CITIZENS RESEARCH COUNCIL OF MICHIGAN

Economic Update on Revenues and School Aid

Michigan School Business Officials
72nd Annual Conference

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Citizens Research Council of Michigan
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Citizens Research Council

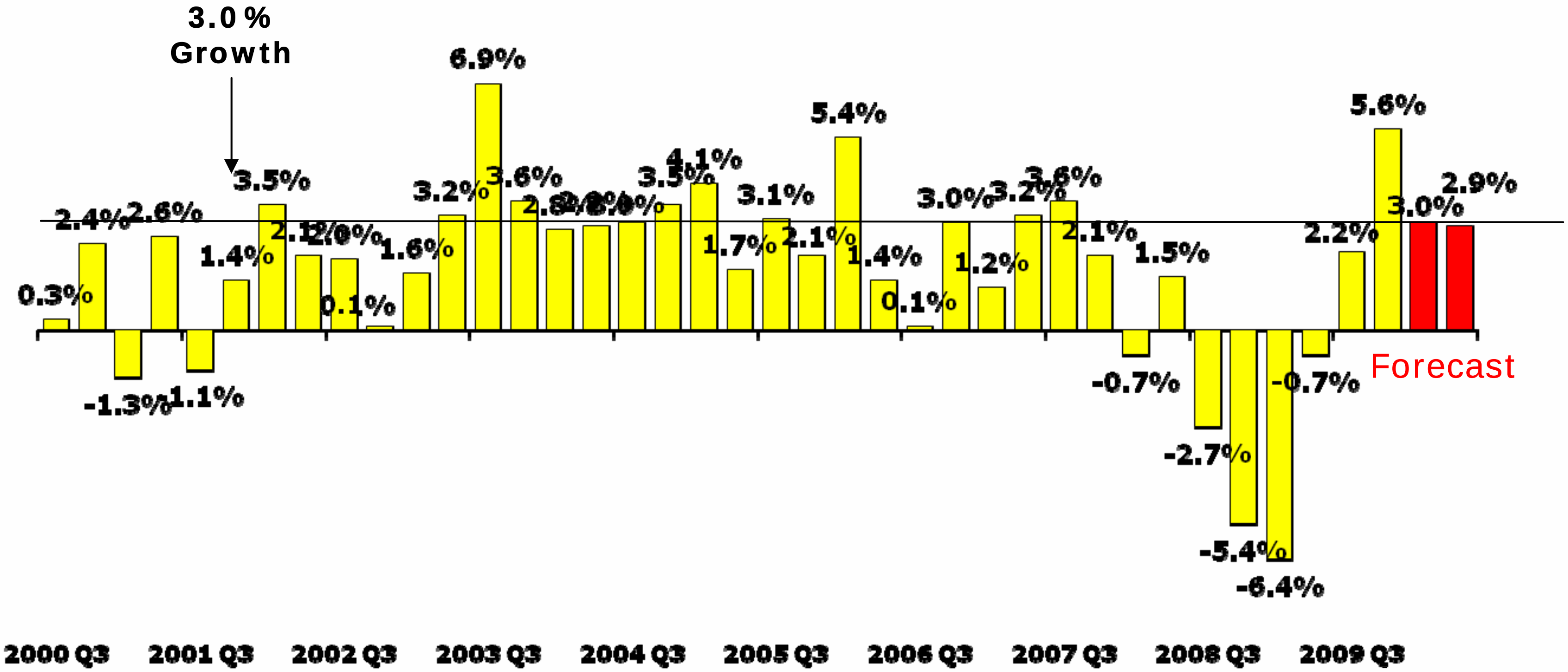
- Founded in 1916
- Statewide
- Non-partisan
- Private not-for-profit
- Promotes sound policy for state and local governments through factual research – accurate, independent and objective
- Relies on charitable contributions of Michigan foundations, businesses, and individuals
- *www.crcmich.org*

What is the State of the National Economy?

- The recession appears to be over 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

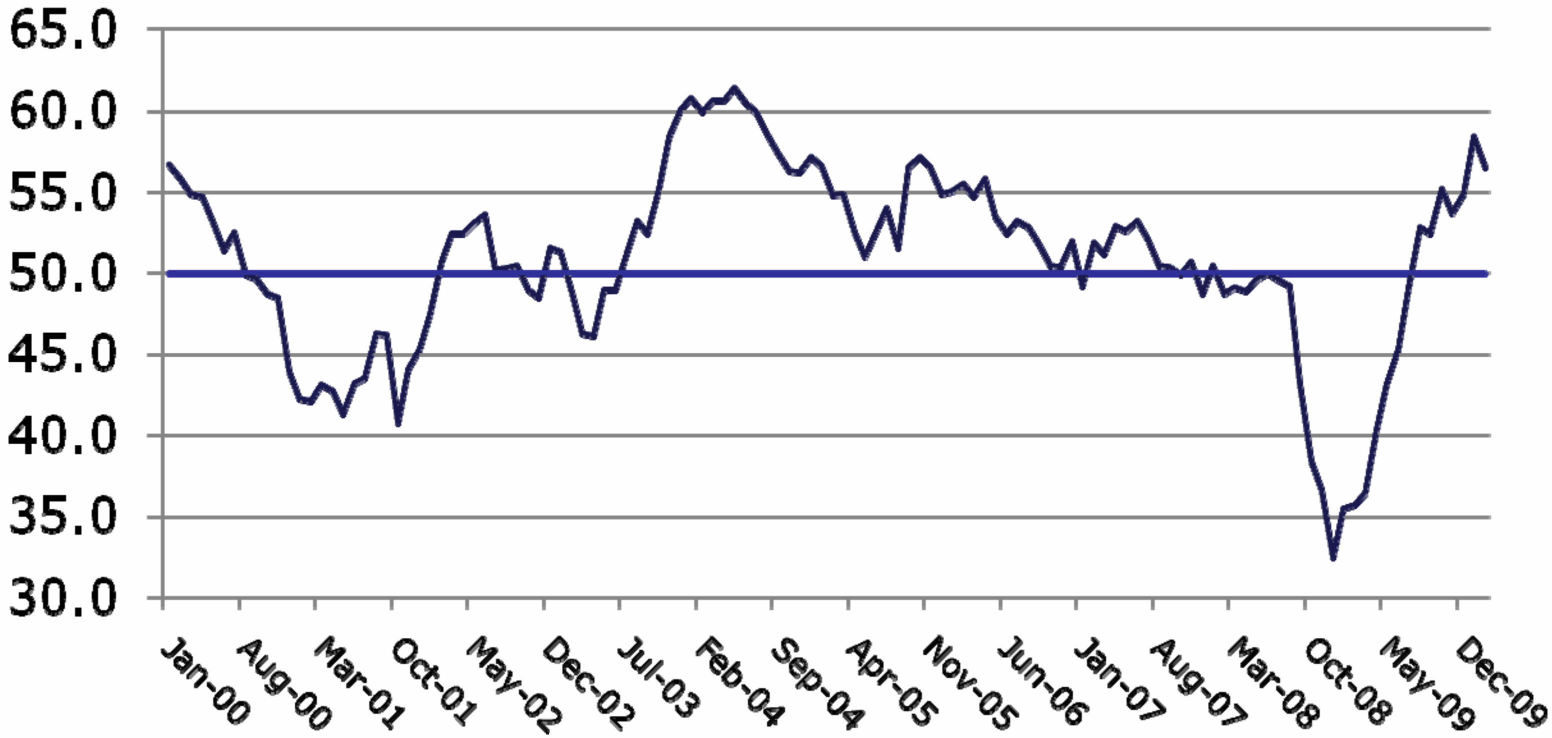
GDP Increased in 3rd & 4th Quarters and Expected to Grow in Q1 and Q2

Real GDP Growth



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.

