



CITIZENS RESEARCH COUNCIL OF MICHIGAN

# Update on Michigan Economy and State Finances

UAW Local 182  
Retirees Meeting  
October 8, 2009

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## **Citizens Research Council of Michigan**

- **Founded in 1916**
- **Statewide**
- **Nonpartisan**
- **Private not-for-profit**
- **Promotes sound policy for state and local governments through factual research**
- **Relies on charitable contributions from Michigan foundations, businesses, organizations, and individuals**



# Have We Hit Bottom?



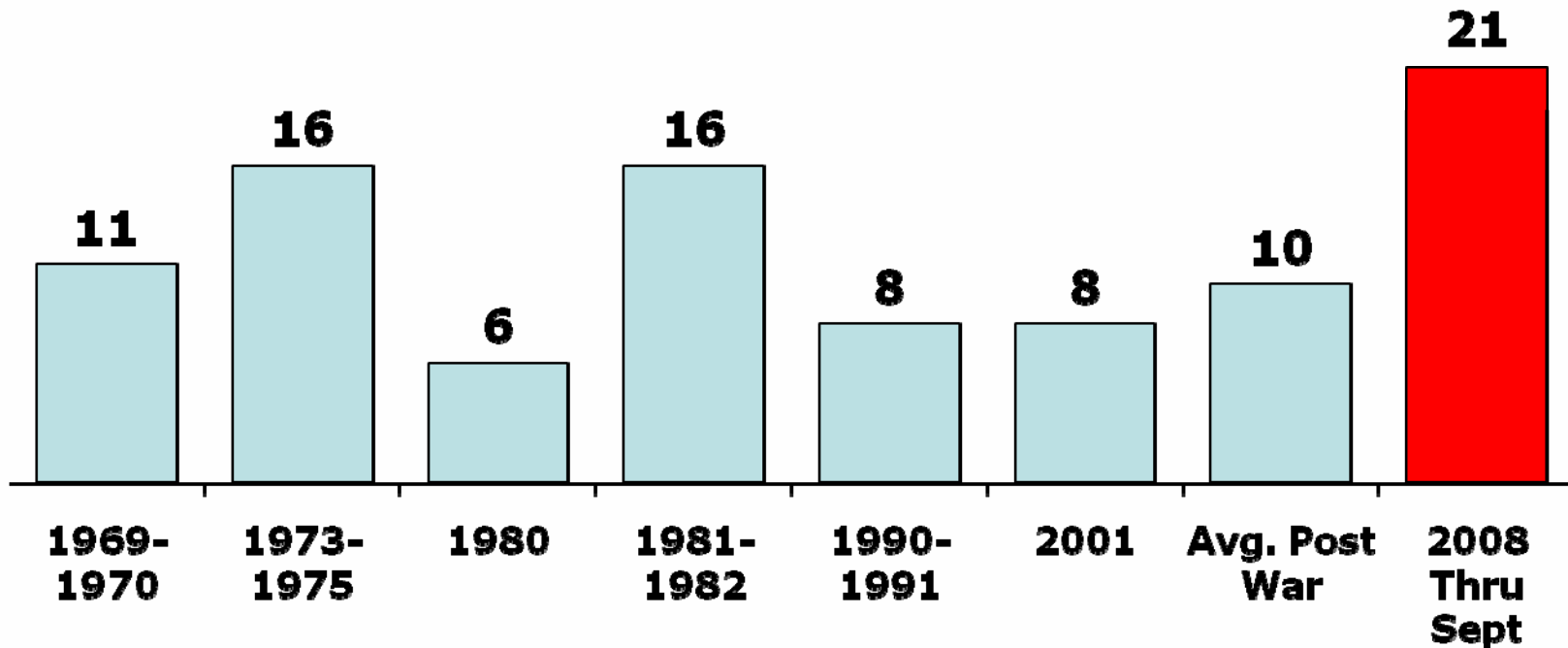
## This Recession Has Been One For the Record Books

- Housing starts fell from 2.3 million to less than 0.5 million
- Stock market lost more than ½ its value before starting to recover
- The U.S. has lost 7.2 million jobs
- Auto sales fell to 1982 levels
- Oil fell from \$140 per barrel to less than \$40 a barrel in 6 months
- U.S. government enacts massive stimulus program and intervenes to prevent the failure of AIG, Fannie Mae, Freddie Mac, Wachovia, GM, Chrysler, and many other prominent corporations
- Recession has been the longest since WWII and one of the deepest



# Length of U.S. Recessions

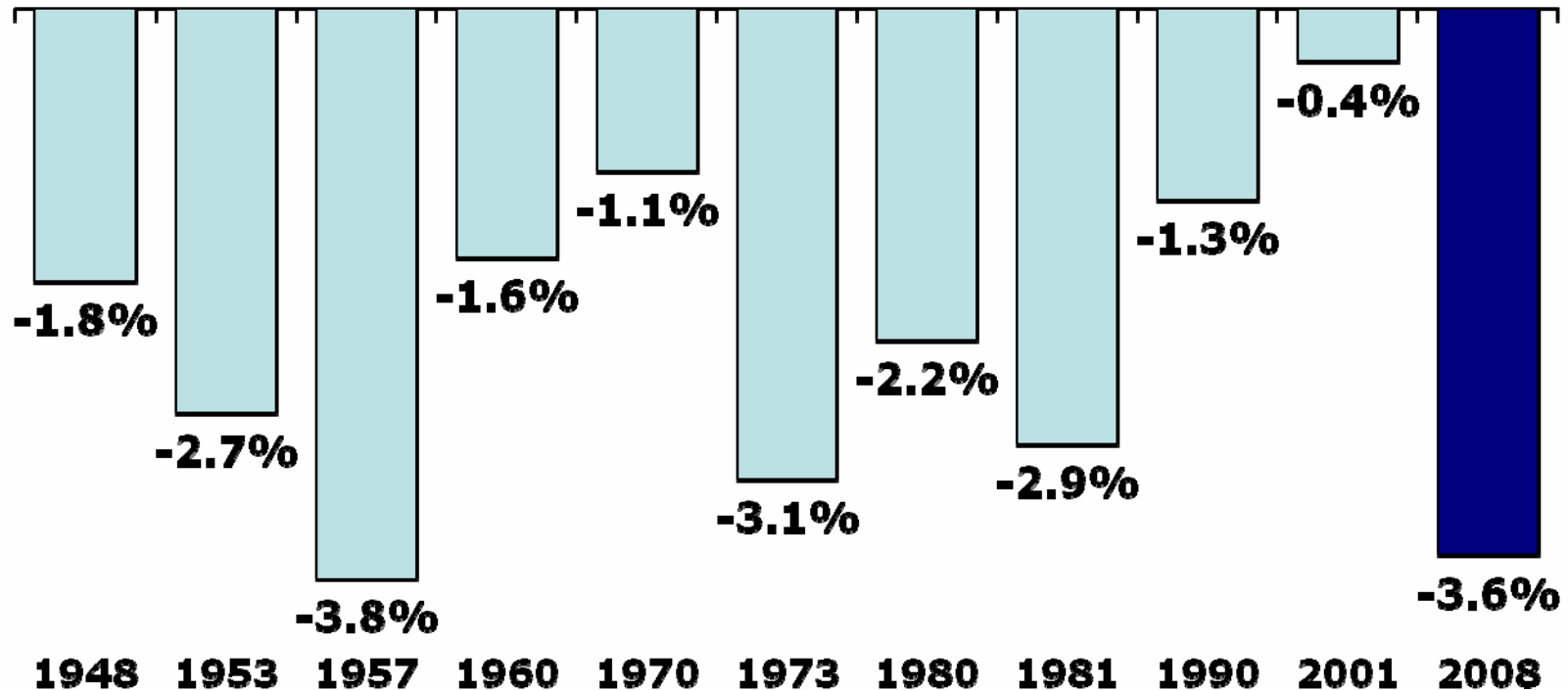
Number of Months from Peak to Trough  
U.S. Recessions





