



# Michigan's Economy and Budget: Progress and Challenges

Bob Schneider, Director of State Affairs

Presentation to the  
Wayne County Treasurers Association  
September 17, 2014

[www.crcmich.org](http://www.crcmich.org)



# 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](http://www.crcmich.org)*



## Outline

- Michigan and national economy: where we were, and where we're going now
- Key economic challenges for Michigan: Growth has returned, but Michigan still faces obstacles
- Michigan's budget: impact of the Great Recession on revenues and spending; where do we go now?
- Long-run outlook: Budget pressures that may undermine structural balance

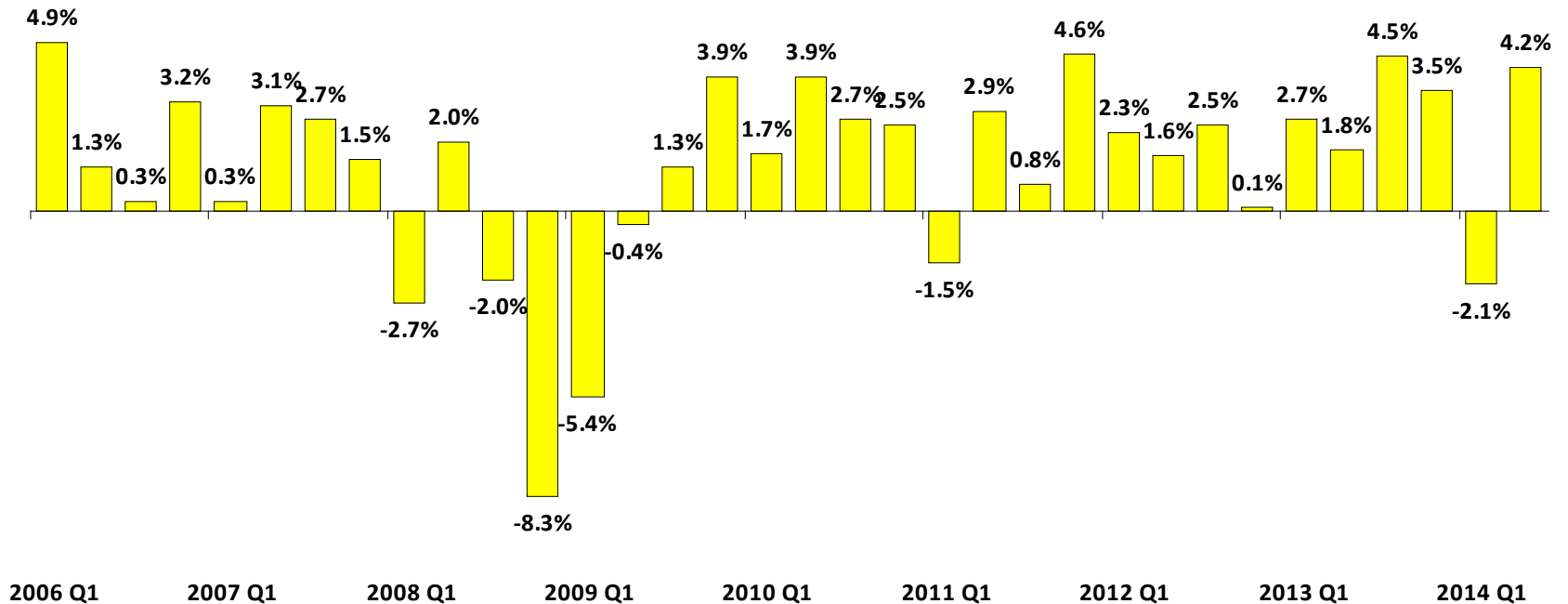


# Update on U.S and Michigan Economy

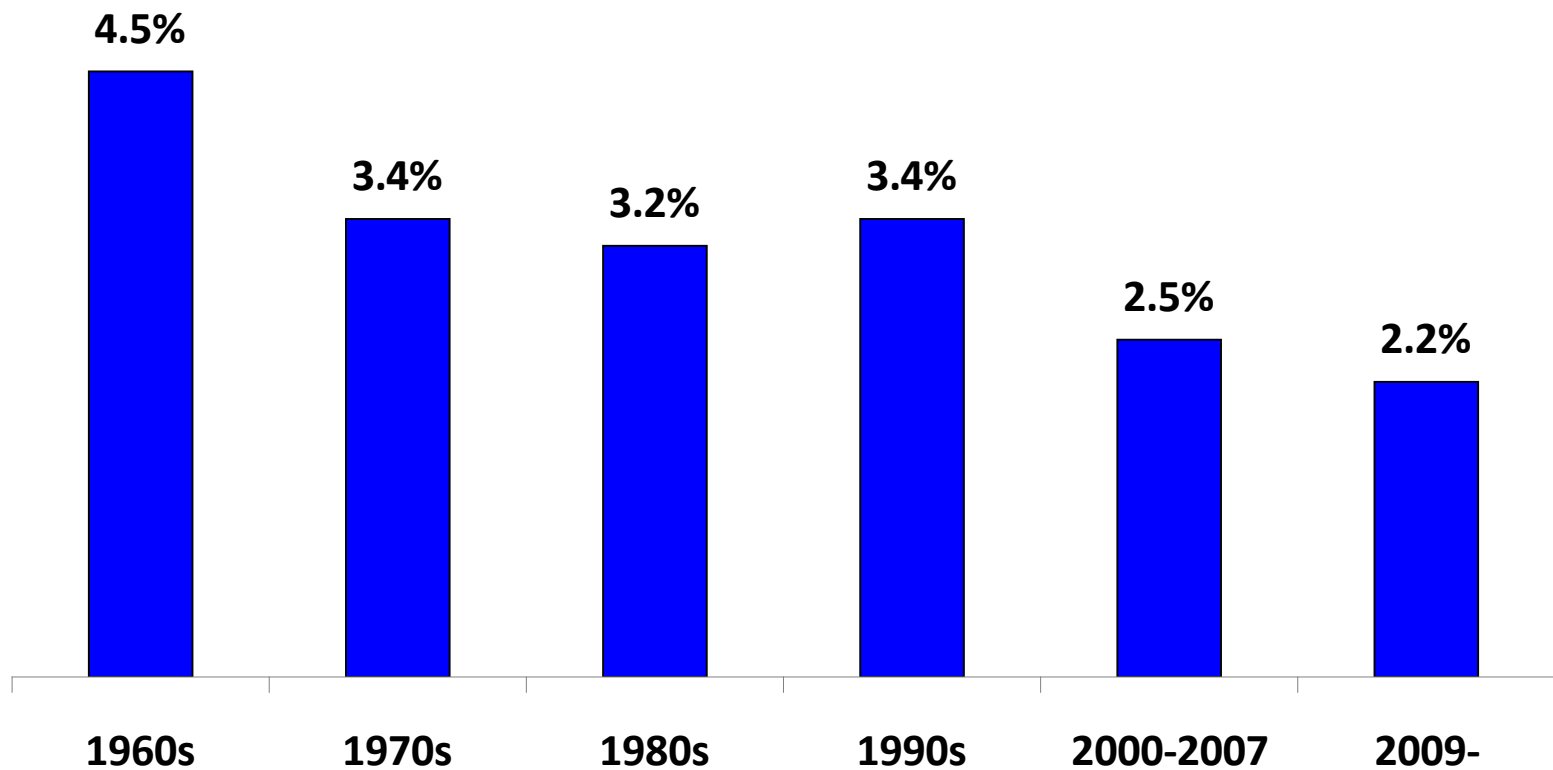


# U.S. Output Has Been Growing For 5 Years

Real GDP Growth



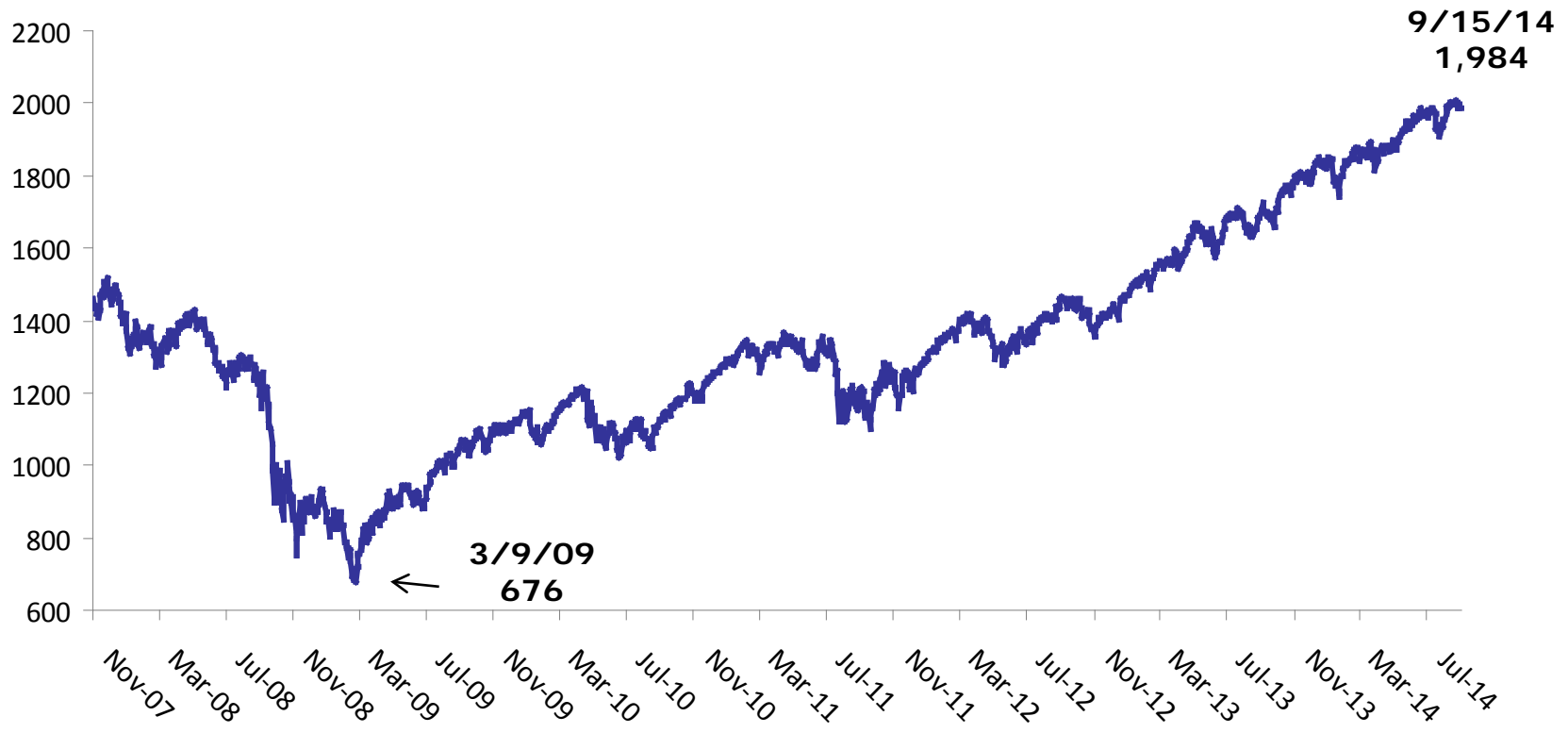
## But Growth Has Been Slowing





# Financial Markets Continue to Recover

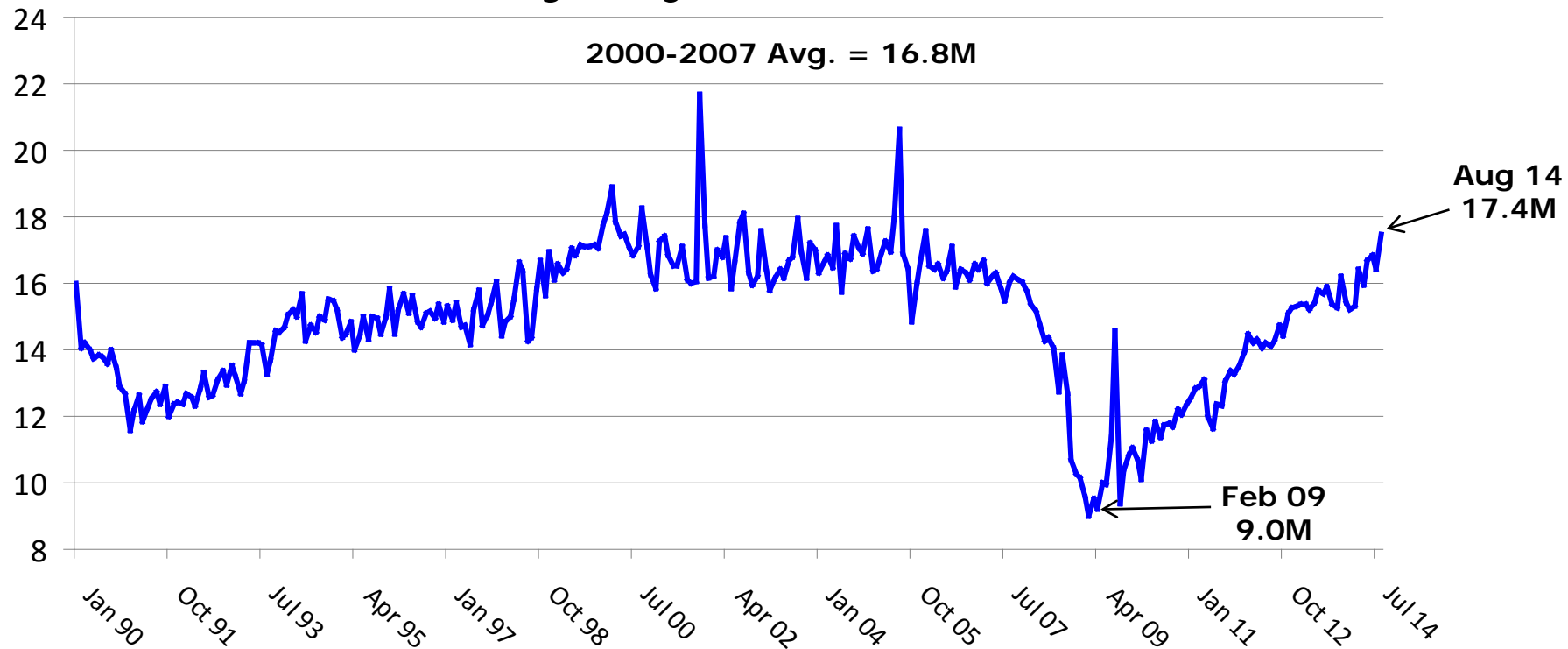
## S&P 500 Has Increased by 193% since March 2009





# Vehicle Sales Are Back to Pre-recession Levels

## Monthly Light Vehicle Sales (Seasonally Adjusted Annual Rate)

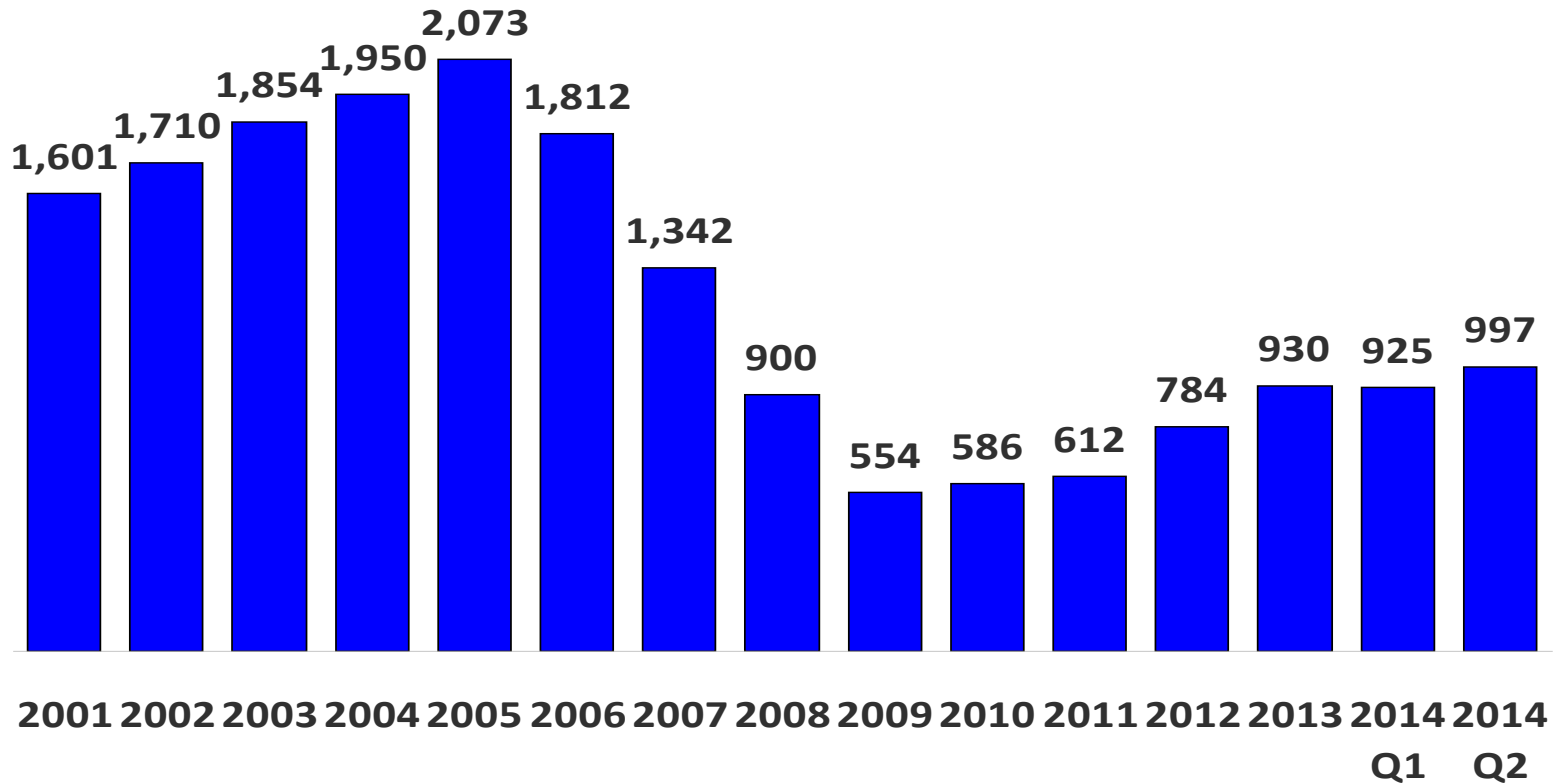






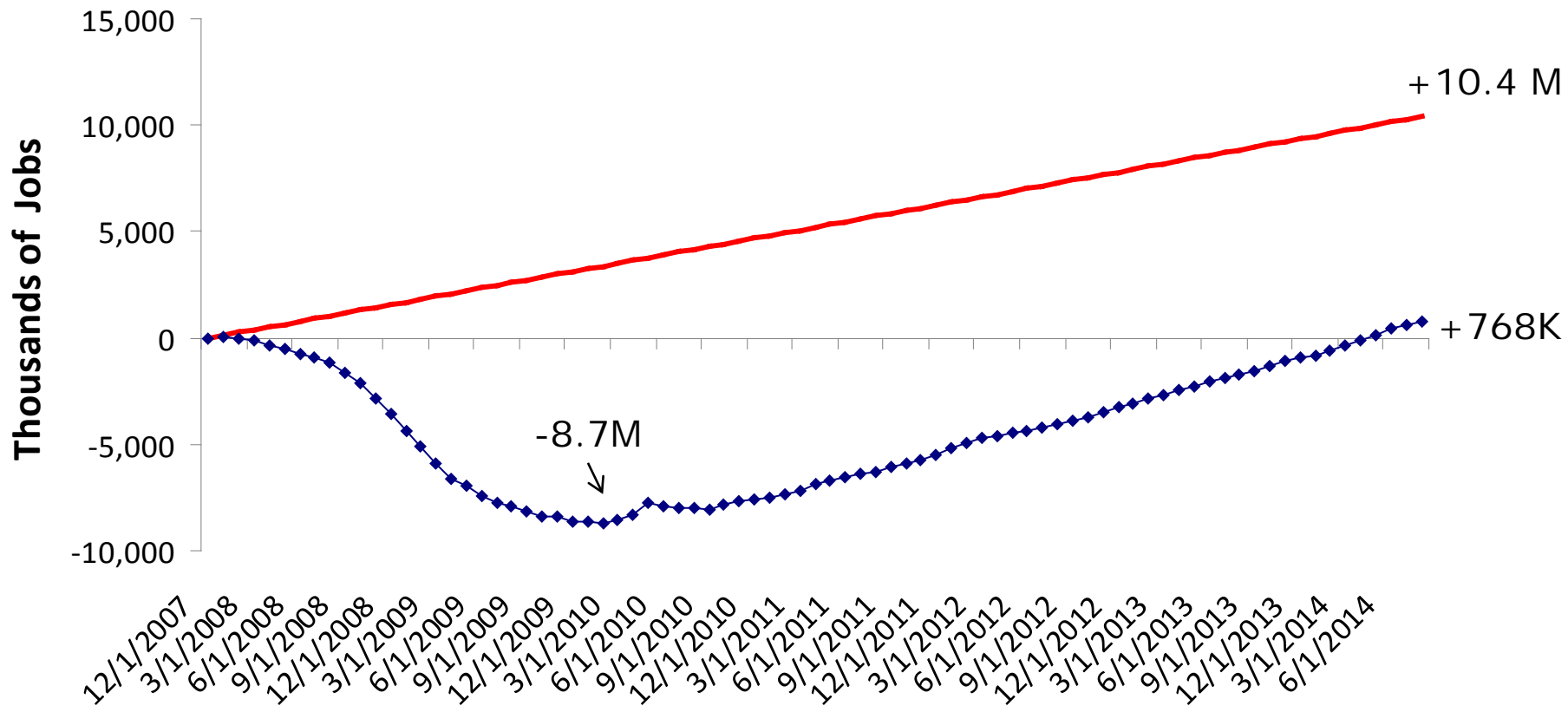
# Housing Starts Begin to Recover But Have a Long Way to Go

