

**Engagement. Service. Improvement.**

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**4<sup>TH</sup> ANNUAL ECONOMIST  
FORECAST FORUM**

Treasurer Rachael Eubanks and Chief Deputy Treasurer Jeff Guilfoyle

January 9, 2020

# OUR SENIOR STAFF



**Rachael Eubanks**  
Treasurer



**Jeff Guilfoyle**  
Chief Deputy Treasurer



**Sally Durfee**  
Chief of Staff



**Jon Braeutigam**  
Chief Investment Officer



**Ann Good**  
Deputy Treasurer  
Financial & Admin. Services



**Joyce Parker**  
Deputy Treasurer  
State/Local Finance



**Glenn White**  
Deputy Treasurer  
Tax Administration

# OUR FOUNDATION

## **EMPLOYEE ENGAGEMENT**

Commitment to an inclusive environment that values diverse perspectives and cultivates employee recruitment, retention, development, and leadership.

## **CULTURE OF SERVICE**

Provide complete, accurate, and timely services to all internal and external customers in a professional manner.

## **CONTINUOUS IMPROVEMENT**

Commitment to proactive and innovative employee-driven solutions in our daily operations and in strategic financial leadership.

# OUR MISSION, VISION and VALUES

## MISSION

Providing fair and efficient financial services on behalf of taxpayers, governments, students and all Michiganders, for the long-term fiscal health and stability of our state.

## VISION

We are the innovative and inclusive resource provider of exceptional financial services for a better Michigan.

## VALUES

Integrity ~ Inclusion & Diversity ~ Innovation ~ Public Service

# STATE ECONOMIC OUTLOOK

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# Two Divergent Periods of Economic Growth

Michigan's single state recession has been followed by a period of growth that has outperformed the US and Great Lakes States.

Economic Metric	From 2000 to 2009						From 2009 to 2018		
	2000	2009	2018	Annual Growth Rate	Higher than US Growth	Rank Among Great Lakes States*	Annual Growth Rate	Higher than US Growth	Rank Among Great Lakes States*
State GDP	\$351.6 billion	\$365.6 billion	\$528.0 billion	0.4%	✗	Last	4.2%	✓	#1
Wage and Salary Employees	4.7 million	3.9 million	4.4 million	-2.1%	✗	Last	1.5%	✓	#1
Wage and Salary Earnings	\$174.2 billion	\$170.0 billion	\$240.4 billion	-0.3%	✗	Last	3.9%	✗	#2
Per Capita Personal Income	\$30,409	\$34,030	\$48,423	1.3%	✗	Last	4.0%	✓	#1
Manufacturing Job Growth	886,400	455,100	629,800	-7.1%	✗	Last	3.7%	✓	#1

\*Ranking Includes: Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin

Sources: Income and GDP data from the Bureau of Economic Analysis, Wage and Employment data from the Bureau of Labor Statistics.

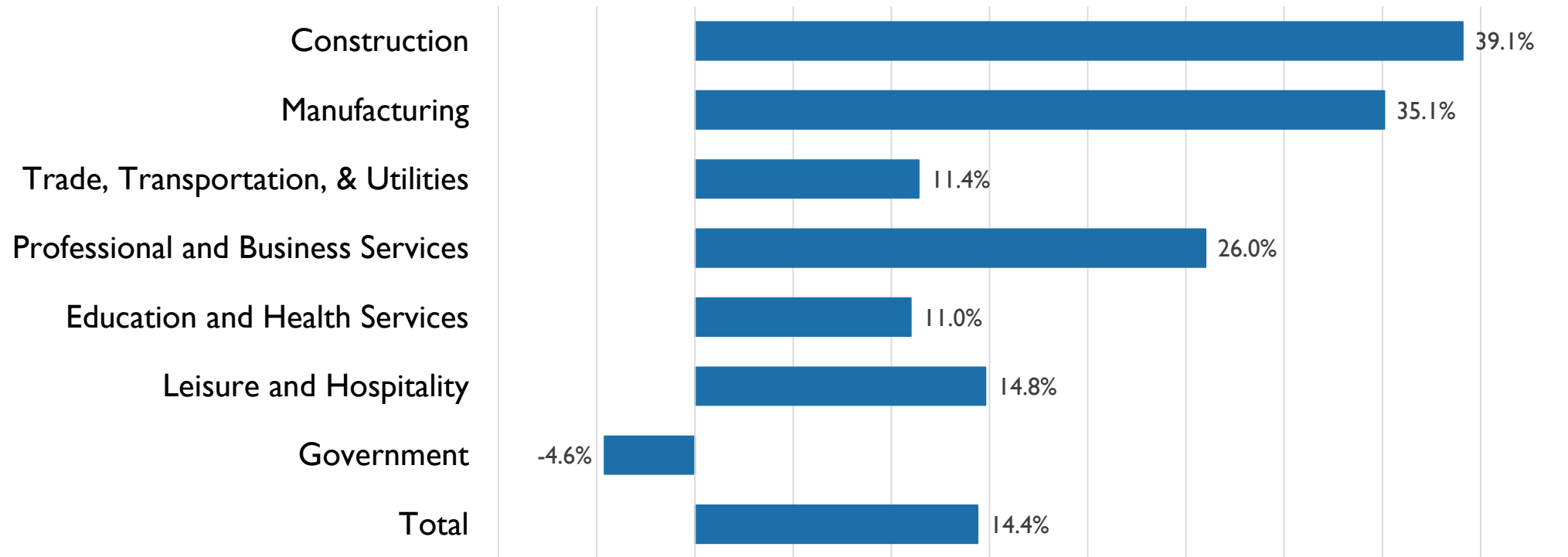
# The 2000s Hit Michigan Hard

Year	U.S. Per Capita Income	Michigan Per Capita Income	Michigan Compared to U.S.	State Rank
1930	\$621	\$658	106%	14
1940	\$600	\$683	114%	12
1950	\$1,533	\$1,717	112%	12
1960	\$2,321	\$2,411	104%	15
1970	\$4,198	\$4,200	100%	16
1980	\$10,180	\$10,230	100%	19
1990	\$19,621	\$19,051	97%	21
2000	\$30,657	\$30,409	99%	18
2010	\$40,546	\$35,391	87%	40
2018	\$54,446	\$48,423	89%	33

Source: U.S. Bureau of Economic Analysis. September 24, 2019 release.

