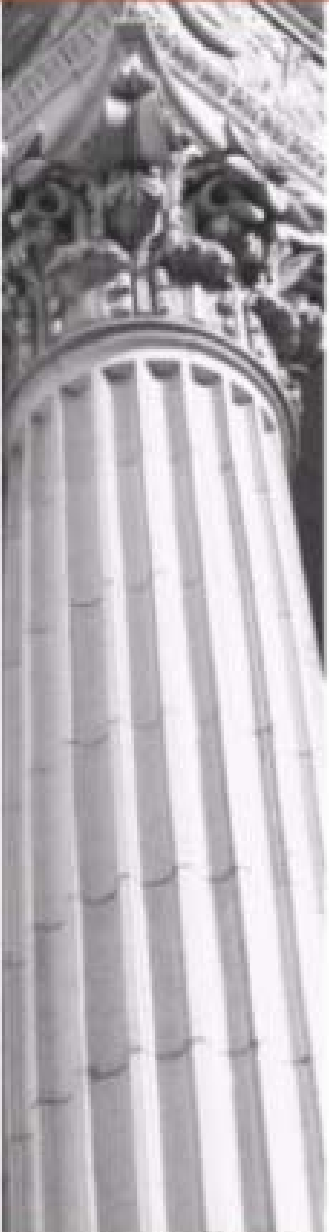


Michigan's Fiscal Crisis

**Presented to
MACPA
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Who We Are

- Founded in 1916
- Statewide
- Non-partisan
- Private not-for-profit
- Promotes sound policy for state and local governments through factual research – accurate, independent and objective
- Relies on charitable contributions of Michigan foundations, businesses, and individuals
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Michigan's Fiscal Story Has Not Changed . .

- The State of Michigan continues to face dual structural deficits affecting:
 - Public K-12 education
 - General Fund-financed programs
- Its causes have both spending and revenue components
- We will **not** grow out of it
- Significant spending cuts and/or tax increases will be required to achieving sustainable, long-term structural balance





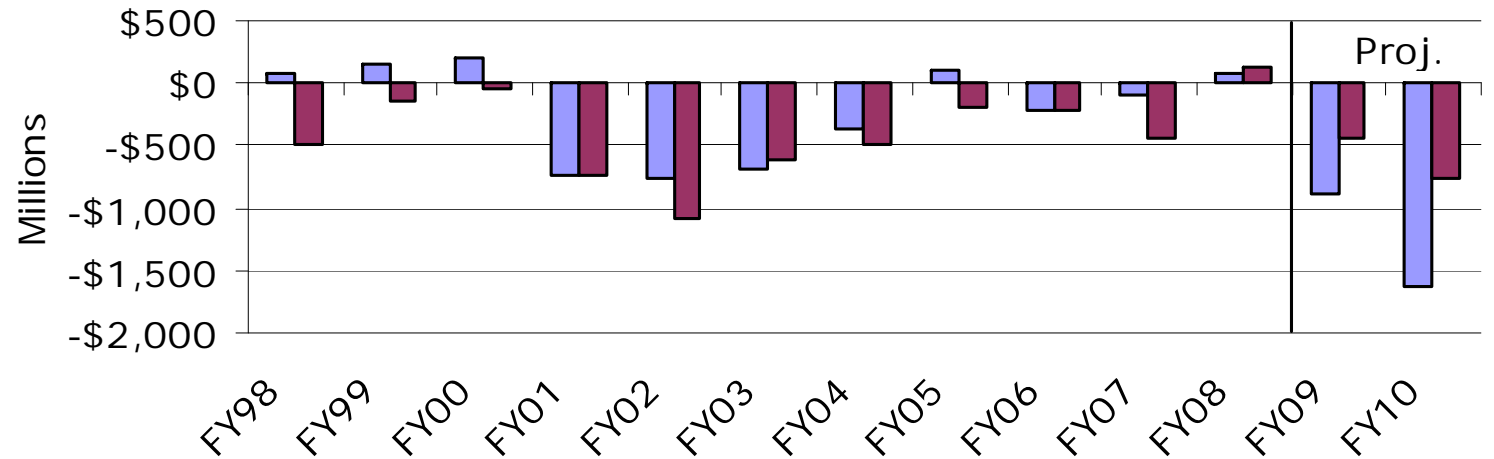
But, There is a New Chapter

- National recession – severe
 - Consumption
 - Business spending
 - Homebuilding
- Impacts on state finances – revenue **and** spending
- State budget unprepared to deal with short-term impacts:
 - Exhausted reserves
 - Extensive use of non-recurring resources
 - General tax increase of 2007
- Must correct for two problems simultaneously
 - Structural deficit
 - Cyclical deficit
 - Each problem requires specific set of tools



