



Michigan Economic and Budget Update Progress and Challenges

Wayne County Treasurers Association

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Citizens Research Council

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- 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
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Overview

- Status of the national economy
- Michigan – where are we now?
- State Budget Update
- Challenges for Schools and Local Governments



Status of the National Economy

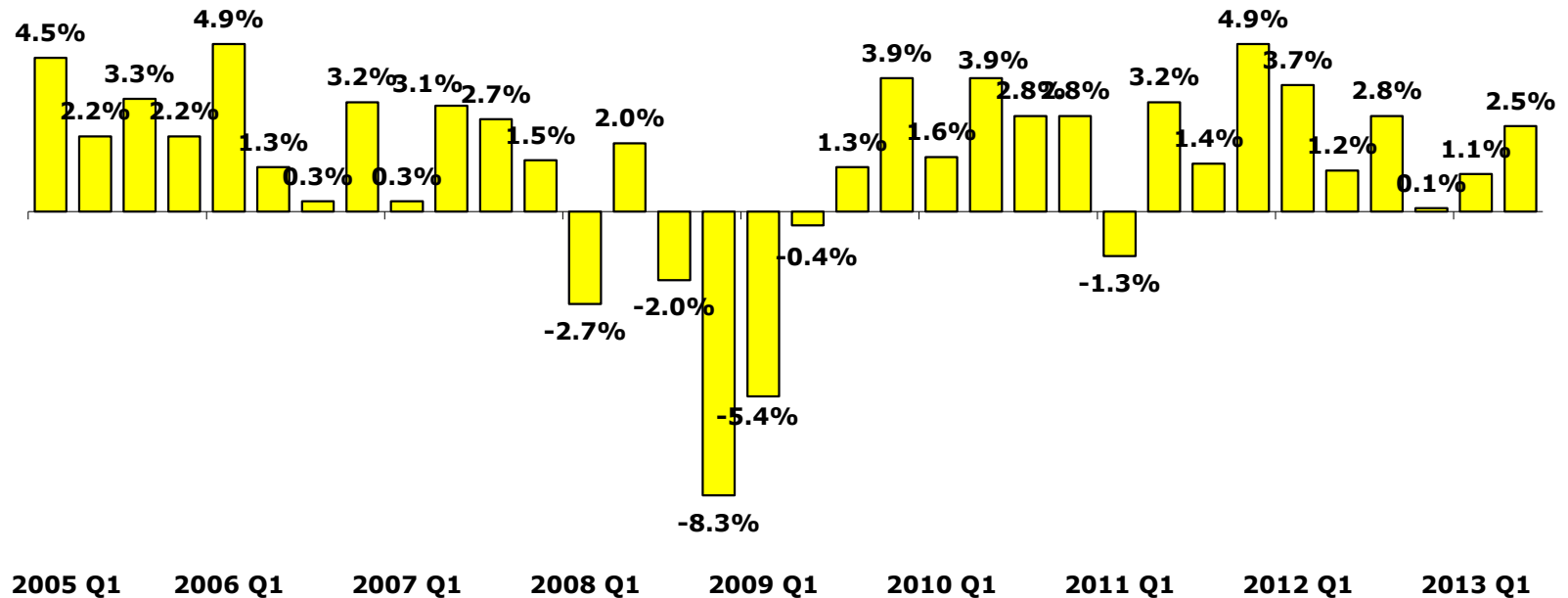


Overview

- Recovery is almost 4 years old
- Growing, but slowly
- Autos, stock market have recovered, housing is on its way
- Employment growth still disappointing
- Europe dragging on growth
- Federal fiscal policy slowing growth and big risk in next six weeks

