



CITIZENS RESEARCH COUNCIL OF MICHIGAN

Michigan's Economic and Budget Challenges

2010 Policy Forum
WEST MICHIGAN

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Key Points

- Michigan has rapidly gone from being a relatively wealthy state to a relatively poor one
- State revenues have shrunk far more than spending
- FY 2011 budget will have \$1.6 billion of non-recurring revenues ensuring a budget crisis in FY 2012
- Significant tax cuts that have already been enacted will constrain revenue growth going forward
- **Bottom Line:** Michigan is a poorer state and the current budget does not yet reflect this – Michigan's budget problems will not self correct

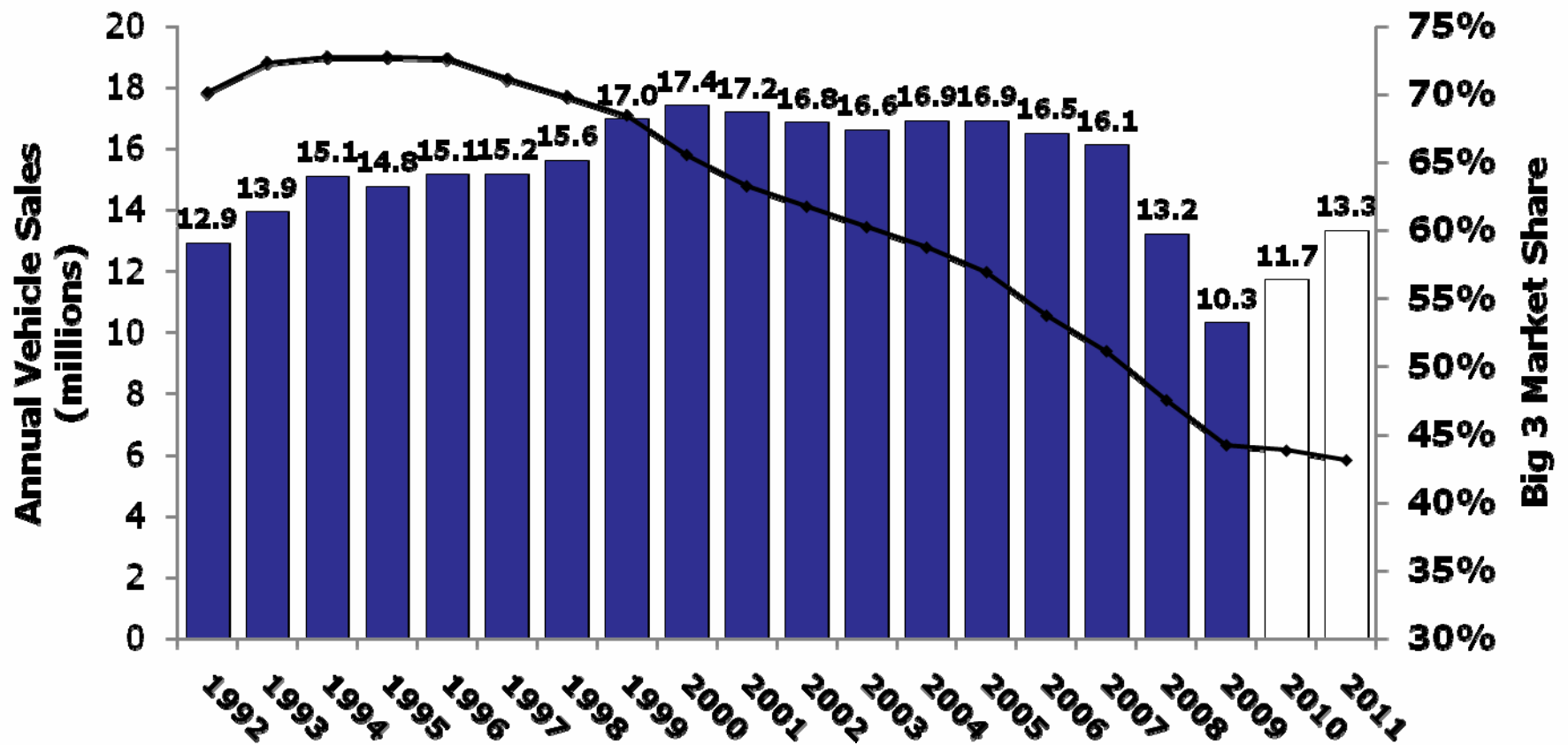