# Employment Growth Strong Since 2010

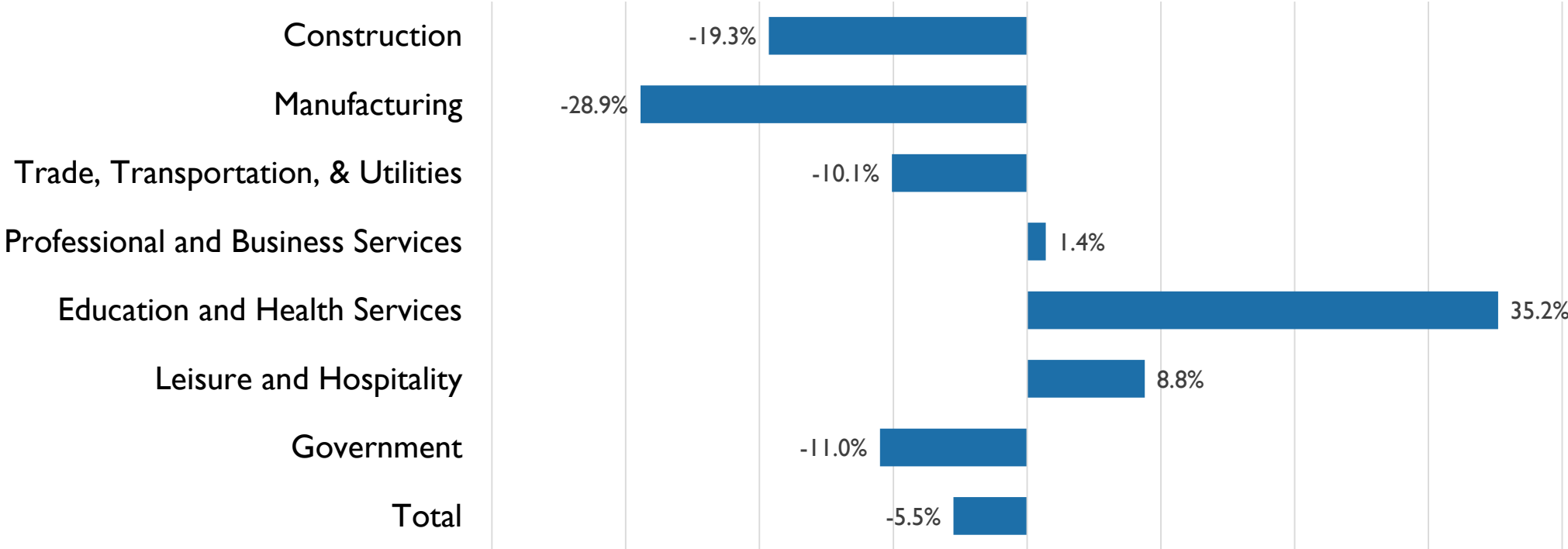
Change in Payroll Employment, 2010 to 2018





# But, Employment Levels Still Below 2000

Change in Payroll Employment, 2000 to 2018



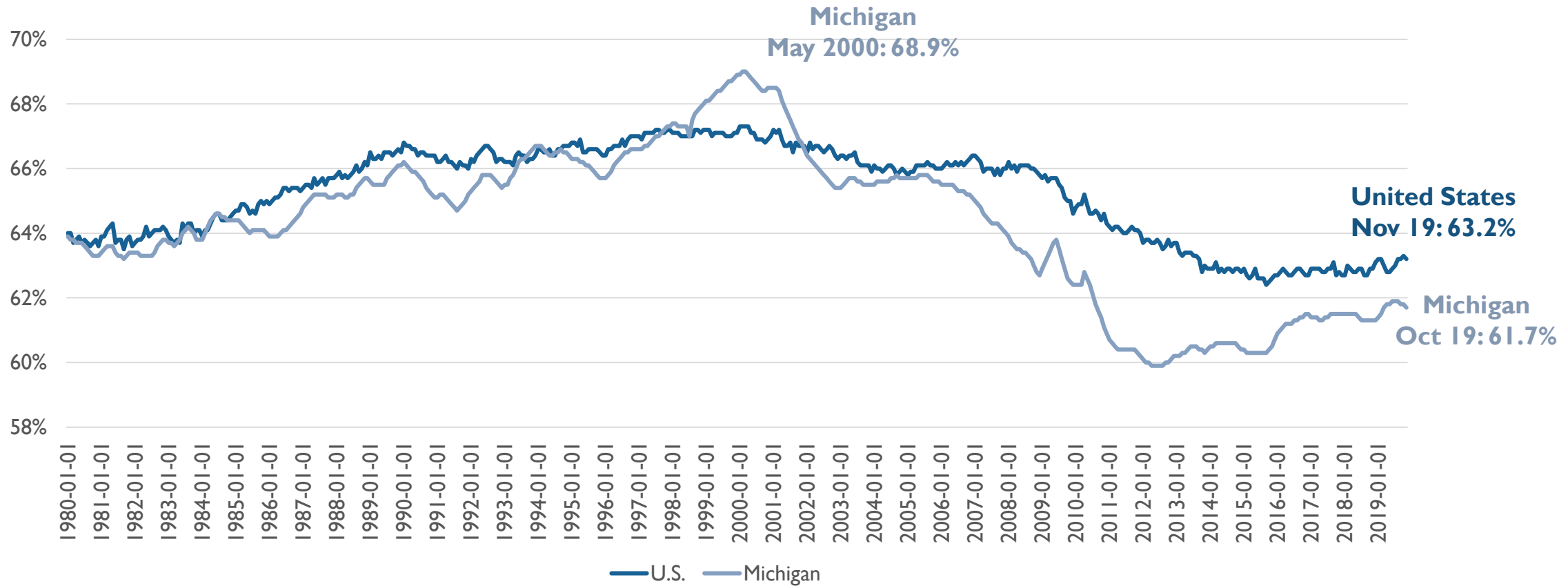
Source: Michigan Bureau of Labor Market Information and Strategic Initiatives and Michigan Department of Treasury calculations.

