



Michigan Economic and Budget Update Progress and Challenges

Michigan Women in Finance

May 15, 2013

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- Promotes sound policy for state and local governments through factual research – accurate, independent and objective
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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

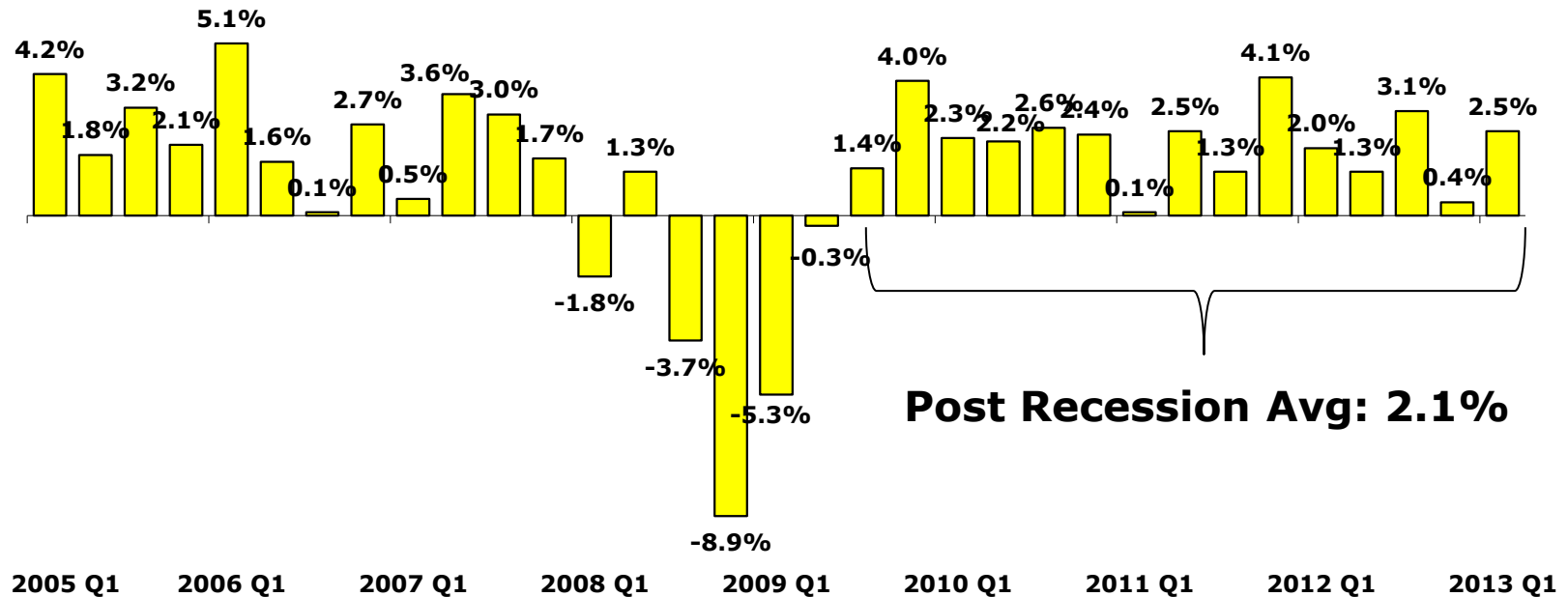
- Recovery is almost 4 years old
- Growing, but slowly
- Autos, stock market have recovered, housing is on its way
- Employment growth still disappointing
- Federal fiscal policy, Europe slowing growth



Output has Been Growing for 3 Years

(Real GDP Has grown 14 Straight Quarters)

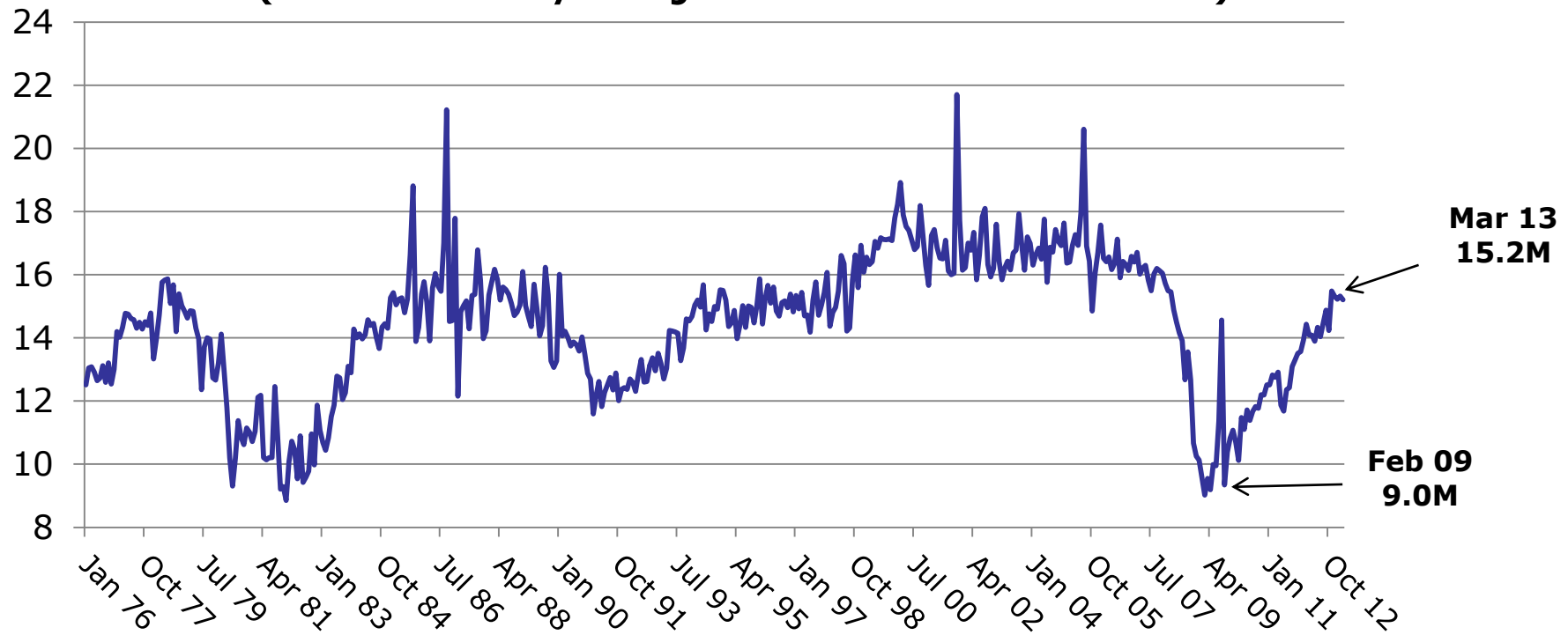
Real GDP Growth





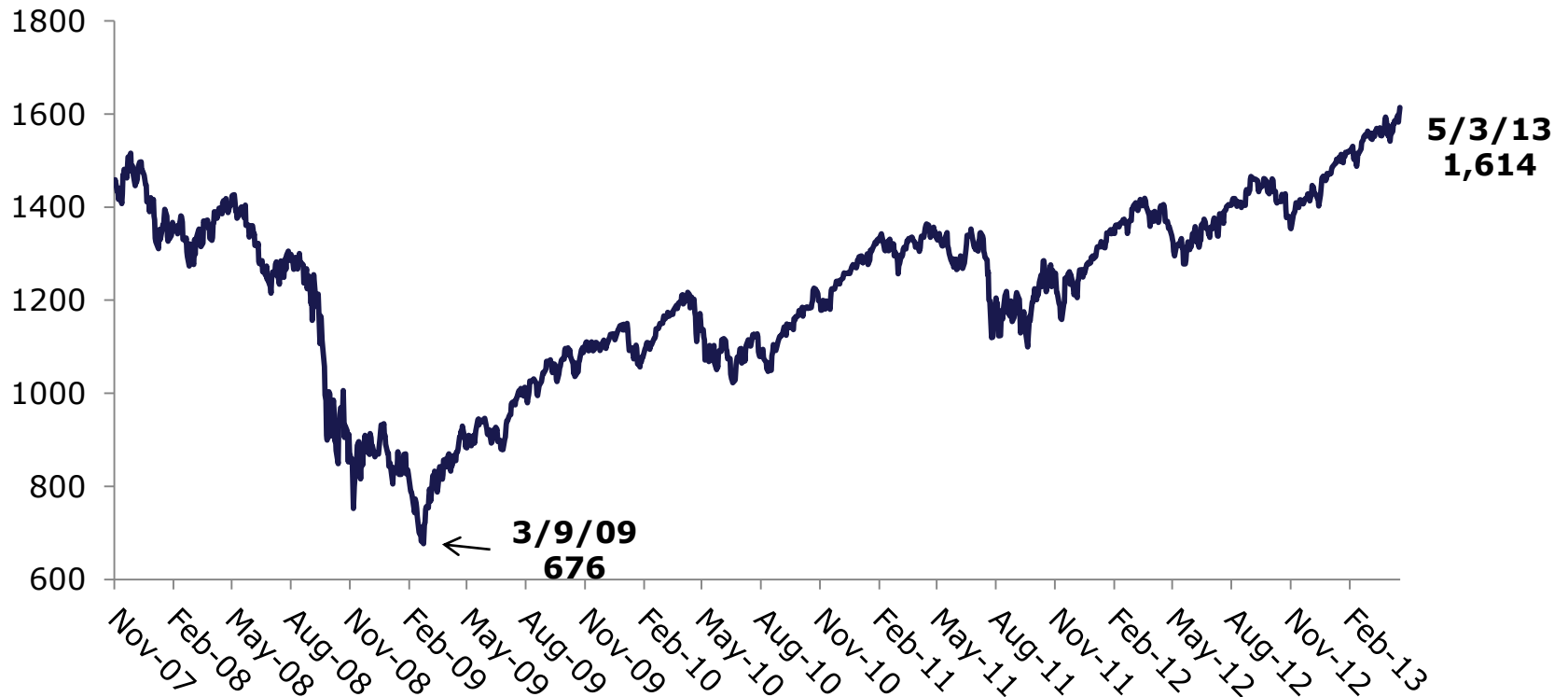
Vehicle Sales Are Back to a Respectable Level