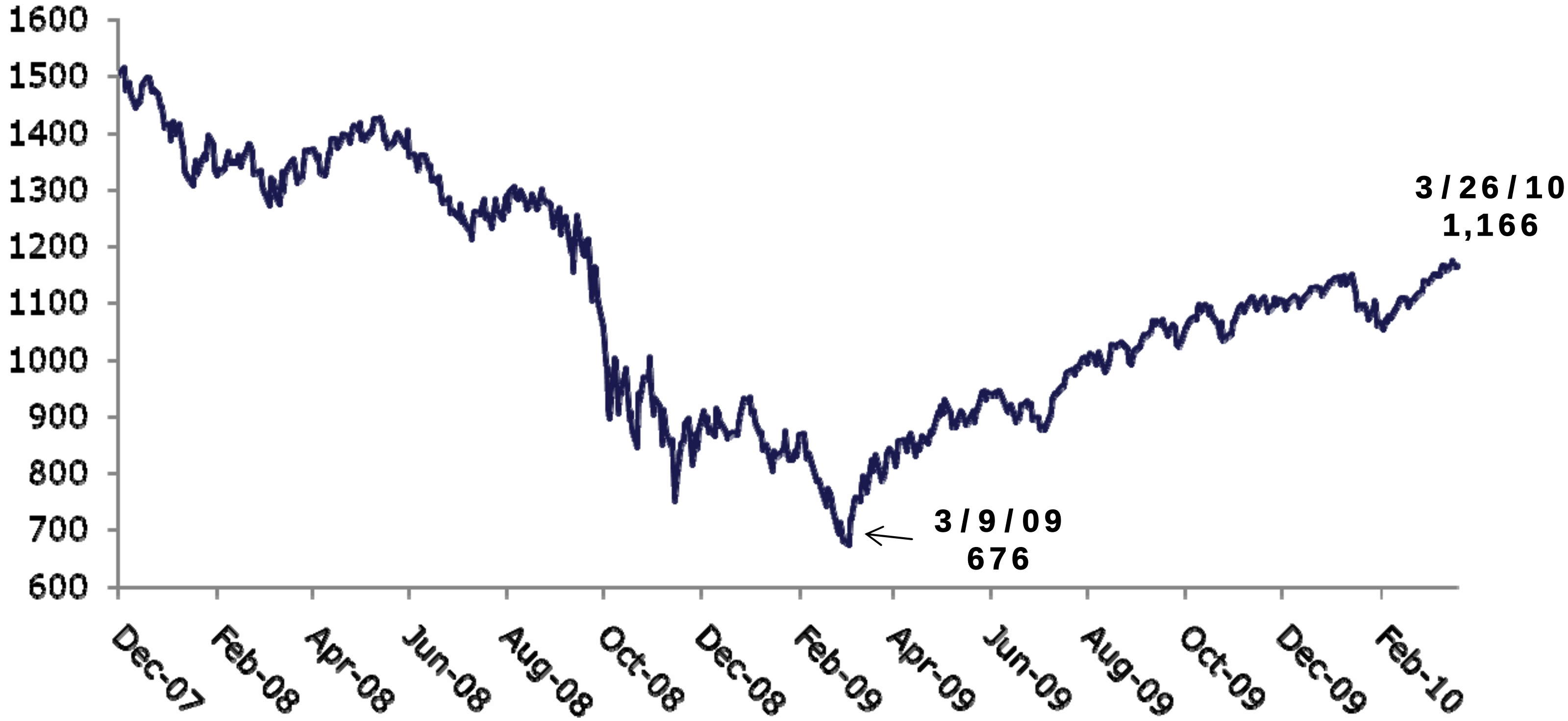
ISM Manufacturing Index Shows Sector Growing Again