# Michigan Unemployment Rate Lowest Rate Since 2000



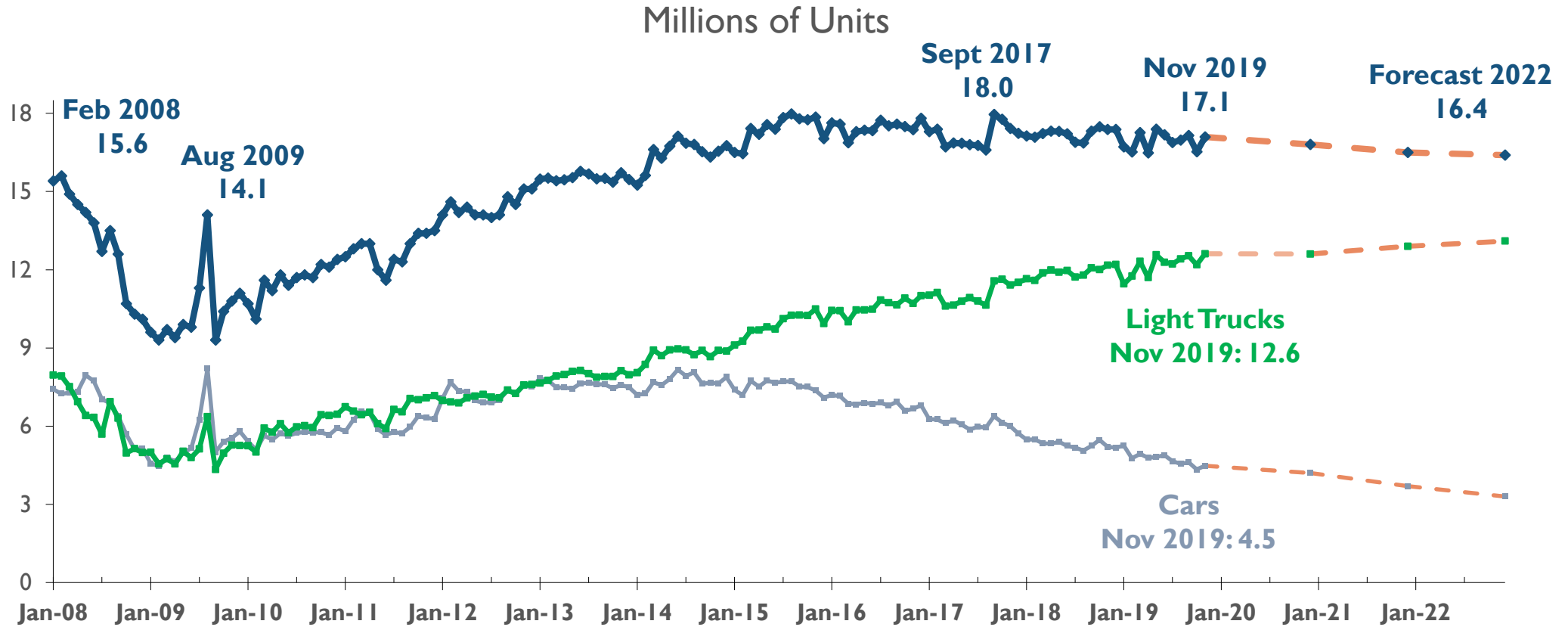
Source: U.S. Bureau of Labor Statistics.

# Michigan Labor Force Participation Rate Down From 2000 but Rising



Source: St. Louis Federal Reserve FRED Economic Data series CIVPART and LBSSA26.

# U.S. Light Vehicles Sales Remain Constant



Source: U.S. Bureau of Economic Analysis. Sales levels are seasonally adjusted at annual rates. Administration forecast for future estimates.

# Economic Outlook

Slow, continued growth for U.S. and Michigan economies

- Administration forecast of GDP growth:
  - 2.3 percent for 2019
  - 1.6 percent for 2020
  - 1.6 percent for 2021
- Administration forecast of Michigan employment:
  - 0.5 percent for 2019
  - 0.6 percent for 2020
  - 0.5 percent for 2021

China and U.S. trade negotiations appear to be progressing

Additional Auto tariffs have not been imposed

# January 2020 Administration Forecast of Major Taxes

## **Sales Tax**

- Forecast of 2.6 percent growth
- Collections boosted by *South Dakota v. Wayfair* and Market Place legislation

## **CIT/MBT**

- Expecting modest growth in business taxes
- Remain the most volatile major taxes for both economic and non-economic reasons

## **Income Tax**

- Forecast of 1.5 percent increase in gross collections

## **Recreational Marihuana Tax**

- Receipts may be light early in the year due to demand exceeding current supply
- Estimated sales tax revenue:
  - \$97.5 million in 2020
  - \$143.0 million in 2021

# Forecast Risks

## National

- Federal Policy — fiscal, tax and trade policy
- International Uncertainty— trade wars, slower global growth, economic shocks, and geo-political risks
- Monetary Policy

