

Michigan's Economic and Revenue Situation

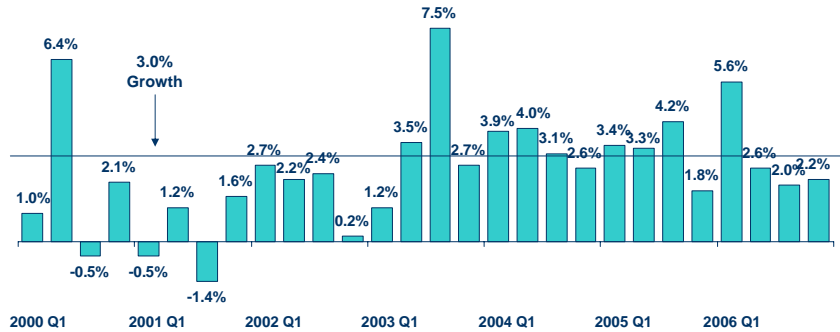
Move Michigan Forward

Mark P. Haas
Michigan Department of Treasury
March 22, 2007

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U.S. Economy Starting to Slow

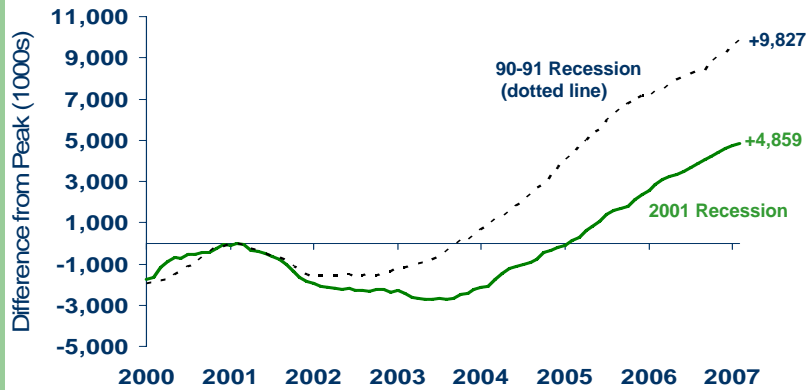
Real GDP Growth



Source: Bureau of Economic Analysis.

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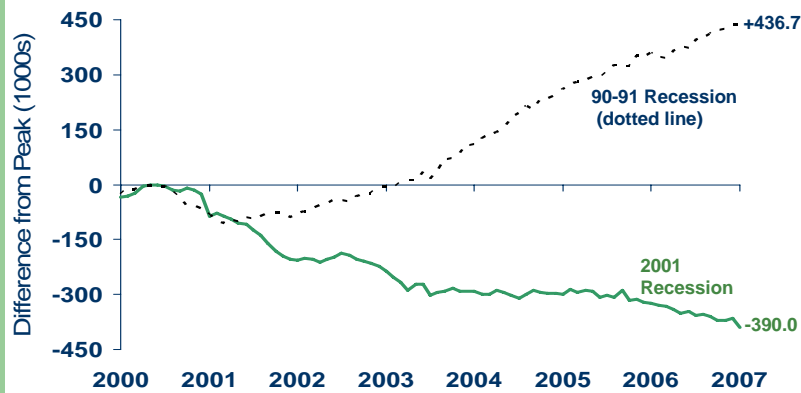
U.S. Employment Growth Slower Than Early 1990s



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Source: Bureau of Labor Statistics.

Michigan Employment Growth Slow to Turn Around

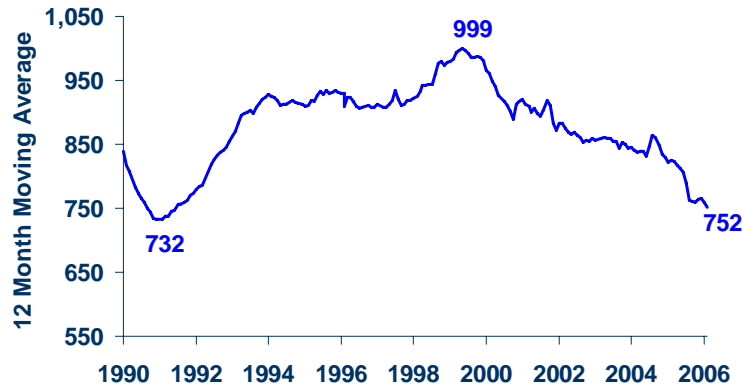


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Source: Bureau of Labor Statistics.