Total New Privately Owned Houses Started (000s)





# Employment Growing with Labor Force But Regaining Lost Jobs Slowly

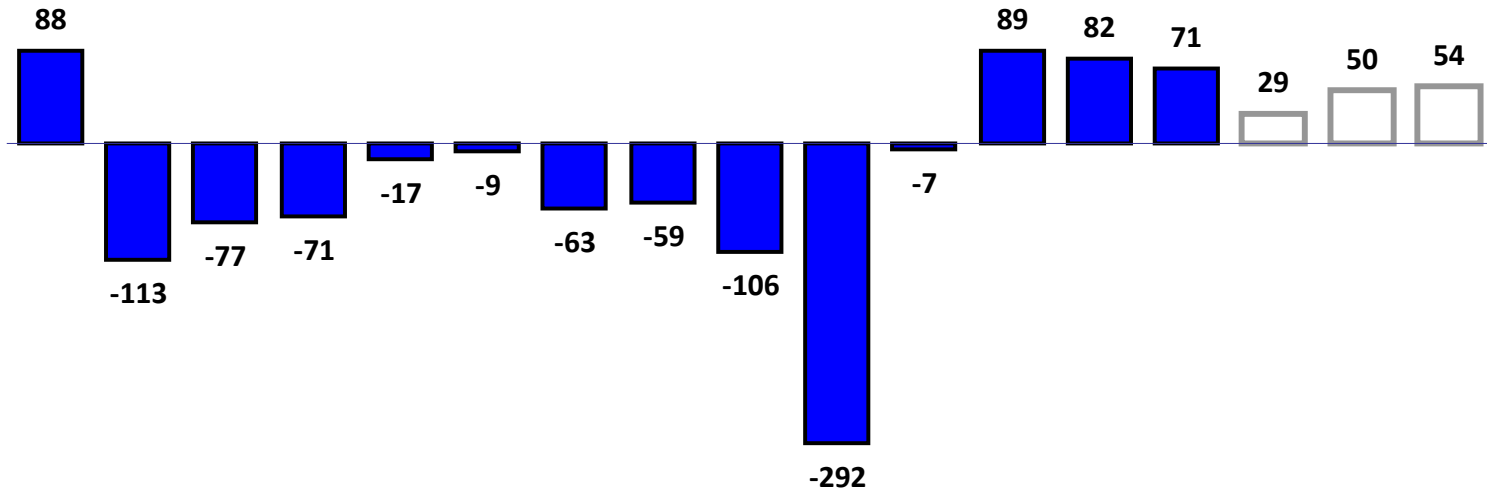




# **Michigan's Economy: Climbing Out of the Great Recession**



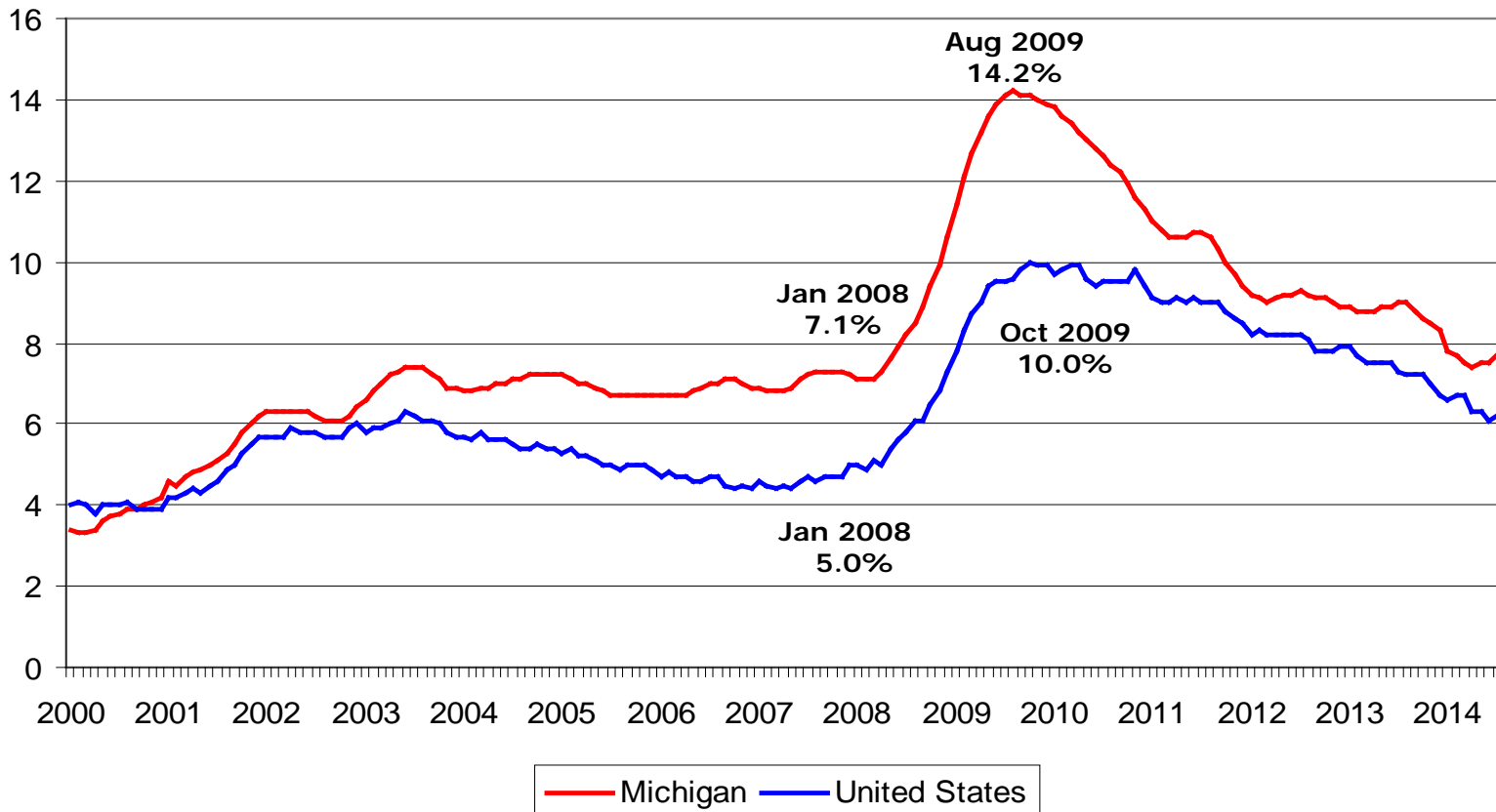
# Continued Job Growth Forecast For Michigan



Avg. 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016  
92 -  
00

# Unemployment Rate Dropping

Both Michigan and U.S. Rates Closing in on Pre-Recession Levels  
 July 2014: Michigan 7.7% and U.S. 6.2%





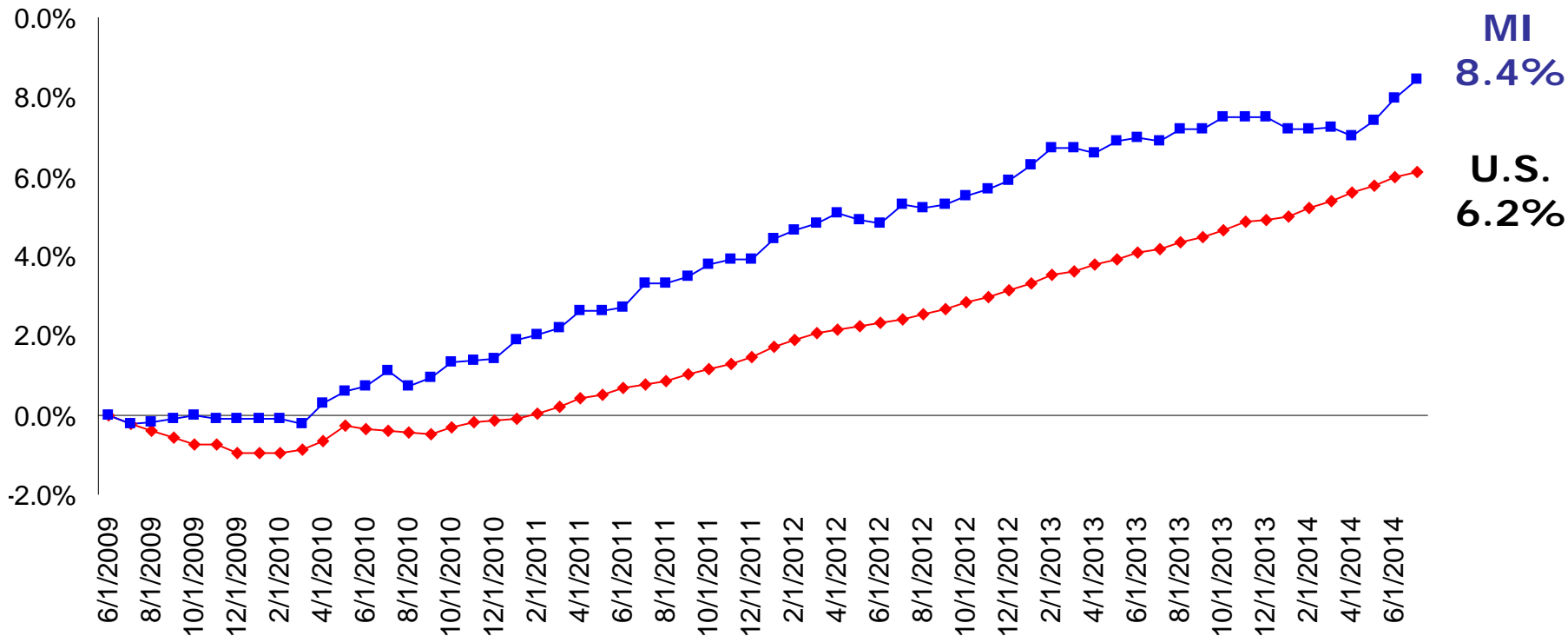
## Despite Recent Growth, Challenges Remain

- Michigan still recovering not only from Great Recession but also sluggish growth since 2000
- While job growth has returned, wages growth is still slow both nationally and in Michigan
- Changes in Michigan's economic structure are making recovery more difficult
- Discouraged workers: Data suggests labor market may have more slack than unemployment rate suggests



