



CITIZENS RESEARCH COUNCIL OF MICHIGAN

# Michigan's Economic, Revenue and Budget Outlook

The Kalamazoo Rotary Club

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Citizens Research Council of Michigan  
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- Relies on charitable contributions of Michigan foundations, businesses, and individuals
- *[www.crcmich.org](http://www.crcmich.org)*



# Is the Recession Over?



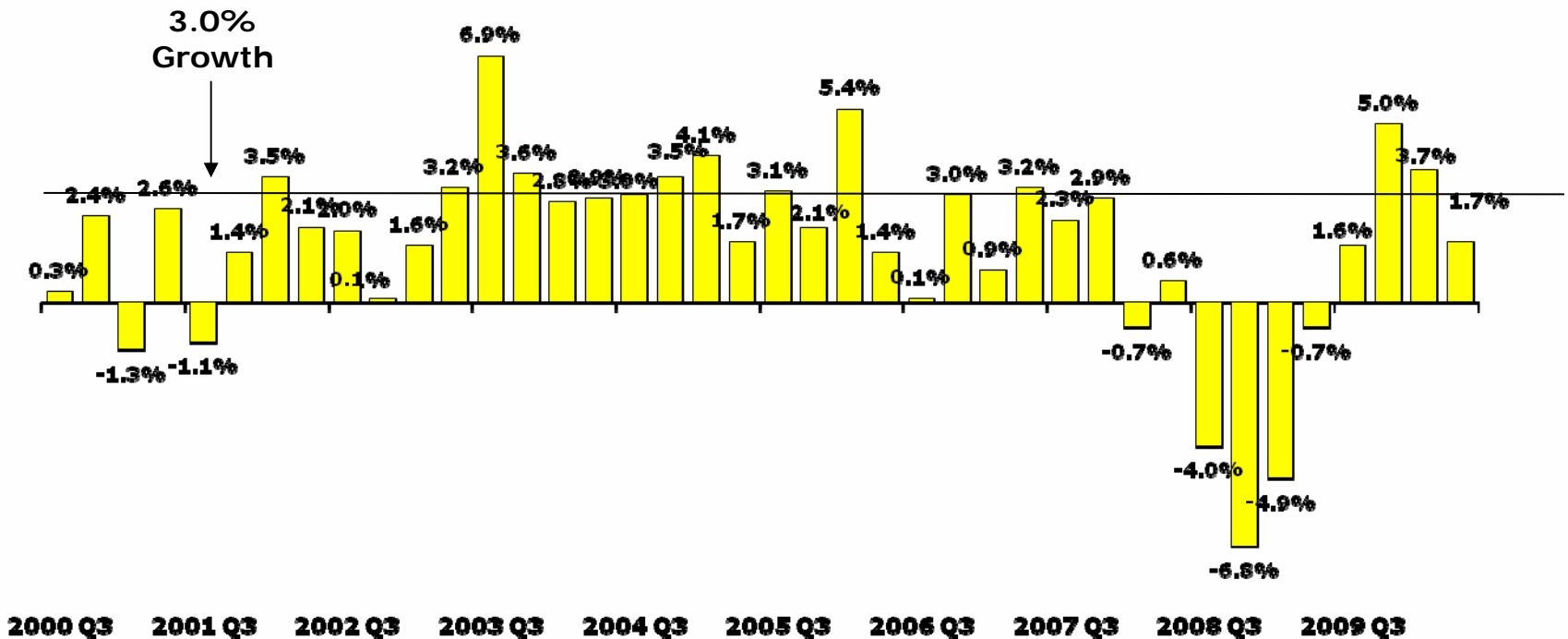
## **The Recession is Over But The Recovery is Struggling**

- The NBER announced on September 20<sup>th</sup> that the recession that started in December of 07 ended in June of 2009
- National recession lasted 18 months, longest post-war recession
- Output not contracting but growth not strong enough to spur significant hiring
- Growth has been faltering raising concerns that economy could double dip