Big 3 Light Vehicle Sales

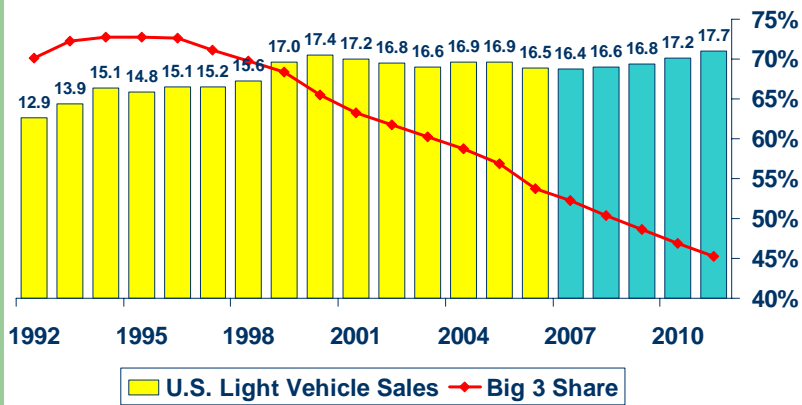
Sales Down 24 Percent Since 2000



Source: Wards Automotive Reports.

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Big 3 Auto Companies Losing Market Share

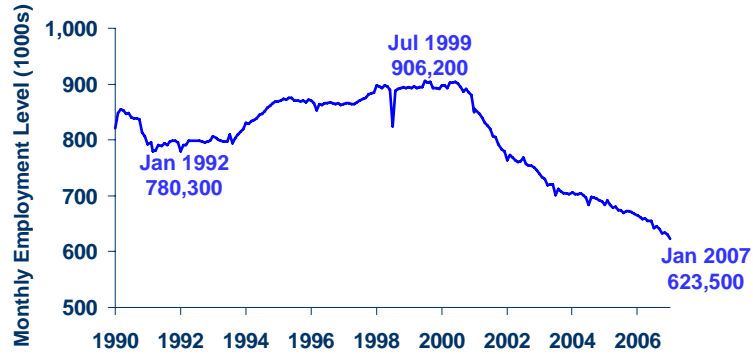


Source: Automotive News.

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Michigan Manufacturing Employment

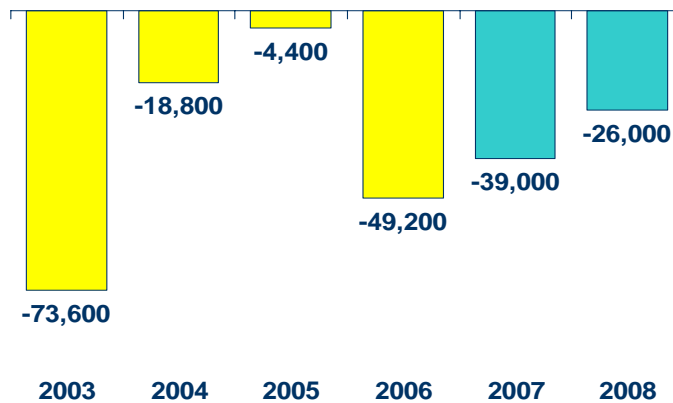
More Than 1 in 4 Jobs Lost Since Mid 1999



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Source: Bureau of Labor Statistics.

Michigan Job Loss 2003 - 2008



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Source: Bureau of Labor Statistics; 2007 – 2008 Consensus forecast.

