



CITIZENS RESEARCH COUNCIL OF MICHIGAN



Michigan Economic and State Budget Update and Outlook

**Presented to
Council of Michigan Foundations**

**November 17 and 19, 2009
Webinars**



Citizens Research Council

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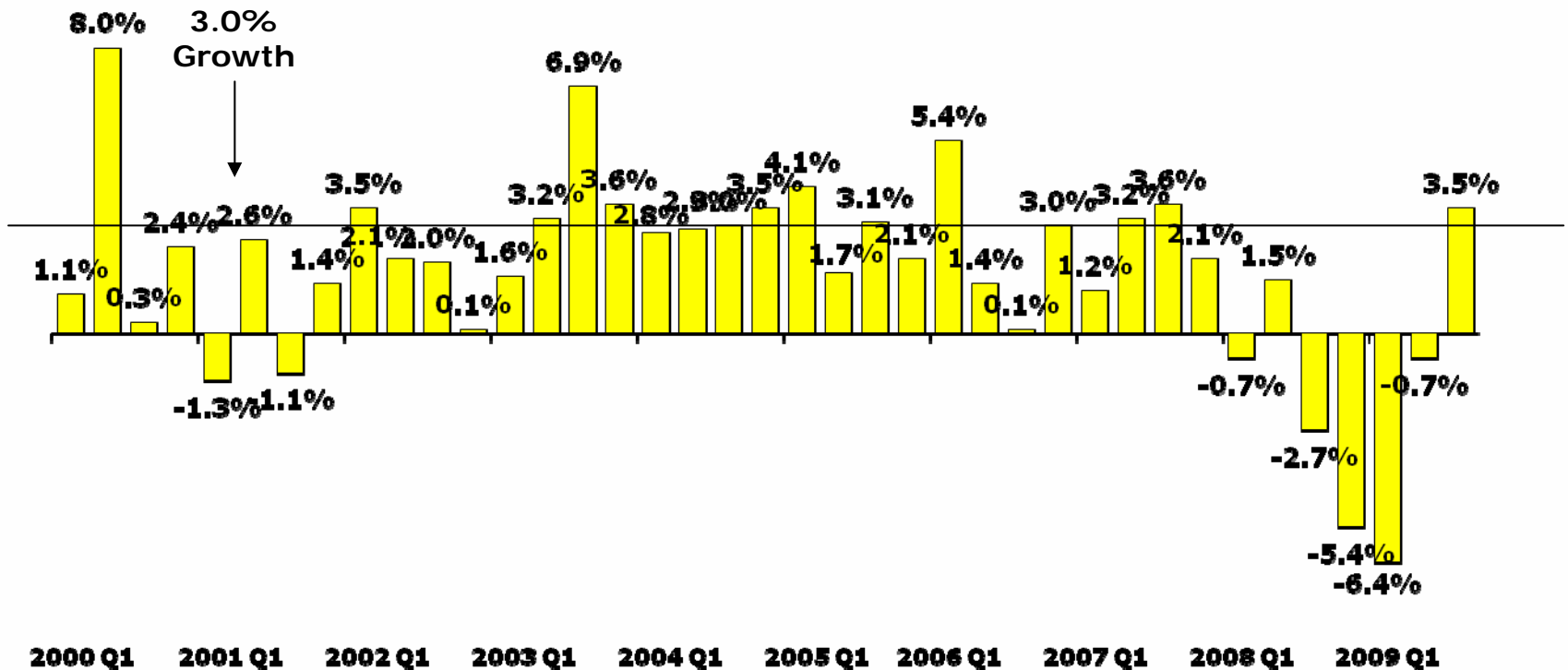
What is the State of the Economy?

- U.S. recession probably ended over the summer, but employment growth still several months off
- Michigan employment growth will trail U.S., but we could see growth towards the end of next year
- Recovery is tenuous and we could easily slip back into recession
- It could have been worse, we did not enter a depression, and Ford, GM, and Chrysler are still here



Recession Over?

