



Michigan Economic and Budget Update Progress and Challenges

Manistee Michigan

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- Statewide
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- 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

- Michigan – where are we now?
- State Budget Update
- Challenges for Schools and Local Governments



Michigan – Where are We Now?



Status of National Economy

- Recession ended in 2009 – recovery is now 4 years old
- Autos and stock market have recovered, housing is finally improving
- Weakness in Europe and U.S. fiscal policy holding down growth
- Employment is growing with labor force but not fast enough to recover lost jobs

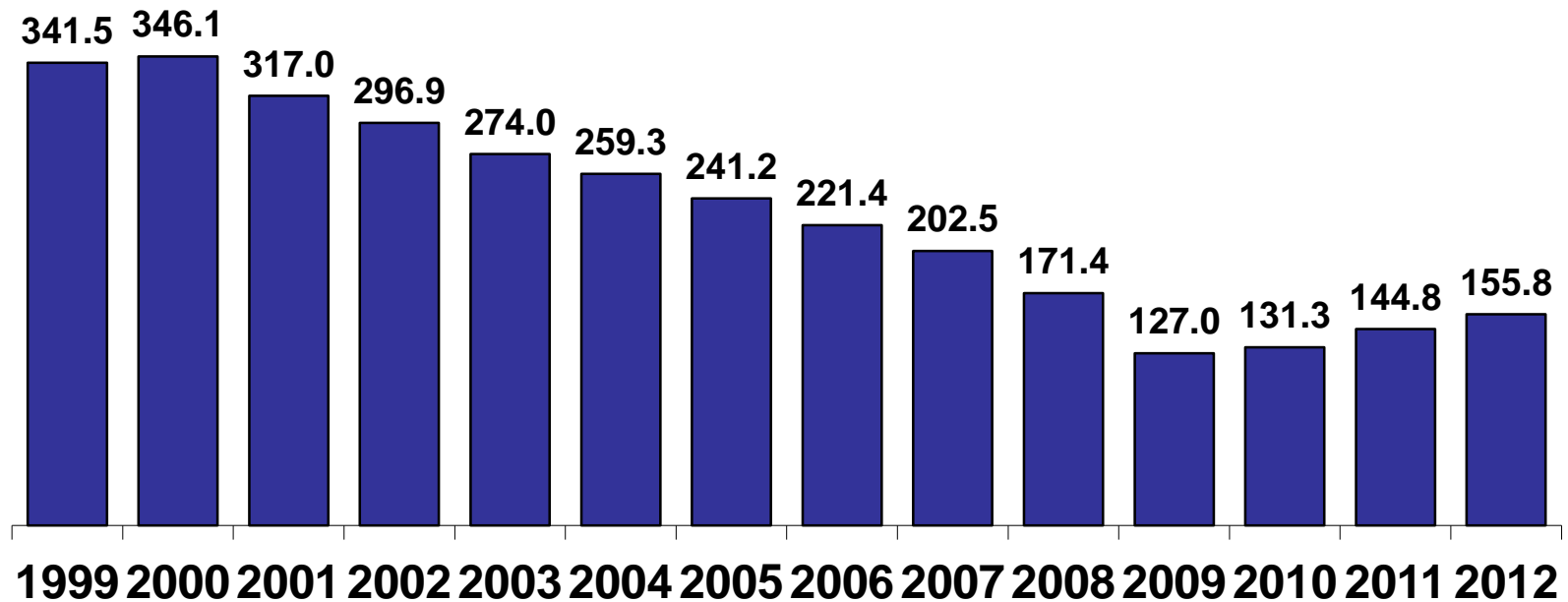


The Last Decade Was an Economic Disaster for Michigan

	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

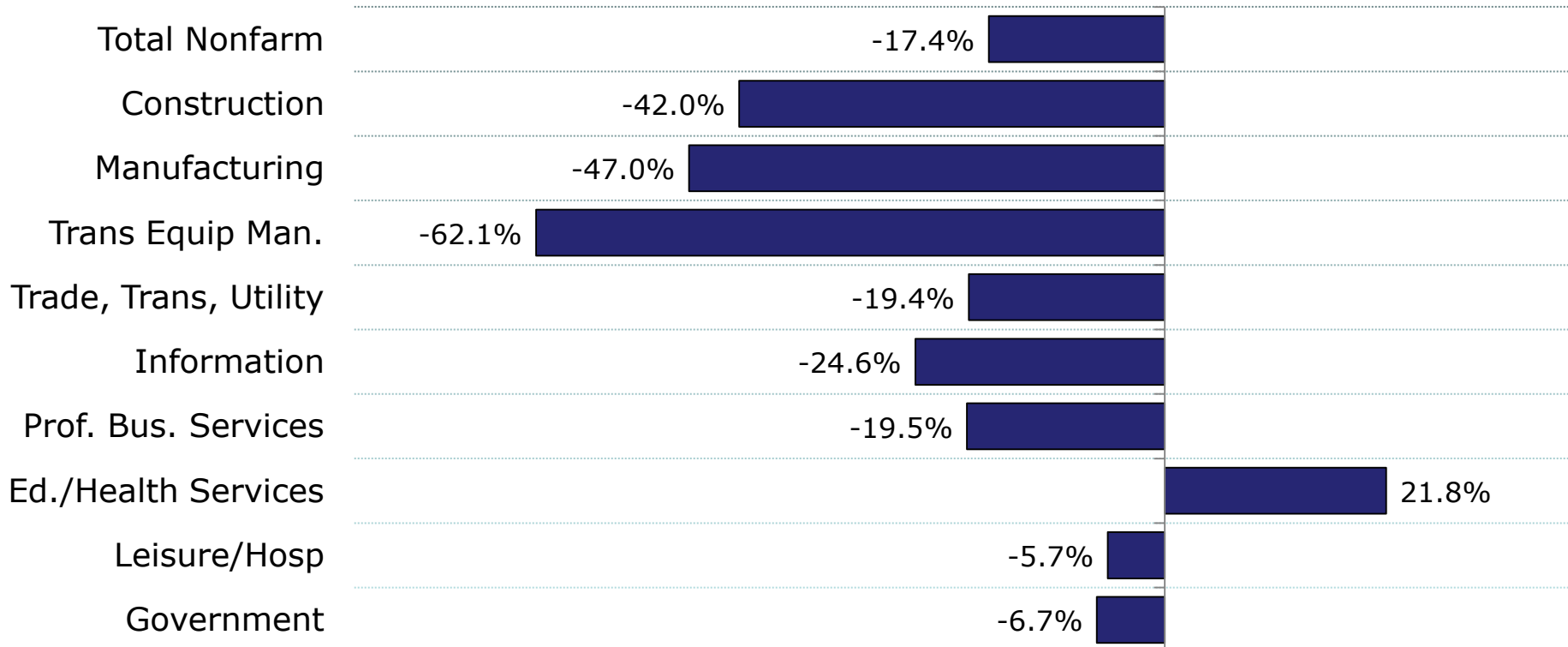
Michigan Transportation Equipment Employment
(In Thousands)





