

State Budget Update

Prepared for:
MSBO Business Manager/CPA Workshop
Kellogg Center

June 8, 2011



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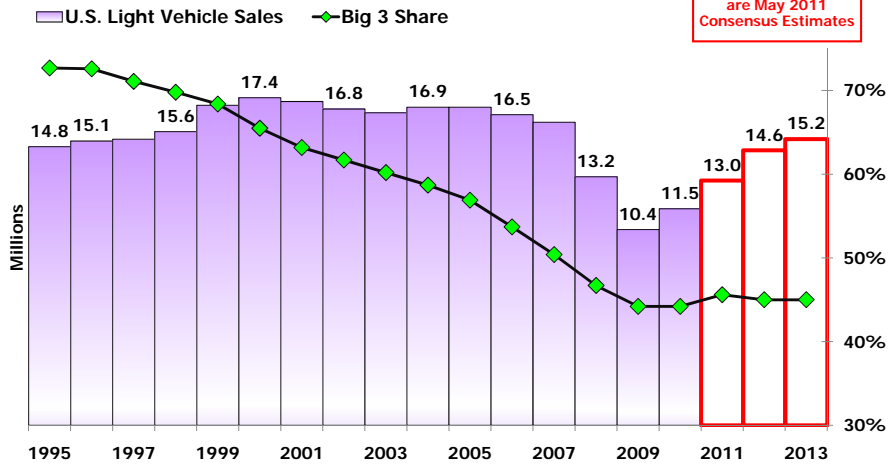
ECONOMIC UPDATE



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Sales Up; Big 3 Market Share Stabilizes