Real GDP Growth

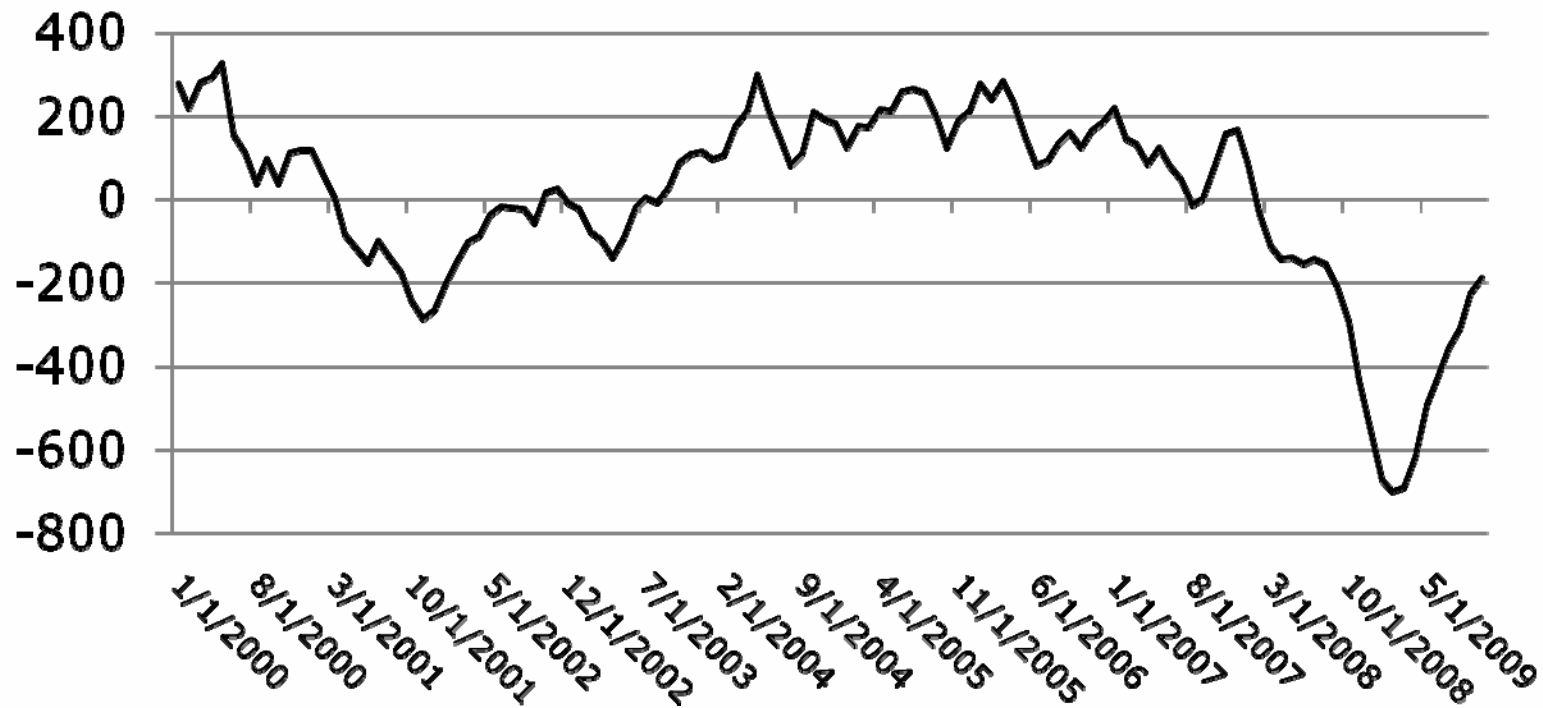


4 Figures are annualized percent change from preceding quarter in 2000 chained dollars.
Source: Bureau of Economic Analysis.



Employment Declines Were Massive But Are Abating

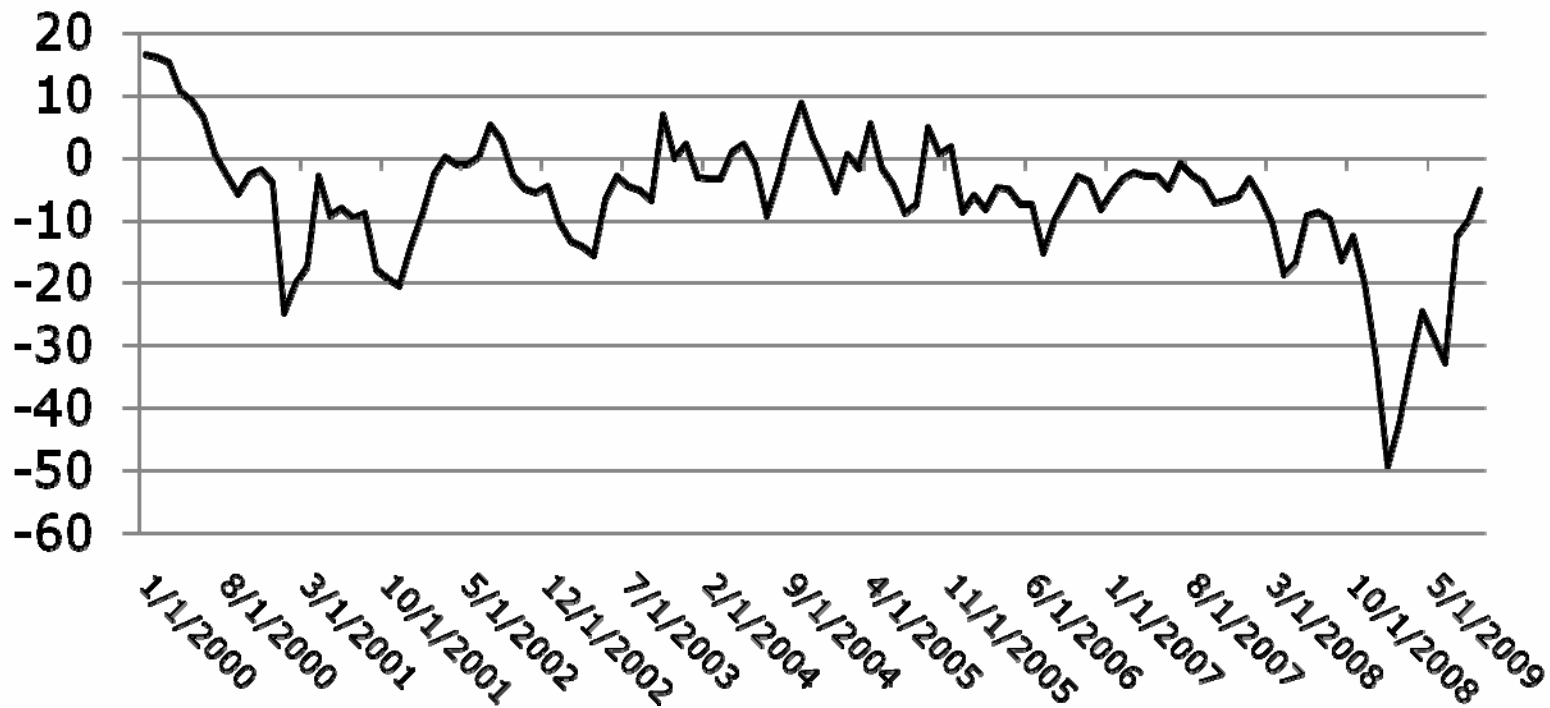
U.S. Employment Change
Month to Month (3 month average in thousands)