## Michigan

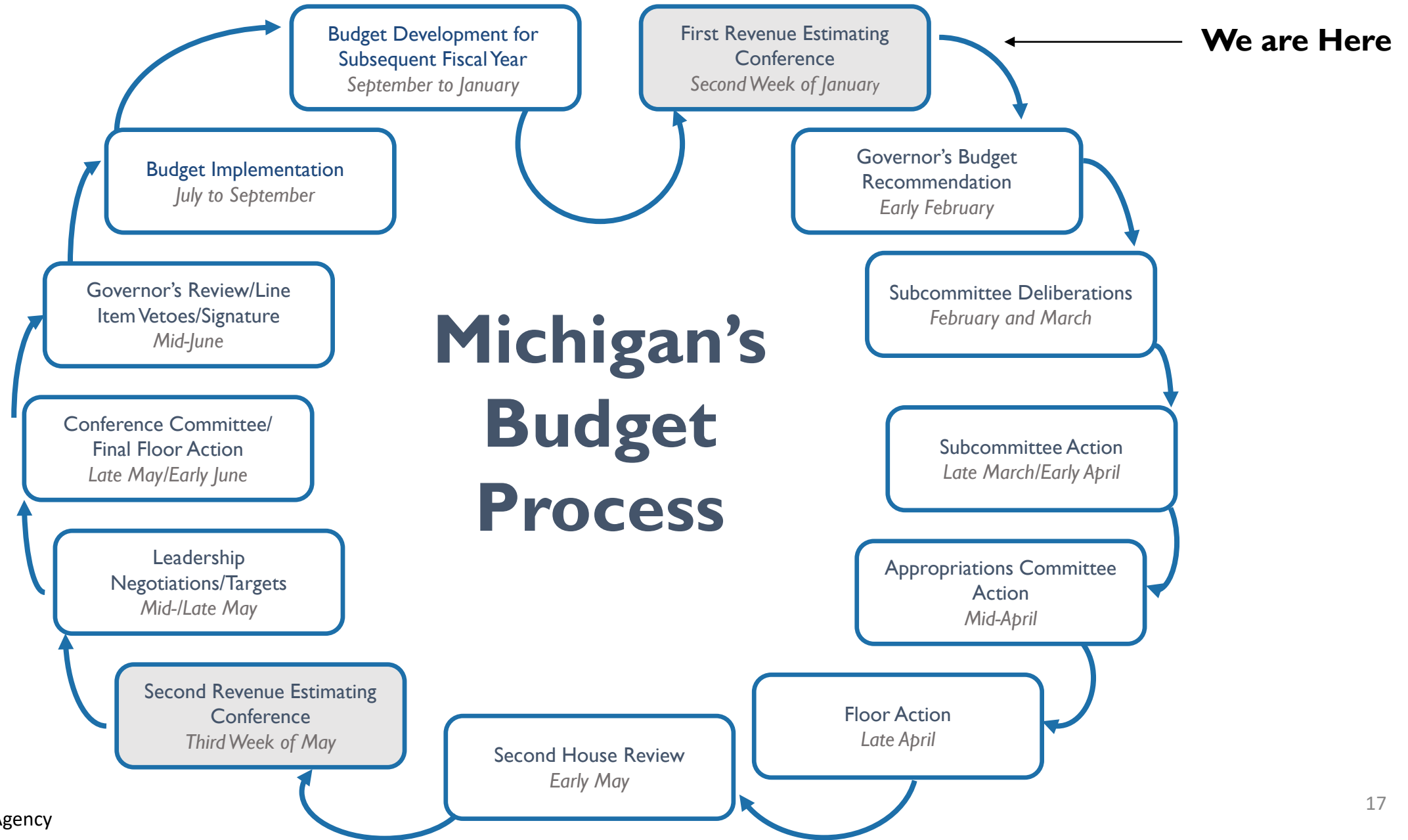
- Slower economic growth may cause weakness in individual income tax withholding and sales tax
- Corporate income tax volatility
- Individual income tax estimated payments and annual payments continue at high levels

*Can Michigan keep pace with the US?*

# STATE BUDGET OUTLOOK







# Important State Budget Facts

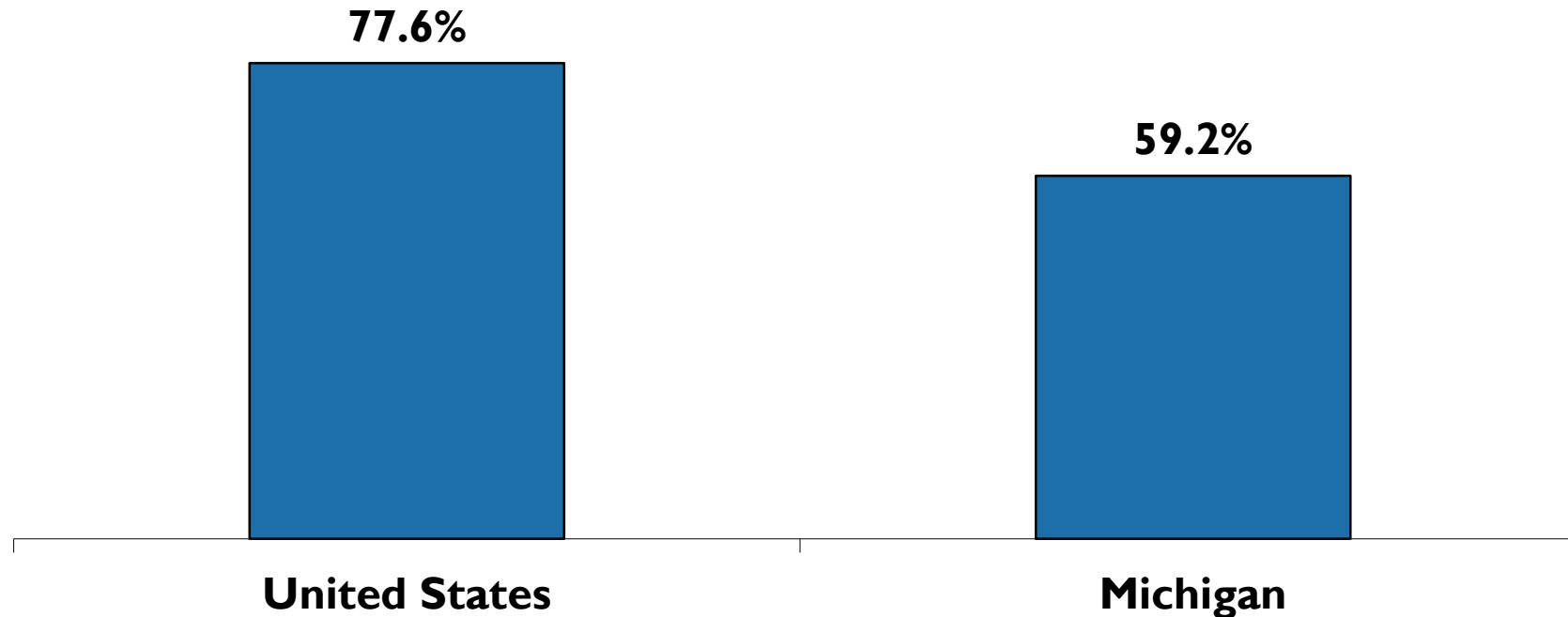
State government is mostly a pass-through entity—most money received is sent elsewhere