Monthly Light Vehicle Sales (Seasonally Adjusted Annual Rate)





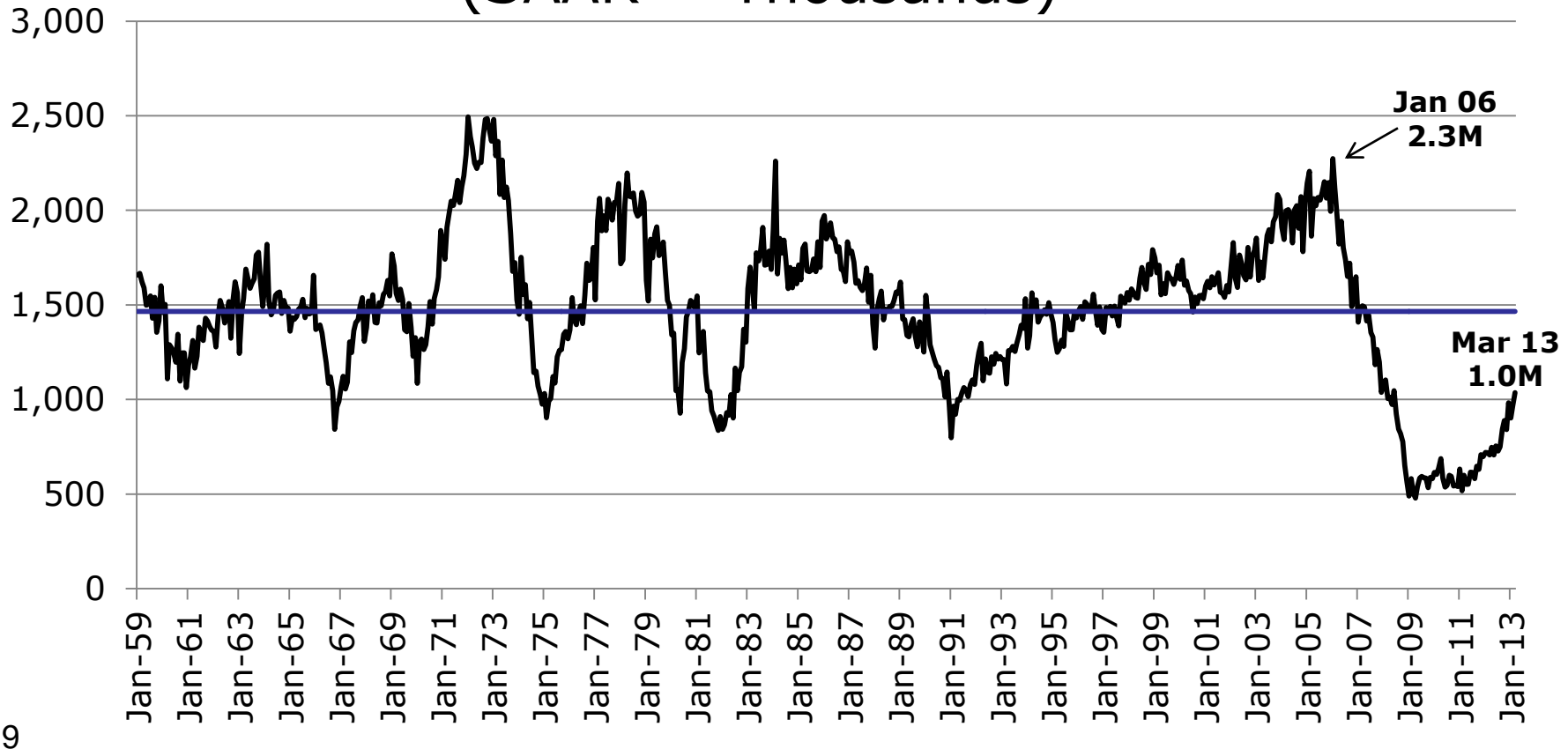
S&P 500 Up 124% From March 09 Low and at All time High





Housing Starts Finally Breaking 1 Million

Housing Starts Total New
(SAAR -- Thousands)



Source: St. Louis Federal Reserve (FRED).



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%

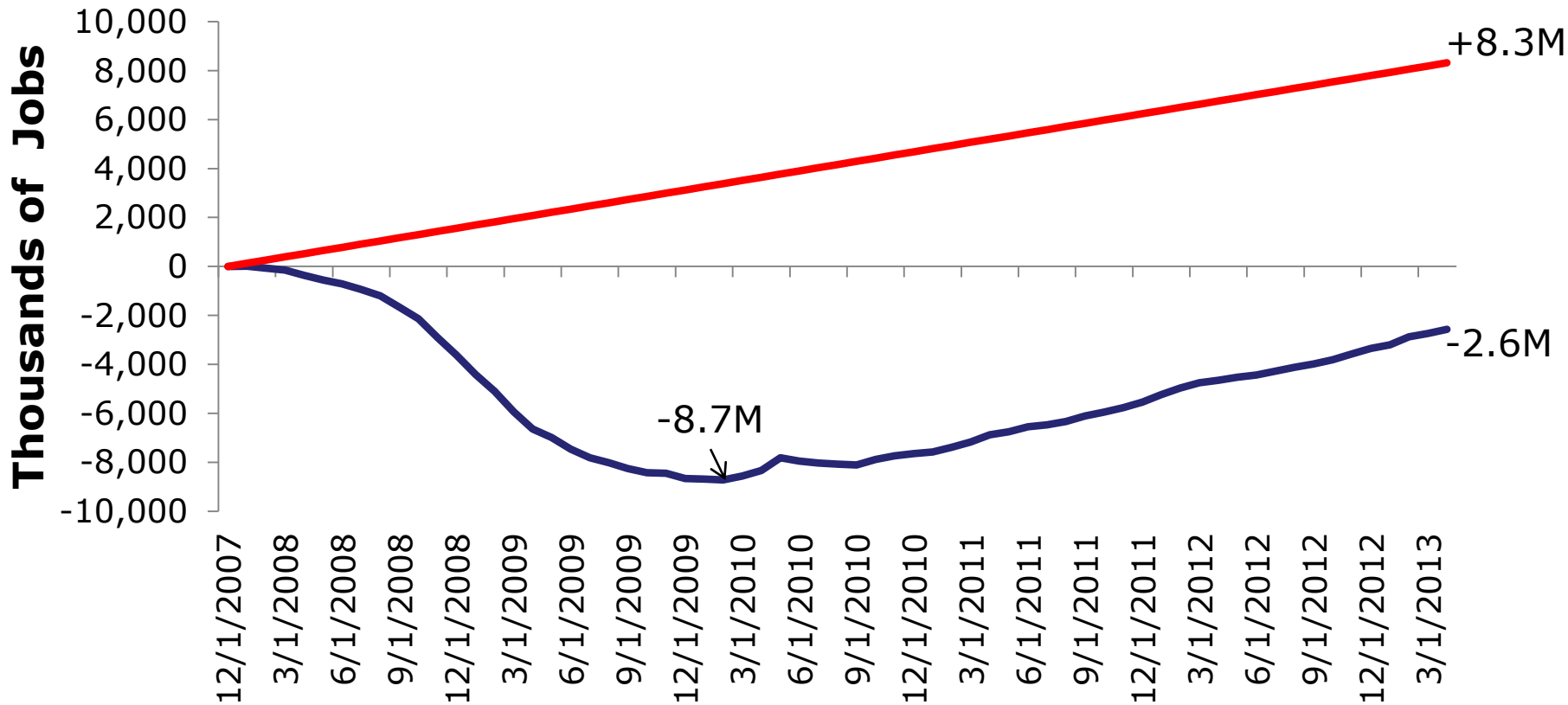


Federal Fiscal Policy Has Become Contractionary

- 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



Employment Growing with Labor Force But Not Regaining Lost Jobs





Michigan – Where are We Now?

