



CITIZENS RESEARCH COUNCIL OF MICHIGAN

Michigan Update

American Association of University Professors
Michigan Conference
56th Annual Meeting

Jeffrey Guilfoyle, President
Citizens Research Council of Michigan
April 24, 2010

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Citizens Research Council

- 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
- *www.crcmich.org*



Is the Recession Over?



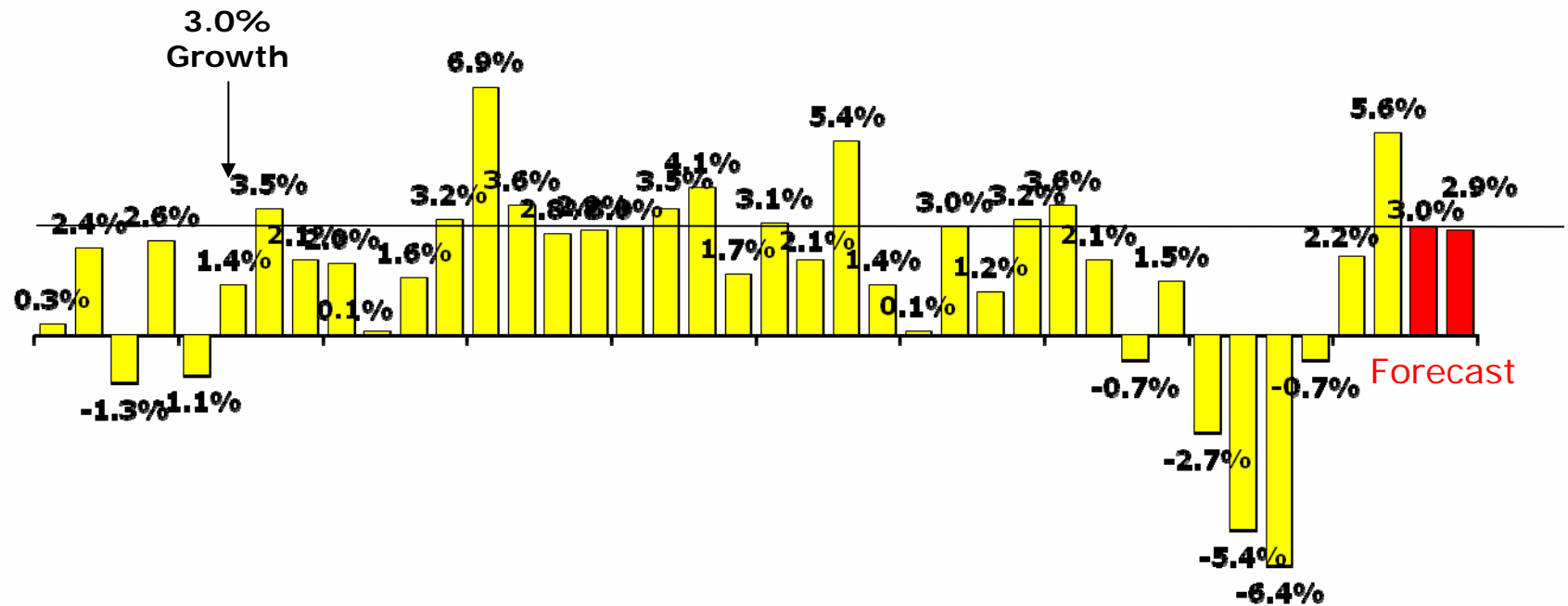
Yes: The Recession is Over!

- The recession is over (at least for now) and output is growing again
- GDP, manufacturing, the stock market, and retail sales, all show signs of recovery
- But, we are not back to where we were
 - Output still below where it was at start of recession
 - Many key sectors remain depressed or are growing off extremely depressed levels
 - U.S. employment is still down over 8 million jobs



GDP Increased in 3rd & 4th Quarters and Expected to Grow in Q1 and Q2

Real GDP Growth



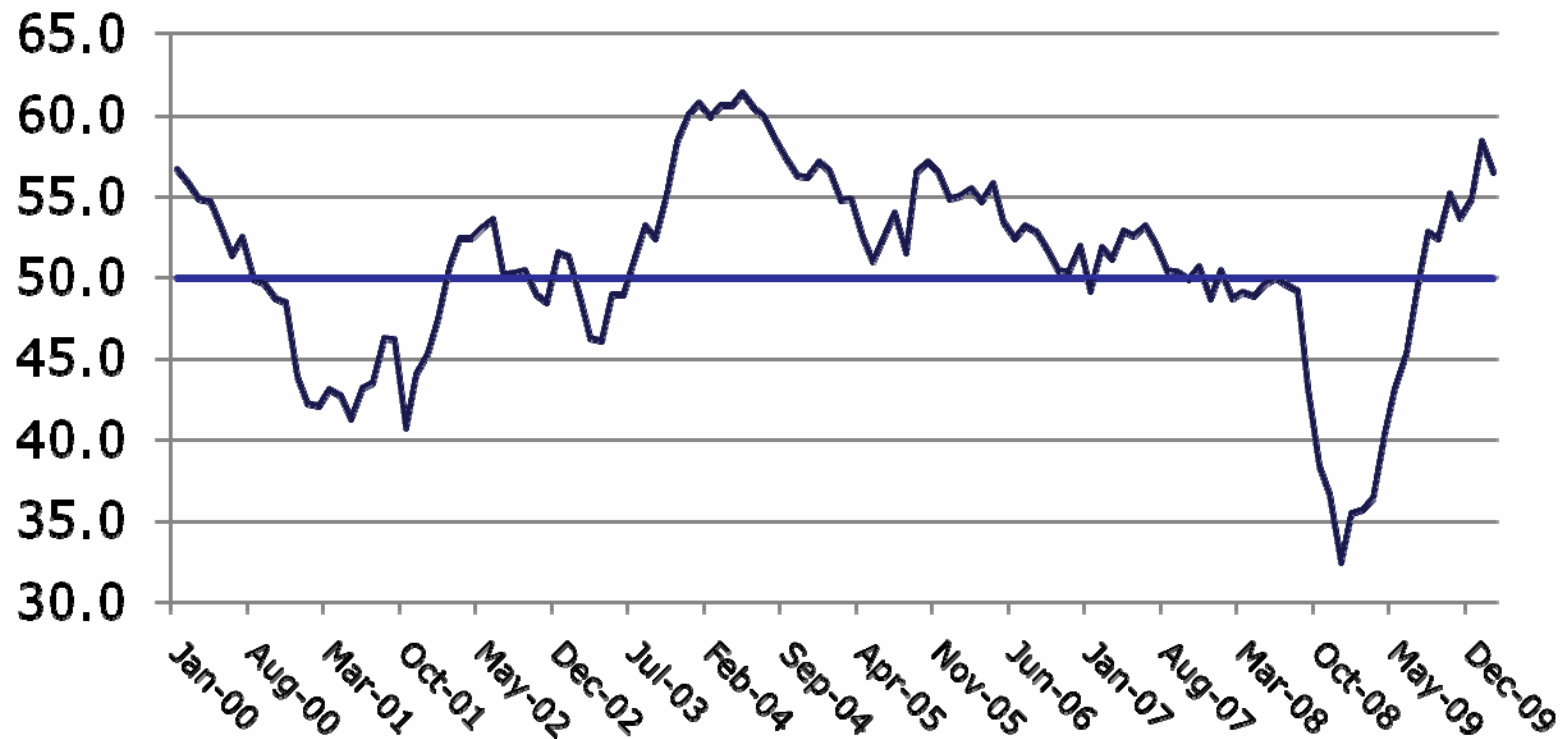
2000 Q3 2001 Q3 2002 Q3 2003 Q3 2004 Q3 2005 Q3 2006 Q3 2007 Q3 2008 Q3 2009 Q3

Figures are annualized percent change from preceding quarter in 2000 chained dollars.