- School Aid—payments to local schools
- Medicaid—payments to doctors, hospitals, nursing homes
- Human services—payments to individuals, child care providers, etc.
- Revenue sharing—payments to local governments

Salaries to state employees are only about 11% of the state budget; by contrast employee compensation is often 80% or more of local government and school district budgets

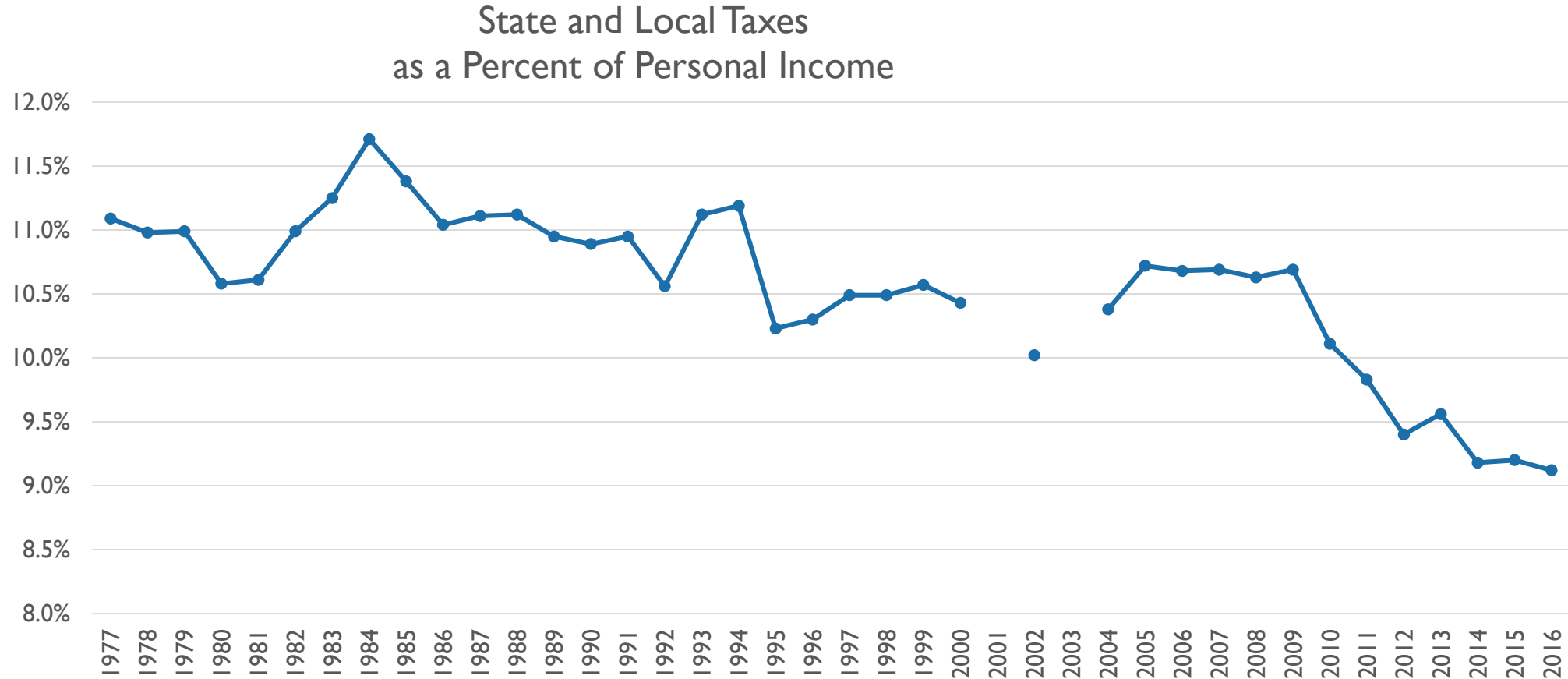
# Economic Growth has Large Impact on Revenues

## Per Capita Personal Income Growth 2000-2018



Source: U.S. Bureau of Economic Analysis, September 24, 2019 data release

# State and Local Taxes as Share of Income at a 50-Year Low



Source: State & Local Government Finance Data Query System. <http://www.taxpolicycenter.org/slf-dqs/pages.cfm>. The Urban Institute-Brookings Institution Tax Policy Center. Data from U.S. Census Bureau, Annual Survey of State and Local Government Finances, Government Finances, Volume 4, and Census of Governments (Years). Date of Access: (03-Oct-19 12:01 PM)

# Why is Revenue as a Share of Income Down?

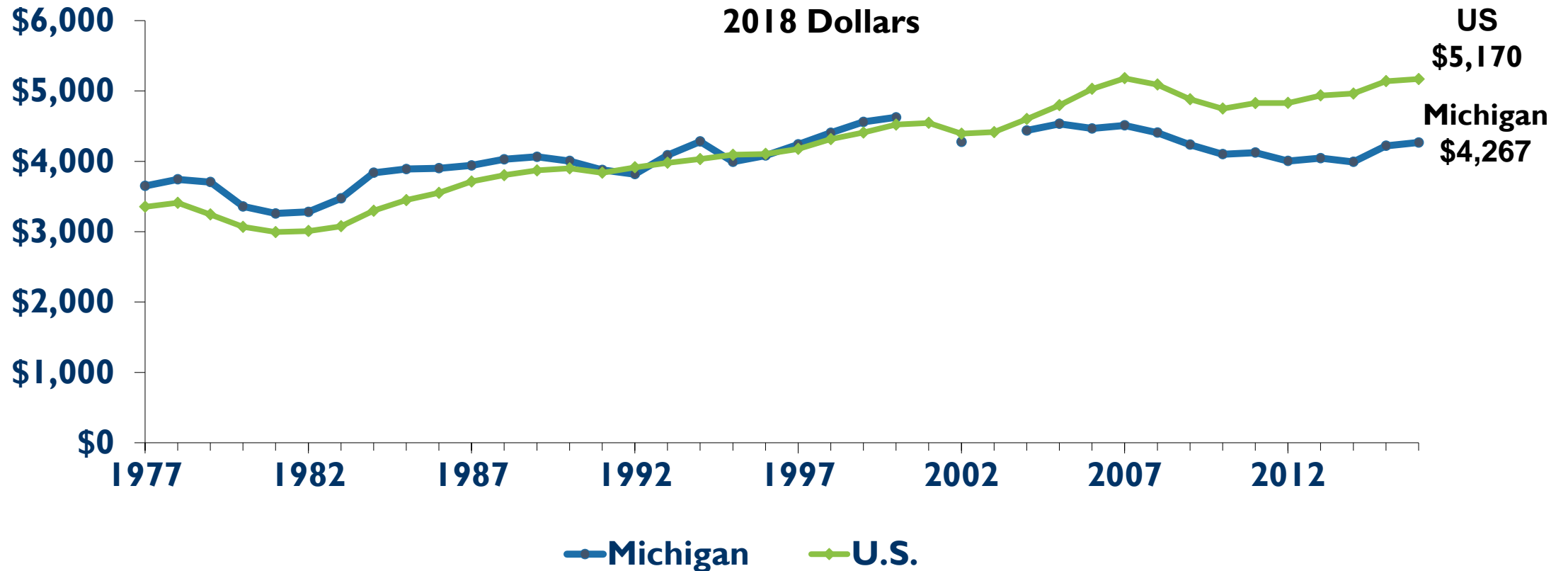
**Move to services** — a growing share of spending is on services, which is mostly exempt from the sales tax