Source: St. Louis Federal Reserve Bank FRED

S&P 500 Is Recovering Up 72% From March 2009 Low

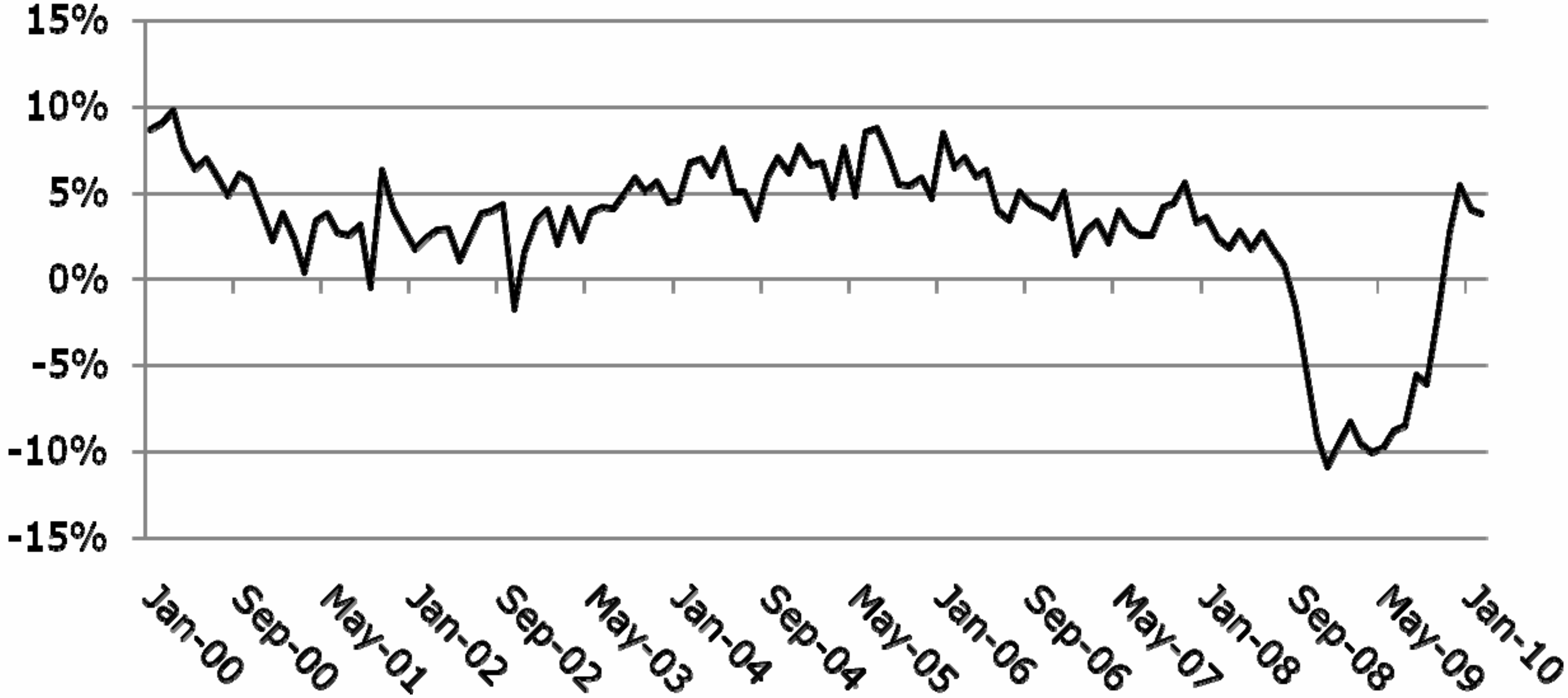
But Still Down 20% from 2007



Source: Freelunch.com

Retail Sales Plummeted But are Slowly Recovering

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



Source: Freelunch.com and CRC calculations

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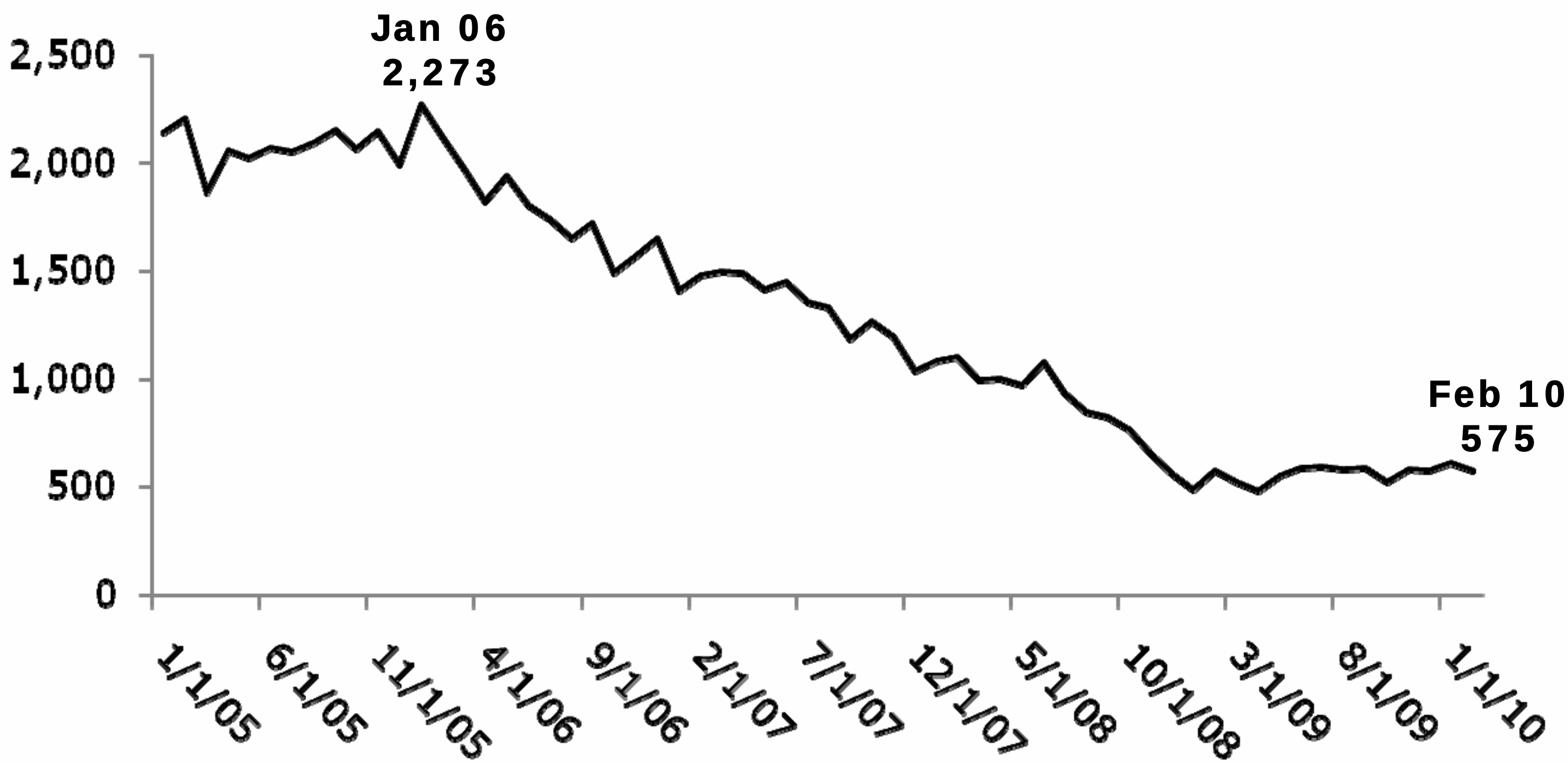
Housing Starts Still Down 75 Percent from Peak

New Privately Owned Houses Started (Thousands)