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

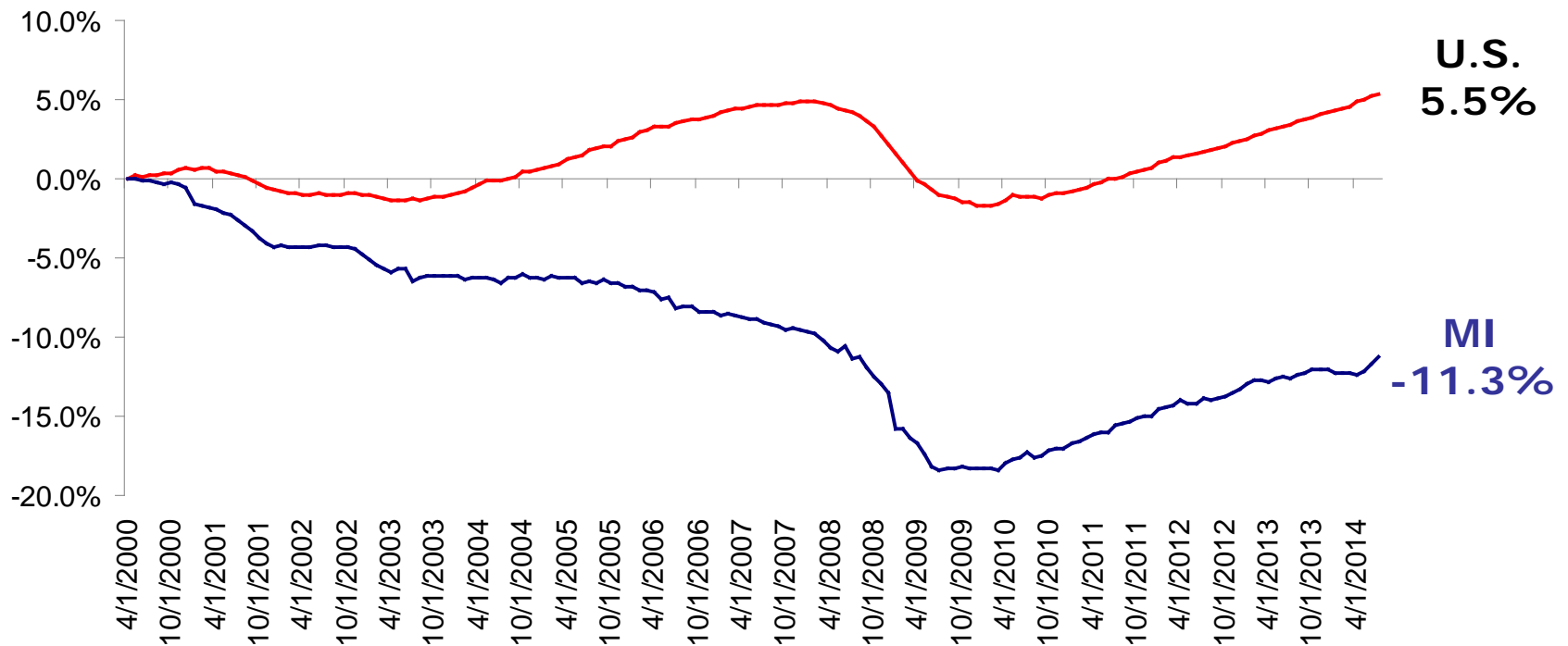
## Cumulative Change in Employment Since June 2009





