



Michigan Update

Lansing Lions Club
March 9, 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*



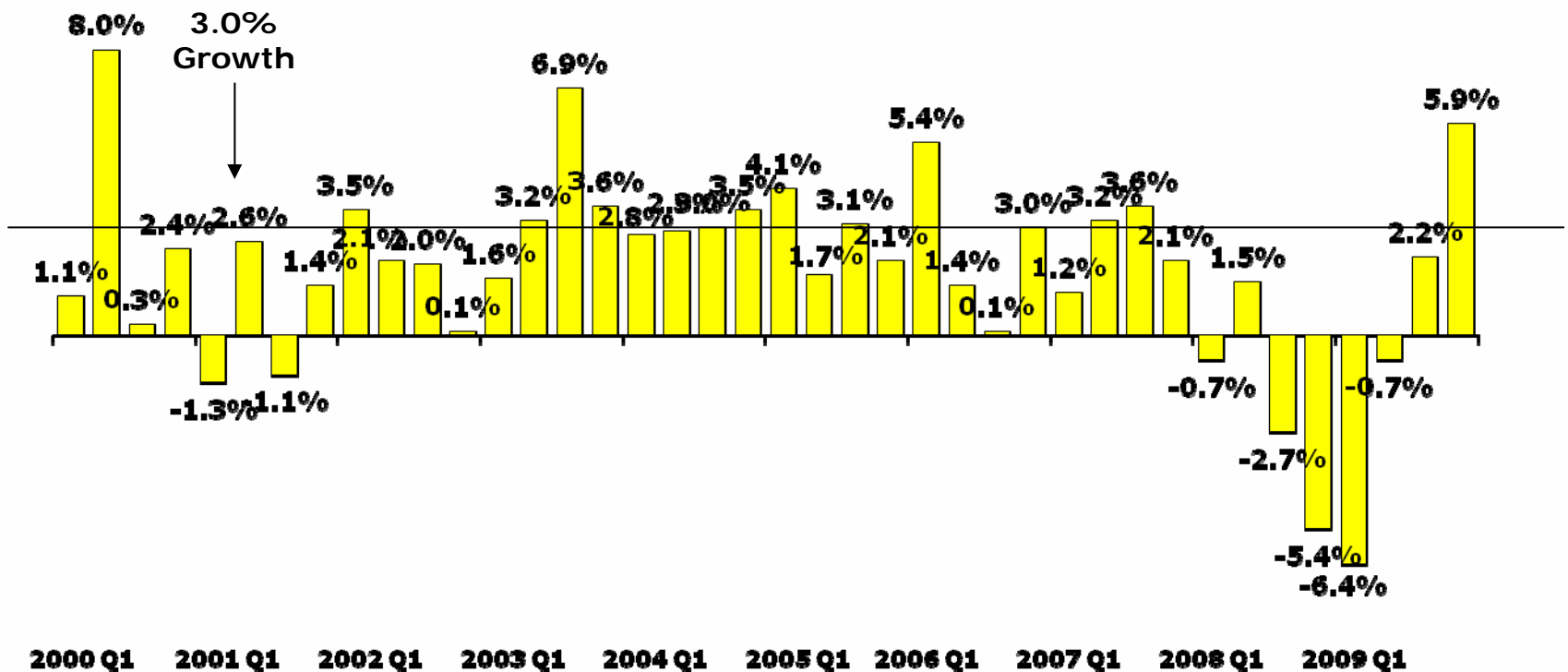
What is the State of the National Economy

- Worst post war recession almost certainly ended over the summer
- The U.S. economy has lost over 8 million jobs and the unemployment rate stands at just under 10 percent
- Shape of recovery is currently the subject of much controversy: "The Great Ambiguity" (NYT 1/5/10)
- Strong downturns usually followed by strong recoveries but currently concern over consumer balance sheets, commercial real estate, state and local government finances, etc.
- Rebounds from financial crises tend to be slower than other types of downturns



GDP Increased in 3rd & 4th Quarters

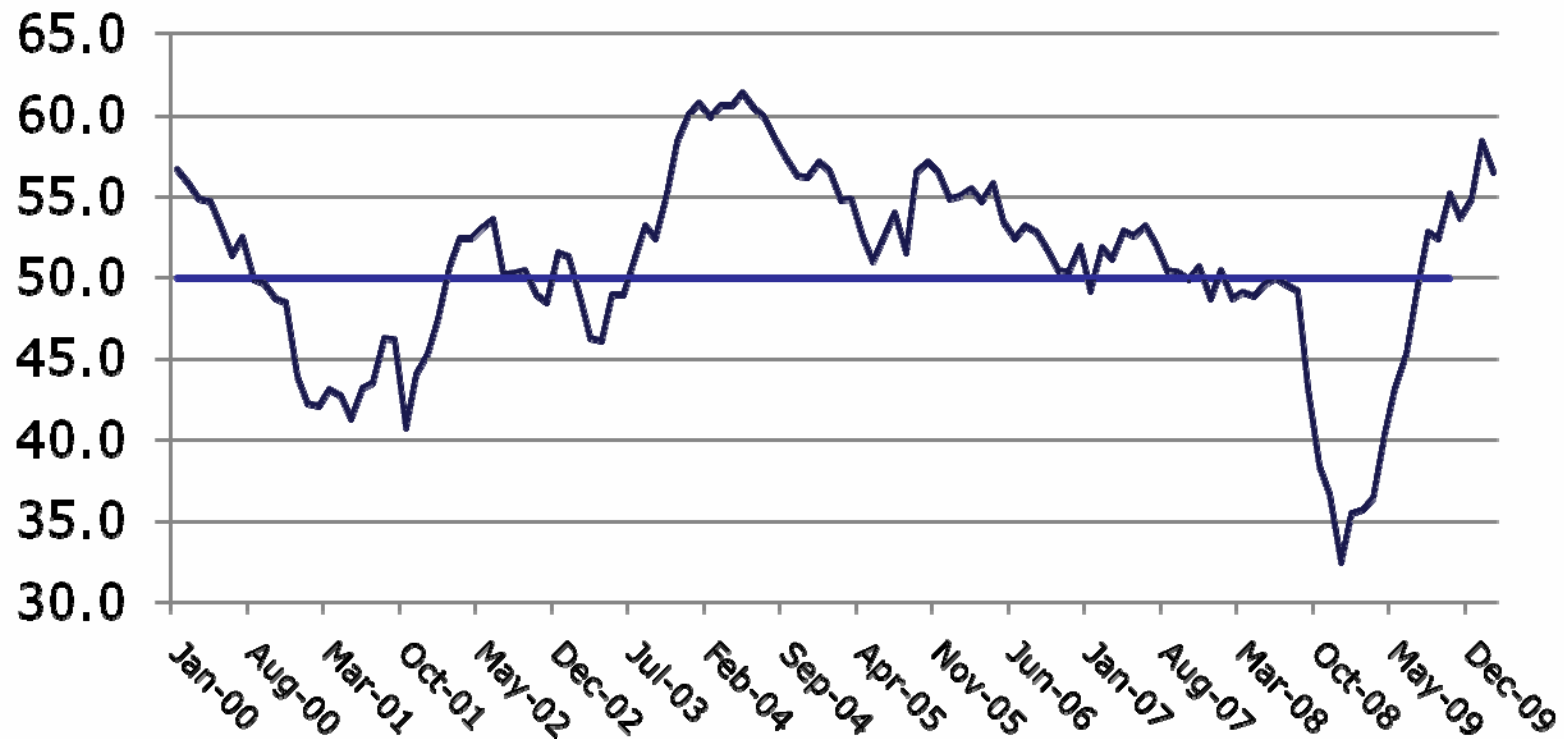
Real GDP Growth



4 Figures are annualized percent change from preceding quarter in 2000 chained dollars.
Source: Bureau of Economic Analysis 3/05/10.