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

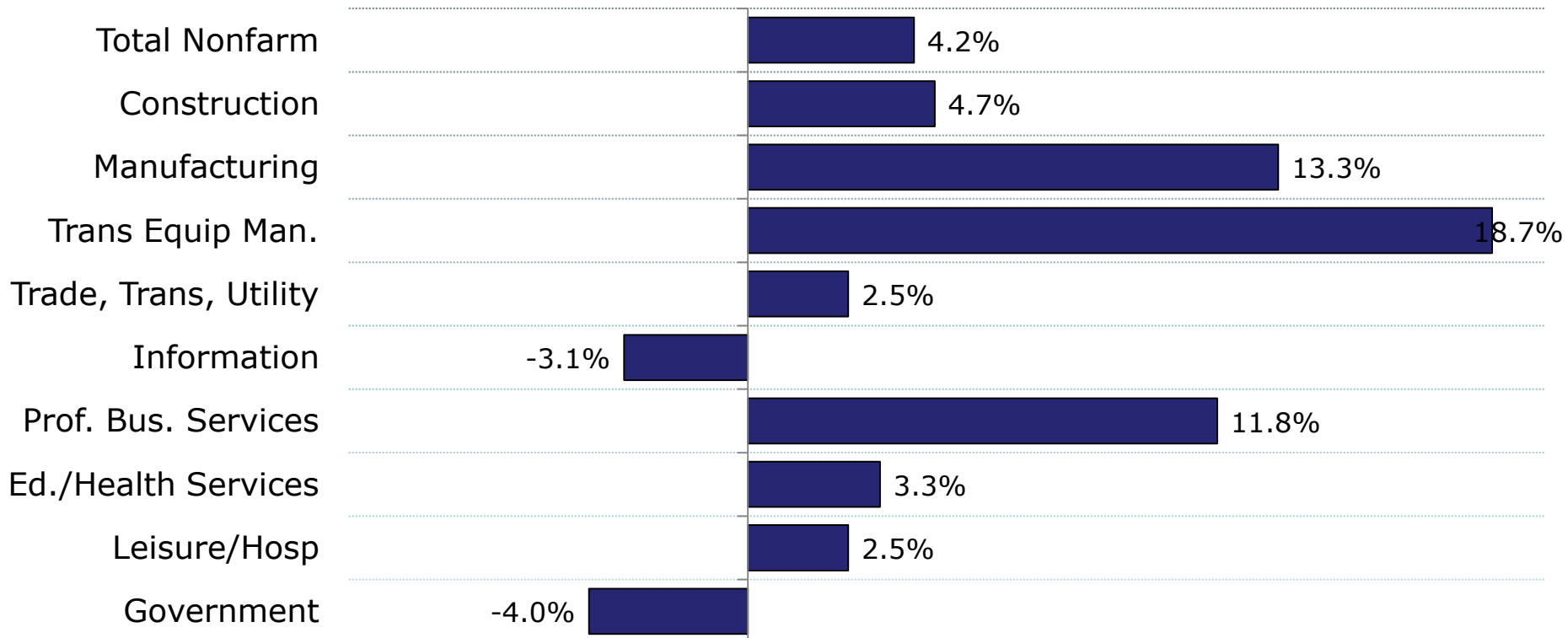
2000 to 2010





Michigan Has Added Jobs Over Past 2 Years

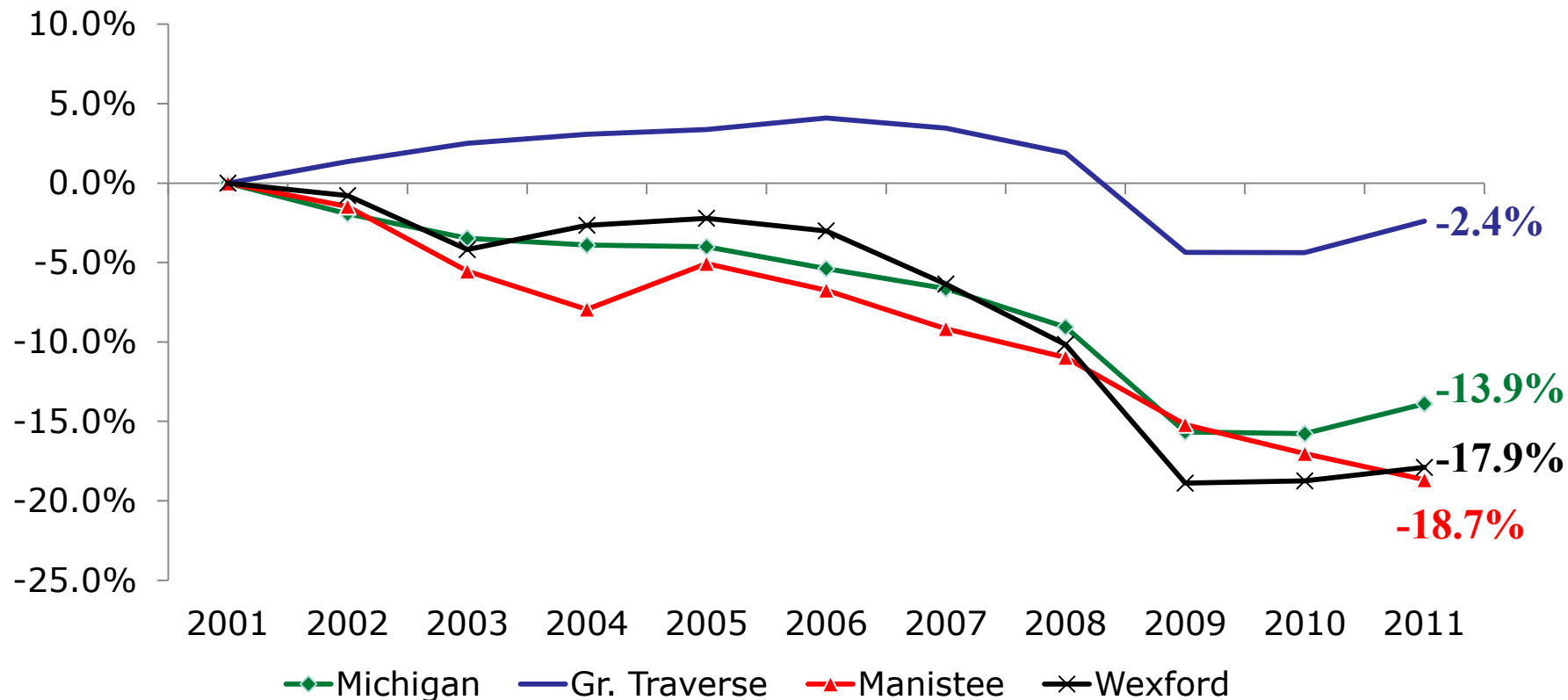
2010 to 2012





NW Michigan Not Immune From Michigan's Woes

Cumulative Percent Change in Employment Since 2001





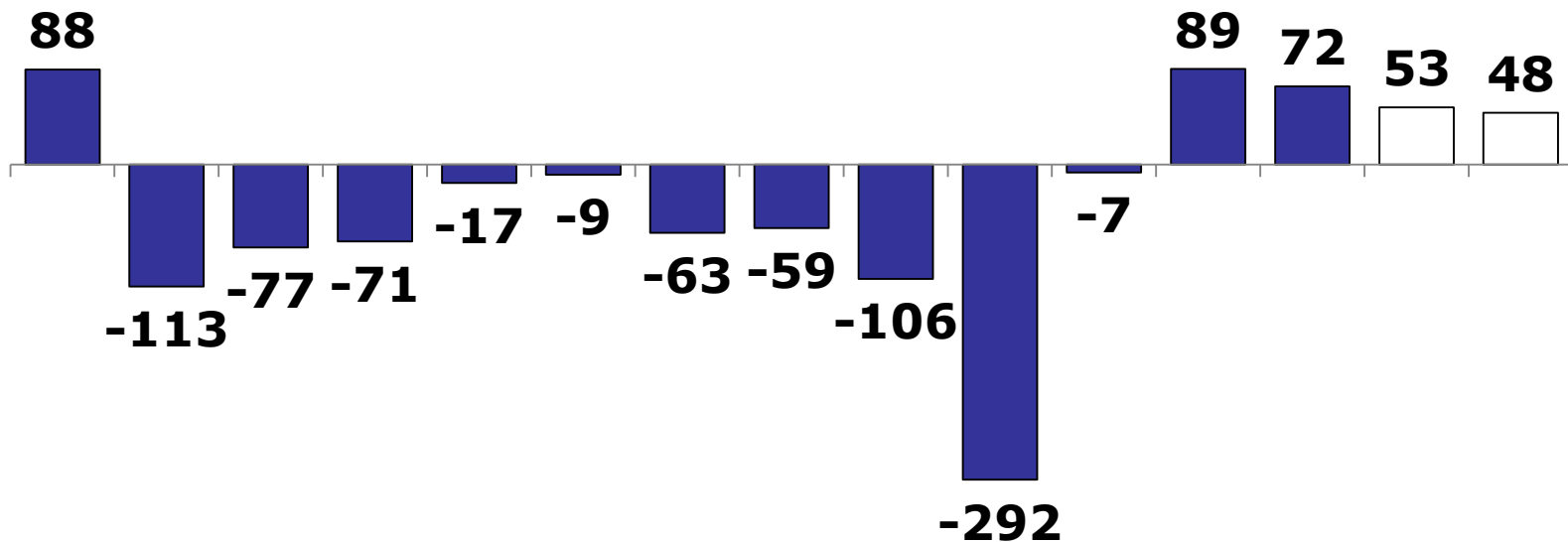
MSU Tourism Forecast

- Travel prices up 3% in 2013 after rising 2.5% last year
- Spending projected to be up 5.5% after rising 6% last year
- Risks (up and down) include gas prices, federal sequester (economic slowdown risk), and weather



Michigan Employment Grows But Slower in 2013 and 2014

Annual Employment Growth (thousands of jobs)

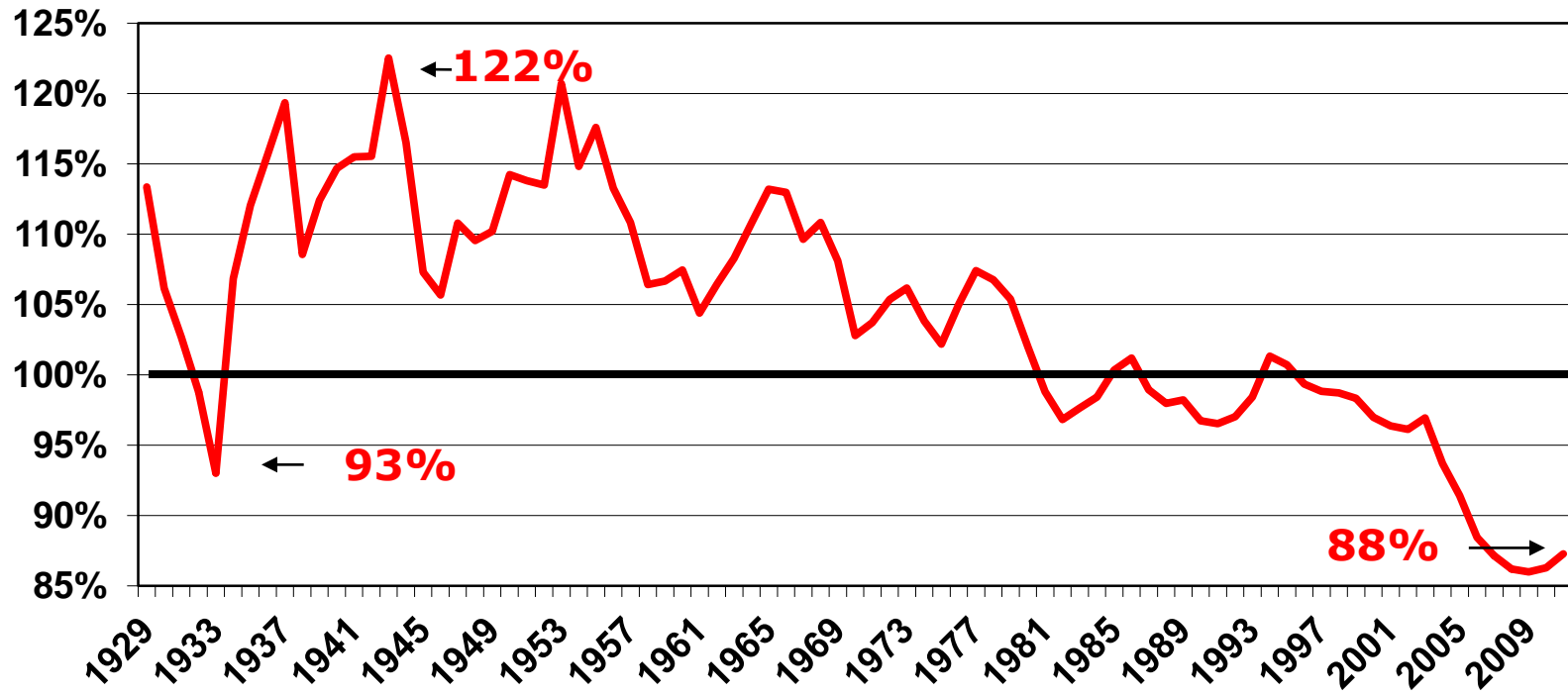


Avg 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014
92 to
2000



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. (2009\$)	MI (2009\$)	MI as % of U.S.	U.S. (2009\$)	MI (2009\$)	MI as % of U.S.
1979	\$2,704	\$3,088	114.2%	\$100.13	\$108.51	108.4%
1989	\$3,287	\$3,452	105.0%	\$103.23	\$110.41	107.0%