The Last Decade Has Been an Economic Disaster for Michigan

	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



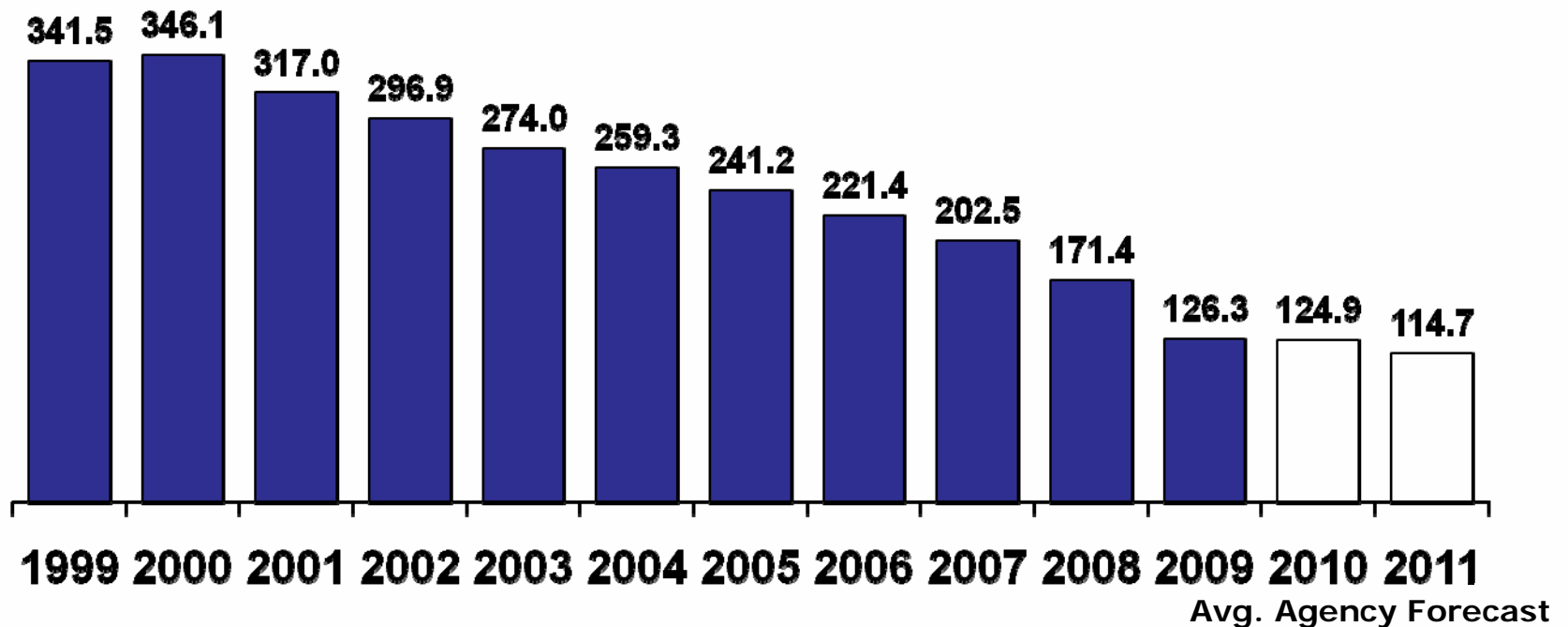
Big 3 Market Share Plummet





2 in 3 Auto Jobs Lost by 2011

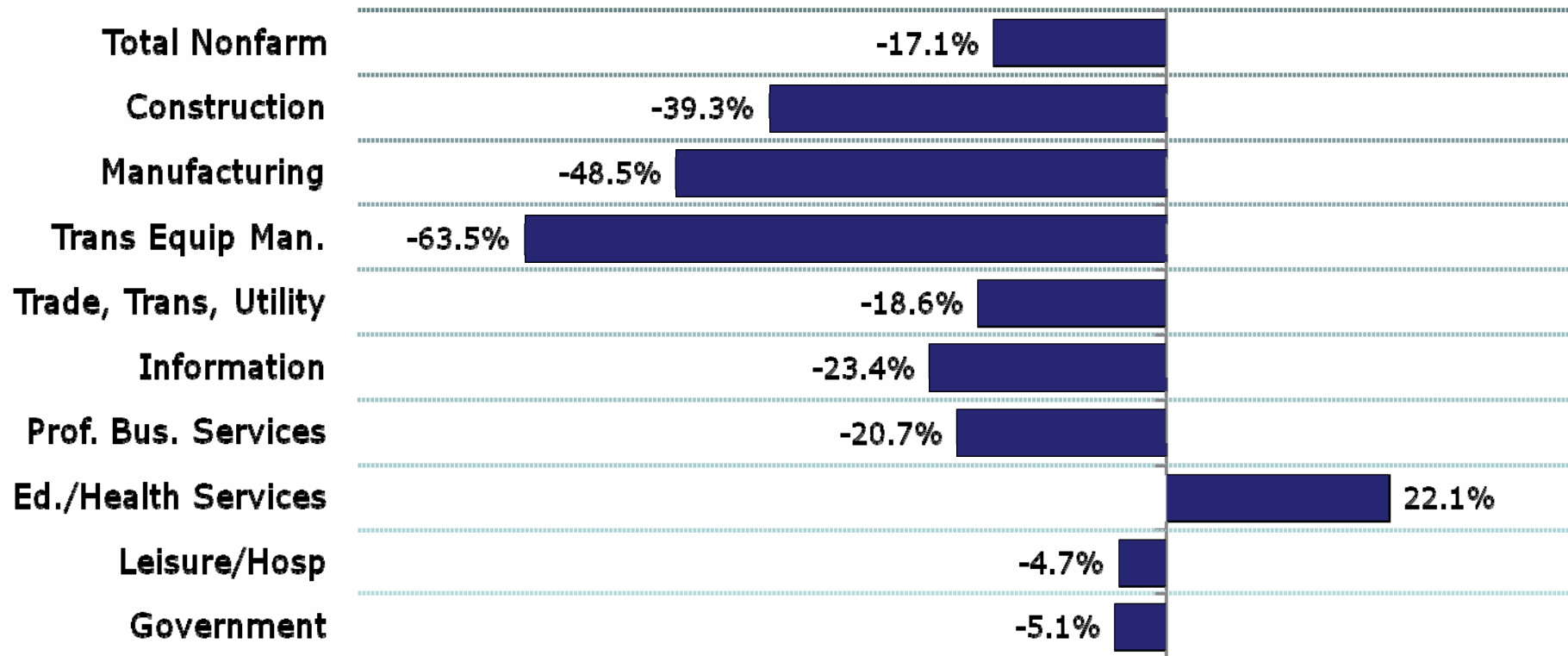
Michigan Transportation Equipment Employment
(In Thousands)