# Decline in GDP Steep Compared to Recent Recessions

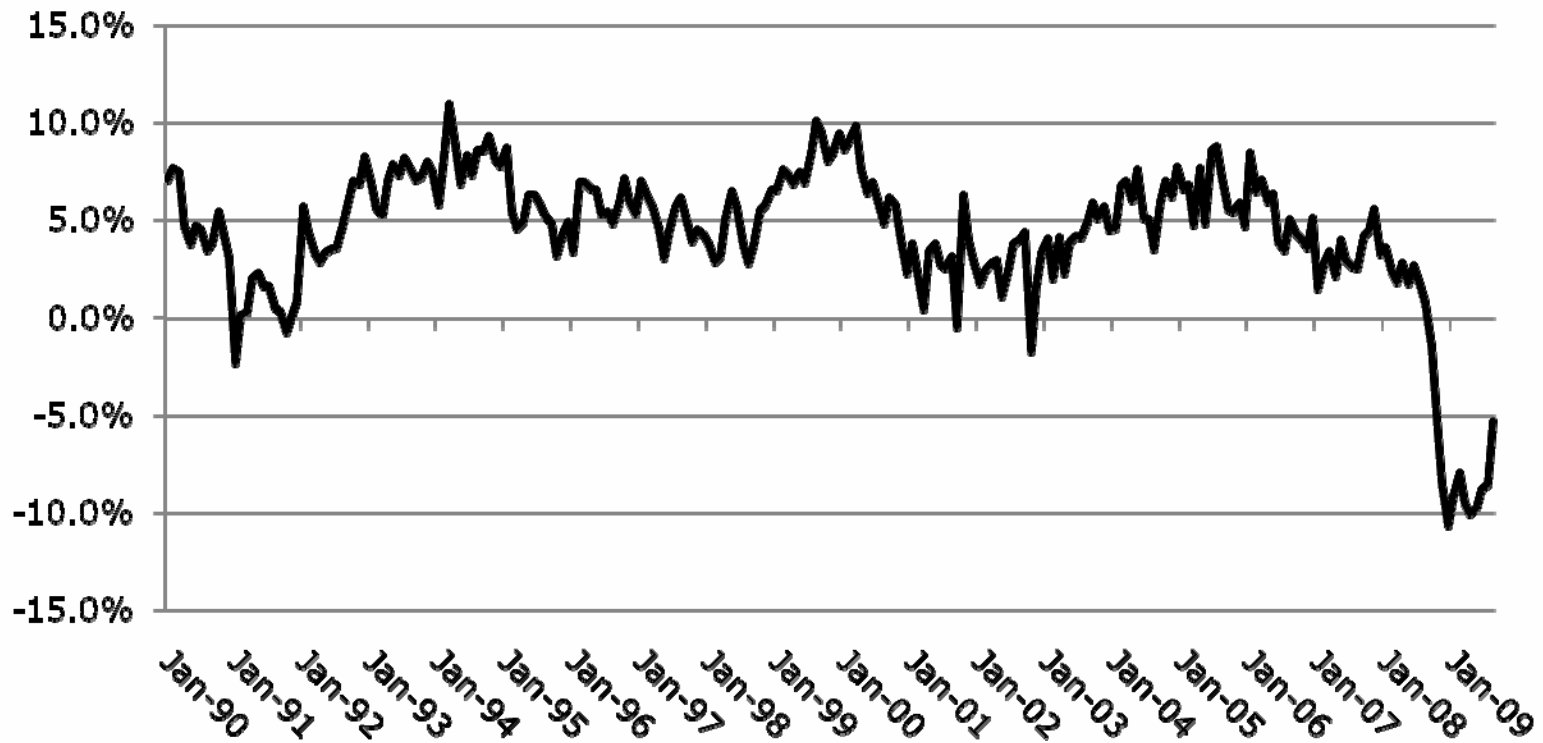
Peak to Trough GDP Decline





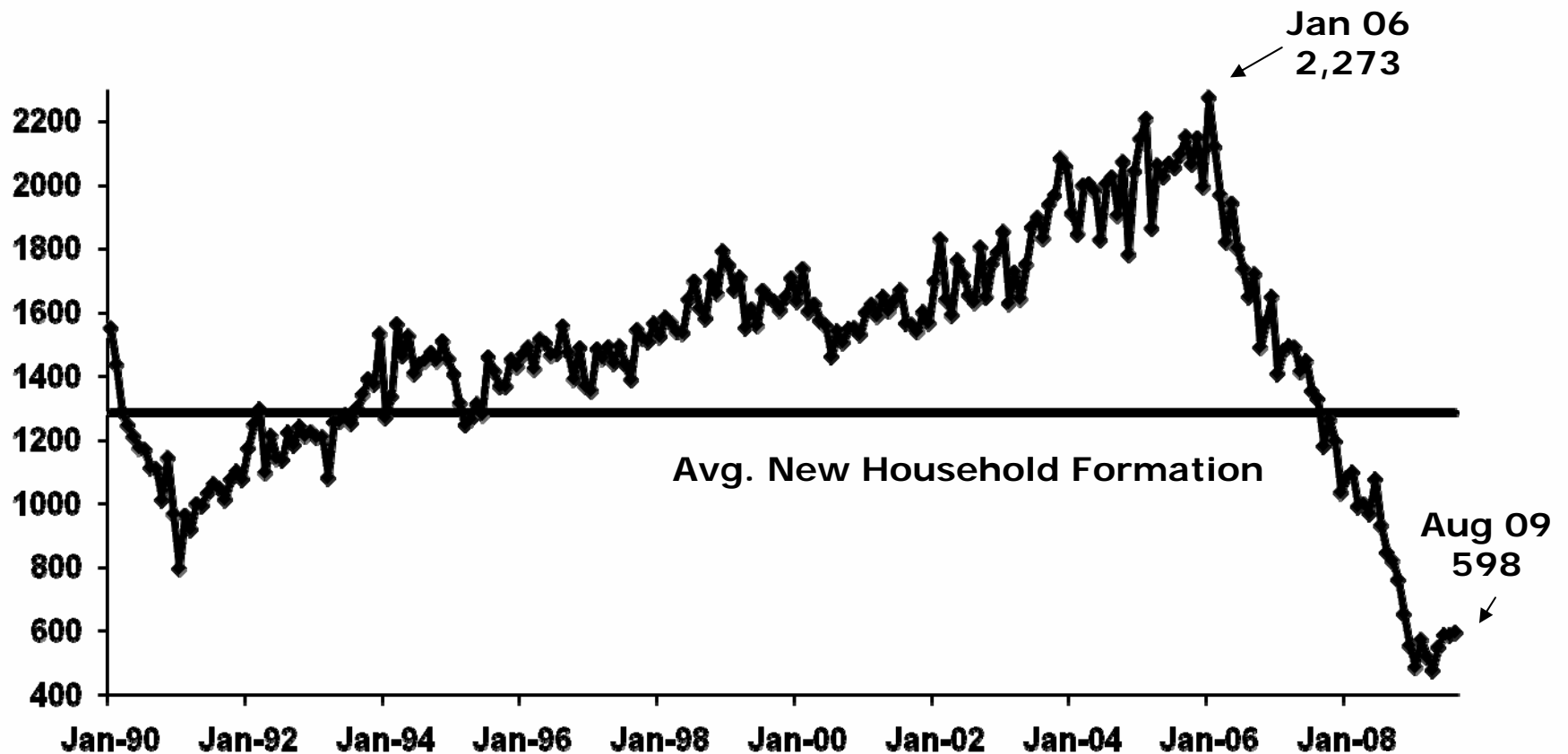
# Retail Sales Plummeted

Year over Year Change in Retail Sales and Food Services





# Housing Starts Fell 78 Percent But Appear to Have Bottomed

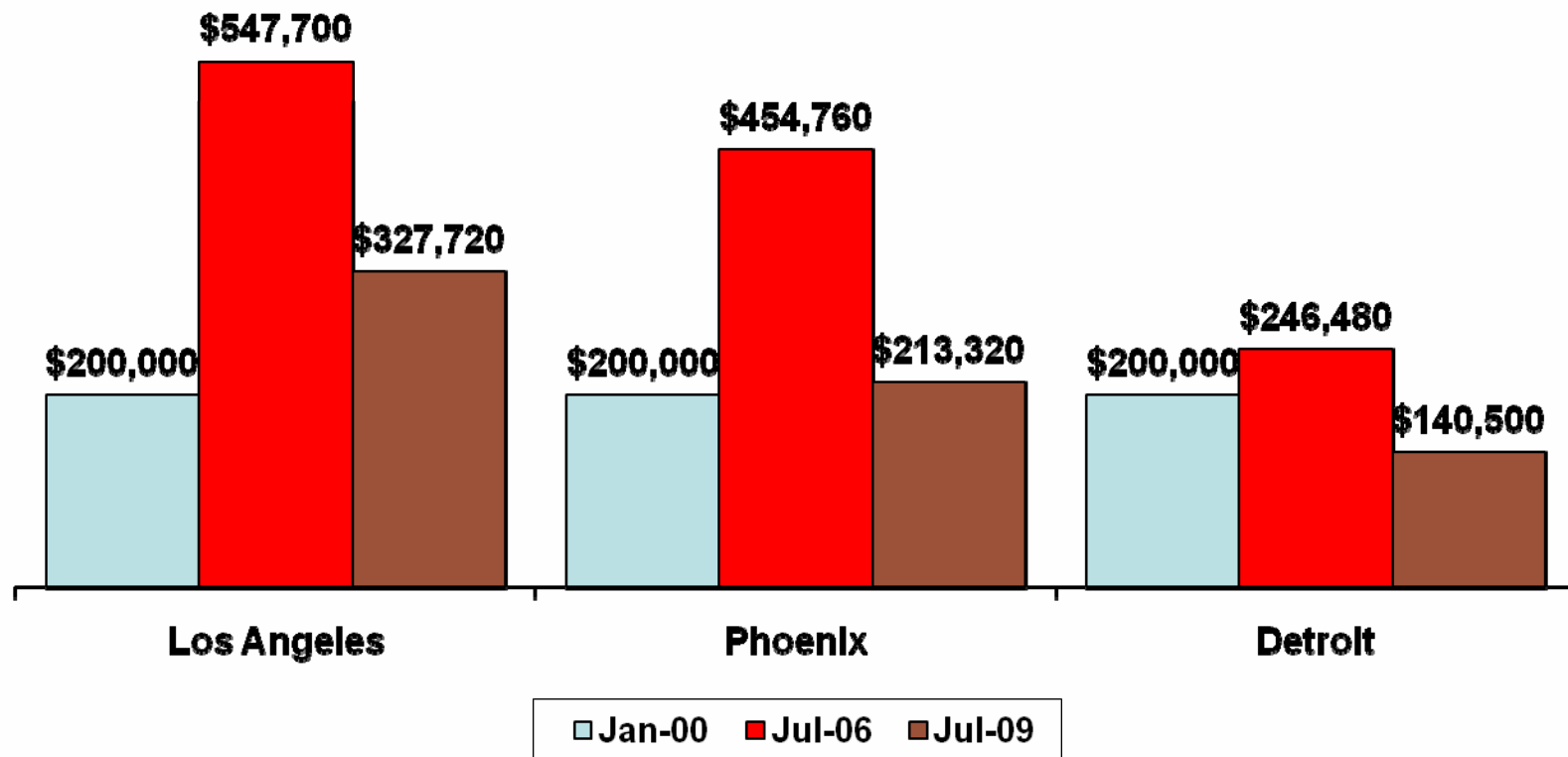






