

# Michigan's Financial Forecast

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## Michigan Local Government Managers Association

July 28, 2010

Mark P. Haas  
Chief Deputy Treasurer



## Treasury Responsibilities

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- Tax Administration
- Tax and Debt Collection
- Financial Management
- Local Government Services
- Financing Higher Education
- Investing All State Funds



## Overview

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- U.S. and Michigan Economic Outlook
- State Budget Situation
- Federal Fiscal Situation
- Local Government Revenue
- What Michigan Needs to Do

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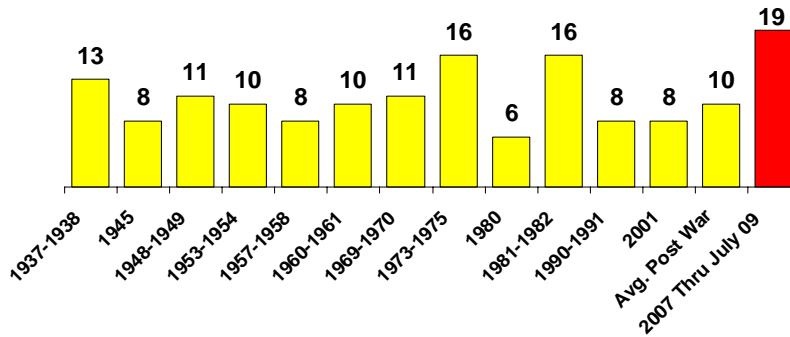
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How Bad  
was the Recession?

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## 2008-2009 Recession Longest Since Great Depression

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

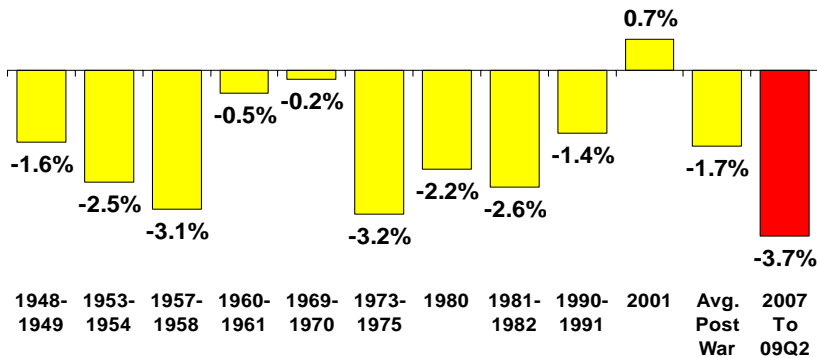


Source: National Bureau of Economic Research (NBER).  
Assumes 2007-2009 recession ended beginning of 3<sup>rd</sup> quarter 2009.

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## 2008-2009 Recession GDP Decline Steepest on Record

Percent Change, Economy Peak to Trough



Source: Bureau of Economic Analysis, U.S. Department of Commerce.  
Data not available for 1937-38 and 1945 recessions.

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# One for the Record Books

## Calendar 2009 Estimate and Actual

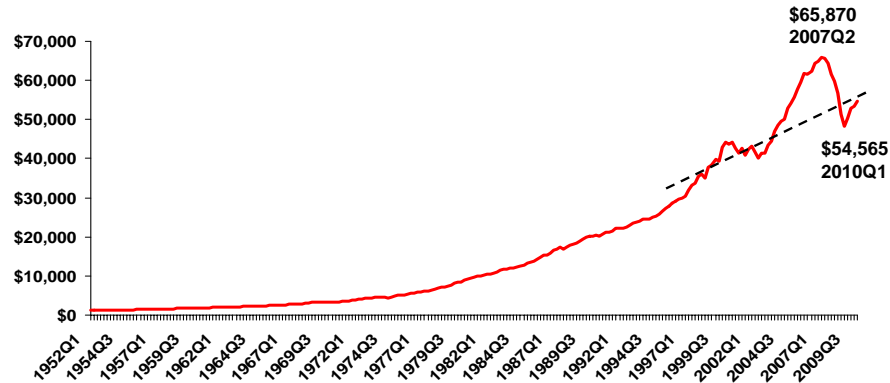
	April 2008 Forecast	2009 Actual Level	Comments
Light Vehicle Sales (millions)	15.2	10.4	Lowest Since 1970
Housing Starts (million units)	1.131	0.55	Lowest Back to 1959
US Unemployment Rate	5.8%	9.3%	Highest Since 1983
US Payroll Employment (% chg)	0.4%	-4.3%	Lowest Back to 1940
US Personal Income (% chg)	3.6%	-1.7%	Lowest Since 1938

Source: April 2008 Global Insight Forecasts and 2009 actuals compiled from various sources by Michigan Department of Treasury.

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# Net Worth Drops 17 Percent From High Peak

Net Worth Outstanding, Households and Nonprofit Organizations  
(billions)



Source: freelunch.com (Federal Reserve Bank Flow of Funds).

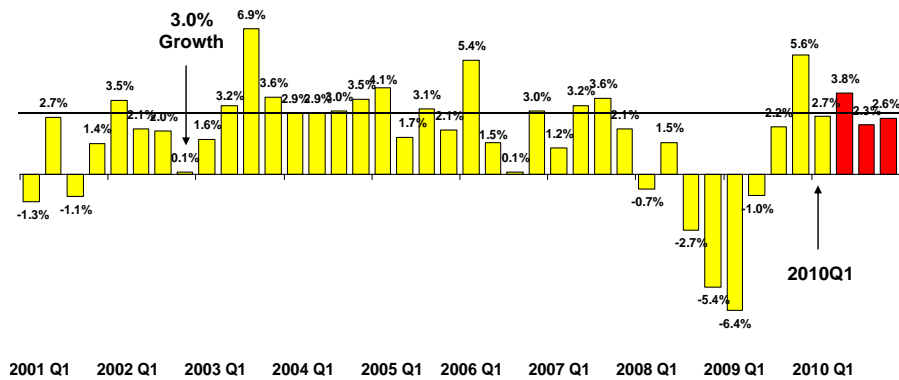
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# Is the Recession over?

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## GDP Growth Observed Three Quarters in a Row

Real GDP Growth

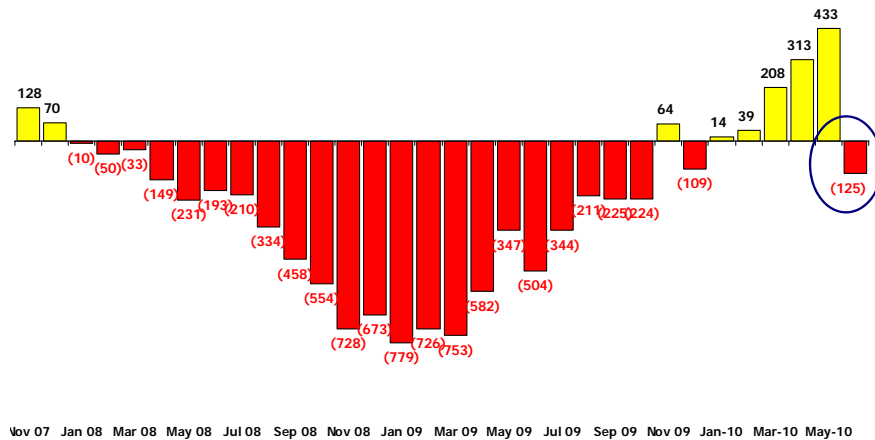


Figures are annualized percent change from preceding quarter in 2005 chained dollars.