Source: Bureau of Economic Analysis 3/26/10. Forecast from the Wall Street Journal March 5-9 survey of forecasters.



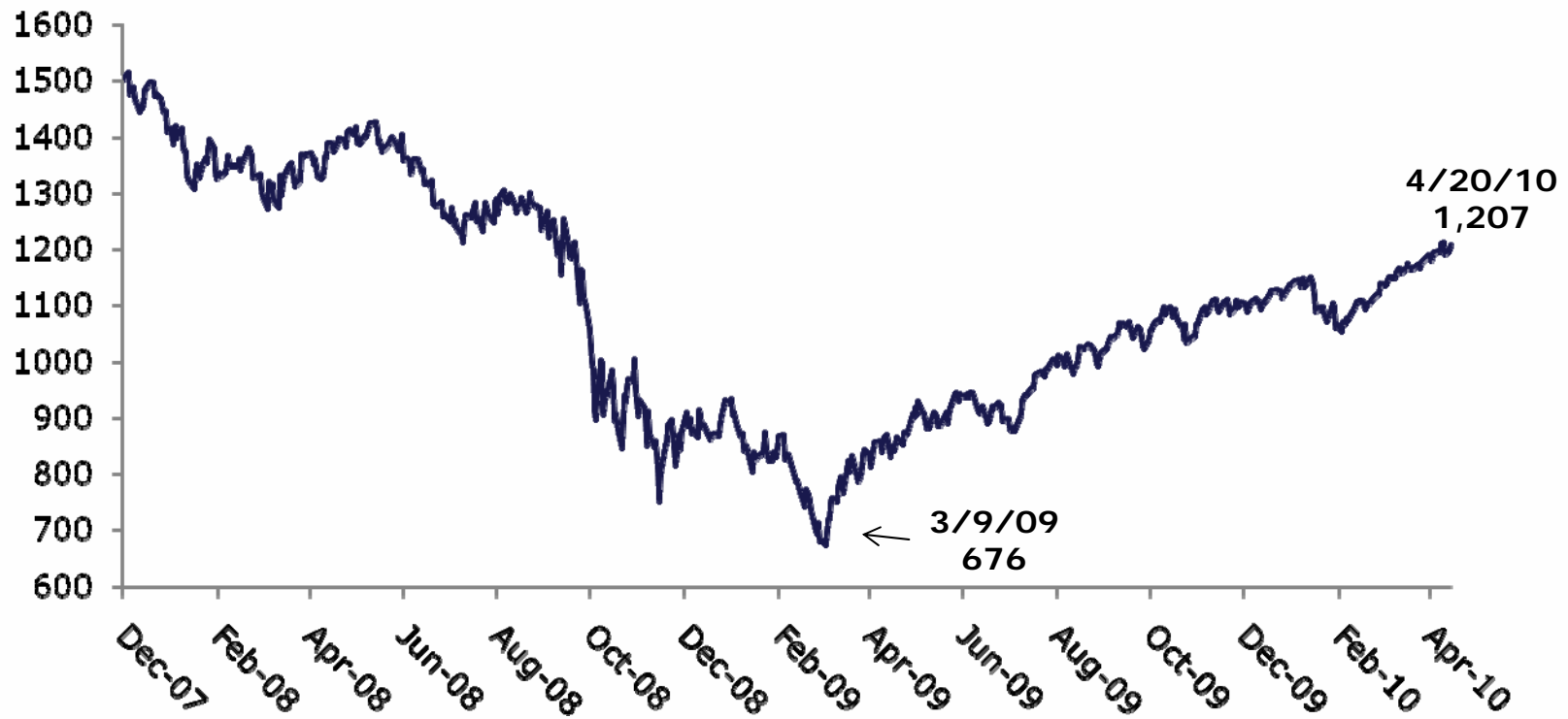
ISM Manufacturing Index Shows Sector Growing Again