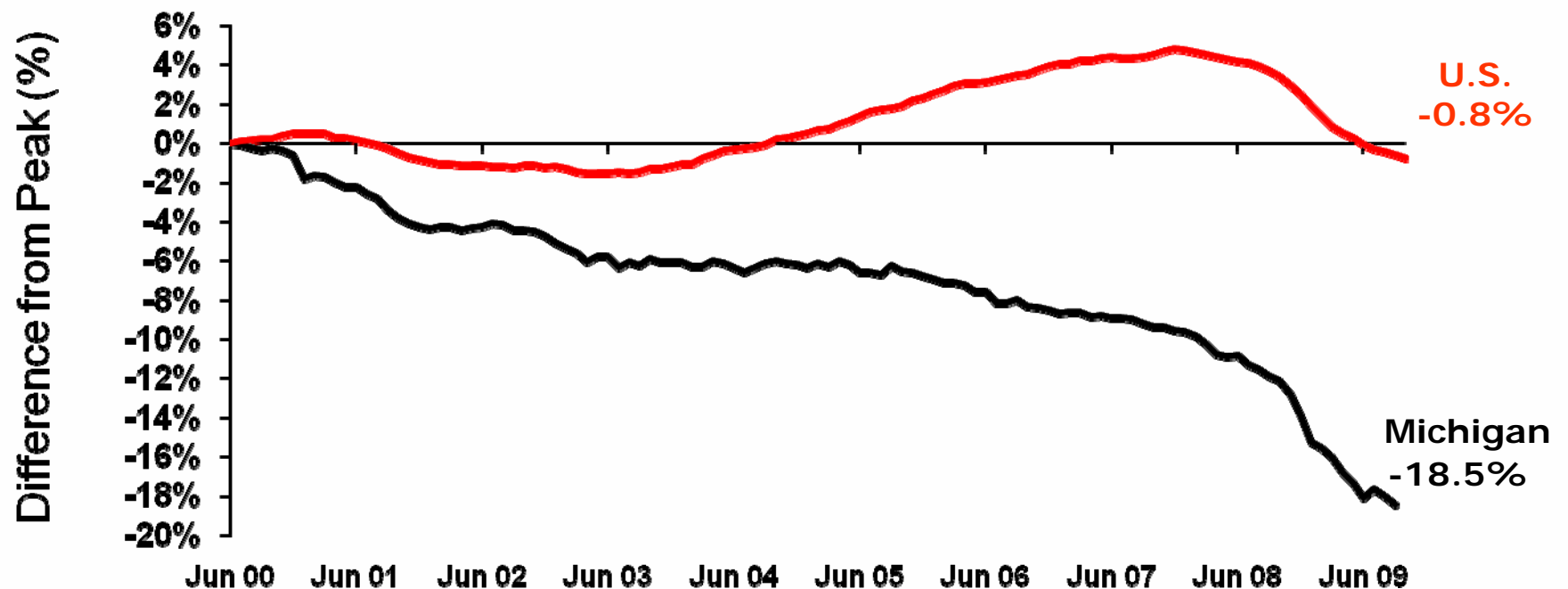
Michigan Employment Declines Are Also Abating

Michigan Employment Change
Month to Month (3 month average in thousands)





Michigan Has Now Lost 1 in 6 Jobs (with 35% of loss in last 12 months)