Source: St. Louis Federal Reserve Bank -- FRED

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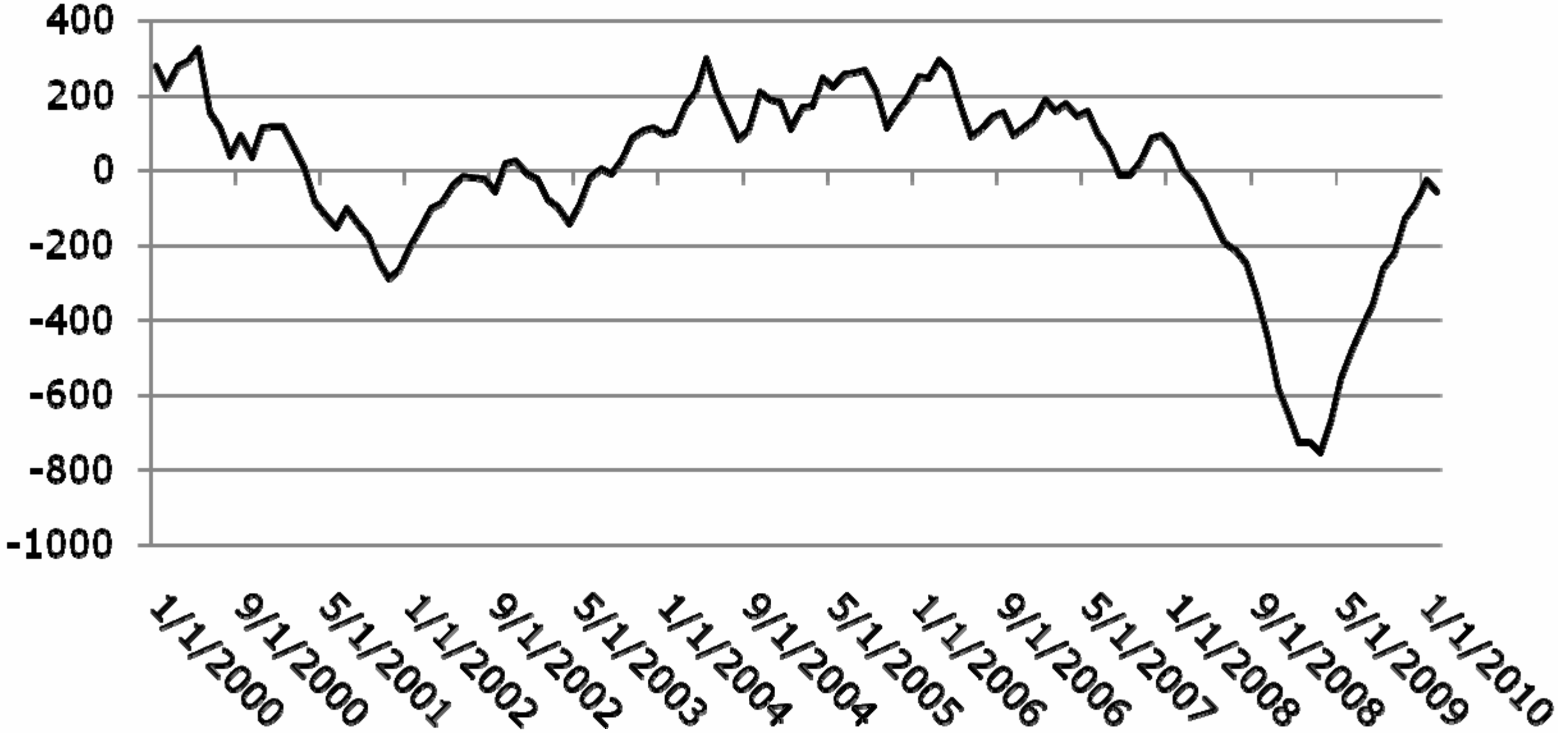
U.S. Employment Stabilizing But Still Down 8 million Jobs

Monthly Change in U.S. Employment (3 month avg. thousands)

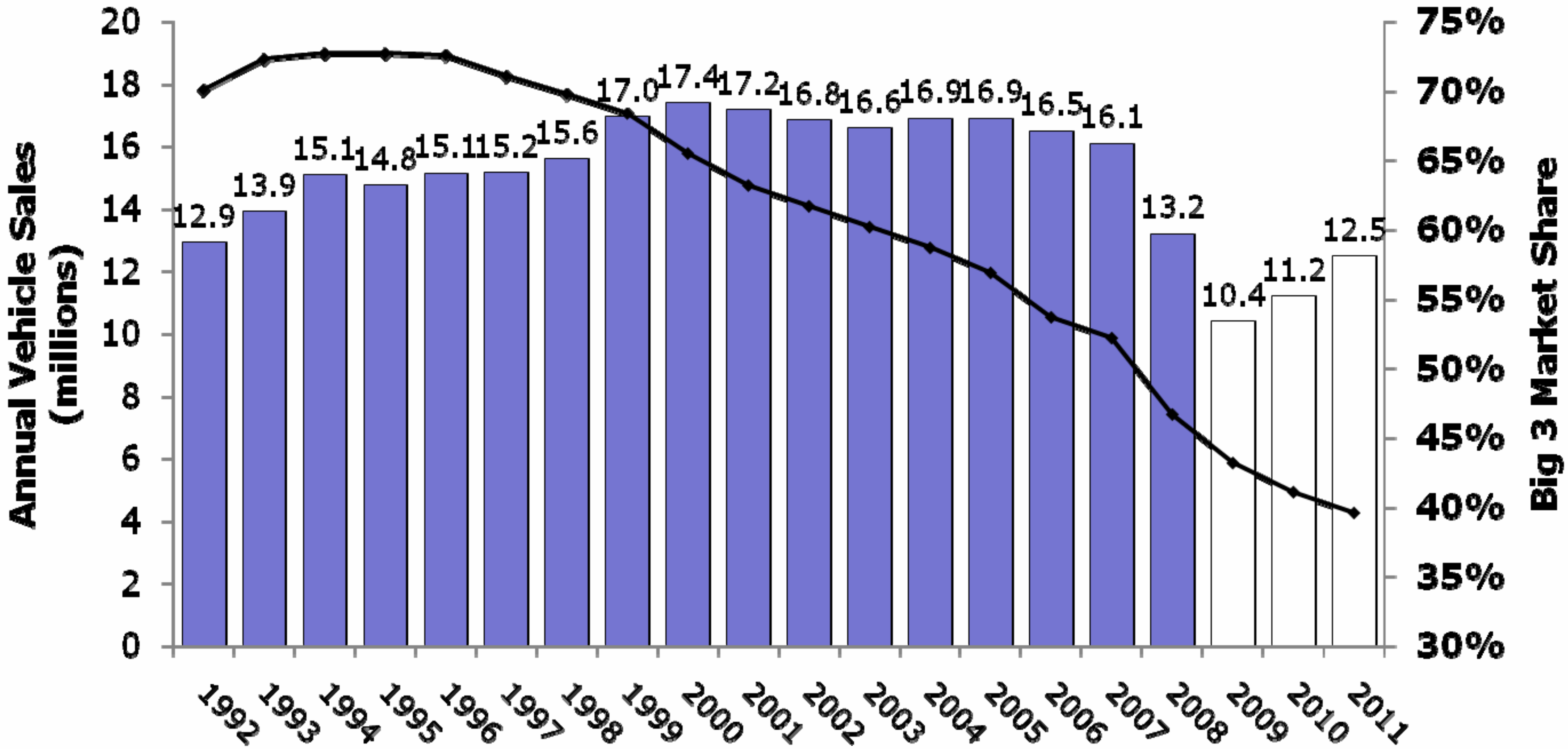


Source: U.S. Bureau of Labor Statistics

What's Happening In Michigan?