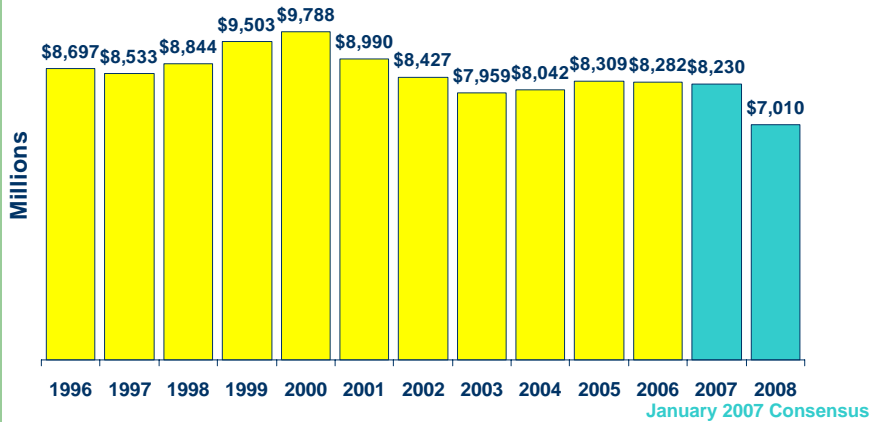
Job Loss Lowers Tax Revenue

	<u>Amount FY 2000</u>	<u>Estimated Amount FY 2007</u>	<u>Change Over 7 Years</u>
Income	\$7,136	\$6,242	-12.5%
Sales	\$6,278	\$6,732	7.2%
SBT	\$2,324	\$1,870	-19.5%
GF-GP*	\$9,788	\$8,230	-15.9%

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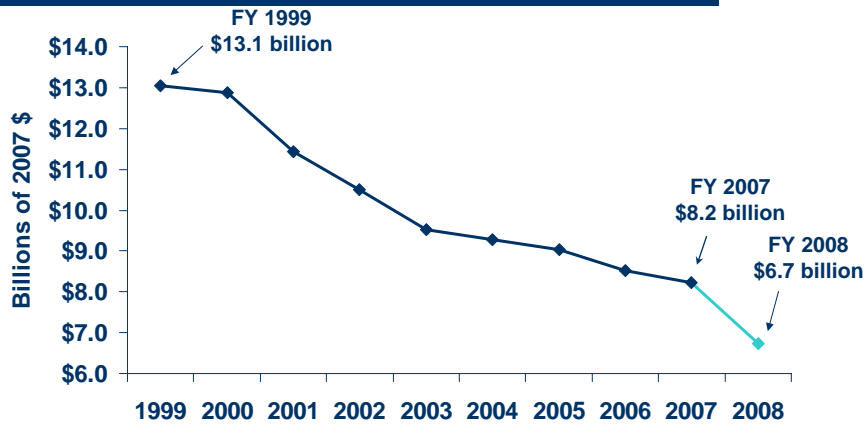
*Does not include revenues proposed in the Governor's tax restructuring package.

2007 General Fund Revenue Less Than in 1996



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Inflation Adjusted General Fund Revenue Down 37 Percent Since 1999



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Totals exclude transfers and are adjusted to 2007 dollars using State and Local Government Price Deflator.
Totals assume current law.

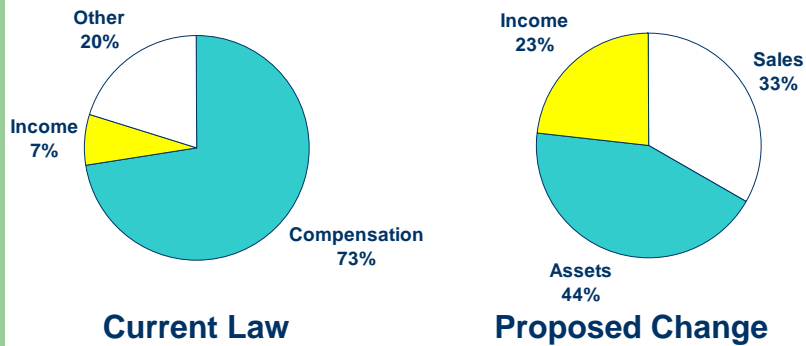
Governor Granholm's Tax Plan

- Replace SBT
- Personal property tax relief
- 2% tax on services
- Tax on \$2 million estates
- Cigarette tax, liquor fees increases
- Sales tax break on new vehicles

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Eliminate Payroll From Base Increase Reliance on Profits

