industries	\$44,126	20,767	1.1%	0.0%
Low-Wage Industries	\$19,028	36,267	3.8%	3.2%

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Source: RSQE: January 2012

Continued Job Growth Expected in MI

815,000 jobs lost 2001-2010, 260,000 job gain expected 2011-2015
Thousands

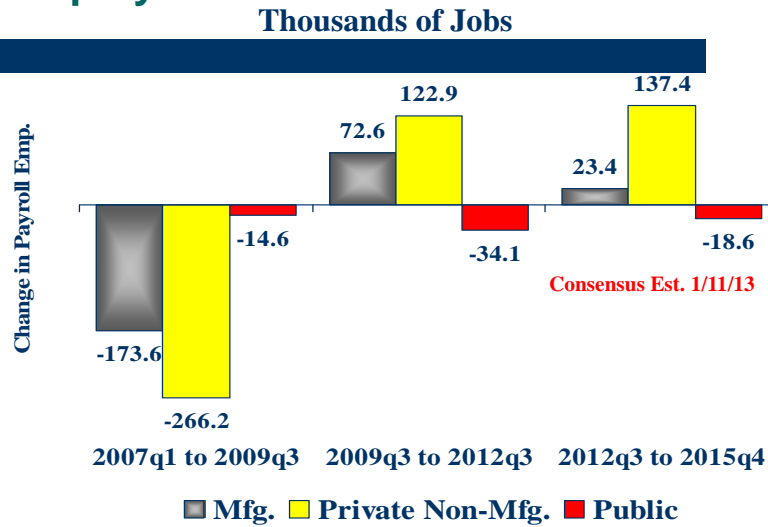


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Source: MI Dept. of Treasury, ORTA, updated 3/6/13.

Consensus Est.

Dynamics of Michigan Payroll Employment



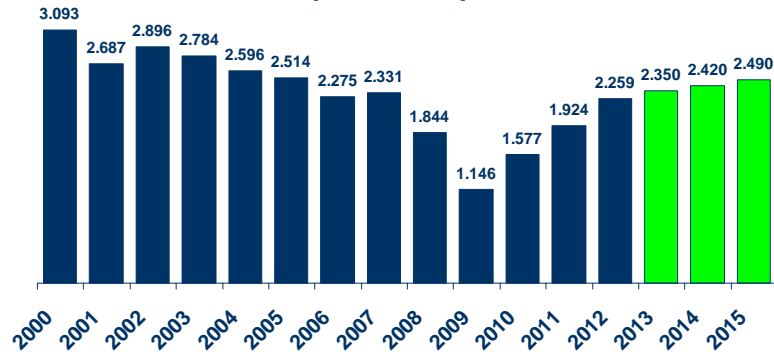
MI Unemployment Rate is Improving Faster Than U.S.



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

Michigan Motor Vehicle Production is Rebounding

(millions)

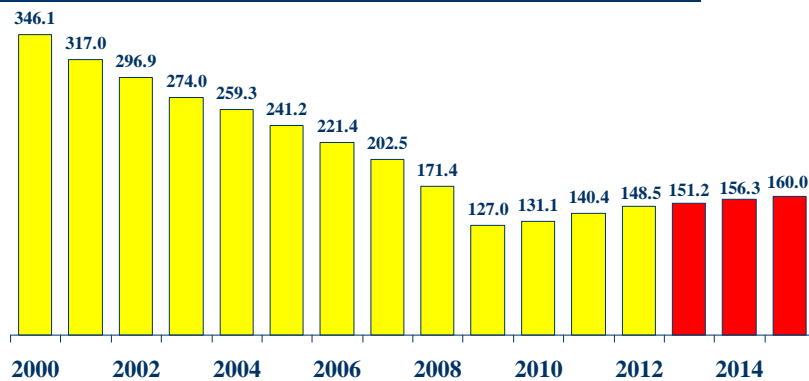


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Source: Michigan Department of Treasury. 2013-2015 Treasury estimates.

Michigan Vehicle Employment Transportation Equipment Employment Edging Up

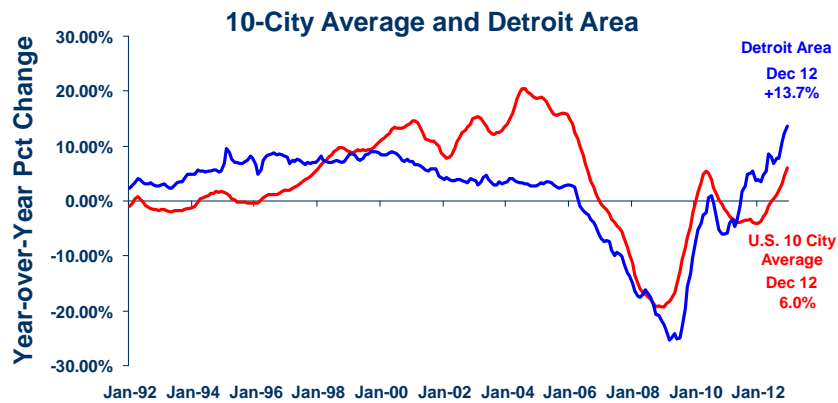
(Thousands)



Source: Bureau of Labor Statistics.

