



# Michigan Update

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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
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## Overview

- Michigan's Recent Economic Experience
- State Budget Overview
- Education and Education Reforms
- Local Government



# Michigan's Recent Economic Experience

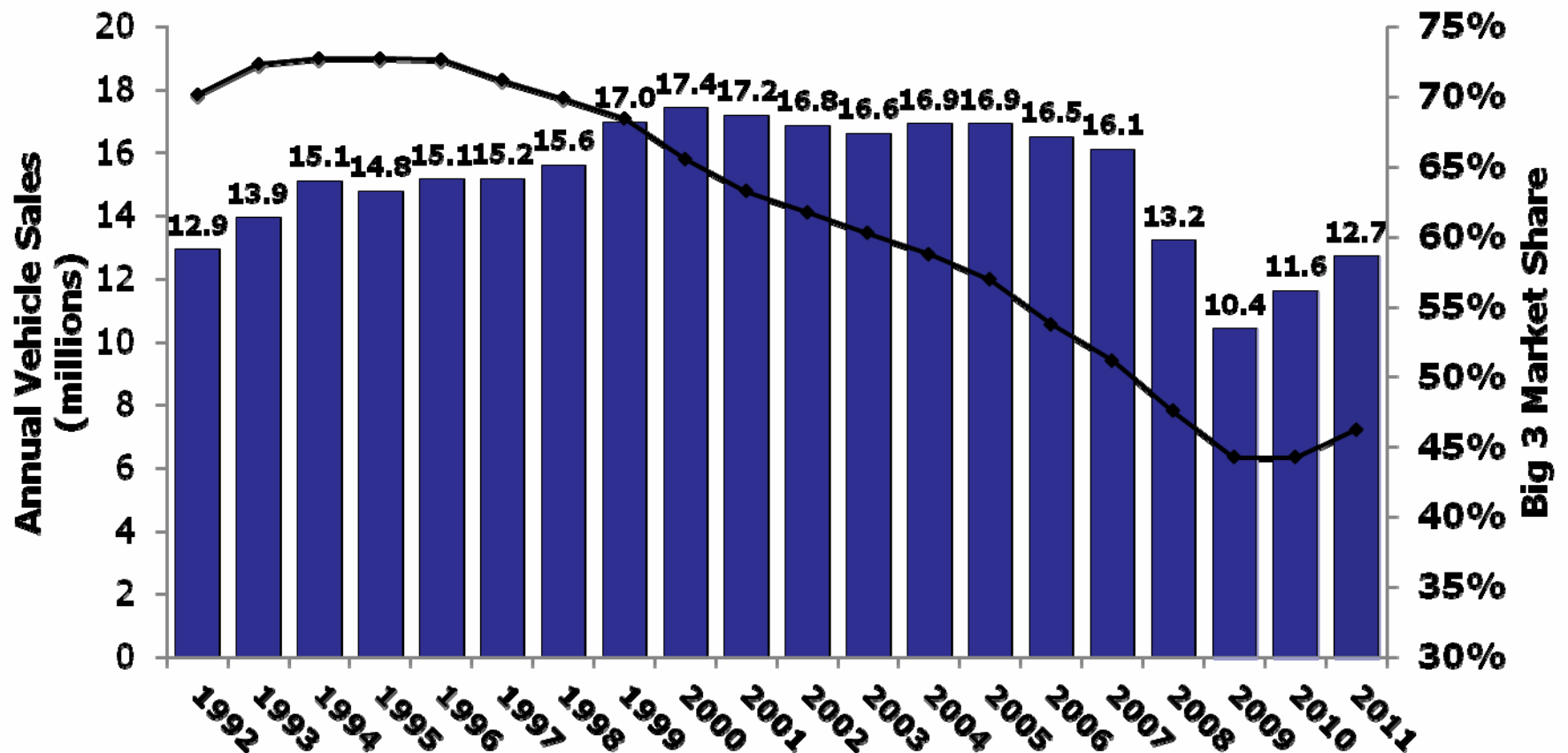


## The Last Decade Was an Economic Disaster for Michigan

	<u>Growth 2000 to 2010</u> <u>U.S.</u>	<u>Growth 2000 to 2010</u> <u>Michigan</u>	<u>Michigan</u> <u>Rank</u>
Population	9.6%	-0.8%	51
Real Per Capita GDP*	6.5%	-6.4%	50
Employment	-0.3%	-17.4%	51
Real Per Capita Income	4.0%	-6.8%	51