Persistent Deficits for 10 Years

GF/GP and SAF Operating Deficits



source: Senate Fiscal Agency

■ GF/GP ■ SAF

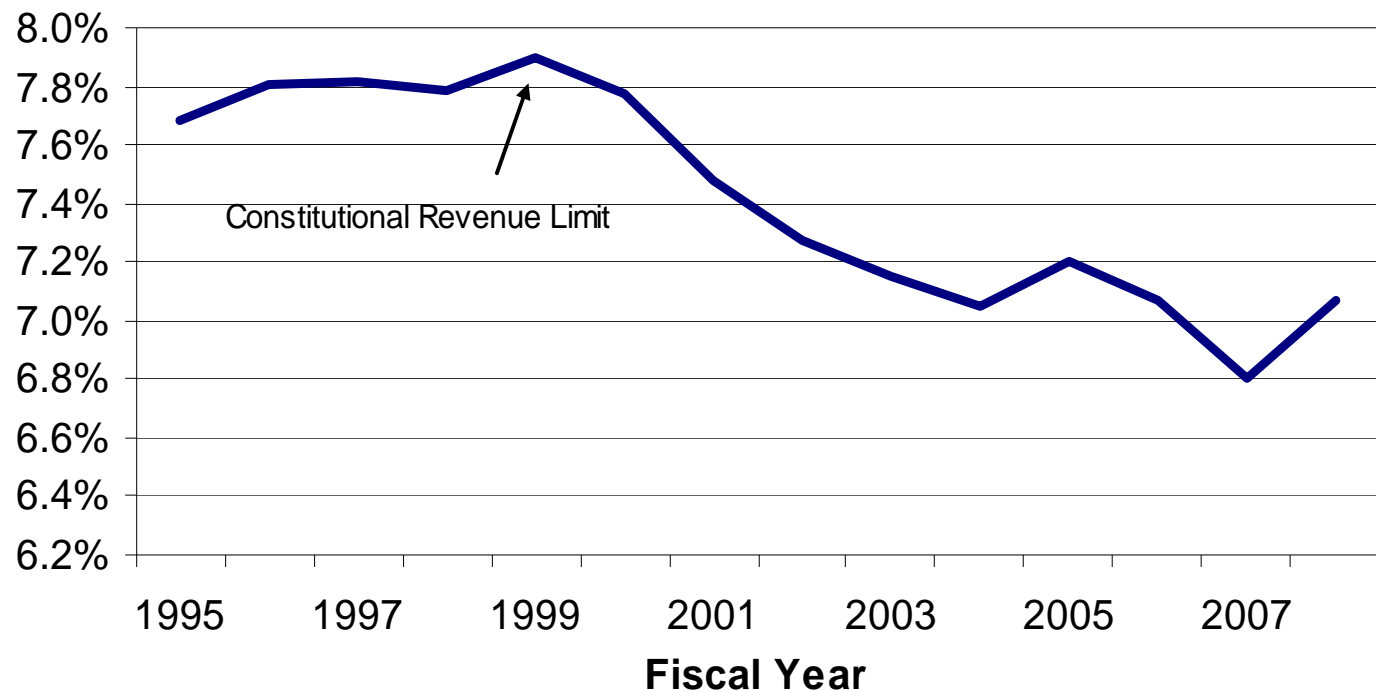


State Budget Realities

- Budget balance is a constitutional requirement
- Budget totals over \$48 billion, but
 - \$4 of \$5 restricted – transportation, education, environmental
 - \$1 of \$5 “no strings” – General Fund /General Purpose
 - Limited options when it comes to balancing the General Fund budget
- 80% spent outside of state government
- Only about 11% is spent on state employees