S&P 500 Is Recovering Up 78% From March 2009 Low

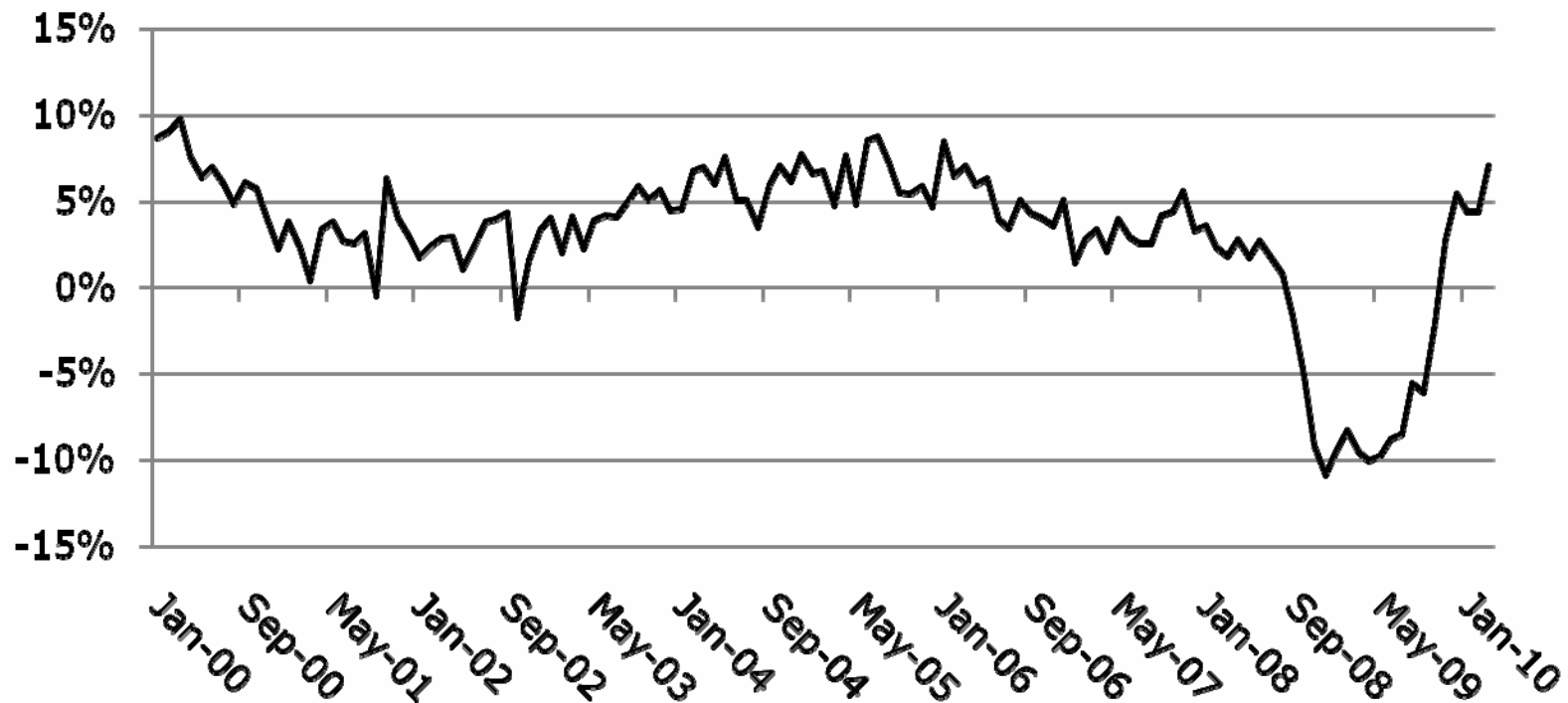
But Still Down 17% from 2007





Retail Sales Plummeted But are Recovering

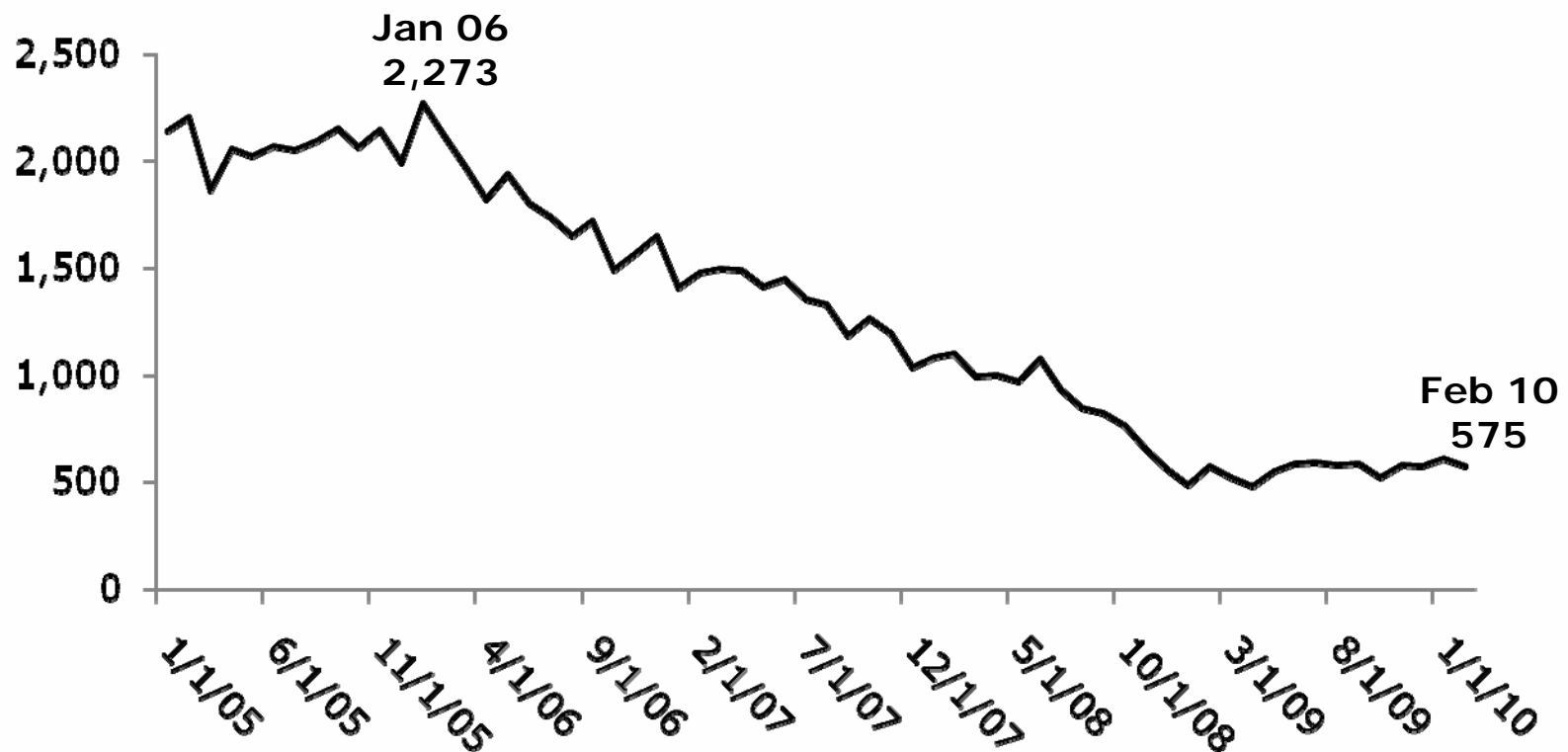
Retail Sales and Food Service
(Year over Year Pct Change)





Housing Starts Still Down 75 Percent from Peak

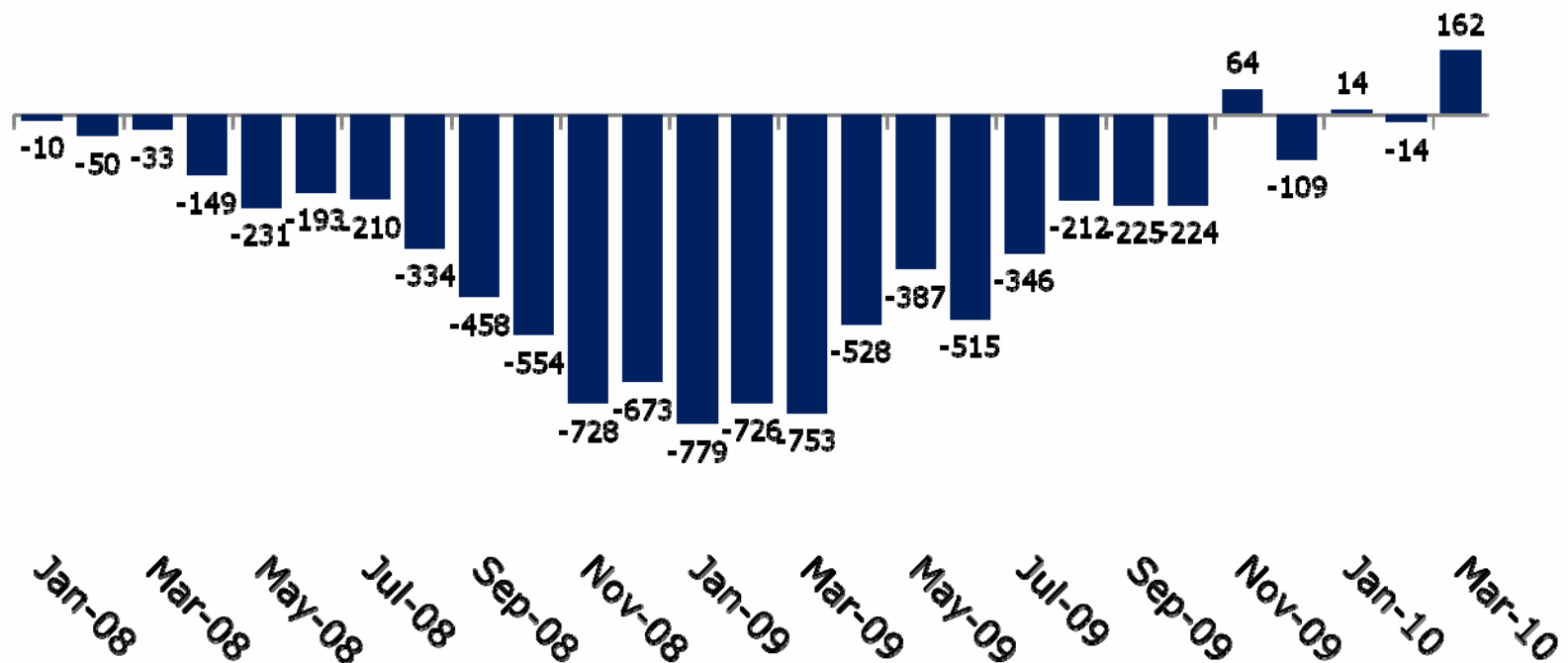
New Privately Owned Houses Started (Thousands)





U.S Added Jobs in March! But Still Down 8 million Jobs

Monthly Change in U.S. Employment (thousands)





What is Happening in Michigan?