1999	\$3,761	\$3,891	103.5%	\$103.08	\$108.46	105.2%
2009	\$4,144	\$3,627	87.5%	\$106.69	\$108.22	101.4%



State Budget Deficit Resolved Through Cuts in FY 2012 (Spending from All Sources)

	<u>FY 2011</u>	<u>FY 2012</u>	<u>Change</u>	
			<u>Amount</u>	<u>Percent</u>
Higher Education	\$1,867.8	\$1,634.5	(\$233.3)	-12.5%
School Aid	\$13,290.0	\$12,720.7	(\$569.3)	-4.3%
Revenue Sharing	\$1,091.5	\$1,032.2	(\$59.3)	-5.4%
Other	\$32,700.8	\$31,659.5	(\$1,041.2)	-3.2%
Total	\$48,950.1	\$47,046.9	(\$1,903.2)	-3.9%



State Spending From State Resources Down in Most Categories

	FY 2002 <u>(millions\$)</u>	FY 2013 <u>(millions\$)</u>	Nominal % <u>Change</u>
Medicaid/DCH	\$3,066	\$4,976	62.3%
Corrections	\$1,653	\$2,009	21.5%
Human Services	\$1,230	\$1,117	-9.2%
K-12	\$11,221	\$11,244	0.2%
Community College	\$320	\$294	-8.2%
Universities/Fin Aid	\$1,941	\$1,302	-32.9%
Revenue Sharing	\$1,517	\$1,084	-28.6%
All Other	<u>\$5,139</u>	<u>\$5,787</u>	<u>12.6%</u>
Total	\$26,087	\$27,812	6.6%
U.S. CPI - U	178.9	232.7	30.1%