- 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

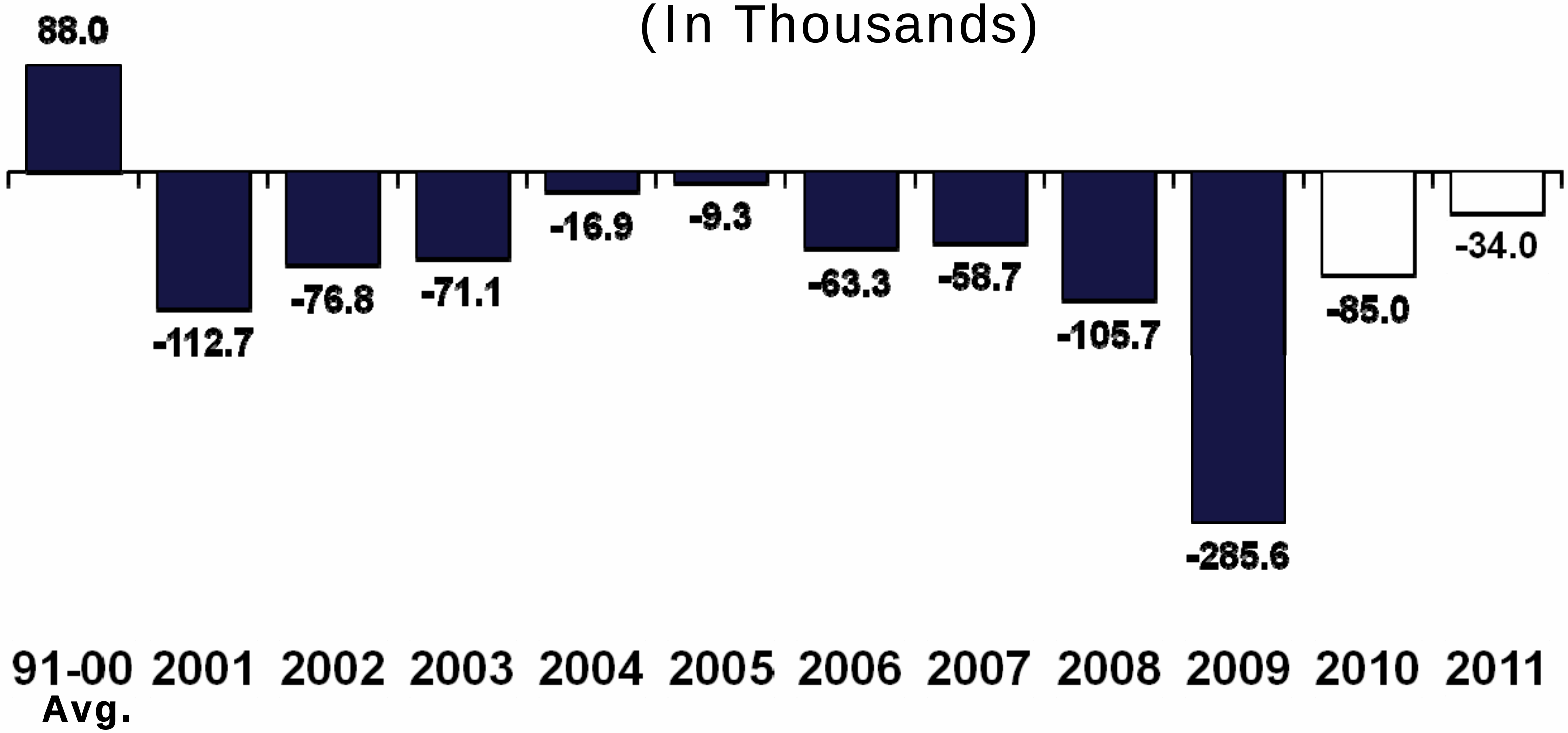
Big 3 Market Share Plummets



Source: 2009-2011 sales are the Jan 2010 Cons. Estimates; 2009-2011 share RSQE.

State Forecast –
No Job Growth for Michigan

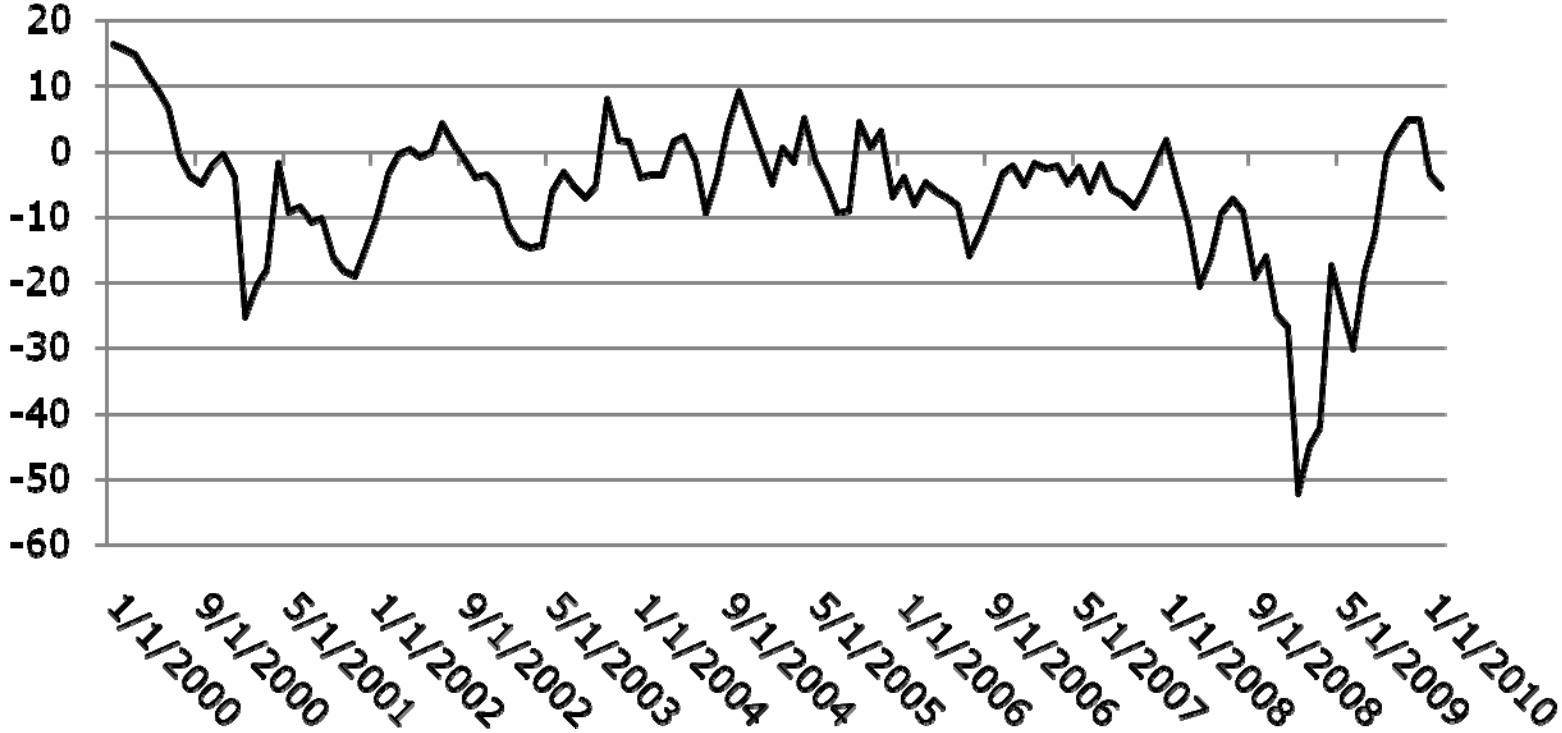
Michigan Wage and Salary Employment Y-O-Y Change
(In Thousands)



Source: Bureau of Labor Statistics. 2010-2011 estimates are from the Jan 2010 Cons. Forecast.