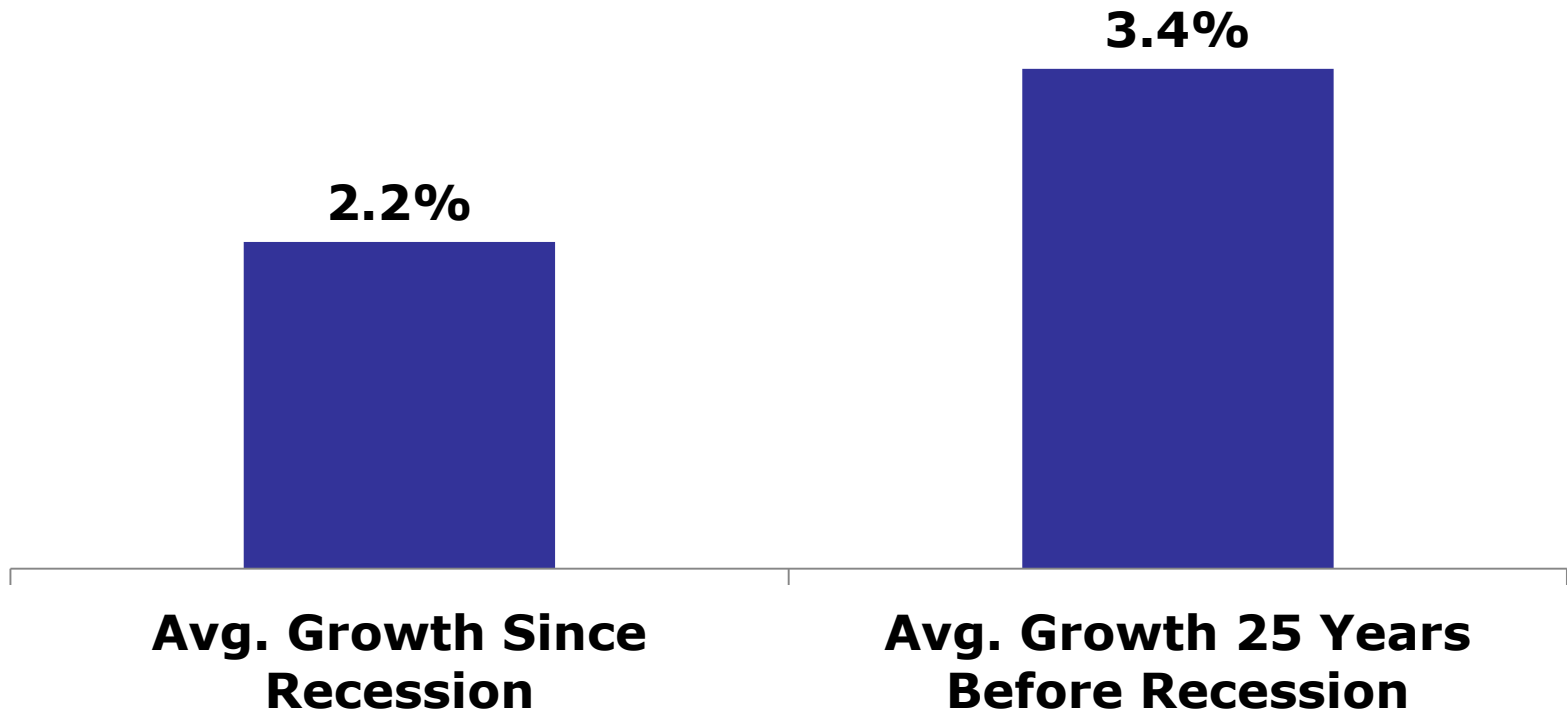
Output has Been Growing for 4 Years

Real GDP Growth





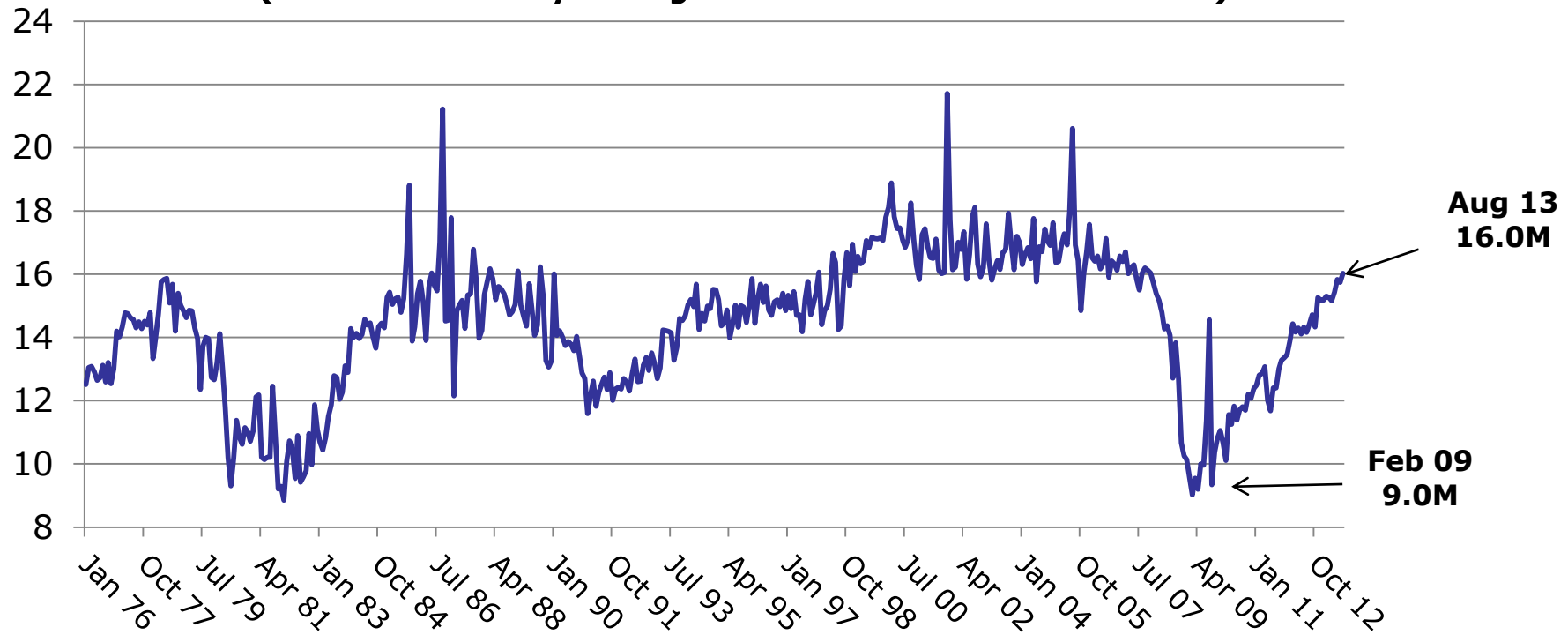
But Growth is Slow





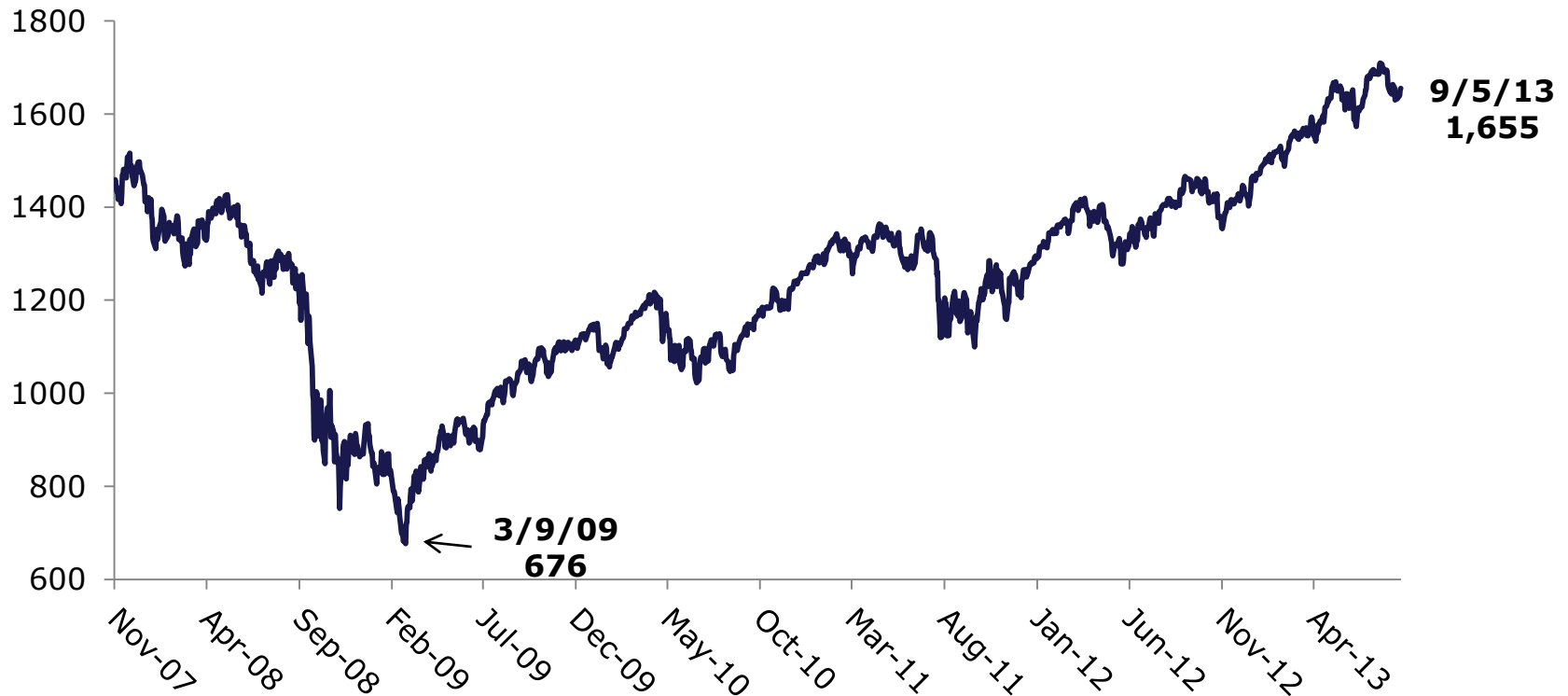
Vehicle Sales Are Back to Pre-recession Levels

Monthly Light Vehicle Sales (Seasonally Adjusted Annual Rate)





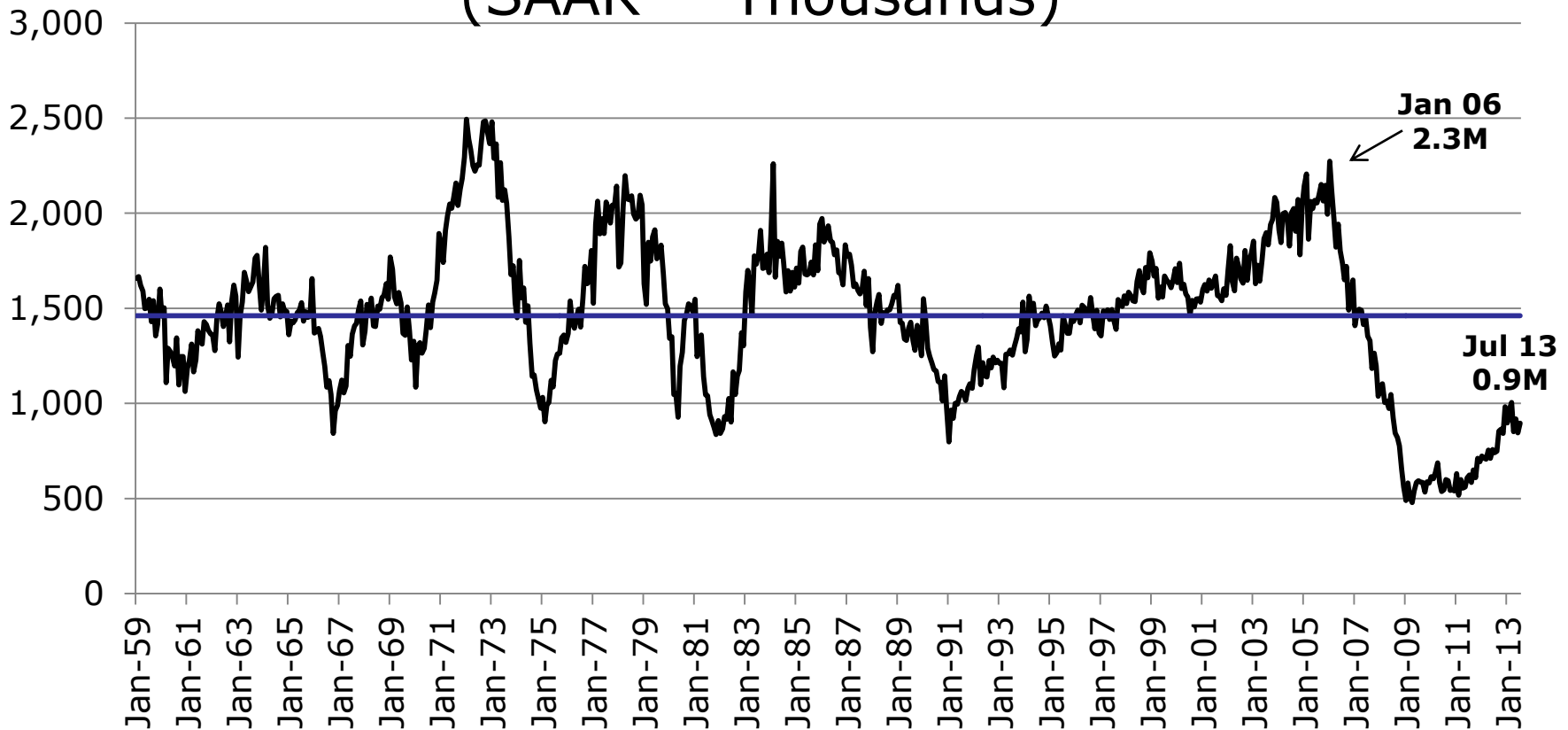
S&P 500 Up 145% From March 09 Low





Housing Starts – Better But Still Have a Ways to Go

Housing Starts Total New
(SAAR -- Thousands)





Eurozone Economic Woes Contributes to Slow U.S. Growth

	GDP Growth		Unemployment Rate	
	2012	2013	2012	2013
Germany	0.7%	0.4%	5.5%	5.4%
United Kingdom	0.3%	0.6%	7.9%	8.0%
France	0.0%	-0.1%	10.2%	10.6%
Italy	-2.4%	-1.3%	10.7%	11.8%
Spain	-1.4%	-1.5%	25.0%	27.0%
Greece	-6.4%	-4.2%	24.3%	27.0%
EU-27	-0.3%	-0.1%	10.5%	11.1%
United States	2.2%	1.9%	8.1%	7.1%

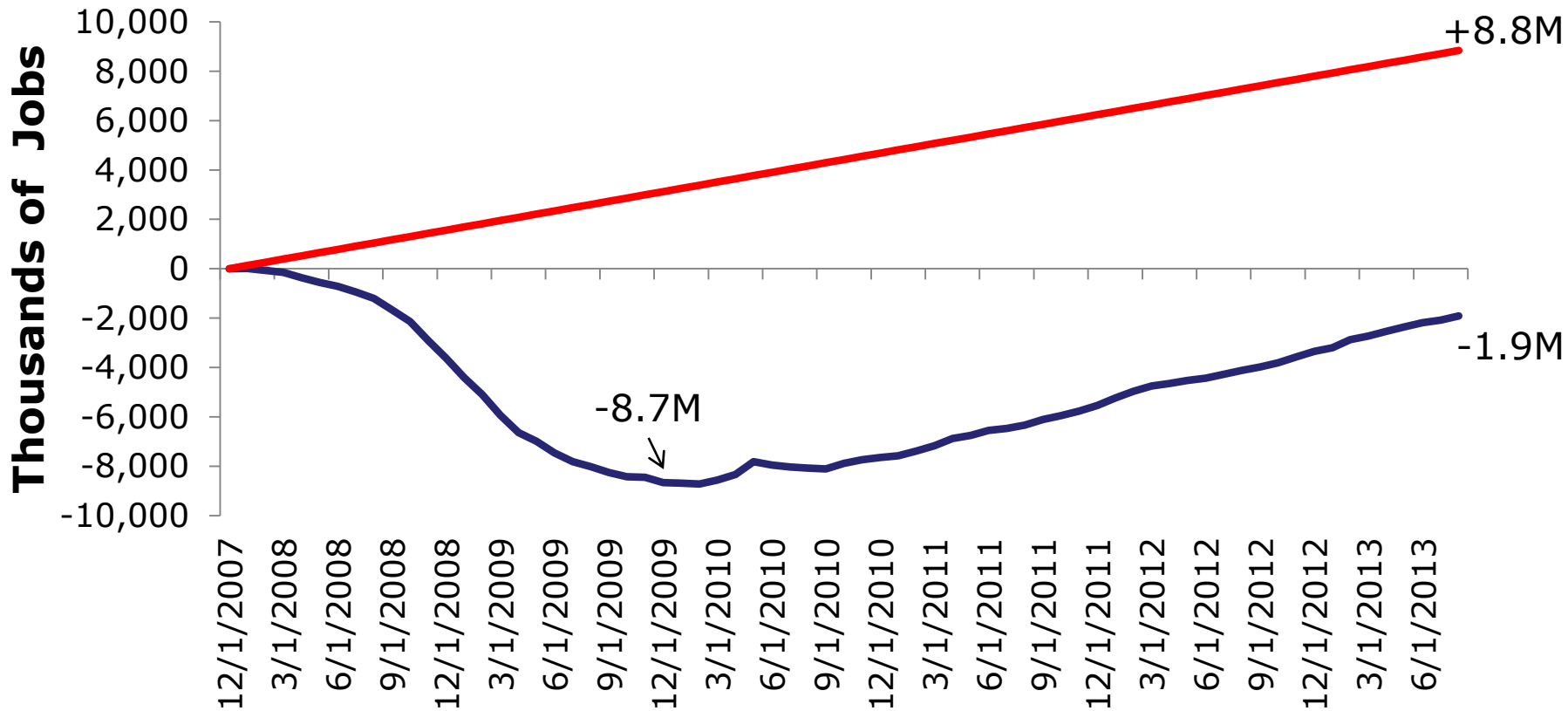


Federal Fiscal Policy Has Become Contractionary

- Federal stimulus aid to the states peaked at \$100 billion in FY 2010 – projected to be \$6 billion for 2013 and \$0 for 2014
- Fiscal cliff resolution included \$148 billion in increased taxes of which \$113 billion was the end of the payroll holiday
- Sequester could cut defense spending by \$48 billion (8 percent) and nondefense by \$29 billion (5 percent)
- CBO estimating that fiscal cliff deal and sequestration will shave 1.5% off GDP growth
- 12● Feds need to deal with end of continuing resolution (9/30) and debt ceiling (mid October)



Employment Growing with Labor Force But Not Regaining Lost Jobs





Michigan – Where are We Now?