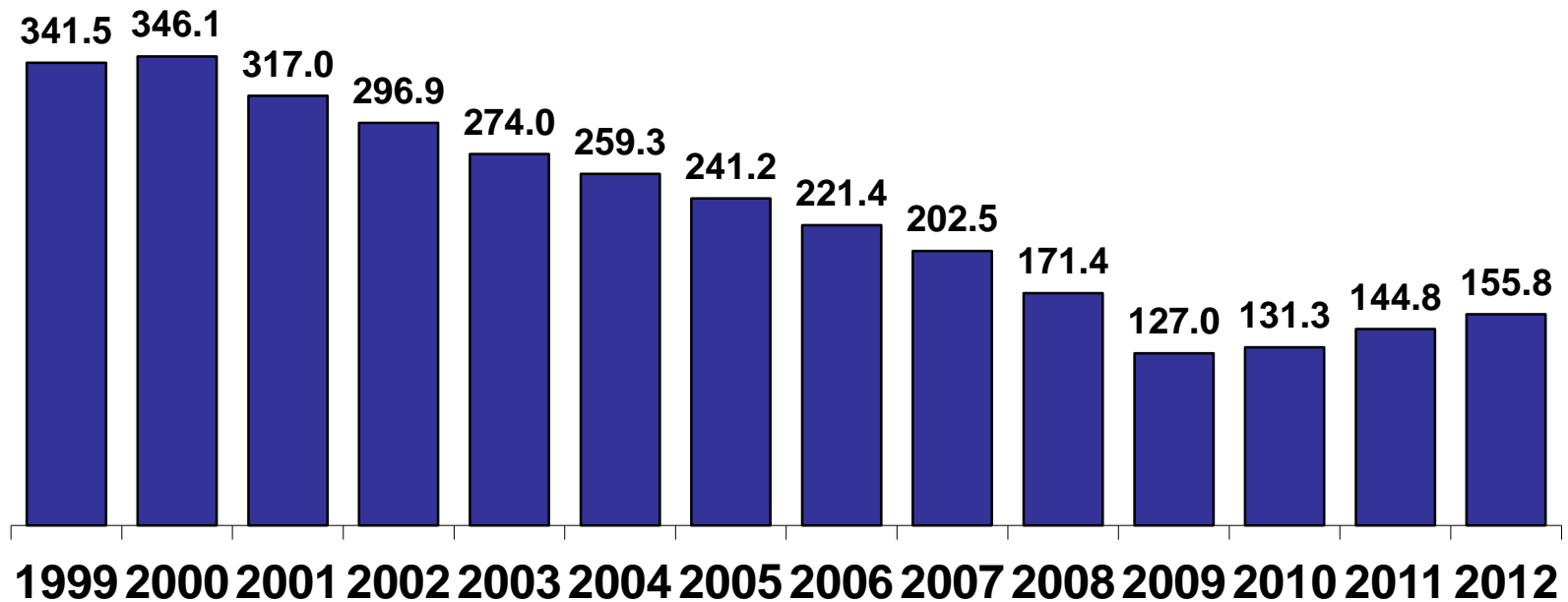


The Last Decade Was an Economic Disaster for Michigan

	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

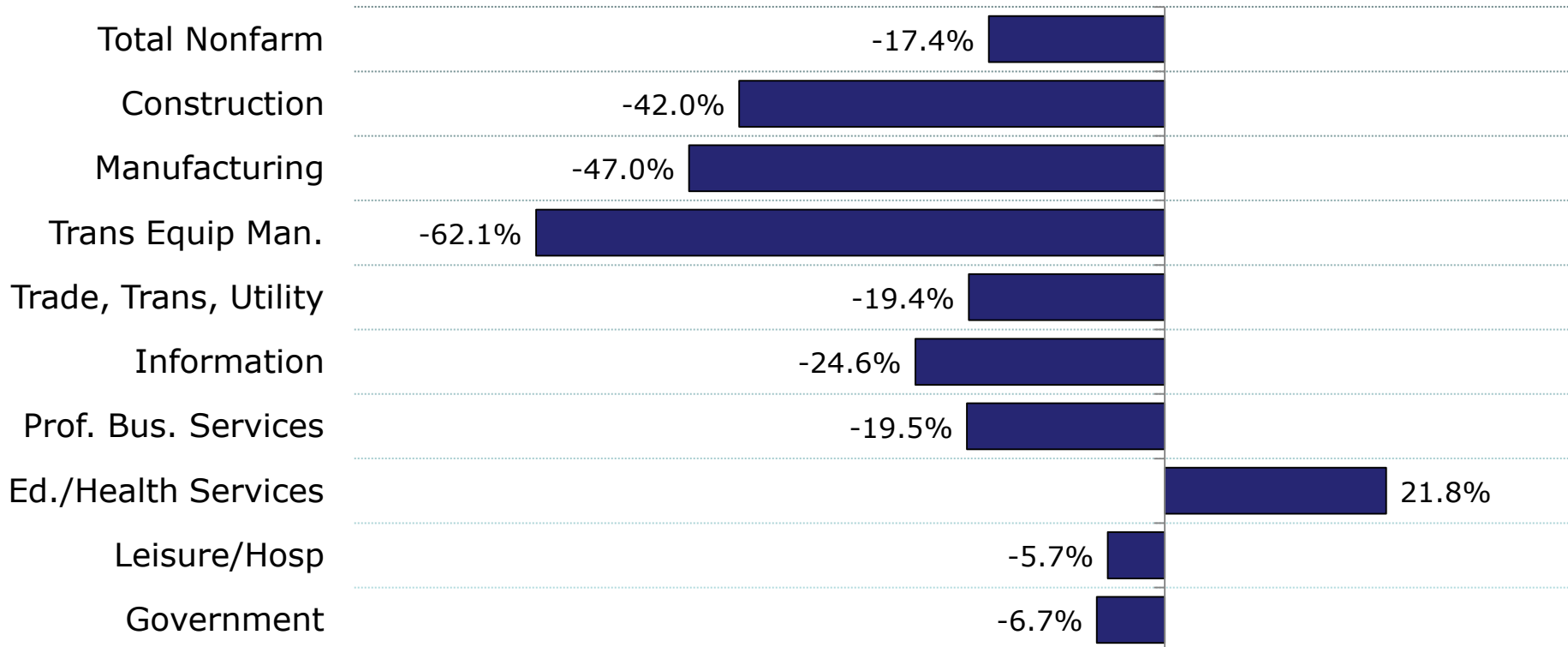
Michigan Transportation Equipment Employment
(In Thousands)