Michigan Job Losses are Starting to Abate

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



Source: U.S. Bureau of Labor Statistics

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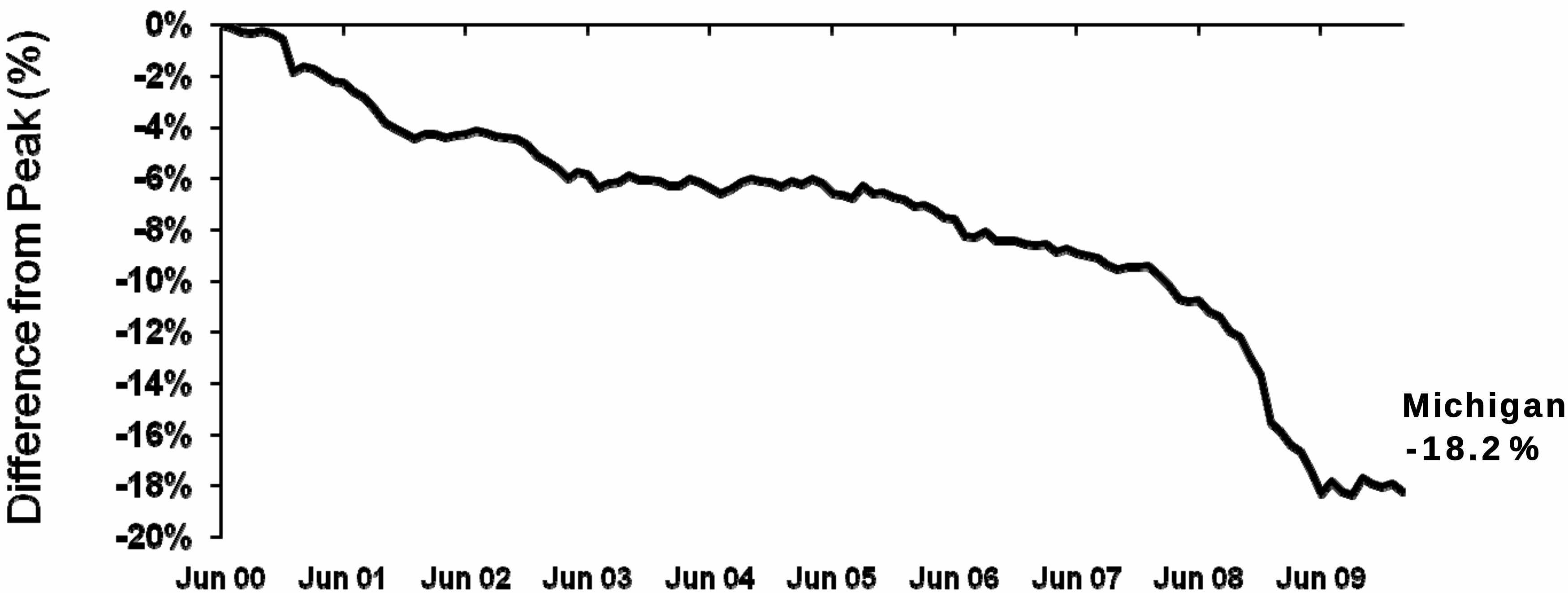
Michigan Has Lost Half its Manufacturing Jobs

Source: U.S. Bureau of Labor Statistics.

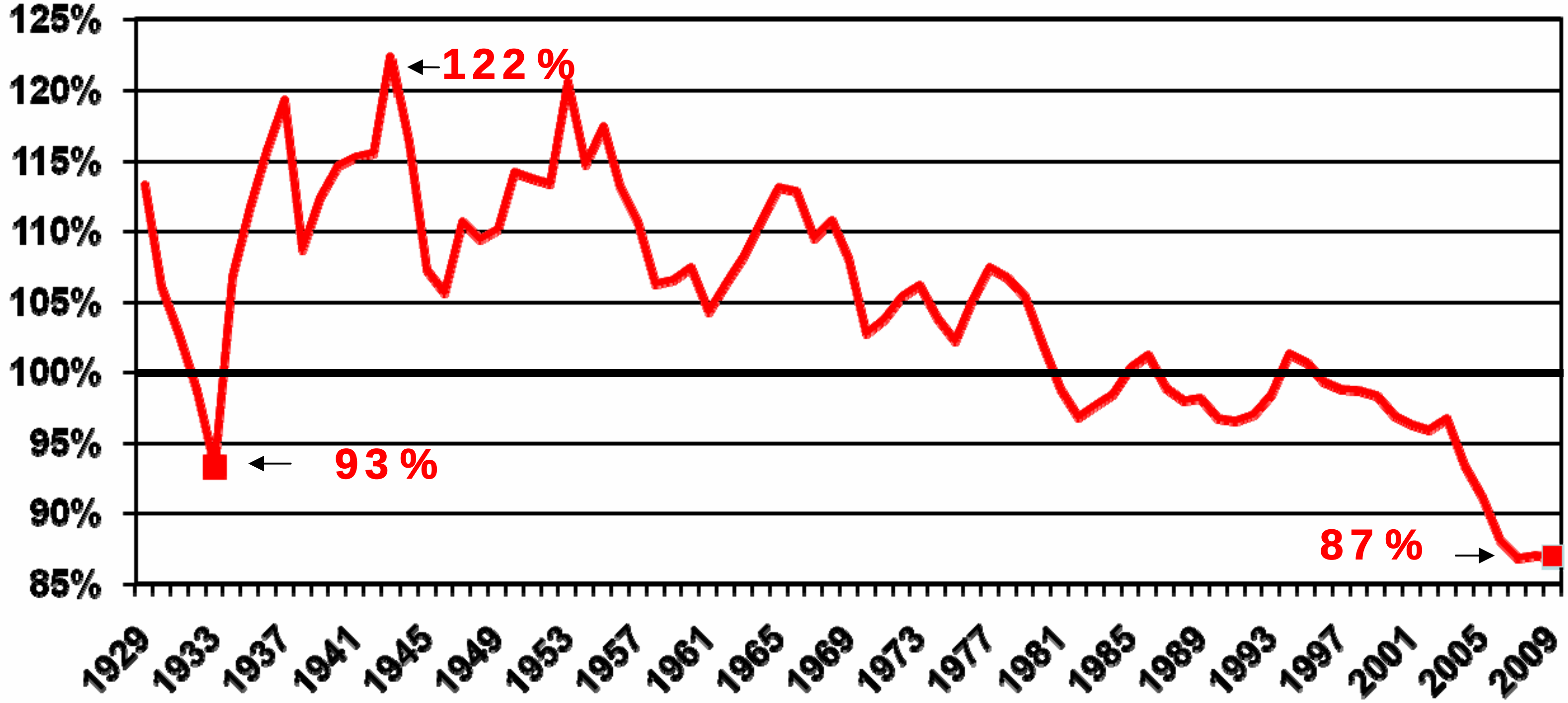
Michigan Has Now Lost 1 in 6 of the Jobs It Had in 2000