# GDP Has Grown for 4 Straight Qtrs But Growth is Slowing

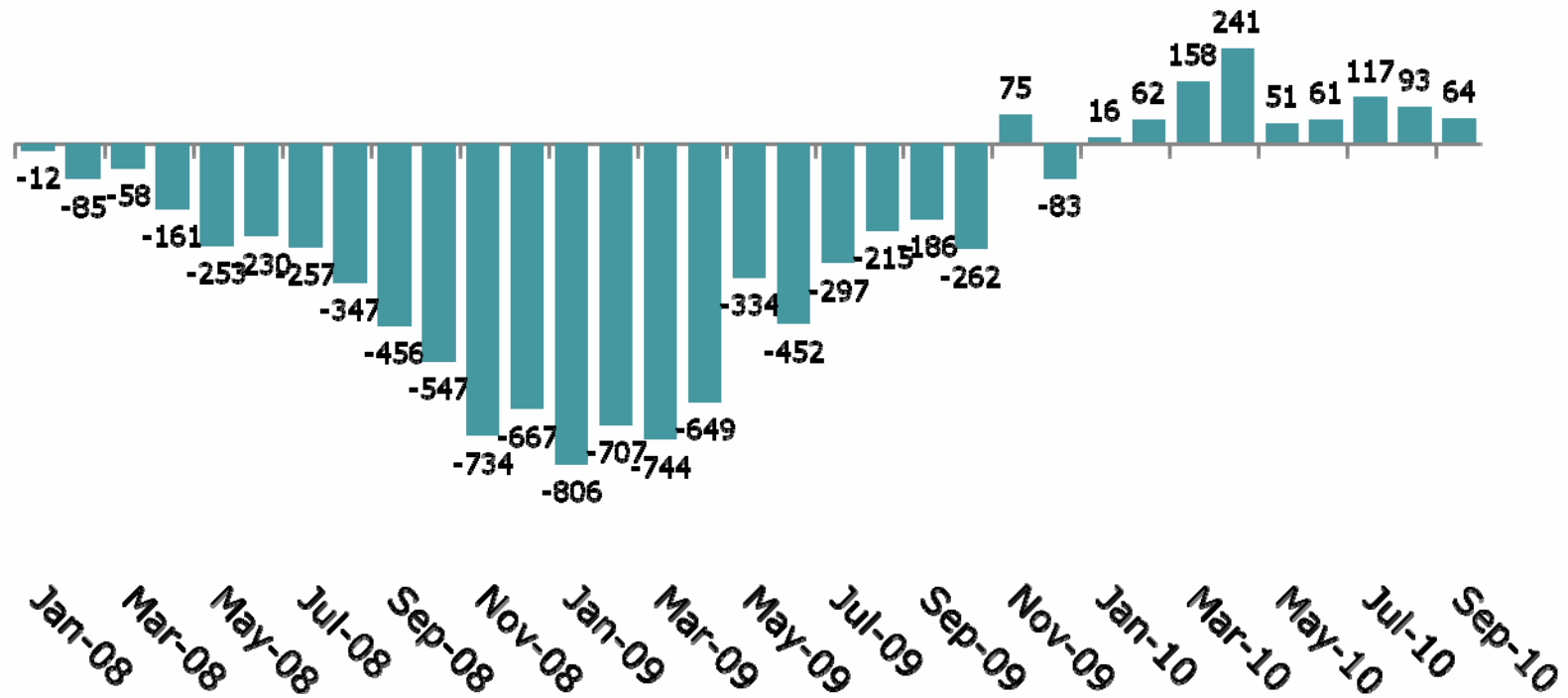
Real GDP Growth





# Employment Growing Slowly When Census Workers Excluded

Monthly Change in U.S. Private Employment (thousands)





# What is Happening in Michigan?



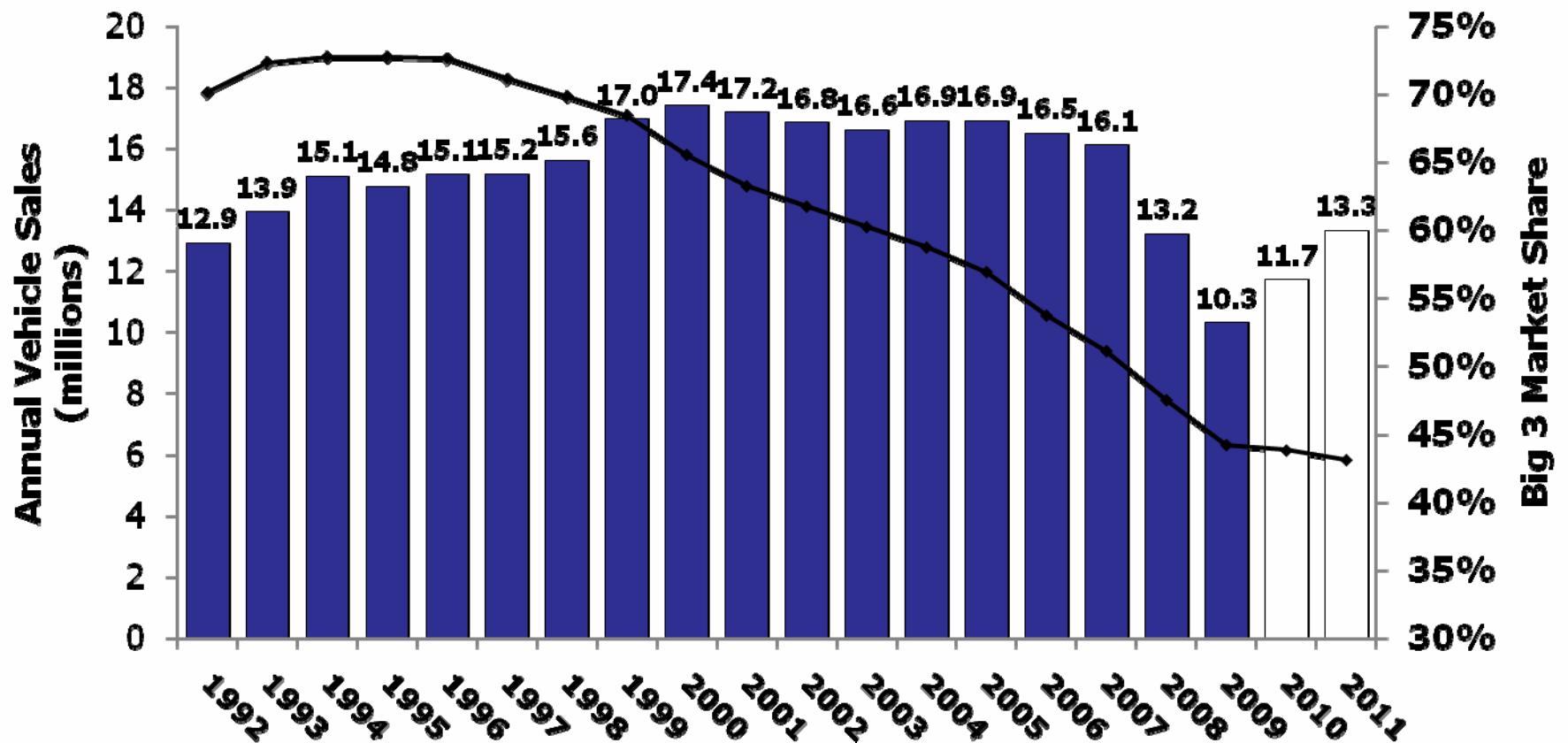
# The Last Decade Has Been an Economic Disaster for Michigan

|                        | Growth 2000 to 2009 |                 | Michigan    |
|------------------------|---------------------|-----------------|-------------|
|                        | <u>U.S.</u>         | <u>Michigan</u> | <u>Rank</u> |
| Population             | 8.8%                | 0.1%            | 51          |
| Real Per Capita GDP*   | 9.7%                | -3.8%           | 51          |
| Employment             | -0.7%               | -17.1%          | 51          |
| Real Per Capita Income | 3.6%                | -7.1%           | 51          |