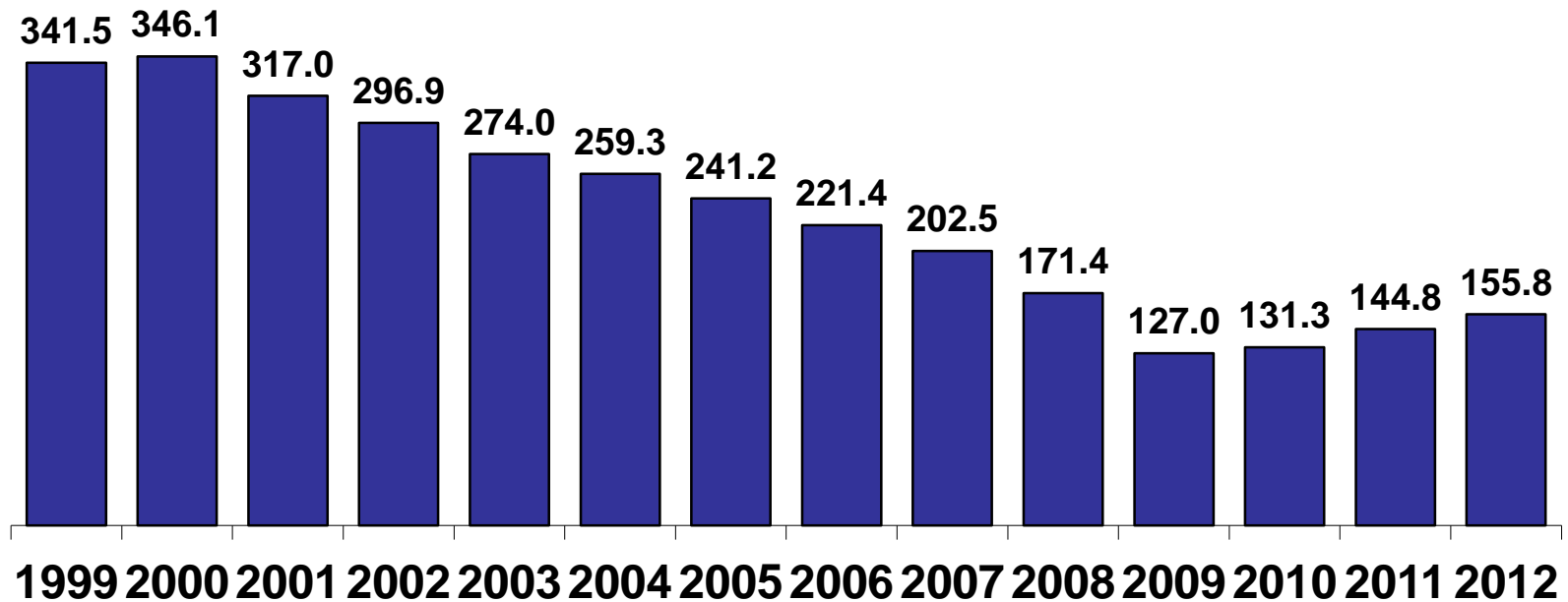


The Last Decade Was an Economic Disaster for Michigan

	Growth 2000 to 2010		Michigan
	<u>U.S.</u>		<u>Rank</u>
Population	9.6%	-0.8%	51
Real Per Capita GDP	5.0%	-10.4%	51
Employment	-1.5%	-17.4%	51
Real Per Capita Income*	4.9%	-5.6%	50

Michigan Lost More than Half Its Auto Employment

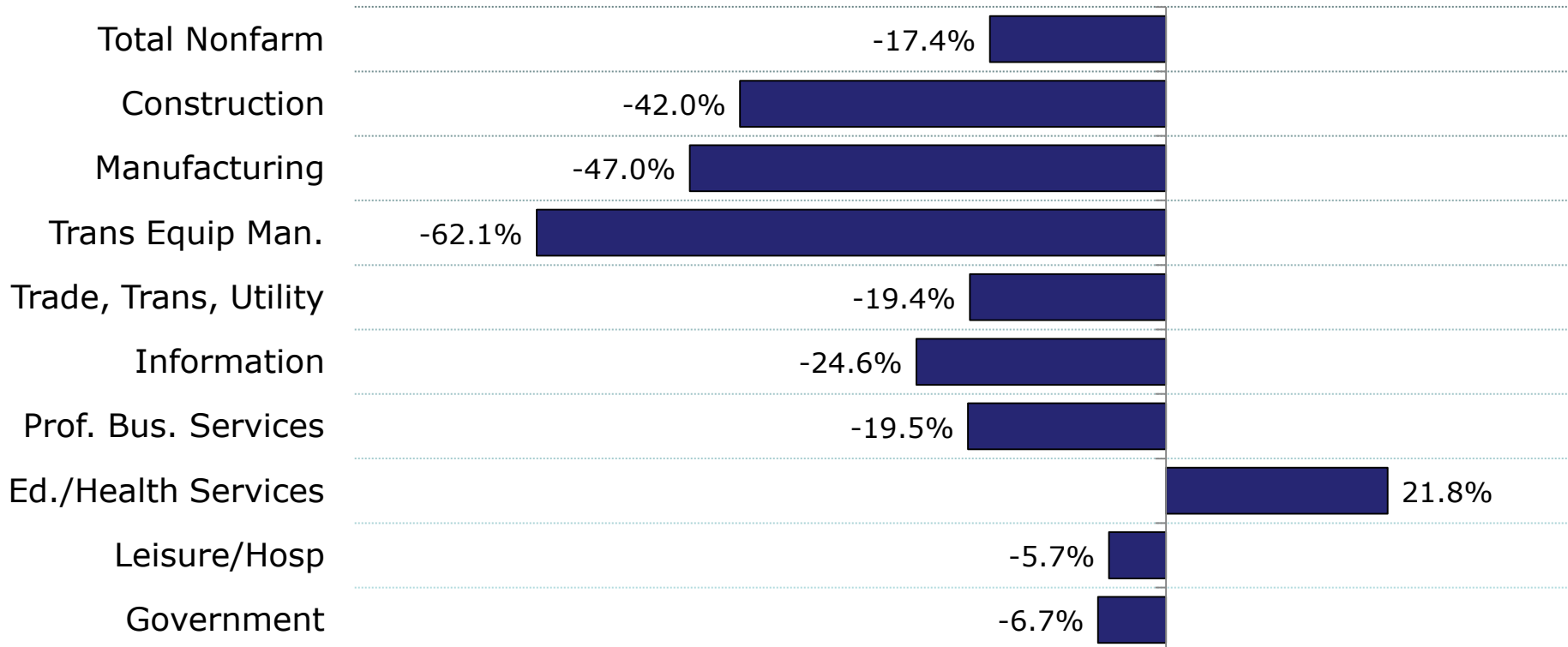
Michigan Transportation Equipment Employment
(In Thousands)