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

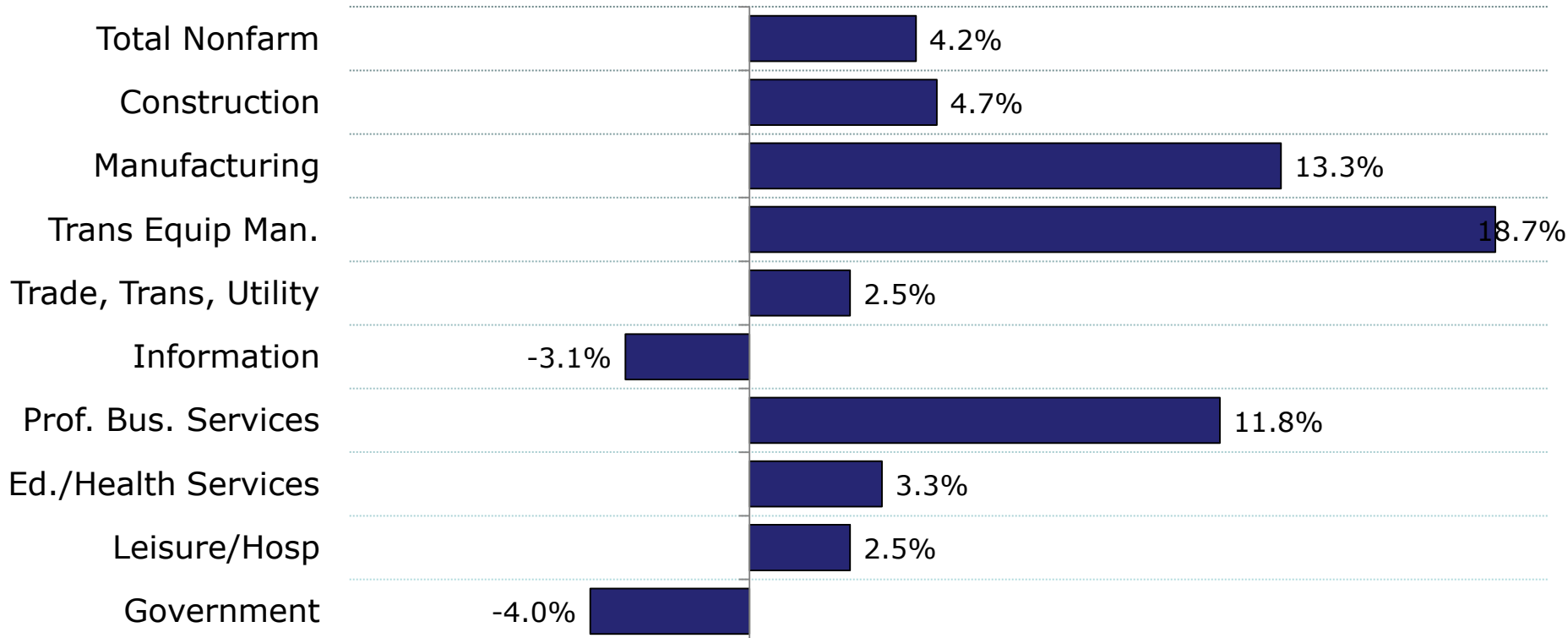
2000 to 2010





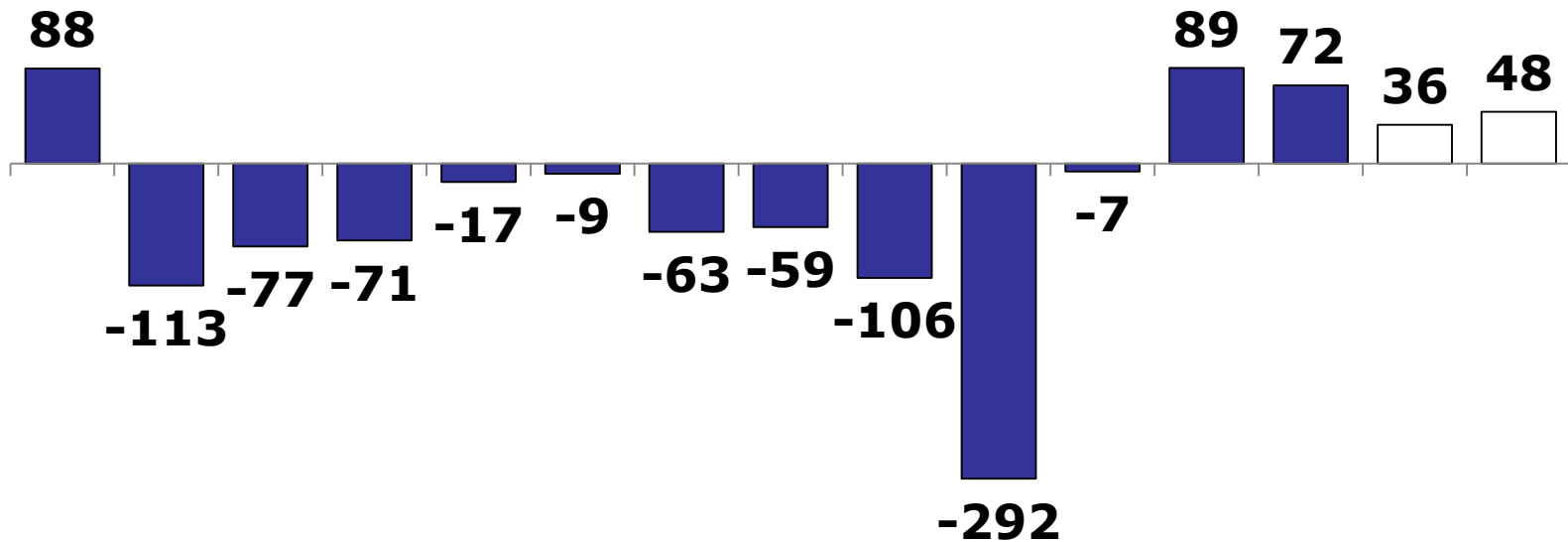
Michigan Has Added Jobs Over Past 2 Years

2010 to 2012



Michigan Employment Grows Modestly in 2013 and 2014

Annual Employment Growth (thousands of jobs)

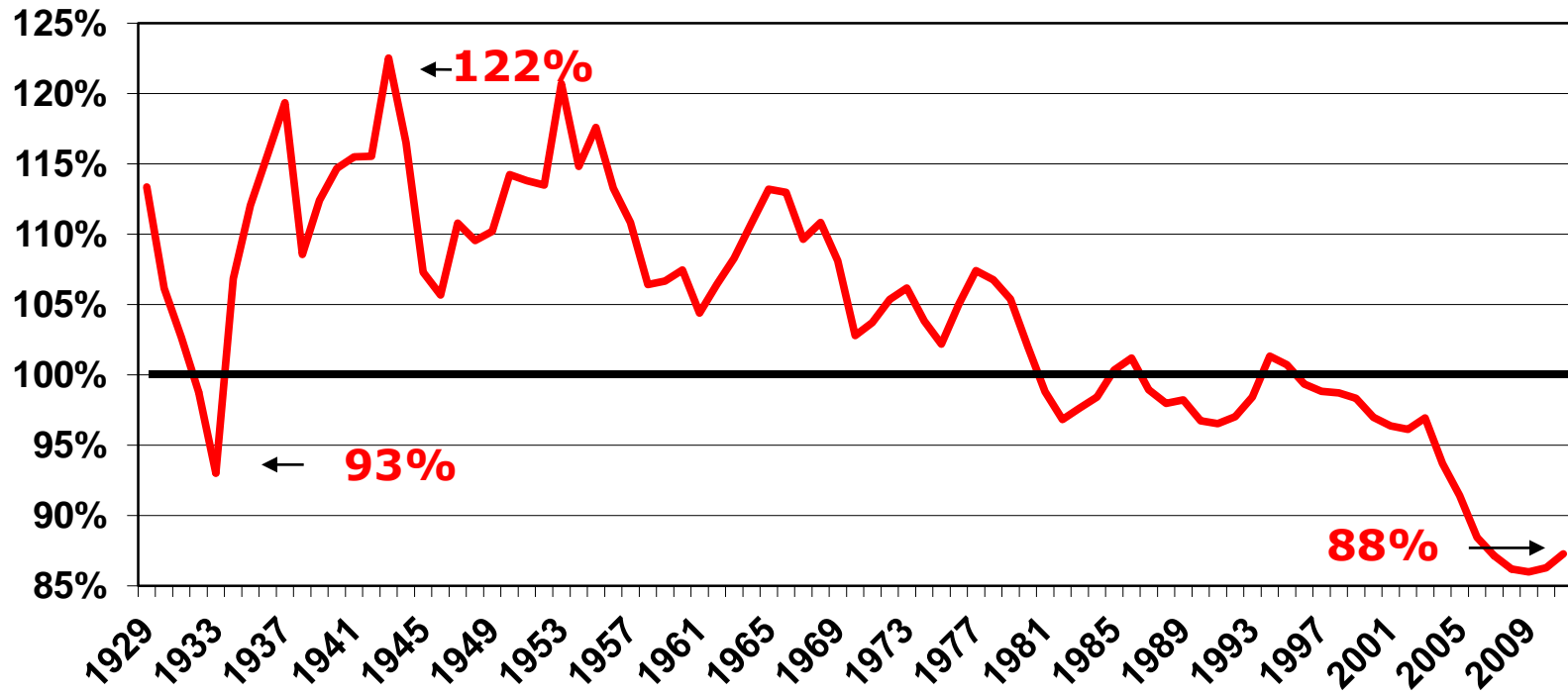


Avg 2001 to 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014



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 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%