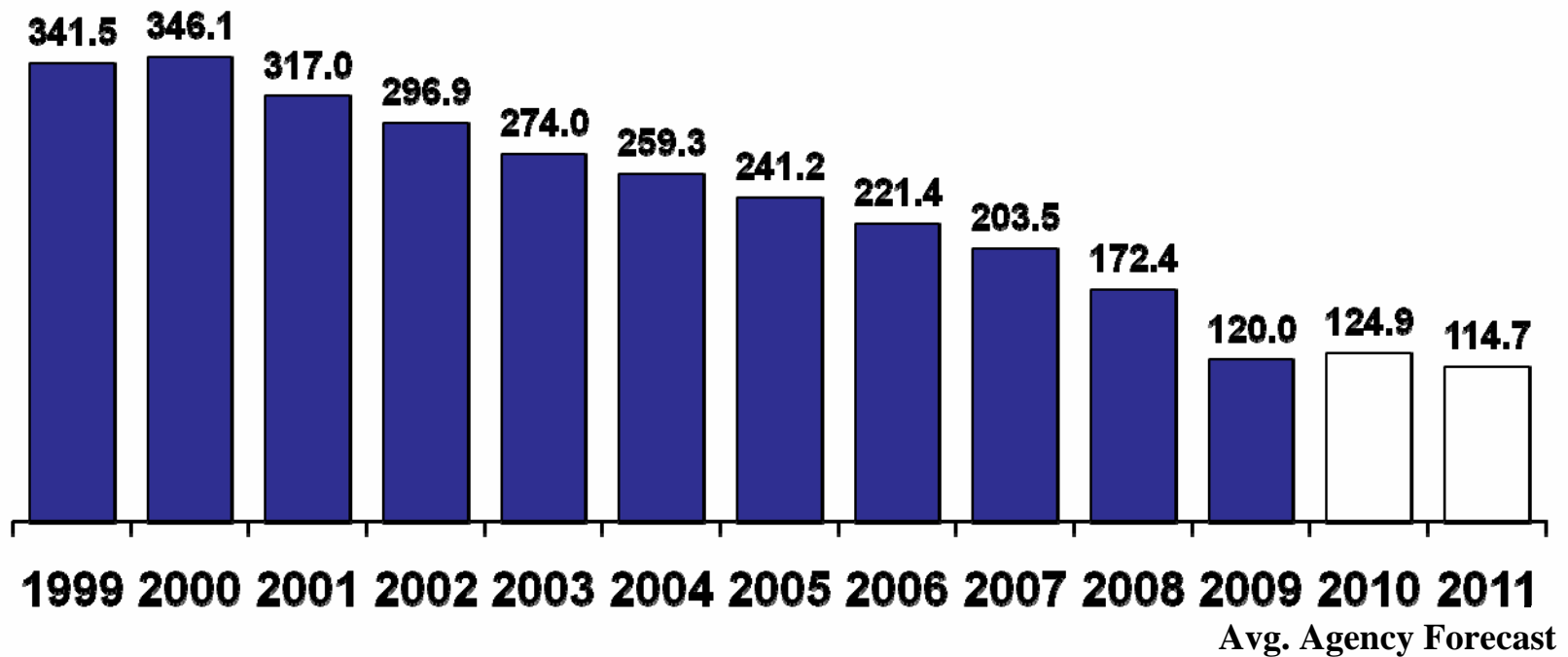
# Big 3 Market Share Plummet





## 2 in 3 Auto Jobs Lost by 2011

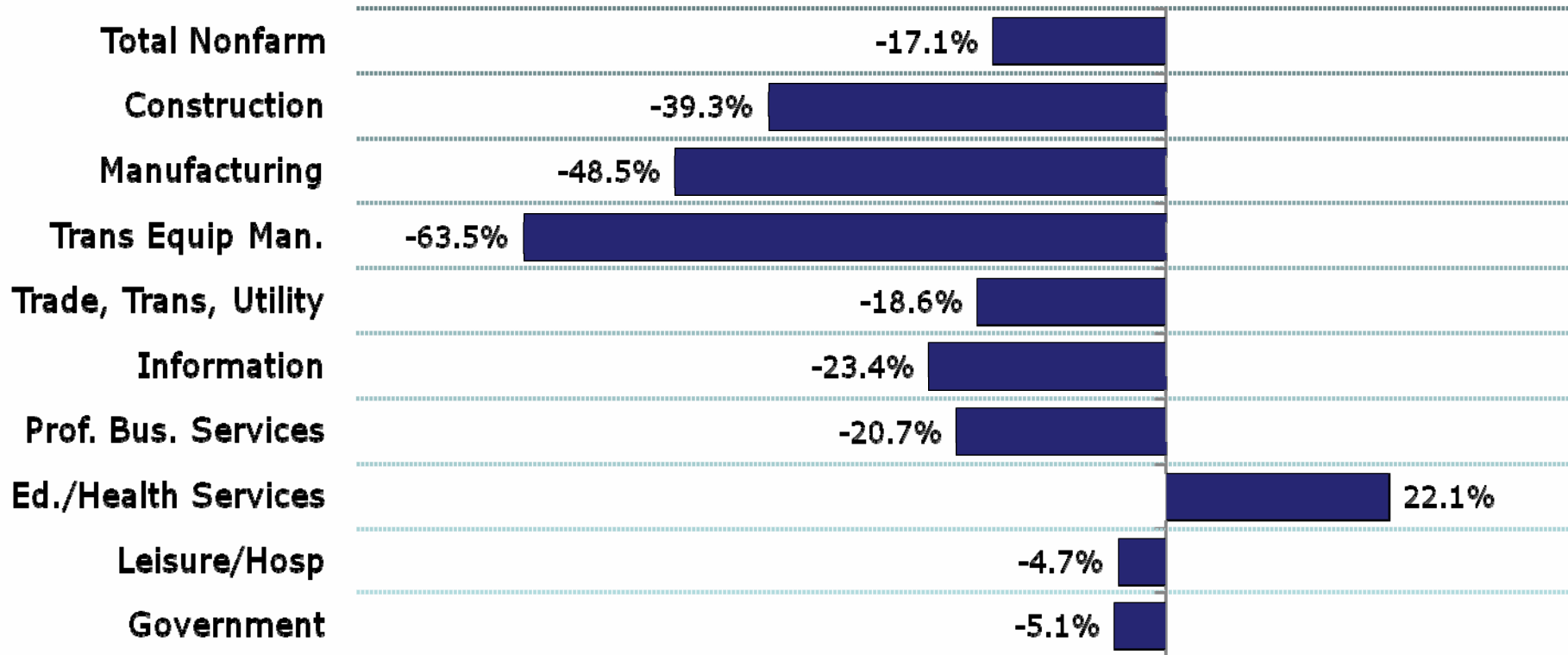
Michigan Transportation Equipment Employment  
(In Thousands)