State Taxes as a Percent of Michigan Personal Income

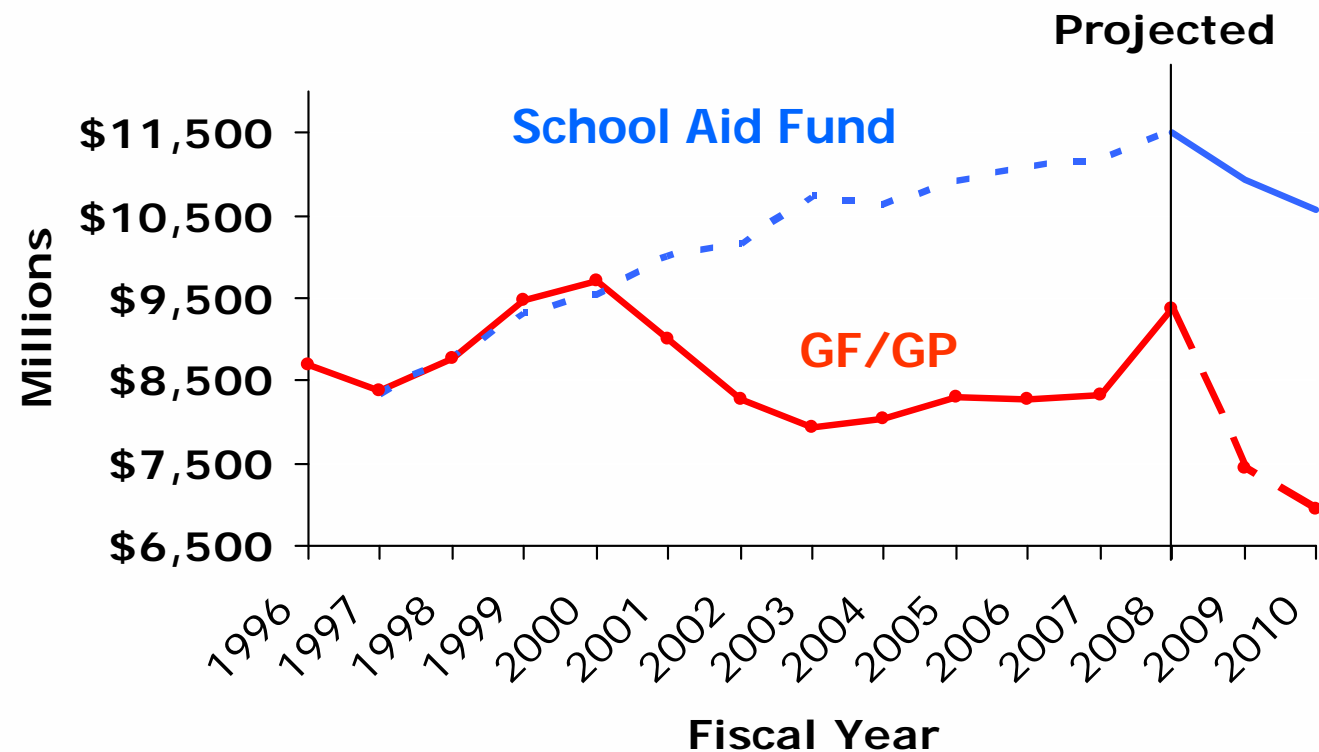


\$9 billion below constitutional revenue limit in 2010



GF/GP Revenue Below 1996

GF/GP and SAF On-Going Revenues



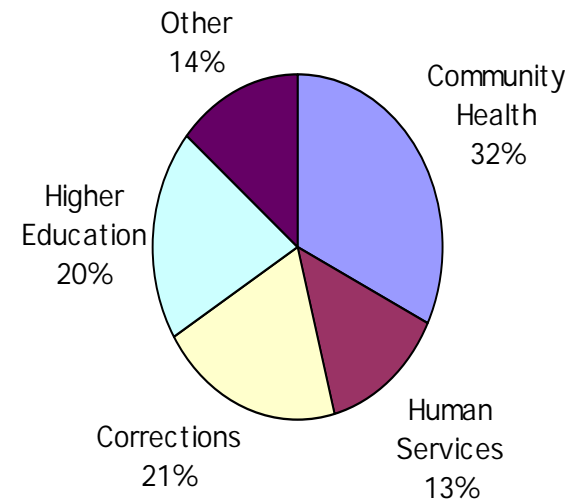
Source: Michigan Department of Treasury



Discretionary Spending – GF/GP

- Annual legislative review and most attention
- 4 areas take up 86% of budget
- Corrections largest “state-run” program
- Health care largest cost center and most pervasive item
- Annual rates of increase unsustainable