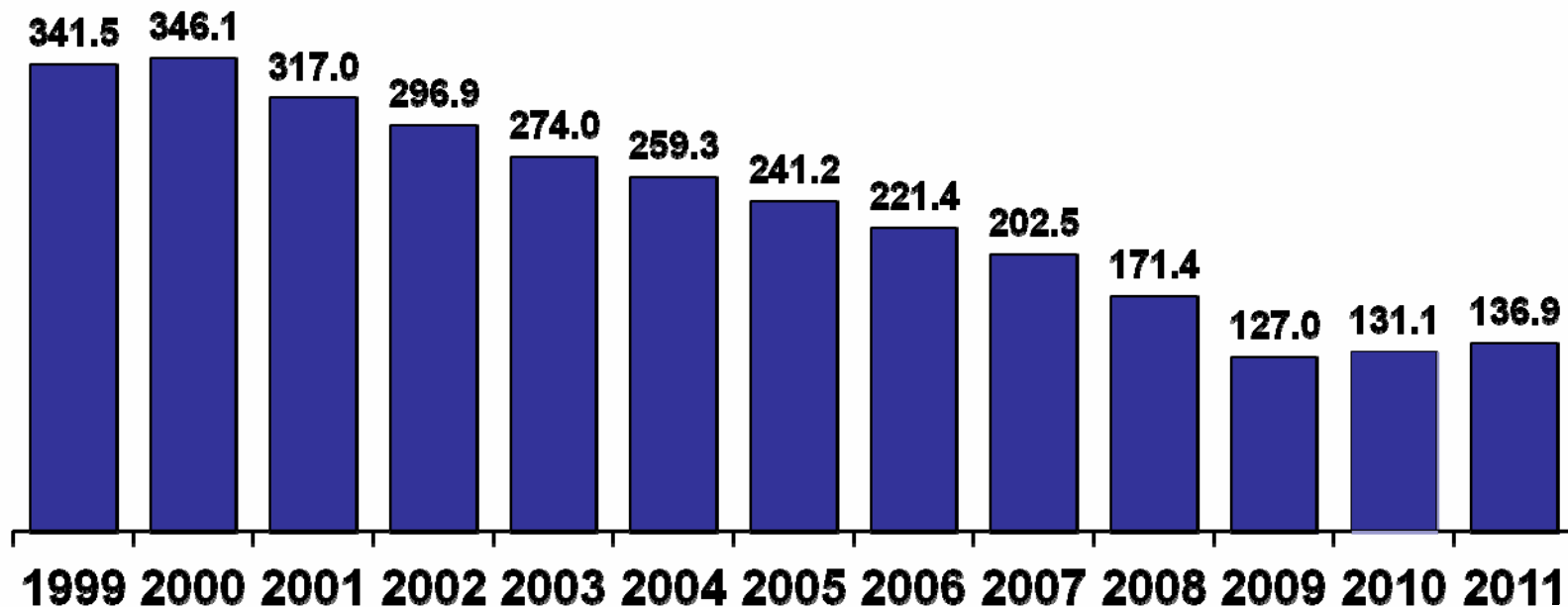
# Big 3 Market Share Plummet





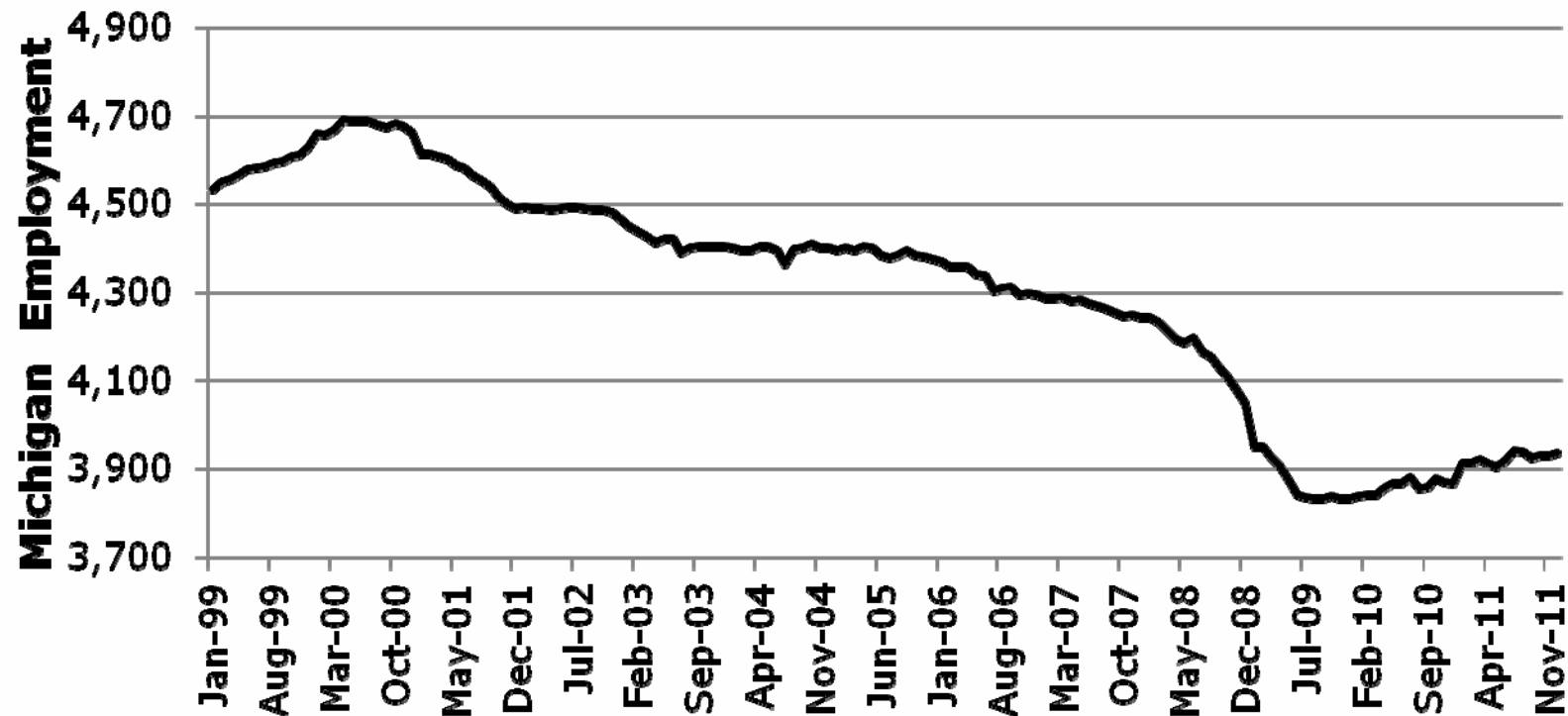
## 2 in 3 Auto Jobs Lost

Michigan Transportation Equipment Employment  
(In Thousands)