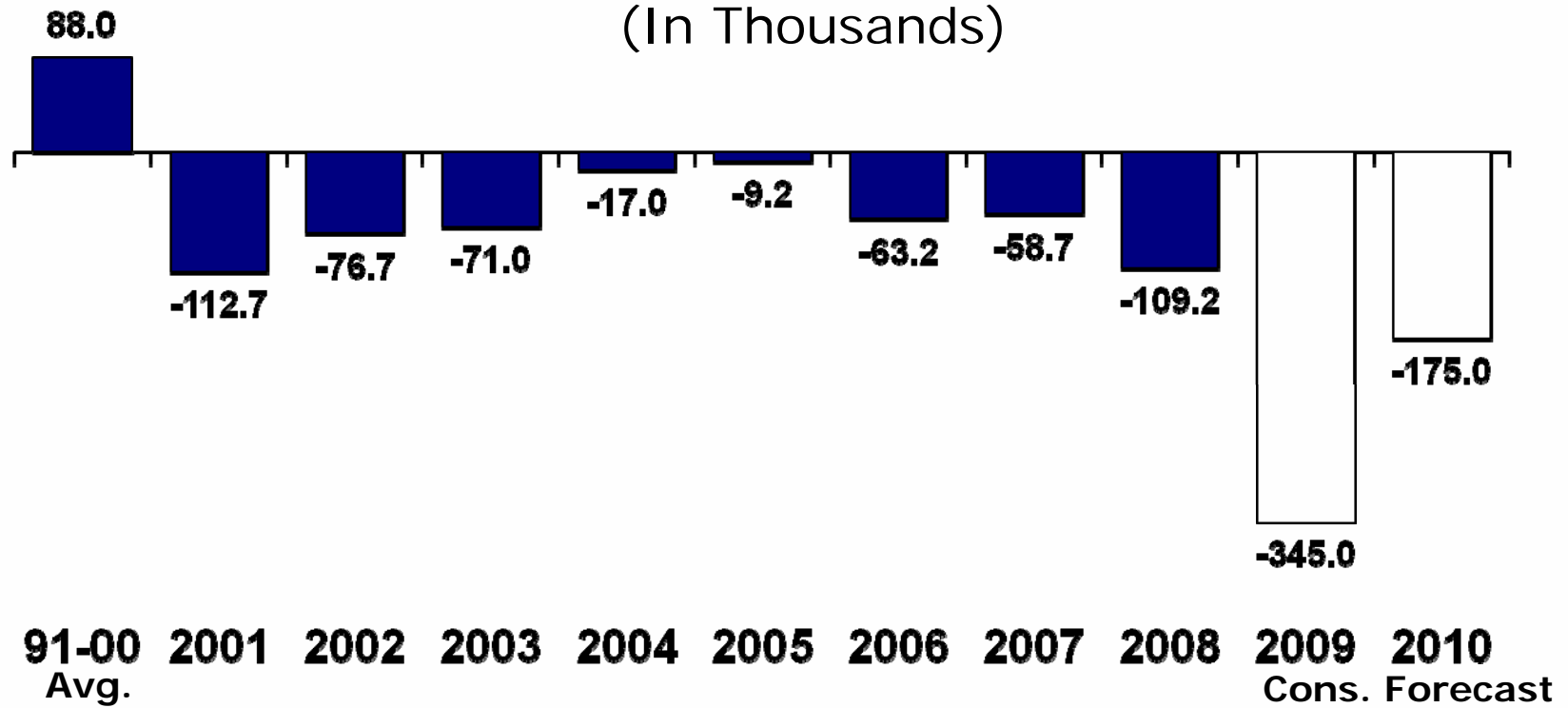


7 Note: Peak is calculated from Michigan's June 2000 Peak. Data through August 2009.
Source: Bureau of Labor Statistics



Consensus Forecast – Michigan Loses 1 Million Jobs

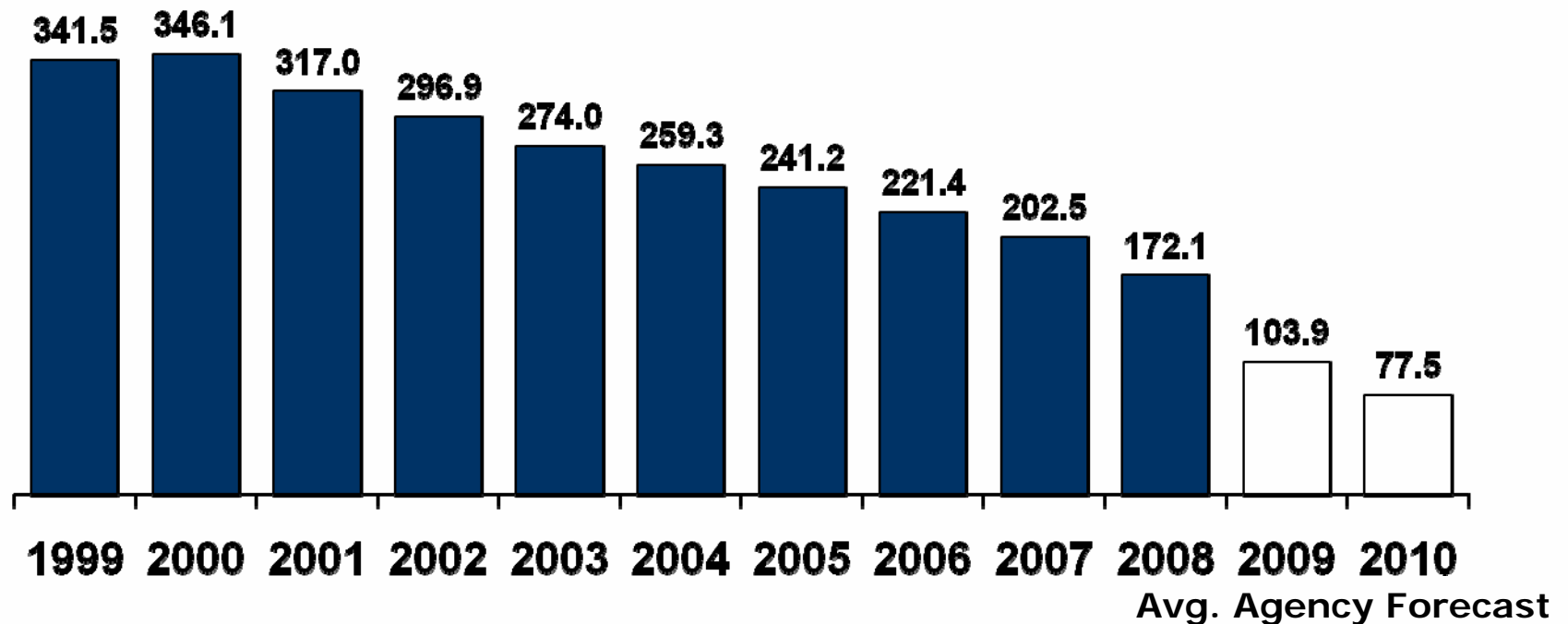
Michigan Wage and Salary Employment Y-O-Y Change
(In Thousands)