Source: U.S. Bureau of Economic Analysis. Forecast quarters in red are the July 2010 Global Insight forecast.

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## U.S. Has Gained Nearly 1 Million Jobs Since December 2009



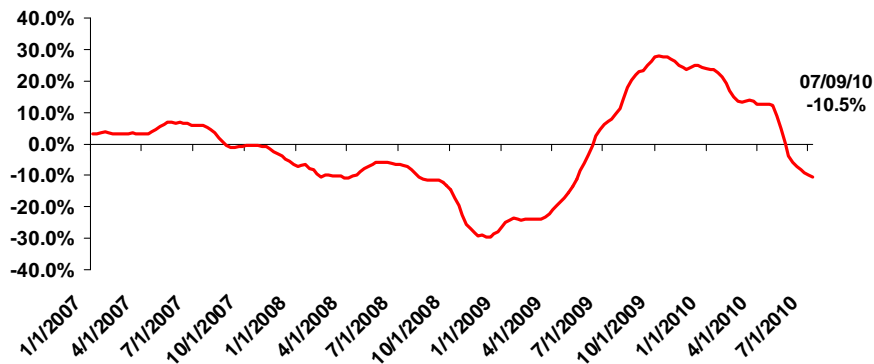
Nov 07 Jan 08 Mar 08 May 08 Jul 08 Sep 08 Nov 08 Jan 09 Mar 09 May 09 Jul 09 Sep 09 Nov 09 Jan 10 Mar 10 May 10

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

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## Leading Indicators Show National Recovery Leveling Off

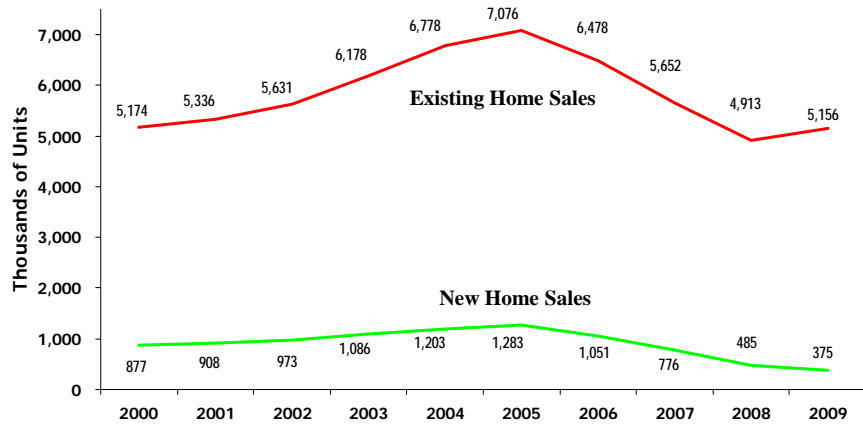
Weekly Leading Index, Smoothed Annual Growth Rate



Source: Economic Cycle Research Institute.

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## Home Sales Remain at Historically Low Levels



Note: FY 2010 and 2011 are May 2010 Consensus Estimates

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

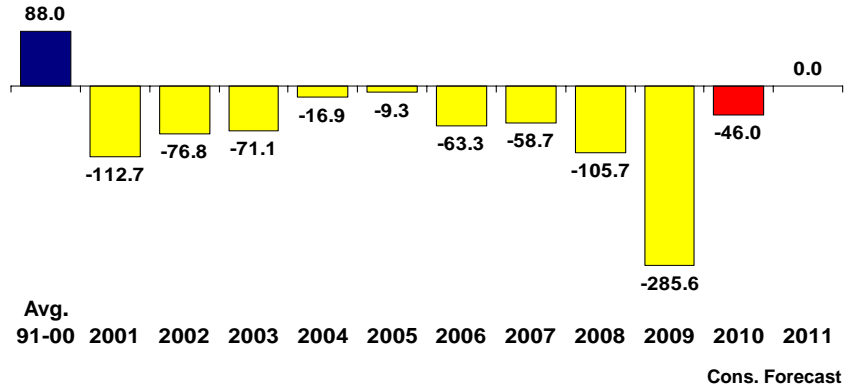
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## What about Michigan?

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# Michigan Loses Nearly 850,000 Jobs

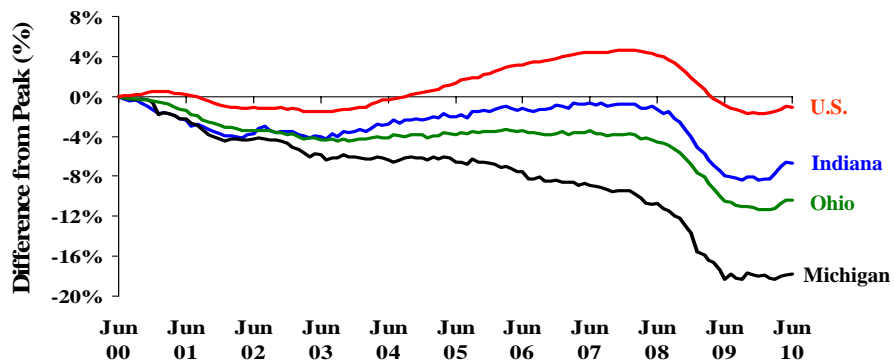
Michigan Wage and Salary Employment Year-Over-Year Change  
(In Thousands)



Note: U.S. Bureau of Labor Statistics. 2010 & 2011 estimates are from the May 2010 Consensus Forecast.

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# Michigan Employment Never Recovered in Past Expansion



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

Source: U.S. Bureau of Labor Statistics and Michigan Department of Treasury.

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## Michigan Job Losses Have Been Replaced With Recent Job Gains

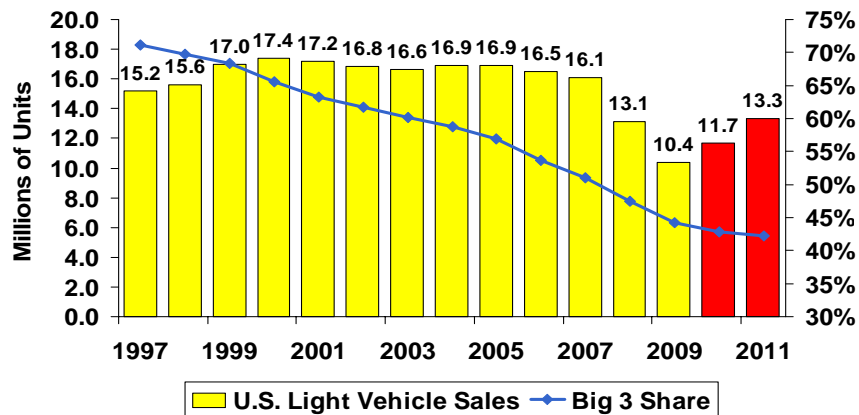
### Wage and Salary Employment Changes (thousands of jobs)

	Dec 2008 - June 2009	June 2009 - Dec 2009	Dec 2009 - June 2010
Manufacturing	-104.9	15.5	14.7
Private nonmanufacturing	-114.1	5.0	-9.7
Government	2.3	-8.1	6.0
<b>Wage and Salary Employment</b>	<b>-216.7</b>	<b>12.4</b>	<b>11.0</b>

Source: U.S. Bureau of Labor Statistics and Michigan Department of Treasury.