Cons. Est. 1/11/13

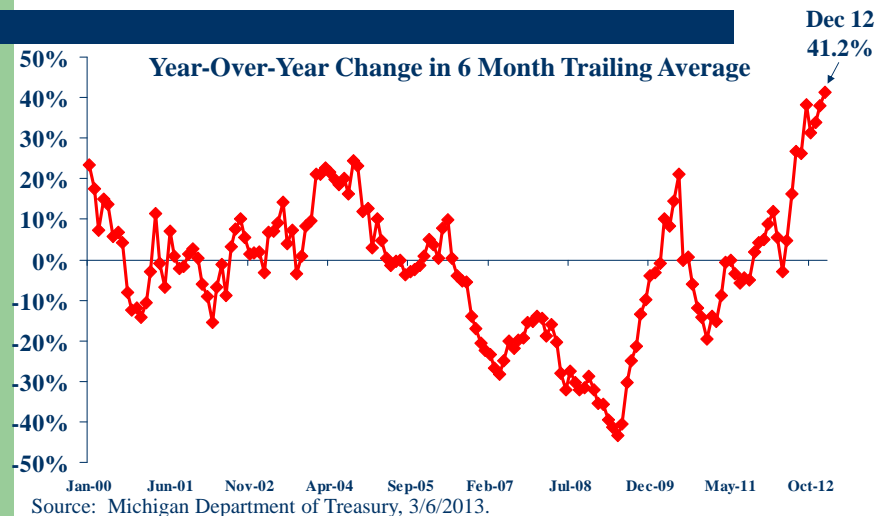
Recovery in Housing Prices – Metro Detroit



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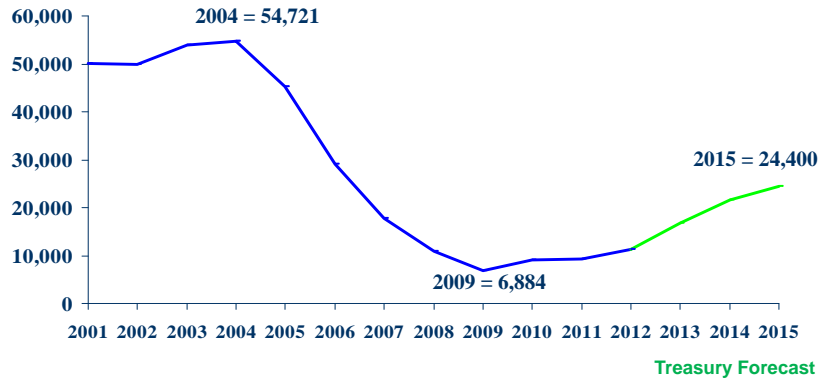
Source: Case-Shiller 10-Metro Area Home Price Index, 3/5/13.

Real Estate Transfer Tax Reflects Increased Activity



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

Michigan Housing Starts Are Rebounding

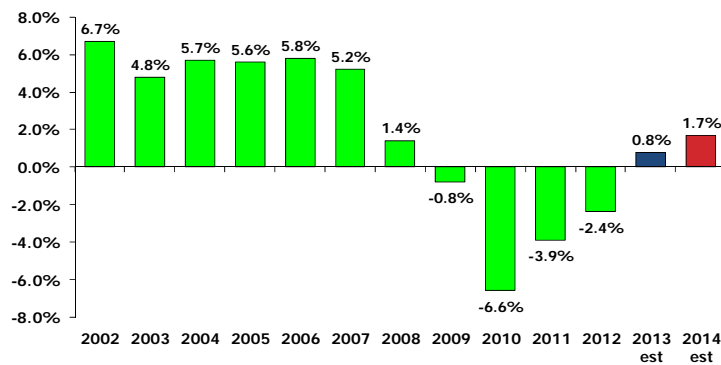


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Sources: U.S. Bureau of the Census & Treasury Forecast 1/11/13