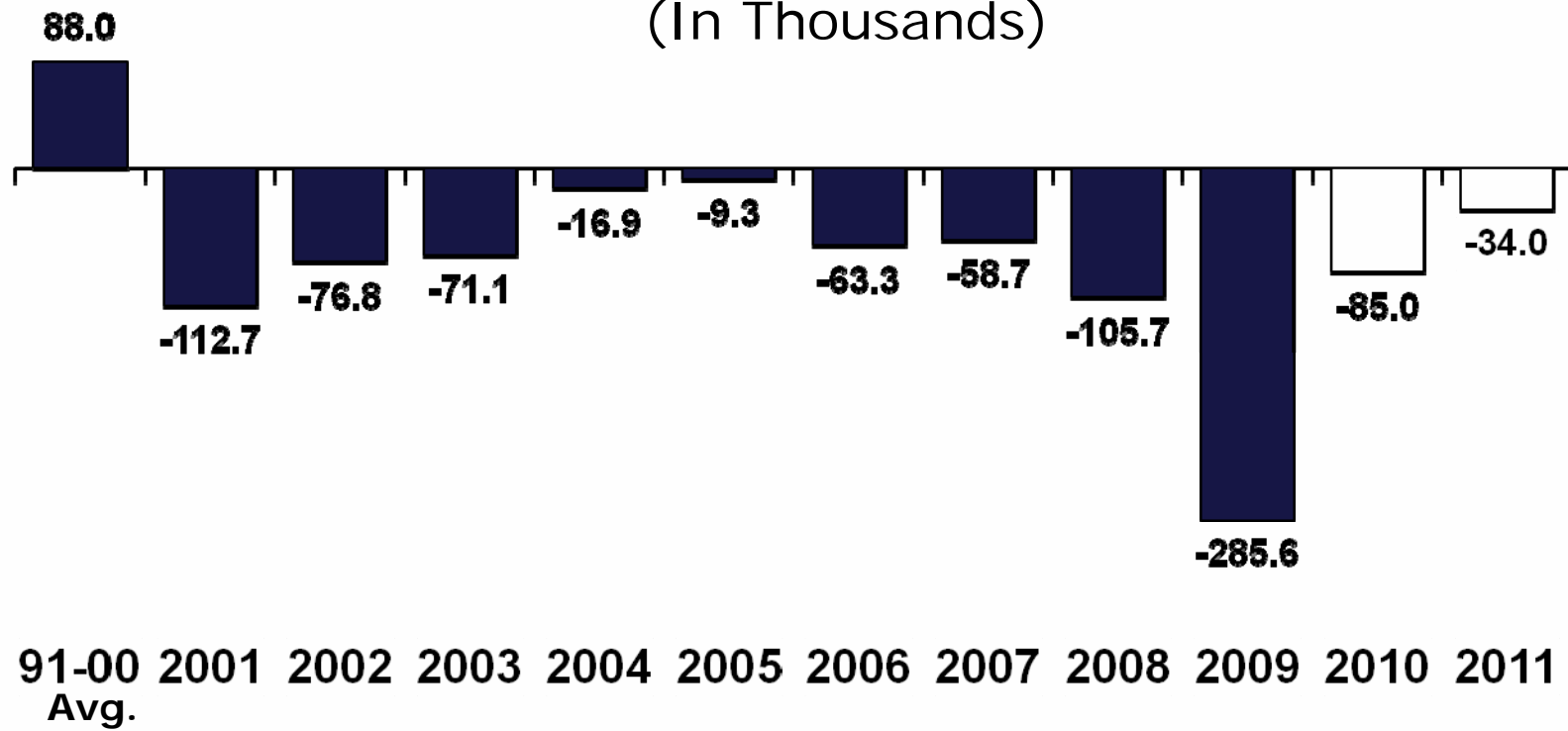
Michigan's Economy Has Been Hammered

- Auto restructuring led to Michigan employment losses through the 2000s
- 2009 recession hit Michigan hard and the state saw massive employment losses
- As the economic storm abates, Michigan finds itself with substantially fewer jobs and significantly poorer compared to other states



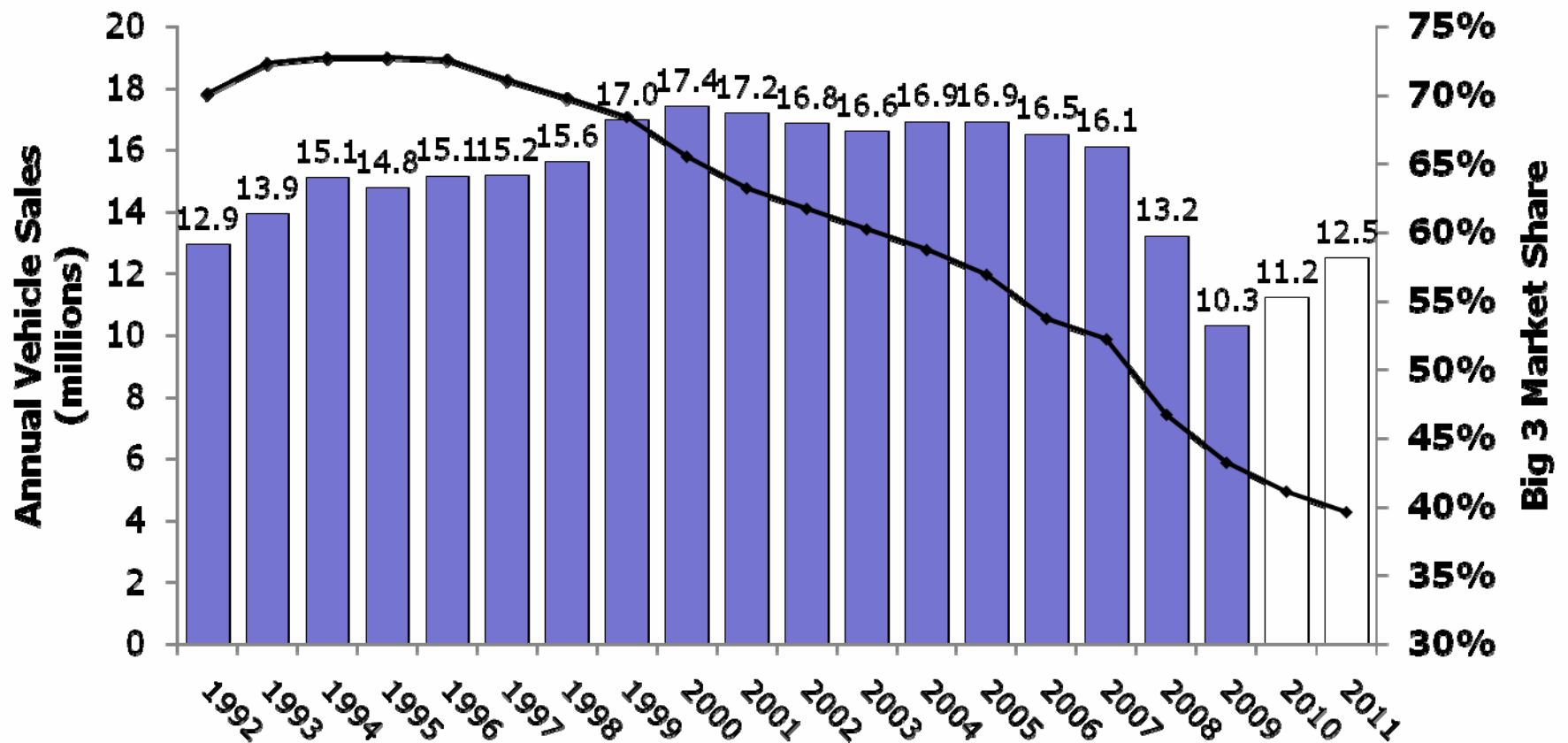
State Forecast – No Job Growth for Michigan