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

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

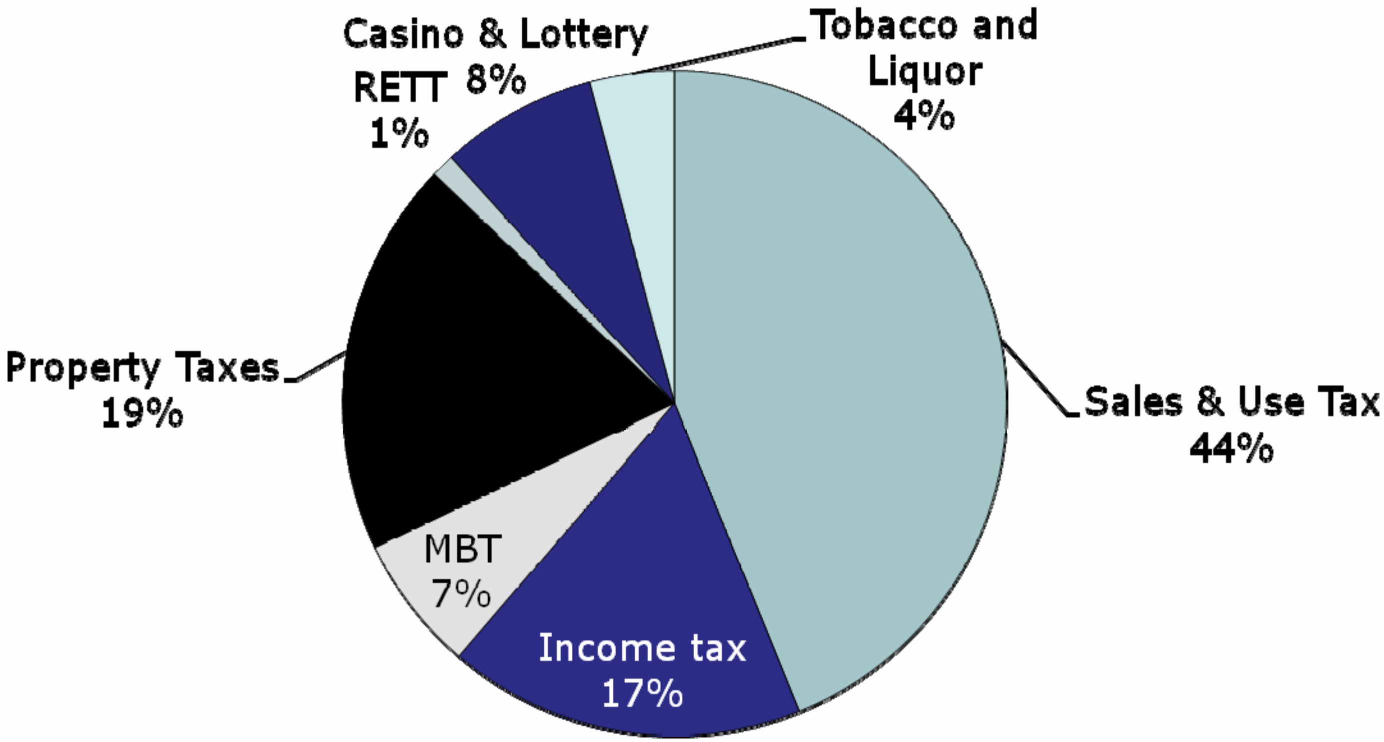


Source: CRC calculations from Bureau of Economic Analysis data. March 24, 2009 personal income release for years Prior to 1969. March 2010 release for years after 1969.

What Does All this Mean for Schools?

- Revenues were stagnant for most of decade and then plummeted in 2009
- Significant Cutting in 2010, but would have been worse without stimulus dollars
- Shortfall in 2011 is greater than in 2010
- Governor has proposed tax changes to balance 2011
- Retirement changes offer some relief in short run

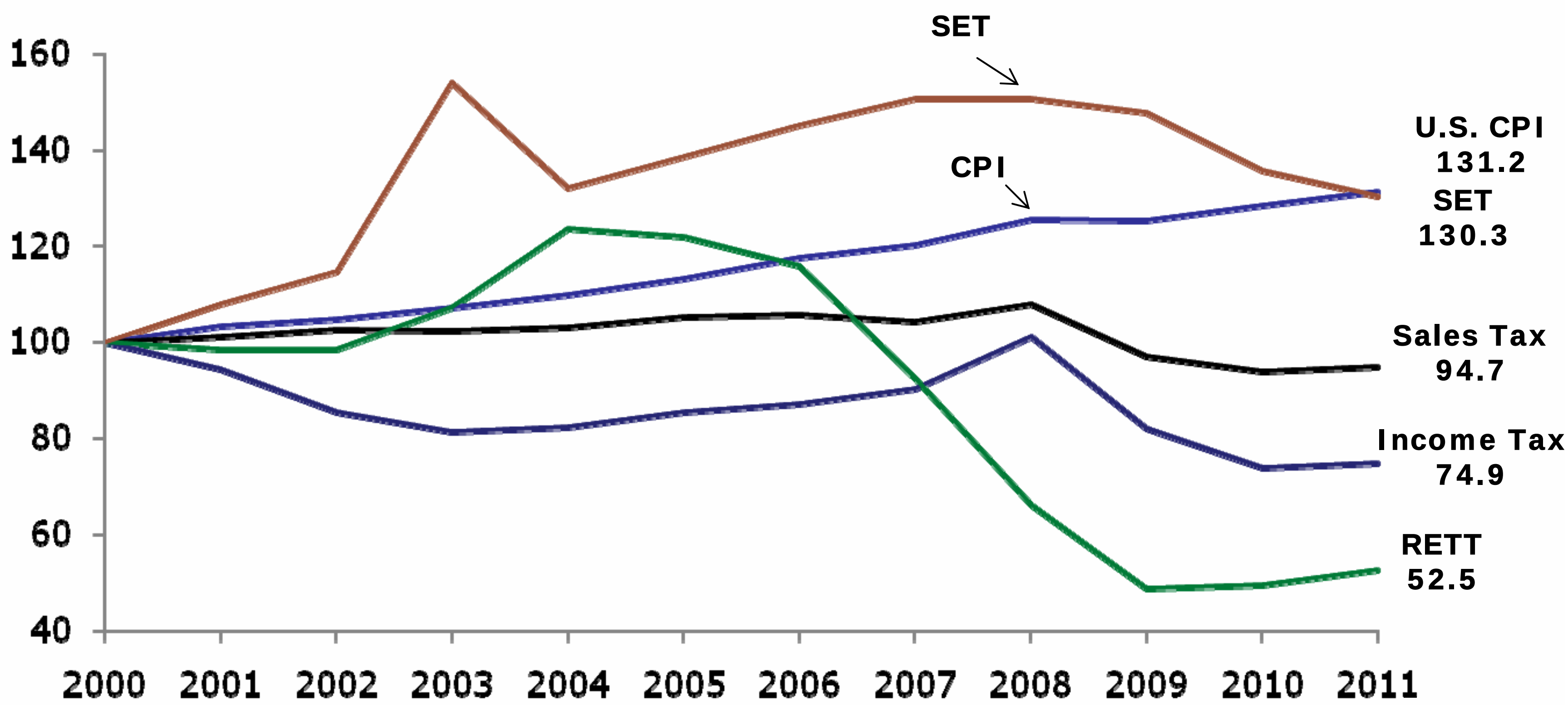
Sources of State School Aid Revenue (Totals $10.9B in FY 2009)



Note: Totals are preliminary. Totals do not include federal aid, stimulus revenue, or GF-GP transfers.