ISM Manufacturing Index Shows Sector Growing Again

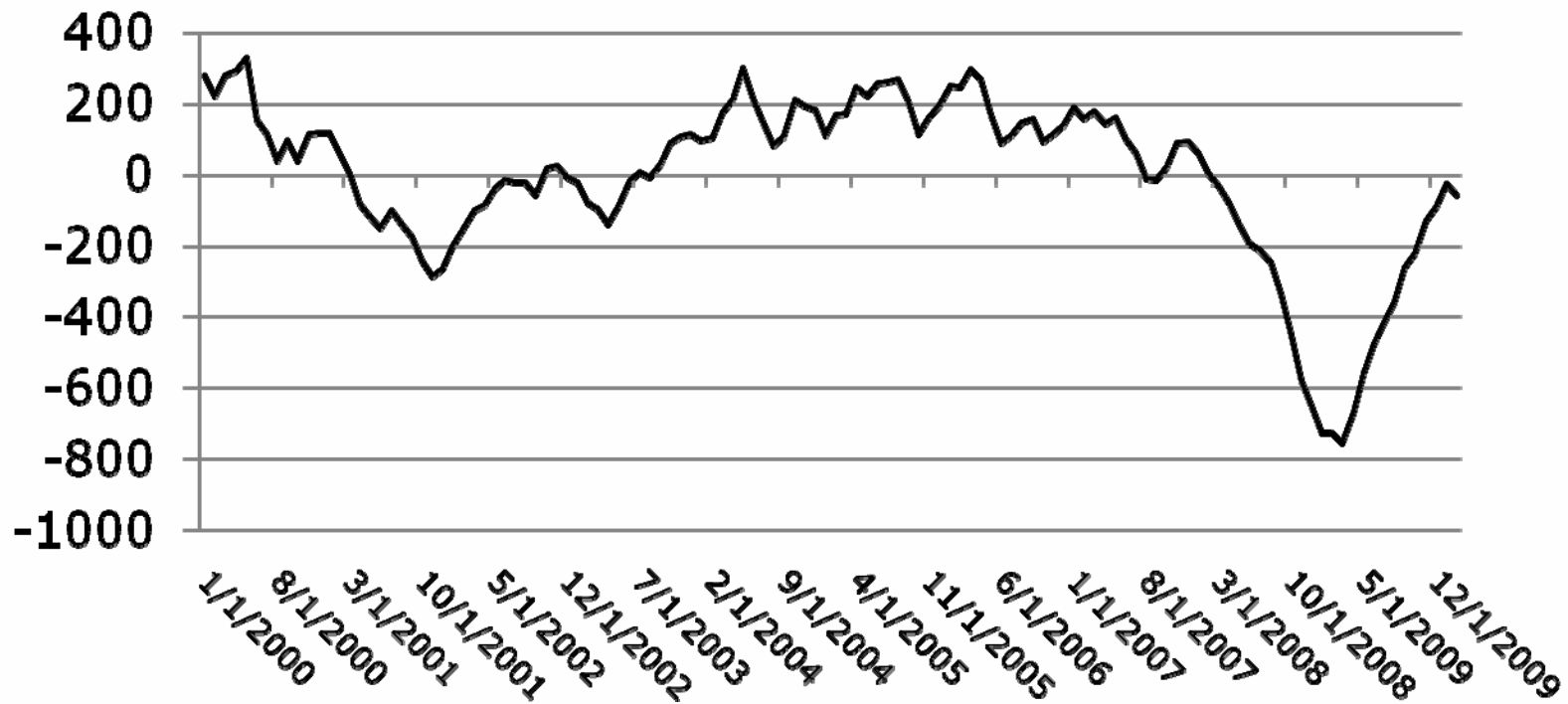


5 Figures are annualized percent change from preceding quarter in 2000 chained dollars.
Source: Bureau of Economic Analysis 11/24/09.



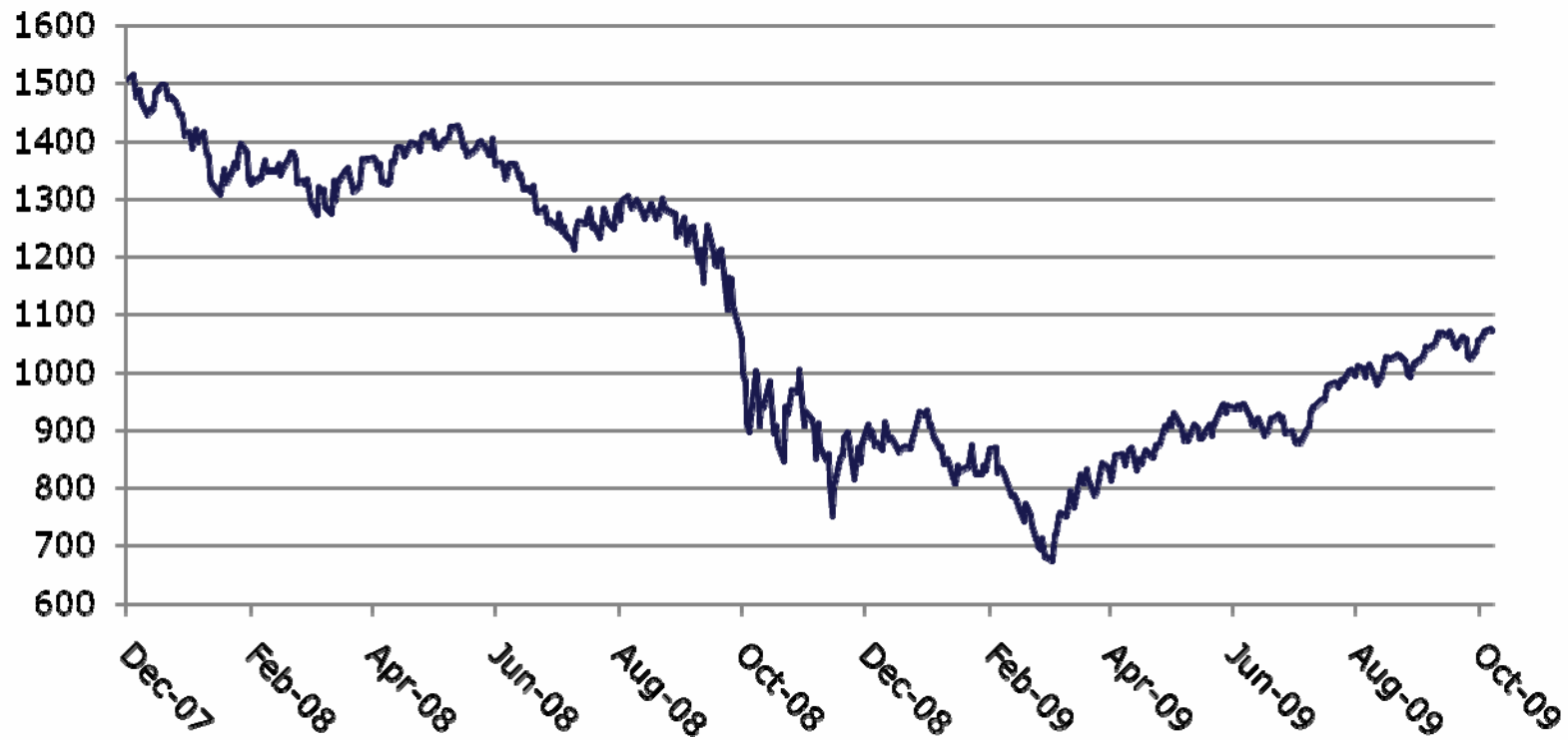
Employment Declines Are Abating But No Growth Yet