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## Vehicle Sales Up Big 3 Losing Market Share



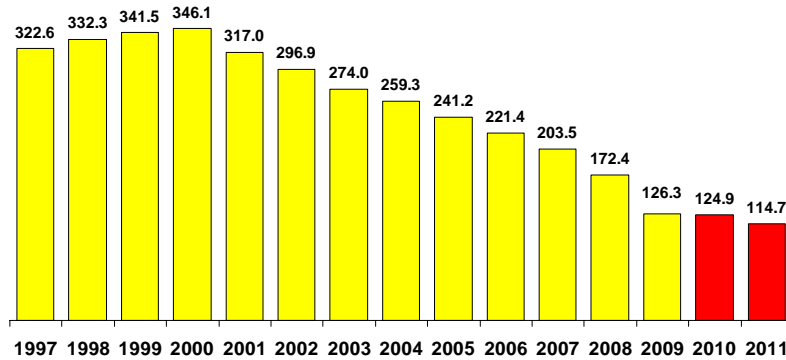
Source: Automotive News and May 2010 CREC.

May 2010 CREC Forecast

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# Michigan Vehicle Employment Decline

Transportation Equipment Employment Declines  
(Thousands)

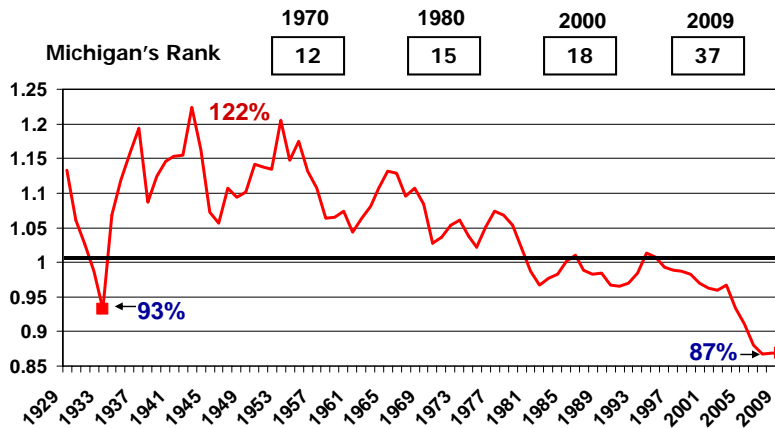


Source: U.S. Bureau of Labor Statistics.

May 2010 Cons., Est.

# 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 U.S. Bureau of Economic Analysis data.

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## Industry Restructuring 25-Year Cycle

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1960 → New England Textile Industry

1980 → Pittsburgh Steel Industry

2000 → Michigan Auto Industry

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## State Government Revenues Negatively Affected By:

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- Difficult Economic Times
- Tax Reductions
- Tax Structure Problems

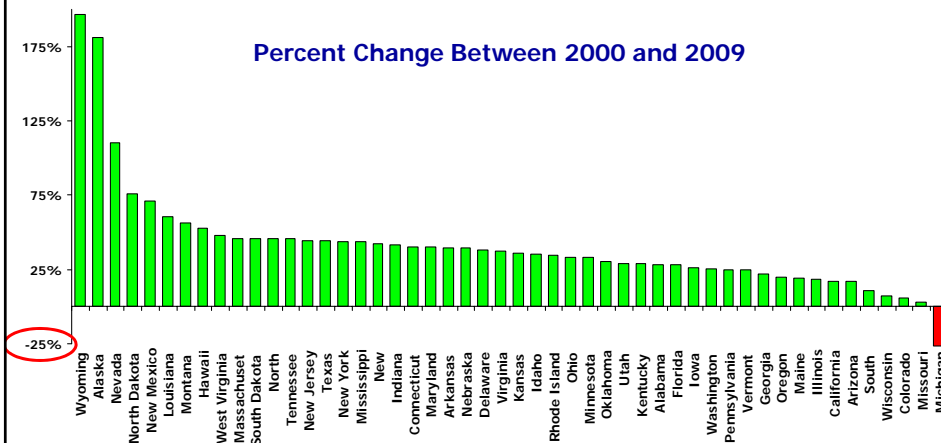
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## Difficult Economic Times

<u>Cause</u>	➔	<u>Effect</u>
Recession	➔	Employment Loss
Housing Boom/ Bust	➔	Credit Crisis and Consumption Drop
High Oil Prices	➔	Auto Sector Crisis
Auto Industry/ Restructuring	➔	Relative Decline in Personal Income

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## Michigan Only State With General Fund Revenue Decline



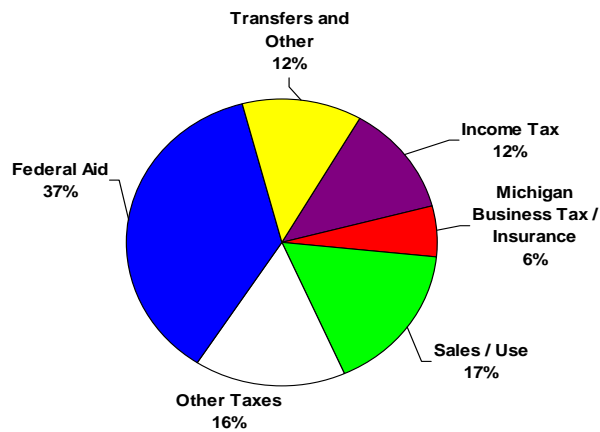
Source: Michigan Department of Treasury

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# How does the State Budget Look?

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## Michigan's Revenue Sources FY 2010 Total Revenue: \$42.2 Billion



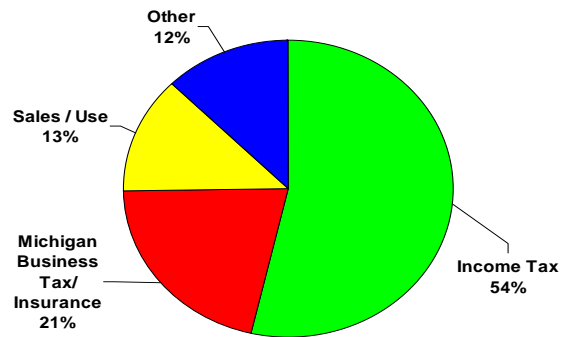
Various taxes provide 51% of total state revenues, while 37% comes from the Federal government.