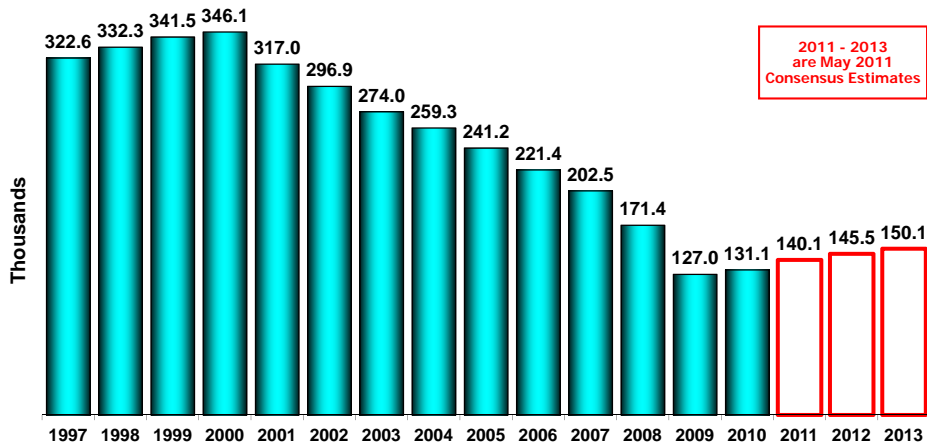


Source: *Automotive News* and May 2011 Consensus Estimates

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Michigan Vehicle Employment

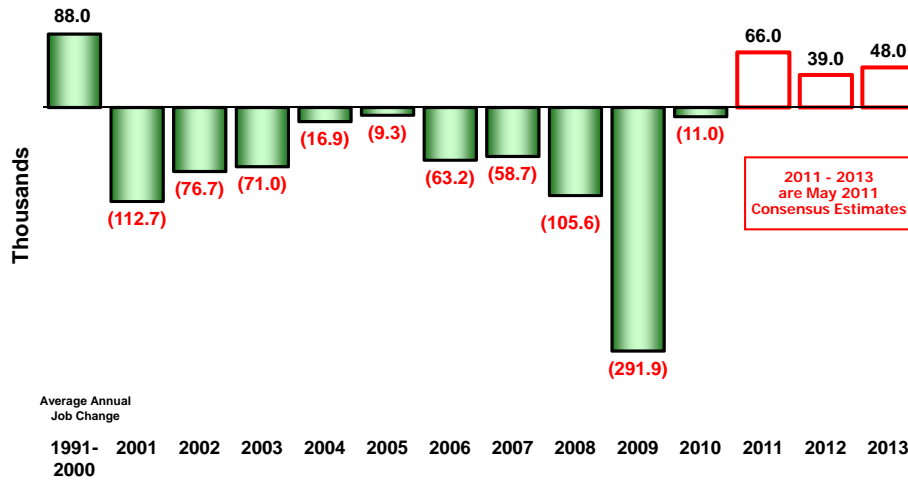


Source: U.S. Bureau of Labor Statistics and May 2011 Consensus Estimates

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Job Change in Michigan



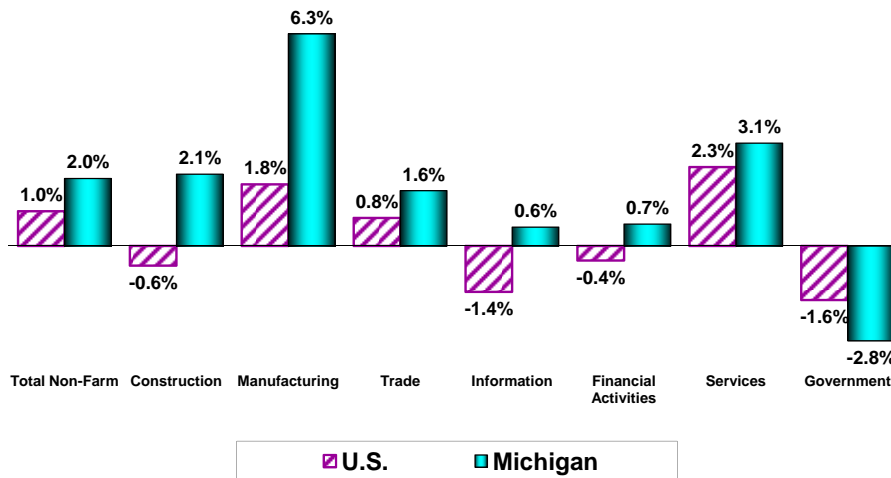
Source: U.S. Bureau of Labor Statistics and May 2011 Consensus Estimates

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Michigan % Change in Employment

March 2010 Through March 2011

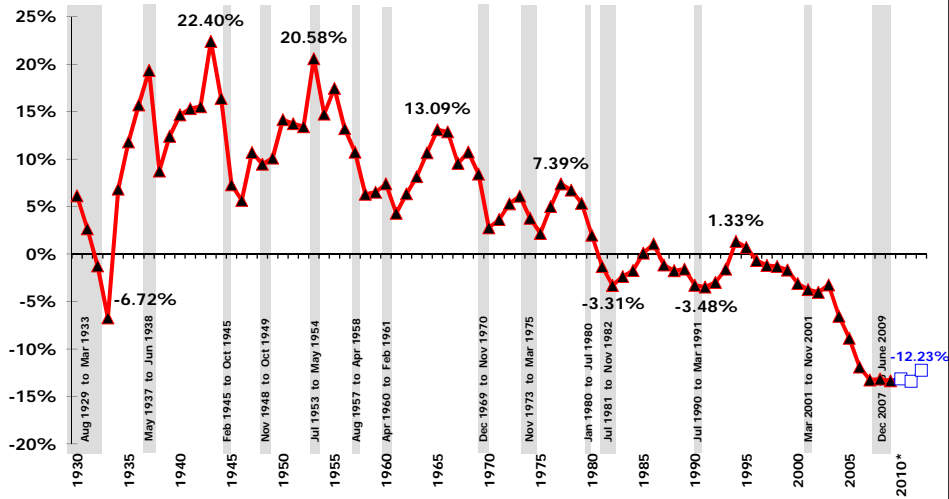


Source: U.S. Bureau of Labor Statistics

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Michigan Per Capita Income Deviation from National Average