# Housing Bubble Has Burst

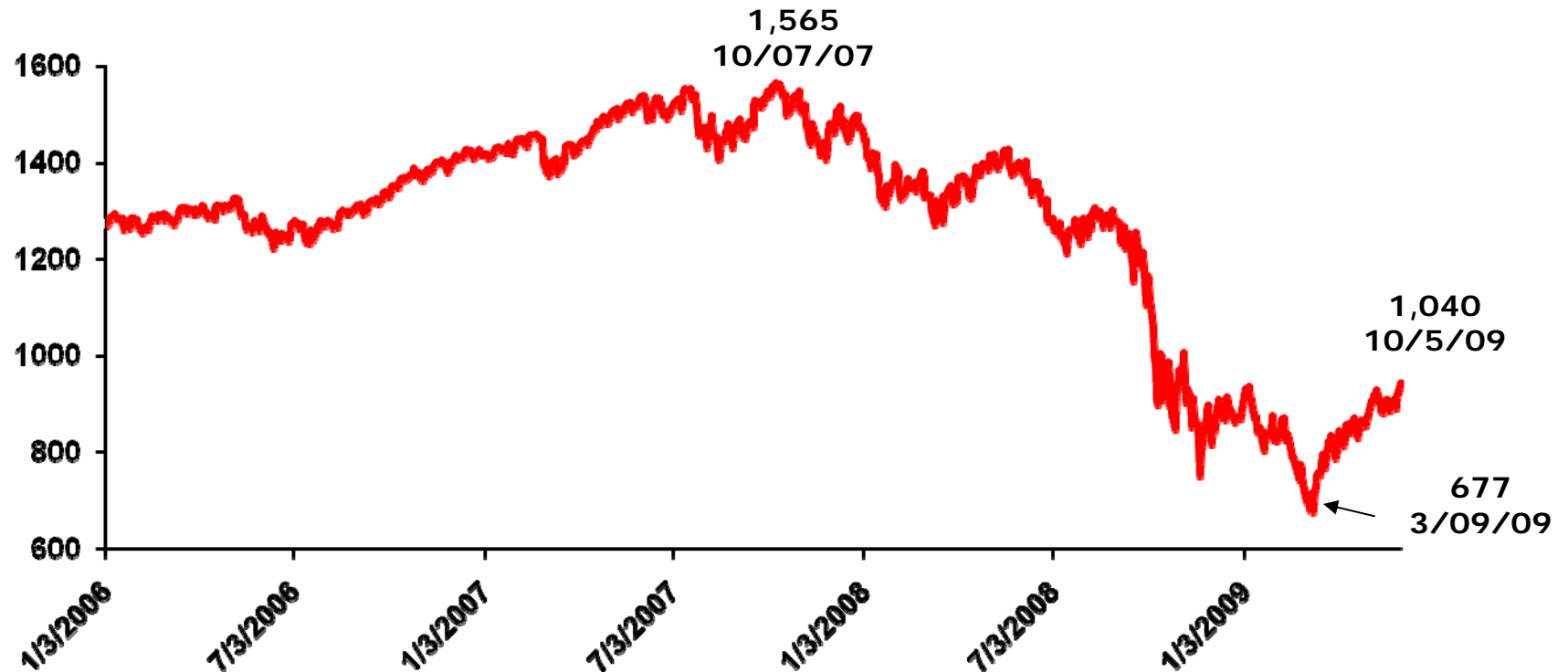
Average Value of a House Purchased  
For \$200,000 in January 2000





# Stock Market Up 54 Percent From March 9<sup>th</sup> Low

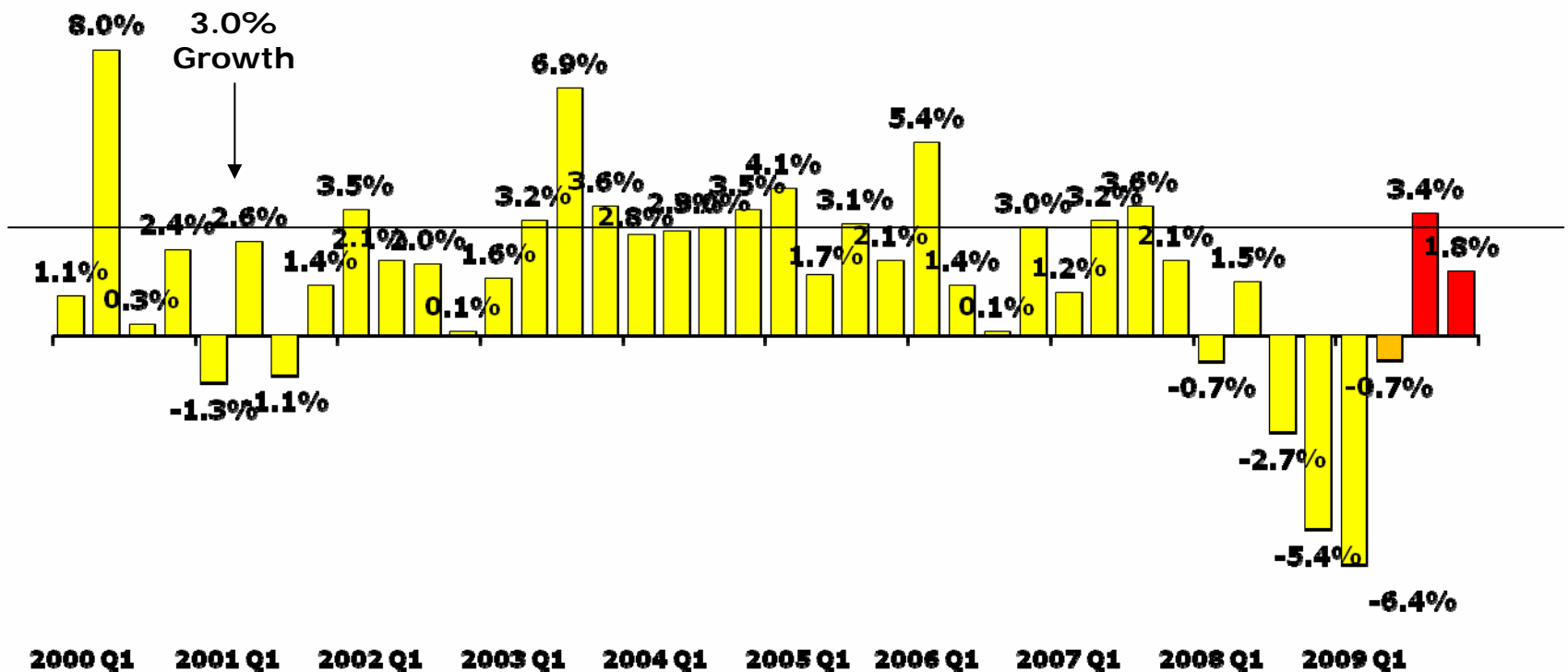
But Still Down 33 Percent from October Peak  
(S&P 500 Closing Level)