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

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## General Fund Sources

FY 2010 Revenue: \$6.7 Billion



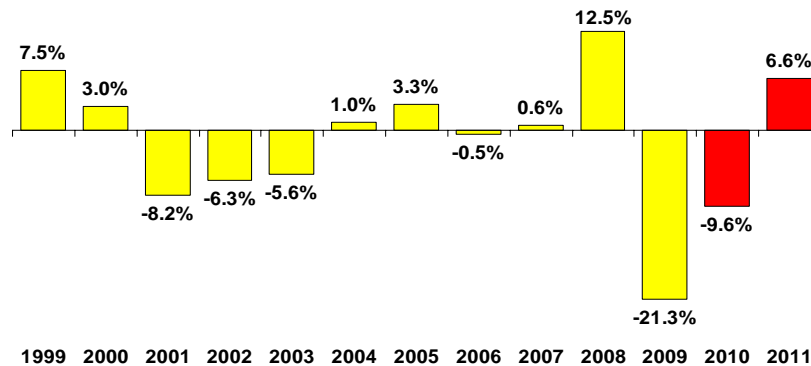
75% of general fund revenues come from Personal Income Tax and Michigan Business Tax.

Source: May 2010 Consensus.

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

GF-GP Revenues  
Year-Over-Year Percent Change



Source: May 2010 Consensus Conference.

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## General Fund Budget Outlook

(Dollars in Millions)

	FY 2010	FY 2011	FY 2012
Beginning Balance	\$177.2	\$0.0	\$7.4
Ongoing Revenue *	\$6,654.9	\$7,096.7	\$7,262.2
Other Revenue	\$953.3	\$1,017.9	\$905.6
Total Revenue	\$7,785.4	\$8,114.6	\$8,175.2
Expenditures **	\$8,004.0	\$8,107.2	\$9,193.0
Balance	(\$218.6)	\$7.4	(\$1,017.8)

\* Ongoing Revenue equals consensus estimate for FY10 and FY11.

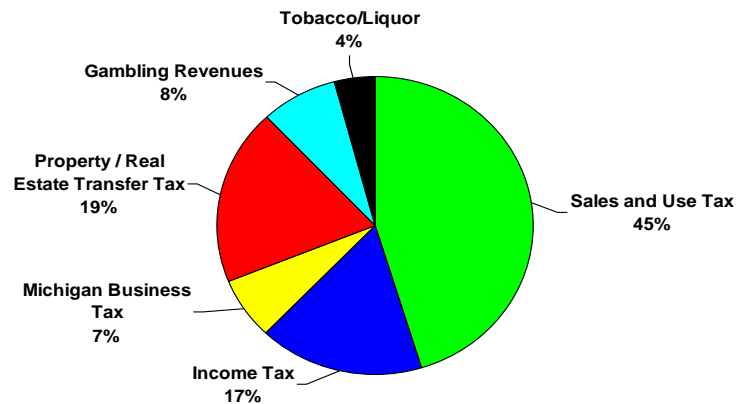
\*\* GF Expenditures in FY 2011 are reduced by \$514 million in anticipation of Federal Medicaid Assistance Percentage (FMAP) aid and the increase in FY12 reflects the need to increase GF spending to replace restricted State spending due to the scheduled loss of restricted Federal funds and the increase cost to maintain services.

Source: Senate Fiscal Agency, FY10 and FY11; Michigan Department of Treasury, FY12.

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## School Aid Revenues

FY 2010 Total Earmarked Resources: \$10.7 Billion

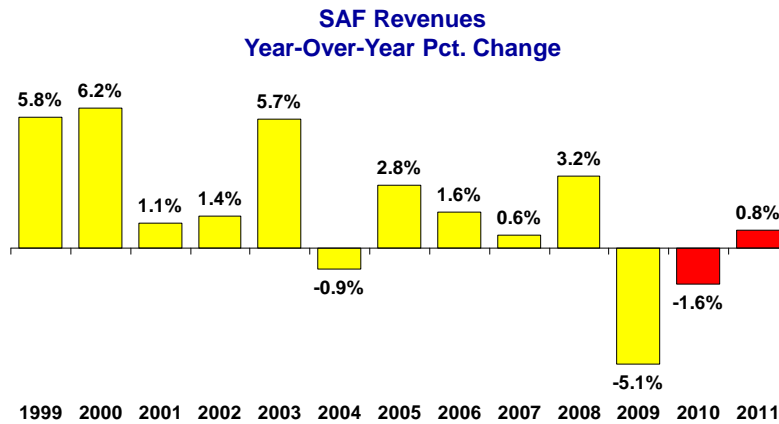


Almost half of the School Aid revenues come from the Sales and Use Tax.

Source: May 2010 Consensus.

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## SAF Revenues Drop in FY 2009 and FY 2010



Source: May 2010 Consensus Conference.

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## School Aid Fund Budget Outlook

*(Dollars in Millions)*

	FY 2010	FY 2011	FY 2012
Beginning Balance	\$238.2	\$392.8	\$303.3
Ongoing Revenue *	\$10,749.9	\$10,832.9	\$10,970.7
ARRA	\$450.0	\$184.3	\$0.0
Fed Aid & Other	\$1,646.4	\$1,717.6	\$1,717.6
<b>Total Revenue</b>	<b>\$13,084.5</b>	<b>\$13,127.6</b>	<b>\$12,991.6</b>
Expenditures **	\$12,691.7	\$12,824.3	\$13,144.3
Balance	\$392.8	\$303.3	(\$152.7)

\* Ongoing Revenue equals consensus estimate for FY10 & FY11.

\*\* Expenditures in FY12 are increased from FY11 by inflation.

Source: Michigan Department of Treasury.

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## Michigan State Government Fewer Employees

<u>Fiscal Year</u>	<u>Governor</u>	<u>Number State Employees</u>	<u>Non-Corrections State Employees</u>	<u>Corrections Employees</u>
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	Granholm	50,799	34,855	15,944
% Change 1978-2008		-21%	-42%	257%
% Change 2000-2008		-17%	-20%	-10%

Source: Michigan Department of Treasury.

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## Government Smaller Compared to Other States

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

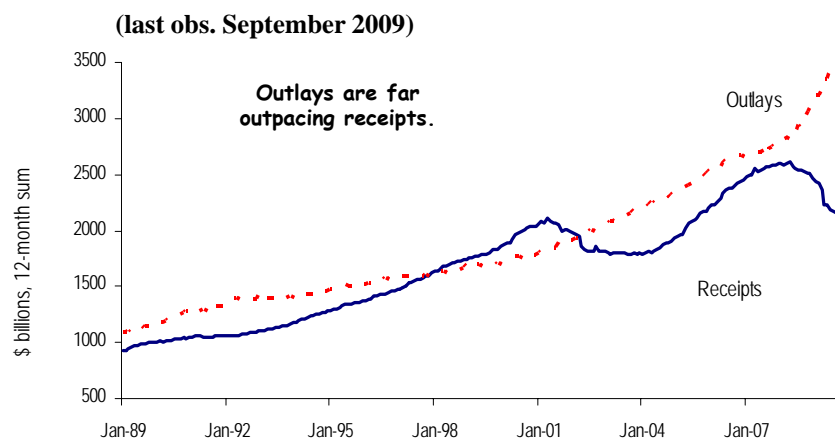
Source: U.S. Bureau of the Census, 2008 State and Local Government Employment Survey.