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





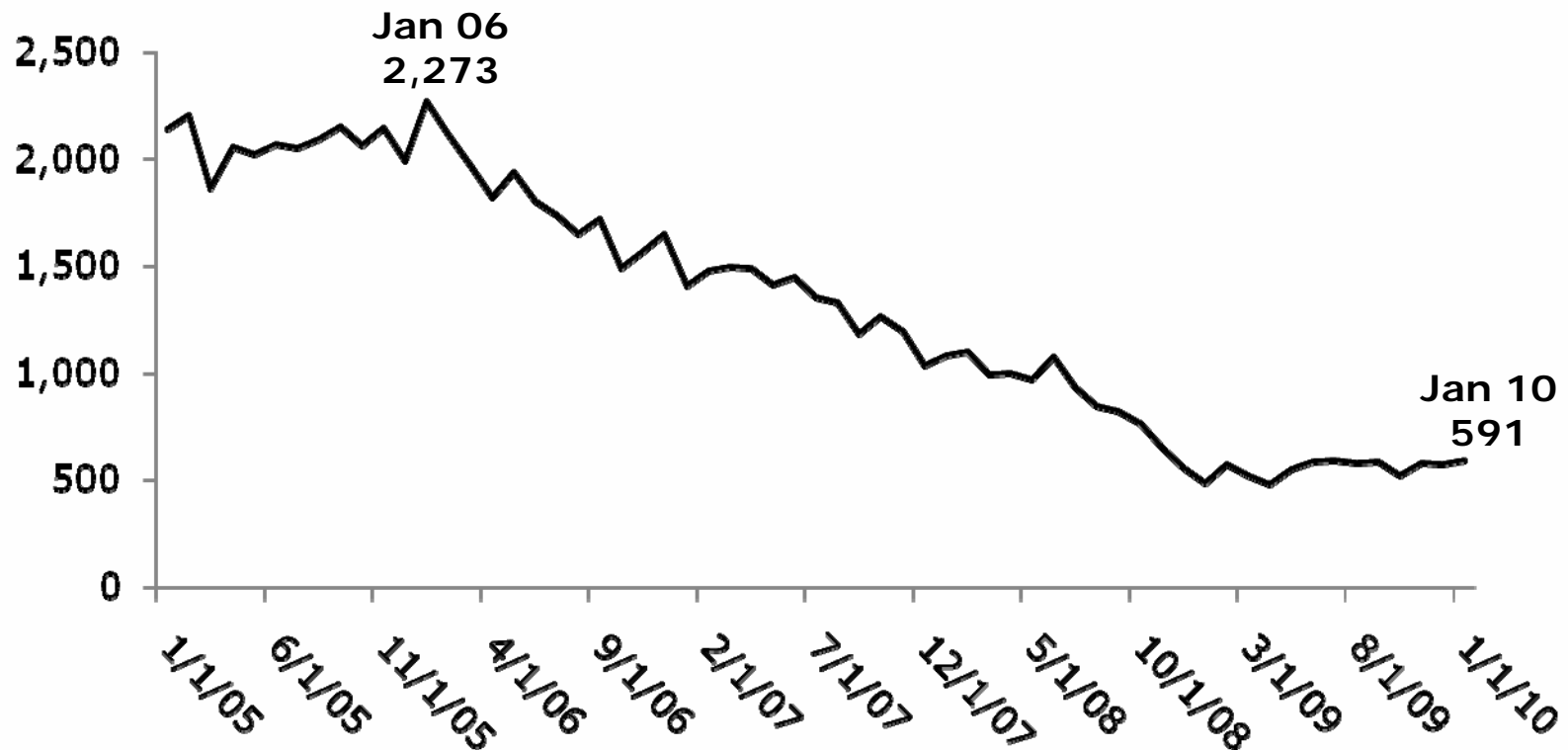
S&P 500 Is Recovering Up 65% From March Low But Still Down 24% from 2007





Housing Starts Still Down 73 Percent from Peak

New Privately Owned Houses Started (Thousands)