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

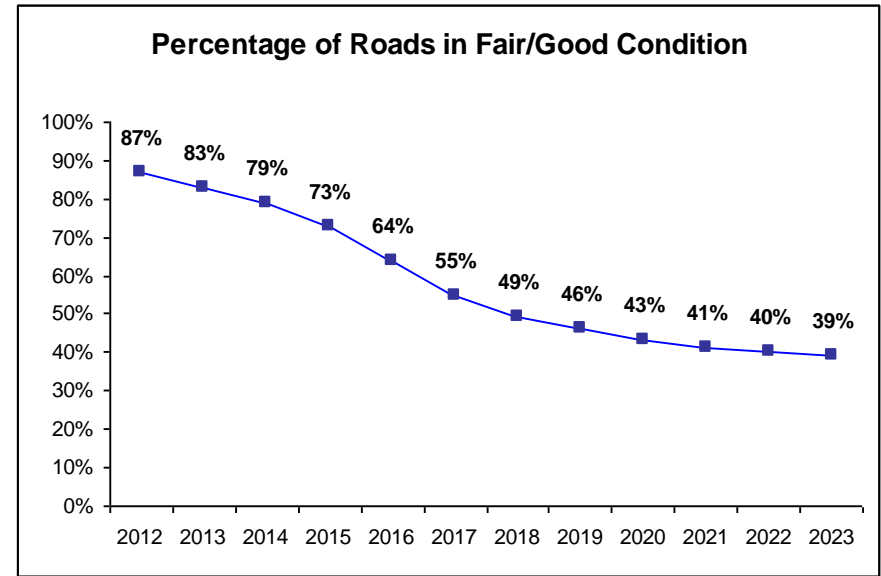
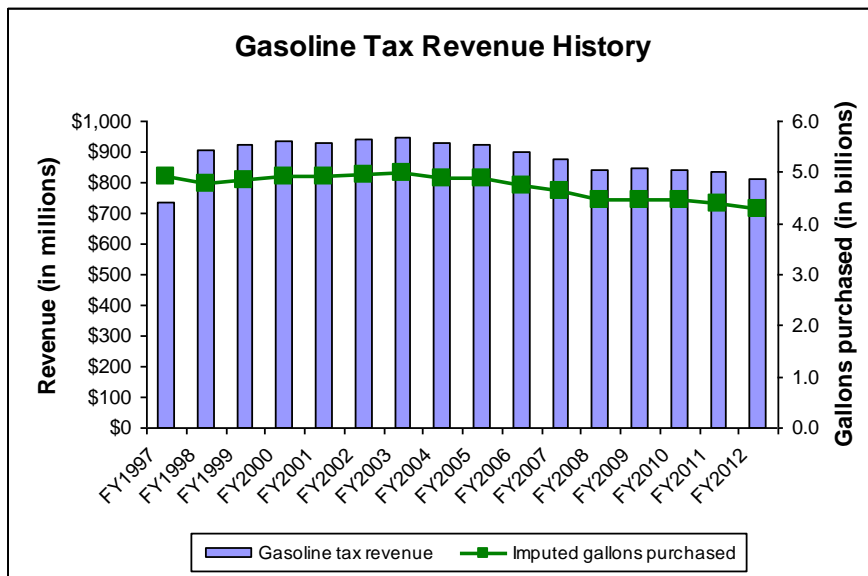
Medicaid Expansion

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

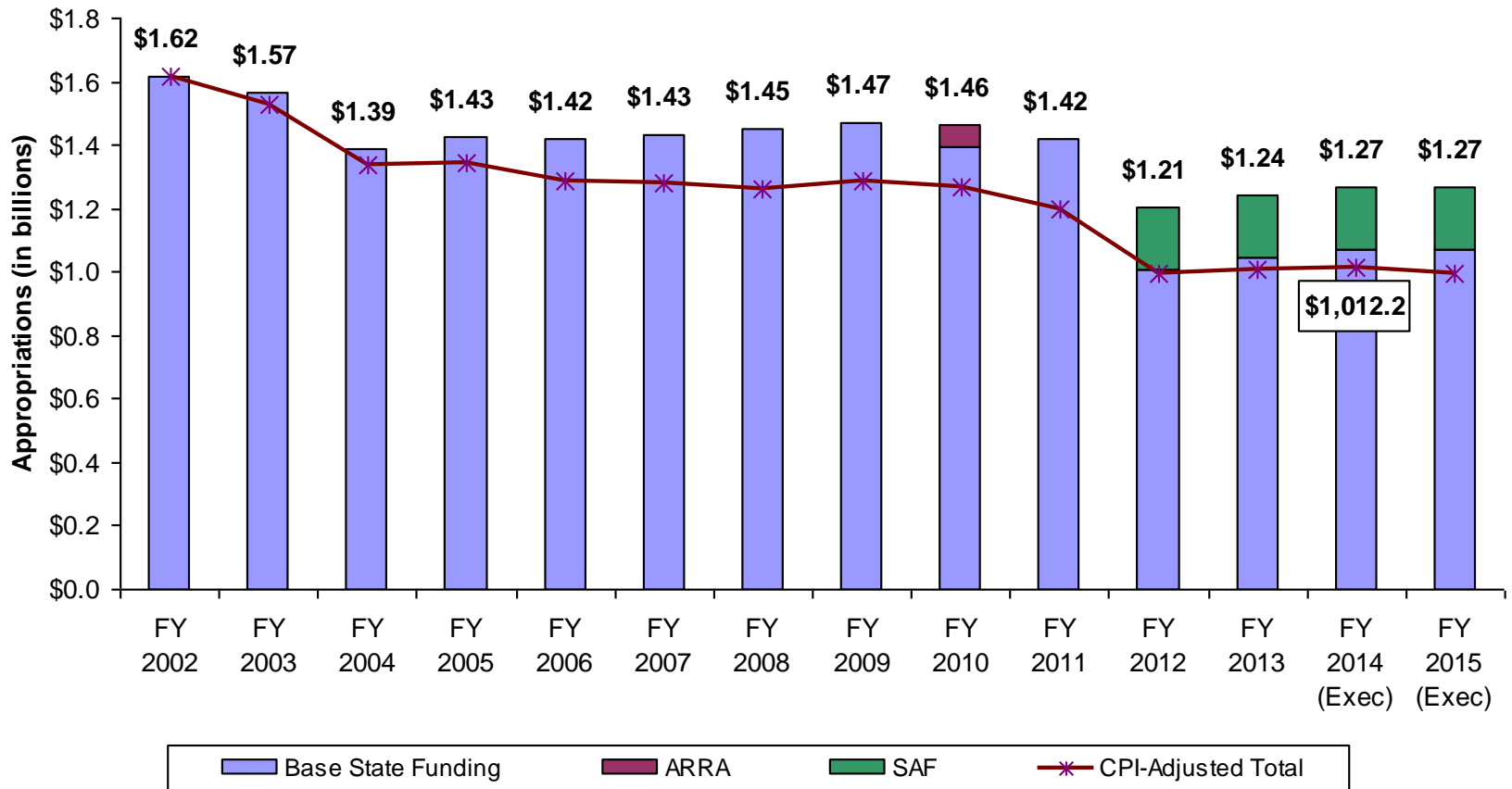
Significant funding increase for pre-school programs