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# Federal Fiscal Situation

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## Federal Outlays and Receipts

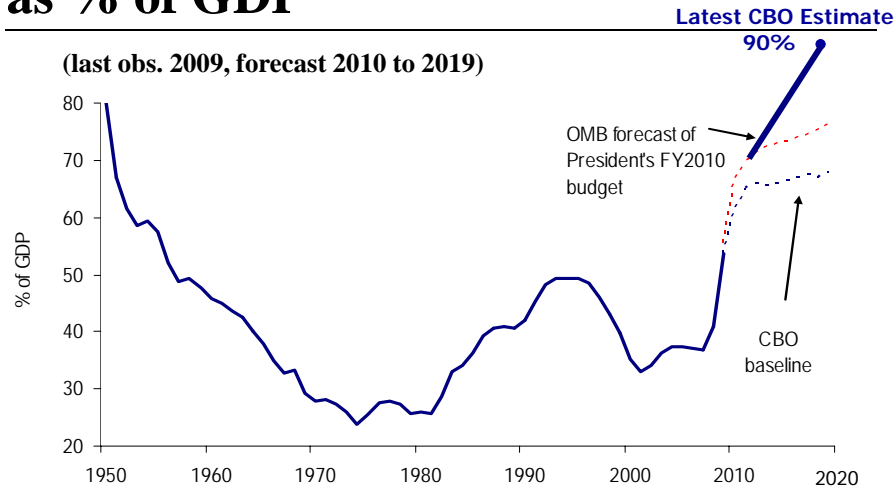


Source: US Treasury; Encima Global.

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# Federal Government Debt as % of GDP

Government



Source: U.S. Office of Management and Budget; Congressional Budget Office; and Encima Global.

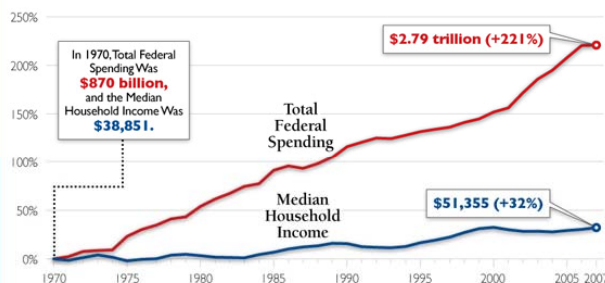
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# Federal Spending Increases Outpaces Income Growth

## Federal Spending Grew Nearly Seven Times Faster Than Median Income

Federal spending has increased 221 percent since 1970, nearly nine times faster than median income, which rose just over 32 percent.

Total Federal Spending and Median Income in Inflation-Adjusted Dollars (2008)



Source: U.S. Census Bureau, and White House Office of Management and Budget.

Federal Spending Chart 4 • 2009 Federal Revenue and Spending Book of Charts [heritage.org](http://heritage.org)

Source: Heritage Foundation, 2009 Federal Revenue and Spending Book of Charts, WSJ.

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## General Government Balances Percent of GDP

Surplus (+) or Deficit (-) as a Percent of Nominal GDP

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Canada	1.6	1.6	0.1	-4.8	-5.2	-4.5
France	-2.3	-2.7	-3.4	-8.2	-8.6	-8.0
Germany	-1.6	0.2	0.0	-3.2	-5.3	-4.6
Japan	-1.6	-2.5	-2.7	-7.4	-8.2	-9.4
Korea	3.9	4.7	3.3	-1.8	0.4	1.1
Spain	2.0	1.9	-4.1	-9.6	-8.5	-7.7
United Kingdom	-2.7	-2.7	-5.3	-12.6	-13.3	-12.5
<b>United States</b>	<b>-2.2</b>	<b>-2.8</b>	<b>-6.5</b>	<b>-11.2</b>	<b>-10.7</b>	<b>-9.4</b>

Source: Organization for Economic Co-operation and Development (OECD).

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## Foreign Ownership of U.S. Debt

<u>Country</u>	<u>Amount (in billions)</u>	<u>Percent of Total Foreign Ownership</u>
China	\$895.2	23.0%
Japan	\$784.9	20.2%
United Kingdom	\$279.0	7.2%
Oil exporters	\$229.5	5.9%
Brazil	\$164.4	4.2%
Hong Kong	\$150.9	3.9%
Caribbean Banking Centers	\$148.3	3.8%
Taiwan	\$124.8	3.2%
Russia	\$120.1	3.1%
Luxembourg	\$84.6	2.2%

SOURCE: U.S. Treasury Department, as of March 2010.

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## Implications of Federal Deficits

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- Growing deficits will require:
  - Higher federal taxes
  - Federal budget cuts
  - More federal borrowing
- Tax hikes and budget cuts will slow economy.
- Federal borrowing will squeeze out private borrowing.
- Deficits could adversely affect currency, exchange rates, and inflation.

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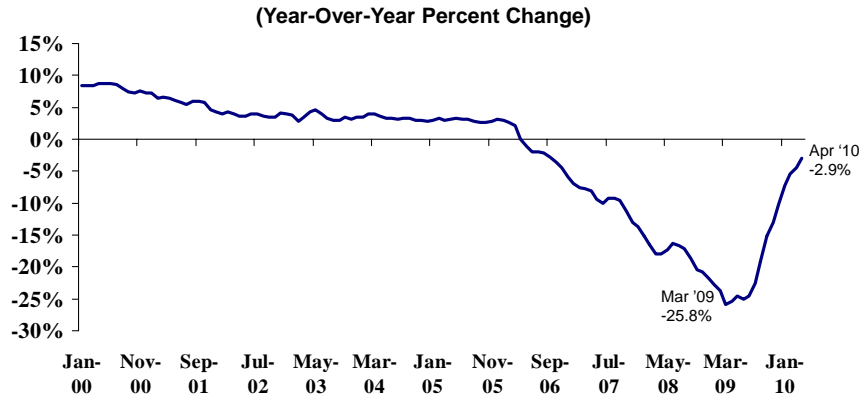


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## Local Government Revenue

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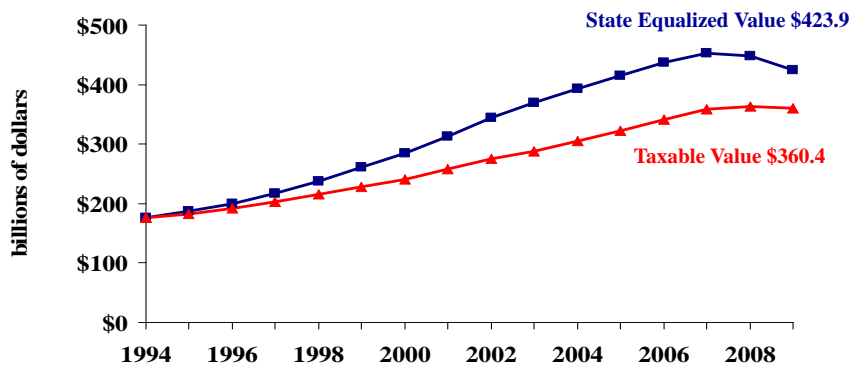
## Detroit Home Price Declines Moderate



Source: Case-Shiller Index, Standard and Poor's.