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

## Cumulative Change in Employment Since April 2000

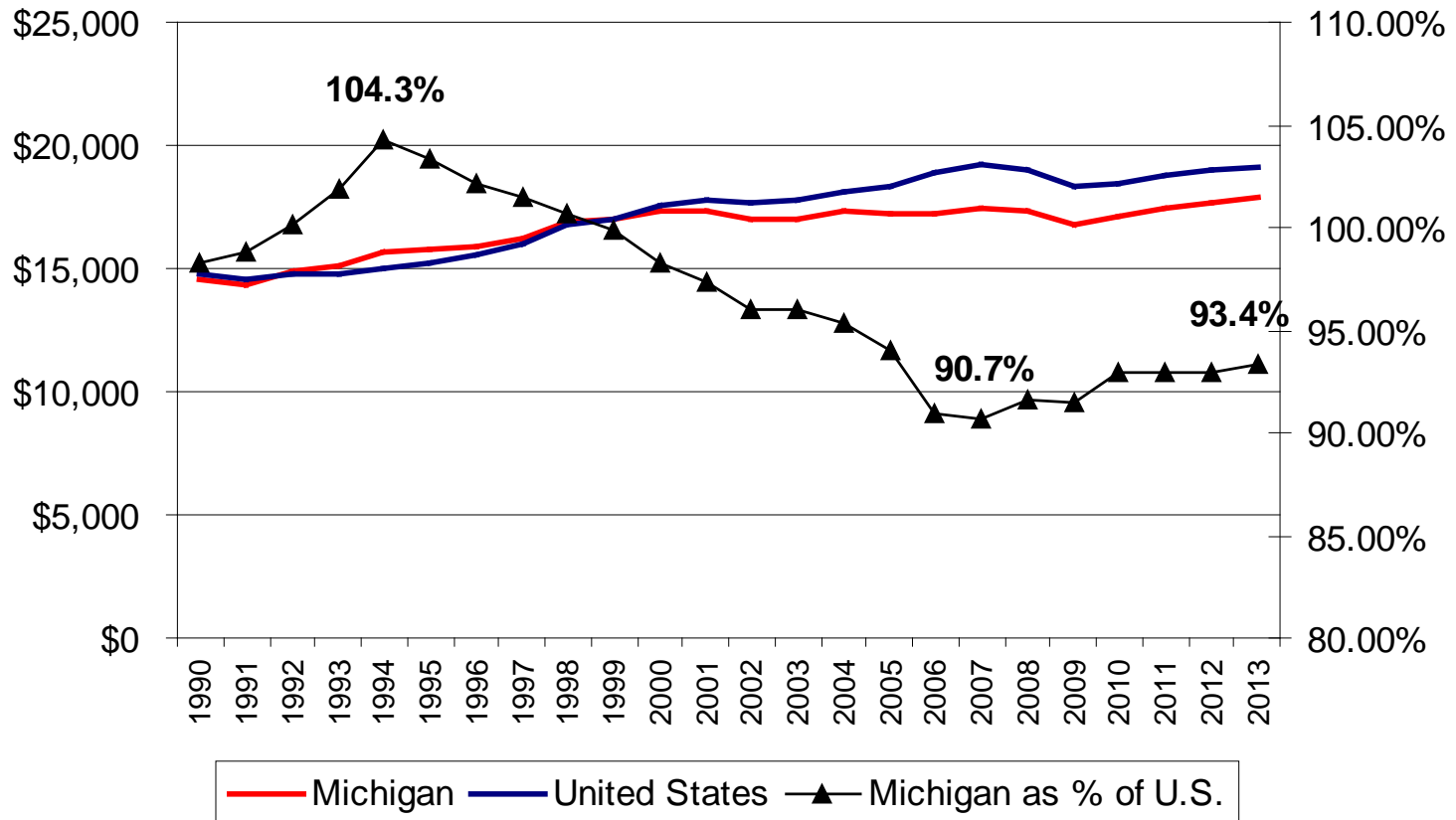






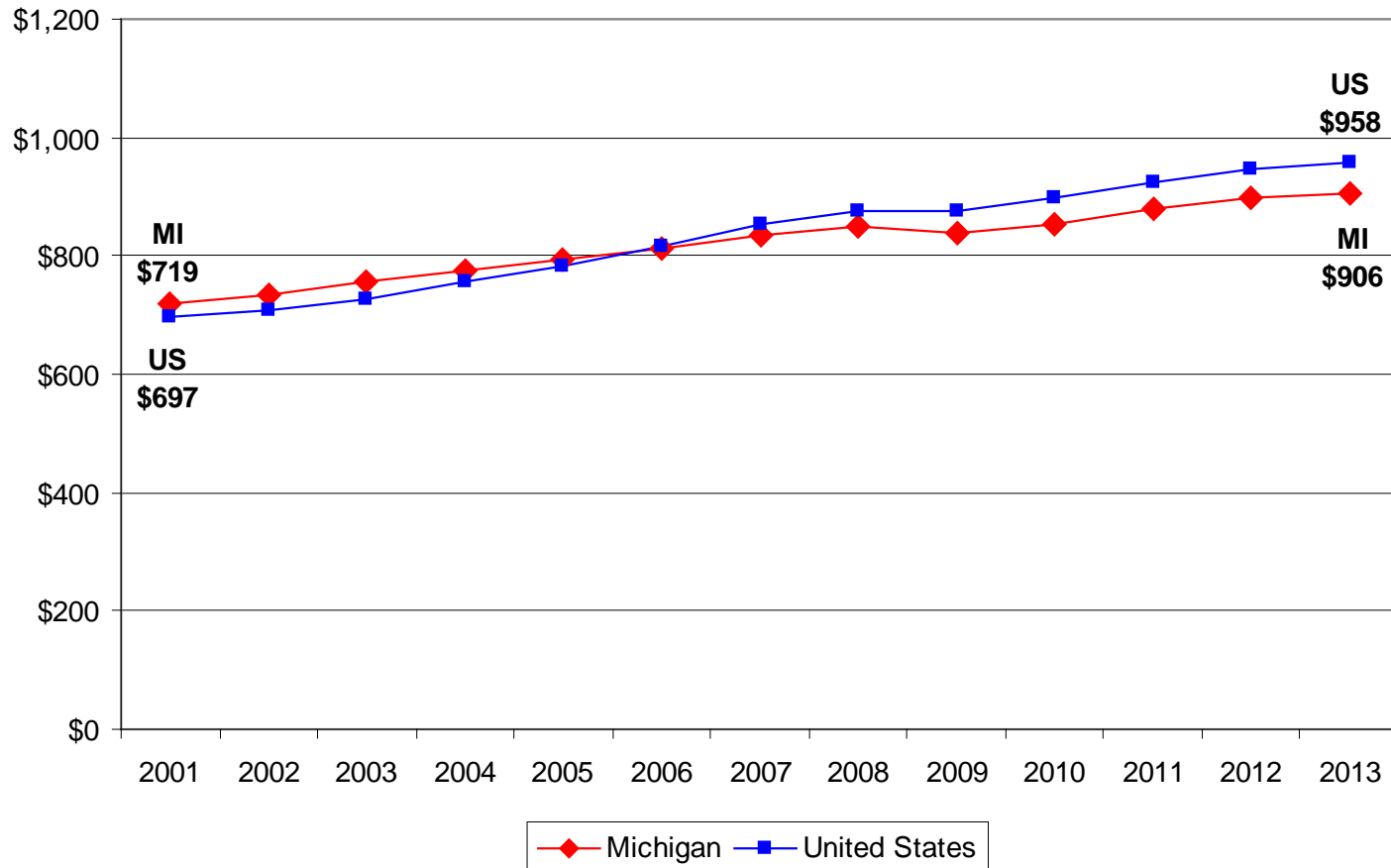
# Real Personal Income Per Capita

## Michigan Now Lags Behind U.S.





# Average Weekly Wage Michigan vs. U.S





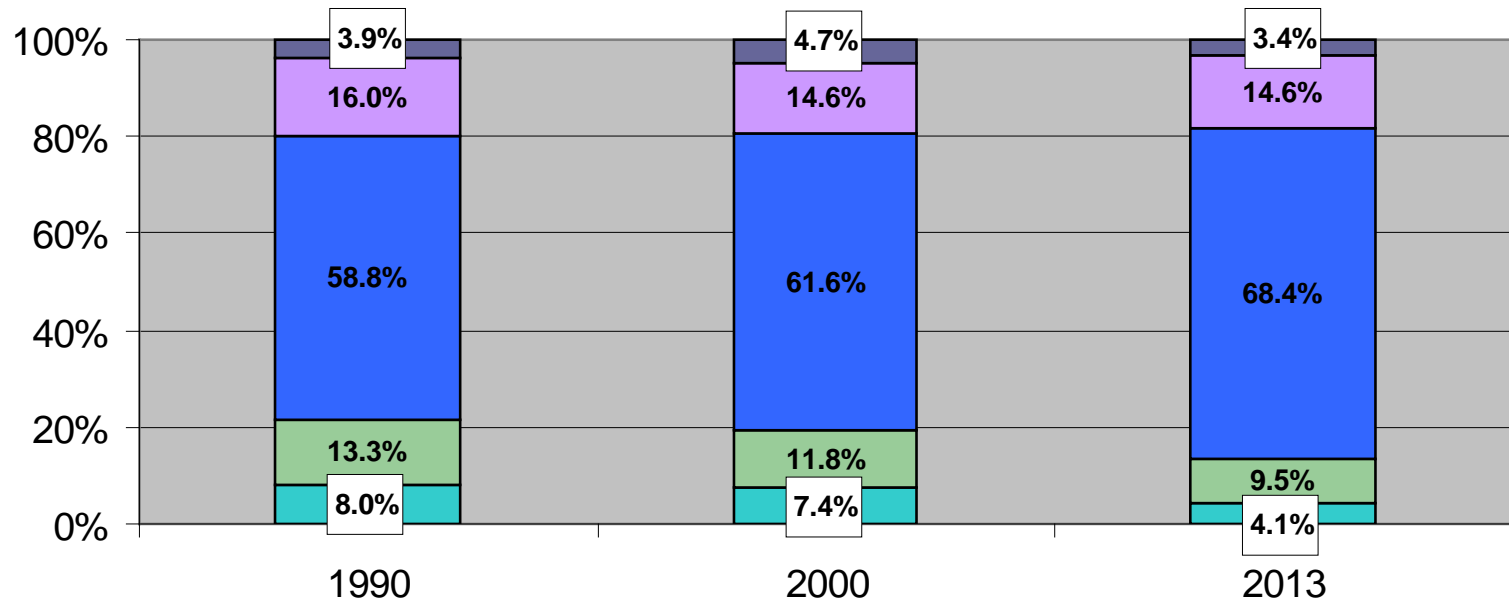
## Employment Changes by Sector

Gains in Higher Wage Sectors, But Gains Don't Offset Prior Losses

	<u>Percent Change</u>		<u>Avg. Weekly Wage</u>
	2000-2009	2009-2013	
Total Employment	-17.2%	6.0%	\$906
<u>Employment by Industry Sector</u>			
Construction	-39.2%	3.8%	\$1,032
Manufacturing	-48.3%	19.9%	\$1,223
Transportation Equip	-63.3%	31.7%	\$1,468
Transportation and Utilities	-16.6%	10.8%	\$1,115
Prof & Business Services	-21.8%	20.0%	\$1,107
Government	-5.1%	-7.3%	\$960
Local Government	-8.3%	-10.8%	\$842



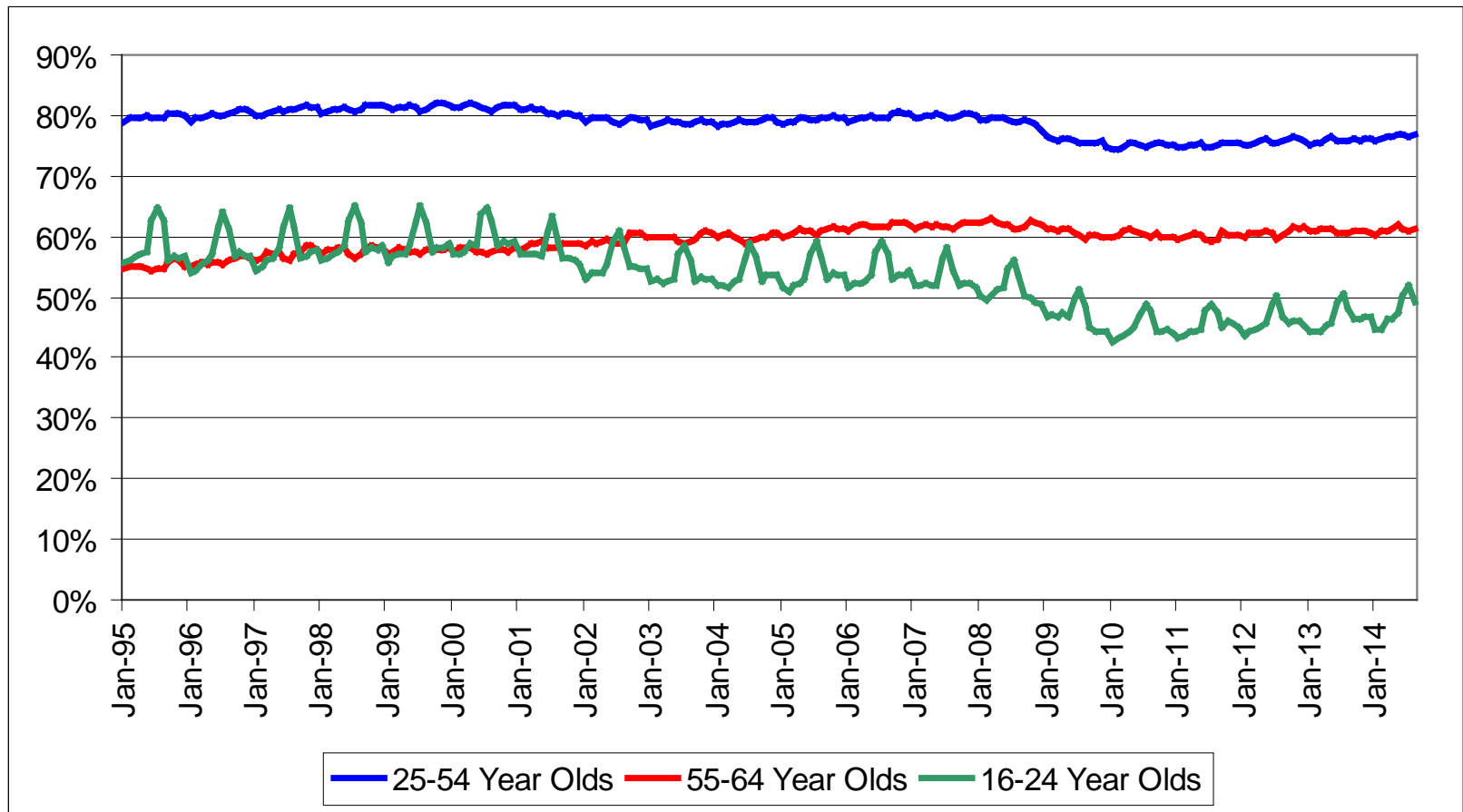
# Historical Changes in Employment by Industrial Sector