# Almost Every Sector in Michigan Has Lost Jobs

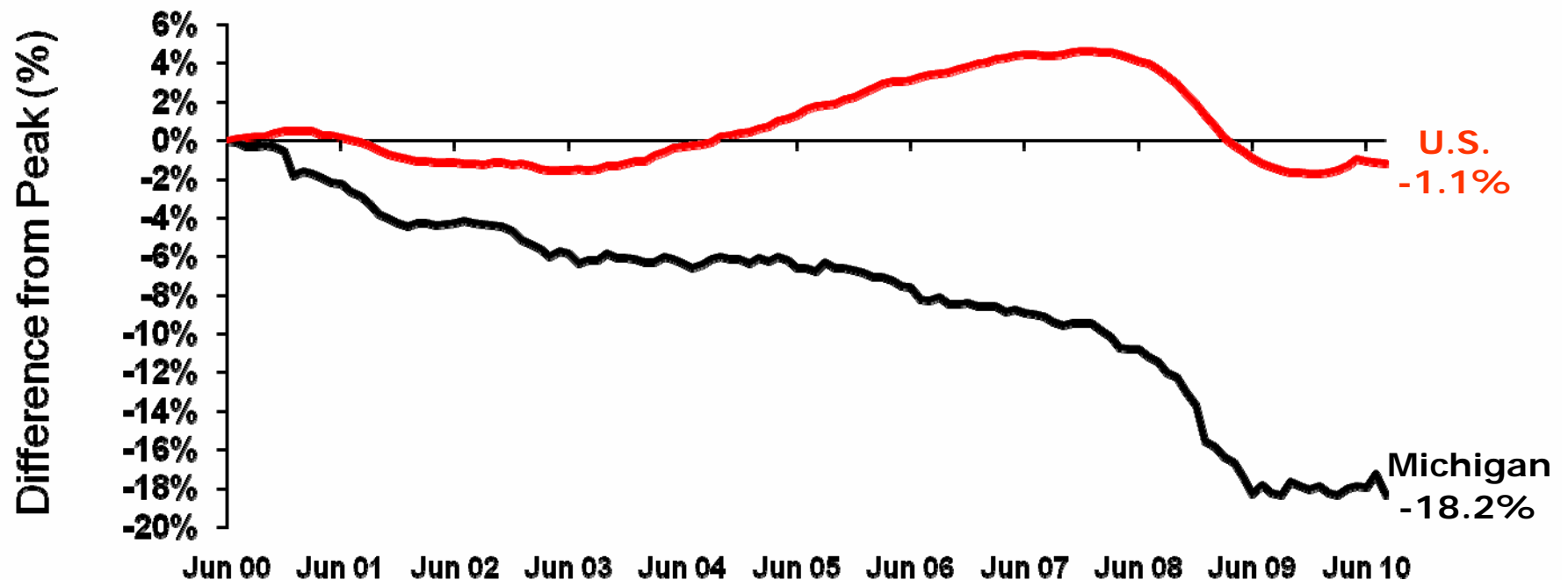
## 2000 to 2009





# A Lost Decade of Michigan Employment

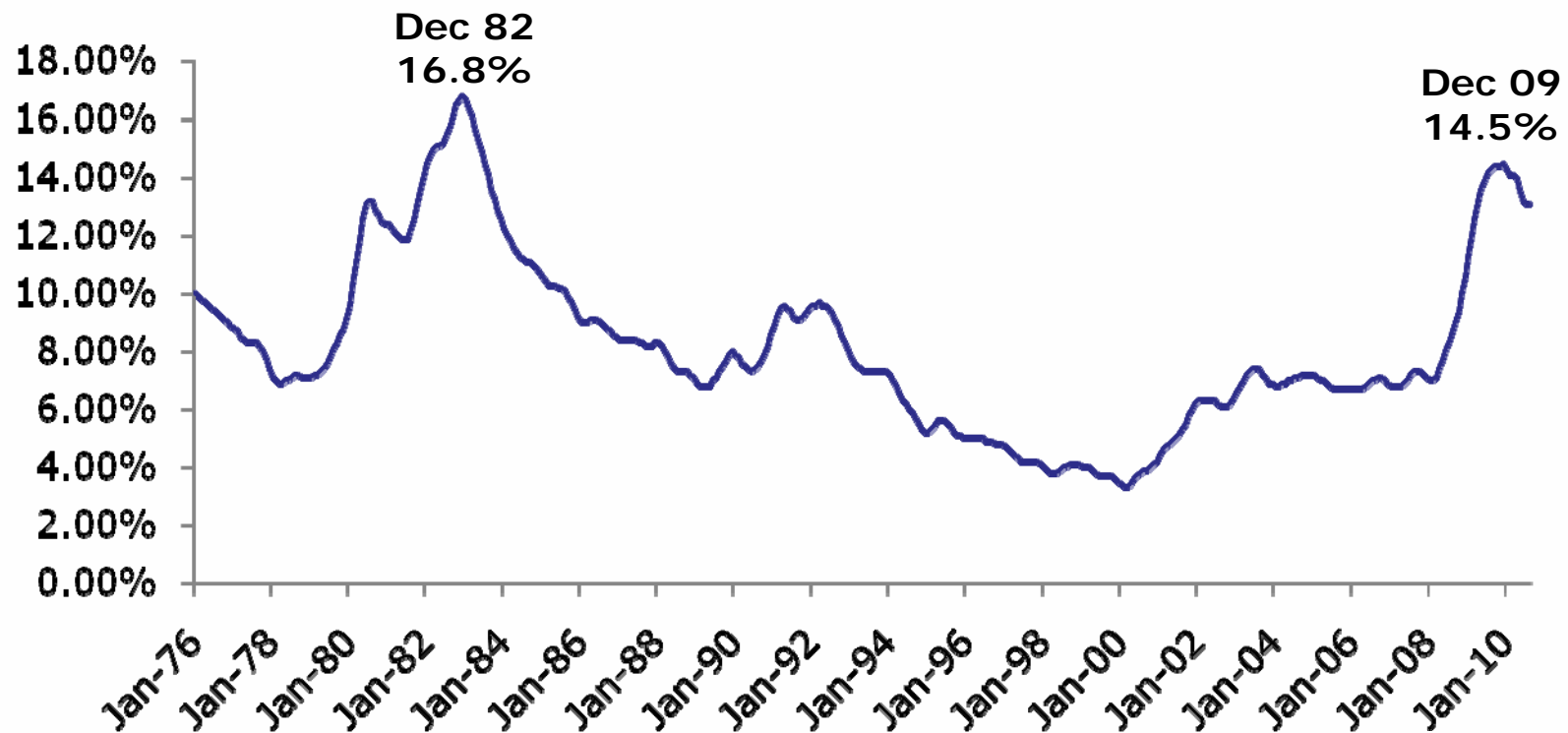
## 1 in 6 Jobs Lost Since June of 2000



12 Note: Peak is calculated from Michigan's June 2000 Peak. Data are through August 2010.  
Source: Bureau of Labor Statistics and CRC calculations.



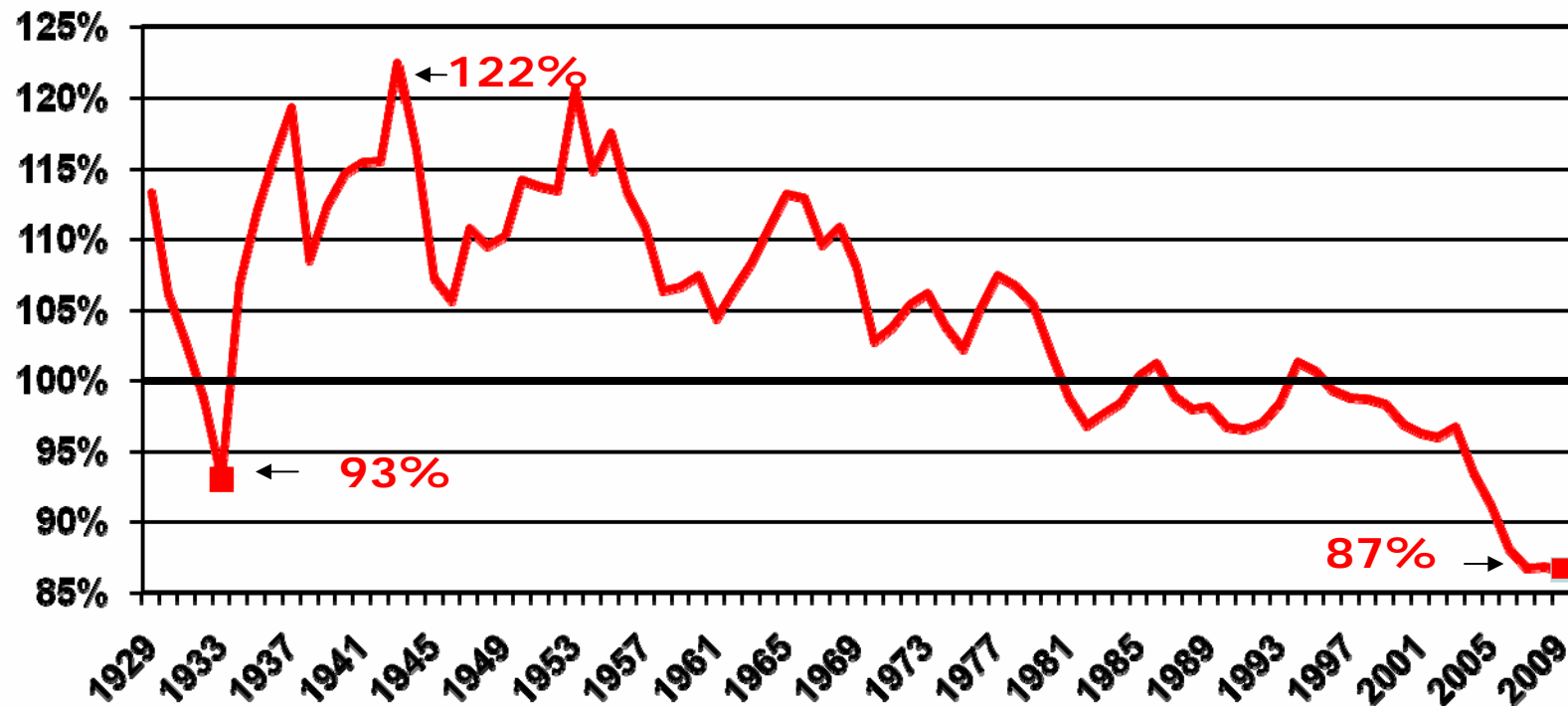
## But Michigan's Unemployment Rate Appears to Have Peaked