# Recession Appears to be Ending

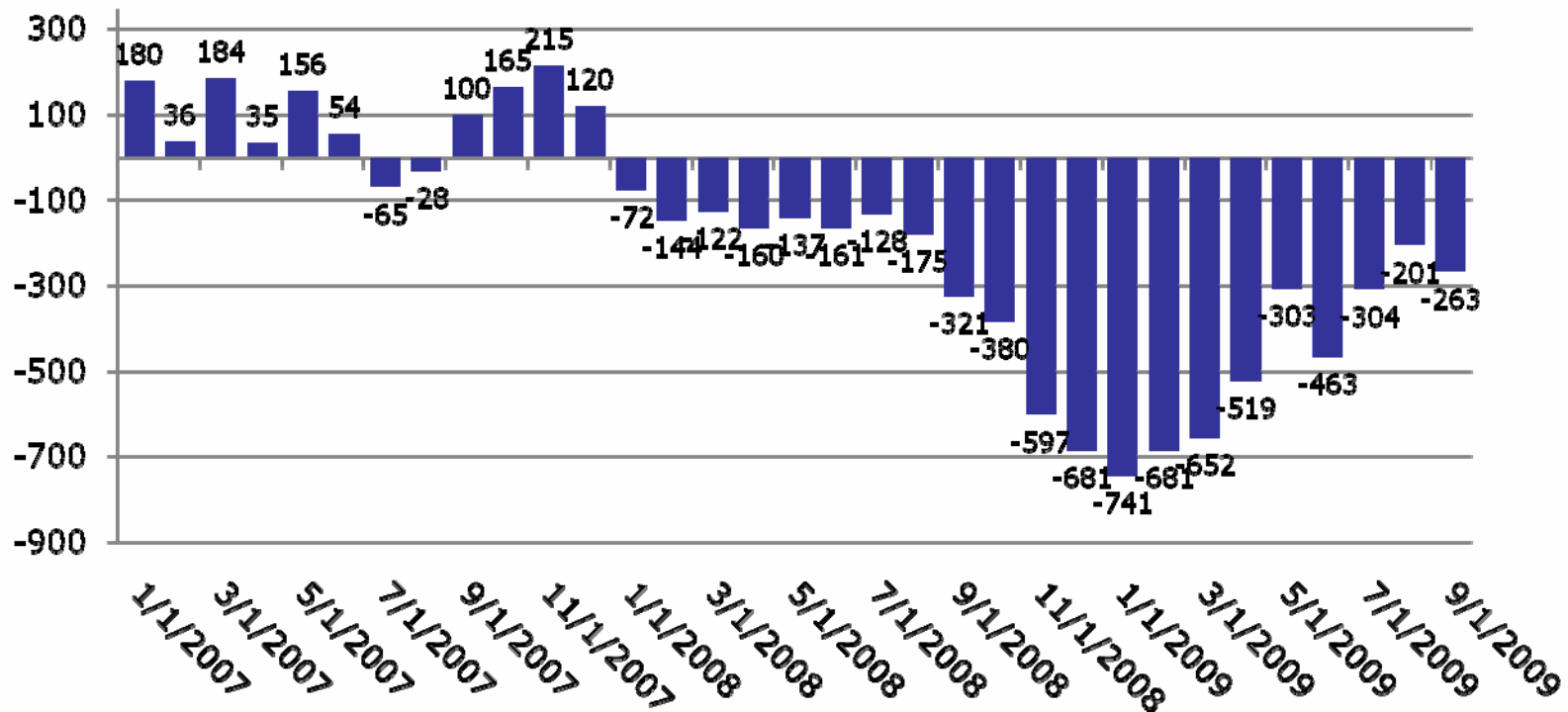
## Real GDP Growth





# Employment Declines Have Lessened But Employment is Still Falling

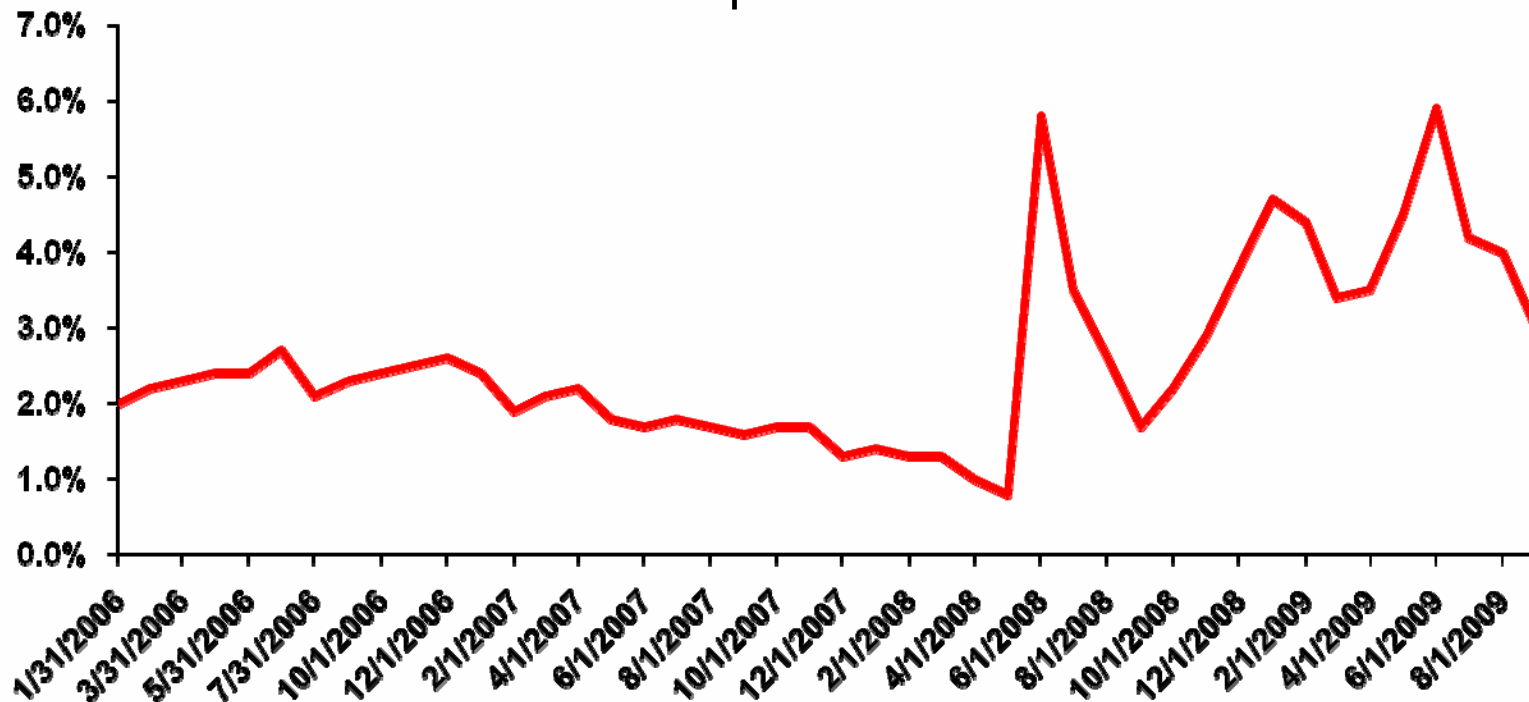
## Monthly Change in U.S. Payroll Employment





# Savings Spike Good For Long Run But May Slow Recovery

Personal Savings Rate as a %  
Of Personal Disposable Income





## American Recovery and Reinvestment Act (ARRA)

Totals in Billions of \$

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Cumulative 2009 - 2011</u>
Personal Tax Cuts	\$105	\$136	\$67	\$308
Corporate Tax Cuts	\$58	\$31	(\$4)	\$85
State and Local Transfers	\$62	\$88	\$22	\$172
Other Spending (incl. Infrastructure)	\$27	\$55	\$44	\$126
Total	\$252	\$310	\$129	\$691

- Employment 2.4 million higher in 2010Q4 compared to no stimulus
- GDP avgs -3.7% in 09 compared to -4.5% and 1.4% instead of 0.1% in 2010 – 2.1% higher in 2010Q4



## Stimulus Aid to Michigan

- Enhanced Medicaid match rate provides \$2.1 billion in aid (divided over FY 09 to FY 11)
- Education aid provides \$1.3 billion to K-12 and colleges and universities, \$215 million for job training, \$500 million for disadvantaged children and school improvement and \$400 million for special ed
- Infrastructure aid includes \$847 million for roads and bridges, \$237 million for clean drinking water, and \$244 million to help low-income families reduce energy costs through weatherization
- Medicaid and education aid comes with maintenance of effort requirements which limit budget cuts that can be made in these areas over the next several years



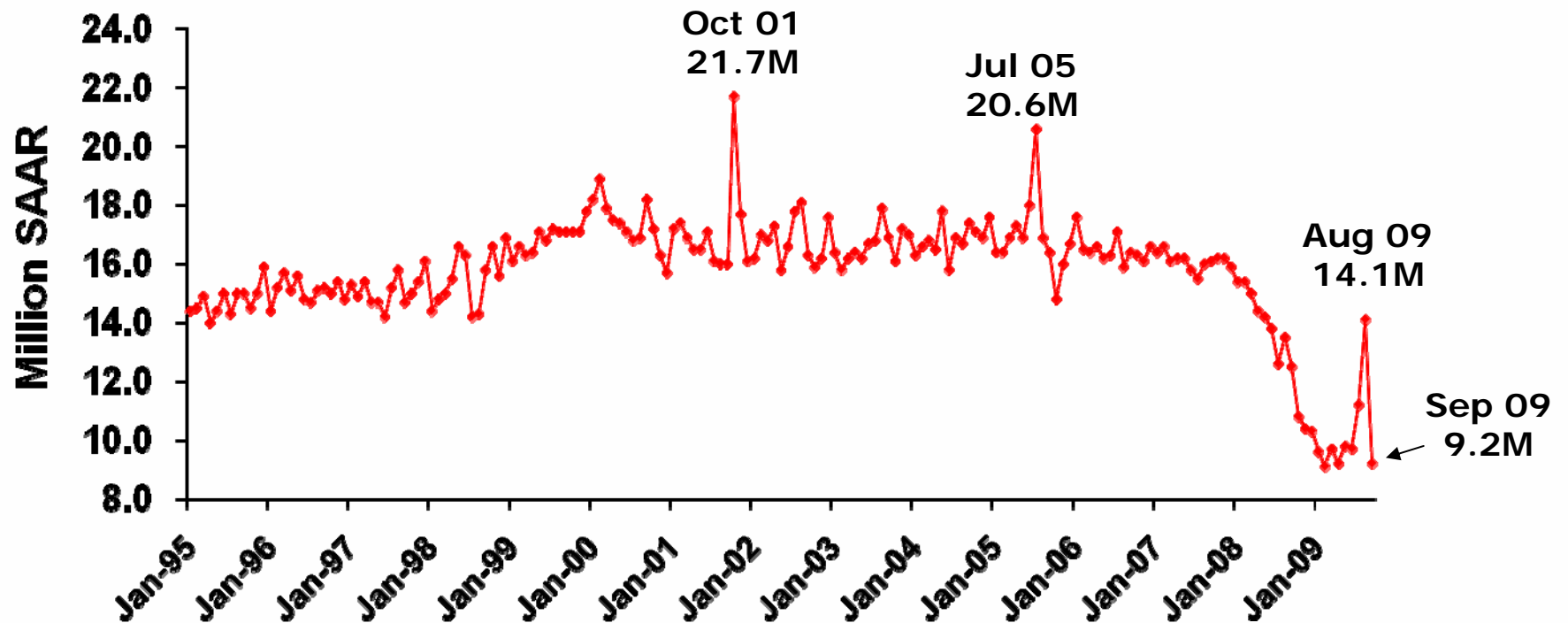
# What is Happening in Michigan?