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





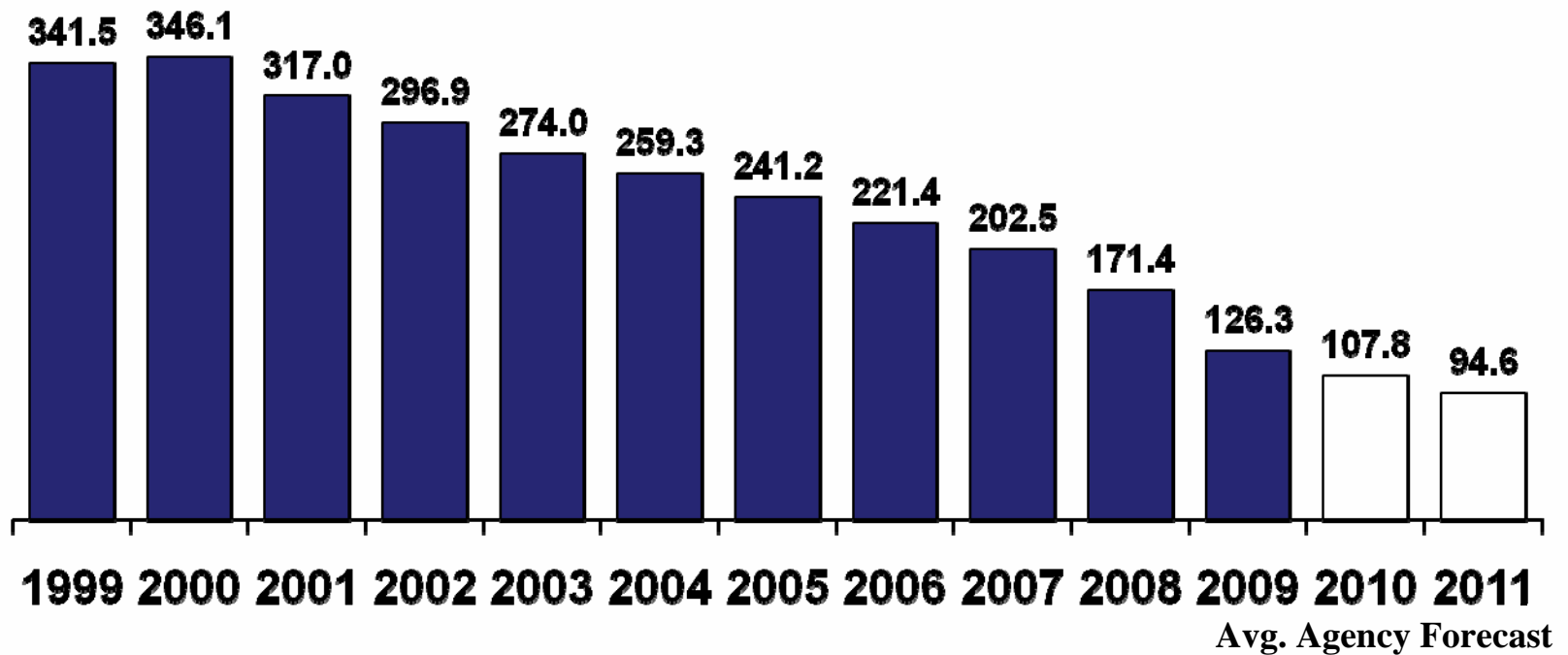
Big 3 Market Share Plummet





3 in 4 Auto Jobs Lost by 2011

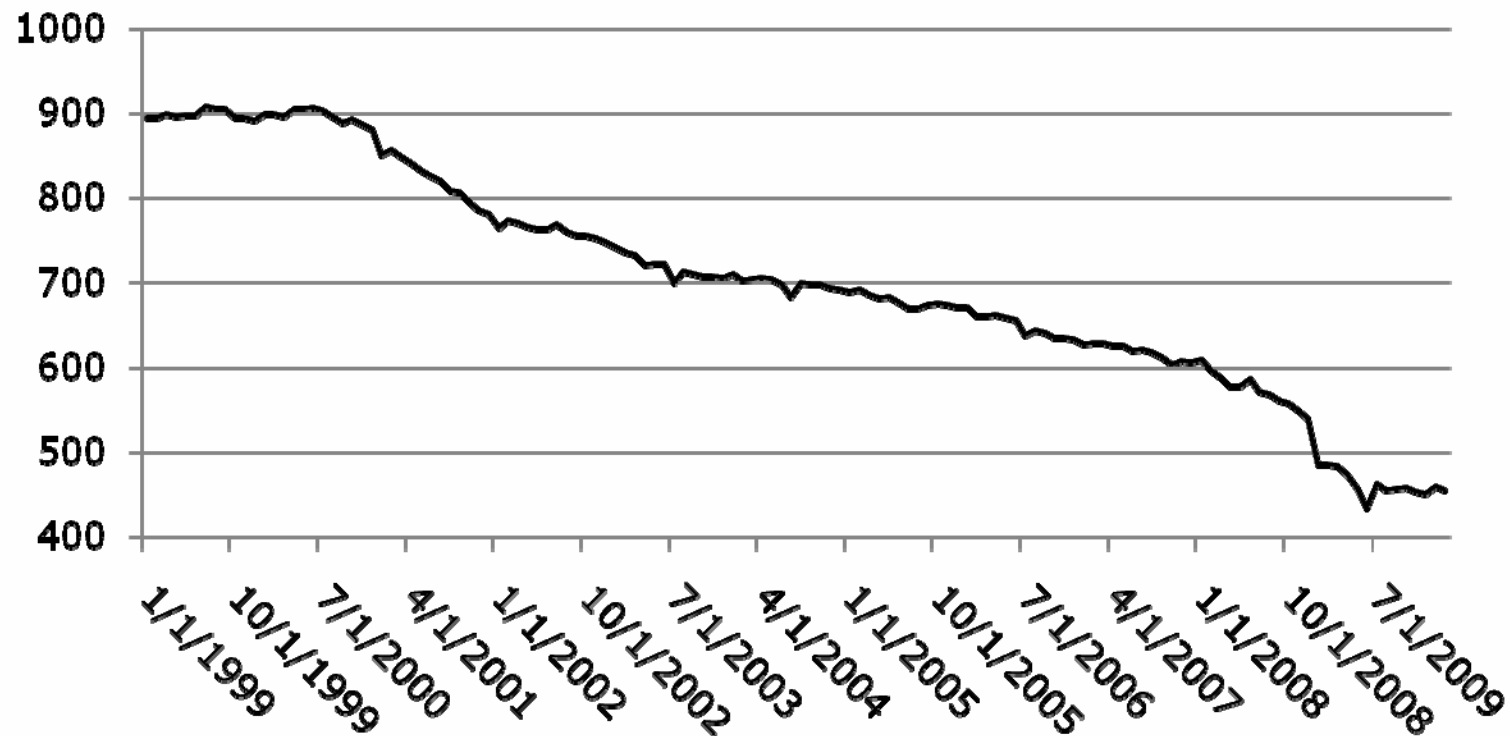
Michigan Transportation Equipment Employment
(In Thousands)