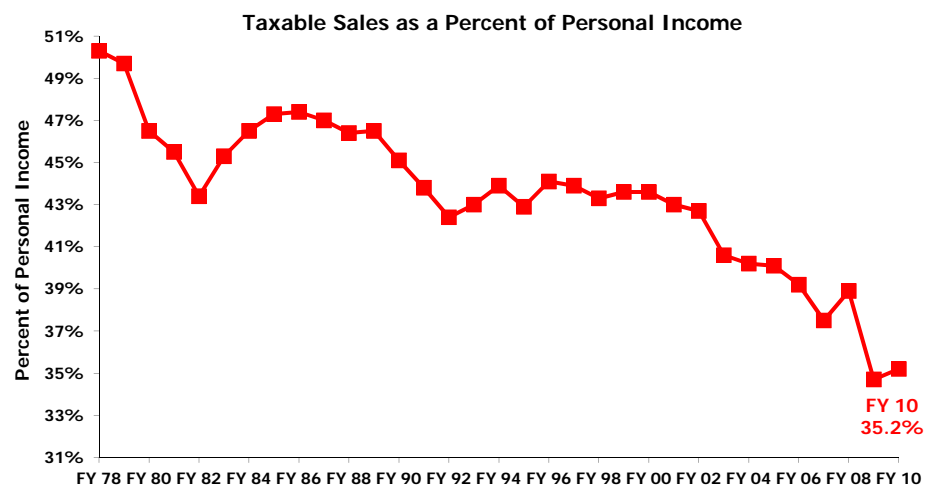
Source: National Bureau of Economic Research

*2010, 2011, and 2012 are Estimates

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Sales/Use Tax Share Declining



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REVENUE AND TAX UPDATES



Business Tax Changes

- Cut business taxes \$1.64 billion [83% net cut]
- Repeal the Michigan Business Tax
- Institute a 6% tax on business income for C corps only
- Honor existing firm-specific credits including MEGA, film, next energy, battery credits, etc.
- Any additional credits or business benefits will be subjected to appropriation



Personal Income Tax Changes

- Increase personal income tax \$1.42 billion [23% net increase 2013]
- Suspend rate reduction from 4.35% to 4.25% until January 1, 2013 (a 15-month delay) [increases FY 13 revenue \$223.0 million]
- Modify public/private pension exemption [increases revenue \$343.4 million]
- Reduces state earned income tax credit, EITC, from 20% of federal to 6% [increases revenue \$261.6 million]
- Reduce homestead property tax credits [increases revenue \$270.2 million]



Pension / Retirement Income Tax Changes

- For all taxpayers
 - All military pension/social security remains exempt
 - Distributions from Roth IRAs and 401(k)s attributable to employer contributions or to employee contributions that are matched by the employer remain exempt
 - Retirement/pension exemptions apply based on the oldest spouse for married or joint returns
- Taxpayers > 67
 - No change to retirement /pension income exemptions



Pension / Retirement Income Tax Changes

- Taxpayers between 60-66
 - Receive \$20,000 single / \$40,000 joint exemption against pension and retirement income. When 67, exemption is against all types of income including investment and salary & wages.
 - If household resources exceed \$75,000 single / \$150,000 joint, then cannot take \$20,000 single / \$40,000 joint exemption



Pension / Retirement Income Tax Changes

- Taxpayers < 60
 - No exemption until age 67
- When 67
 - Receive exemption of either \$20,000 single / \$40,000 joint against all types of income OR social security and the personal exemption
 - If household resources exceed \$75,000 single / \$150,000 joint, then cannot take \$20,000 single / \$40,000 joint exemption



May Revenue Conference Results

- **FY 2010-11**
 - Combined GF/GP and SAF revenues up \$428.7 million from January estimates
 - 5.9% combined revenue growth
- **FY 2011-12**
 - Pre-Tax Plan: Combined GF/GP and SAF revenues up \$498.69 million from January estimates
 - Tax Plan adopted by Legislature reduces revenues by \$535.8 million
 - Net impact: Increase of \$233.4 million in estimated revenues