# Beyond the Unemployment Rate

## Percentage of Total U.S. Civilian Population Employed

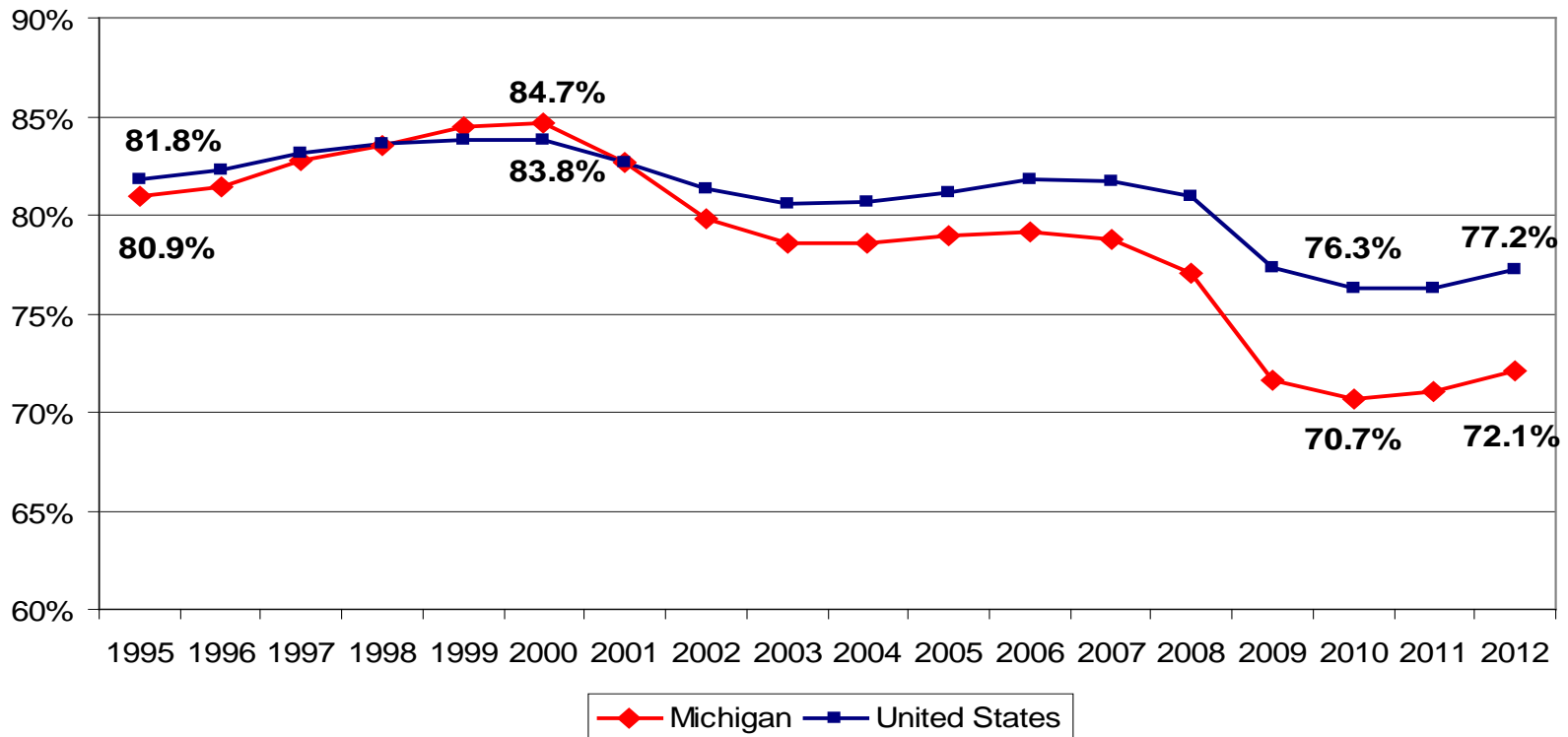




# Beyond the Unemployment Rate

## Comparing Michigan to the U.S.

### *Total Employment as Percentage of Population Aged 20-64*

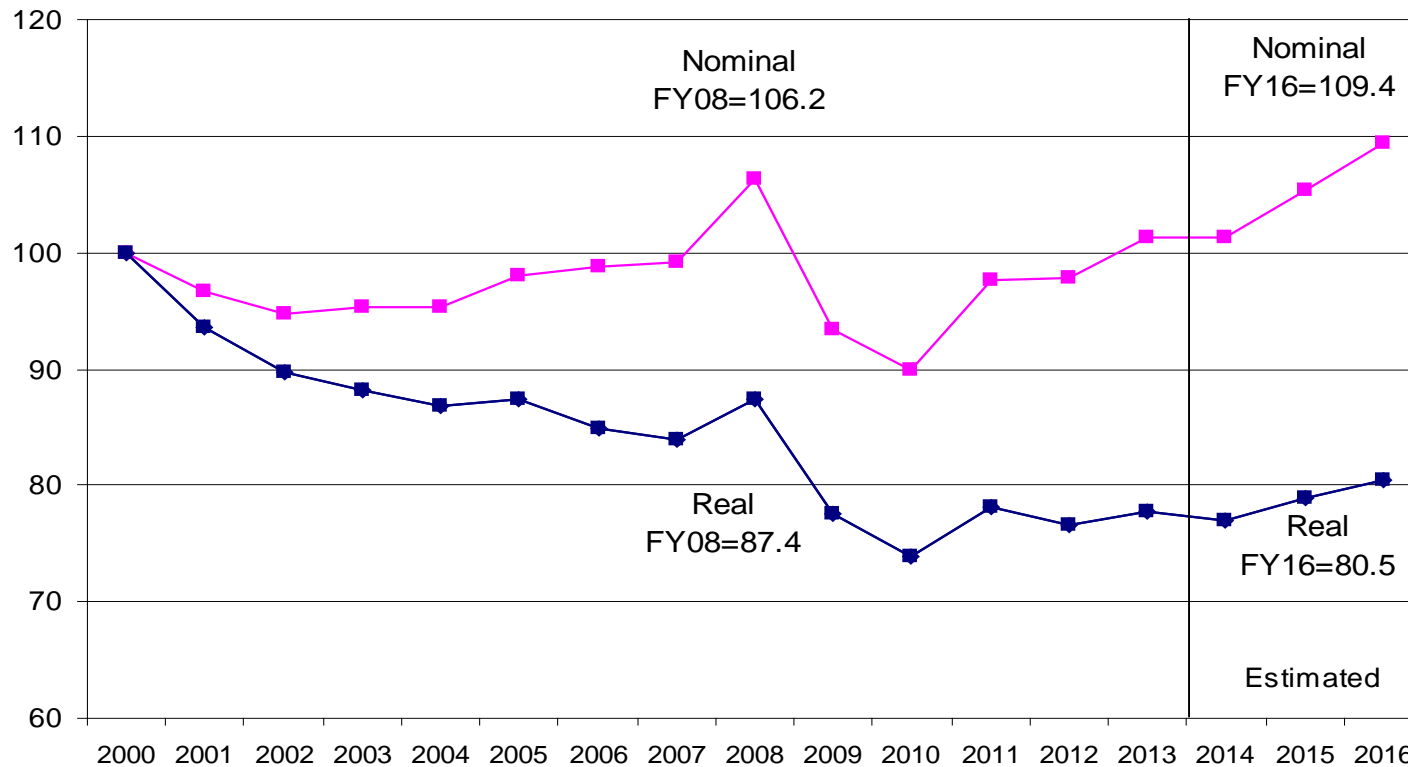




# **Michigan's Budget Picture: Impact and Aftermath of Recession**

# Nominal Revenues Back at 08 Level But Real Revenues Still Down

Combined GF/SAF Revenues (2000 = 100)

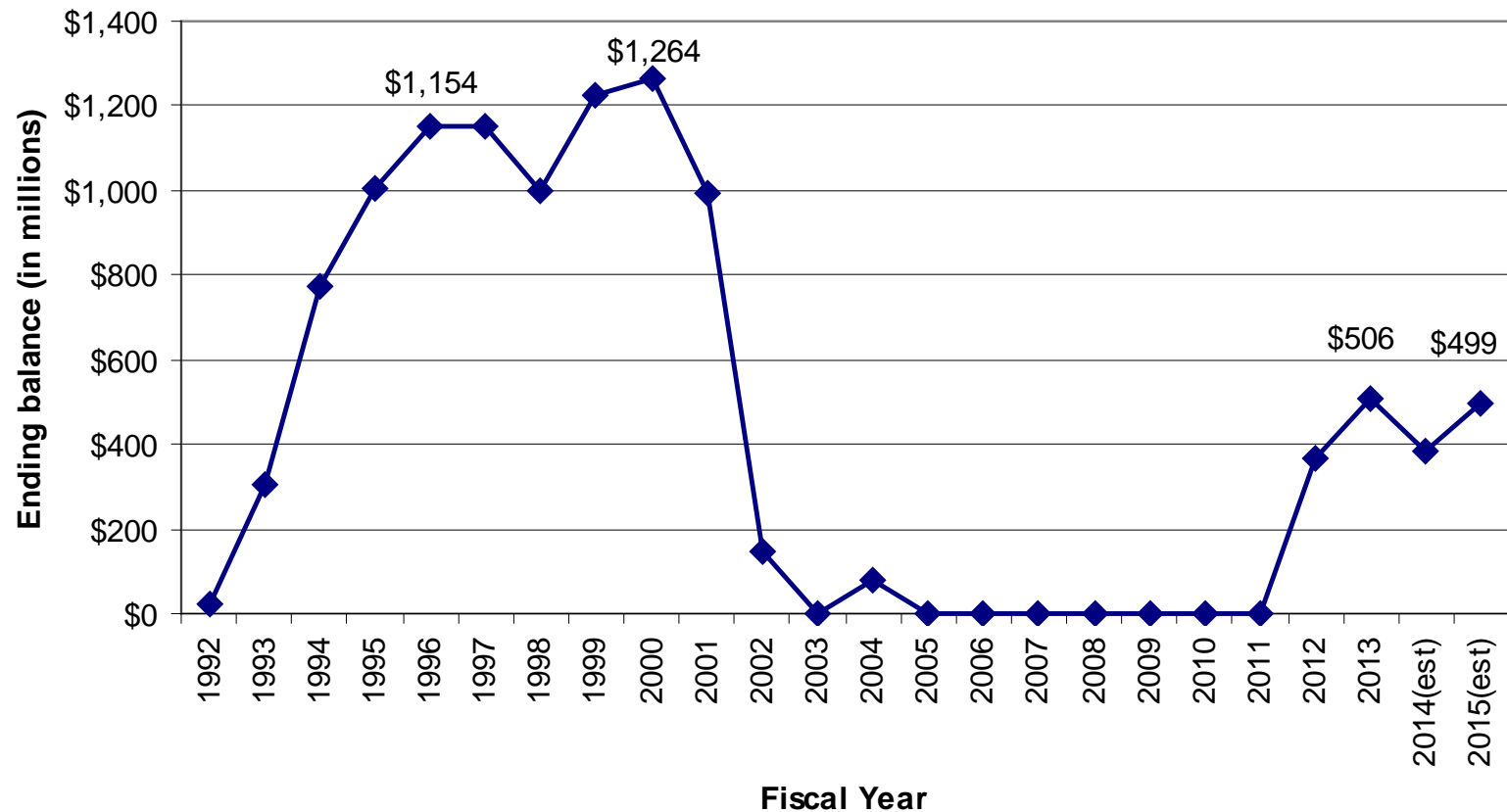






# Budget Stabilization Fund

## Revenues Allow Restoration of Rainy Day Fund Balance



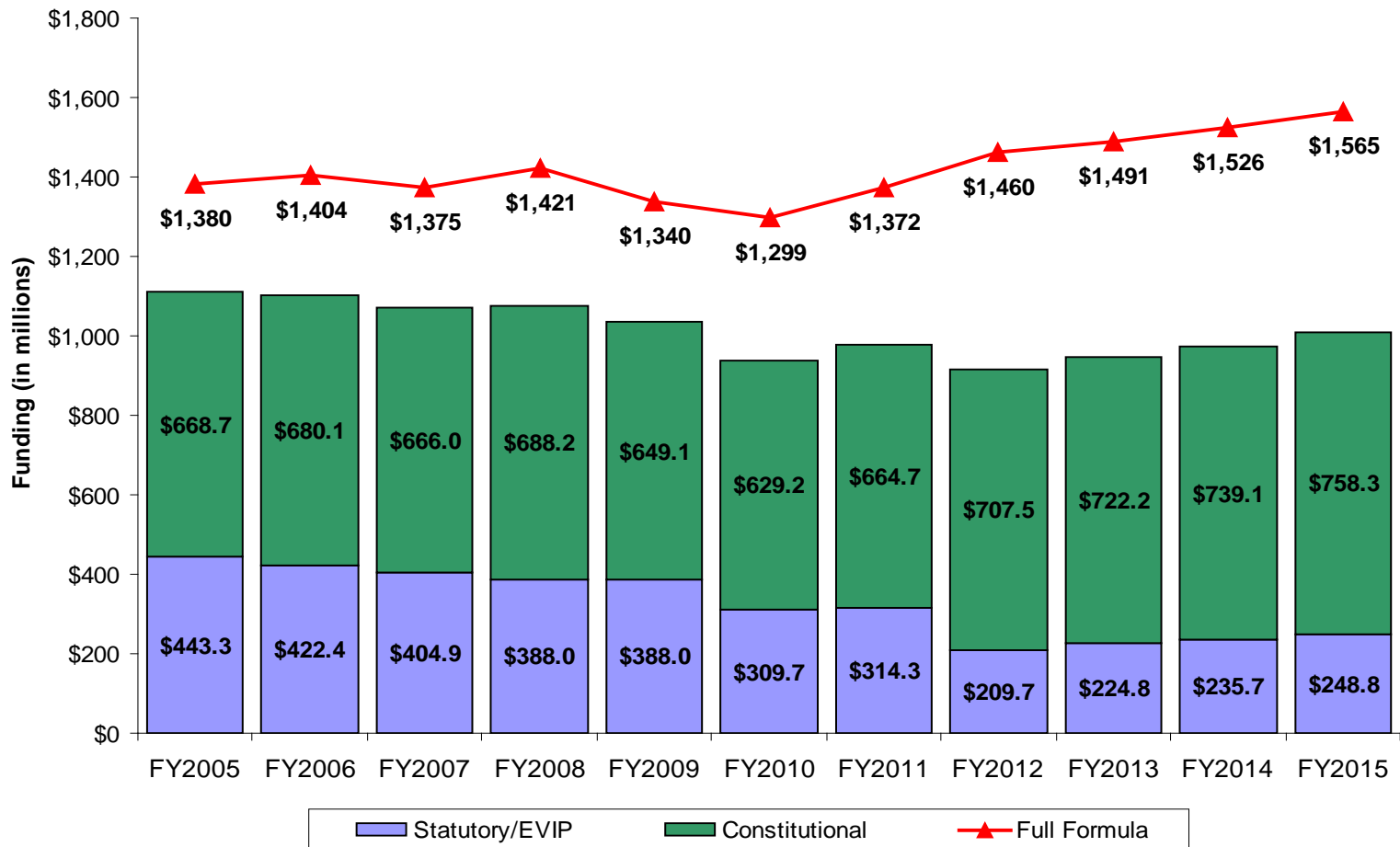
# Major Budget Increases for FY2015

*Revenue Sharing, K-12, and Higher Education See Increases*

- **Local Revenue Sharing:** 45% increase to counties (\$65M)
- **K-12 Education:** 4.1% boost in Governor's proposal
  - Foundation allowance: \$177 million increases funding by \$175 per pupil for districts receiving the minimum foundation grant; \$50 per pupil for others
  - \$270 million to cover unfunded pension liabilities
  - Second round increase (\$65M) for pre-K program
- **Higher Education:** \$77M provides for 6% increase for university operations
  - Half of increase distributed on performance criteria
  - Tuition increases capped at 3.2% to receive performance-based funding