	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

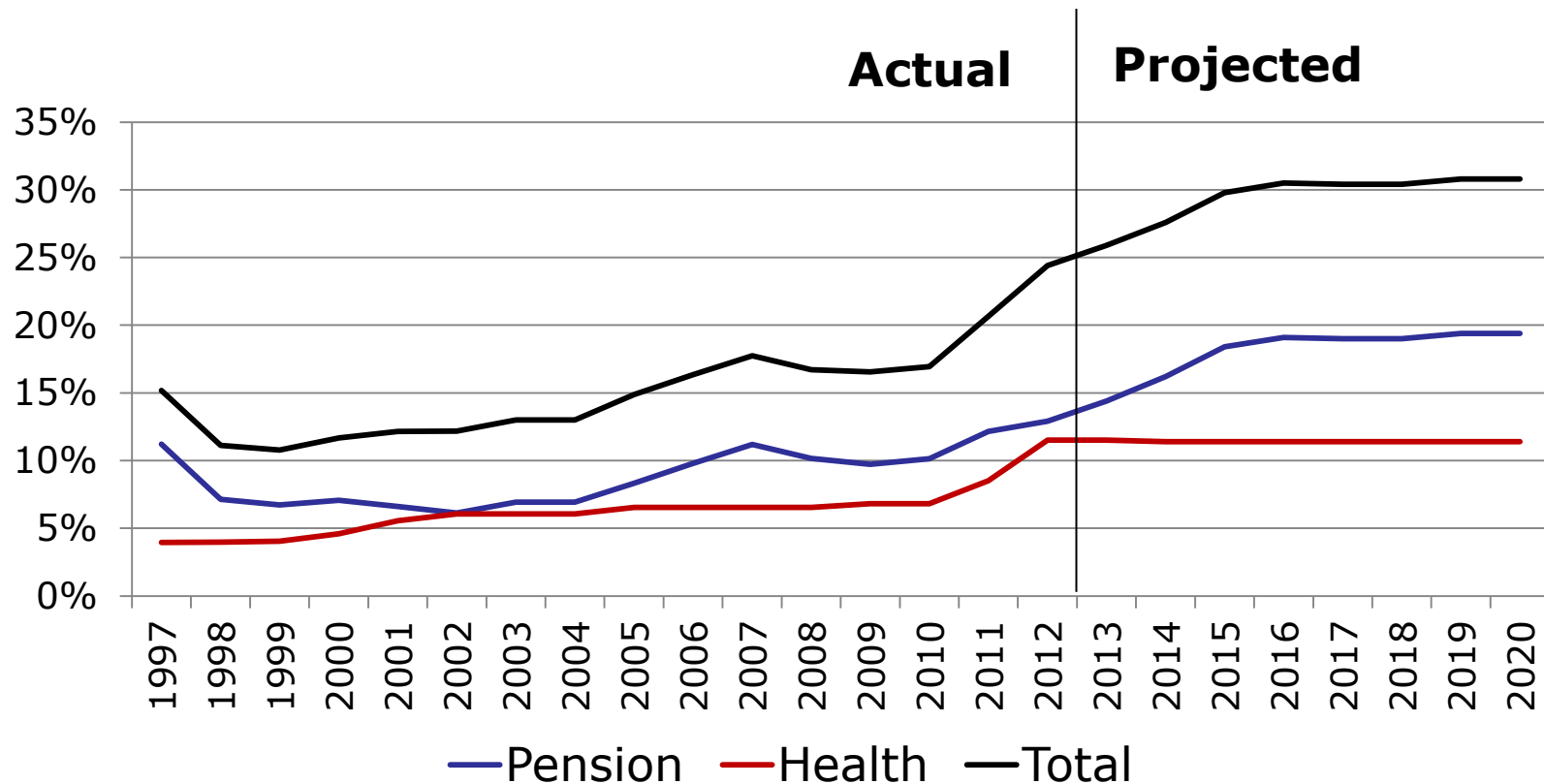


K-12 School Aid Highlights

- 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)



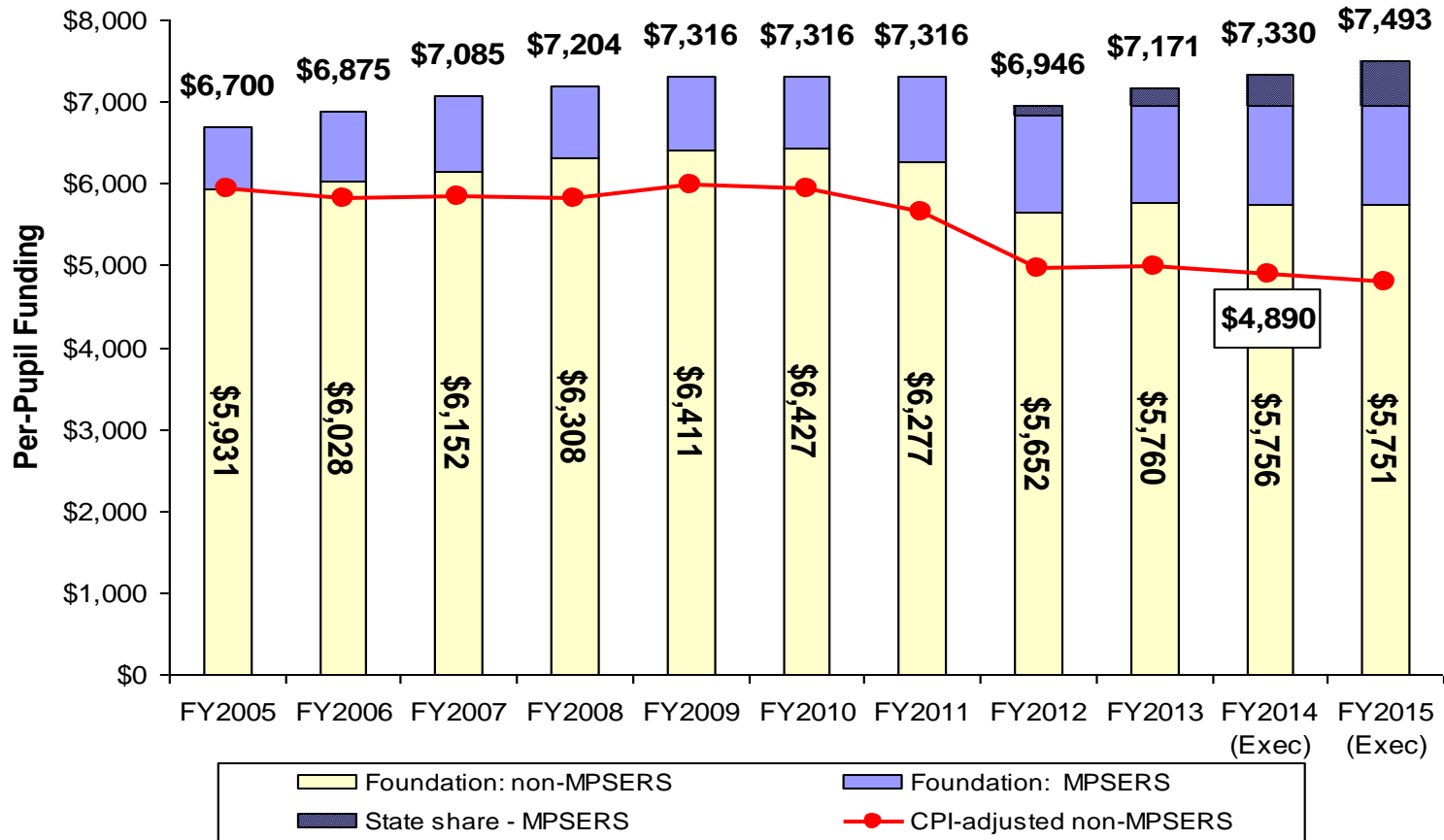
MPERS Costs as a Percent of Payroll Soar





MPSERS Costs and the Foundation Grant

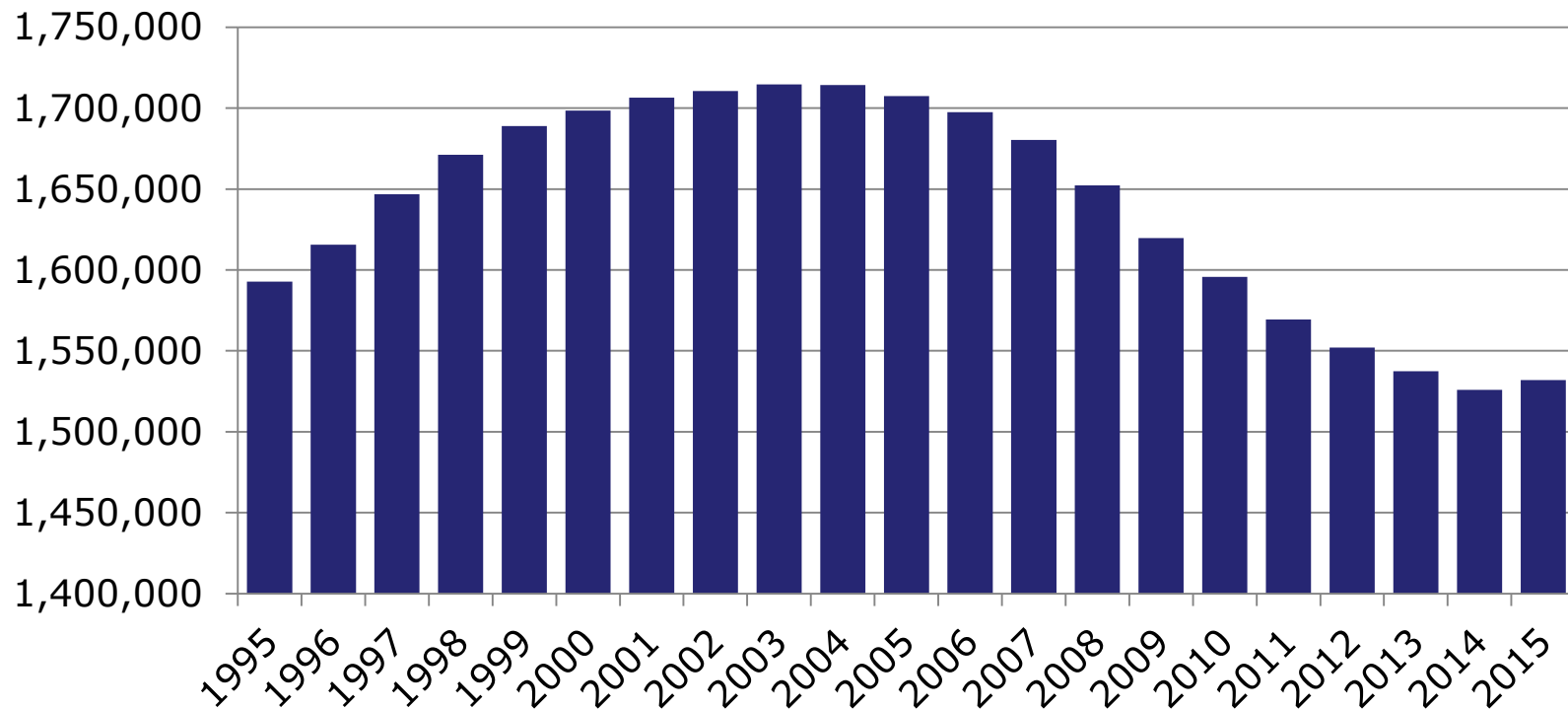
Estimated impact on districts receiving minimum grant





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.