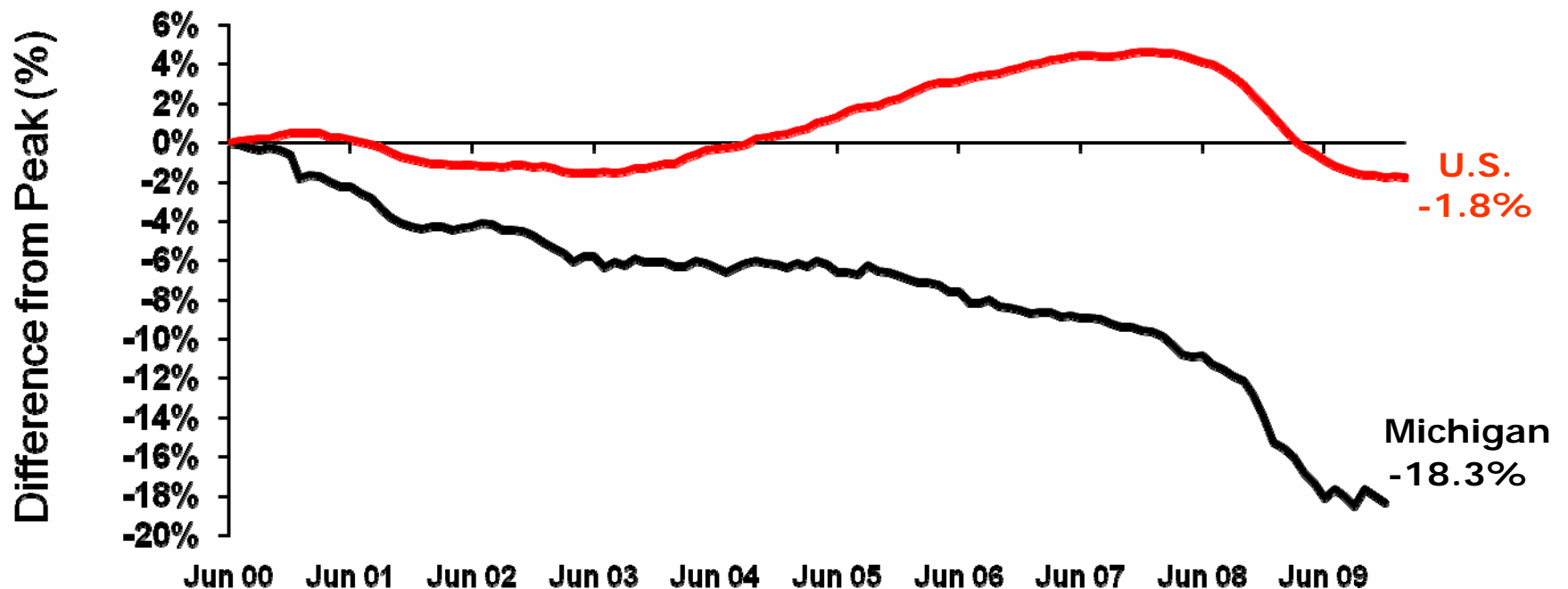




What is Happening With Michigan's Economy?



A Lost Decade of Michigan Employment (1 in 6 jobs lost with 1/3 of loss in last 12 months)

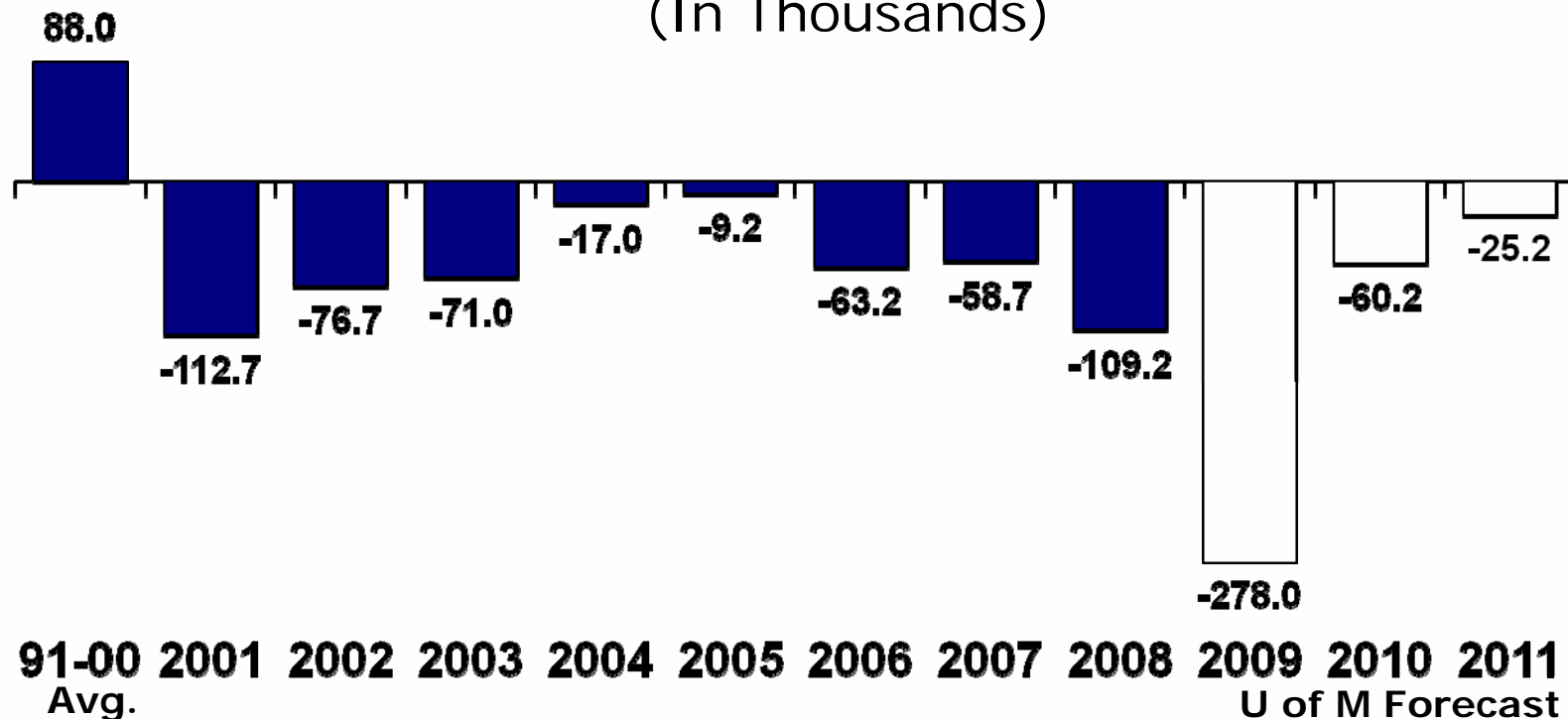


10 Note: Peak is calculated from Michigan's June 2000 Peak. Michigan data through December 2009.
Source: Bureau of Labor Statistics



U of M Forecast – No Job Growth for Michigan

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





Unemployment is Very High Especially in the Detroit Area

<u>Location</u>	<u>Unemployment Rate</u>
U.S.	9.7%
Michigan	14.5%
Detroit MSA	16.0%
City of Detroit	24.3%
Lansing MSA	11.7%
Grand Rapids MSA	12.2%