# Auto Sales Have Fallen Sharply

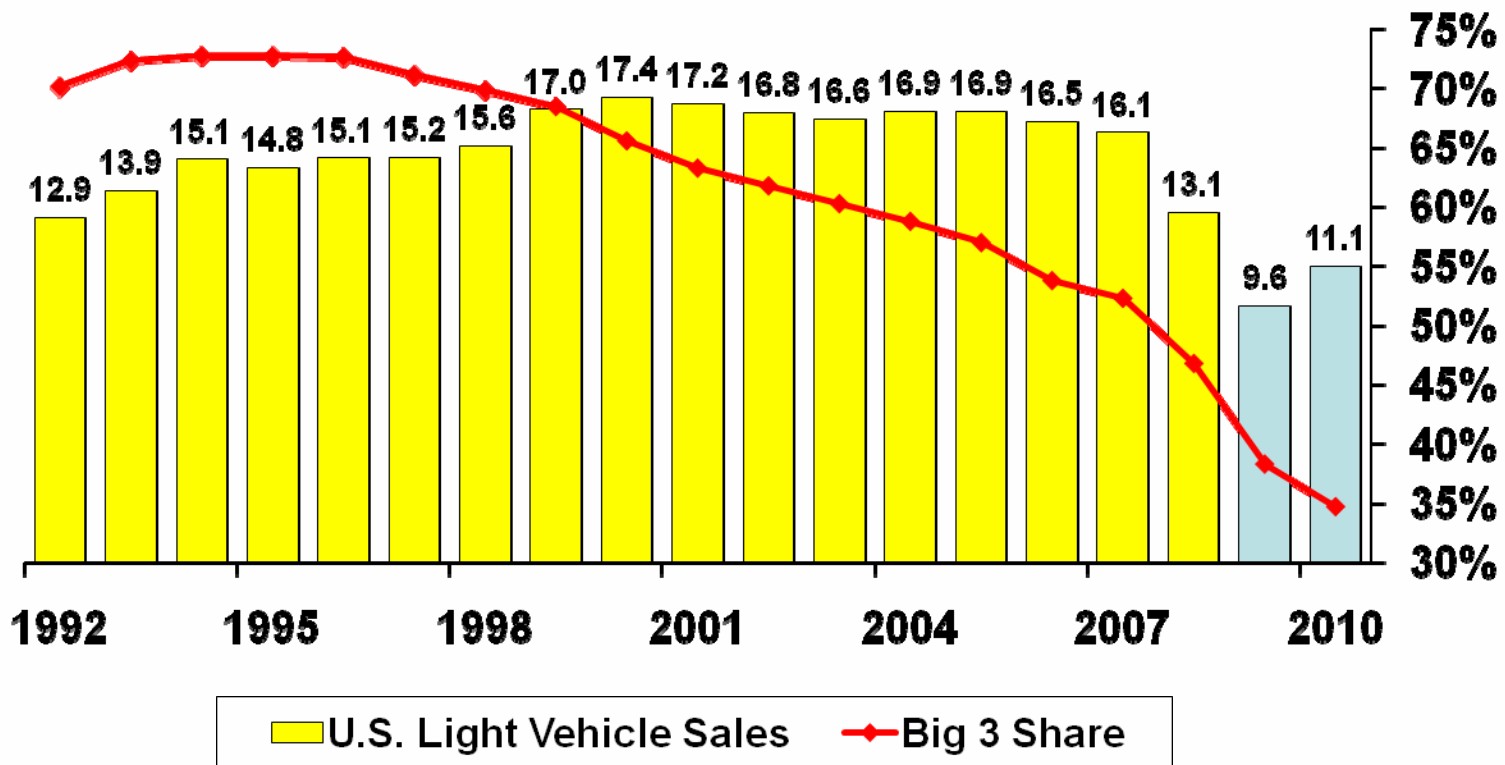
Light Vehicles Sales SAAR  
millions





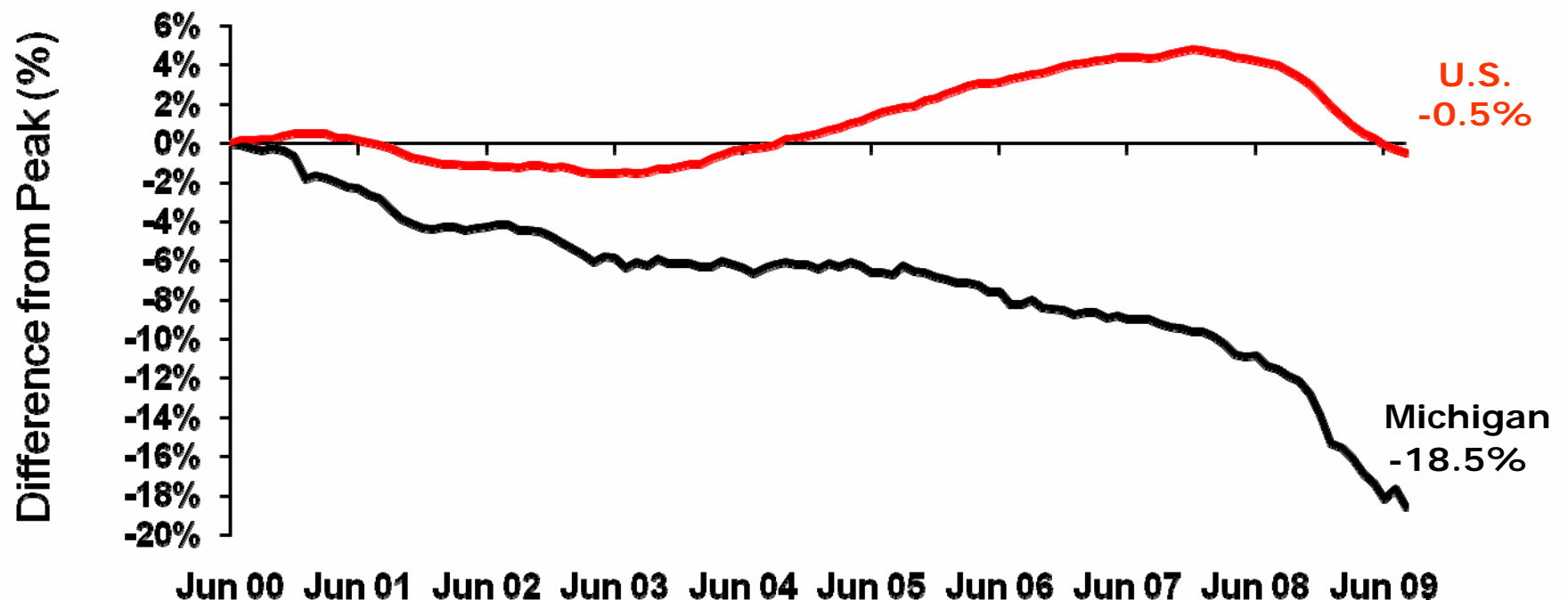
# Big 3 Auto Companies Losing Market Share

Projected 2010 Big 3 Share Below 40%





# Michigan Employment Never Recovered in Past Expansion

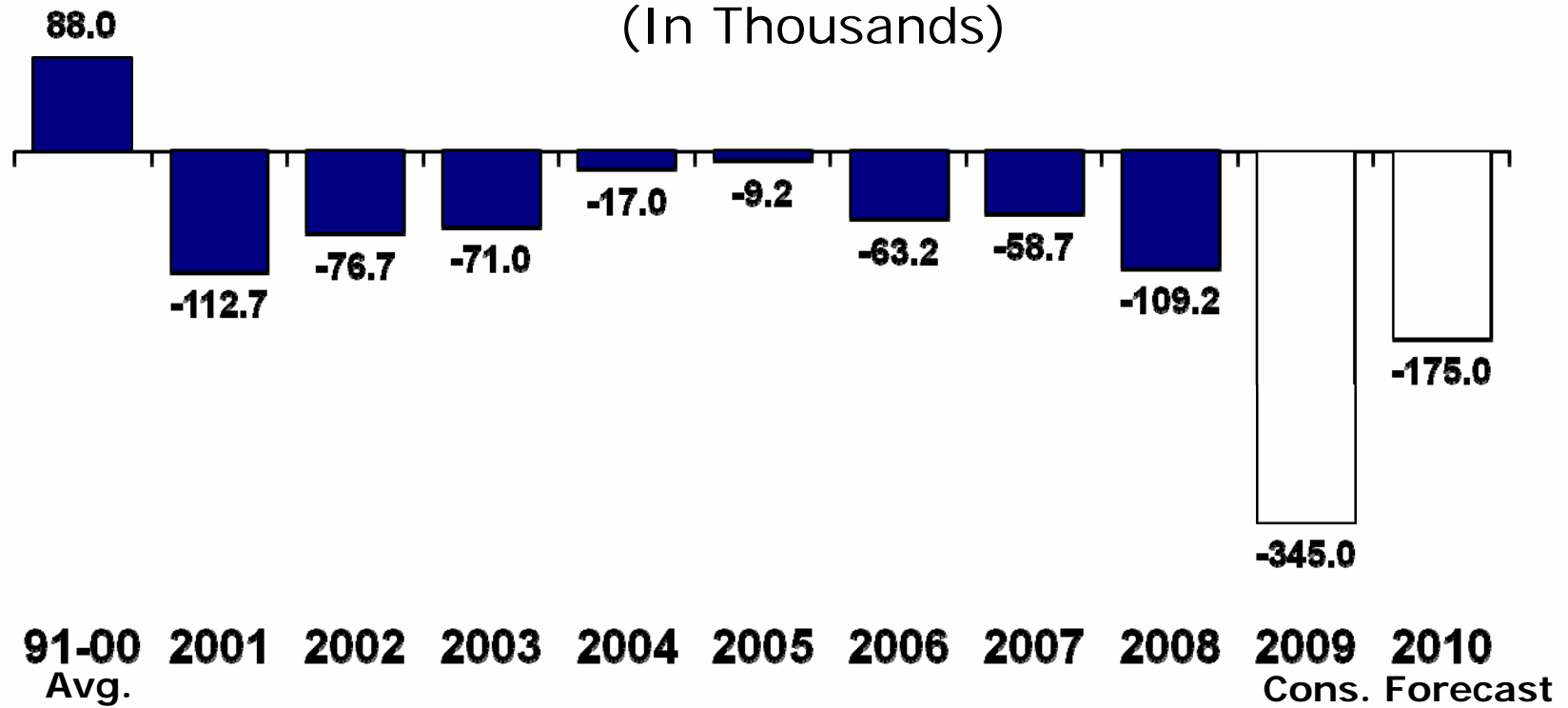


19 Note: Peak is calculated from Michigan's June 2000 Peak. Data through August 2009.  
Source: Bureau of Labor Statistics