School Aid Rewrite

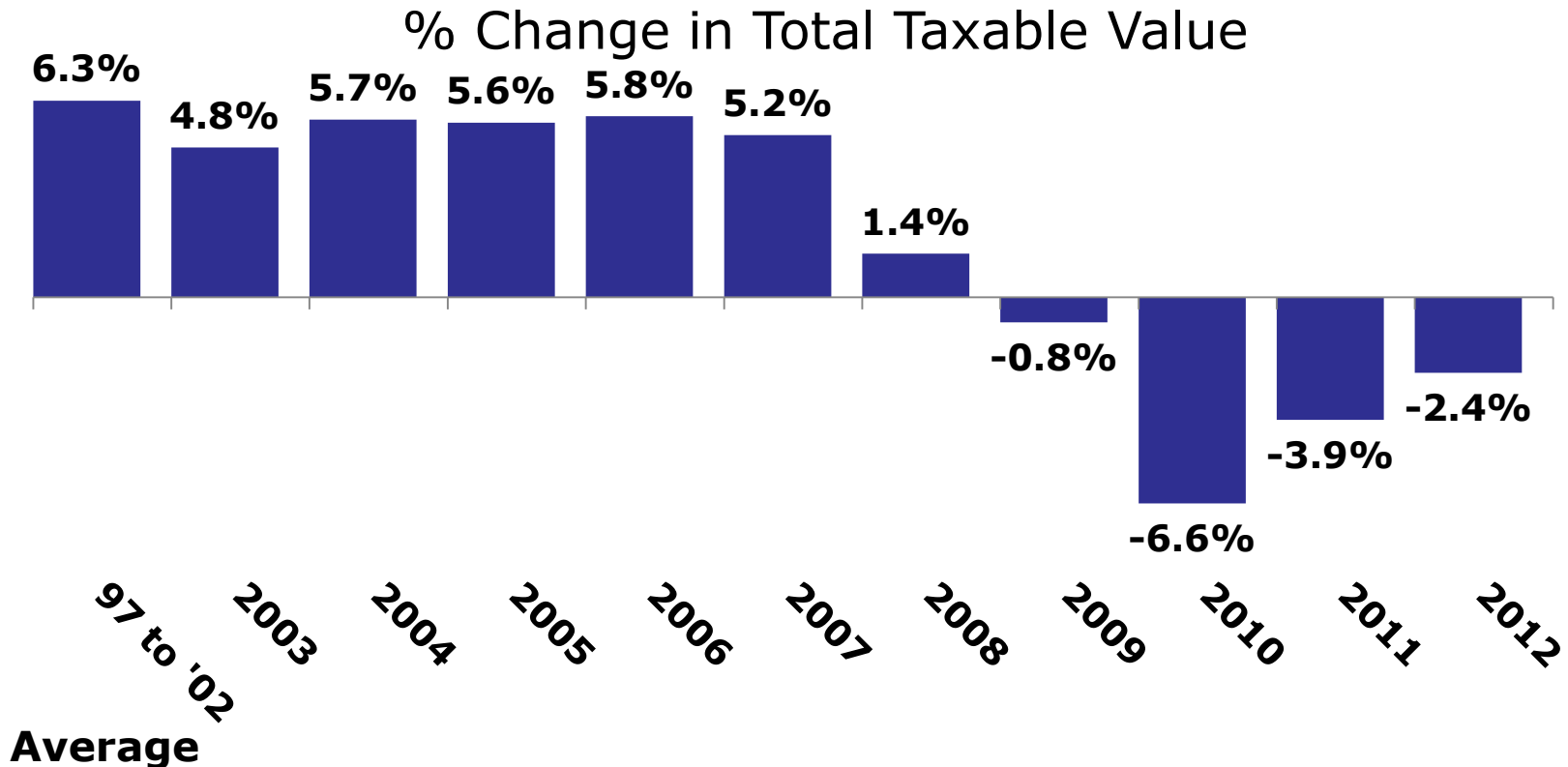
- **Michigan Education Finance Project** is drafting a rewrite of School Aid Formulas to better support Governor's *Any Time, Any Place, Any Way, Any Pace* K-12 model
- Would make it easier to split off pieces of foundation allowance for students to access education opportunities outside traditional K-12
- Could greatly expand education options available to students
- Increased competition and pricing challenges associated with splitting per pupil allotment could increase fiscal pressure on traditional districts