Important Tax Changes

- MBT repealed and replaced with CIT. Noncorporate entities are exempt.
- Business tax revenues fall From \$2,013M to \$352M a \$1.6B cut (83 percent)
- IIT increased by \$1,353M by eliminating or reducing credits and exemptions and freezing rate
- Personal property tax being phased out starting in FY 2014 – partial revenue replacement from use tax and essential services special assessment



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
- May Consensus Conference estimates increased by \$483 million for FY 2013 and \$219 million for FY 2014



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



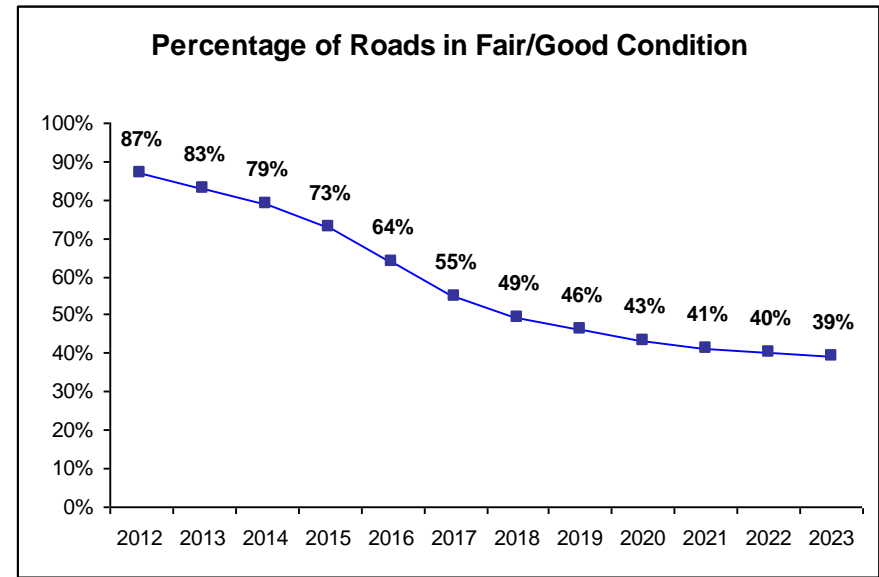
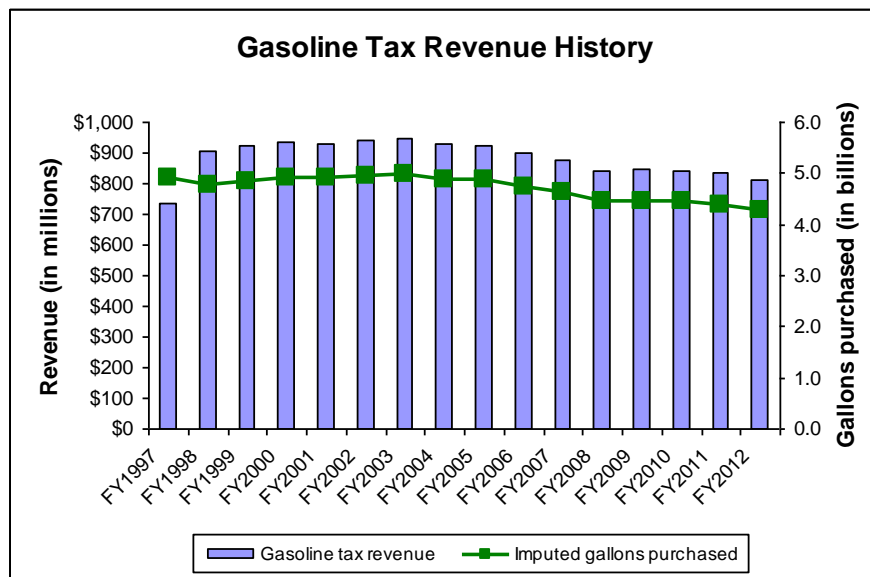
Medicaid Expansion

Costs, Savings, and new Health Savings Fund

- Cost of expanded coverage ~ \$1.6 billion – **all federal \$ in FY 2014**
- **\$200M GF/GP** savings by shifting adults currently served by state-funded non-Medicaid programs to federally-funded Medicaid
- 50% GF/GP savings to be deposited into new Health Savings Fund
- Health Savings Fund proceeds will be used to offset future state GF/GP contributions for Medicaid

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

Combined Motor Fuel Tax and Vehicle Registration Increases

	<u>Current Rate</u>	<u>Proposed Rate</u>	<u>New FY2014 Revenue</u>
Gasoline Tax	\$0.19/gallon	\$0.33/gallon	\$598.7 million
Diesel Fuel Tax	\$0.15/gallon	\$0.33/gallon	\$129.0 million
Registration Taxes	Light vehicles - increase 60% Large trucks/trailers - increase 25%		\$508.3 million
	NEW STATE REVENUE		\$1,236.0 million
County option - vehicle registration	Up to 0.18% of vehicle list price		\$280.0 million
	TOTAL POTENTIAL REVENUE		\$1,516.0 million



Great Start Readiness Program

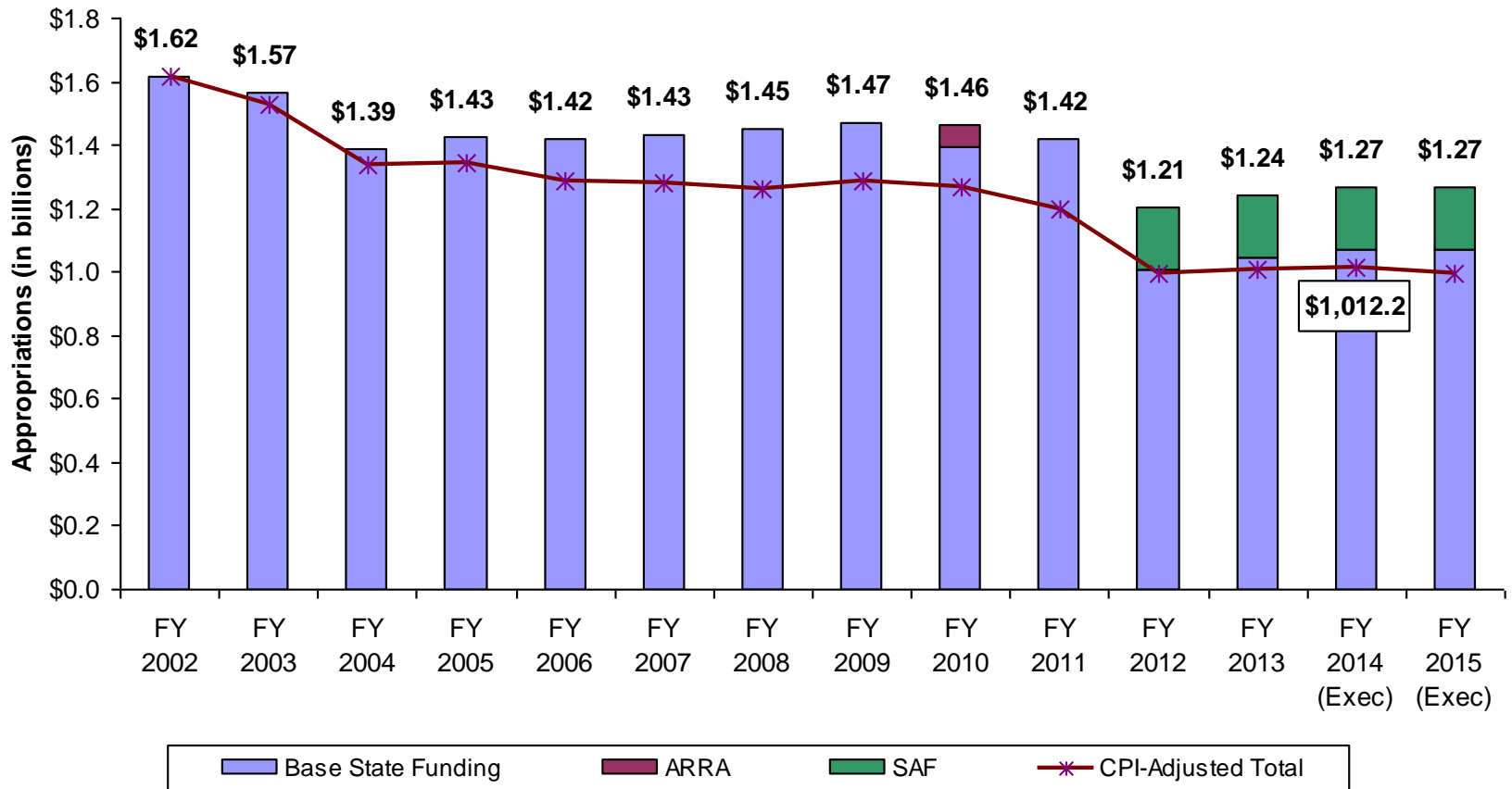
Significant funding increase for pre-school programs