General Fund Spending-2009



Total: \$9.7 Billion



Immediate Problems: 2009 & 2010

2009 General Fund Budget (millions)

	<u>Jan</u>	<u>May</u>	<u>Diff</u>
Beginning Balance	\$ 458	\$ 458	
Revenues	\$ 8,945	\$ 8,196	\$ (749)
Spending			
Initial Approps.	\$ 9,701	\$ 9,701	
Supplemental Approps.	\$ (20)	\$ 268	
Exec Order Cuts	\$ (134)	\$ (134)	
Proj. Spending	\$ 9,547	\$ 9,835	\$ 288
Shortfall	\$ (144)	\$ (1,181)	
Solutions			
Exec Order Cuts		\$ (305)	
ARRA - discretionary		\$ 290	
ARRA - Medicaid		\$ 940	
Balance	\$ (144)	\$ 354	



GF/GP Solutions: 2009

- One-quarter (~\$300 M): spending reductions
 - Employee layoffs and furloughs
 - Medicaid reimbursement rate reduction/eliminate optional services
 - Revenue sharing
 - Some areas protected per federal stimulus
 - Some address structural problems, others?
- Three-quarters (~\$900 M): federal stimulus funding, aka "ARRA"
 - \$300M completely discretionary
 - Remainder from Medicaid match rate increase - states have a significant amount of flexibility



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2010 General Fund Budget (millions)

	<u>Jan</u>	<u>May</u>	<u>Diff</u>
Revenues	\$ 8,773	\$ 7,759	\$ (1,014)
Spending			
Gov. Rec.	\$ 9,460	\$ 9,460	
Medicaid Caseload Adj.		\$ 151	
Human Srvcs. Adj.		\$ (63)	
Proj. Spending	\$ 9,460	\$ 9,548	\$ 88
Shortfall	\$ (687)	\$ (1,789)	
Solutions			
ARRA - Medicaid '09		\$ 354	
ARRA - Medicaid '10	\$ 687	\$ 687	
Balance	\$ -	\$ (748)	