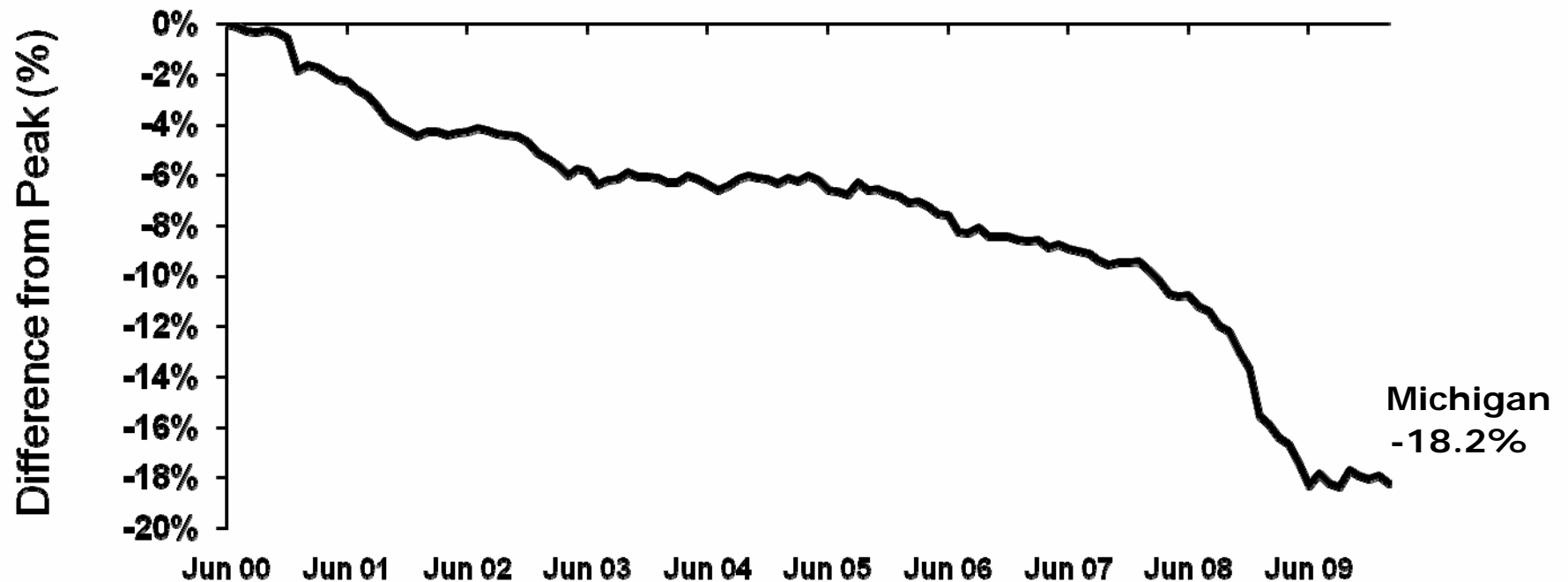
Michigan Has Lost Half its Manufacturing Jobs

Michigan Manufacturing Employment (thousands)





Michigan Has Now Lost 1 in 6 of the Jobs It Had in 2000

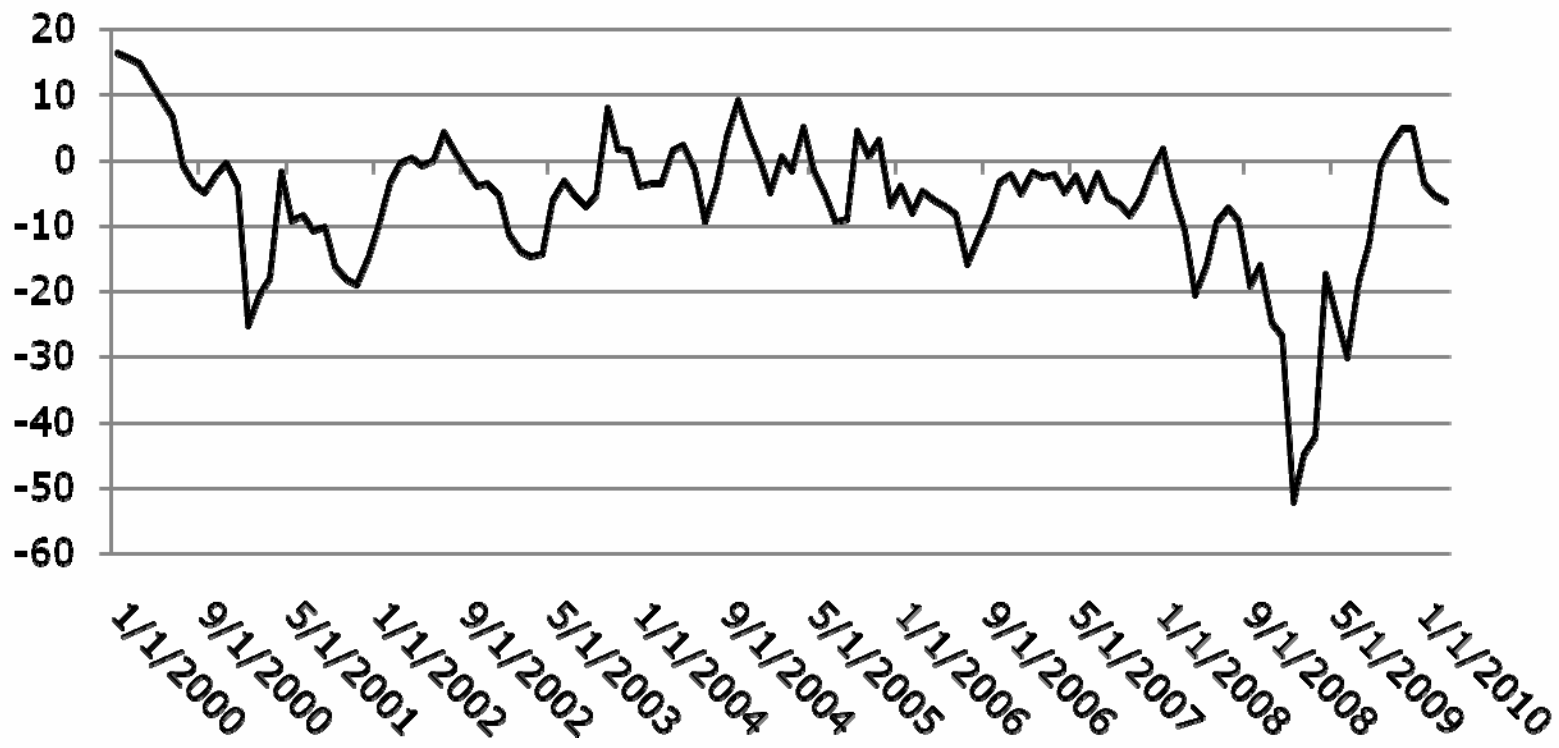


17 Note: Peak is calculated from Michigan's June 2000 Peak. Michigan data through February 2010.
Source: Bureau of Labor Statistics