Almost Every Sector in Michigan Lost Jobs in Michigan's Lost Decade

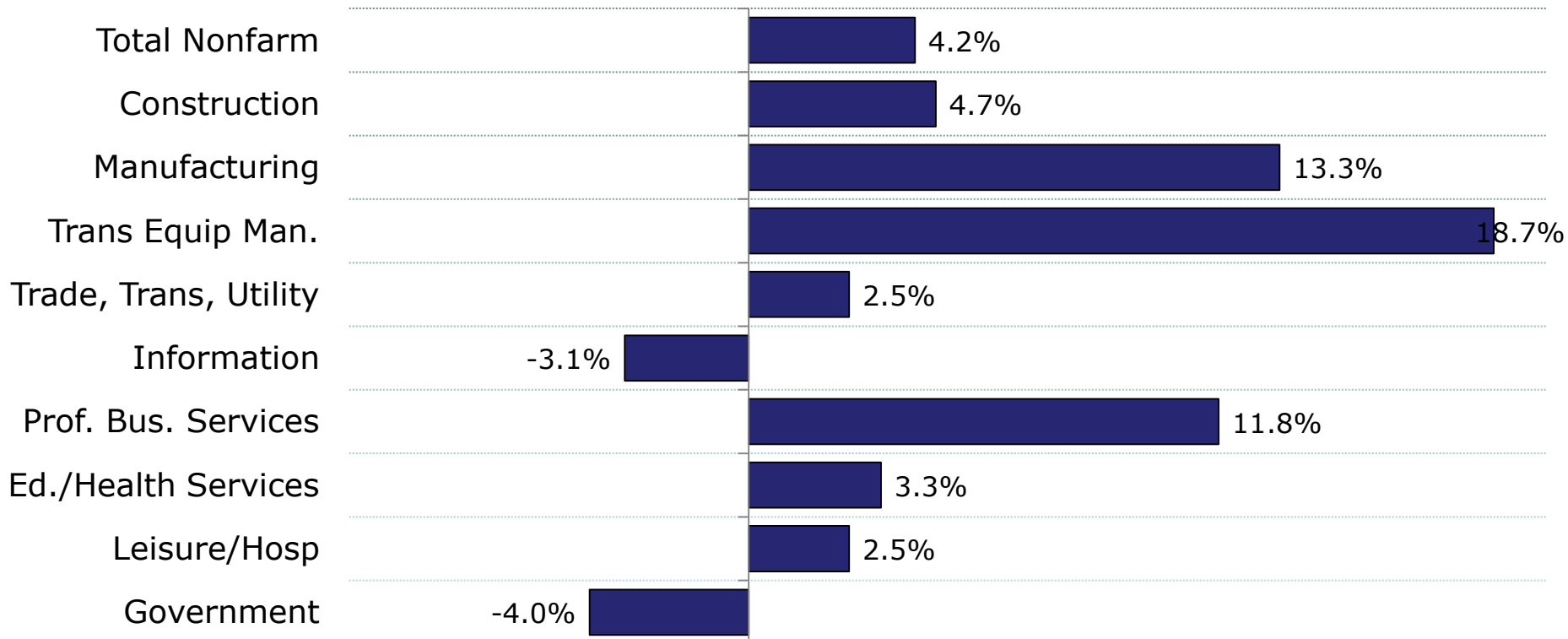
2000 to 2010





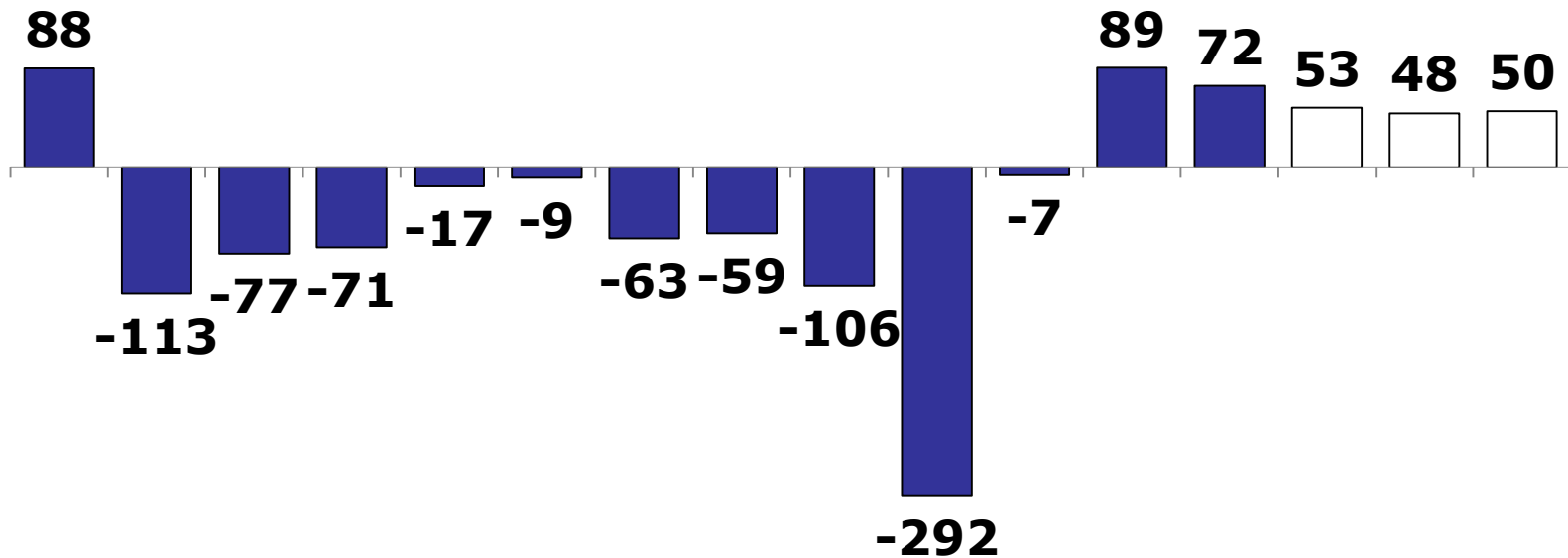
Michigan Has Added Jobs Over Past 2 Years

2010 to 2012



Michigan Employment Grows Modestly 2013 to 2015

Annual Employment Growth (thousands of jobs)

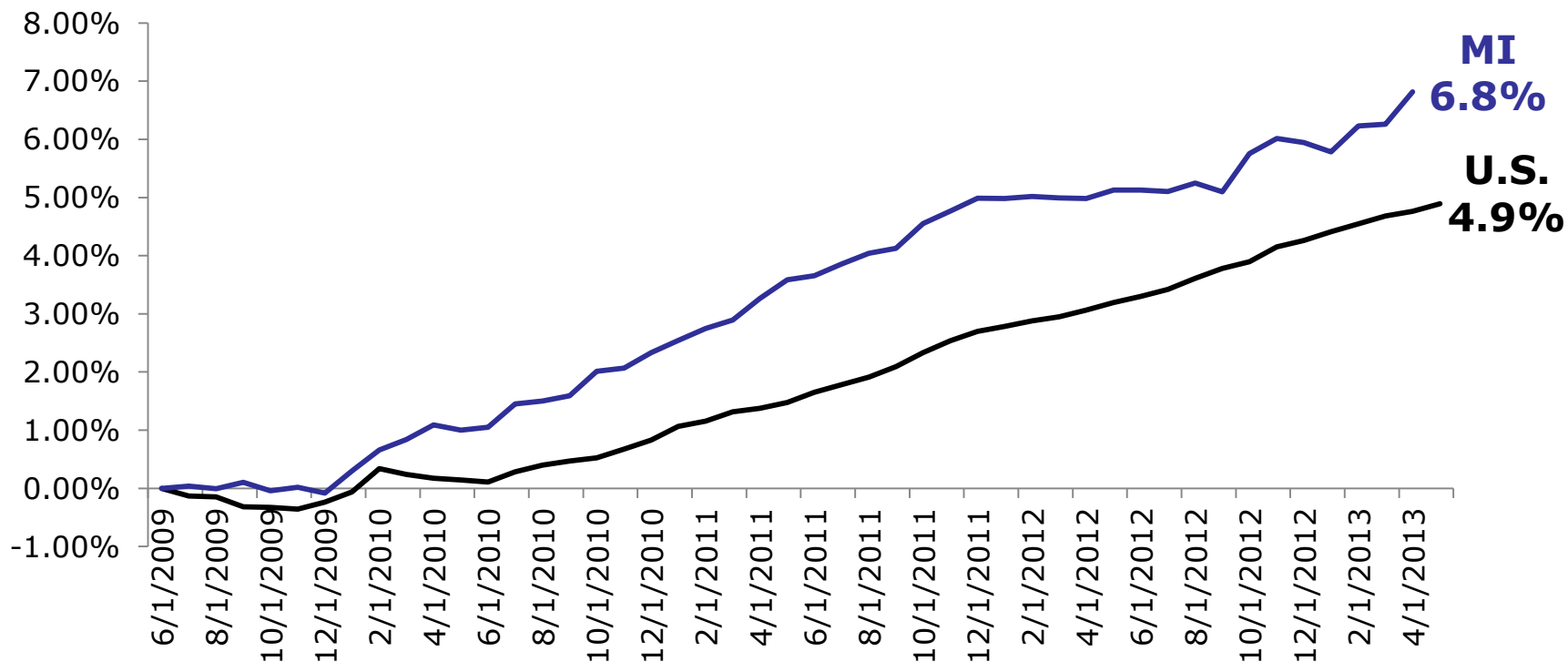


Avg 2001 to 2009: 92
 2000



Michigan Employment Has Grown Faster Than U.S. Since Recession End

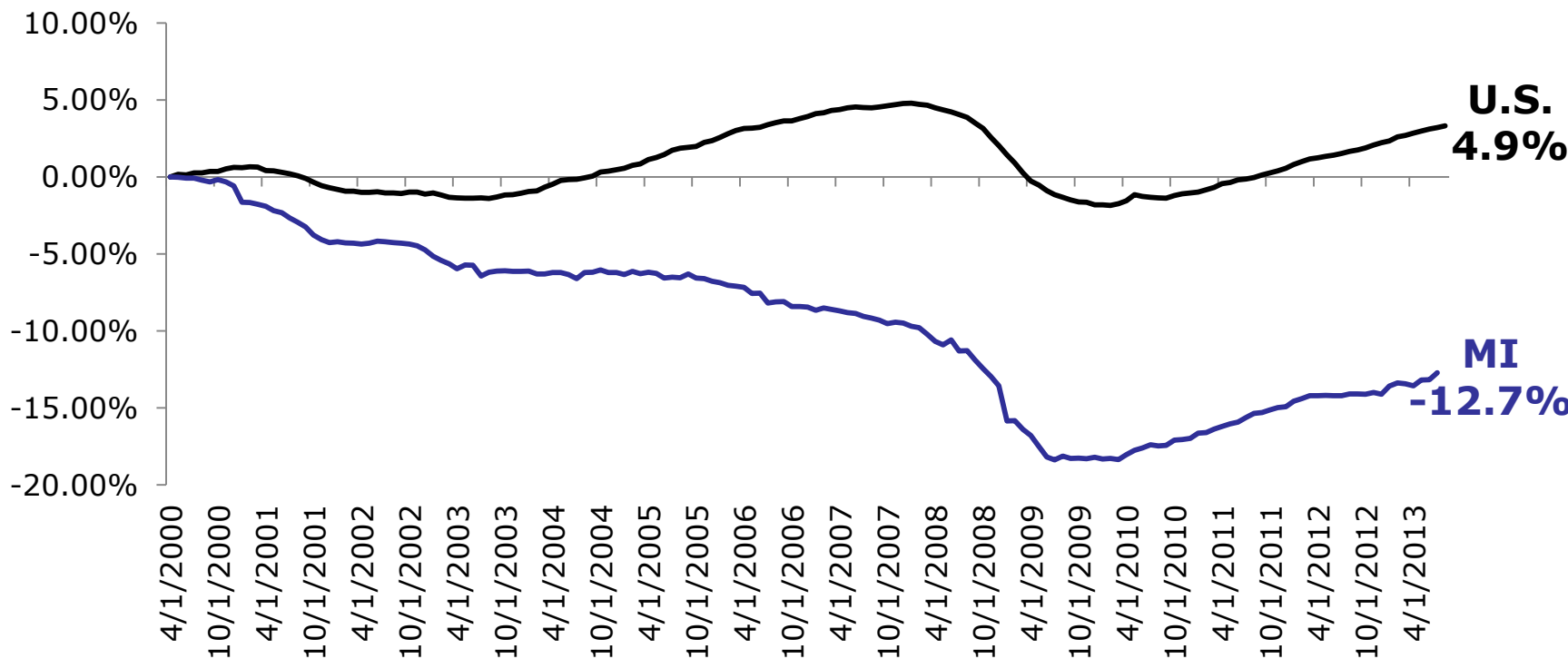
Cumulative Change in Employment Since June 2009