Almost Every Sector in Michigan Has Lost Jobs

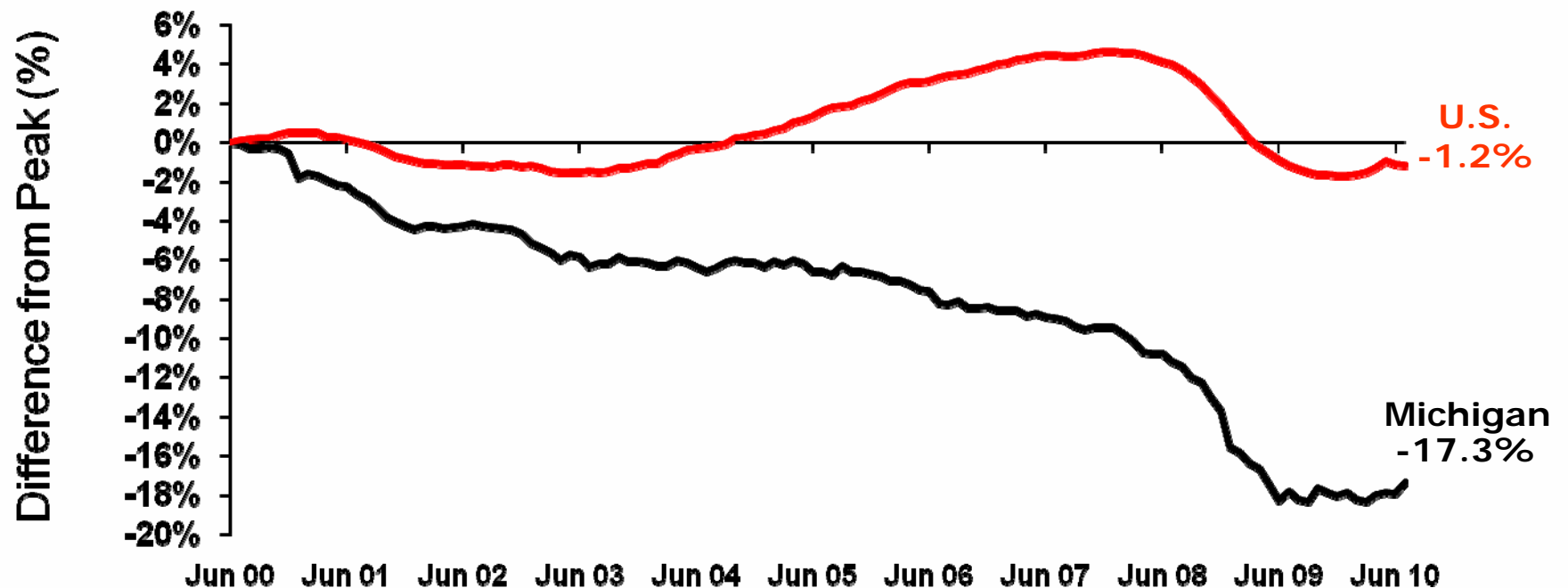
2000 to 2009





A Lost Decade of Michigan Employment

1 in 6 Jobs Lost Since June of 2000

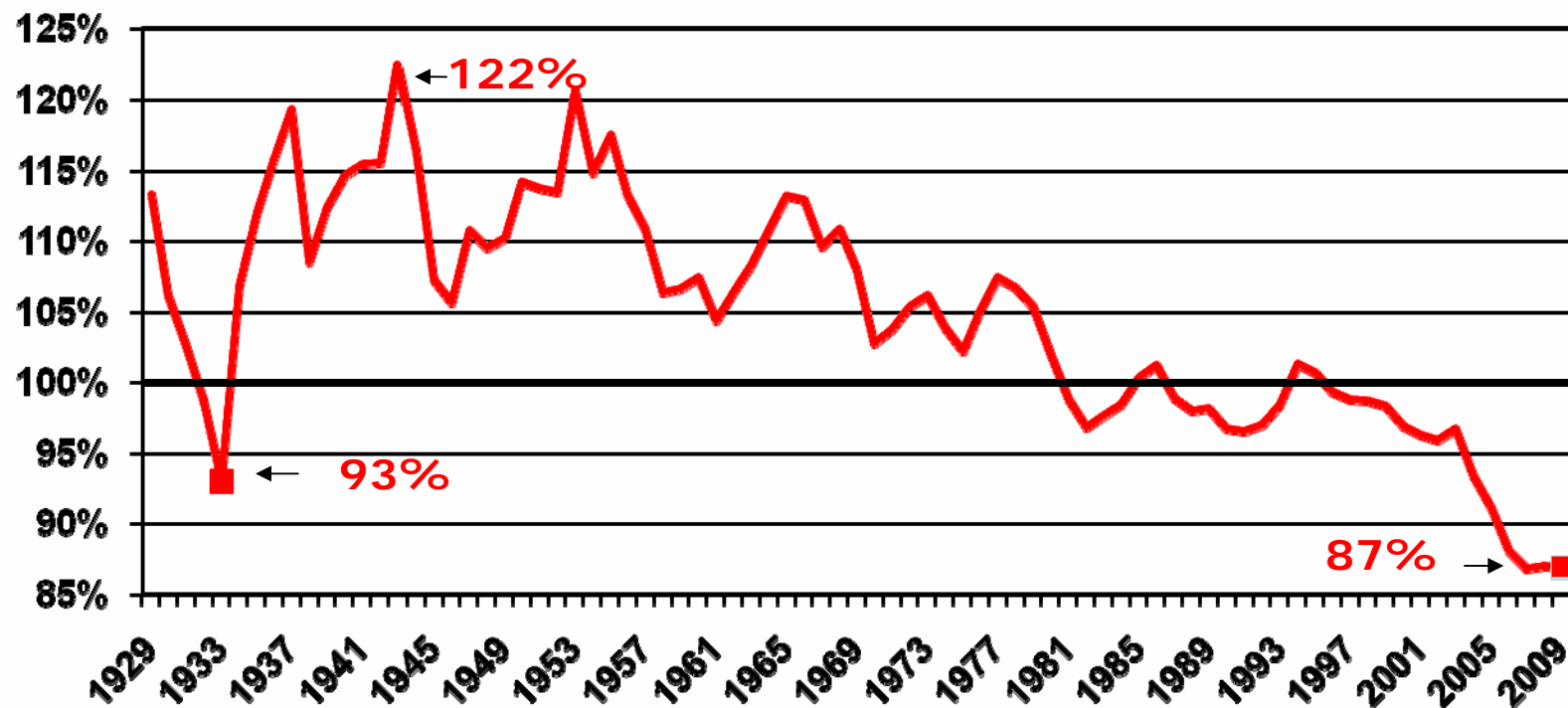


7 Note: Peak is calculated from Michigan's June 2000 Peak. Data are through July 2010.
Source: Bureau of Labor Statistics and CRC calculations.



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





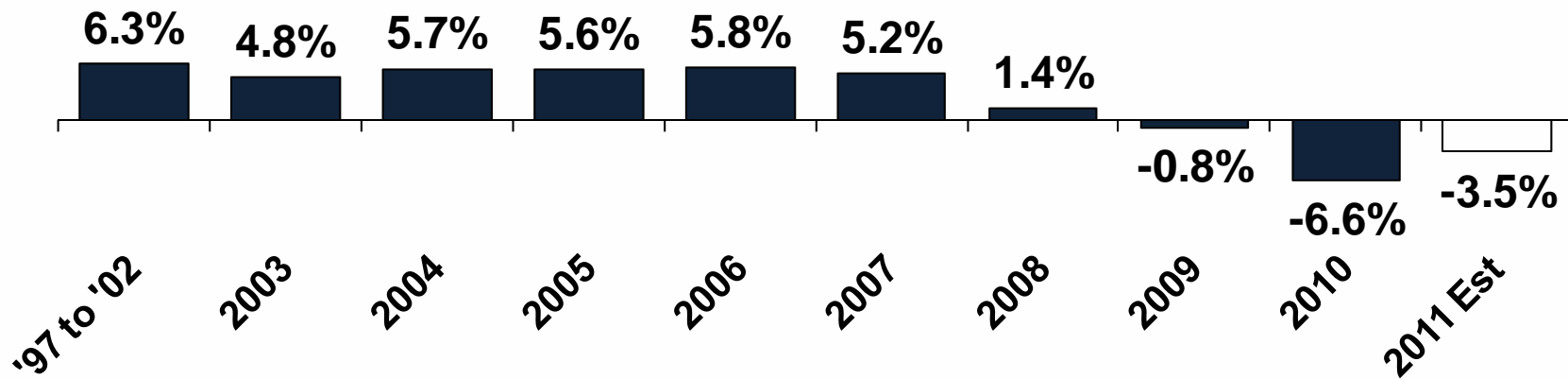
State Spending Changes FY 00 to FY 10

- Inflation up approx. 23%
- Total state spending up 22.5% but increases in federal aid drove increase; state spending from state sources up 2.3%
- Spending changes from state sources:
 - K-12 +8.2%
 - Community Colleges +0.7%
 - Universities/financial aid -13.7%
 - Revenue sharing -34%
 - Corrections +27.2%
 - Medicaid +49.9%



TV Growth Had Been Providing Local Govts With Better Revenue Growth

% Change in Total Taxable Value



Average



Local Cuts Will Be More Noticeable

- Michigan's state budget has been struggling for 10 years but most citizens have limited exposure to state spending (Medicaid, corrections, higher ed, welfare)
- Some local governments have been struggling for years due to population loss and Headlee limits on revenue growth, but others saw robust growth due to new construction
- As local governments pull back cuts will be more visible: police, fire, libraries, parks