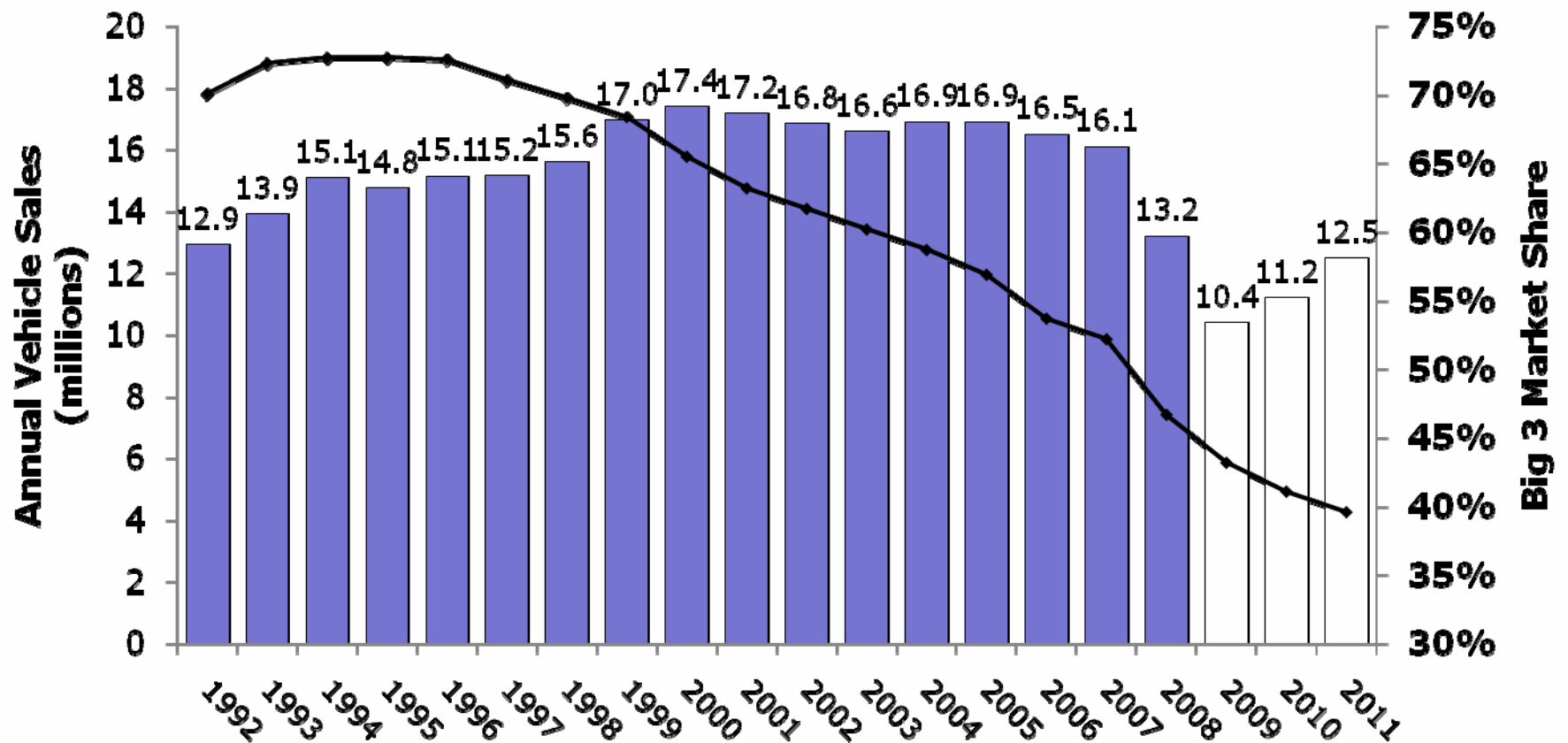
12 Source: Bureau of Labor Statistics. U.S. total for Dec. MI and Detroit MSA totals are seasonally adjusted. City of Detroit, Lansing MSA, and Grand Rapids MSA are not seasonally adjusted.



What Caused Michigan's Downturn?