Components of Tax Base



13 Source Current Law: Exhibit 13, *Michigan Single Business Tax 2000-01*, Michigan Dept. of Treasury.

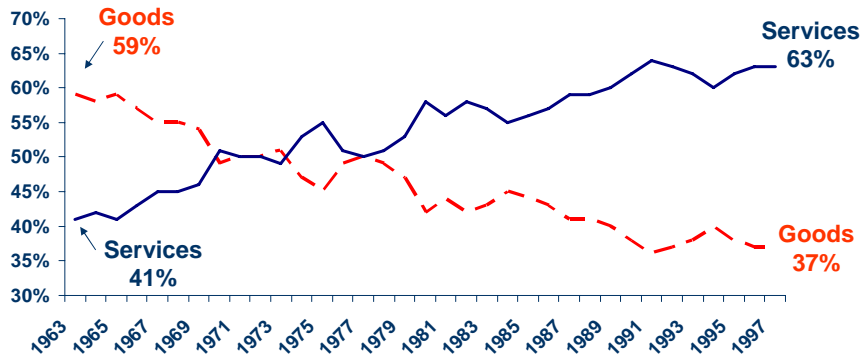
\$620 Million Personal Property Tax Relief

- Commercial and Industrial personal property exempt from 24 education mills
- Provides a personal property tax cut of 46 percent on average
- Schools protected by dedicating a portion of the tax to the school aid fund
- No cuts to city, village, townships, and county revenues

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Service Share of Economy Increasing

Share of Private Michigan GSP



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Graph shows goods producing and private service producing shares of Michigan GDP using SIC classifications.

Taxing Services Improves Equity Between Goods and Services

Currently Subject to Sales Tax

- Repair parts
- Eating out
- Golf clubs
- Video rental

Currently Exempt from Sales Tax

- Repair labor
- Concert tickets
- Golf course fees
- Movie tickets

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Service Tax Finances Other Tax Relief

- \$578 million tax cut for Michigan business under MBT
- \$620 million in personal property tax relief
- \$180 million for sales tax break on new vehicles
- \$280 million earned income tax credit

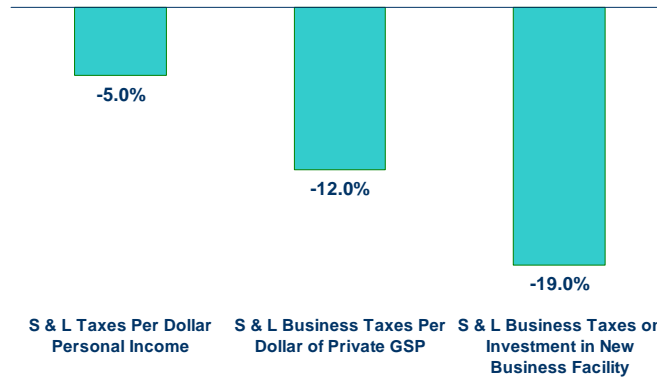
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Overall Balance Sheet

	<u>CY 2007</u>	<u>CY 2008</u>	<u>CY 2009</u>	<u>CY 2010</u>
Net Effect of SBT Replacement	\$0.0	(\$457.7)	(\$468.6)	(\$467.4)
Tax on Services	\$845.5	\$1,484.6	\$1,529.2	\$1,575.0
Close Loopholes & Other	\$95.1	\$190.2	\$194.3	\$198.6
Estate Tax Restoration	\$29.8	\$120.1	\$134.9	\$138.9
Auto Sales Tax on Difference	(\$43.8)	(\$176.3)	(\$181.6)	(\$187.0)
Net Effect Restructuring	\$926.6	\$1,160.9	\$1,208.2	\$1,258.1
Earned Income Tax Credit	\$0.0	\$0.0	(\$127.9)	(\$283.6)
Net Revenue with EITC	\$926.6	\$1,160.9	\$1,080.3	\$974.5

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Upjohn Study Finds Michigan Taxes Below U.S. Average



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Source: Michigan Economic Competitiveness and Public Policy, Upjohn Institute 2006.

Michigan Business Tax Burden Compares Well with Neighbors

<u>State</u>	<u>Business Tax as % of GSP</u>	<u>Rank</u>
Wyoming	10.8%	1
Illinois	5.3%	21
Minnesota	5.1%	24
U.S. Average	5.1%	
Wisconsin	5.0%	26
Indiana	4.9%	28
Ohio	4.7%	32
Michigan	4.7%	32
DE, NC, VA, CT, OR	3.9%	46

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Source: Council on State Taxation, figures are for FY 2006.

Michigan Tax Burden Below Average After Governor's Tax Plan

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Conclusion

- Michigan has serious economic and financial problems
- The Governor has proposed a solution of budget cuts, revenue replacement, and reform
- The legislature needs to act quickly

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