Michigan Job Losses are Starting to Abate

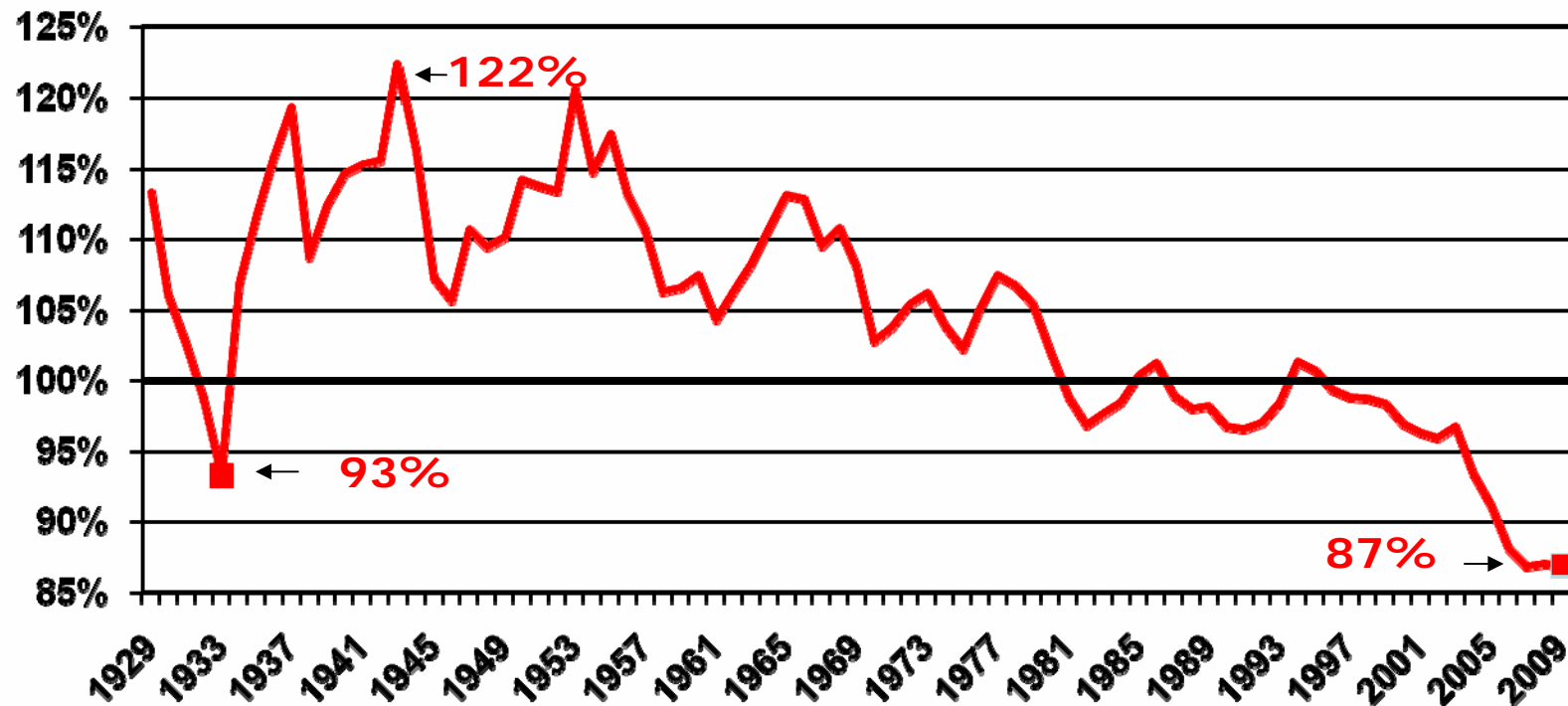
Monthly Change in Michigan Employment (3 month avg. thousands)





Michigan Has Become Poorer Relative to Other States

Michigan per Capita Income as a Percent of U.S. Per Capita Income Rank has fallen from 20th in 2001 to 37th in 2009





What Are the Budget Challenges?



Revenues Crash and Don't Recover

Annual Growth Rates

	<u>FY 2009</u>	<u>Projected FY 2010</u>	<u>Projected FY 2011</u>
Sales Tax	-10.1%	-3.2%	0.9%
Income Tax	-19.0%	-10.0%	1.5%
Use Tax	-19.0%	2.7%	1.5%
State Education Tax	-1.9%	-8.1%	-4.0%
Real Estate Transfer Tax	-26.2%	1.4%	6.3%
GF-GP	-21.3%	-6.3%	1.0%
School Aid	-5.1%	-4.2%	0.2%



FY2010 GF Cuts Widespread

- Medicaid provider rates (cut 8% from original FY2009 level)
- Non-Medicaid CMH funding (\$40M cut)
- Elimination of \$238M from DHS budget
- Revenue Sharing to CVTs down 9.7%
- State employee concessions/layoffs (varied)
- Average of -8.4% cut (GF-GP) across all state departments
 - Some larger than others
 - Some areas protected from cuts per ARRA
- Scholarships to university students cut by two thirds (incl. elimination of Promise Grants)



Stimulus Spending Has Been Supporting State Budgets (millions of \$)

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011 CSB</u>
Total GF-GP Spending	\$9,753.7	\$9,151.8	\$9,176.7
ARRA	\$1,298.1	\$1,071.3	\$209.6
ARRA % of Budget	13%	12%	2%
Projected GF-GP Shortfall			\$1,160.0
Total SAF Spending	\$13,139.6	\$12,715.5	\$12,773.9
ARRA	\$597.5	\$450.0	\$185.5
ARRA % of Budget	5%	4%	1%
Projected SAF Shortfall			\$422.0



Governor's Proposal for FY 2011

Mix of Short- and Long-Term Fixes for GF

- Spending cuts (\$433M)
 - Corrections reforms (\$129M)
 - Retirement system changes (\$98M)
 - Private college scholarships (\$32M)
 - Rescind non-union pay bump (\$18M)
 - Community Health (\$39M)
 - Human Services (\$39M)
- Non-recurring resources
 - Continuation of Medicaid match rate - \$500M – **requires yet to be enacted federal legislation**
- 24 • Medicaid provider tax on physicians - \$100M



Gov's SAF Solution

\$420M Problem in FY2011

- Tax Restructuring – two parts
 - Expand sales tax base to group of services @ 5.5%
 - Reduce existing rate of sales and use taxes to 5.5%
 - Net effect: \$729M
- Begin two-year elimination of Michigan Business Tax Surcharge
 - Net effect: (\$174M)
- Overall: \$554M to avert \$250 per-pupil reduction
- By 2014 there is no net new revenue from proposal
- Also proposing early retirement program for school employees, savings retained locally (\$600M)



FY 2010 & FY 2011 Changes to Higher Education Spending

- FY 2010 University appropriation down 0.4%
- FY 2010 Community College spending unchanged
- But state FY 2010 financial aid cut by 62%
 - Michigan promise grant eliminated (\$80.5M cut)
 - Competitive scholarships cut by 50% (\$17.9M)
 - Tuition grants cut by 44% (\$25M)
- FY 2011 Gov recommendation:
 - Universities and Community Colleges Flat
 - Remaining financial aid cut by 40% (\$34M)
 - Financial Aid would go from \$227.9 million in 09 to \$50.5 million in FY 11