Tax Burden

Close to National Average

But State Share Has Fallen While Local Has Increased

	FY 2000			FY 2008		
	State	Local	Total	State	Local	Total
Michigan						
Income	2.5%	0.2%	2.7%	2.1%	0.1%	2.2%
Sales	2.6%	0.0%	2.6%	2.4%	0.0%	2.4%
Property	0.6%	2.7%	3.3%	0.6%	3.4%	4.0%
Corp Income	0.8%	0.0%	0.8%	0.7%	0.0%	0.7%
Other	<u>1.3%</u>	<u>0.1%</u>	<u>1.4%</u>	<u>1.3%</u>	<u>0.2%</u>	<u>1.5%</u>
Total	7.8%	3.0%	10.8%	7.1%	3.7%	10.8%
U.S. Avg						
Income	2.4%	0.2%	2.6%	2.3%	0.2%	2.5%
Sales	2.1%	0.5%	2.6%	2.0%	0.5%	2.5%
Property	0.1%	2.9%	3.0%	0.1%	3.2%	3.4%
Corp Income	0.4%	0.0%	0.4%	0.4%	0.1%	0.5%
Other	<u>1.5%</u>	<u>0.4%</u>	<u>1.9%</u>	<u>1.6%</u>	<u>0.5%</u>	<u>2.1%</u>
Total	6.6%	4.0%	10.6%	6.4%	4.5%	10.9%



How Do We Rank?

(Data for FY 2007)

- K-12 education
 - 12th in spending per capita; growth 42nd 00 to 07
 - 4th as a % of personal income
 - Teacher salaries 11th highest (<2yrs, 18th highest down from 6th highest)
 - Higher education
 - 14th per capita; growth 50th 00 to 07
 - 11th as % of personal income (down from 6th in 00)
 - But spending number includes revenue from all sources (i.e. tuition); MI is 28th in state and local appropriations
 - Corrections
 - 18th per capita (but well above neighboring states); growth 32nd per capita
 - Taxes
- 13
- 30th per capita (13% below U.S. avg; w/ tax increase 29th)
 - 20th as % income (at U.S. average)



FY 2011 Budget Will Likely Have \$1.6B in One-Time Resources

	<u>FY 2011</u>	<u>FY 2012</u>	<u>Change</u>
<u>GF-GP</u>			
ARRA	\$261	\$0	(\$261)
New Stimulus	\$380	\$0	(\$380)
IIT Rate Cut	\$0	(\$150)	(\$150)
Tax Amnesty	\$89	(\$62)	(\$150)
Unclaimed Property	\$168	\$61	(\$107)
Debt Restructuring	\$120	(\$4)	(\$123)
Total GF-GP	\$1,017	(\$154)	(\$1,171)
<u>SAF</u>			
ARRA	\$184	\$0	(\$184)
New Stimulus	\$316	\$0	(\$316)
Total SAF	\$500	\$0	(\$500)
Total GF + SAF	\$1,518	(\$154)	(\$1,672)



Significant Tax Cuts are in the Pipeline

	<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	(\$150.0)	(\$329.0)	(\$522.5)
Alternative Energy Credits IIT	(\$16.0)	(\$46.0)	(\$55.3)	(\$42.0)	\$0.0	\$0.0
Michigan EITC	(\$140.0)	(\$325.0)	(\$338.0)	(\$358.3)	(\$379.8)	(\$402.6)
Eliminating MBT Surcharge		Eliminated in Tax Year 2017		(\$715 million)		
MBT Battery Credits(1)	\$0.0	\$0.0	\$0.0	(\$40.0)	(\$268.0)	(\$278.0)
MBT Film Credits & Infrastructure(2)	(\$37.5)	(\$100.0)	(\$125.0)	(\$125.0)	(\$125.0)	(\$125.0)
Polycrystalline Manuf. Credit	\$0.0	\$0.0	\$0.0	\$0.0	(\$25.0)	(\$25.0)
Photovoltaic Tech	\$0.0	(\$0.8)	(\$9.8)	(\$12.5)	(\$12.5)	(\$15.0)
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)
Promise Zones	\$0.0	(\$1.0)	(\$4.0)	(\$10.0)	(\$15.0)	(\$20.0)
Use Tax Bad Debt Deduction Change	(\$2.0)	(\$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)
Totals	(\$138.8)	(\$555.4)	(\$630.4)	(\$838.5)	(\$1,262.7)	(\$1,491.3)

(1) Totals if full amount used



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