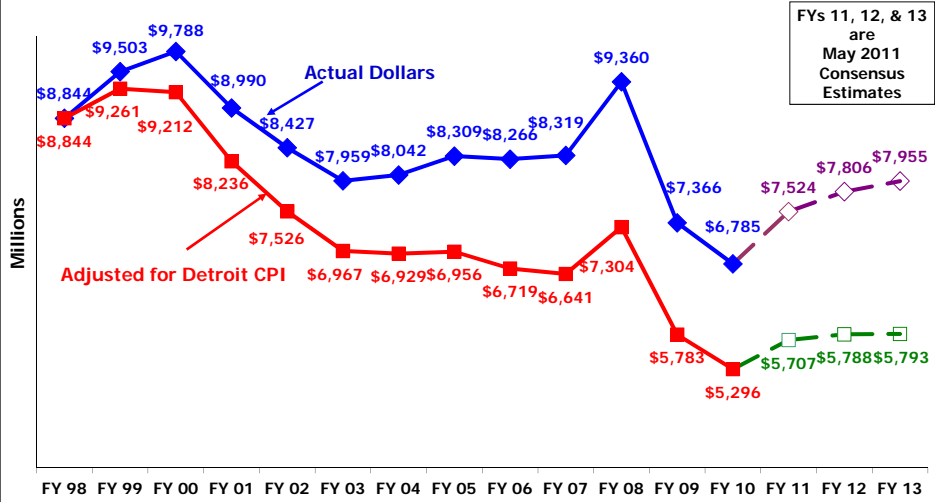


Consensus Revenue Estimates (Dollars in Millions)

	Revenue Estimate		Tax Changes		Net Change
	May 2011	Change from Jan.	May 2011	Change from Jan.	
FY 2010-11					
GF/GP	\$7,524.1	\$296.3	--	--	--
SAF	\$11,111.5	\$132.4	--	--	--
FY 2011-12					
GF/GP	\$7,651.0	\$356.9	\$154.1	(\$172.3)	\$184.6
SAF	\$11,335.3	\$141.6	(\$689.9)	(\$92.8)	\$48.8
FY 2012-13					
GF/GP	\$7,517.2	\$405.5	\$438.0	(\$129.4)	\$276.1
SAF	\$11,626.4	\$157.9	(\$662.1)	(\$131.8)	\$26.1



Inflation Adjusted GF/GP Revenue Down 40% Since FY 2000

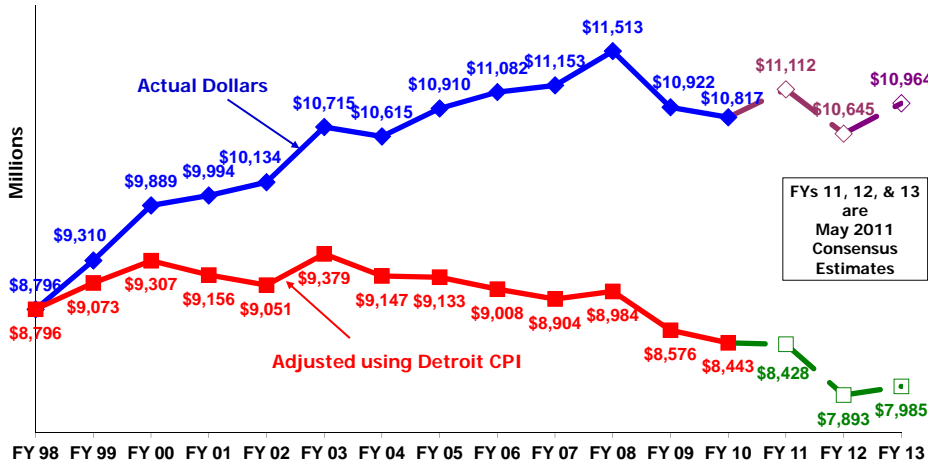


Note: Consensus estimates adjusted to include the tax plan.