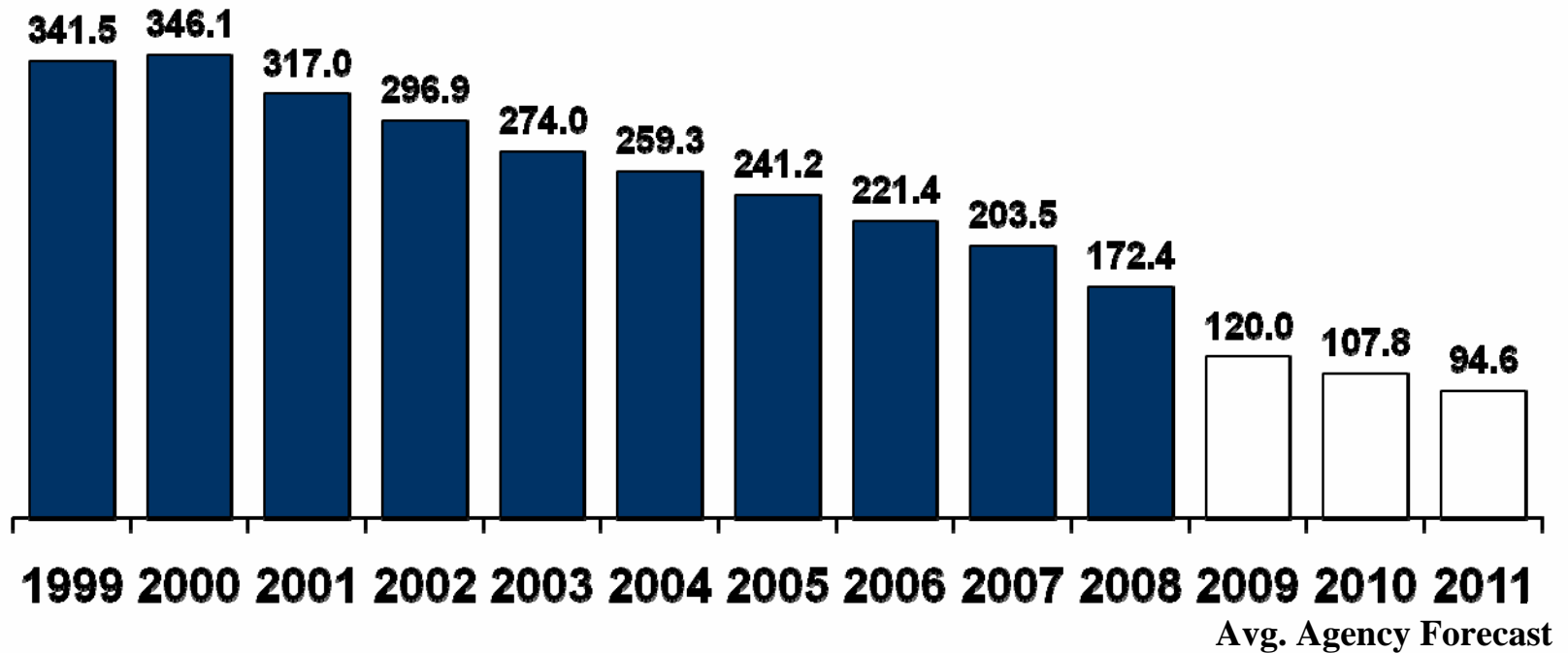
Big 3 Market Share Plummet





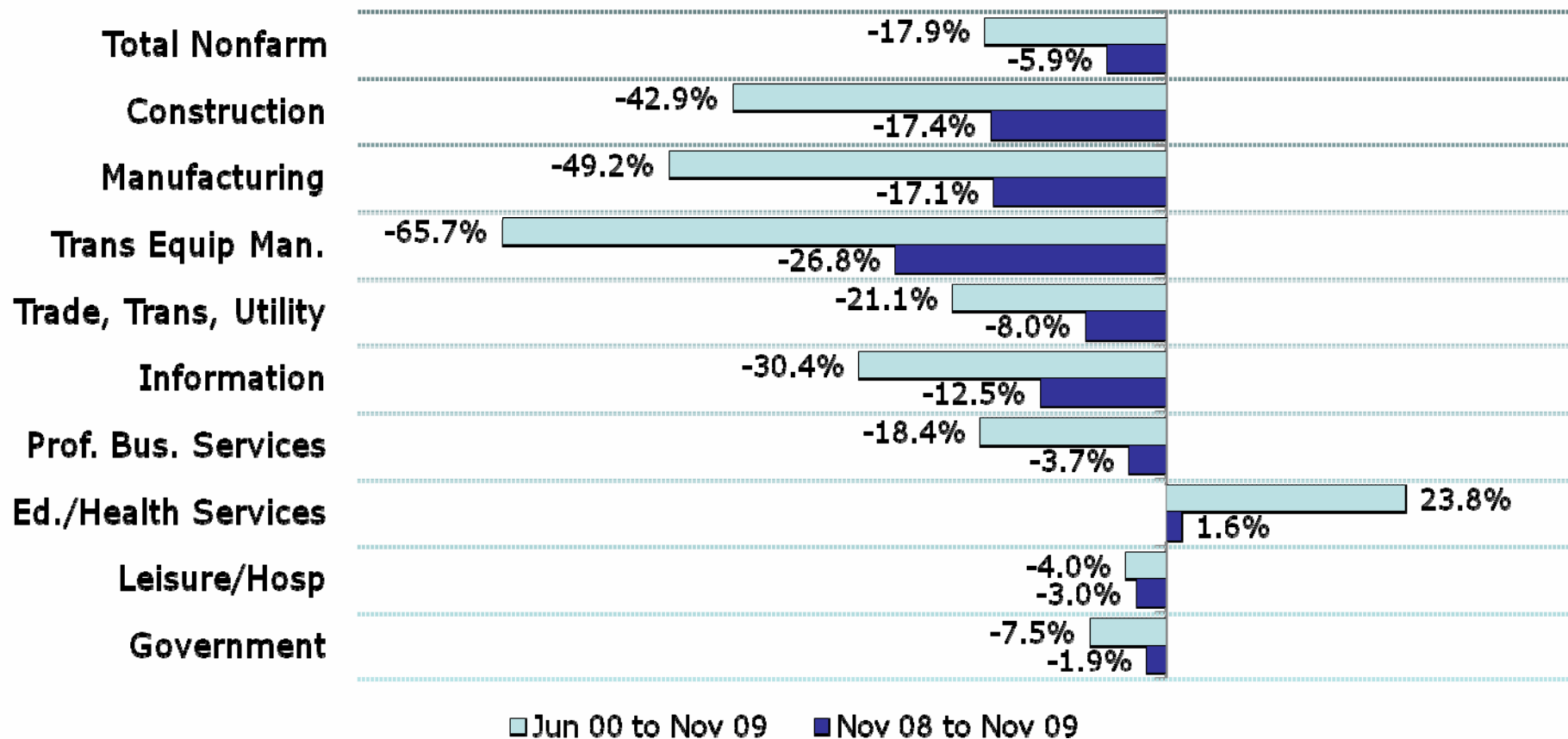
3 in 4 Auto Jobs Lost by 2011

Michigan Transportation Equipment Employment
(In Thousands)





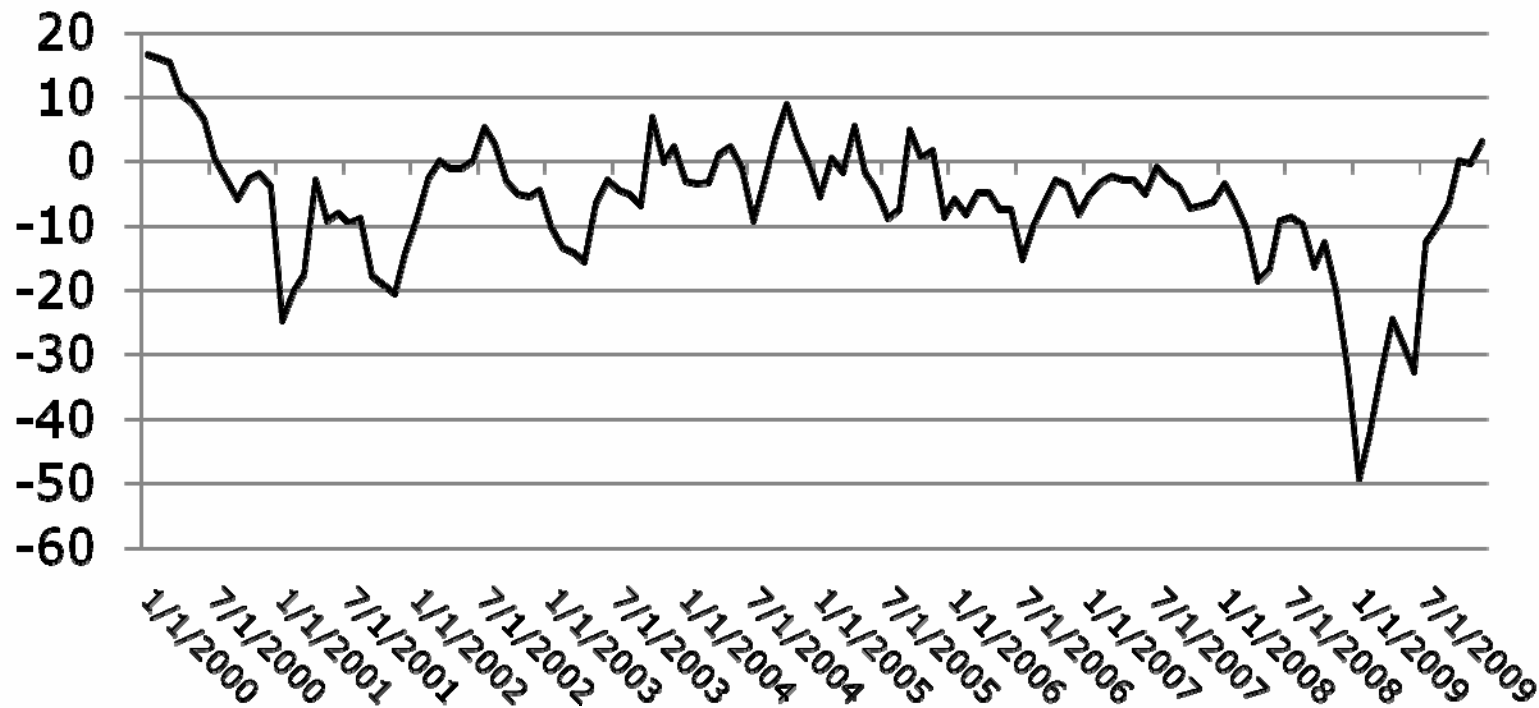
Almost Every Sector in Michigan Has Lost Jobs





2009 Michigan Employment Declines Were Shocking but Are Abating

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





What is the Economic Outlook Going Forward?