Going Back to 2000 Michigan Trails U.S. By a Wide Margin

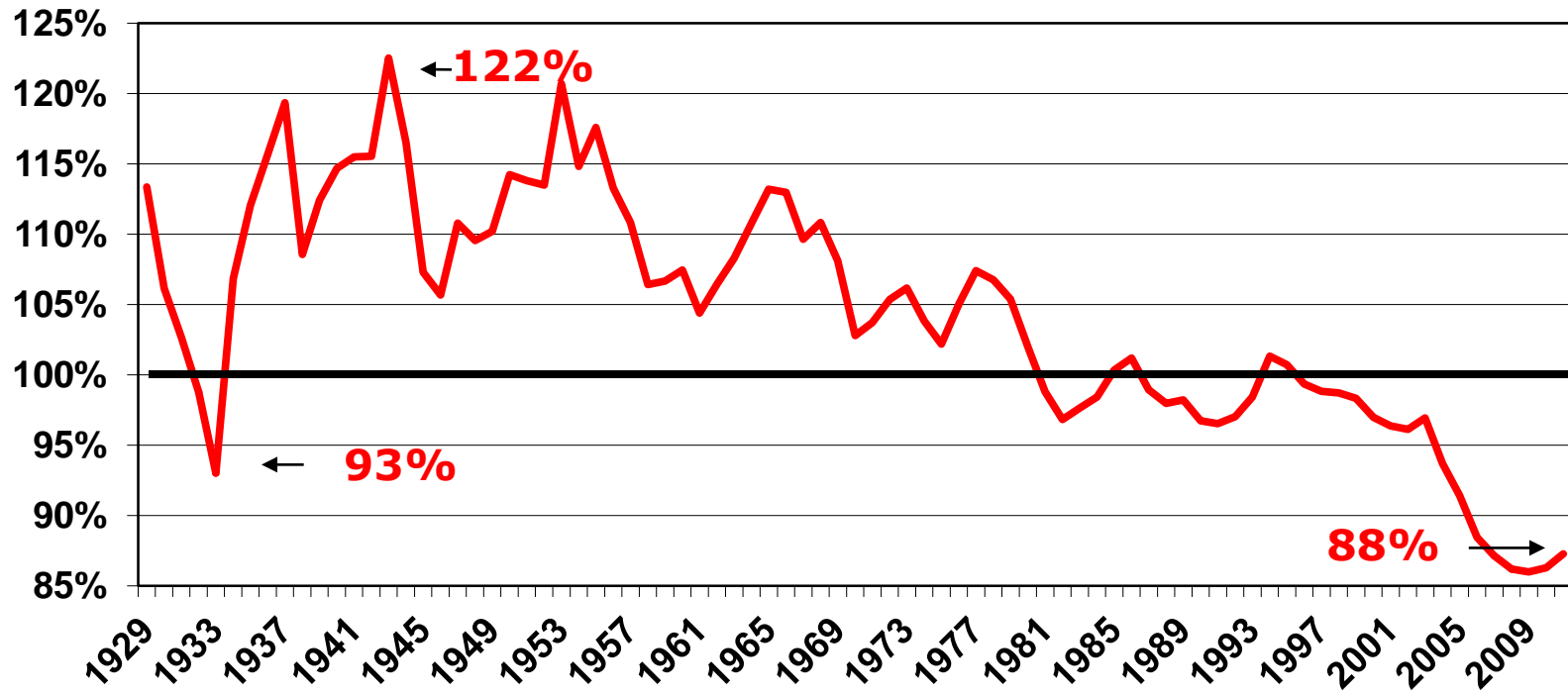
Cumulative Change in Employment Since April 2000





Michigan Poorer Relative to Other States But Ranking Has Improved Lately

Michigan per Capita Income as a Percent of U.S. Per Capita Income
2001: 21st; 2009: 41st; 2012 36th highest





State Budget Update



Michigan Taxes at Average as % of Income But Well Below Average Per Capita

State and Local Taxes

Year	Per Capita			Per \$1,000 of Personal Income		
	U.S. (2010\$)	MI (2010\$)	MI as % of U.S.	U.S.	MI	MI as % of U.S.
1979	\$2,748	\$3,138	114.2%	\$100.10	\$108.50	108.4%
1989	\$3,341	\$3,509	105.0%	\$103.20	\$110.40	107.0%
1999	\$3,824	\$3,955	103.4%	\$103.10	\$108.50	105.2%
2010	\$4,105	\$3,615	88.1%	\$103.20	\$105.30	102.0%



Situation Facing Governor For FY 2014

- Significant budget cutting in FY 2012 brought budget in structural balance
- Slow revenue growth allows for some new funding, but not enough revenue to restore FY 12 cuts
- Two new priorities proposed by Gov – Medicaid expansion and transportation funding would not use discretionary dollars



Governor's Proposal

Summary of Ongoing and One-Time Funding Changes

	<u>Gross</u>	<u>GF/GP</u>	<u>SAF</u>
FY2013 Ongoing Year-to-Date Appropriations	\$49,033.0	\$8,653.8	\$11,359.3
FY2014 Executive - Ongoing	\$51,305.5	\$8,850.7	\$11,439.4
Growth from FY2013 Ongoing Appropriations	4.6%	2.3%	0.7%
One-Time Funding Proposals:			
Continuation of FY2013 one-time appropriations	\$76.2	\$39.8	\$0.0
New FY2014 one-time appropriations	\$125.9	\$96.0	\$0.0
K-12: one-time equity increase and grants	\$99.5	\$50.0	\$49.5
FY2014 Executive - Ongoing plus One-Time	\$51,607.1	\$9,036.5	\$11,488.9
Growth from FY2013 Ongoing Appropriations	5.2%	4.4%	1.1%
BSF and Health Savings Fund deposits	\$185.0	\$185.0	\$0.0



Medicaid Expansion

under federal Affordable Care Act

- Coverage expanded to individuals with incomes up to 133% of federal poverty level: 320,000 new recipients in FY2014; 470,000 by FY2021
- Federal government covers 100% of initial costs; state cost sharing begins in 2017 and grows to 10% by 2020

Current Medicaid Eligibles

- Children (up to 200% FPL)
- Parents/caretakers/young adults (up to 50% FPL)
- Elderly/disabled (up to 100% FPL)
- Certain childless adults (up to 33% FPL)

New Eligibles Under Expansion

- All adults (up to 133% FPL) starting on January 1, 2014 (actual start will be 90 days after legislative session ends since bill did not get immediate effect)



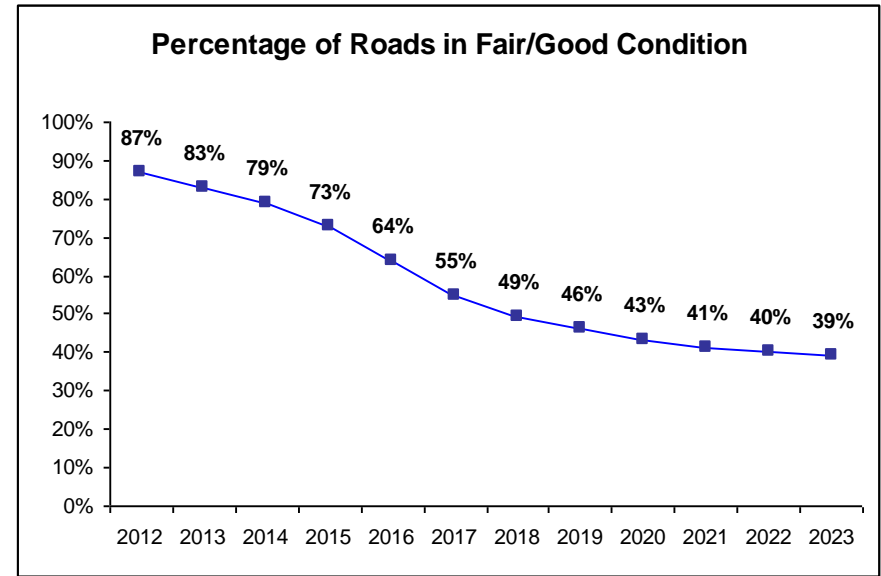
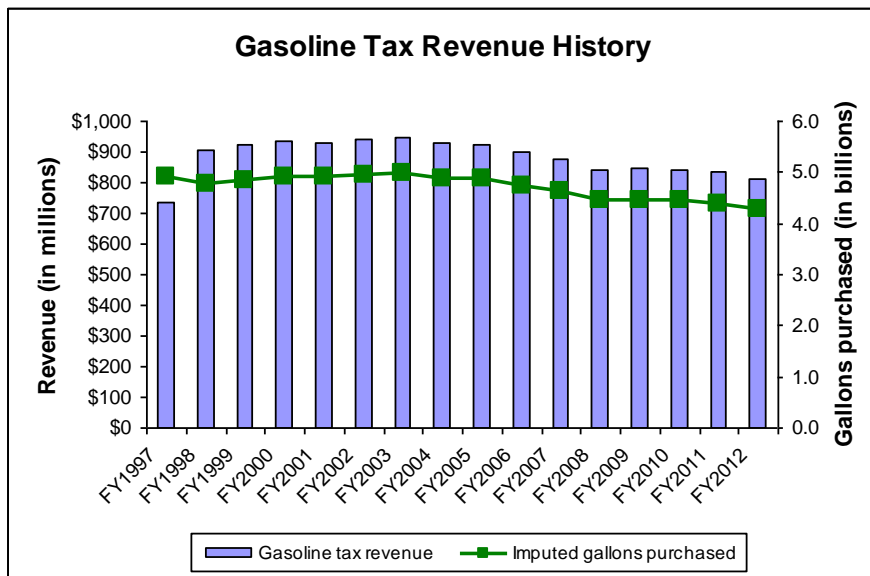
Medicaid Expansion

Costs, Savings, and new Health Savings Fund

- Cost of expanded coverage ~ \$1.6 billion - **all federal dollars in FY 2014**
- **\$200M GF/GP savings** was anticipated for FY 2014 by shifting adults currently served by state-funded non-Medicaid programs to federally-funded Medicaid
- Savings will be reduced since bill did not get immediate effect. Neither the costs nor the savings are recognized in the enacted budget at this time.
- Governor proposed that half of future savings be deposited into a new **Health Savings Fund** to help finance future state costs related to expansion. For first year savings going to the **Roads and Risk Reserve Fund**.