	FY2013 Funding	FY 2014 Funding	% Chg from FY2013	FY2015 Funding	% Chg from FY2013
Great Start Readiness Program	\$109,275,000	\$174,275,000	59.5%	\$239,275,000	119.0%
Allotment per Half-Day Placement	\$3,400	\$3,625	6.6%	\$3,625	6.6%
Estimated Half-Day Placements	32,140	48,076	49.6%	66,007	105.4%

- Program serves 4 year olds
- At least 90% of participating children must live in families below 300% of federal poverty level (up from 75%)
- ISDs must contract with eligible for-profit and non-profit community-based providers for at least 20% of slots
- Programs must participate in Great Start to Quality Process with at least 3-star rating

University Operations Funding History

2% Increase for universities still leaves funding just over 21% below FY2002 levels; 37% decline adjusted for inflation





Savings for Future Needs

- Planned \$140M FY2013 deposit into state's Budget Stabilization Fund adds to \$362M deposit in FY2012
- Proposal would deposit additional \$75M in FY2014 and \$150M in FY2015 to **bring BSF balance to \$727M by end of FY2015**
- Health Savings Fund from Medicaid expansion savings would take in another \$240 million over FY2014 and FY2015
- New Disaster Emergency and Contingency Fund would take in \$8 million across the two-year budget period



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

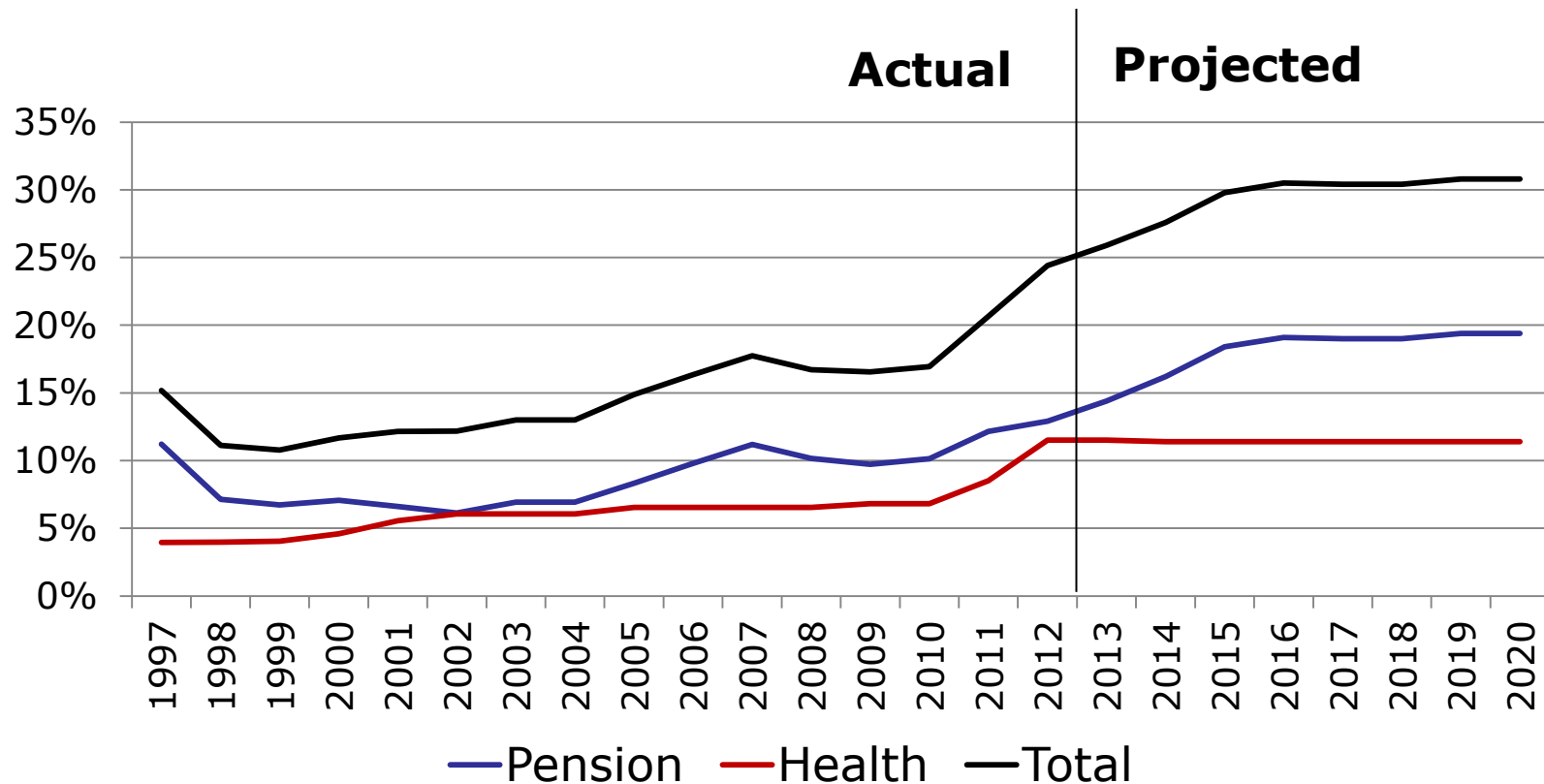
- State is mostly a pass-through entity – most money sent elsewhere:
 - School Aid – local school districts
 - Medicaid – doctors, hospitals, nursing homes
 - Human Services – welfare payments to individuals, daycare providers, etc.
 - Transportation – road funds to counties and cities
 - Revenue Sharing – 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