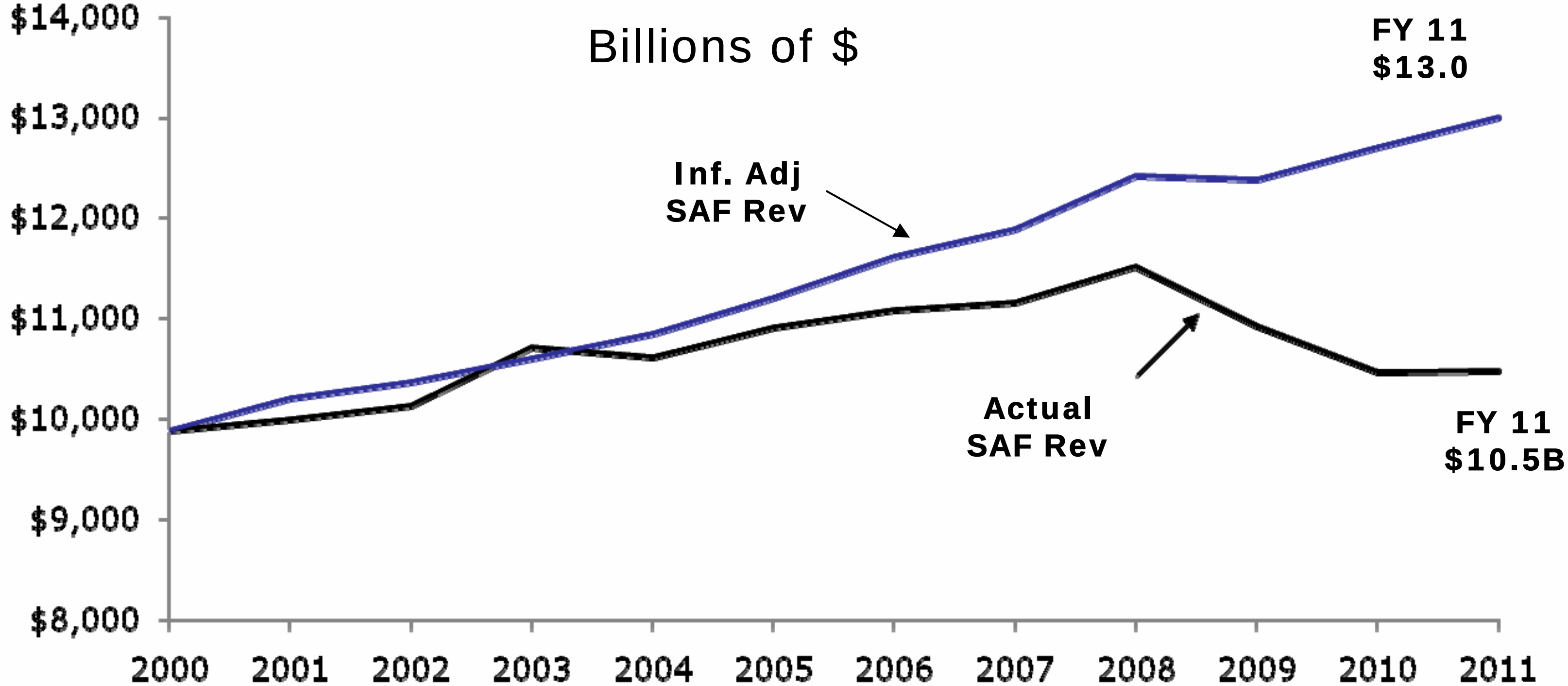
Major SAF Revenue Sources Fail to Keep Pace with Inflation

Totals Indexed so that FY 2000 Total = 100



Note: 2010 and 2011 totals are the January 2010 Consensus estimates.

SAF Revenues Trail Inflation By $2.5 Billion Since 2000



Source: CRC calculations. FY 2009 and FY 2010 are the January 2010 Consensus estimates.

Revenues Crash and Don't Recover

Annual Growth Rates

	FY 2009	Projected FY 2010	Projected FY 2011
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%

Note: Projected totals are the January 2010 Consensus Revenue Estimates.

FY 2010 Budget Balancing Measures

- Ongoing FY 2010 SAF revenues projected to be $1.0 billion below FY 2008
- Enacted FY 10 Cuts:
  - $165 per pupil ($263M)
  - ISD reduction ($16M)
  - 20j veto ($52M)
  - Other Cuts ($35M)
- Proposed proration $127 per pupil ($212M) was rescinded
- Stimulus money in budget:
  - FY 09 $600M
  - FY 10 $450M
  - FY 11 $184M (remainder of funds)

Stimulus Spending Has Been Supporting State Budgets

(millions of $)

	FY 2009	FY 2010	FY 2011 CSB
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**

	FY 2009	FY 2010	FY 2011 CSB
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**

Source Senate Fiscal Agency estimates adjusted by CRC. GF-GP spending totals have been increased by the ARRA amounts since the ARRA funds are replacing GF-GP spending.

School Aid Fund Budget FY 2011 Shortfall

	FY 2011 Estimate
Revenues	
Beginning Balance	$78.5
January Consensus Estimate	$10,480.5
Remaining ARRA	$184.3
GF-GP Grant to Schools	$30.2
Ongoing Federal Aid	$1,680.1
Total Estimated Revenue	**$12,453.6**
Expenditures	
FY 2009-10 Current Service Baseline	$12,863.3
Total Projected Expenditures	**$12,863.3**
Estimated Year End Balance	**($409.7)**
Student Count	1,580,100
Approx. Shortfall per pupil	($259)

Source: Senate Fiscal Agency estimates adjusted by CRC. All dollar totals except per pupil shortfall in millions.

Gov's SAF Solution
$420M Problem in FY2011

- Tax Restructuring – two parts
  - Expand sales tax base to consumer services
  - 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 in FY 11: ($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)
- Without retirement changes retirement contribution increasing from 16.94% of payroll in 2010 to 19.41% of payroll in 2011 (approx $150 per pupil)

How Will the School Aid Fund Estimates Be Revised in May?

- Sales tax looked good in January and February which bodes well for School Aid estimates
- SFA had School Aid Fund on target through February
- GF estimates will be in trouble unless MBT improves (SAF gets fixed dollar amount of MBT regardless of collections)
- Two months is not enough data to assess the estimates, but there is definitely some upside potential – need continued sales tax strength and good April income tax payments

Will It Get Better?

Short Run

- January revenue estimates were conservative so there is some upside but:
- Districts have not yet fully incorporated FY 2010 cuts
- FY 2011 shortfall is greater than what was cut in FY 2010

Longer Run

- CRC 2008 study (pre-recession) found that SAF revenues would grow approximately 3.0% per year while spending pressures grew 4.7%
- Projected statewide enrollment decline of 1.5% per year will be a blessing and a curse for school districts;
- Unfunded OPEB liability is $26 billion; we should be contributing $1.8 billion per year more than we are

Bottom Line: SAF problem does not self correct

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