**Property tax caps** — Michigan has two caps that limit growth—taxable value cap and the Headlee limit

**Tax cuts** — Michigan has enacted some sizeable tax cuts and credits:

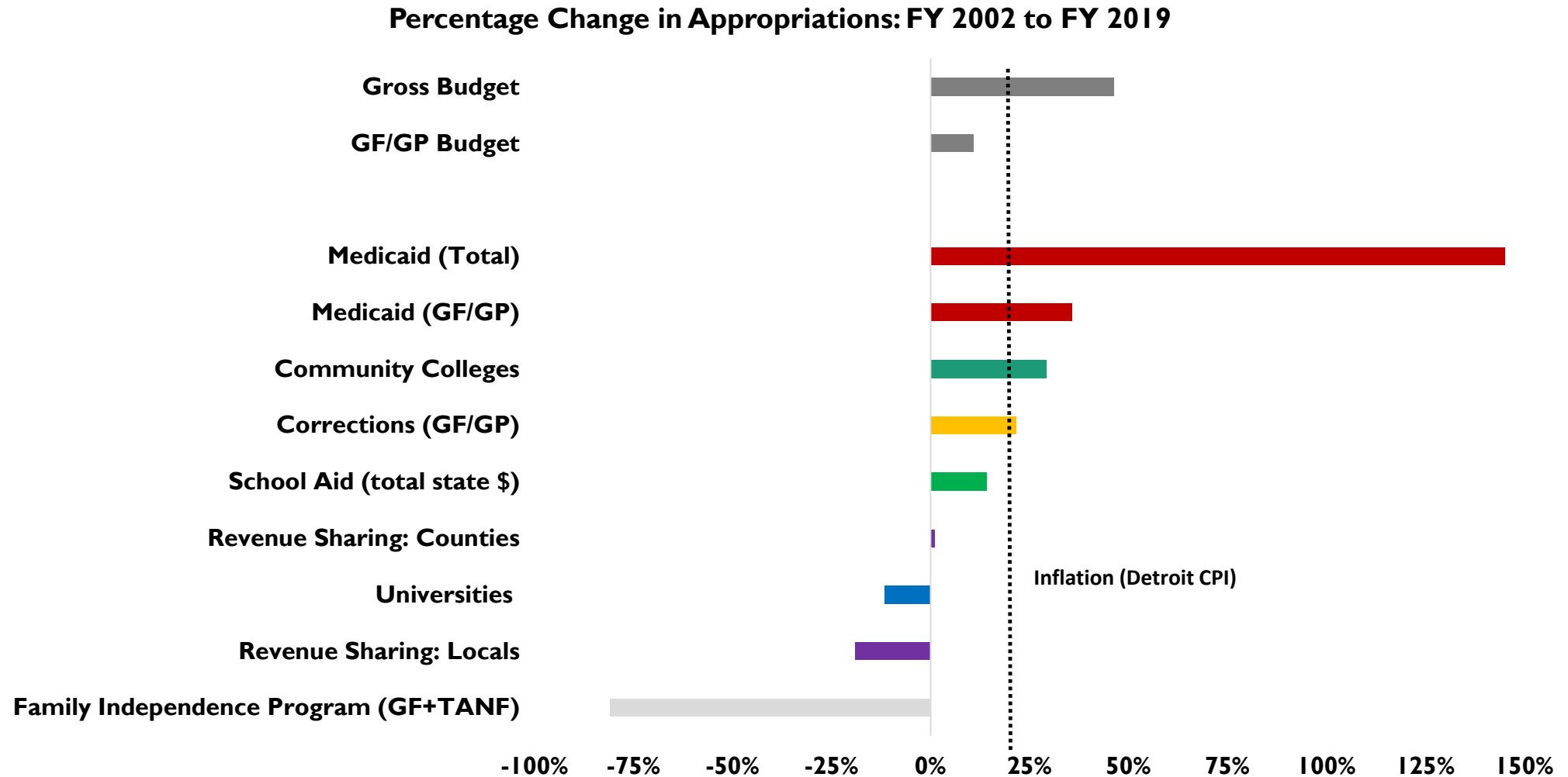
- **MEGA** — this economic development credit reduces revenues by roughly \$500M per year
- **Personal property taxes** — phasing out of property taxes on manufacturing machinery and equipment (~\$500M per year)
- **Homestead property tax credit**—increased as part of the 2015 road funding package (~200M per year)
- **MBT Repeal** — Much of the revenue replaced with income tax increases but on net a tax cut
- **Miscellaneous smaller cuts**

# Michigan Trails U.S. in State and Local Taxes Per Capita



Source: Urban Institute, Brookings Institution, Tax Policy Center, <https://slfdqs.taxpolicycenter.org/index.cfm>;  
Inflation adjustments done using the U.S. CPI-U using Michigan's fiscal year for annual calculation – October to September.