## 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 20<sup>th</sup> in 2001 to 37<sup>th</sup> in 2009



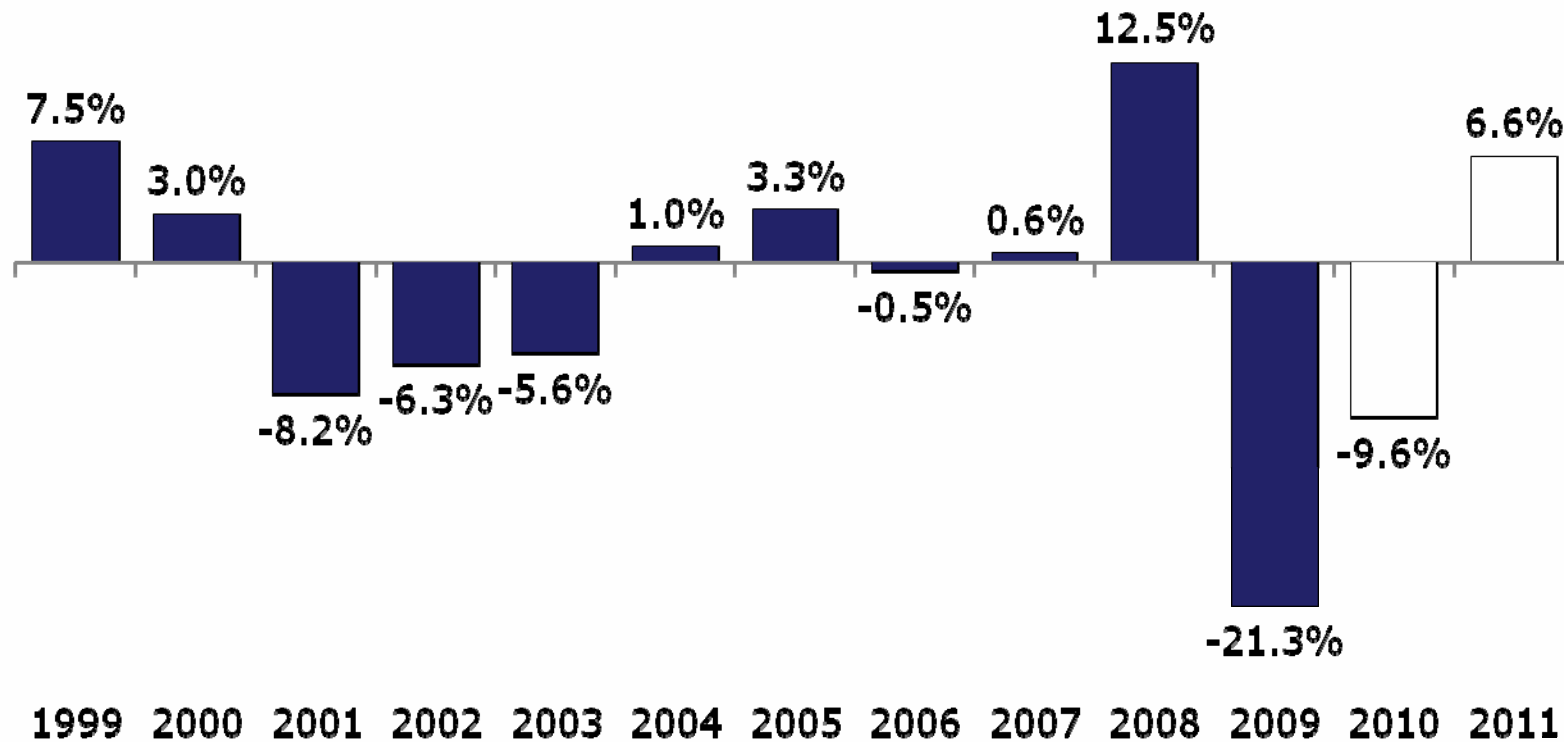


# **What Does This Mean for the Budget?**



# GF-GP Revenues Drop Sharply in FY 2009 and FY 2010

GF-GP Revenues  
Year-Over-Year Pct. Change







## State Spending From State Sources Down Sharply in Real Terms

- From FY 2000 to FY 2010
- Inflation up approx. 27.8%
- Total state expenditures up 31% but increases in federal aid drove increase; state spending from state sources up 3.1%
- Spending changes from state sources:
  - K-12 +6.3%
  - Community Colleges -2.2%
  - Universities/financial aid -16.2%
  - Revenue sharing -34%
  - Corrections +29.1%
  - Medicaid +27%



## FY2010 GF Cuts Were Severe

- 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)
- Budget also supported by \$1.2 billion in stimulus funds