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## SEV and Taxable Value Gap



Note: Cap on taxable value reduces local government property taxes about \$0.8 billion in 2010.

Source: State Tax Commission.

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## Overall Michigan Property Value Growth Slowing

### Yearly Percent Change

	Inflation Rate Multiplier for <u>Property</u>	Total SEV <u>Growth</u>	Total Taxable Value <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	4.4%	-5.4%	-0.8%
2010est	-0.3%	-9.2%	-7.2%
2011est	2.1%	NA	-4.3%

Source: State Tax Commission and May 2010 Consensus Conference.

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## County Taxable Value Changes

	<u>2008 TV</u>	<u>2009 TV</u>	<u>Percent Change</u>
Marquette	\$1,783,218,918	\$1,903,656,393	6.8%
Gratiot	\$891,170,794	\$950,357,179	6.6%
Ontonagon	\$239,484,596	\$255,090,400	6.5%
Gogebic	\$455,309,977	\$484,900,344	6.5%
Houghton	\$681,276,955	\$724,768,789	6.4%
<b>MICHIGAN</b>	<b>\$363,195,672,141</b>	<b>\$360,437,106,515</b>	<b>-0.8%</b>
Macomb	\$31,937,933,158	\$31,059,989,313	-2.7%
Livingston	\$8,825,751,150	\$8,572,600,661	-2.9%
Oakland	\$64,745,976,336	\$62,416,676,895	-3.6%
Wayne	\$52,918,906,133	\$50,989,562,702	-3.6%
Genesee	\$11,829,074,332	\$11,386,079,390	-3.7%

Source: State Tax Commission.

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## City Taxable Value Changes

	<u>2008 TV</u>	<u>2009 TV</u>	<u>Percent Change</u>
Traverse City	\$747,110,960	\$781,652,450	9.5%
Grand Rapids	\$4,868,590,553	\$4,857,768,355	2.5%
Lansing	\$2,496,988,704	\$2,509,268,730	2.0%
<b>MICHIGAN</b>	<b>\$363,195,672,141</b>	<b>\$360,437,106,515</b>	<b>0.6%</b>
Detroit	\$10,031,267,735	\$9,725,918,781	-1.7%
Livonia	\$5,028,791,640	\$4,998,993,490	-2.0%
Warren	\$4,708,677,833	\$4,583,347,443	-3.4%
Pontiac	\$1,472,949,920	\$1,377,212,650	-4.8%
Saginaw	\$721,640,702	\$685,551,914	-7.4%
Flint	\$1,643,424,483	\$1,505,610,437	-11.4%

Source: State Tax Commission.

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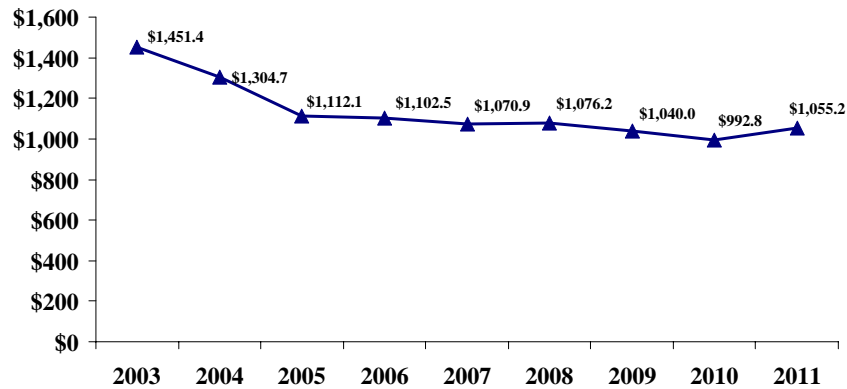
## One-Half of Cities Saw Taxable Value Decline

<u>Change in TV 2008 to 2009</u>	<u>% of Cities</u>
Less than -3%	19.0%
-3% to 0%	30.3%
0% to 3%	27.7%
Greater Than 3%	23.0%
<b>Total</b>	<b>100.0%</b>

Source: Department of Treasury Calculations.

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## Revenue Sharing for Locals Drops by \$400 Million



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## Revenue Sharing for Cities, Villages, Townships and Counties

Fiscal Years 2003 – 2011 (Executive Rec.)

Fiscal Year	Cities	Villages	Townships	Counties	Total
2003	\$846.7	\$31.9	\$370.2	\$202.6	\$1,451.4
2004	\$761.0	\$28.0	\$333.0	\$182.1	\$1,304.1
2005	\$753.2	\$27.8	\$331.0	\$0.0	\$1,112.0
2006	\$744.9	\$27.5	\$330.2	\$0.0	\$1,102.6
2007	\$722.7	\$26.7	\$321.5	\$0.0	\$1,070.9
2008	\$722.7	\$26.7	\$326.8	\$0.0	\$1,076.2
2009	\$702.4	\$25.6	\$309.1	\$3.0	\$1,040.1
2010 proj.	\$625.4	\$22.2	\$289.9	\$55.3	\$992.8
2011 proj.	\$625.4	\$22.2	\$292.9	\$114.7	\$1,055.2

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

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## FY 2011 Executive Recommendation vs. House & Senate Passed

	FY 2011 Exec. Rec.	FY 2011 House Passed	FY 2011 Senate Passed
<b>Constitutional</b>	\$633,481,700	\$633,481,700	\$633,481,700
<b>Statutory</b>	\$307,061,800	\$314,066,600	\$273,279,500
<b>Subtotal</b>	\$940,543,500	\$947,548,300	\$906,761,200
<b>County</b>	\$114,740,700	\$114,740,700	\$109,003,700
<b>Total</b>	\$1,055,284,200	\$1,062,289,000	\$1,015,764,900

Amounts adjusted for May Consensus revenue projections

*Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.*

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## Counties Projected to Return to Revenue Sharing – FY 2011

*(Millions)*

Alger	\$37,558	Gratiot	\$860,105	Montcalm	\$1,244,555
Alpena	\$735,909	Hillsdale	\$956,430	Muskegon	\$3,685,141
Arenac	\$227,765	Houghton	\$700,421	Newaygo	\$403,441
Bay	\$2,634,337	Ingham	\$2,325,693	Osceola	\$285,873
Berrien	\$141,684	Ionia	\$1,187,679	Ottawa	\$4,173,227
Branch	\$972,856	Isabella	\$350,852	Saginaw	\$4,554,625
Calhoun	\$3,012,947	Jackson	\$3,373,706	Sanilac	\$916,269
Cass	\$443,067	Kalamazoo	\$3,725,298	Shiawassee	\$1,450,208
Clare	\$432,679	Kent	\$6,987,774	St Joseph	\$1,377,778
Delta	\$640,007	Lapeer	\$1,707,710	Tuscola	\$1,143,926
Genesee	\$10,113,511	Lenawee	\$850,303	Van Buren	\$1,564,945
Gladwin	\$128,957	Luce	\$97,374	Wayne	\$50,057,523
Gogebic	\$9,501	Marquette	\$1,228,987		

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# What Does Michigan Need to Do?