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Inflation Adjusted SAF Net Revenue Down 8.7% Since FY 2000



Note: Consensus estimates adjusted to include the tax plan.

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FY 2011-12 GENERAL FUND AND SCHOOL AID BUDGETS



Structural Problems in FY 2011

<u>Funding Source</u>	<u>\$ Amount in Millions</u>
■ Federal Funds	\$976.5
■ Tax Amnesty (\$88.8M in FY11 plus assumed \$20.5M loss in FY12)	\$109.3
■ Unclaimed Property (difference between FY11 and FY12)	\$107.0
■ Debt Service Restructuring (difference between FY11 and FY12)	\$162.2
■ Early Retirement (one-time replacement savings minus 3% phase-in)	\$24.0
Total One-Time Funding Sources	\$1,379.0

One-time funding sources utilized in FY 2010-11 budget



Total Base Cuts \$1,583.4 Million

- Corrections (\$110.8 million)
- Community Health (\$219.9 million)
- Human Services (\$149.8 million)
- Higher Education (\$222.4 million)
- Community Colleges (\$12.0 million)
- Statutory Revenue Sharing (\$143.9 million)
- State employee concessions (\$145.0 million)
- Other (\$50.6 million)
- School Aid reductions (\$529.0 million)



One-Time Funding Items in FY 2011-12 Budget

	<u>\$ Amount in Millions</u>
School Aid	\$456.5
Strategic Fund	\$75.0
Other Post-Employment Benefits	\$60.0
Revenue Sharing	\$30.0
Community Health	\$22.1
Environmental Quality/Natural Resources	\$10.0
Higher Education	\$1.9
Other	\$2.6
Subtotal: One-Time Appropriations	\$658.1
Deposit to Budget Stabilization Fund	\$255.8
Total: One-Time Funding Items	\$913.9



School Aid Cuts

- Reduces Foundation Allowances by \$470 Per Pupil
 - Makes the FY 2011 \$170 per pupil reductions permanent by rolling the cut into the foundation allowance
 - Reduce all foundations by \$300 per pupil, for a total foundation allowance reduction of \$470 per pupil
 - Additional \$300 per pupil cut equals a savings of \$452.5 million
- Certain Categorical Funding programs eliminated – totaling \$76.5 million



School Aid Cuts

- Intermediate School District (ISD) General Operations
 - Reduces payments by 5% or \$3.3 million
- School Aid Fund (SAF) Revenue Shifts Totaling \$1.0 Billion
 - Tax proposal reduces SAF revenue (\$689.9) million
 - Budget proposal increases GF/GP transfer to SAF (\$100.0) million
 - SAF revenue shifted into Community College budget (\$195.9) million and Higher Education budget (\$200.0) million



Higher Education

- Each university's appropriation is reduced by 15% (\$222.4 million GF/GP)
- Tuition restraint incentive funding (\$83 million)
 - Funds would be paid only if a university held its FY 2011-12 resident undergraduate tuition/fee increases below the prior-five-year state average
 - Individual incentive amounts (based on average annual tuition/fee rate increase over the last five years) ranging from 5.1% to 9.8% of proposed FY 2012 appropriation amounts



Revenue Sharing Cuts

- Statutory Revenue Sharing line item for cities, villages, and townships (CVT's) eliminated and replaced by Local Government Incentives Program
 - Revenue distributed to units that use "Best Practices"
 - Net reduction in funding (\$107.1 million)
- County Revenue Sharing
 - Distributed on a pro-rata basis for those who qualify, and is reduced \$14.7 million from FY 2011 (with one-time money)
 - Total reduction from current law is \$51.7 million (\$36.7 with one-time money)