# Consensus Forecast – Michigan Loses 1 Million Jobs

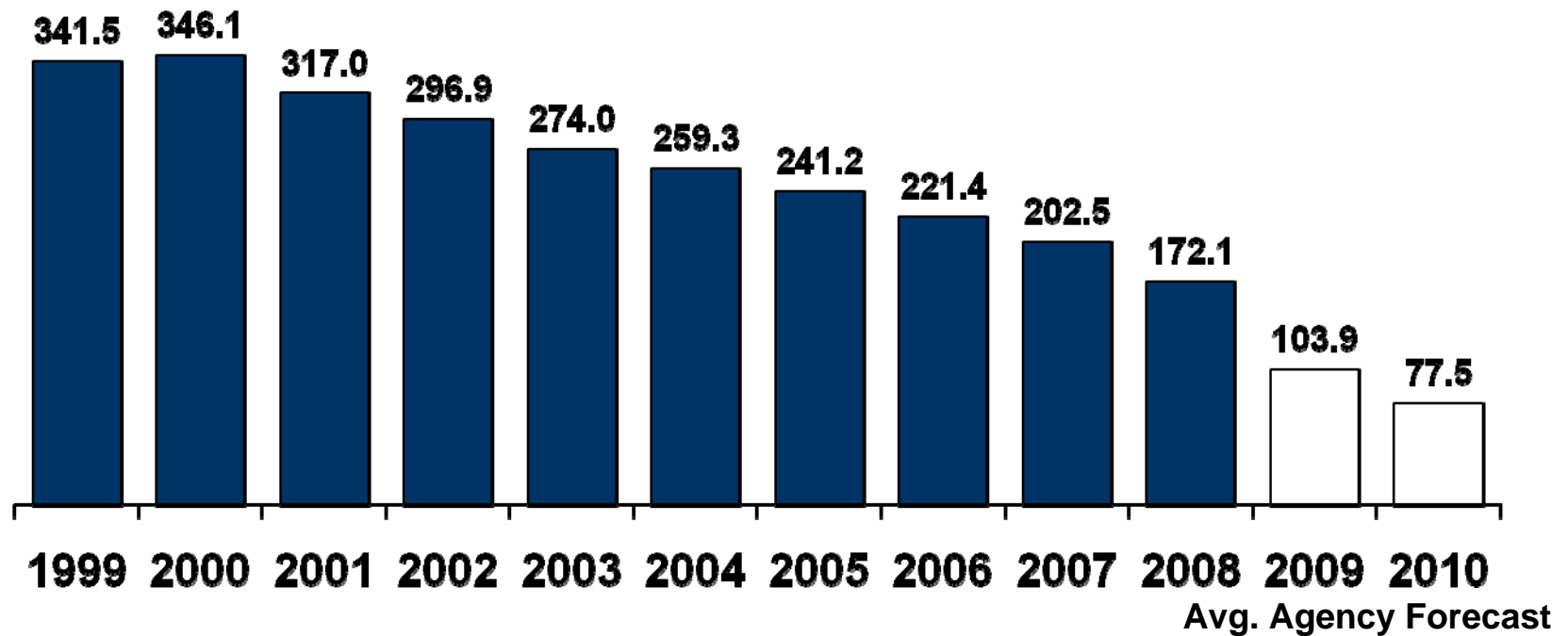
Michigan Wage and Salary Employment Y-O-Y Change  
(In Thousands)





## 3 in 4 Auto Jobs Lost by 2010

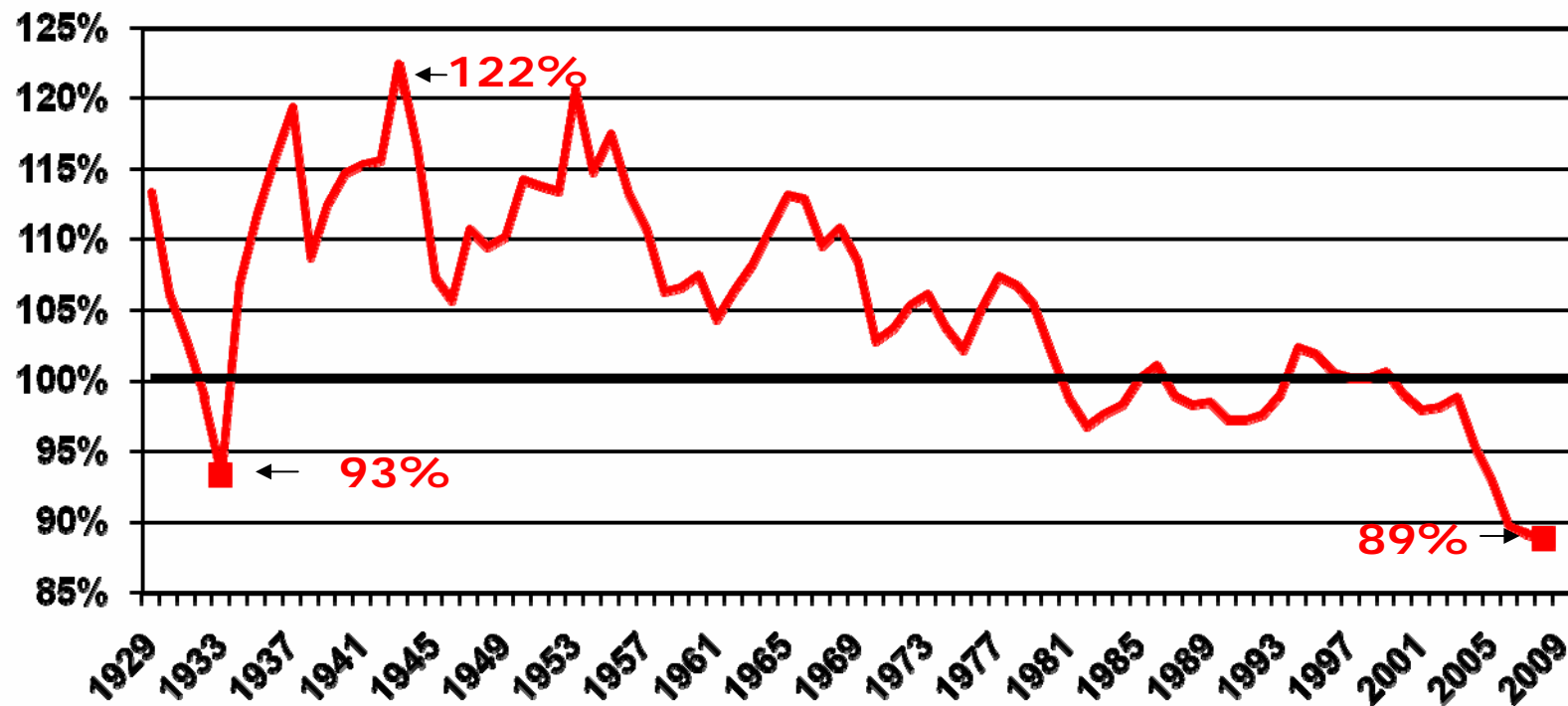
Michigan Transportation Equipment Employment  
(In Thousands)





# Michigan Personal Income Falling Relative to U.S.

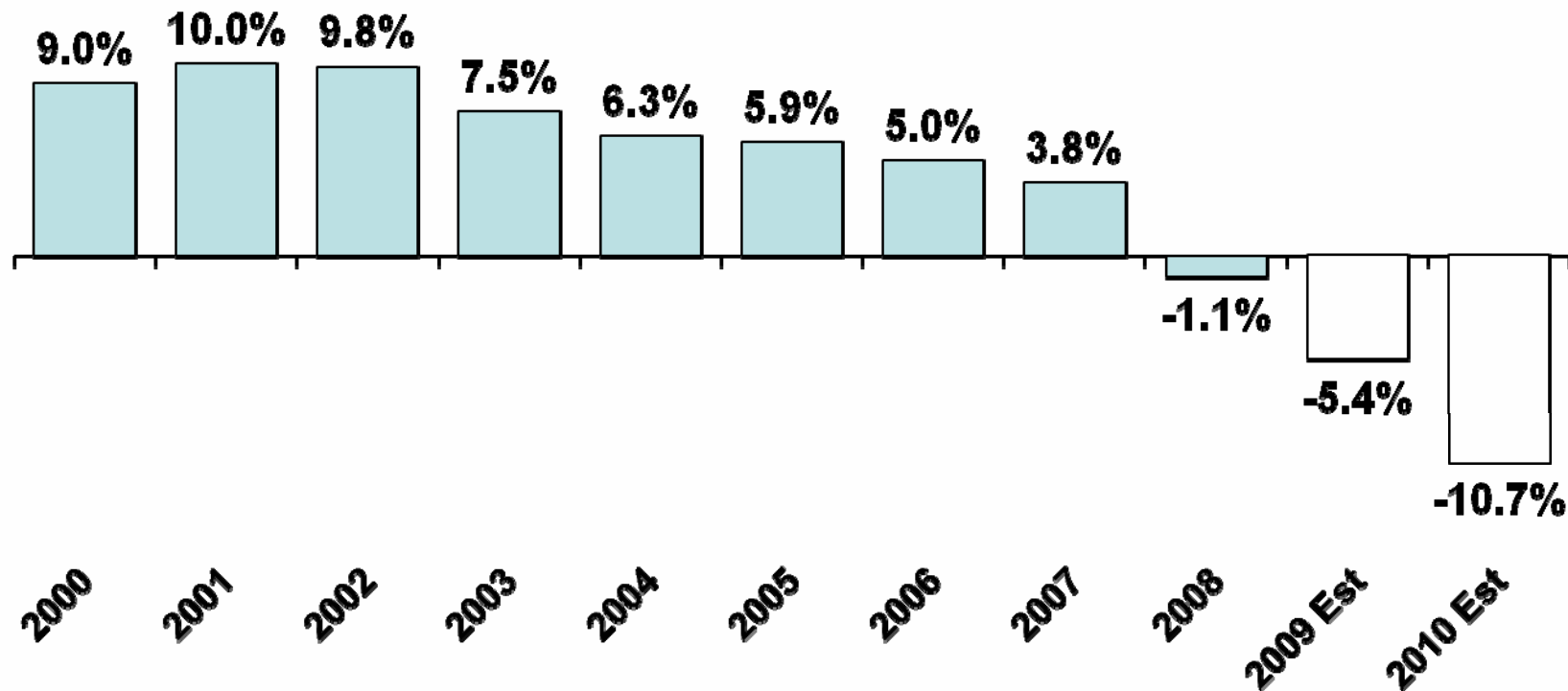
Michigan per Capita Income as a Percent of U.S. Per Capita Income