Transportation Funding

Summary of the underlying problem



- Higher gas prices and increased fuel efficiency = less gasoline consumption
- Revenue from fixed \$.19/gallon gasoline tax declines
- Reduced revenue plus inflation negatively impact ability to finance road maintenance

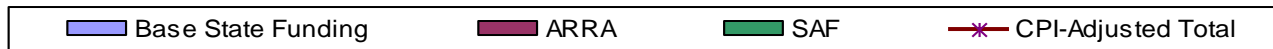
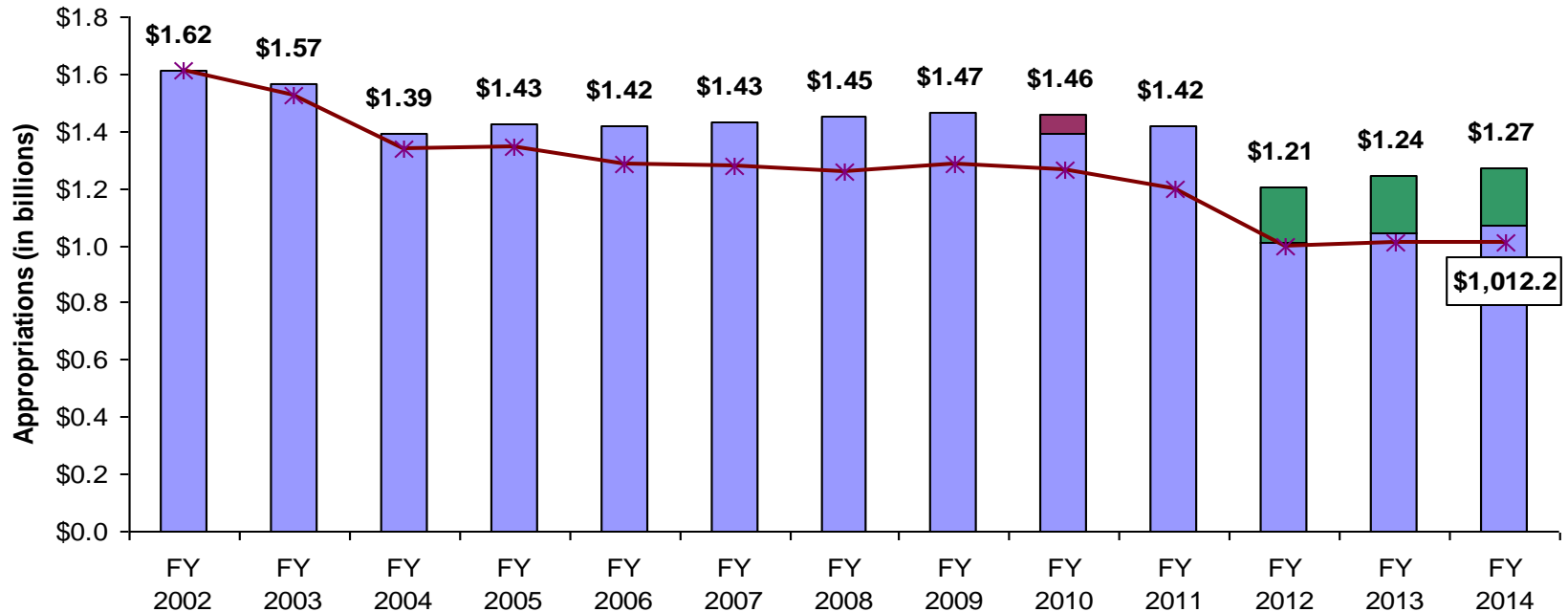


Transportation Funding Proposal

- **Governor proposed:** gas tax from \$0.19 to \$0.33 a gallon; 60% increase in vehicle registration tax; optional county registration tax - \$1.2B in state taxes; \$1.5B with local tax
- **Other Proposals:** SJR A of 2013 would raise sales tax rate by 1 percentage point and deposit money into Michigan Transportation Fund; Other proposals would raise sales tax by varying amounts and adjust school allocation as well

University Operations Funding History

Increase for universities still leaves funding just over 21% below FY2002 levels; 37% decline adjusted for inflation





Overall Budget Changes Through FY 14

<u>Budget Area</u>	<u>1 Yr Change</u>	<u>10 Yr Change</u>
Community Colleges	9.6% *	21.4%
Higher Education	2.2%	-13.5%
School Aid	3.5%	6.0%
Revenue Sharing	4.3%	-13.2%
Community Health	13.4%	68.9%
Human Services	-2.1%	46.0%
Corrections	0.6%	19.3%
Transportation	3.4%	11.7%
Other	0.3%	23.0%
Total	5.4%	27.8%
US-CPI U	1.9%	26.4%

Source: House Fiscal Agency Budget Memo 9/5/13. Note: 1 year community college increase primarily due to MPSERS retiree healthcare funding, operations funding up 2.0%.



Savings for Future Needs

- Planned \$140M FY2013 deposit into state's Budget Stabilization Fund adds to \$362M deposit in FY2012
- Enacted budget calls for depositing additional \$75M in **FY2014 to bring BSF balance to \$577M at year end**
- Health Savings Fund from Medicaid expansion savings would take in another \$60-65M during FY 2014 after adjusting for delayed implementation, although appropriation adjustments are still pending
- \$230M would be deposited into a new Roads and Risks Reserve Fund for future appropriation towards roads or other priority needs



State's Improved Fiscal Position Illustrated in Cash Balances

Millions of \$

<u>Date</u>	<u>Combined GF + SAF</u>	<u>BSF</u>	<u>Other</u>	<u>Total Common Cash</u>
9/30/2008	(\$616.6)	\$2.2	\$3,065.3	\$2,450.9
9/30/2009	(\$762.3)	\$2.2	\$2,299.9	\$1,539.8
9/30/2010	(\$373.7)	\$2.2	\$1,979.0	\$1,607.5
9/30/2011	\$1,025.1	\$2.2	\$2,463.9	\$3,491.2
9/30/2012	\$1,274.6	\$365.1	\$2,868.4	\$4,508.1



Challenges for Schools and Local Governments

Important Budget Facts

- State is mostly a pass-through entity – most money sent elsewhere:
 - School Aid – local school districts
 - Medicaid – doctors, hospitals, nursing homes
 - Human Services – welfare payments to individuals, daycare providers, etc.
 - Transportation – road funds to counties and cities
 - Revenue Sharing – unrestricted aid to general purpose governments
- Salaries of state employees represent only 11% of the budget
- By contrast employee compensation is often 80% or more of school district and local government budgets

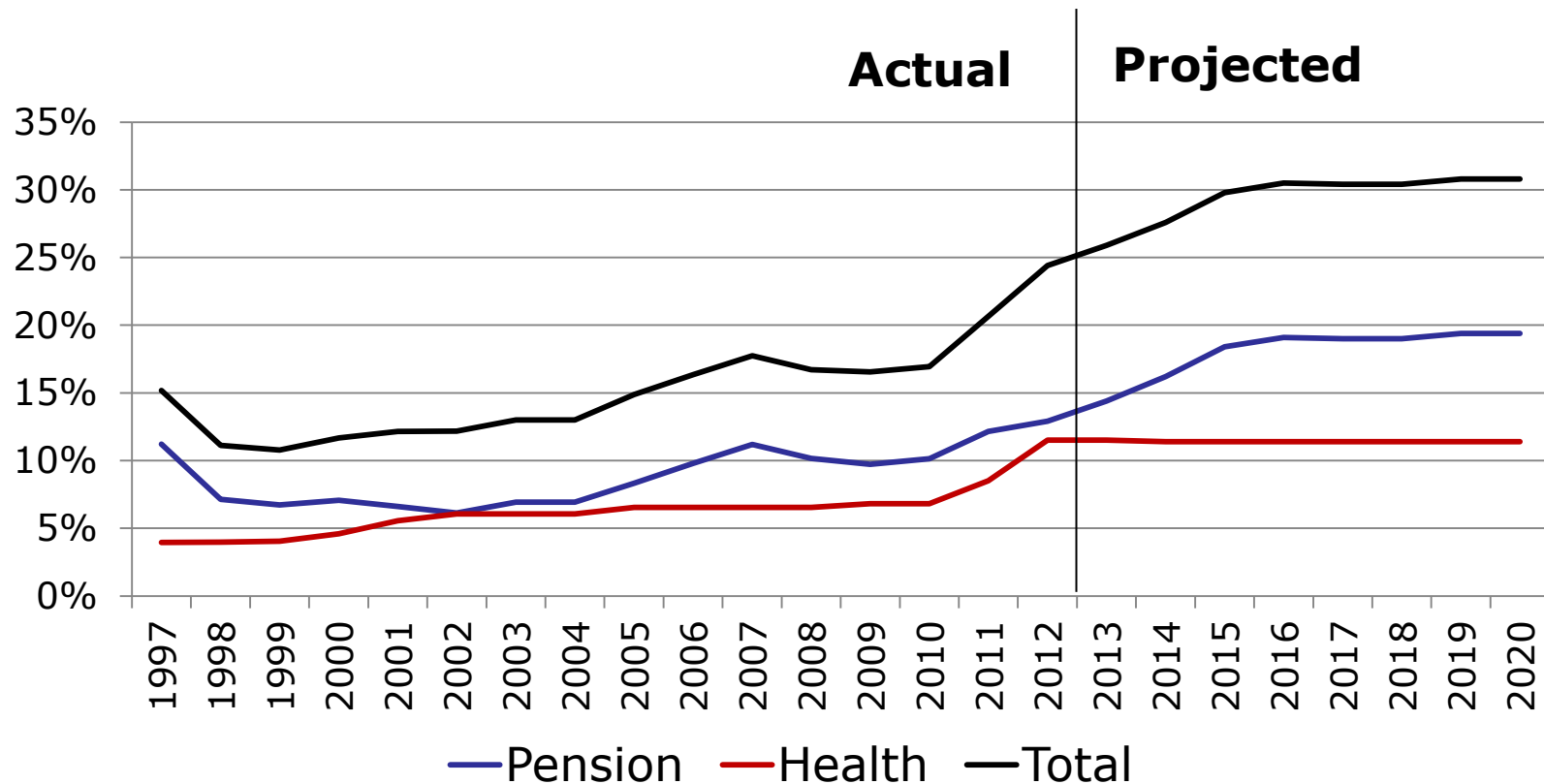


GSRP and Retirement Costs Absorb Most New K-12 Funding

	<u>FY 2013</u>	<u>FY 2014</u>	<u>Change</u>	
			<u>Amount</u>	<u>Percent</u>
Great Start Readiness Program	\$109.6	\$174.6	\$65.0	59.3%
MPSERS-Related Funding	\$315.5	\$504.6	\$189.1	59.9%
All Other School Aid	\$12,487.0	\$12,687.5	\$200.5	1.6%
Total School Aid Approps	\$12,912.1	\$13,366.7	\$454.6	3.5%