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

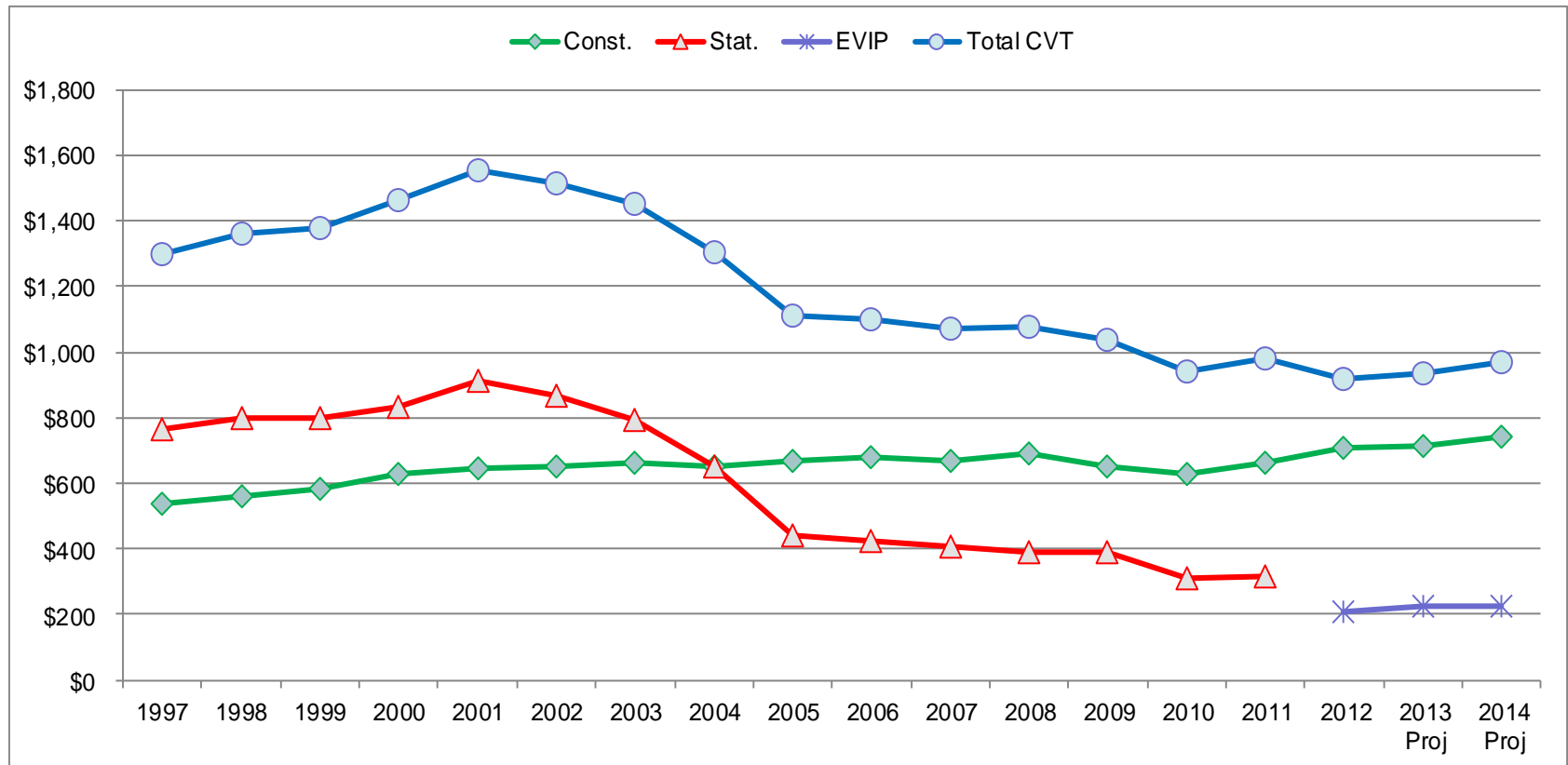
Taxable Value Growth

	<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%



State to Local Revenue Sharing Program Greatly Reduced

Payments in Millions of \$





Legacy Costs Weigh on Cities Particularly in SE Michigan

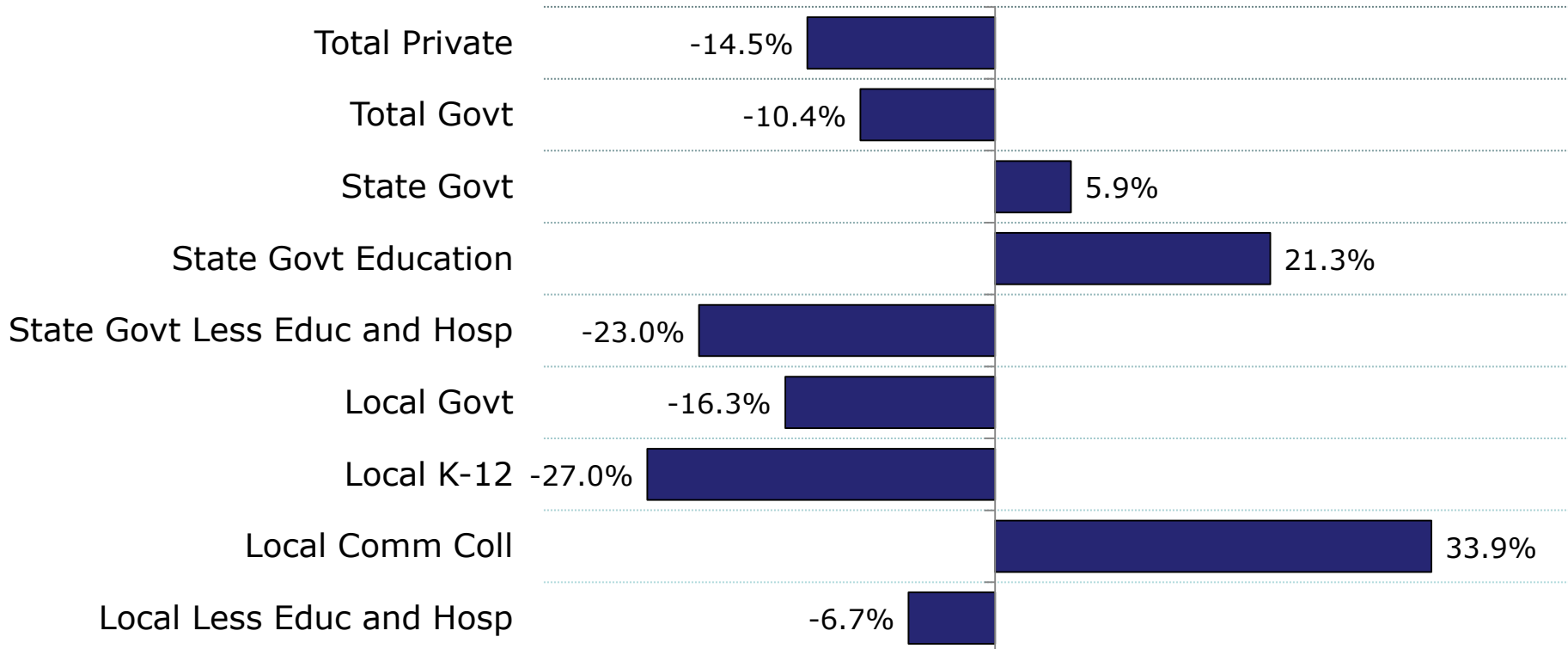
<u>Local Government</u>	<u>OPEB Liability</u>	<u>Funded Status</u>	<u>Per Capita Unfunded OPEB</u>	<u>Millage Needed for ARC</u>
Detroit	\$4,971,236,281	0.0%	\$6,965	35.60
Flint	\$862,302,934	0.0%	\$8,418	48.50
Grand Rapids	\$223,726,627	0.0%	\$1,190	3.31
Livonia	\$92,862,000	39.0%	\$958	1.51
Marquette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

45 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

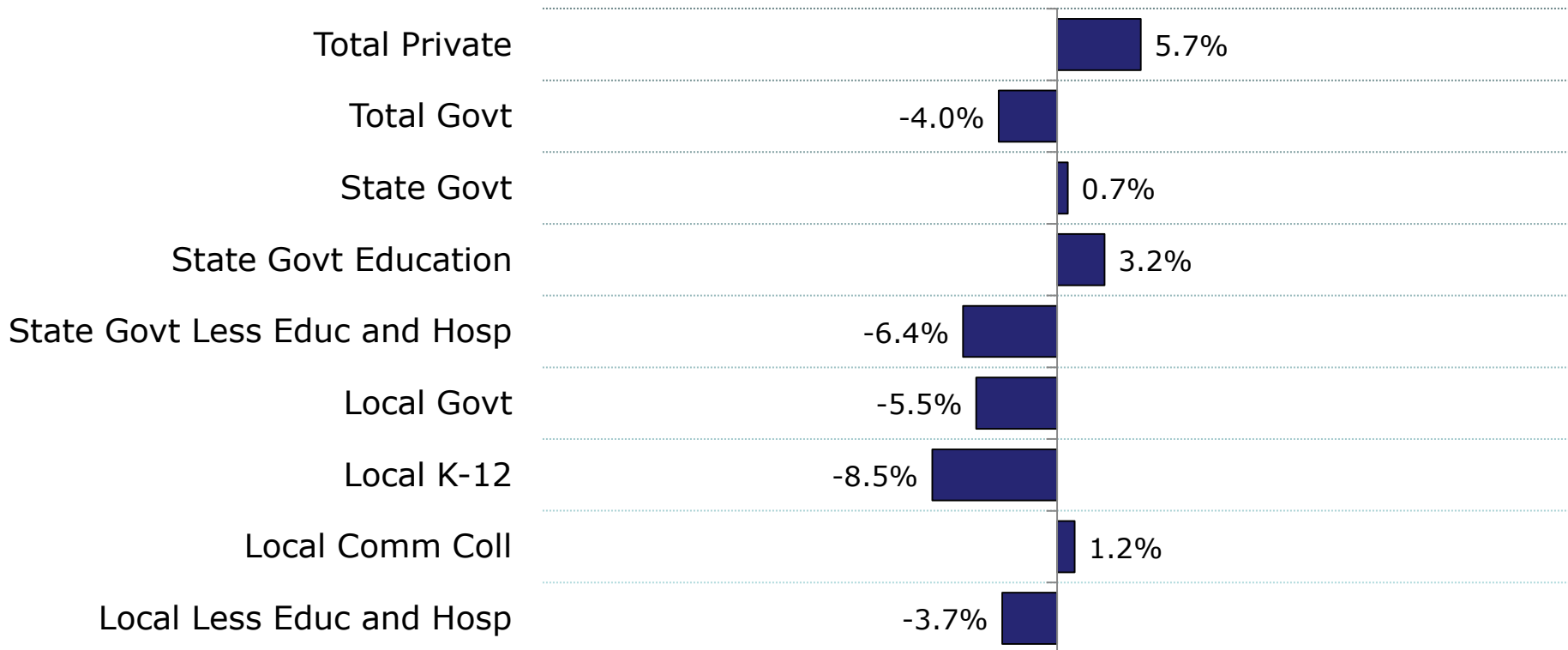
2000 to 2012





Private Sector Employment Growing While Public Sector Still Falling

2010 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
- To be a top income state, we will need to increase educational attainment of workforce



Education Attainment Will Be Critical to State's Economic Future

<u>State</u>	<u>% With BA</u>	<u>Rank</u>	<u>Per Capita Income</u>	<u>Rank</u>
Dist. Columb	48.5%	1	\$68,093	1
Massachusetts	38.2%	2	\$49,578	3
Colorado	35.9%	3	\$41,154	12
Maryland	35.7%	4	\$47,419	5
Connecticut	35.6%	5	\$52,900	2
New Jersey	34.5%	6	\$49,221	4
Virginia	34.0%	7	\$42,929	7
Michigan	24.6%	37	\$33,221	41
Mississippi	19.6%	49	\$30,013	51
Arkansas	18.9%	50	\$31,688	47
West Virginia	17.3%	51	\$30,968	49



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