## Total State SEV Declines for 2<sup>nd</sup> Year in a Row

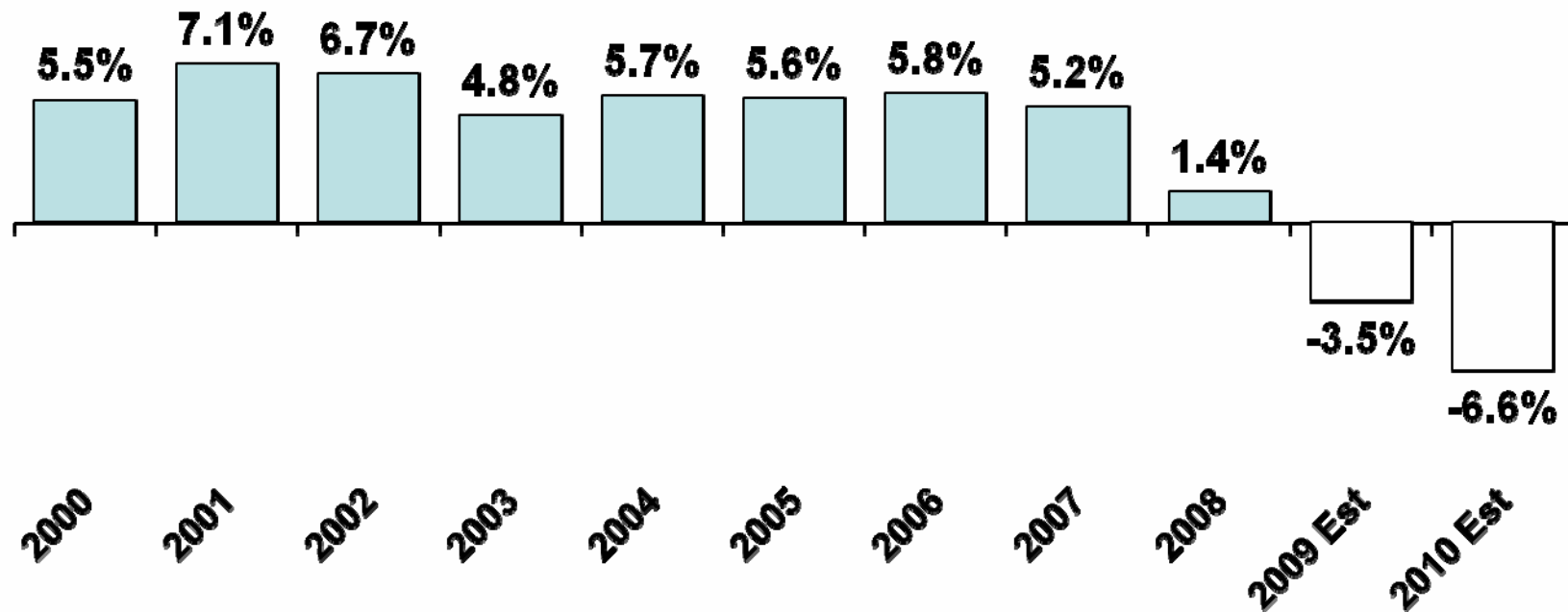
% Change in Total Real and Personal SEV





## TV More Stable Due to Cap But Starting to Decline

% Change in Total Taxable Value





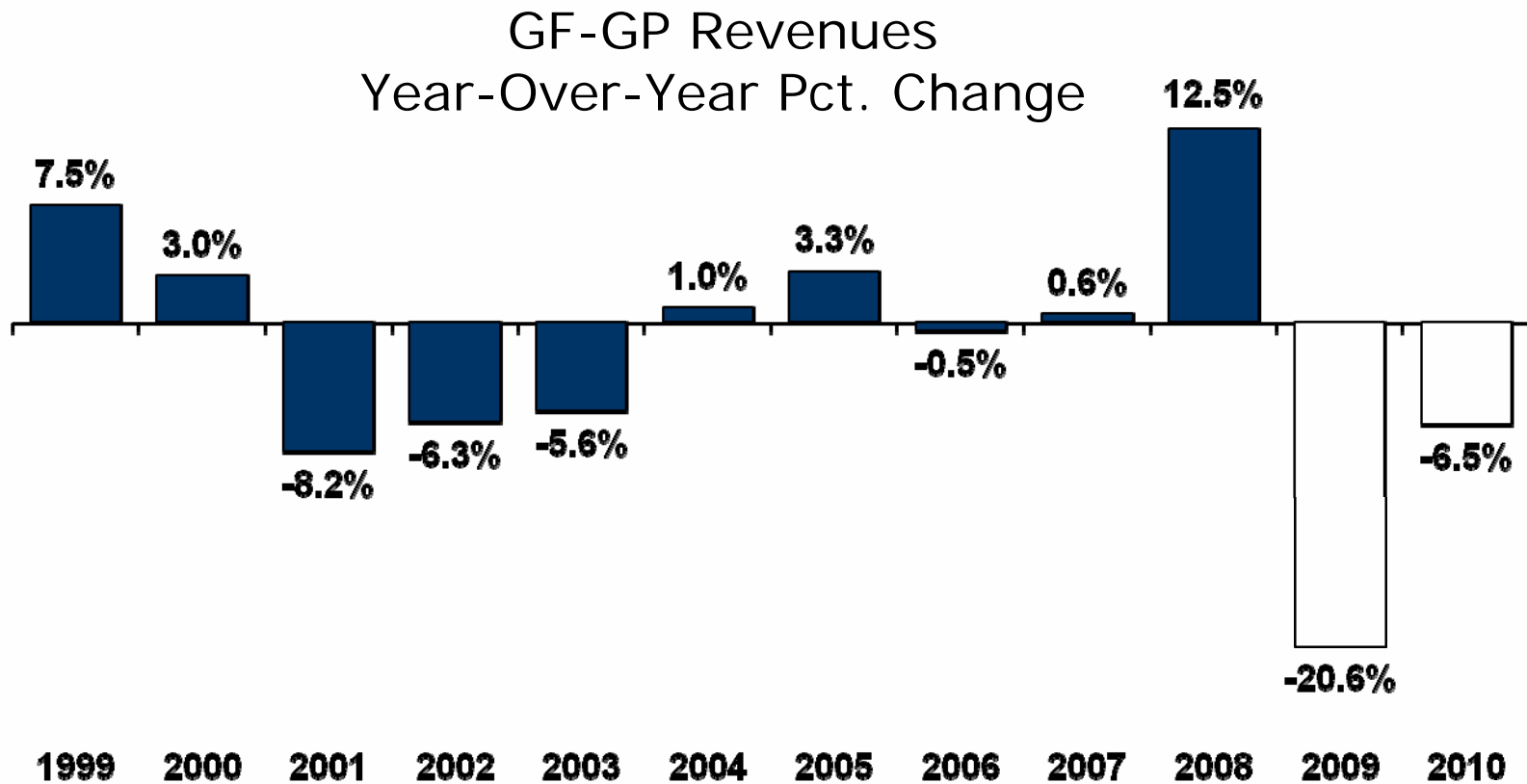


## May Revenue Revisions

	FY 2009			FY 2010		
	<u>Jan Cons.</u>	<u>May Cons</u>	<u>Change</u>	<u>Jan Cons.</u>	<u>May Cons</u>	<u>Change</u>
<b>GF-GP</b>	\$8,306.1	\$7,435.3	(\$870.8)	\$7,934.5	\$6,949.7	(\$984.8)
<b>SAF</b>	\$11,368.7	\$10,943.7	(\$425.0)	\$11,295.8	\$10,563.0	(\$732.8)
<b>Total</b>	\$19,674.8	\$18,379.0	(\$1,295.8)	\$19,230.3	\$17,512.7	(\$1,717.6)
<b>Growth</b>						
<b>GF-GP</b>	-11.3%	-20.6%		-4.5%	-6.5%	
<b>SAF</b>	-1.3%	-4.9%		-0.6%	-3.5%	
<b>Total</b>	-5.7%	-11.9%		-2.3%	-2.8%	