## **Schools Cut Significantly in FY 2010 as Well**

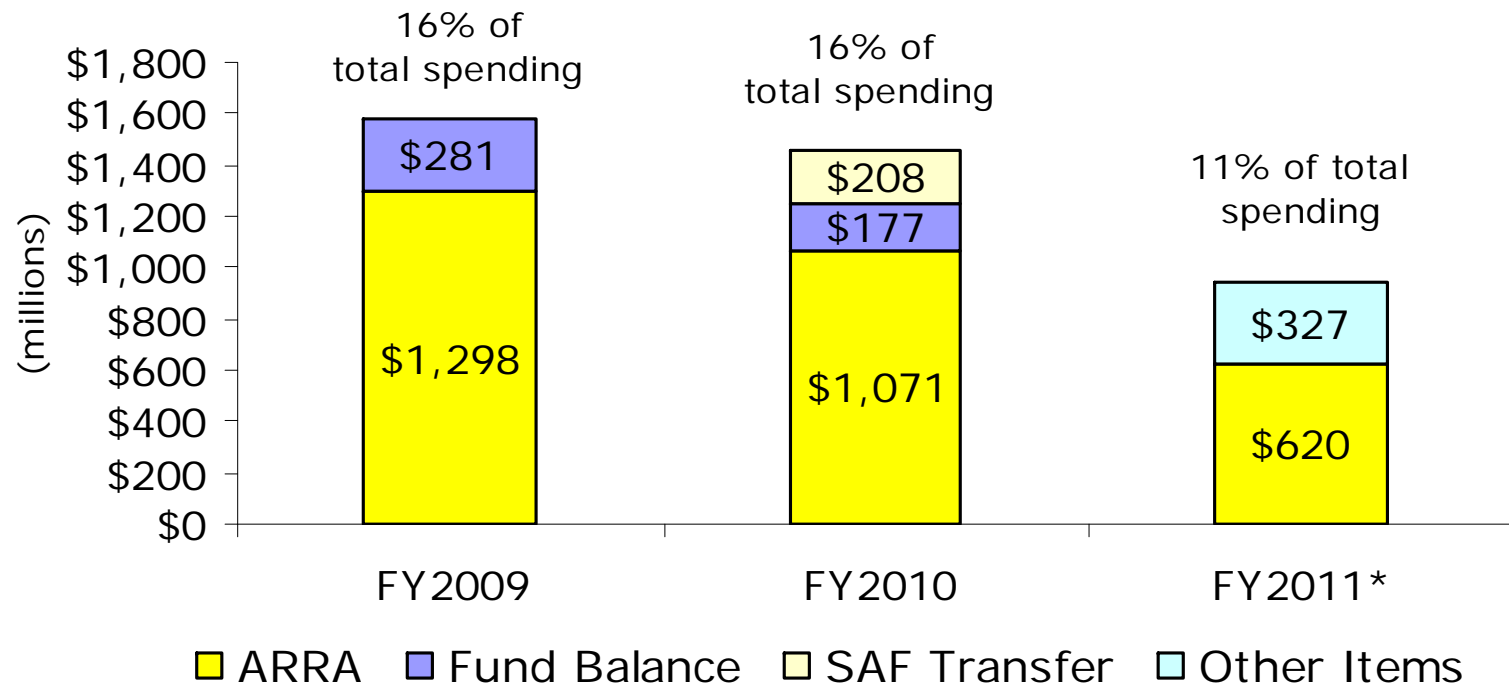
- Ongoing FY 2010 SAF revenues projected to be \$750 billion below FY 2008
- Enacted FY 10 Cuts:
  - \$165 per pupil (\$263M)
  - ISD reduction (\$16M)
  - 20j veto (\$52M)
  - Other Cuts (\$35M)
- Budget also supported by \$450 million in stimulus funds



# "Balanced" Budget Achieved

*Heavy Reliance on One-Timers*

## GF/GP Budget: Non-Recurring Resources Used



\*Based on projected spending

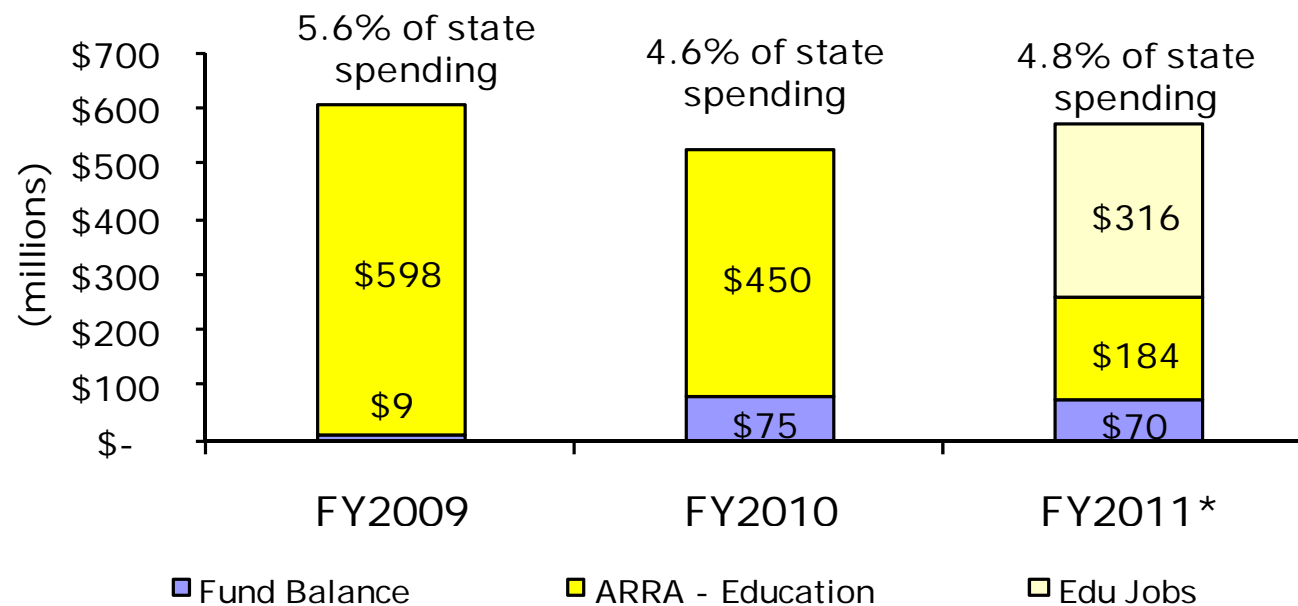
•Based on May 2010 Consensus Revenue Estimate