# How Has Budget Changed Since 2002?



# Total Medicaid Expenditures

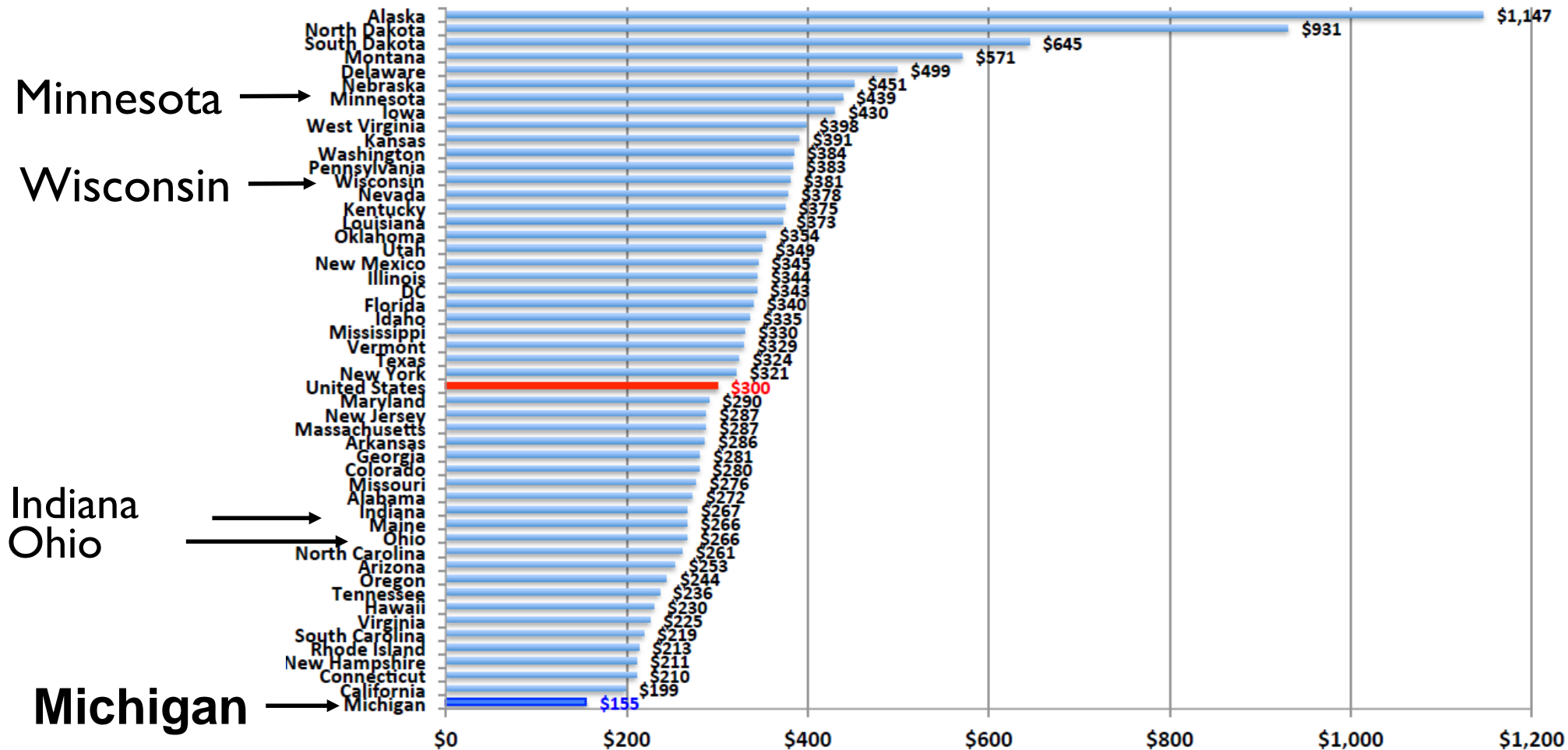
Since FY 2001, the state's total Medicaid caseload has doubled due to economic trends and the expansion of the program

State spending on the program has gone up by \$2.3 billion while federal spending has increased \$11.3 billion

Rate of uninsured in Michigan (w/o private or government insurance) has fallen from 13.0% in 2011 to 5.3% in 2018