Local Government Incentives Program

- Total of \$200 million: \$195 million to CVTs that meet criteria, \$5 million to defray consolidation costs (\$210 with one-time funding)
- No amount less than \$3,000 distributed. CVTs that receive less are not eligible
- Eligibility to receive distributed based on transparency, consolidation of services, employee compensation



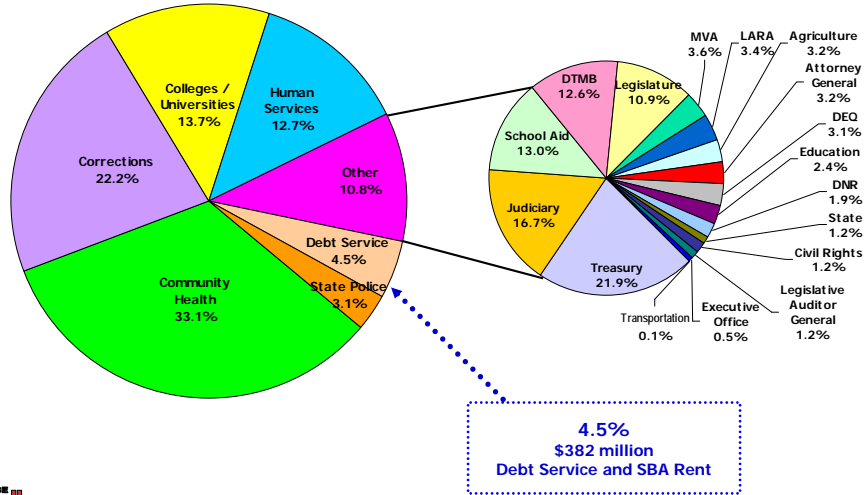
Other Cuts

- Retroactive 48 month lifetime limit for cash assistance recipients (FIP). Will close 12,600 FIP cases generating \$77.4 million gross, \$65.0 million GF/GP, in savings.
- Graduate Medical Education (GME) reduced 2%, \$31.8 million Gross (\$10.8 million GF/GP)
- Reduce Fire Protection Grant reduces grant payments to local units with state property (\$1.6 million)



FY 2011-12 GF/GP

FY 2011-12 Total = \$8,450,982,800*



* = Includes one-time boilerplate appropriation

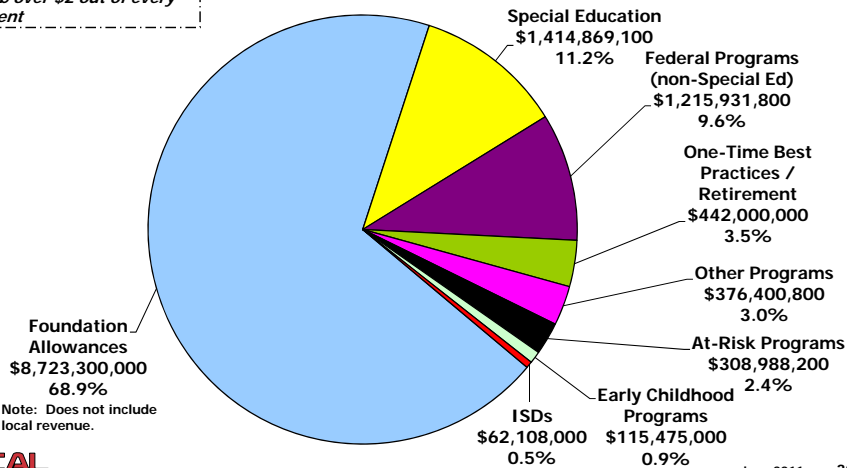
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School Aid Major Spending Categories

FY 2011-12 Total = \$12,659,072,900

Foundation allowances (used for school operations) absorb over \$2 out of every \$3 spent



Note: Does not include local revenue.

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Summary

- Cut services \$1.6 billion to address the budget shortfall
- Provide a \$1.6 billion [83%] net tax cut for business
- Replace business tax revenue with \$1.4 billion [23%] increased income tax revenue by freezing income tax rate and modifying the pension exemption