K-12 School Aid Highlights

- Total spending: 2.2% growth from FY2013
- No change to per-pupil foundation allowance, but includes other categorical changes:
 - \$24M for **Equity payments** of up to \$34 per-pupil for districts at or near the minimum foundation grant bringing minimum per-pupil payment to \$7,000
 - **Best Practices** funding reduced by \$55M (or \$36 per pupil)
 - **Small Class Size** grants reduced by \$4M; grant capped at \$100 for districts below \$7,500 foundation and \$50 for those at or above \$7,500
 - **Technology Infrastructure Grants** reduced from \$50M to \$13.5M
 - All four allocations are eliminated for FY2015
- Increases funding by **\$273 million** in FY2014 and another **\$256 million** in FY2015 to cover state share of **unfunded MPERS liability costs**; includes appropriations from MPERS Reserve Fund to mitigate these costs
- **Great Start Readiness Program**: additional \$65 million in FY2014 and \$130 million in FY2015 over FY2013 funding level
- New programs: **Digital Learning Innovation** (\$10M) and **Competitive Student-Centric grants** (\$8M)

MPERS Costs as a Percent of Payroll Soar

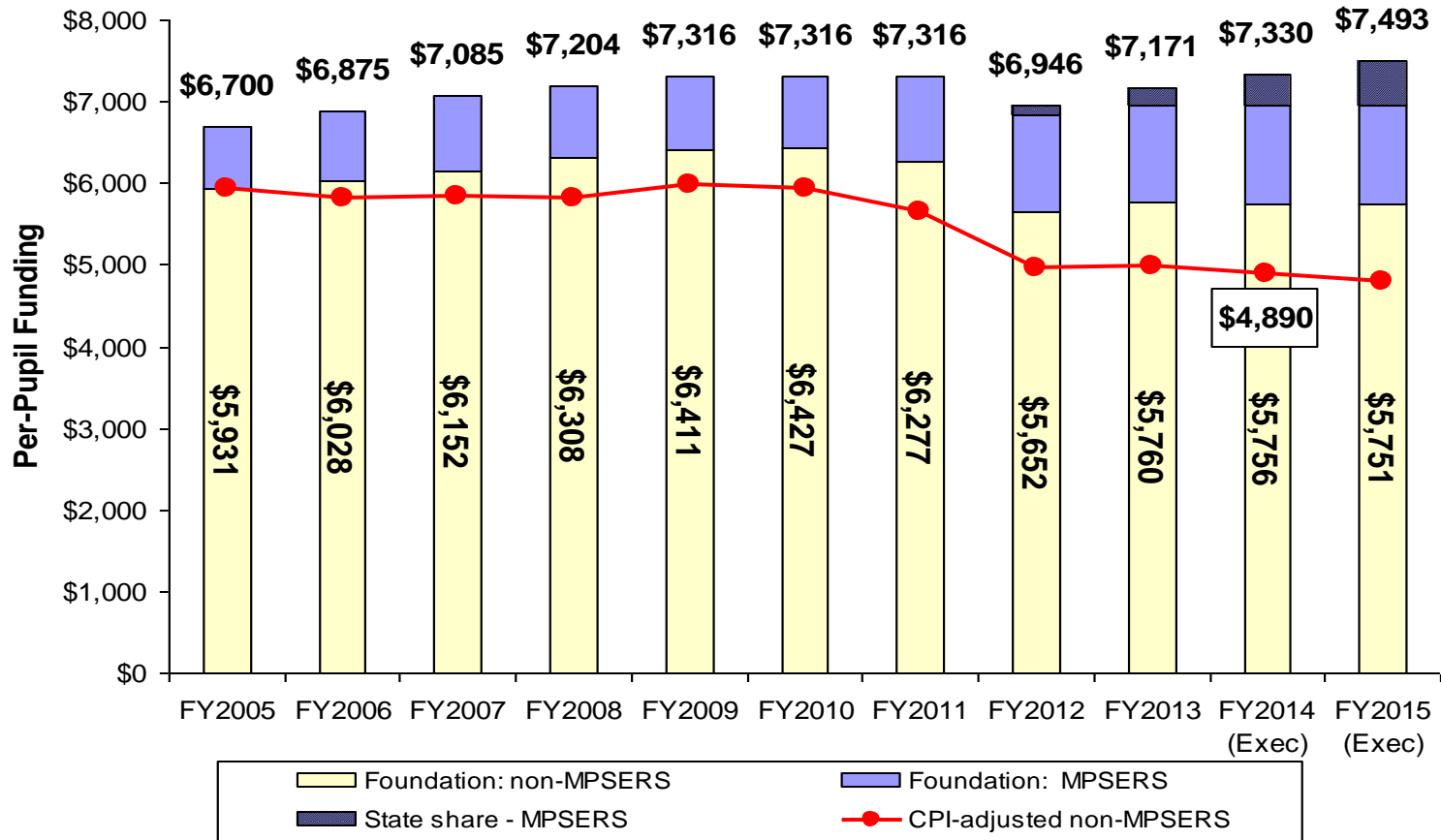


32 Source: History Senate Fiscal Agency. 2010 and 2011 rates are for employees starting before July 2010. Projected rates are from the Senate Fiscal Agency Analysis of PA 300 of 2012 (SB 1040).



MPSERS Costs and the Foundation Grant

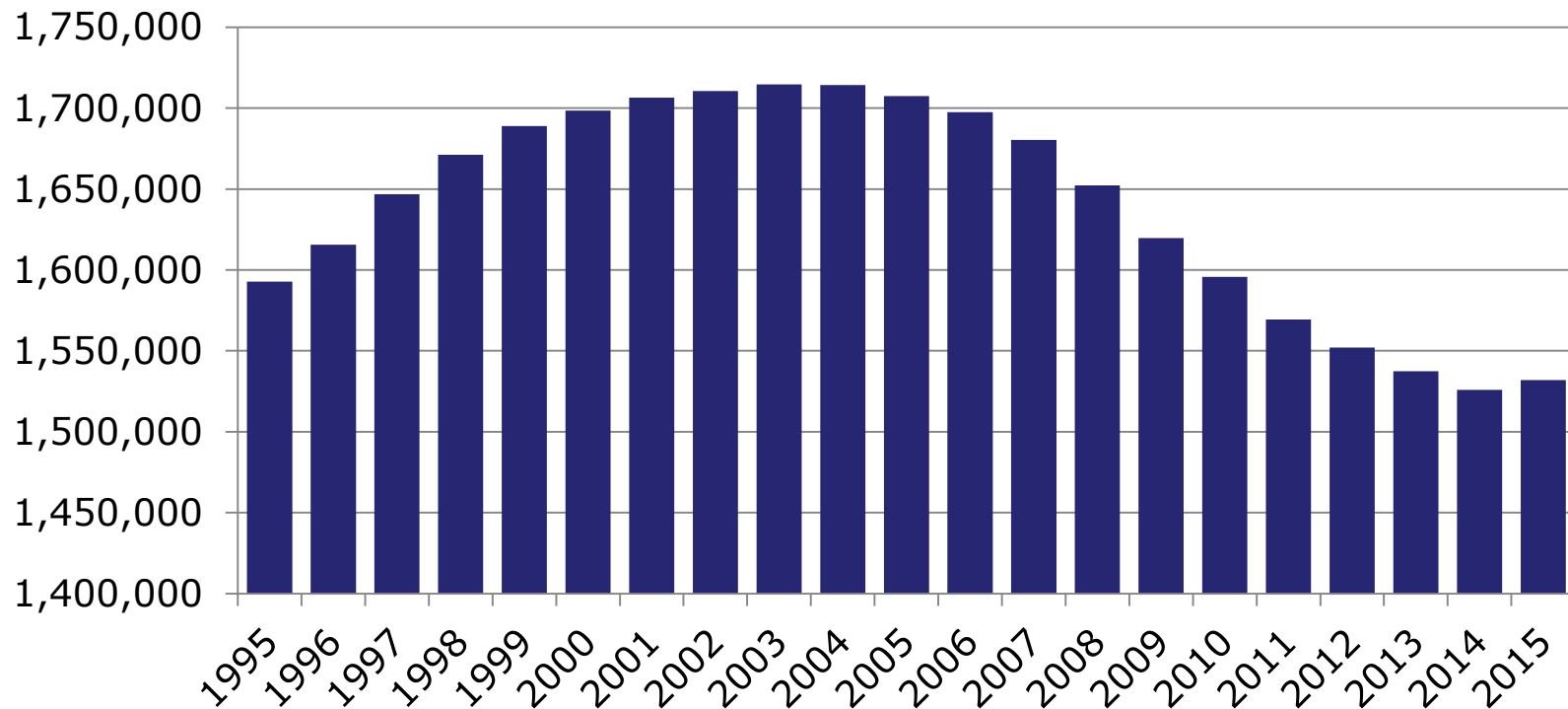
Estimated impact on districts receiving minimum grant





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.