MI Taxable Property Value Expected To Grow Again in 2013

Yearly Percent Change

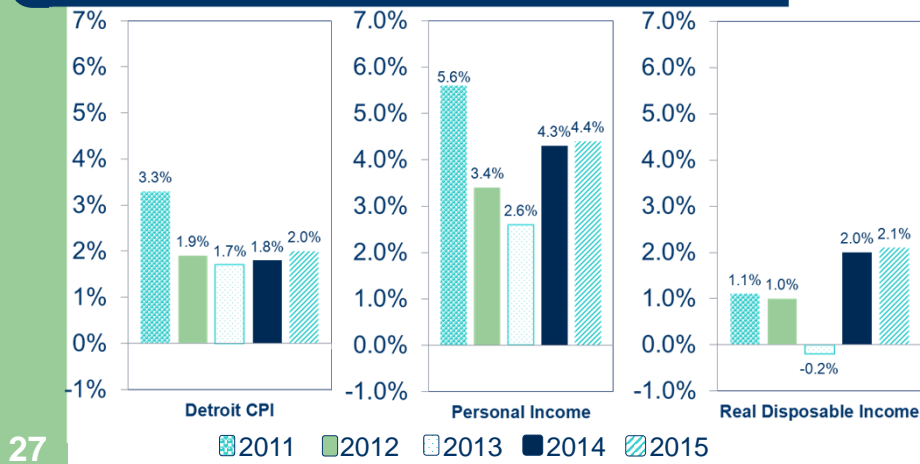


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Source: State Tax Commission and January 2013 Consensus Conference.

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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.

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Major Positive Risks to Economic Growth

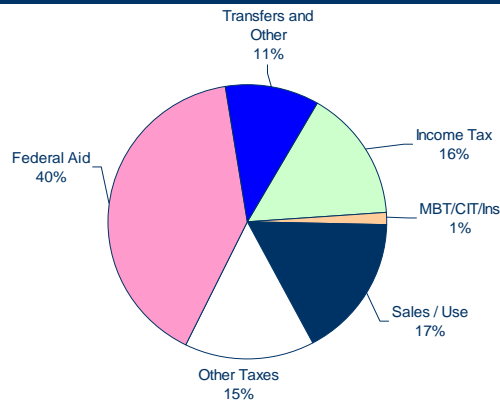
- **Housing Prices:** could increase faster than expected and could help boost consumer confidence and spending.
- **Housing Starts:** The comeback in housing could be stronger than forecast.
- **Business Profits and Investment:** Cost cutting during past few years could help bolster profits and investment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

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STATE GOVERNMENT BUDGET: REVENUE TRENDS

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Michigan State Gov't Budget FY 2014 Total Revenue Est: \$51.8 Billion

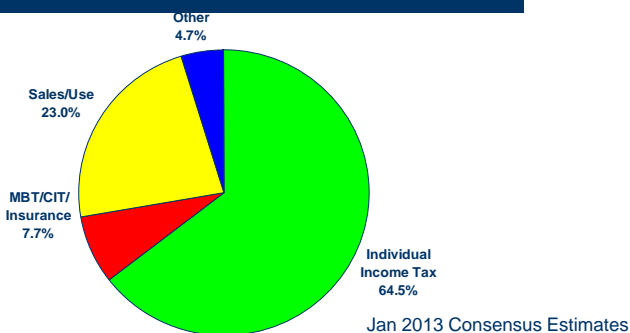


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Taxes provide 49% of total state revenues, while 40% comes from the Federal government.

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

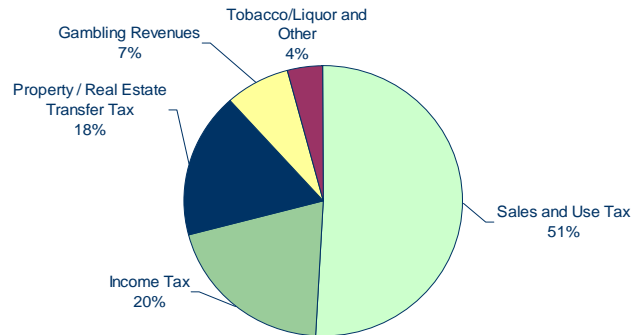
65% of general fund revenue comes from Individual Income Tax.

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Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury, 1/11/13

School Aid Revenues: FY 2014

Rev. From Earmarked Resources: \$11.4 Billion



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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

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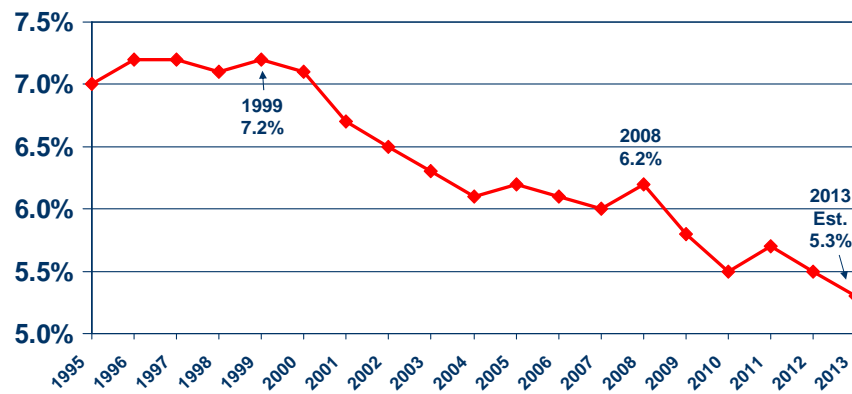
Source: January 2013 Consensus Revenue Estimating Conference.