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## What Does Michigan Need to Do?

- Consolidate government services at both the state and local level.
- Reform the state's tax structure so that it will grow with the State's economy and not discourage economic growth.
- Slow the growth of government healthcare and tax expenditures.
- Maintain or increase the investment in education.
- Reform local government pensions.

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## Too Many Units of Government

- ❑ **Local Governments**
  - ❑ 83 Counties
  - ❑ 275 Cities
  - ❑ 258 Villages
  - ❑ 1,240 Townships
  
- ❑ **K-12 Schools**
  - ❑ 551 Local School Districts
  - ❑ 230 Charter Schools
  - ❑ 57 Intermediate School Districts
  
- ❑ **Colleges and Universities**
  - ❑ 15 Public Universities
  - ❑ 29 Community Colleges

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## Ingham County School Districts

<u>School District</u>	<u>Students Fall 2009</u>
East Lansing	3,445
Lansing	14,148
Dansville	904
Haslett	2,722
Holt	5,902
Leslie	1,380
Mason	3,030
Okemos	4,016
Stockbridge	1,668
Waverly	2,992
Webberville	668
Williamston	<u>1,906</u>
<b>Total</b>	<b>42,782</b>

Source: Michigan Department of Education.

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## Local Colleges and Universities

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<u>School</u>	<u>Students Fall 2009</u>
Michigan State University	45,520
Lansing Community College	20,394

Source: Stateuniversity.com.

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## Benzie & Manistee County School Districts

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<u>School District</u>	<u>Students Fall 2009</u>
Benzie County Central	1,818
Frankfort-Elberta Area	545
Bear Lake	355
Kaleva Norman Dickson	755
Onkama Consolidated	403
Manistee	1,705
<b>Total</b>	<b>5,581</b>

Source: Michigan Department of Education.

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## Maryland School Districts Are Large

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<u>School District</u>	<u>Students</u>
Montgomery County Public Schools	141,777
Prince George's County Public Schools	129,723
Anne Arundel County Public Schools	74,200
Howard County Public Schools	49,748

**Note:** Montgomery County Public Schools is 16<sup>th</sup> largest in the US

*Source: Maryland County Public Schools, various websites.*

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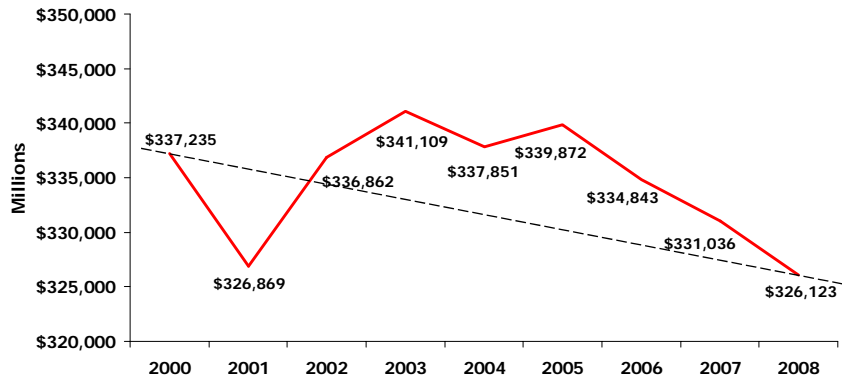


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## Michigan's Tax System Needs to be Restructured

60

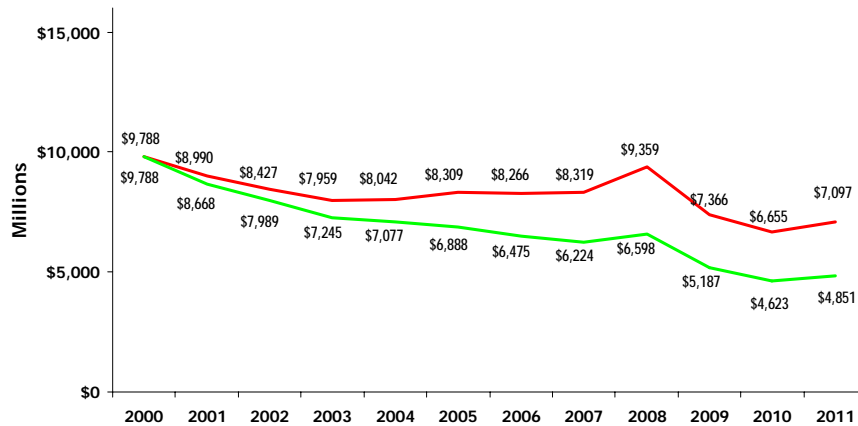
## Real State GDP Down 3.3% Since 2000



Source: U.S. Department of Commerce, Bureau of Economic Analysis.

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## Inflation Adjusted GF-GP Revenue Down 50.4% Since 2000

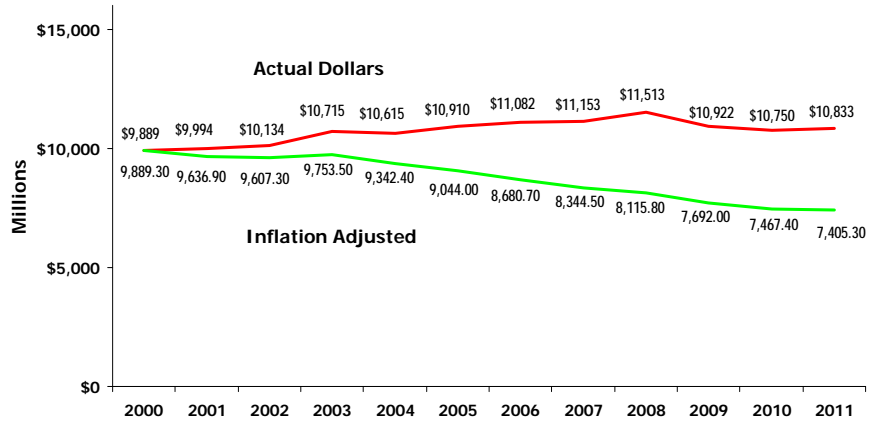


Note: FY 2010 and 2011 are May 2010 Consensus Estimates

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

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## Inflation Adjusted SAF Revenue Down 25% Since 2000

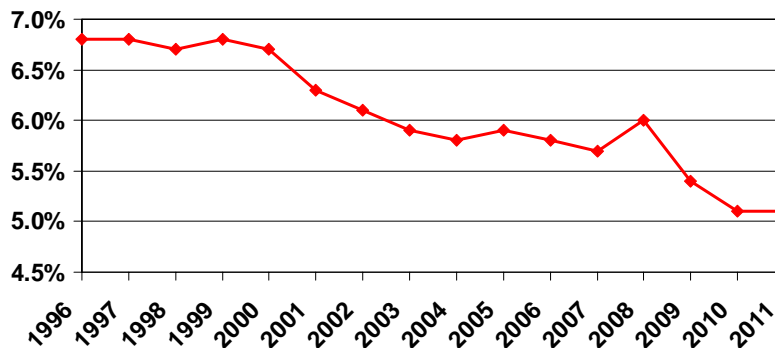


Note: FY 2010 & 2011 are May 2010 Consensus Estimates

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

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## Michigan GF-GP & SAF Taxes Falls as a Percent of Personal Income



If revenues were still 6.8% of personal income, FY 2011 revenue would be \$6.0 billion larger.