MPERS Costs as a Percent of Payroll Soar

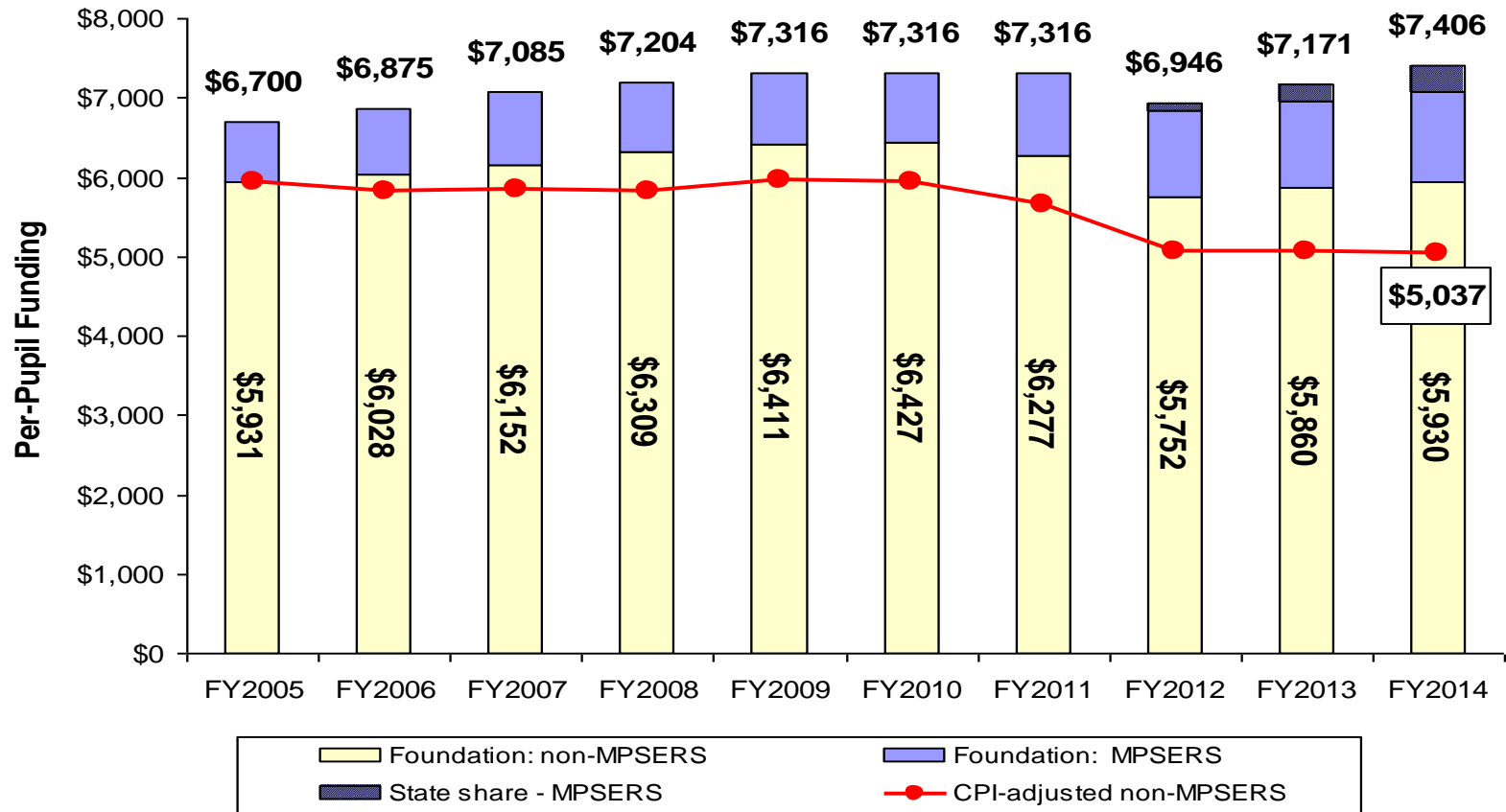


38 Source: History Senate Fiscal Agency. 2010 and 2011 rates are for employees starting before July 2010. Projected rates are from the Senate Fiscal Agency Analysis of PA 300 of 2012 (SB 1040).



MPSERS Costs and the Foundation Grant

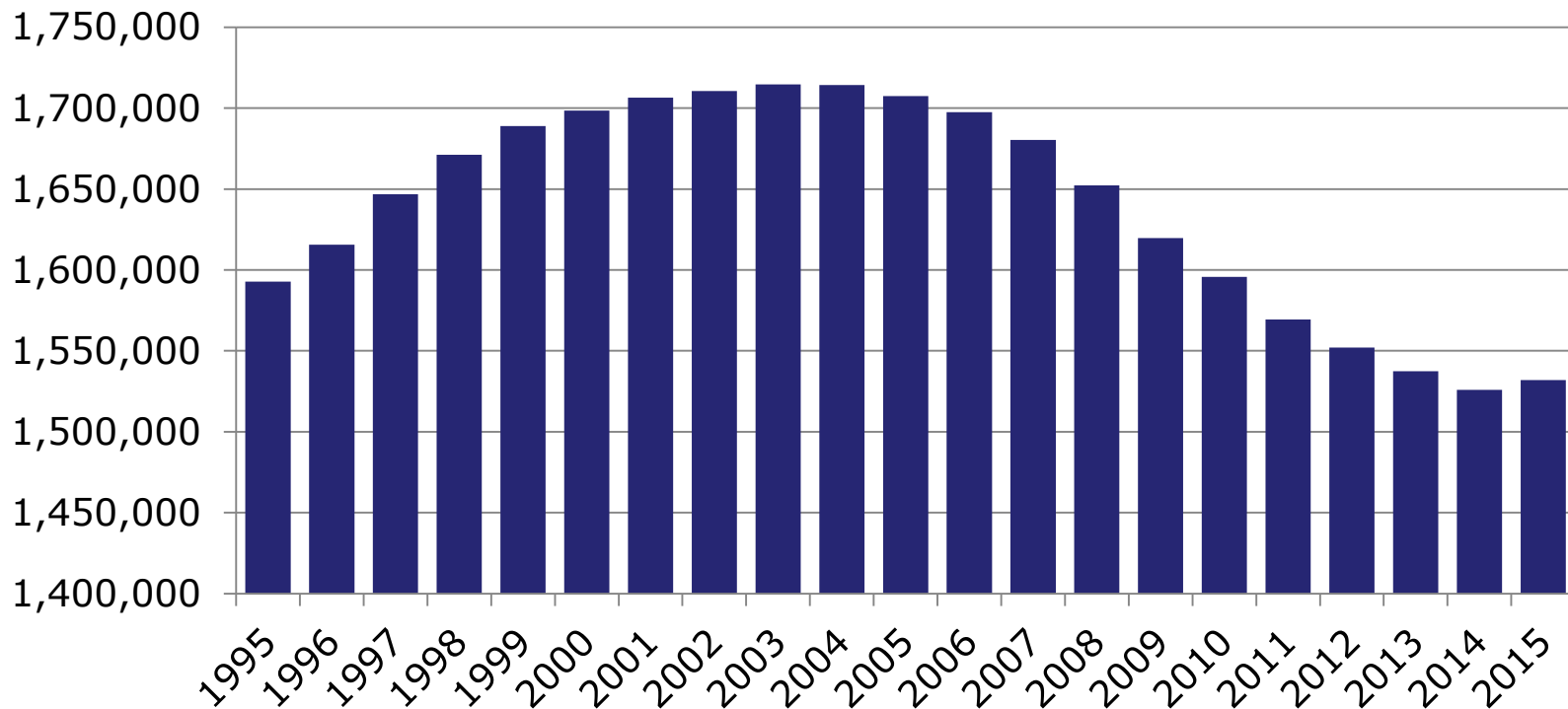
Estimated impact on districts receiving minimum grant





Declining Enrollment Increases Budget Challenges

Number of Pupils





Number of K-12 Districts in Deficit Increasing

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
Statewide Average	11.81%	10.81%	9.34%	7.19%	8.42%	N/A
Deficit (Negative)	21	21	29	36	41	45 *
0% to 5%	56	57	63	73	44	50
5% to 10%	120	106	108	99	101	117
10% to 15%	114	114	119	131	127	136
Above 15%	<u>237</u>	<u>249</u>	<u>231</u>	<u>211</u>	<u>237</u>	<u>201</u>
Districts Reporting	548	547	550	550	550	549

* Assumes Muskegon Heights School District, Highland Park City Schools and Pontiac City School District are in deficit.



Overall Impact of Budget Changes

Traditional K-12 Districts and Public School Academies

	Total Count	Average FY2013 Foundation	Average Net Increase
Traditional K-12 Districts			
Minimum foundation in FY13	377	\$6,966	\$75
Above minimum foundation in FY13	169	\$7,846	\$12
Public School Academies			
Minimum foundation/ with MPSERS impact	15	\$6,966	\$82
Minimum foundation/no MPSERS	53	\$6,966	\$110
Above minimum/with MPSERS impact	32	\$7,020	\$45
Above minimum/no MPSERS	173	\$7,094	\$59
Education Achievement Authority	1	\$7,190	\$56
All Districts Combined	820	\$7,203	\$60



Looking Ahead to FY 2015

Difficult decisions looming with School Aid Fund

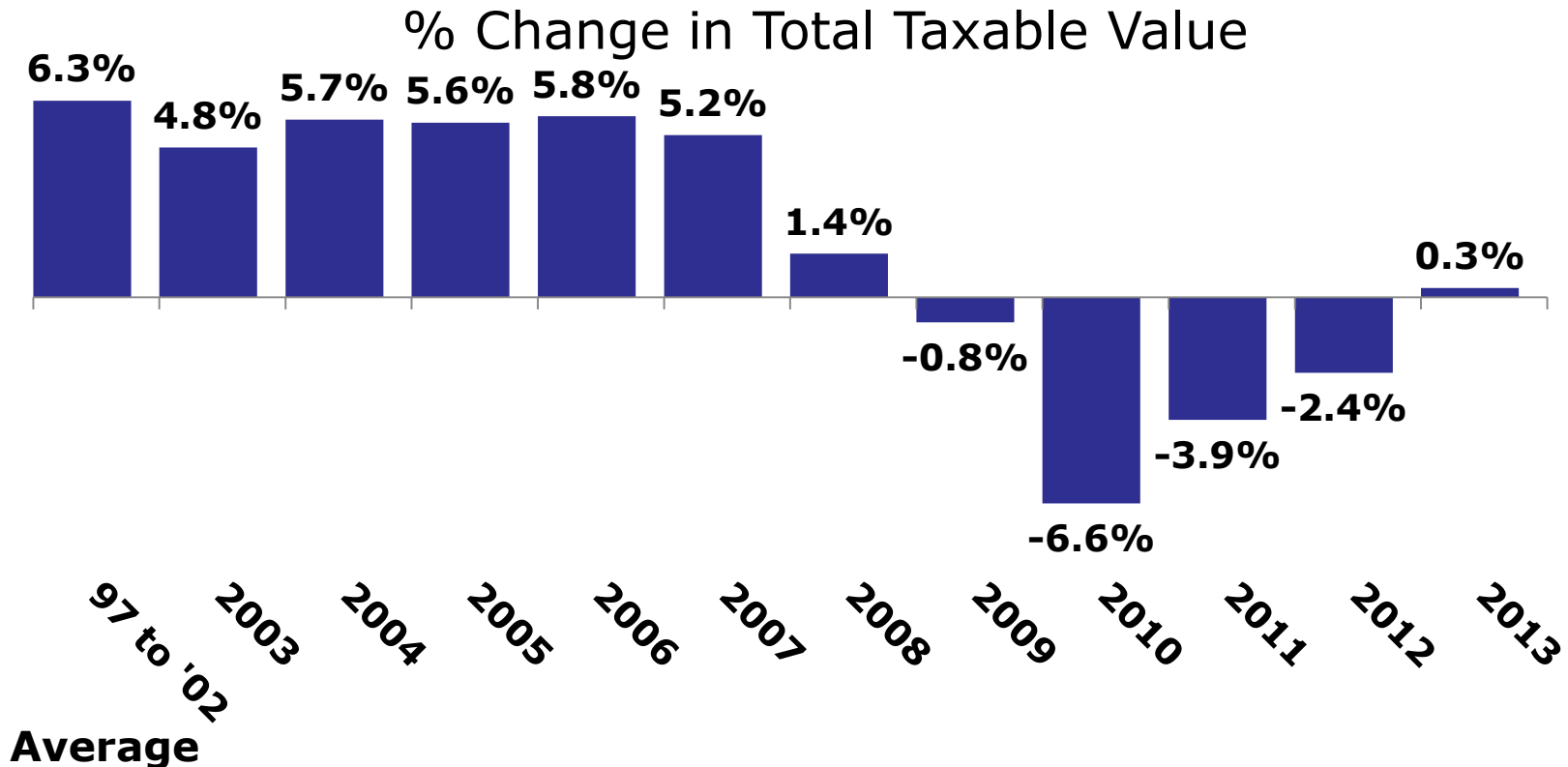
	<u>FY2014</u>	<u>FY2015</u>
Beginning Balance	\$140.7	\$1.3
<u>Revenues</u>		
Consensus Revenue Estimates	\$11,470.1	\$11,812.7
GF/GP Contribution	\$234.9	\$234.9
MPSERS Reserve Fund	\$156.0	\$18.0
Federal Revenue	\$1,764.4	\$1,764.4
Total Adjusted Revenues	\$13,625.4	\$13,830.0
<u>Expenditures</u>		
K-12 Baseline Appropriations	\$13,366.7	\$13,359.8
Additional MPSERS Contributions		\$245.9
Great Start Readiness Program		\$65.0
Higher Education Baseline Appropriations	\$398.1	\$398.1
Total Expenditures	\$13,764.8	\$14,068.8
Ending Balance	\$1.3	(\$237.5)