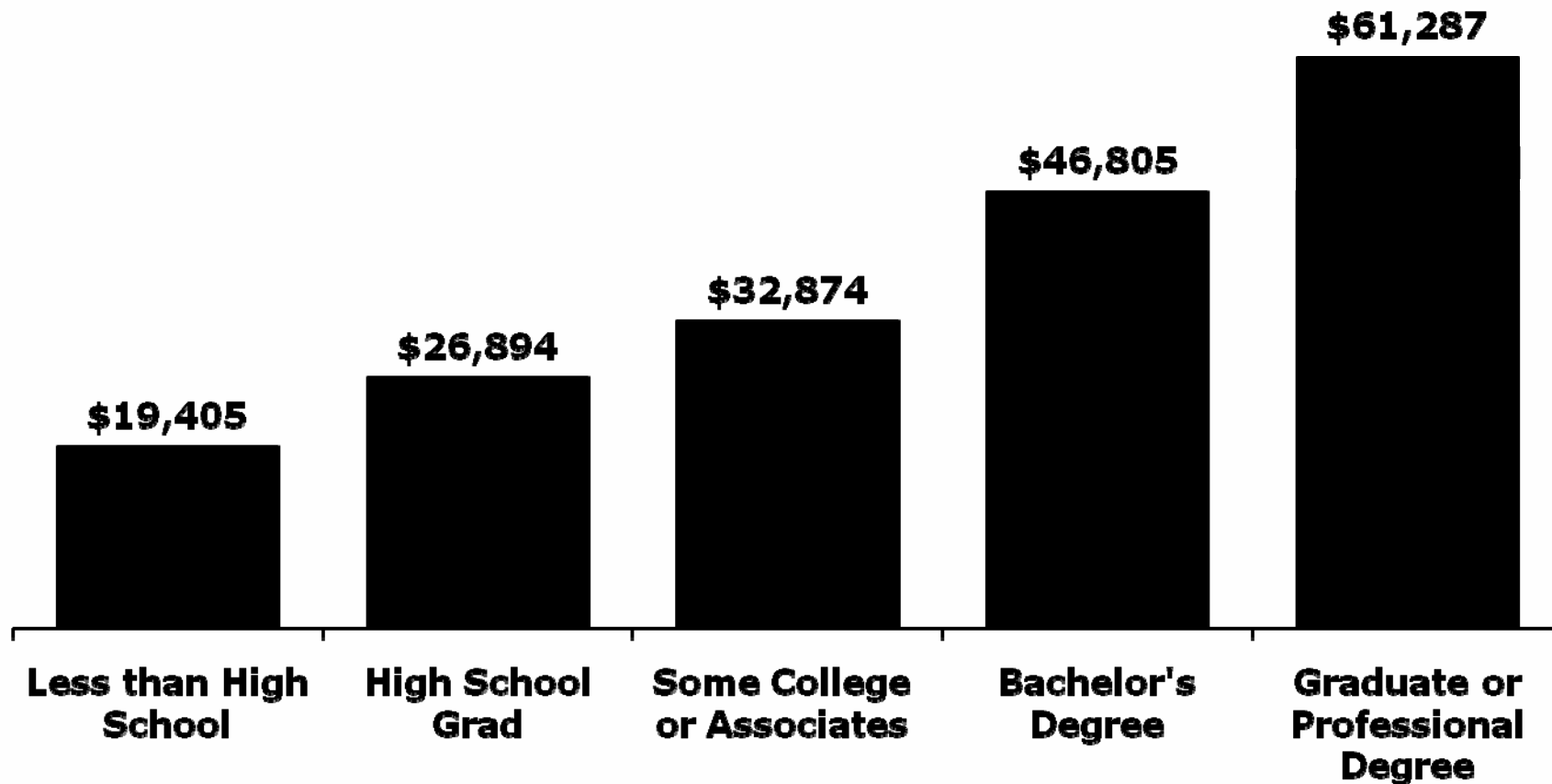


Michigan Higher Education Spending is Down Over Past 10 Years

	<u>Appropriation FY 2000</u>	<u>Gov Rec FY 2011</u>	<u>% Change</u>
Universities	\$1,775,304,640	\$1,578,278,500	-11.1%
Community Colleges	\$297,158,459	\$299,100,500	0.7%
	<u>FY 2001</u>	<u>FY 2009</u>	
Univesity FYES	232,648	257,230	10.6%
Comm. Coll FYES	109,131	157,225	44.1%
	<u>FY 2000</u>	<u>FY 2010</u>	
Avg. Undergrad Tuition	\$4,260	\$9,311	118.6%
	<u>FY 2000</u>	<u>FY 2011</u>	
CPI	170.80	224.10	31.2%



Annual Earnings by Education Level 2007



Source: U.S. Census data as reported in the *2008 Economic Report of the State Treasurer*, Michigan Dept. of Treasury.



Educated States Have Higher Income

	<u>% With BA</u>	<u>Education Rank</u>	<u>Per Capita Income</u>	<u>Income Rank</u>
Dist. Columb.	47.5%	1	\$62,484	1
Massachusetts	37.9%	2	\$48,995	4
Maryland	35.2%	3	\$46,471	6
Colorado	35.0%	4	\$41,192	12
Connecticut	34.7%	5	\$54,981	2
New Jersey	33.9%	6	\$49,511	3
Vermont	33.6%	7	\$37,483	22
Virginia	33.6%	7	\$41,727	9
New Hampshire	32.5%	9	\$41,639	10
New York	31.7%	10	\$46,364	7
Michigan	24.7%	35	\$34,423	34
Oklahoma	22.8%	42	\$34,997	31
Indiana	22.1%	43	\$33,215	41
Nevada	21.8%	44	\$39,853	17
Tennessee	21.8%	44	\$33,395	39
Alabama	21.4%	46	\$32,419	43
Louisiana	20.4%	47	\$35,100	30
Kentucky	20.0%	48	\$30,824	46
Arkansas	19.3%	49	\$30,177	48
Mississippi	18.9%	50	\$28,541	51
West Virginia	17.3%	51	\$29,385	50

Source: Totals are for 2007 as reported in the *2008 Economic Report of the State Treasurer*, Michigan Department of Treasury.



Will it Get Better?

- 2008 CRC study pointed to long-term structural imbalance in state budget
- Spending, primarily due to healthcare costs, poised to grow faster than revenues over long-term
 - Gap is 1.7% per year on average in SAF
 - Gap is 5.4% per year in GF-GP, exacerbated by scheduled tax cuts, esp. IIT rate cut
- Other states and federal government face similar challenges with healthcare, but Michigan's economic problems accelerate the problem for us

- **Bottom Line: budget problems not self correcting**



What Reforms Have Been Proposed?



Corrections

- Michigan's incarceration rate is 24% higher than the Midwest average
- Some reductions have begun: current population down 12% (6,300) from 2006 peak
- Gov's Exec Budget proposes reducing prison population by almost 10,000 (20%) between FY 10 and FY 11
- However, short-run savings limited by:
 - Reinvestment of resources to manage released inmates
 - High fixed costs in system
 - Slow reduction in employee head count
 - Less dangerous prisoners (i.e. cheaper to incarcerate) are the ones being released



Retirement Changes

- Gov proposed early retirement incentive to state employees including:
 - Multiplier from 1.5% to 1.6%
 - Cap years of service at 30
 - No vision and dental if don't retire now
- 1 in 5 are eligible in most state departments (1 in 20 in corrections)
- State assuming 85% take rate (6,700 retire)
- 3% retirement contribution will be required for remaining employees in system
- Schools proposal is similar with 39,000 assumed to retire (also includes 3% contribution requirement)
- Without changes: Pension costs (including healthcare) for DB state employees increasing by 4 percentage points of payroll and for school employees 2.5 percentage points



Proposed Public Employee Compensation & Healthcare Changes

- Gov: New employees hired after April 1 receive benefits under new state health plan and will contribute 20% of premium cost; 3% retirement contribution for state and school employees
- Speaker Dillon: Pool benefit coverage for all state, local, and school district employees
- Sen. Republicans: 2 Constitutional ballot proposals
 - Impose a 5% pay cut for all govt employees (incl. schools, comm. colleges, universities, etc.)
 - Require all govt employees pay 20% of premiums (about double what they pay now)
- BLM: reduce state employee comp to average of state workers in U.S.; adjust state employee premium contributions to national public sector average



Other Potential Areas of Reform

- **Tax Structure** – Potential goals include: faster growth; more favorable to economic development; increased progressivity; additional revenues
- **Local Government Service Consolidation or Service Collaboration** – Increased service sharing among local governments, or outsourcing of service provision in an attempt to achieve cost savings
- **Investments in Areas Deemed Key for Economic Development** – Potential areas include infrastructure, higher education, targeted tax credits for key industries (e.g. film credits, battery credits)



Concluding Thoughts

- There is no quick recovery from an 18% employment decline.
- Michigan needs to think longer term in budgeting and setting priorities.
- Revenues and expenditures for the state and for many local governments are significantly out of balance.
- Projected growth in public sector healthcare costs means that an economic recovery will not be sufficient to bring budgets back into balance.
- Michigan needs to have a thoughtful dialog on how to balance needs for investment in the future, the social safety net, and economic development.



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