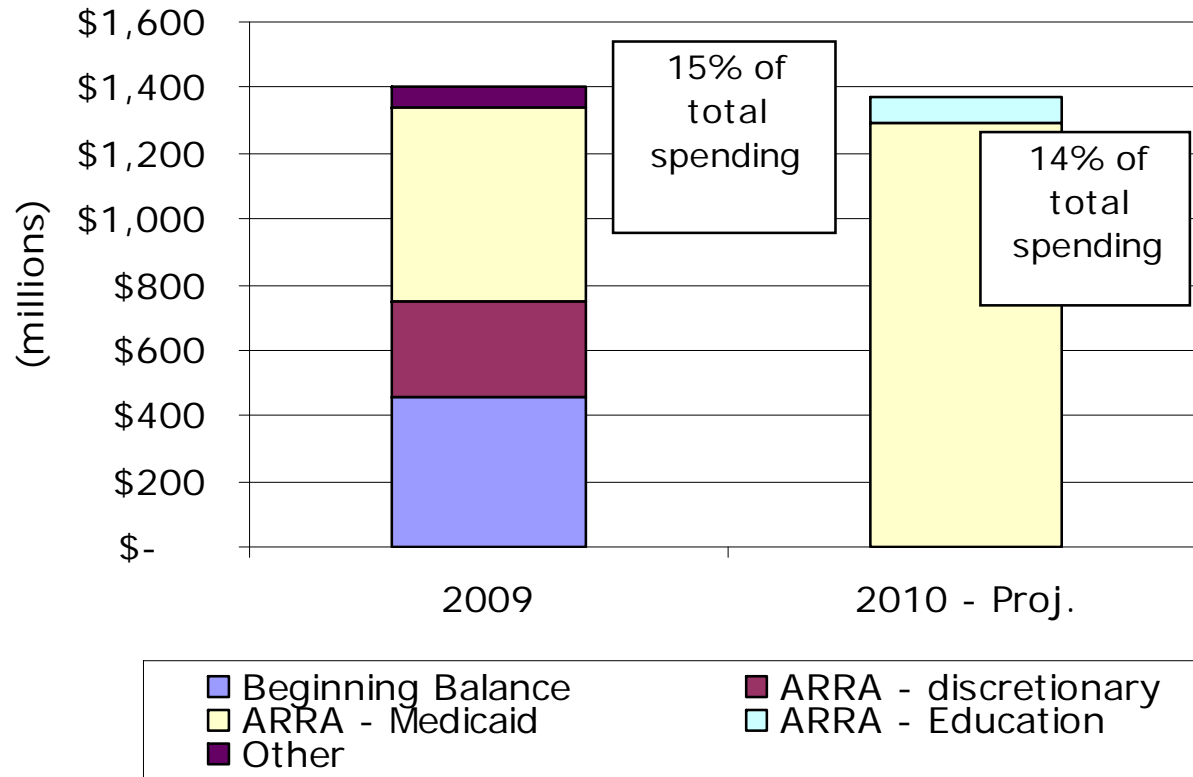
Achieving Balance for FY10

- Despite significant federal funding, still major hurdles
- Proposed tax changes – some old and some new – little appetite in legislative chambers
 - Some DOA in past
- Major portions of budget “off the table” per ARRA (Medicaid, education at all levels)
- Corrections reforms – little consensus thus far
- After using all available federal \$, still short \$750M in GF
- Sizeable cuts coming, but how much?
- Real challenge is FY11 budget when federal \$ no longer



Heavy Reliance on One-Timers

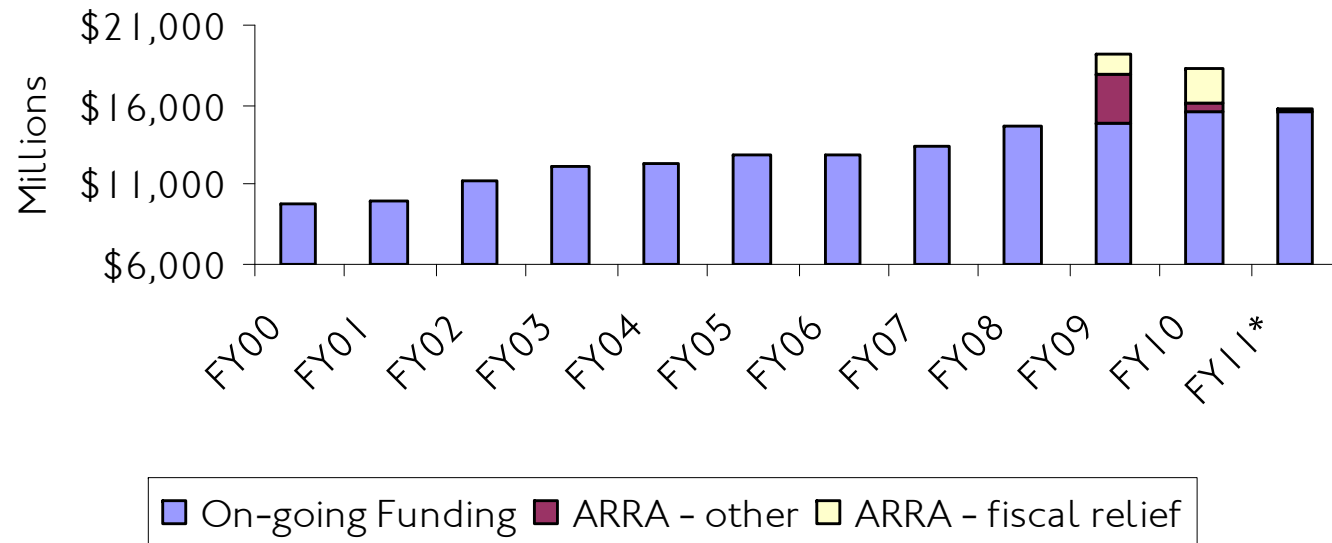
GF/GP Budget: Non-Recurring Resources Used





BEWARE: Cliff Ahead

Chart 1
Federal Funding Appropriated in State Budget
On-going and Recovery Funds





Thank You

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