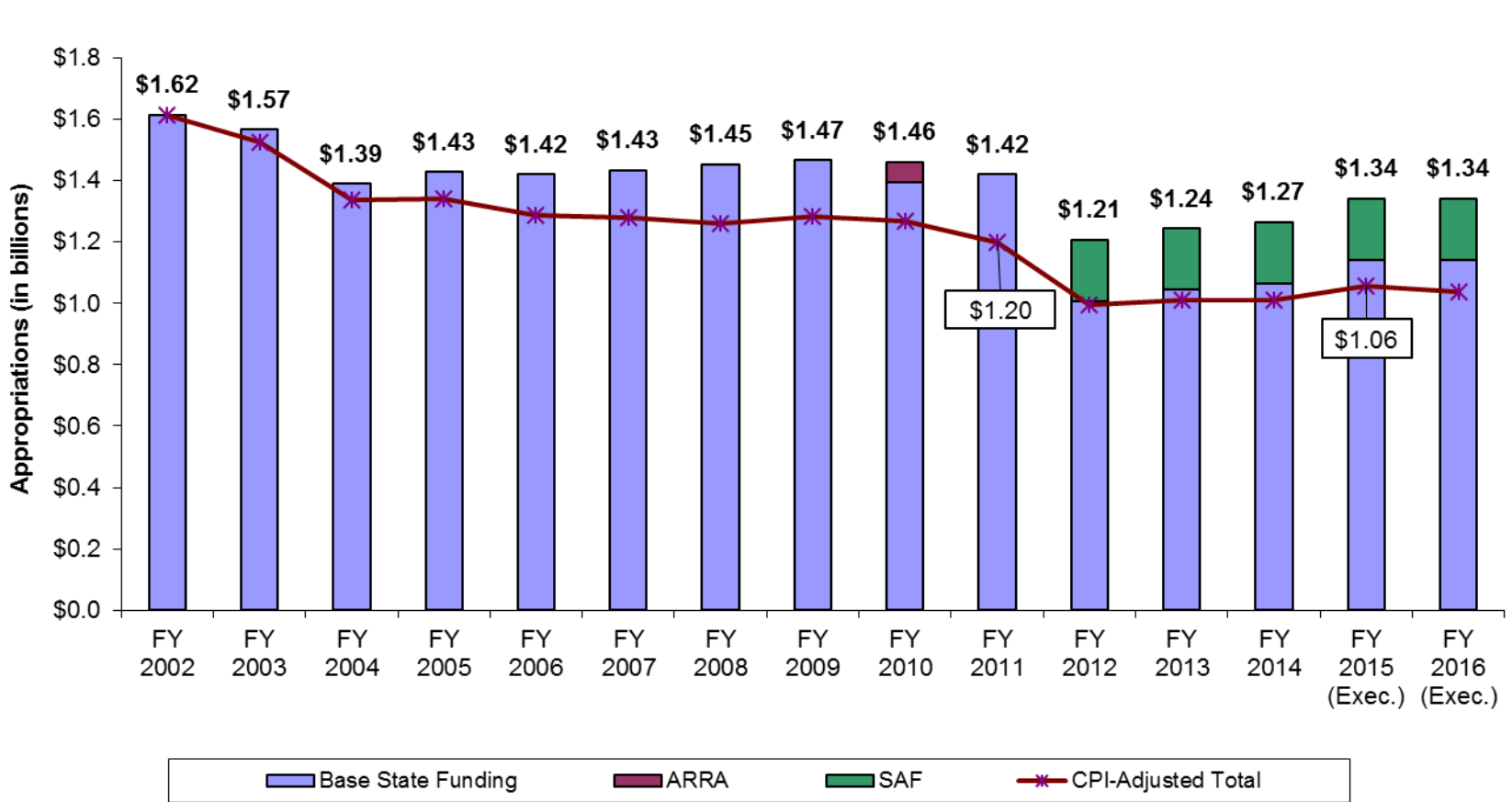
# Recent History of Revenue Sharing

*Cities, Villages, and Townships – Payment vs. Formula*



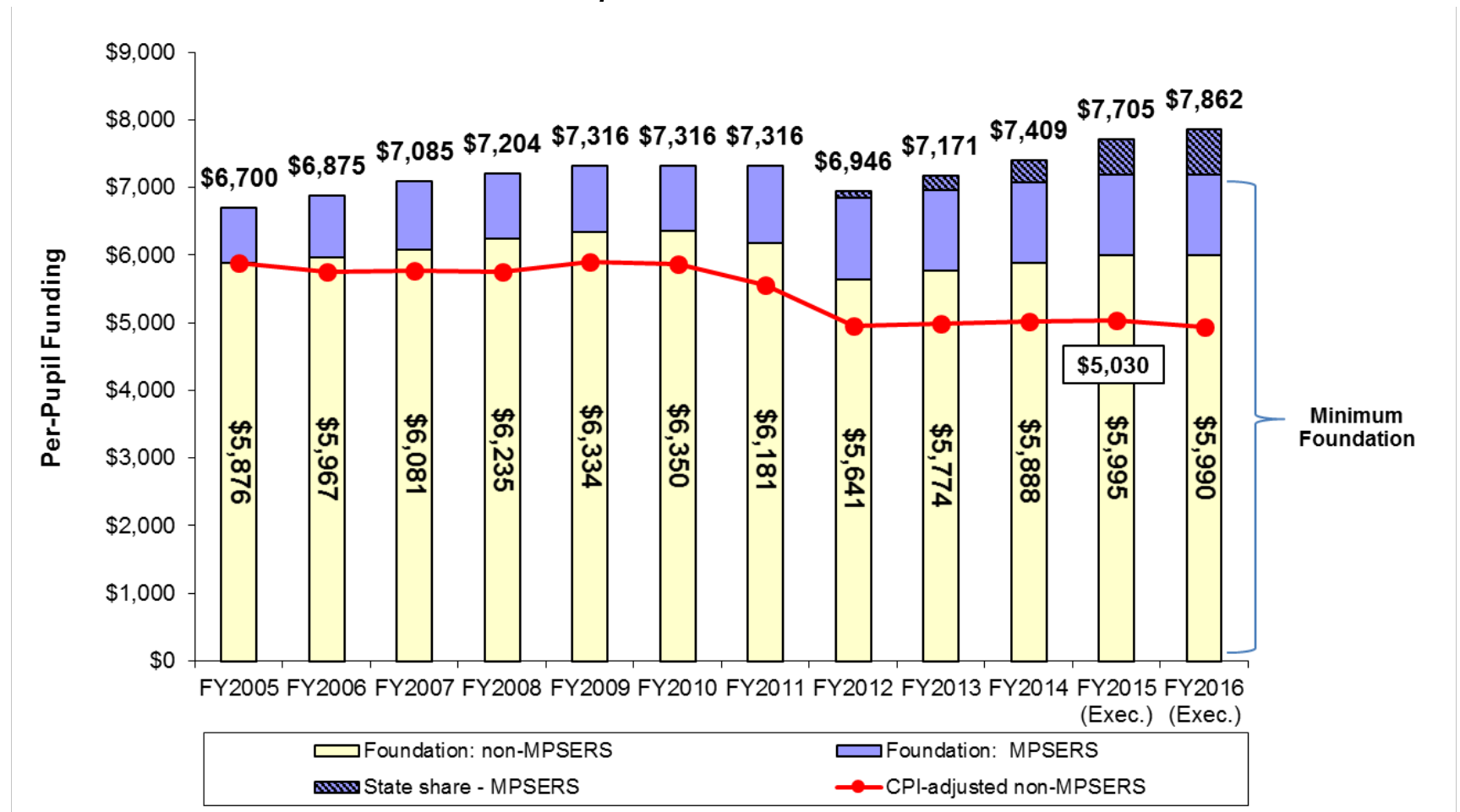
## University Operations Funding

*With Increase, Still Below FY2011 Level by 6%*



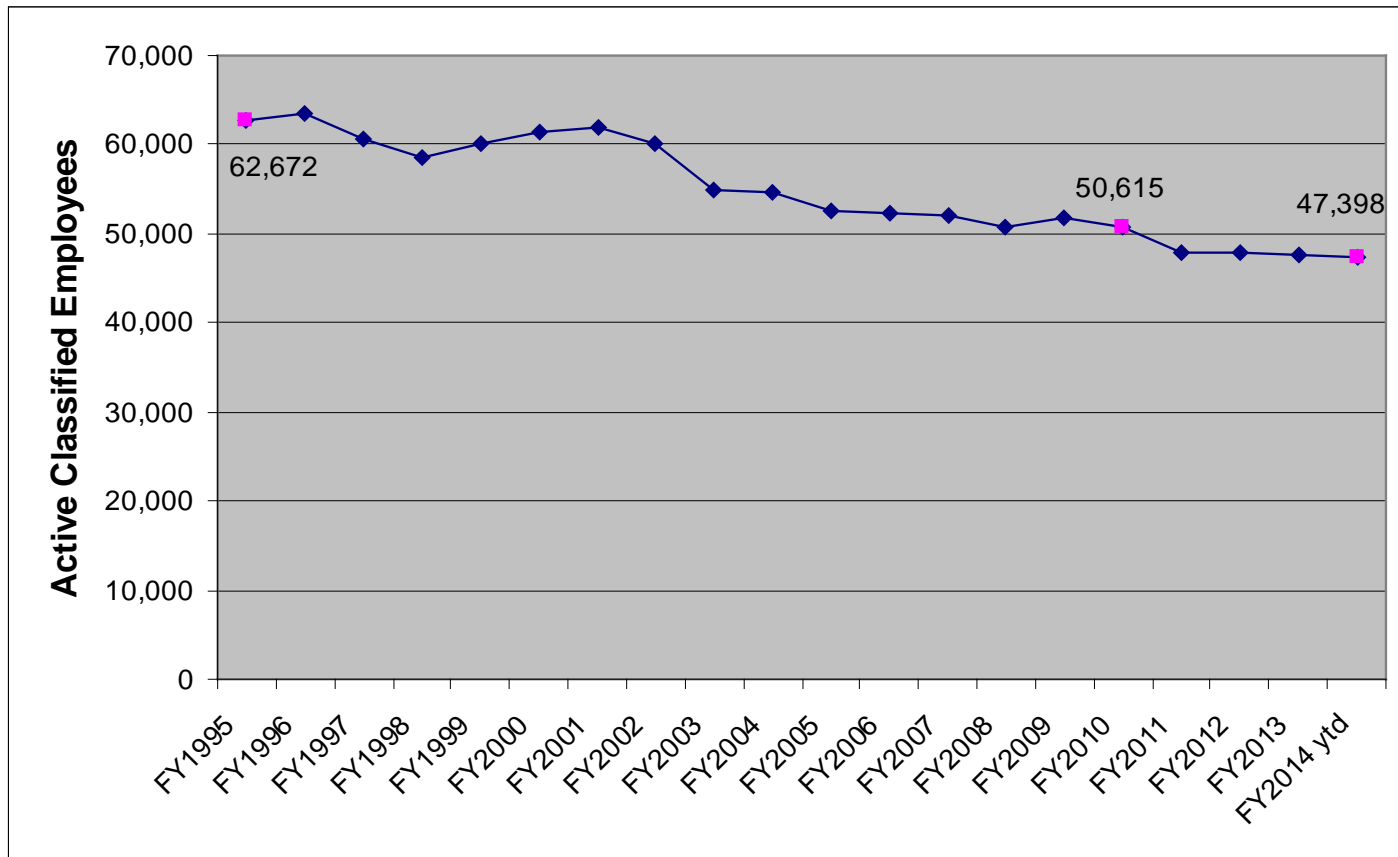
## Effects of MPSERS Costs on Foundation Grant

### *Estimated Impact on Minimum Grant*



# Active Classified State Workforce

Down 24% from FY1995 and 6% from FY2010



Source: Department of Civil Service, Annual Workforce Reports



# **Long-Run Outlook for State Budget: Budget Pressures**

## Road Funding

*Can GF/GP Subsidies Be Sustained in the Long Run*

- With no action yet to provide any permanent increase in transportation funding, state has relied on shifting general fund revenues to roads
  - FY2014: \$336.6 million
  - FY2015: \$284.6 million
- Legislative proposals: primarily have focused on shifting existing revenues to transportation (e.g. sales tax on gas, use tax earmark)
- How will continued GF/GP subsidies to roads affect Michigan's current structural balance?



## Medicaid Expansion

*State Will Need to Contribute to Costs Starting in FY2017*

- Medicaid expansion costs over \$3 billion annually, but federal government currently covers 100% of these costs
- State saves around \$275 million annually as Medicaid picks up costs of state-funded programs
- State will need to provide matching funds in FY2017; match reaches 10% in FY2021
- Governor Snyder's proposal: bank one-half of state's initial Medicaid savings to cover future costs; however, legislature has diverted savings to other priorities (e.g. roads)

# IBM Court Ruling

*Will Legislative Fix Hold Up?*

- Michigan Supreme Court rules in July that state owes IBM \$4.7 million in additional refunds under Michigan Business Tax
- Issue: conflicting apportionment provisions in Michigan Business Tax and Multistate Tax Compact
- Liability goes well beyond IBM; Treasury estimates potential \$1.1 billion impact; over 130 open cases regarding the same issue.
- California *Gillette* ruling: Multistate compact is a binding contract on the state; legislature can not simply amend the act



# Personal Property Tax Exemptions

*Proposal 1 Approved; GF/GP Revenue Shifted to Local Governments*

- Proposal 1 reforms exempt many businesses from personal property tax
  - Small property holders – exempt in 2014
  - Larger holders of eligible property – exempt beginning in 2016
- State will shift a portion of collections from state use tax to hold local governments harmless from the PPT exemptions
- Budget cost: \$107M in FY16, \$350M in FY17, \$500M by FY23 (not part of current estimates)



# GF/GP Going Forward

*Without further road subsidies, budget outlook is positive*

	<u>FY2014</u>	<u>FY2015</u>	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>
<b>Beginning Balance</b>	<b>\$1,186.6</b>	<b>\$438.2</b>	<b>\$4.3</b>	<b>\$88.7</b>	<b>\$49.3</b>
<u>Revenues</u>					
Consensus Revenue Estimates	\$9,319.3	\$9,826.0	\$10,245.3	\$10,673.0	\$11,060.6
Revenue Sharing Allocation	(\$396.6)	(\$468.0)	(\$459.2)	(\$459.2)	(\$459.2)
Net Revenue - Managed Care Use Tax		\$48.6	\$48.6	\$48.6	\$48.6
PPT Reform - Use Tax Allocation			<b>(\$107.0)</b>	<b>(\$349.5)</b>	<b>(\$373.7)</b>
Other Adjustments	\$2.5	\$1.0	\$4.0	\$4.0	\$4.0
<b>Total Adjusted Revenues</b>	<b>\$8,925.2</b>	<b>\$9,407.6</b>	<b>\$9,731.7</b>	<b>\$9,916.9</b>	<b>\$10,280.3</b>
<u>Expenditures</u>					
GF/GP Regular Appropriations	\$9,169.4	\$9,262.1	\$9,262.1	\$9,262.1	\$9,262.1
GF/GP Support for Transportation	\$336.6	\$284.6	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
GF/GP "One-Time" Appropriations	\$92.6	\$200.8	\$200.0	\$200.0	\$200.0