3 in 4 Auto Jobs Lost by 2010

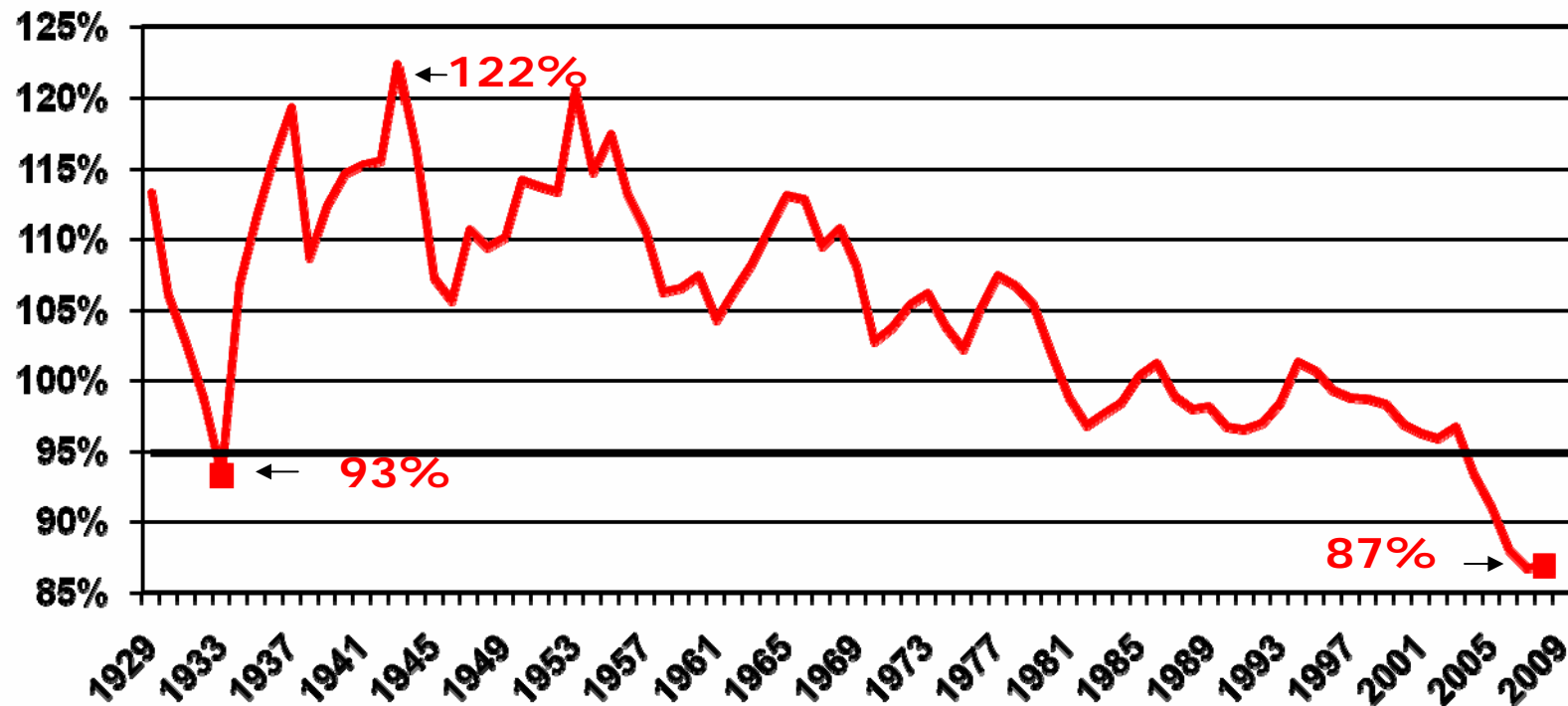
Michigan Transportation Equipment Employment
(In Thousands)





Michigan Personal Income Falling Relative to U.S.

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





The Budget Story Has Not Changed . .

- The State of Michigan has 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

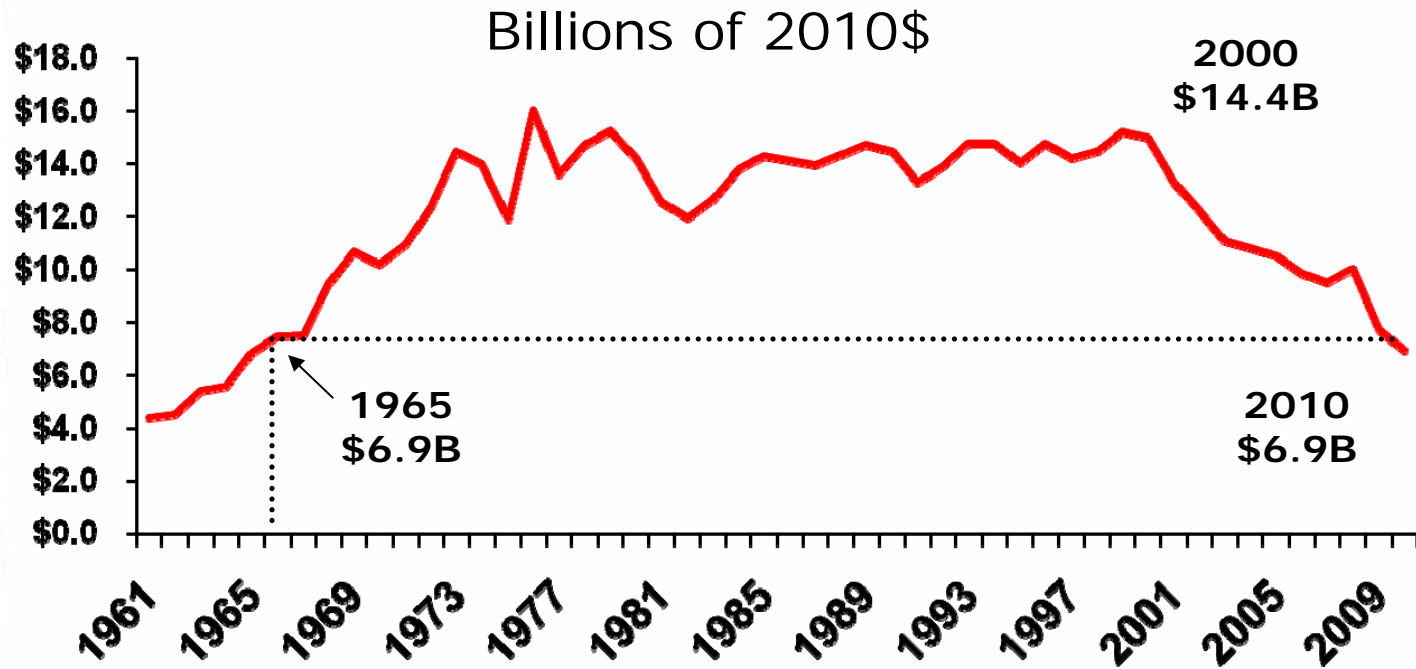


But There is a New Chapter

- National recession – severe
 - Consumption
 - Business spending
 - Homebuilding
- Michigan's budget unprepared to deal with current recession on its own
 - Exhausted reserves
 - Tax increases of 2007
- Must correct for two problems simultaneously
 - Structural deficits
 - Cyclical deficits
 - Each problem requires specific set of tools