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

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

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## Michigan S&L Taxes as a Percent of Personal Income Below National Average

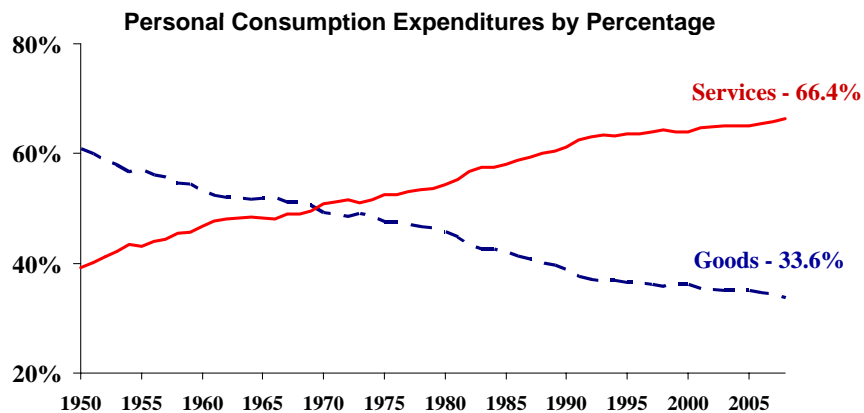
FY 2007 State & Local Taxes as a		
State	% of Personal Inc.	Rank
Alaska	18.56%	1
New York	15.52%	2
Ohio	11.88%	11
Wisconsin	11.81%	12
U.S. Average	11.27%	
<b>Michigan</b>	<b>11.01%</b>	<b>24</b>
Illinois	10.83%	28
Indiana	10.25%	41
South Dakota	8.90%	49
New Hampshire	8.86%	50

Note: Michigan tax burden adjusted for IIT rate increase to 4.35%, MBT surcharge, Earned Income Tax Credit, and county property tax shift.

Source: Census Bureau.

65

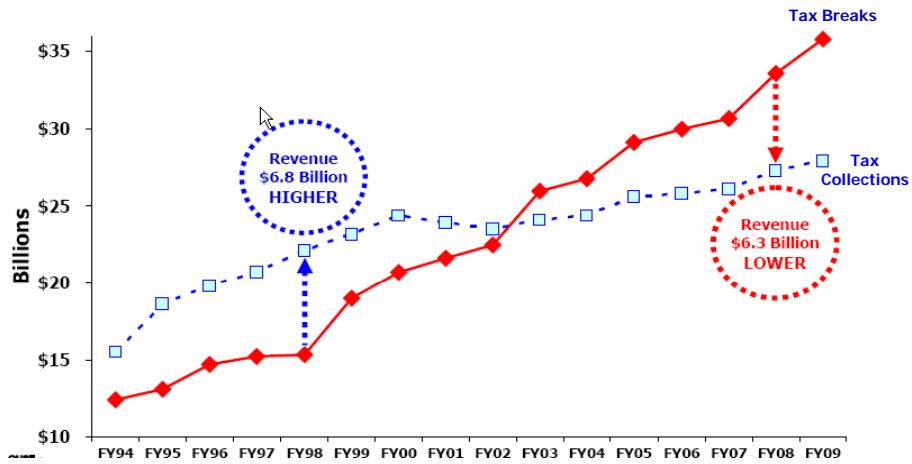
## Tax Structure Needs to Keep Pace With Changing Economy



Source: U.S. Bureau of Economic Analysis.

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## Tax Breaks/Tax Expenditures Larger Than Tax Collections



Source: House Fiscal Agency.

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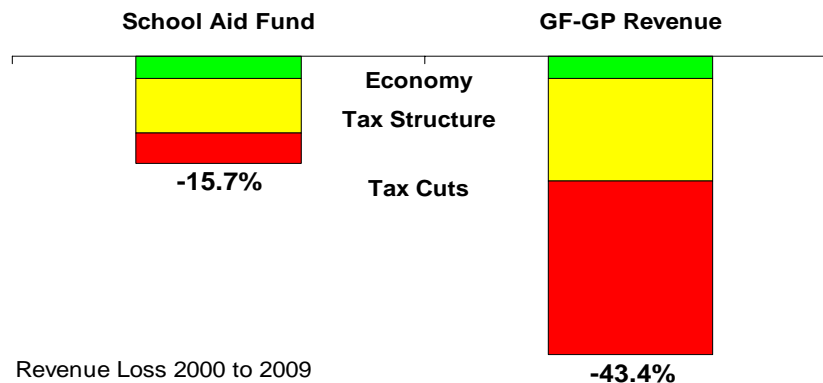
## Significant Tax Cuts Will Cut Future Revenues

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
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)
<b>Totals</b>	<b>(\$138.8)</b>	<b>(\$557.4)</b>	<b>(\$624.1)</b>	<b>(\$840.5)</b>	<b>(\$1,264.7)</b>	<b>(\$1,493.3)</b>

Source: Michigan Department of Treasury.

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## Most Revenue Losses Due to Tax Cuts



Source: Michigan Department of Treasury

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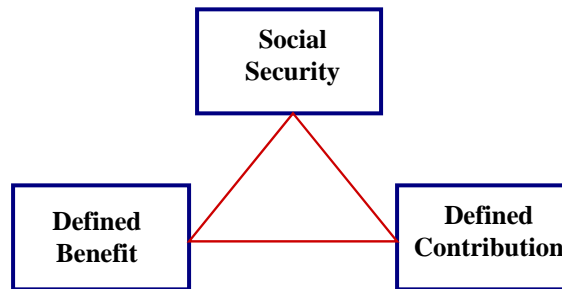
## Key Characteristics of a Good Tax System

- Stable** – Stable level revenue:
  - Broad based taxes
  - Balanced group of taxes (don't rely on just one major tax).
- Fair** – Similar taxpayers pay similar taxes.
- Efficient** – Simple to administer and comply with, and should not distort economic decisions.

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## Hybrid Retirement Model

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## Retirement Model Characteristics

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- Equal contributions from employer and employee into all three plans.
- Benefits based on lifetime earnings – will reduce abuses.
- Raise retirement age as people live longer.
- Investment risk shared – one-third each.

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## Consolidation / Shared Services

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- Do for business reasons, not political.
- Important to look at all costs, as transition costs can be large.

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## Conclusion

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- U.S. recession worst in decades.
- Michigan has been in a recession since 2001 due to auto sector restructuring and U.S. recession.
- Michigan recovery will require U.S. recovery, stability in the auto sector, and time.
- Funding for schools, economic development and other programs depend on economy growing and tax restructuring.
- Government changes needed to reflect economic reality.

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# Questions

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[www.Michigan.gov/Treasury](http://www.Michigan.gov/Treasury)