- Auto companies are much more viable than they were a year ago
- Drag from auto sector employment loss will be greatly diminished in the coming decade
- State employment should start to grow soon (but dependent on U.S. recovery)
- Public sector will start to be a significant drag
- It will take a generation or more to recover the lost jobs

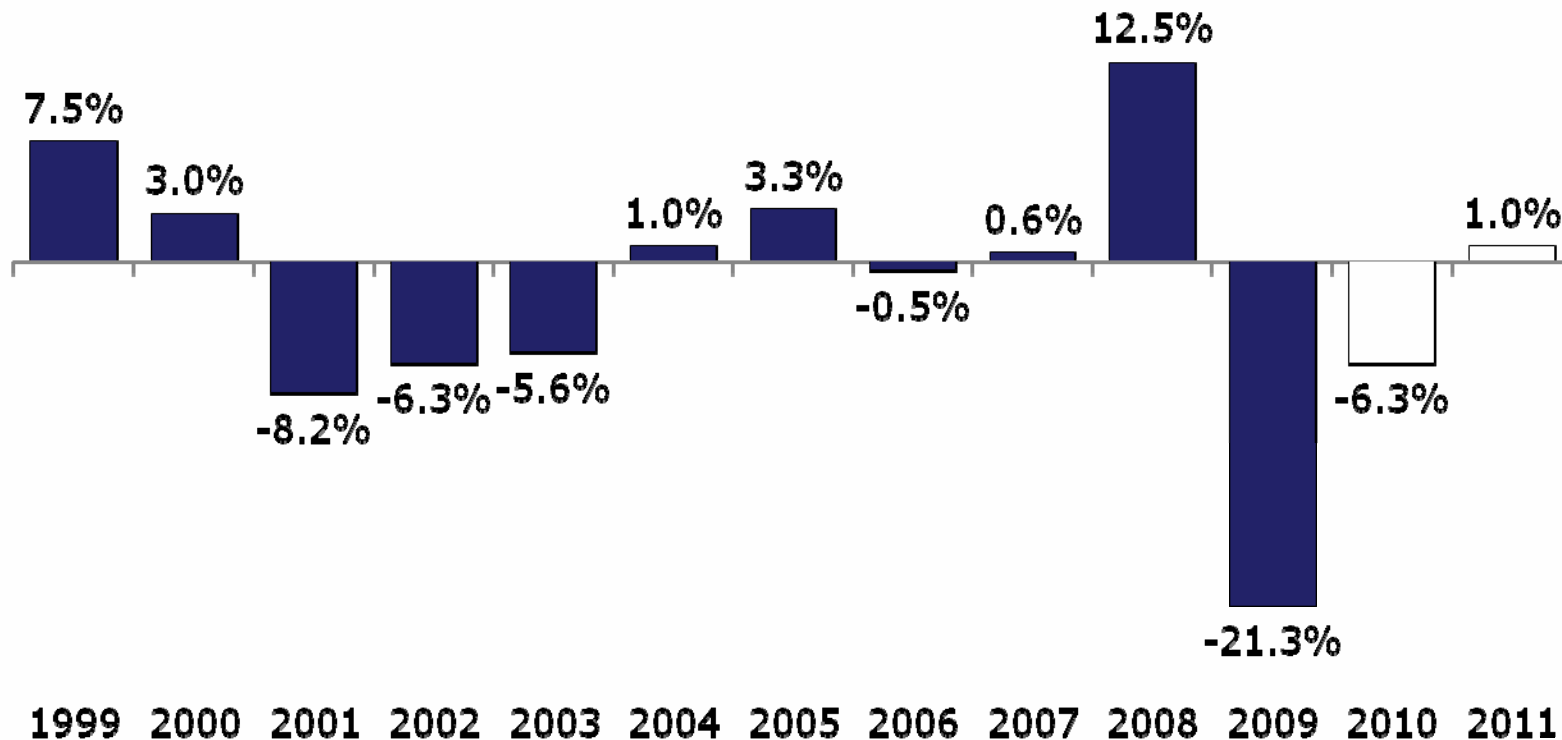


What Has Been the Effect on the State's Public Sector?



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

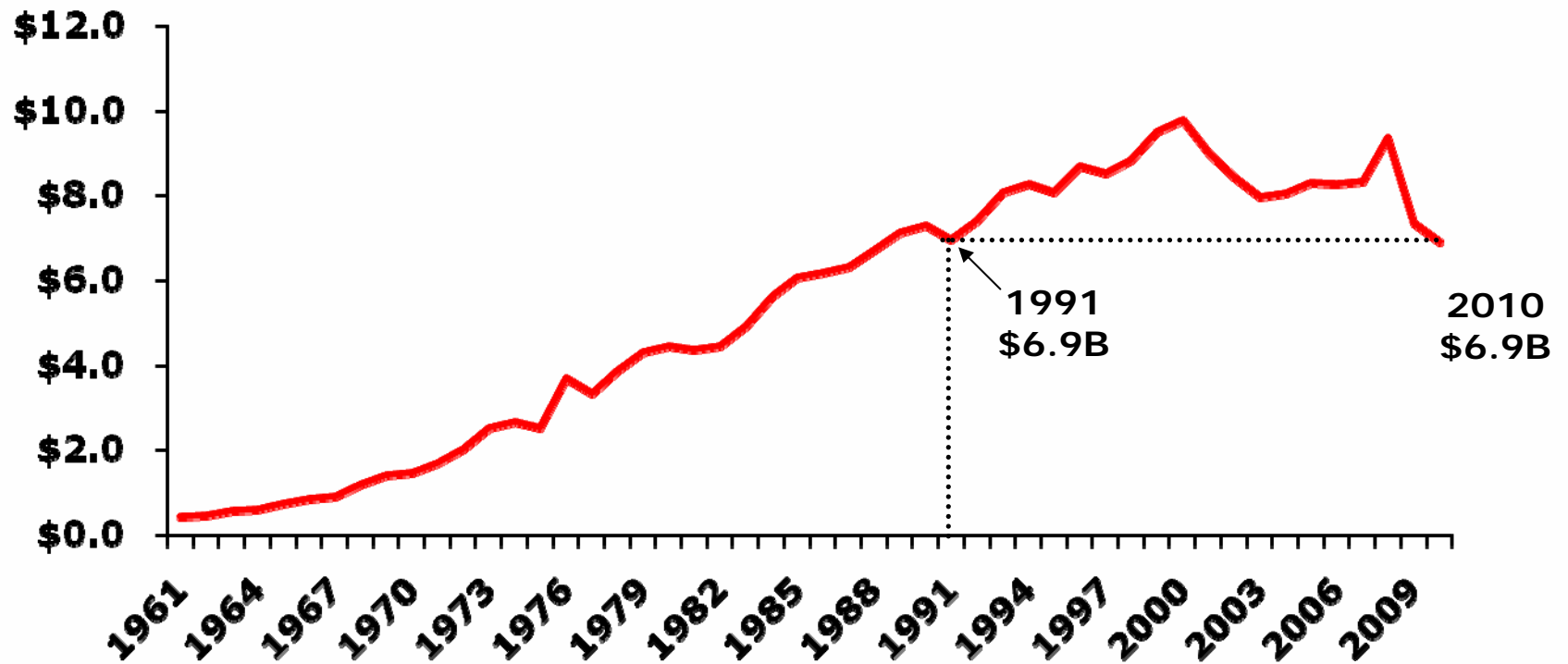
GF-GP Revenues
Year-Over-Year Pct. Change





FY 2010 Nominal GF-GP at FY 91 Level

Billions of Dollars



Note: GF-GP figures are presented on a Consensus basis. 2010 total is an estimates.