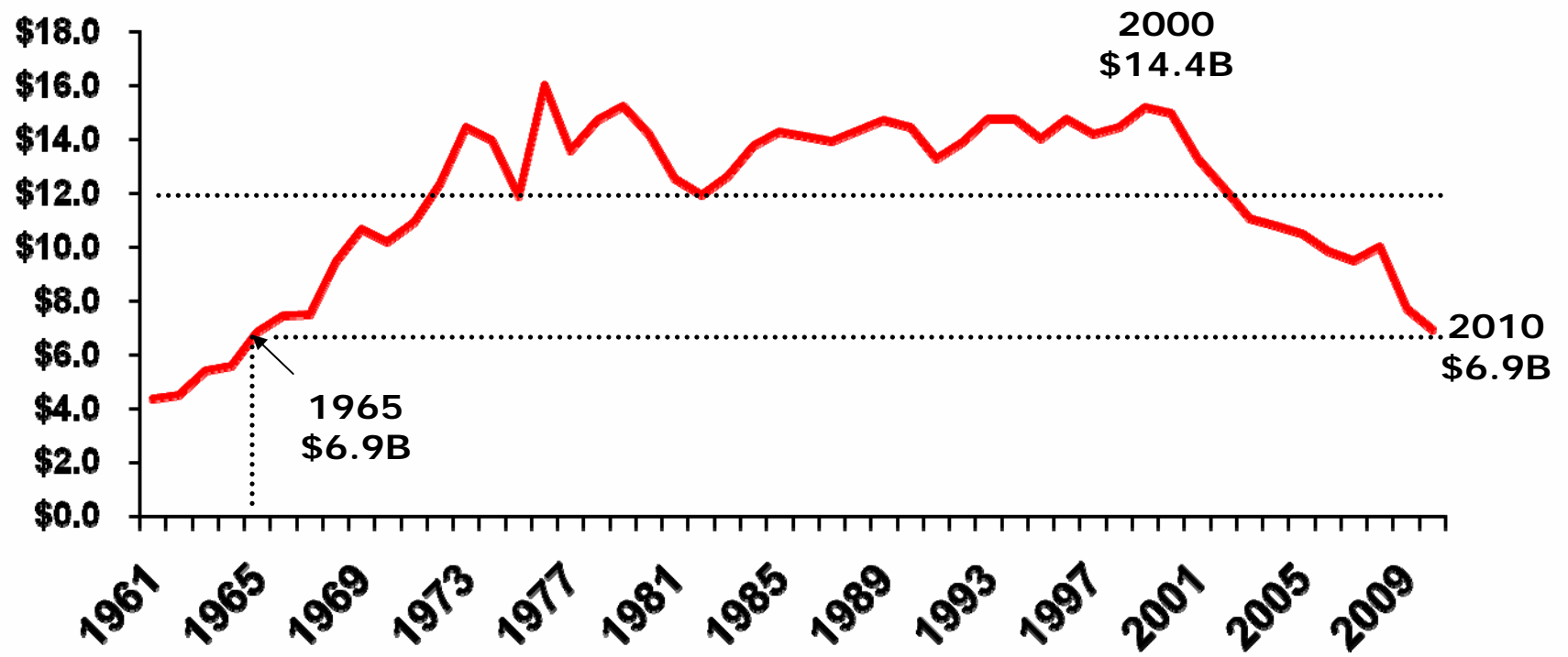
## GF-GP Revenues Fall Off Table





# Inflation Adjusted GF-GP at 1965 Level

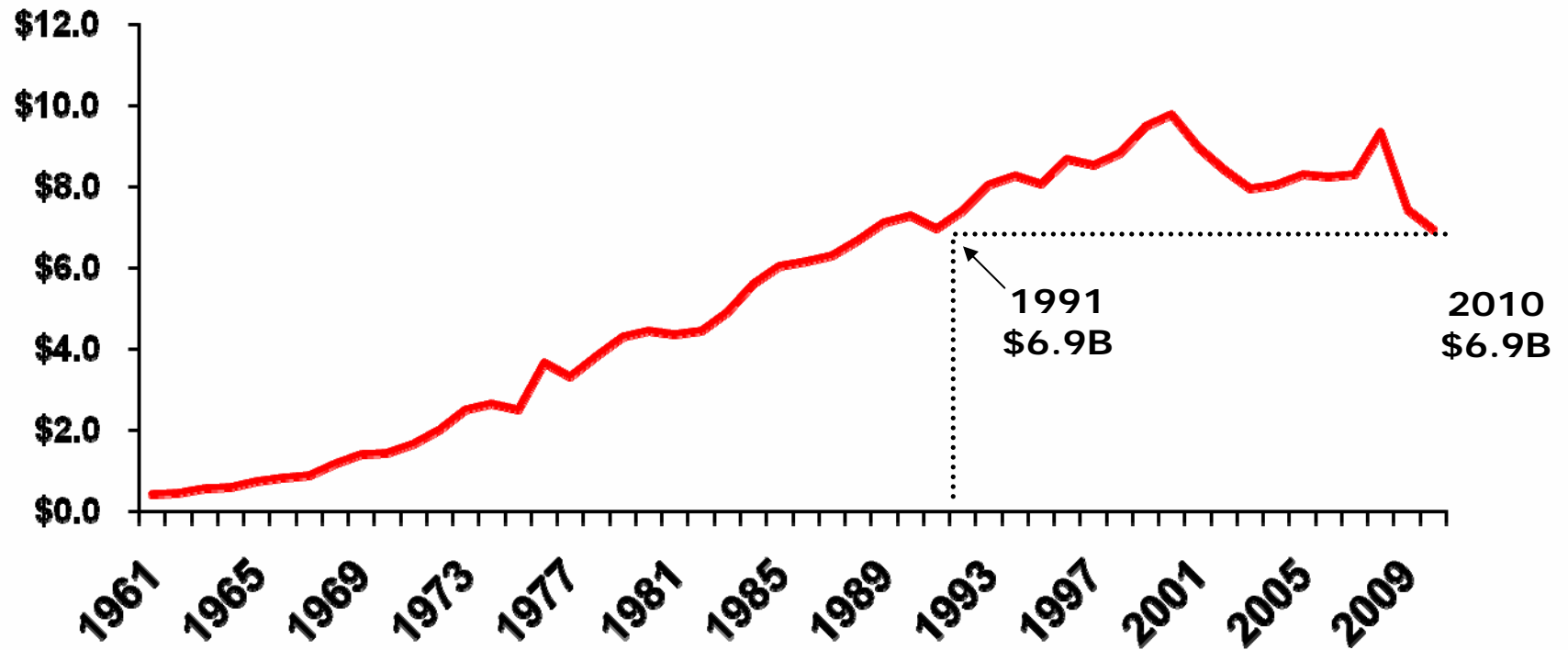
Billions of 2010\$





# Nominal GF-GP Back at FY 91 Level

Billions of Dollars





## State Budget Realities

- Balanced budget is a constitutional requirement
- Budget totals over \$48 billion, but
  - \$4 out of \$5 is restricted for transportation, education, health, etc.
  - \$1 out of \$5 is unrestricted (GF/GP)
- 80% of state funds spent outside of state government
- Only 11% spent on state employees



## **GF/GP Solutions: 2009**

- One-quarter (~\$300 M): spending reductions
  - Employee layoffs and furloughs
  - Medicaid reimbursement rate reductions/eliminate optional services
  - Revenue sharing
  - Some areas protected by fed stimulus
- Three-quarters (~\$900M): federal stimulus funding, aka "ARRA"



## Status of GF Budget on 9/30

	<u>FY 2010</u>	<u>FY 2011</u>
Revenue	\$7,700.1	\$8,032.4
Adjusted Exec. Rec.	\$9,522.6	\$10,070.5
<b>Projected Shortfall</b>	<b>(\$1,822.5)</b>	<b>(\$2,038.1)</b>
<b><u>Target Proposal (9/30)</u></b>		
Appropriation Reductions	\$842.8	\$842.8
Revenue Changes	\$0.0	\$0.0
ARRA (Fed. Stimulus)	\$973.0	\$209.6
ARRA Carryforward	\$209.4	\$202.7
<b>Projected Ending Balance</b>	<b>\$202.7</b>	<b>(\$783.0)</b>



## Tentative 2010 Budget Cuts Include

- 8 percent Medicaid provider cut
- 11 percent cut in revenue sharing to local governments
- Elimination of the Michigan promise scholarship
- 5 percent Department of Corrections Cut





## Status of School Budget

- Budget has not yet been enacted – state aid payment to schools is made on Oct. 20<sup>th</sup>
- Proposal was for a \$218 per pupil cut (approx 3 percent)
- With \$218 cut budget could be back in balance for 2011
- If all stimulus funds are used in FY 2010, then cut projected to be \$370 per pupil in FY 2011



# Revenue Increases Being Considered in the State House of Representatives

## Passed by the House on October 6

- 3 percent physicians tax
- Freeze personal exemption at 2008 level
- 15 percent cut in MBT tax expenditures

## Considered but Not Passed as of October 6

- Increase tax on other tobacco products
- Allow bars to stay open until 4 AM (and pay for the privilege)
- Reduce scheduled increase in EITC



## Significant Tax Cuts Enacted Recently

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Reducing Michigan IIT Rate	\$0.0	\$0.0	\$0.0	(\$176.5)	(\$391.9)	(\$625.8)
Alternative Energy Credits IIT	(\$16.0)	(\$46.0)	(\$55.3)	(\$42.0)	\$0.0	\$0.0
Michigan EITC	(\$140.0)	(\$315.0)	(\$333.9)	(\$353.9)	(\$375.2)	(\$397.7)
Eliminating MBT Surcharge		Eliminated in Tax Year 2017		(\$715 million)		
MBT Battery Credits(1)	\$0.0	\$0.0	\$0.0	(\$40.0)	(\$108.0)	(\$103.0)
MBT Film Credits & Infrastructure(2)	(\$107.5)	(\$160.0)	(\$160.0)	(\$160.0)	(\$160.0)	(\$160.0)
Polycrystalline Manufacturing Credit	\$0.0	\$0.0	\$0.0	\$0.0	(\$25.0)	(\$25.0)
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 from depr/prod 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)
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>	<u>(\$206.8)</u>	<u>(\$603.6)</u>	<u>(\$647.5)</u>	<u>(\$873.1)</u>	<u>(\$1,168.5)</u>	<u>(\$1,414.7)</u>



# CRC Forecasts Long-Term State Structural Budget Gap

Estimates are for FY 09 to FY 17

<u>Spending Area</u>	<u>Average Annual Revenue Growth</u>	<u>Average Annual Spending Growth</u>	<u>Difference Revenue &amp; Spending Growth</u>	<u>Average Annual Difference (2009 \$)</u>
GF-GP	1.4%	6.8%	-5.4%	\$539
School Aid	3.0%	4.7%	-1.7%	\$308
Transportation	3.5%	5.6%	-2.1%	\$33



## Outlook

- Michigan will be far less dependent on auto sector in future; companies will be much smaller (and hopefully profitable)
- Economy and employment will start to grow once auto restructuring is complete (2011?)
- Rate of Michigan's growth uncertain; much debate over what can be done to prepare for the future
- Budget problems are not going away; it appears significant cuts are underway, but more will need to be done



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