Michigan's Discretionary Budget *GF-GP at 1965 Level*



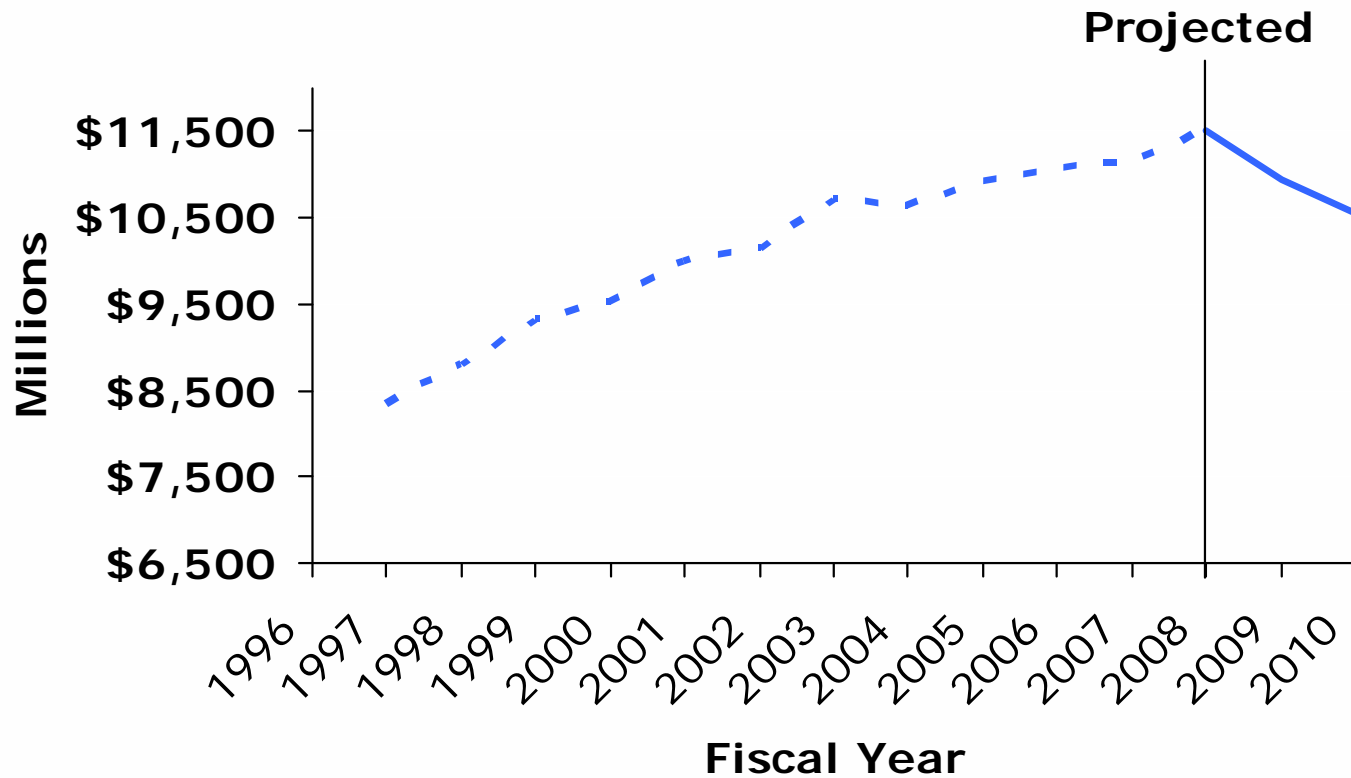
Note: GF-GP figures are presented on a Consensus basis and adjusted for inflation to 2010 dollars using the state and local government price deflator. 2009 and 2010 are estimates.