Key Factors Affecting Tax Rev

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

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

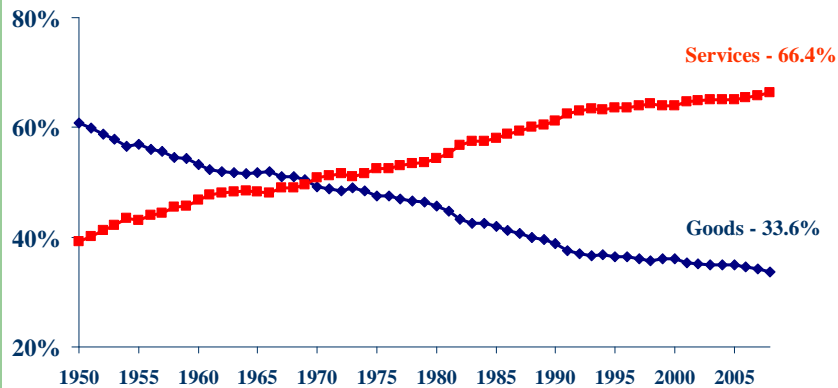


Source: Office of Revenue and Tax Analysis, Michigan Dept. of Treasury, 1/11/2013.

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Service Economy Overtakes Goods Driven Economy

Personal Consumption Expenditures by Percentage

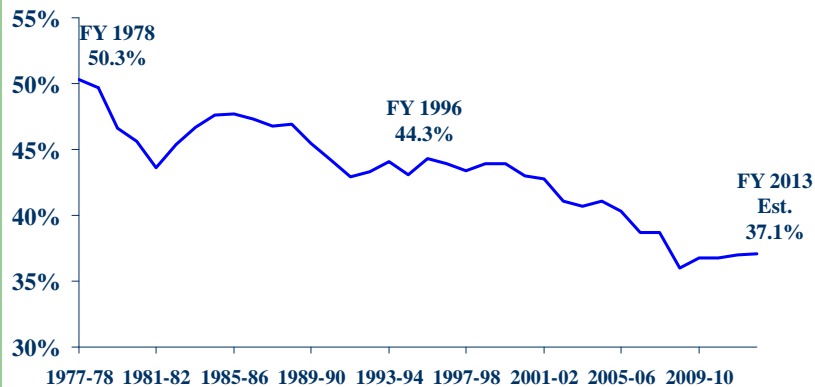


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Source: Bureau of Economic Analysis

Sales and Use Tax Base Not Growing With Economy

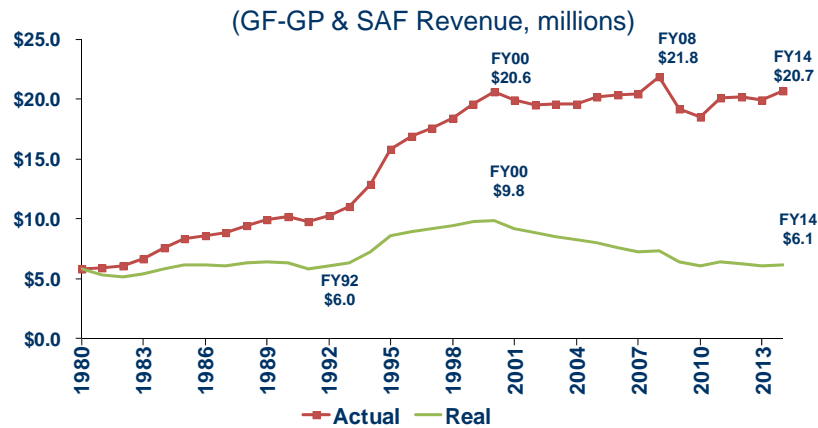
Michigan Sales and Use Tax Base as a % of Personal Income



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Source: U.S. Bureau of Economic Analysis & Michigan CAFR (various years). Compiled by MI Dept. of Treasury, 1/11/13.

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



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Note: GF-GP & SAF figures are presented on a Consensus basis. 2013 and 2014: January 2013 consensus estimates. Source: Department of Treasury, ORTA, updated 1/11/13

Personal Property Tax Reform

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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.

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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

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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

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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.

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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

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PERSONAL PROPERTY TAX PLAN - REIMBURSEMENT TABLE

Local Government Reimbursements

Funding Source	Type of Service/Cost	Rate of Reimbursement
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

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Questions?



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