State Medicaid Match				<b>\$120.0</b>	<b>\$193.0</b>
BSF Contribution	\$75.0	\$94.0			
<b>Inflationary Regular Spending Growth (2.0%)</b>			<b>\$185.2</b>	<b>\$374.2</b>	<b>\$566.9</b>
<b>Total Baseline Expenditures</b>	<b>\$9,673.6</b>	<b>\$9,841.5</b>	<b>\$9,647.3</b>	<b>\$9,956.3</b>	<b>\$10,222.0</b>
<b>Annual Revenues minus Expenditures</b>	<b>(\$748.4)</b>	<b>(\$433.9)</b>	<b>\$84.4</b>	<b>(\$39.4)</b>	<b>\$58.3</b>
<b>Ending Balance</b>	<b>\$438.2</b>	<b>\$4.3</b>	<b>\$88.7</b>	<b>\$49.3</b>	<b>\$107.6</b>

Note: FY2017 and FY2018 revenue estimates based on long-run estimates from May 2014 Consensus Revenue Estimating Conference.



# GF/GP Going Forward

*Transportation subsidies bring potential deficits*

	<u>FY2014</u>	<u>FY2015</u>	<u>FY2016</u>	<u>FY2017</u>	<u>FY2018</u>
<b>Beginning Balance</b>	<b>\$1,186.6</b>	<b>\$438.2</b>	<b>\$4.3</b>	<b>(\$211.3)</b>	<b>(\$550.7)</b>
<u>Revenues</u>					
Consensus Revenue Estimates	\$9,319.3	\$9,826.0	\$10,245.3	\$10,673.0	\$11,060.6
Revenue Sharing Allocation	(\$396.6)	(\$468.0)	(\$459.2)	(\$459.2)	(\$459.2)
Net Revenue - Managed Care Use Tax		\$48.6	\$48.6	\$48.6	\$48.6
PPT Reform - Use Tax Allocation			<b>(\$107.0)</b>	<b>(\$349.5)</b>	<b>(\$373.7)</b>
Other Adjustments	\$2.5	\$1.0	\$4.0	\$4.0	\$4.0
<b>Total Adjusted Revenues</b>	<b>\$8,925.2</b>	<b>\$9,407.6</b>	<b>\$9,731.7</b>	<b>\$9,916.9</b>	<b>\$10,280.3</b>
<u>Expenditures</u>					
GF/GP Regular Appropriations	\$9,169.4	\$9,262.1	\$9,262.1	\$9,262.1	\$9,262.1
GF/GP Support for Transportation	\$336.6	\$284.6	<b>\$300.0</b>	<b>\$300.0</b>	<b>\$300.0</b>
GF/GP "One-Time" Appropriations	\$92.6	\$200.8	\$200.0	\$200.0	\$200.0
State Medicaid Match				<b>\$120.0</b>	<b>\$193.0</b>
BSF Contribution	\$75.0	\$94.0			
<b>Inflationary Regular Spending Growth (2.0%)</b>			<b>\$185.2</b>	<b>\$374.2</b>	<b>\$566.9</b>
<b>Total Baseline Expenditures</b>	<b>\$9,673.6</b>	<b>\$9,841.5</b>	<b>\$9,947.3</b>	<b>\$10,256.3</b>	<b>\$10,522.0</b>
<b>Annual Revenues minus Expenditures</b>	<b>(\$748.4)</b>	<b>(\$433.9)</b>	<b>(\$215.6)</b>	<b>(\$339.4)</b>	<b>(\$241.7)</b>
<b>Ending Balance</b>	<b>\$438.2</b>	<b>\$4.3</b>	<b>(\$211.3)</b>	<b>(\$550.7)</b>	<b>(\$792.4)</b>

Note: FY2017 and FY2018 revenue estimates based on long-run estimates from May 2014 Consensus Revenue Estimating Conference.



## Closing Observations

- Michigan economy is experiencing healthy growth for the first time in more than a decade; however the state still struggles to overcome the economic damage from the last decade
- Slow wage growth appears to result from significant amount of slack in the labor market, perhaps as “discouraged workers” slowly begin to re-enter
- Budget is structurally balanced, but budget pressures will continue to provide challenges – road funding issue remains a budget risk
- Looking forward, if economy and revenues cooperate and road funding subsidy is eliminated or at least reduced, picture looks much brighter in FY2018 and beyond



The Citizens Research Council of Michigan is supported by gifts and grants of all sizes coming from many different donors including:

- Foundations
- Businesses
- Organizations
- Individual Citizens like you

***We hope you will consider supporting CRC. For more information or to donate, contact us at:***

Citizens Research Council of Michigan  
38777 Six Mile Road  
Livonia, MI 48152

(734) 542-8001  
[www.crcmich.org](http://www.crcmich.org)



CRC Publications are available at:

[www.crcmich.org](http://www.crcmich.org)

Follow Us on Twitter: @crcmich



Become a Fan on Facebook:



<http://www.facebook.com/#!/pages/Citizens-Research-Council-of-Michigan/29250856215>

Providing Independent, Nonpartisan Public Policy  
Research Since 1916