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

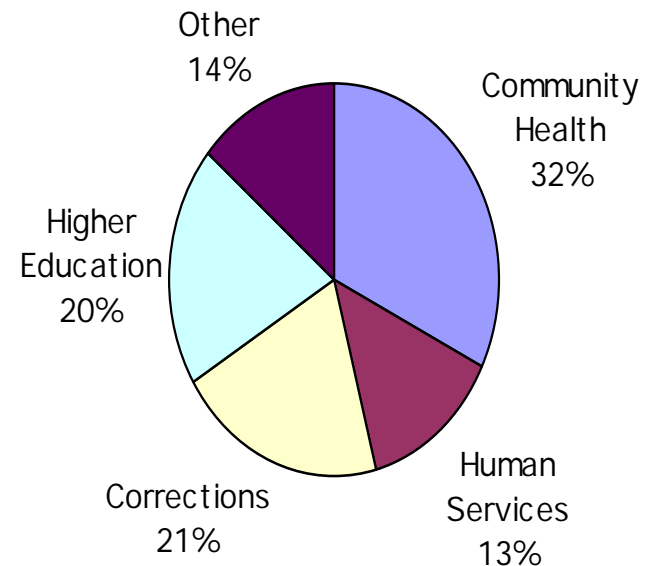
Total SAF Spending	\$13,139.6	\$12,715.5	\$12,773.9
ARRA	\$597.5	\$450.0	\$185.5
ARRA % of Budget	5%	4%	1%
Projected SAF Shortfall			\$422.0



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

General Fund Spending-2009



Total: \$9.7 Billion



FY2011: Another \$1B Deficit

FY2011 General Fund Budget (millions)

Available GF Revenue	\$	7,828
FY2010 Spending Base	\$	8,128
Corrections		26
Human Services caseload		118
Employee economic inc.		140
FY2010 ARRA \$		1,057
FY2011 ARRA \$		(209)
FMAP inc. - Medicaid		(232)
DCH caseload		(184)
Other adj.		71
Est. FY2011 Spending Base	\$	8,915
Shortfall	\$	(1,087)



Governor's Proposal

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
- 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
- Also proposing early retirement program for school employees, savings retained locally (\$600M)



Retirement Proposal

- State and school retiree changes are similar:
 - Increase multiplier from 1.5% to 1.6% if retire by Oct. 1
 - Service years capped at 30
 - End of vision and dental for those employees who don't retire
 - Hybrid plan for new school employees (new state employees already 401k)
 - Required contributions of employees to retirement plan of 3%
- 7,000 state and 39,000 school employees are eligible
- Assumes 85% take rate and 2 in 3 replaced



Spending Growth Over the Last Decade

- Between FY 2000 and FY 2010 state dollars spent on:
 - Community health up 25% and Medicaid pop up 60% (now 17% of state residents)
 - Corrections up 27% and corrections pop up 5%
 - Higher ed down 13.7% while FTE enrollment up 13%
 - Comm College spending up 1% and FTE enrollment up 50%
 - K-12 up 8% while enrollment down 6%
 - Rev share to local govts down 33%
- Between FY 2000 and FY 2008 total state government spending in Michigan grew 26% 2nd slowest rate in nation and less than ½ national average (59%)



What Is Next?

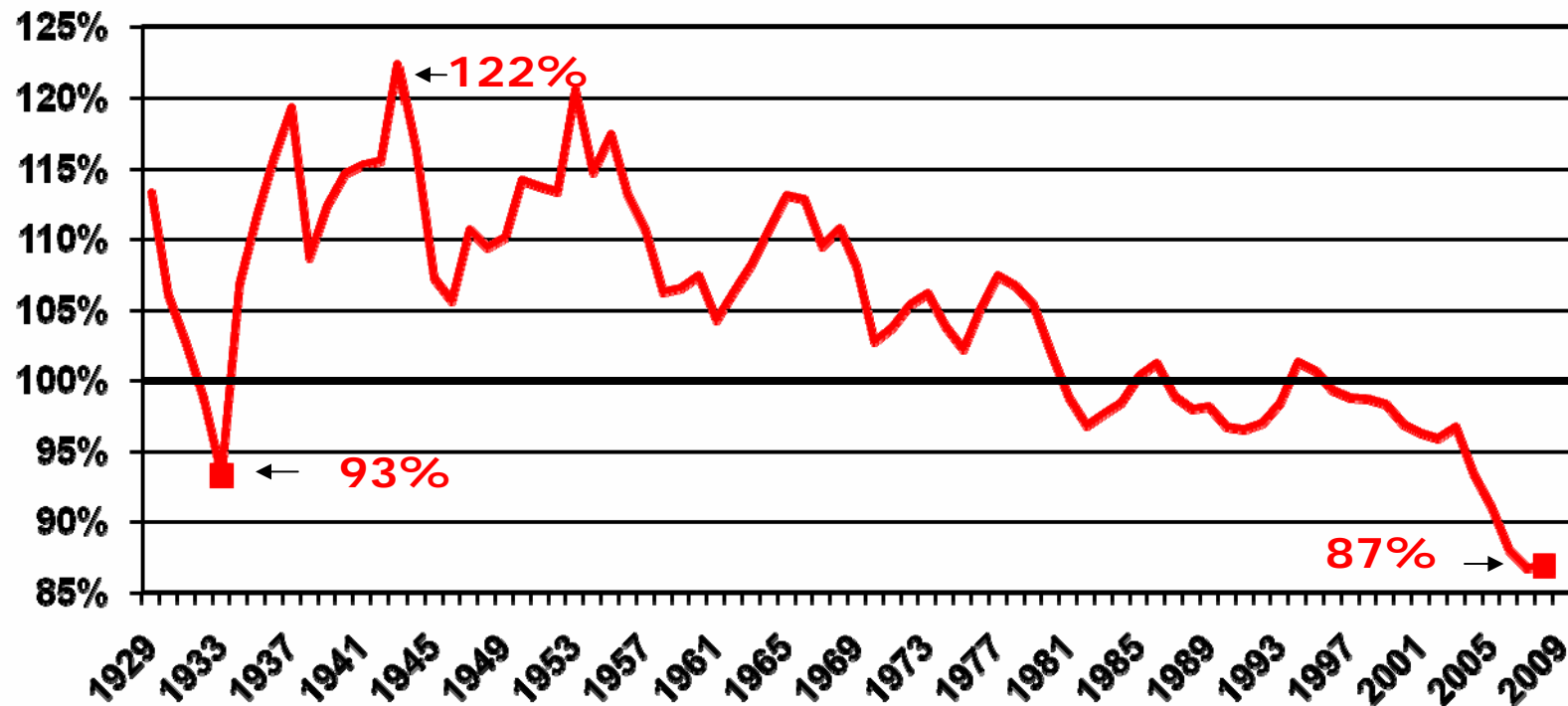
- Legislative debate and alternatives
 - Earlier deadline for retirement changes – end of April
 - Pay raises for unionized state employees – early April
 - Tax restructuring takes time
- Number of proposals attempted previously
 - Tax on services
 - Physician tax
- Will there be a “second stimulus”?
- Budget delay causes problems for sub-state entities with July 1 fiscal year

2010 is an election year



Pers. Income Decline Illustrates Importance and Difficulty of Investing in Future

Michigan per Capita Income as a Percent of U.S. Per Capita Income Rank has fallen from 20th in 2001 to 37th in 2008





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