First Two-Year Decline

SAF provides Two-Thirds of K-12 Revenue

SAF On-Going Revenues



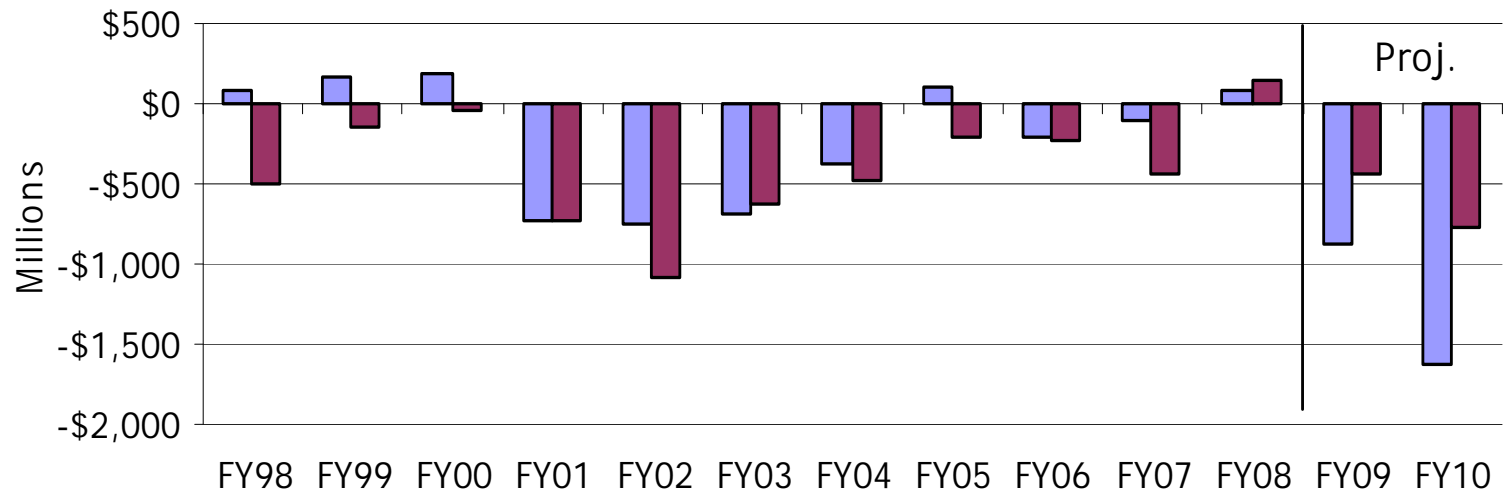
Source: Michigan Department of Treasury



Persistent Deficits

Michigan's Structural Deficit Problem

GF/GP and SAF Operating Deficits



source: Senate Fiscal Agency

■ GF/GP ■ SAF



May Revenue Revisions

Severity of Recession Apparent

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



FY2009 Problem Magnified

\$1.2B Shortfall With Less than Five Months

FY2009 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)	

Source: Senate Fiscal Agency, 7/09



FY2009 Problem Magnified

\$429M Shortfall With Less than One Month

	2009 SAF Budget (millions)		
	<u>Jan</u>	<u>May</u>	<u>Diff</u>
Beginning Balance	\$ 247	\$ 247	
Revenues			
Dedicated SAF	\$ 11,369	\$ 10,944	\$ (425)
GF Grant	\$ 41	\$ 78	\$ 37
Federal	\$ 1,562	\$ 1,562	
Total	\$ 13,219	\$ 12,831	\$ (388)
Proj. Spending	\$ 13,257	\$ 13,260	\$ 3
Shortfall	\$ (38)	\$ (429)	

Source: Senate Fiscal Agency, 7/09



Achieving Budget Balance

FY2009 Solutions

General Fund Budget

- One-quarter (~\$300 M): spending reductions
 - Employee layoffs and furloughs
 - Medicaid reimbursement rate reduction/eliminate optional services
 - Cut revenue sharing to locals
 - Some areas protected per ARRA
- Three-quarters (~\$900 M): federal recovery funding (ARRA)
 - \$300M completely discretionary
 - Remainder from Medicaid match rate increase - states have a significant amount of flexibility

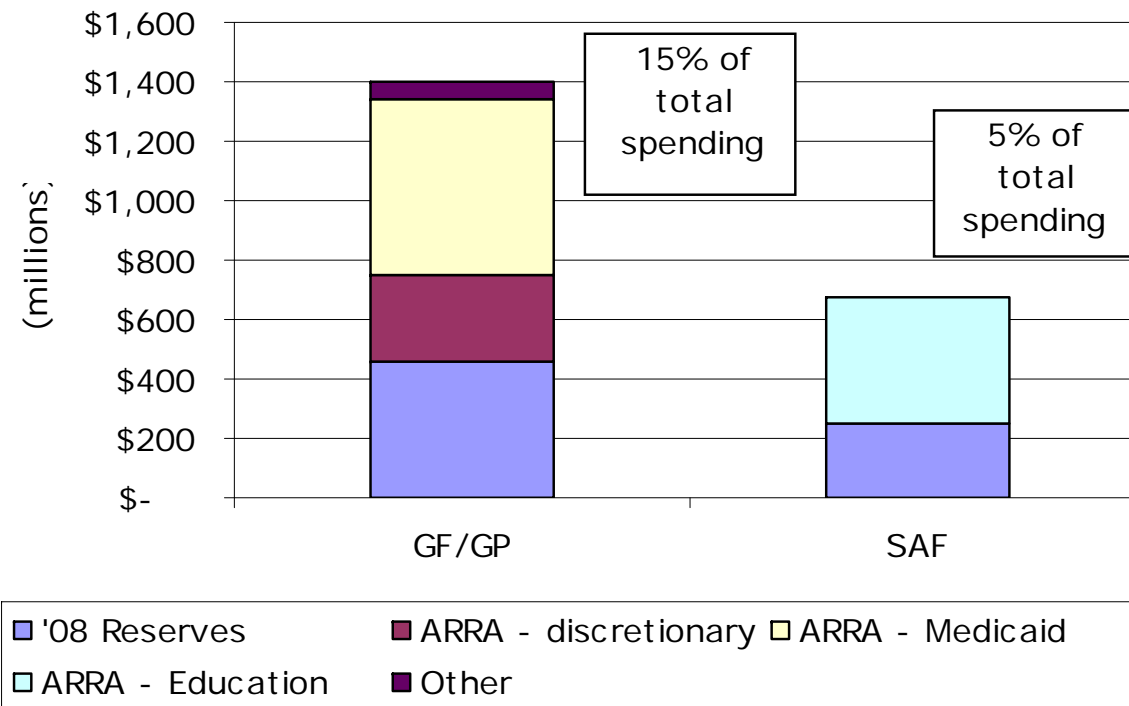
School Aid Budget

- Use of \$650 M in stimulus



FY2009 Budgets "Balanced" *Heavy Reliance on Non-Recurring Actions*

FY09 Budget: Non-Recurring Resources Used





What the Deficit Looked Like?

\$1.8B Hole Identified

FY2010 General Fund Budget (millions)

Revenues	\$	7,700
Spending		
Gov. Rec.	\$	9,460
Medicaid Caseload Adj.	\$	151
Human Srvcs. Adj.	\$	(63)
Proj. Spending	\$	9,548
Shortfall	\$	(1,848)



FY2010 GF-GP Budget Solutions

Spending Cuts and Stimulus Rule the Day

Solutions	(millions)	
General Fund cuts	\$ 497	24%
Restricted Fund cuts	\$ 347	17%
ARRA - Medicaid	\$ 973	46%
ARRA - universities	\$ 68	3%
ARRA - FY2009 balance	\$ 209	10%
Balance	\$ 246	

Source: Senate Fiscal Agency, CRC calculations



Spending Cuts Widespread

- Medicaid provider rates
- Assistance to local governments
- Scholarships to university students
- State employee concessions/layoffs
- Average of -8.4% cut (GF-GP) across all state departments
 - Some larger than others
 - Some protected from cuts per ARRA



What the Deficit Looked Like?