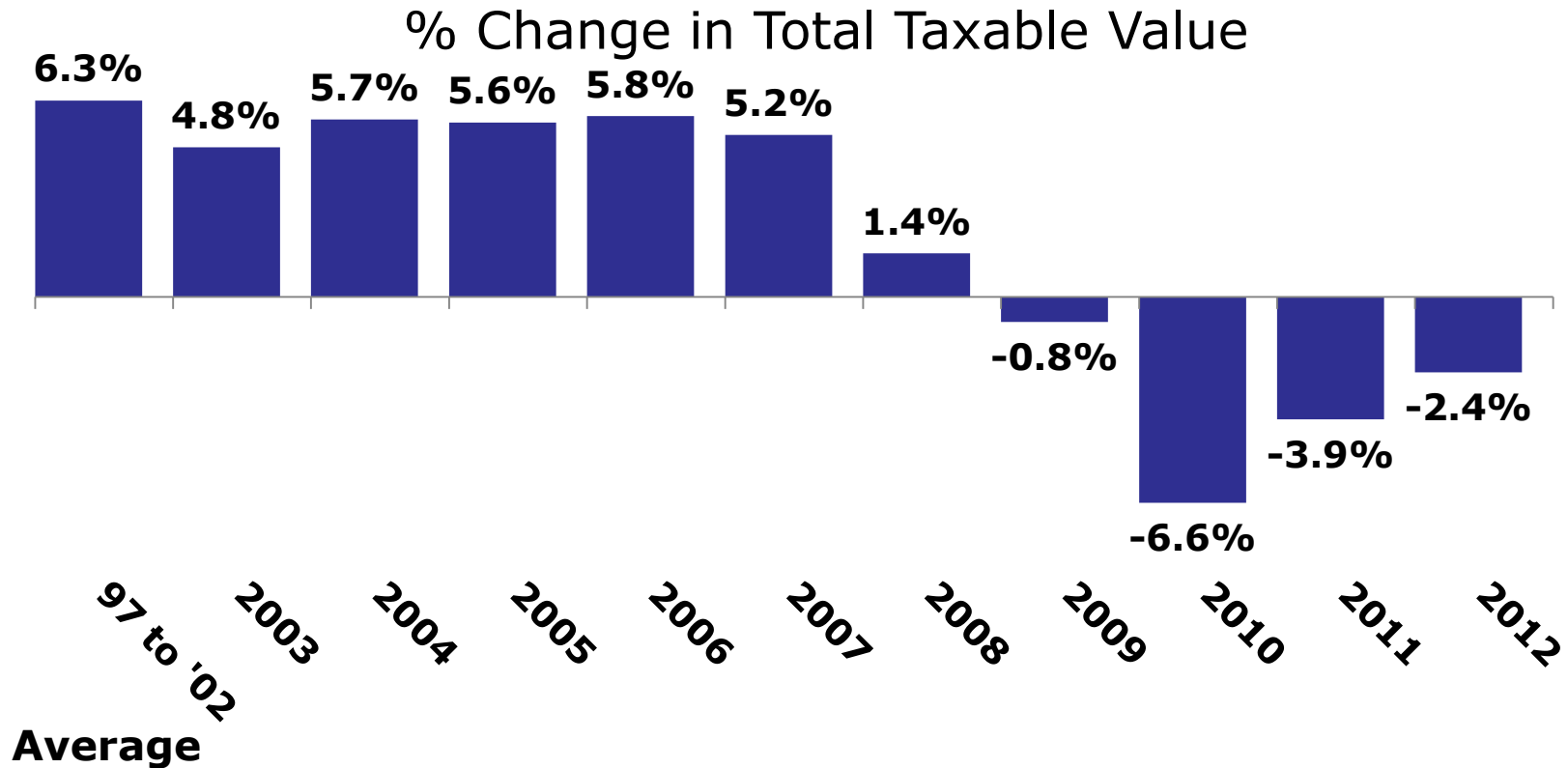
How Have Manistee Area Schools Been Affected?

- FY 2013 revenues 5.7% below FY 2009 revenues
- FY 2013 expenditures down 5.3% from FY 2009
- Operating deficit in 4 of last 6 years
- Ending fund balance was \$871,960 in FY 2009, 5.5% of expenditures
- FY 2013 ending balance projected to be \$250,483, 1.7% of expenditures
- Onekama, Bear Lake school districts have also been running operating deficits

Local Government Finances

- Local governments, particularly cities, are facing fiscal pressure from:
 - Taxable value declines
 - Legacy Costs
 - Reductions in state shared revenues

Property Taxes Had Held Up Well But That Has Changed





Property Tax Growth Varies Widely

Taxable Value Growth

	<u>2000 to 2007</u>	<u>2007 to 2012</u>	<u>2000 to 2012</u>
Pontiac	42%	-45%	-22%
Livonia	31%	-25%	-1%
Wayne (County)	42%	-22%	11%
Oakland (County)	46%	-24%	11%
Grand Rapids	38%	-6%	30%
Kalamazoo (City)	31%	-11%	16%
Kalamazoo (County)	48%	-1%	47%
Claire (City)	38%	4%	43%
US-CPI U	20%	11%	33%