All figures in millions

Local Government Finances

- Local governments, particularly cities, are facing fiscal pressure from:
 - Taxable value declines
 - Legacy Costs
 - Reductions in state shared revenues
- Cities under pressure everywhere, but things worst in SE Michigan

Property Taxes Had Held Up Well But That Has Changed





Taxable Value Growth Varies Widely

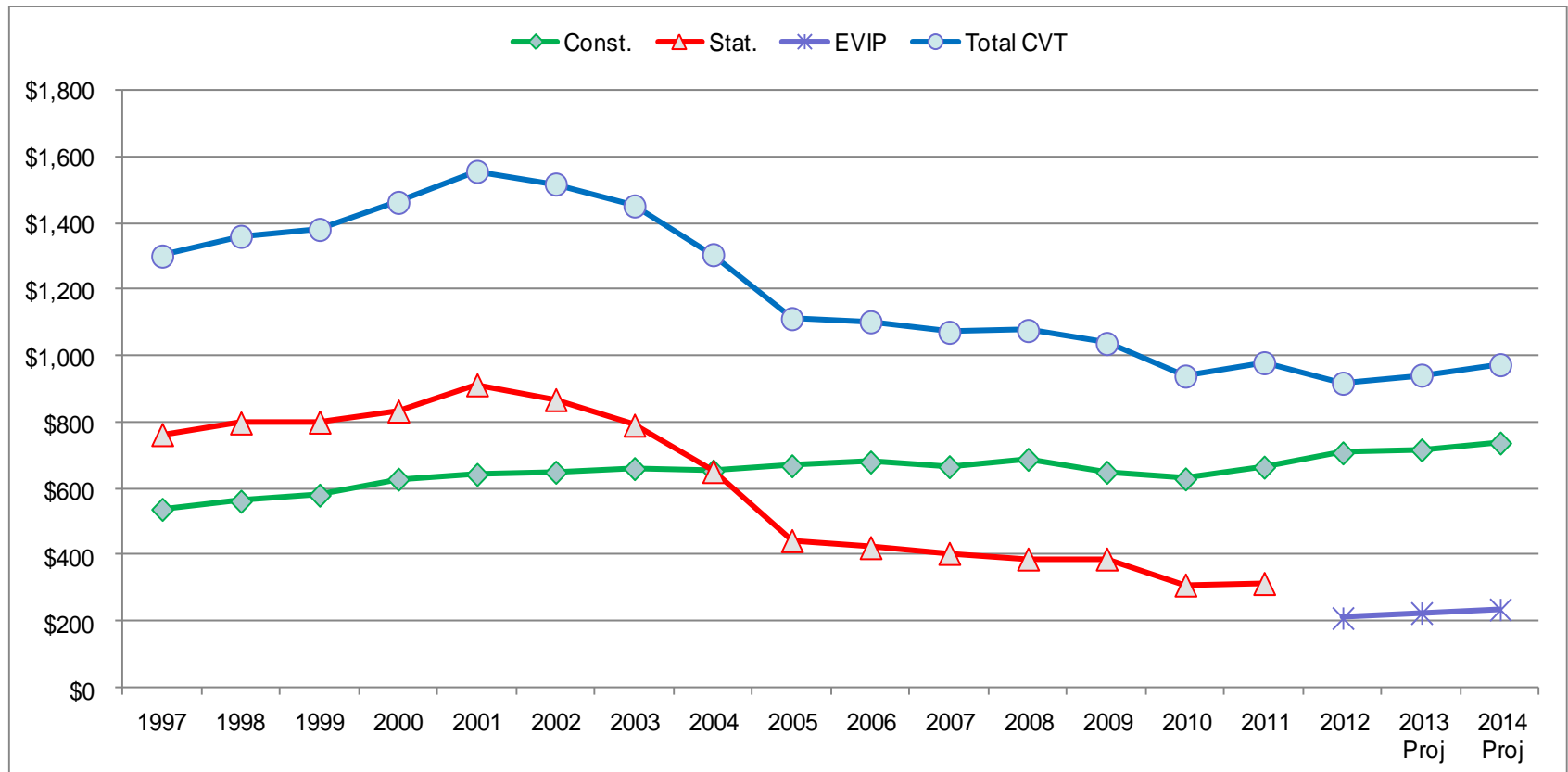
Taxable Value Growth

	<u>2000 to 2007</u>	<u>2007 to 2013</u>	<u>2000 to 2013</u>
Pontiac	42%	-53%	-33%
Livonia	31%	-26%	-2%
Wayne (County)	42%	-23%	10%
Oakland (County)	46%	-24%	11%
Grand Rapids	38%	-8%	27%
Kalamazoo (City)	31%	-12%	15%
Kalamazoo (County)	48%	-1%	46%
Claire (City)	38%	3%	43%
US-CPI U	20%	12%	35%



State to Local Revenue Sharing Program Greatly Reduced

Payments in Millions of \$





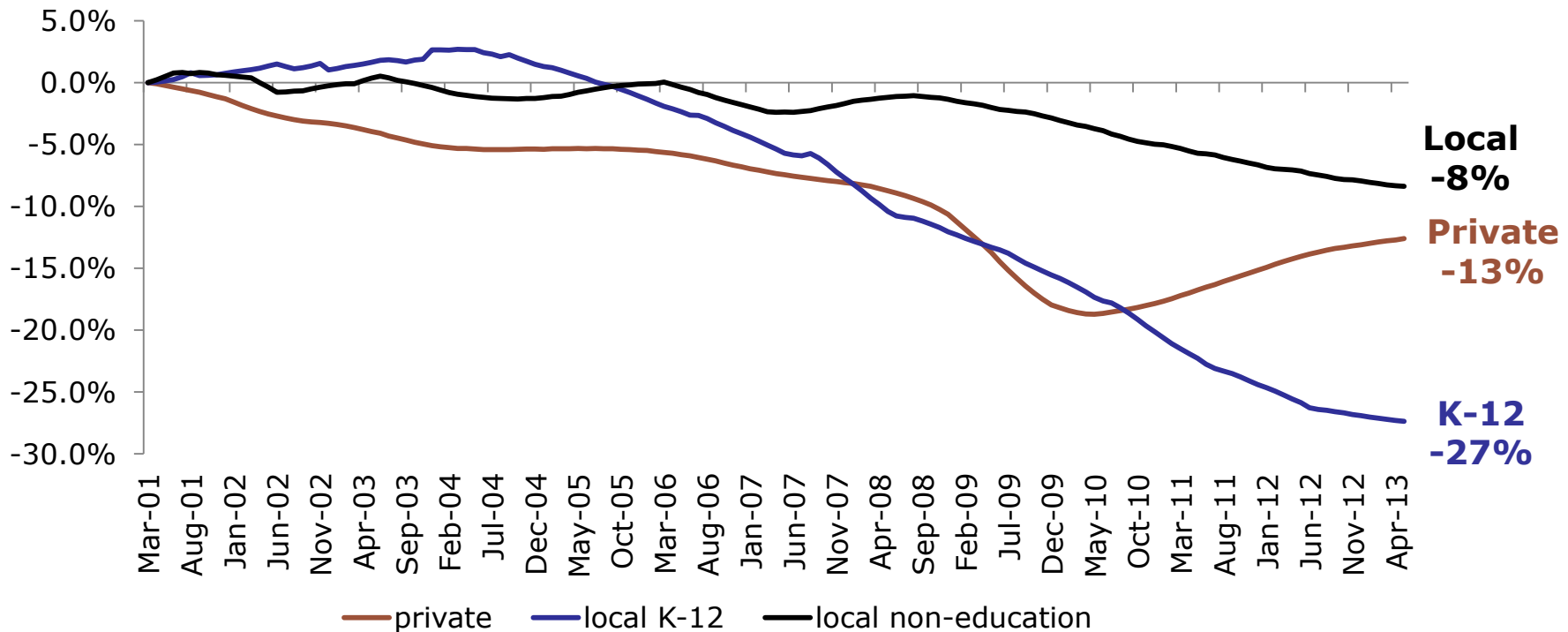
Legacy Costs Weigh on Cities Particularly in SE Michigan

<u>Local Government</u>	<u>OPEB Liability</u>	<u>Funded Status</u>	<u>Per Capita Unfunded OPEB</u>	<u>Millage Needed for ARC</u>
Detroit	\$4,971,236,281	0.0%	\$6,965	35.60
Flint	\$862,302,934	0.0%	\$8,418	48.50
Grand Rapids	\$223,726,627	0.0%	\$1,190	3.31
Livonia	\$92,862,000	39.0%	\$958	1.51
Marquette	\$12,084,681	0.0%	\$566	1.31
All Units Average	\$12,731,397,702	12.0%	\$1,037	3.30



K-12 and Local Employment Still Falling While Private Employment Recovering

Cumulative Change in Employment Since March 2001





Closing Thoughts

- State's economy is growing again – good news, but growth is forecast to be slow
- State's budget is balanced and in better shape than it has been in years
- Local governments, particularly cities in SE Michigan, and school districts facing significant financial challenges



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