•Fund balance = \$458 million on 10/1//08



## Schools Face Revenue "Cliff" in FY2012

Non-Recurring Resources Used to Balance SAF Budget



Fund Balance = \$247 million at 10/1/08. State spending excludes federal.

\* Based on enacted budget as of July 2010.



## **FY2011 Budget – More of the Same**

*Solutions Include \$1 Billion in One-Time*

- Non-recurring resources (\$945M)
  - Federal Medicaid match increase (\$620M)
  - Unclaimed property changes (\$166M)
  - Tax amnesty program (\$62M)
- Some structural reforms, but not as much as exec. budget
  - Retirement system changes (\$80M)
- Spending reductions – (\$256M)
  - Debt refinancing (\$77M)
  - Human Services (\$66M)
  - Corrections (\$42M)

*Work Remains on Details of Spending Reductions*



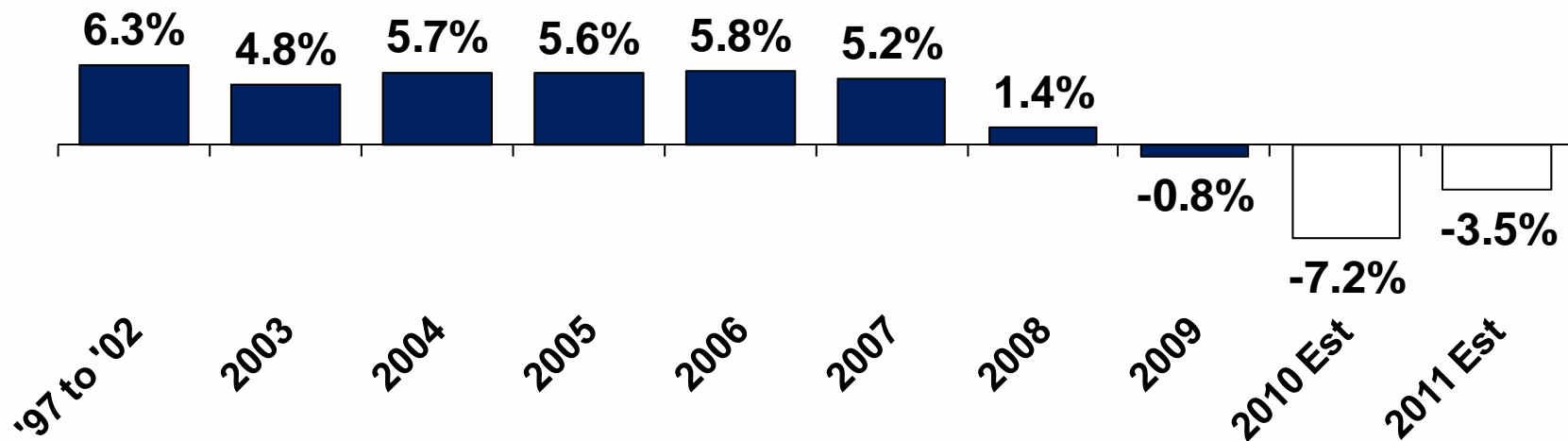
## **FY2011 School Aid Budget** *Completed "Early"*

- Original revenue picture: add'l \$250 per-pupil reduction (\$400M shortfall) in FY2011
  - Sales tax restructuring and MBT phase-out
  - Add'l net revenue in FY2011 to solve problem, but revenue neutral in out-years
  - Mid-year cut for FY2010 (\$127 per pupil)
- May revenue estimate: major improvement for FY2010 and FY2011
  - Add'l rev. \$292M in FY2010 and \$352M in FY2011
  - Eliminate projected shortfalls and possible cuts
  - Portion of fund balance (\$208M) used in GF
- Budget deal: completed on July 1 - 3 months earlier
  - FY2010 cuts retained (\$11 per-pupil cut restored)
  - \$318M of fed. Edu Jobs used to restore remainder of \$165 per pupil FY2010 cuts



## Local Revenues Had Done Better But Taxable Value Now Falling

% Change in Total Taxable Value



Average





## Article XII Section 3

“At the general election to be held in the year 1978, and in each 16th year thereafter and at such times as may be provided by law, the question of a general revision of the constitution shall be submitted to the electors of the state....”

|             | <u>Yes Votes</u> | <u>No Votes</u> |
|-------------|------------------|-----------------|
| <b>1978</b> | 640,288          | 2,112,549       |
| <b>1994</b> | 777,779          | 2,008,070       |



## Options for Voters

### Vote No

- Current Constitution is maintained
- Changes can be made through amendment and revision process
- Next scheduled vote would be 2026

### Vote Yes

- Constitutional Convention called
- Historically revisions have been incremental
- But nothing limits delegates to incremental reform
- Results of convention submitted to state's voters for approval



## Will It Get Better?

- Economy is getting better, **but there is no quick recovery from an 18% employment decline**
- 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
- Michigan's problems are long-term and structural we need to start thinking and planning longer-term



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