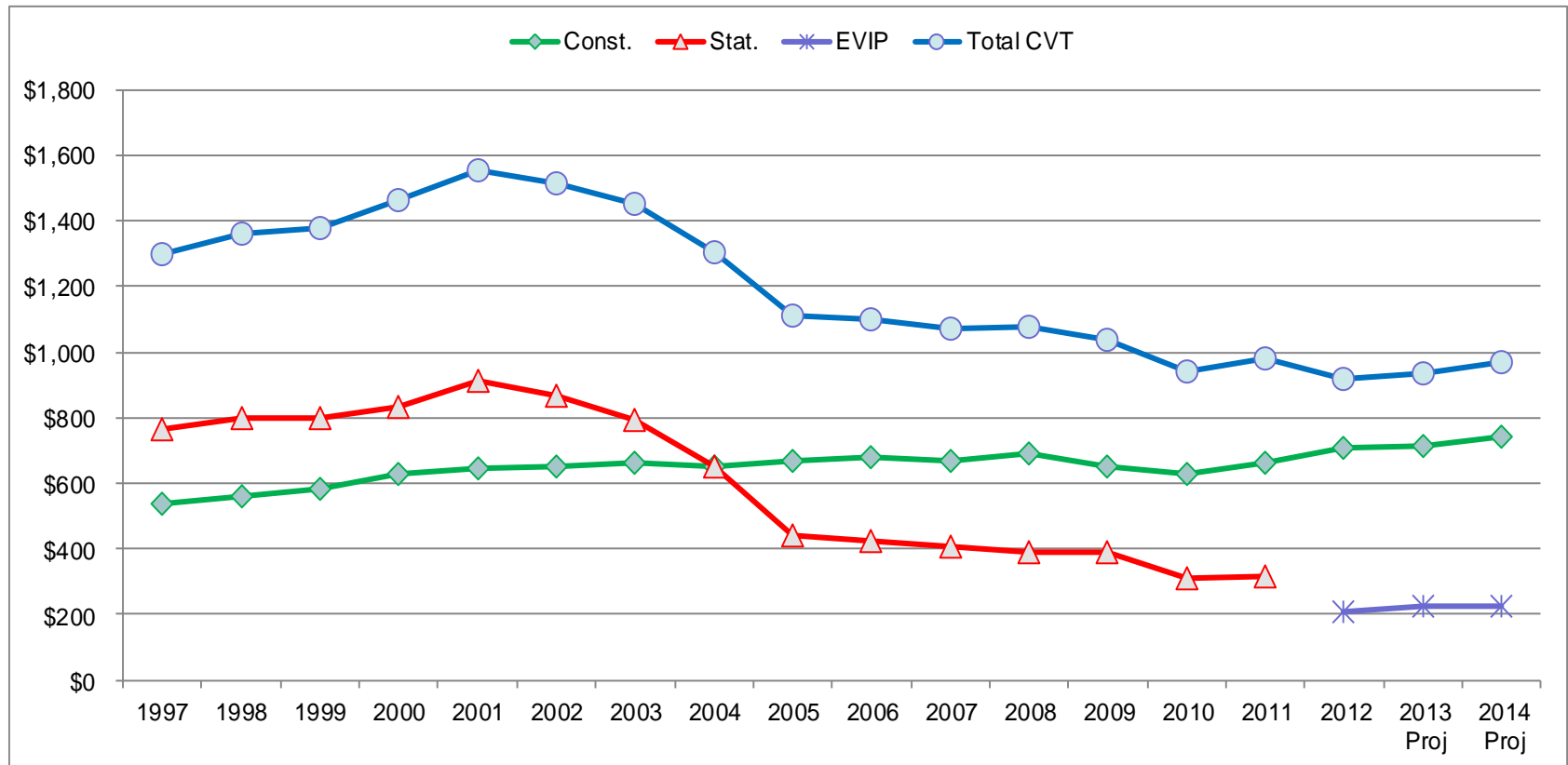
Property Values in NW Michigan Have Held Up Better

	<u>2000 to 2007</u>	<u>2007 to 2012</u>	<u>2000 to 2012</u>
Acme Twp	68%	-9%	53%
Traverse City	48%	13%	67%
Gr. Trav. County	70%	3%	75%
Onekama Twp	90%	14%	116%
Manistee Twp	73%	4%	80%
Manistee City	54%	0%	53%
Manistee County	63%	6%	73%
US-CPI U	20%	11%	33%



State to Local Revenue Sharing Program Greatly Reduced

Payments in Millions of \$





Legacy Costs Weigh on Cities Particularly in SE Michigan

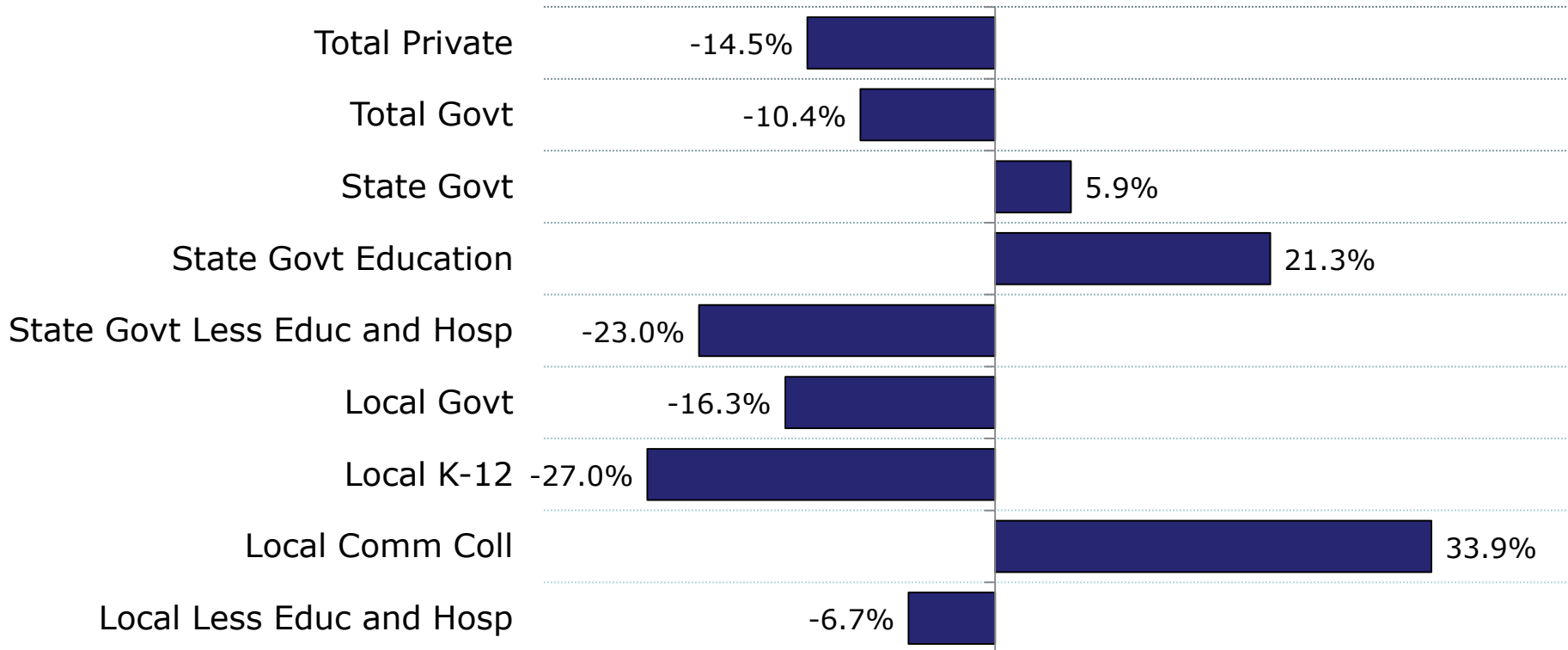
<u>Local Government</u>	<u>OPEB Liability</u>	<u>Funded Status</u>	<u>Per Capita Unfunded OPEB</u>	<u>Millage Needed for ARC</u>
Detroit	\$4,971,236,281	0.0%	\$6,965	35.60
Flint	\$862,302,934	0.0%	\$8,418	48.50
Grand Rapids	\$223,726,627	0.0%	\$1,190	3.31
Livonia	\$92,862,000	39.0%	\$958	1.51
Cadillac	\$1,779,175	48.0%	\$172	0.85
All Units Average	\$12,731,397,702	12.0%	\$1,037	3.30

42 Source: *Funding the Legacy The Cost of Municipal Workers Retirement Benefits to Michigan Communities*, MSU Extension White Paper, Eric Scorsone and Nicollette Bateson.



Public Sector Employment Changes Vary Significantly By Sector

2000 to 2012





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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