# Capital Outlay for Highways Per Capita for 2016



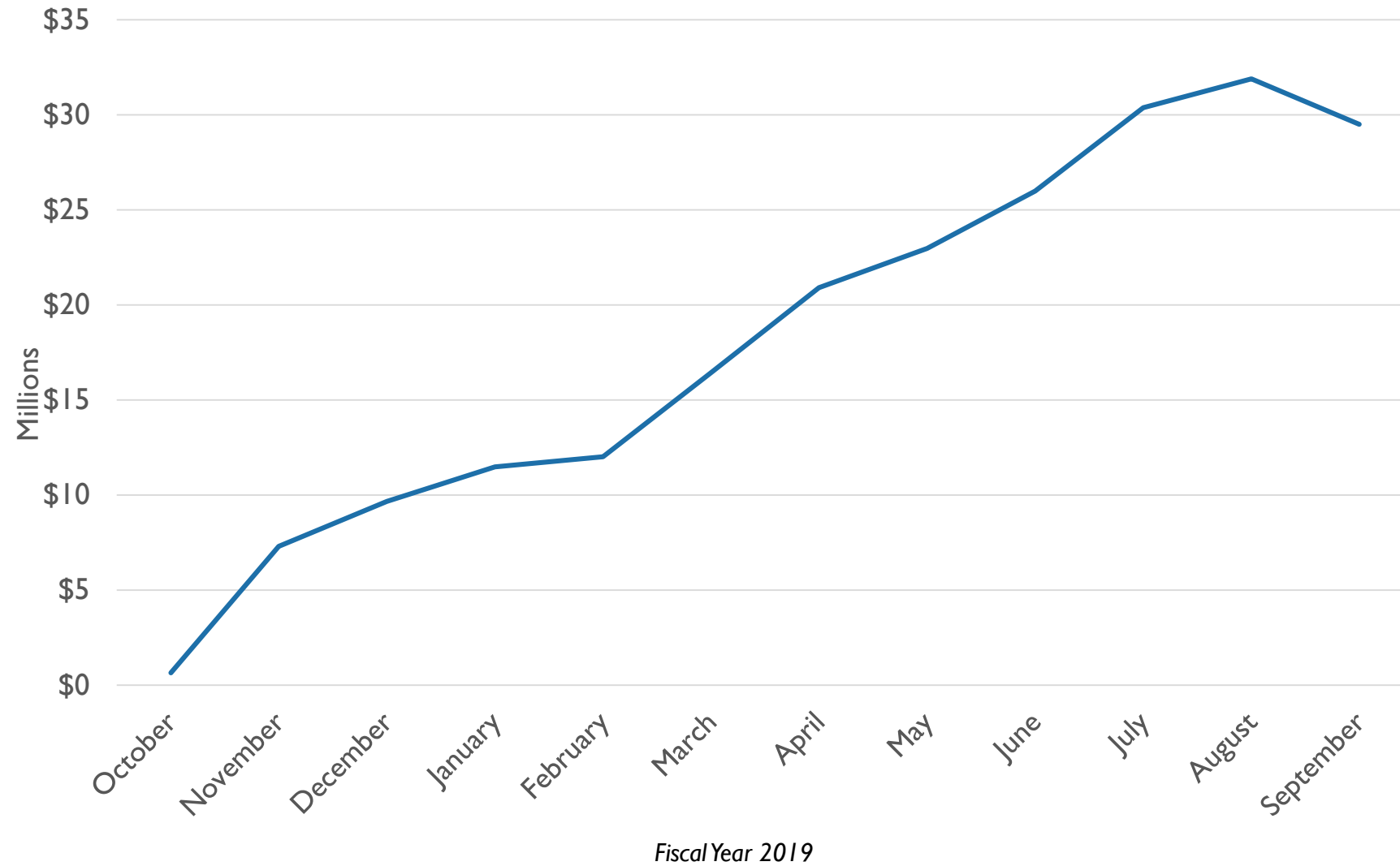
# Cannabis Update

In fiscal 2019 (Oct 2018-Sept 2019), Medical cannabis sales totaled **\$219** million. Recreational sales were **\$6.9** million in the month of December.

After a lot of feedback, MRA is in the process of lowering or capping the fee for the banking portal that connects to the seed-to-sale program (METRC).

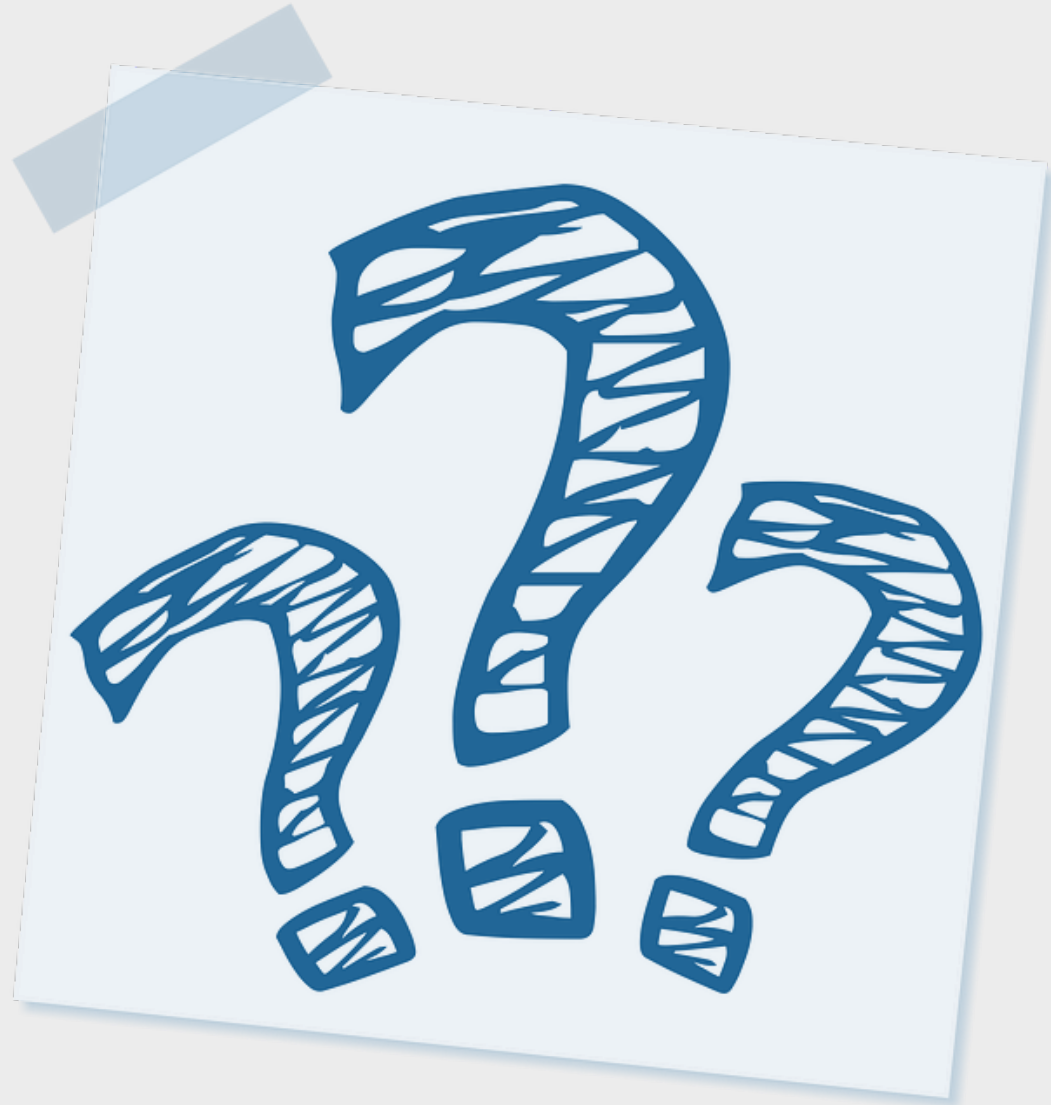
Currently, one institution is actively using the portal and six financial institutions are finalizing their reviews to sign up. We also have roughly a dozen (that we know of) other financial institutions within the state currently banking the cannabis industry.

# Medical Marijuana Sales



# Questions

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Thank You!