\$1B Hole Identified

FY2010 SAF Balance Sheet (millions)

Revenues		<u>May</u>
Dedicated SAF	\$	10,563
GF Grant	\$	32
Federal	\$	1,562
Total	\$	12,157
Baseline Spending	\$	13,157
Shortfall	\$	(1,000)



FY2010 SAF Budget Solutions

Mix of Cuts, Stimulus, and Revenue

Legislative Response (millions)

Appropriation Reductions (before vetoes)		
\$165 per pupil cut	\$	263
ISD grant cut	\$	16
Other cuts	\$	30
Federal Stimulus	\$	450
<i>New Revenues</i>	\$	100
Beginning Balance	\$	202
Total	\$	1,061



Governor's Actions

Prompted by Concerns About Revenue

- Veto – Sec. 20j (hold harmless)
 - \$52M - \$119 per pupil to \$324 per pupil
 - Legislative revenue package (\$100M) questioned
- Proposed proration
 - \$127 per pupil reduction
 - Clock is ticking on legislative response
- Some districts face cut of \$616 per pupil (8%)



Is That the Last Word?

Adjustments to FY2010 Budget

- No.
- Concerns over revenue performance since May.
- January revenue conference – revisit.
- Revenue performance will depend on timing of national and Michigan recovery.
- Further adjustments may be in works.



Very Early Look Ahead

Funding "Cliff" Appears in FY2011

A number of issues to resolve:

- FY2010 cuts carried into FY2011?
- State revenue growth in FY2011?
- What will legislature do on tax policy front?
- Federal stimulus funding nearly exhausted, replacement revenue?
 - GF-GP - \$413M (reduction from \$1.2B)
 - SAF - \$307M (reduction from \$450M)

Remember: 2010 is an election year



FY2011: One Scenario

General Fund Budget Faces \$800M Hole

FY2011 General Fund Budget (millions)

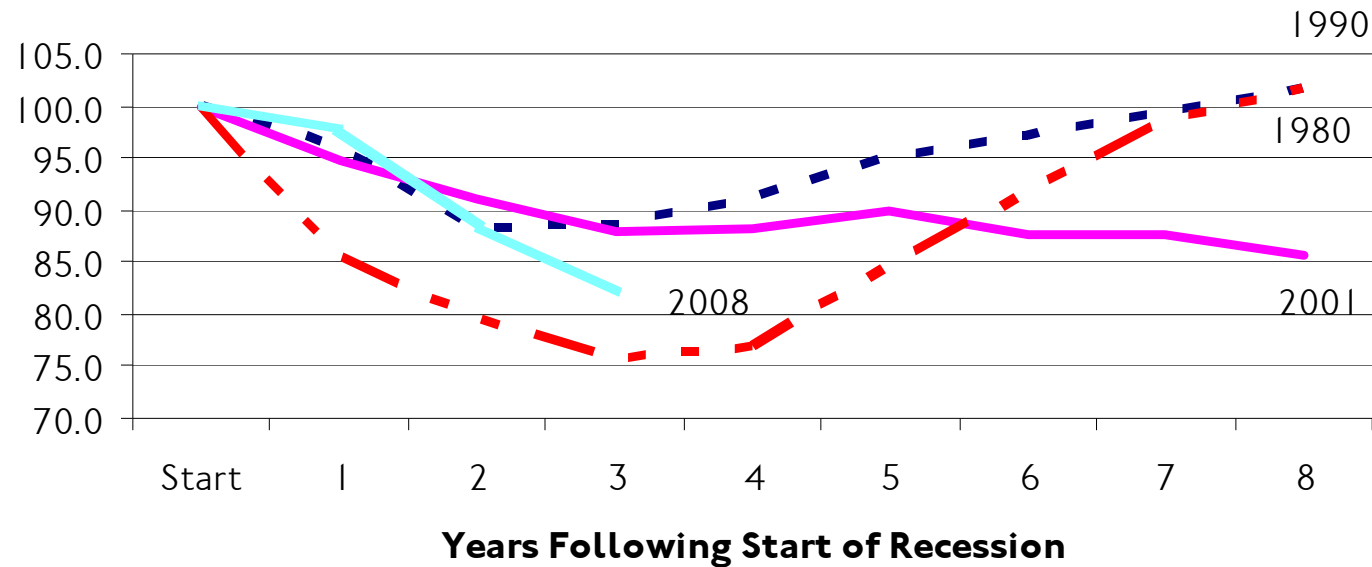
Revenue (assume 4% growth)	\$	8,032
Projected Baseline Spending	\$	10,071
Shortfall	\$	(2,039)
Solutions		
FY2010 Spending Cuts	\$	843
ARRA - Medicaid match	\$	210
ARRA - FY2010 balance	\$	203
Balance	\$	(783)

Source: Senate Fiscal Agency, October 2009



2008 Recession Impact on Revenue *How Will Revenues Respond?*

Real Per Capita Baseline Revenue Growth
Combined GF/GP and SAF



Source: Senate Fiscal Agency; CRC calculations



Conclusions

- Michigan's economic recovery will be long and lag overall US recovery
- Michigan's structural budget deficit still present
- Stimulus responsible for "balance" in FY2009 and FY2010
- Real funding "cliff" in FY2011



Questions?

CRC Publications available at
www.crcmich.org

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