# Michigan Employment Starts to Improve But Still Down 750,000 Jobs From Peak

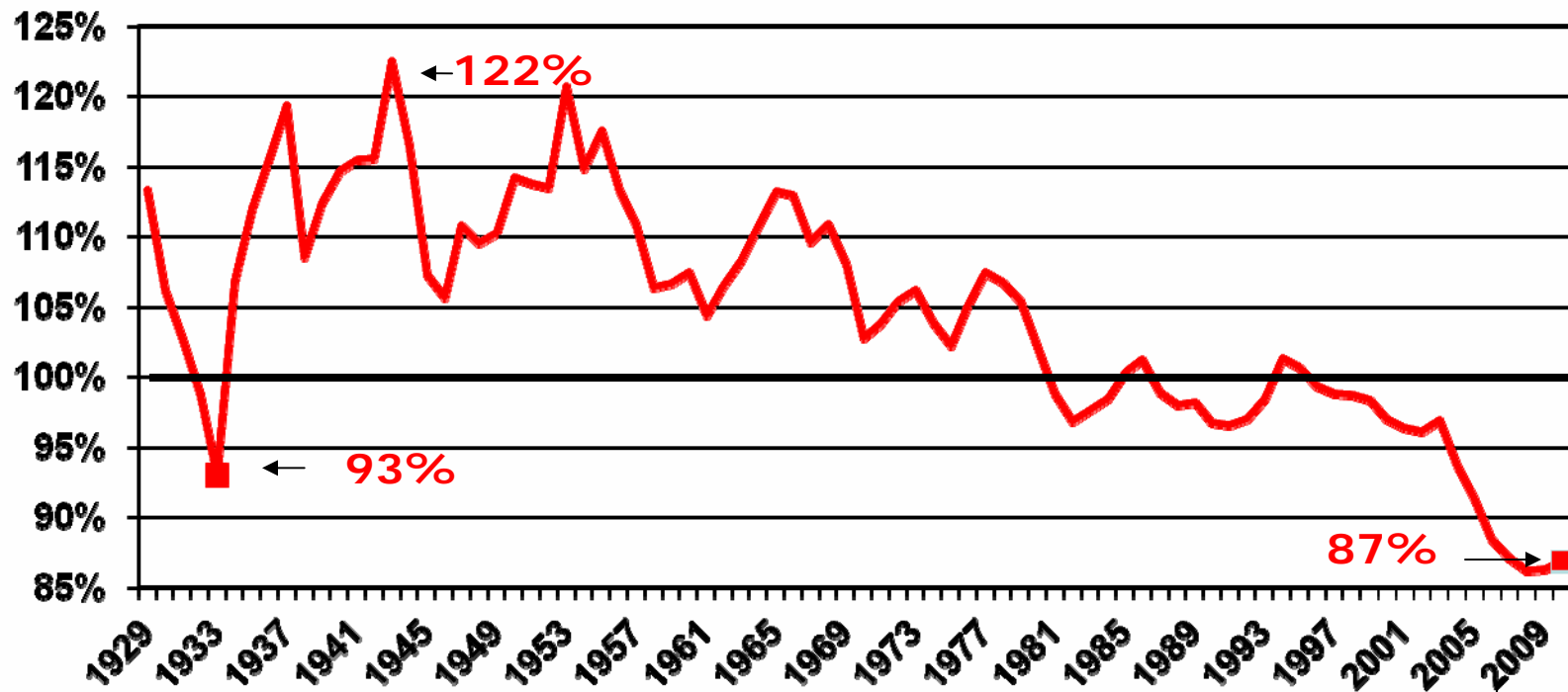






## Michigan Has Become Poorer Relative to Other States

Michigan per Capita Income as a Percent of U.S. Per Capita Income  
Rank has fallen from 20<sup>th</sup> in 2001 to 40<sup>th</sup> in 2010





# State Budget Experience



# 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 2012 <u>(millions\$)</u>	Nominal % <u>Change</u>
Medicaid/DCH	\$3,066	\$4,901	59.8%
Corrections	\$1,653	\$1,927	16.6%
Human Services	\$1,230	\$1,155	-6.1%
K-12	\$11,221	\$10,550	-6.0%
Community College	\$320	\$284	-11.3%
Universities/Fin Aid	\$1,941	\$1,264	-34.9%
Revenue Sharing	\$1,517	\$959	-36.8%
All Other	<u>\$5,139</u>	<u>\$5,219</u>	<u>1.6%</u>
Total	\$26,087	\$26,260	0.7%
U.S. CPI - U	178.9	229.1	28.1%



## Select Budget Indicators

	<u>FY 2002</u>	<u>FY 2012</u>	<u>Percent Change</u>
Medicaid Caseload	1,211,816	1,920,000	58.4%
Prison Population	47,270	43,455	-8.1%
K-12 Pupil Count	1,647,459	1,552,300	-5.8%
Comm. Col. Students	116,802	177,277	51.8%
University Students	241,205	262,615	8.9%
Michigan Per Cap Income	30,193	35,597	17.9%
U.S. CPI-U	178.9	229.1	28.1%



## Budget At State Level Has Improved

- Michigan faced \$1.5 billion budget deficit coming into FY 2012
- FY 2012 cut spending to align with revenues (K-12 -5.1%; higher ed -13.7%; comm coll -4.1%; revenue sharing -11.9%)
- Contributions to “Rainy Day Fund” FY 2012: \$256M; FY 2013: \$133M proposed
- Restructured state employee retiree benefits reducing long-term liability by \$5.6 billion
- Fully funds OPEB ARC for state employees
- State spending cuts put considerable pressure on K-12, universities, community colleges, and local governments



## 2011 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
- Tax changes aimed at economic development not budget balancing



# Education and Education Reform





## K-12 Challenge

- In Governor Snyder's special message on education, he cited the following statistics:
  - Less than 50% of students in grades 4, 7, and 11 are proficient in writing
  - MI ranks 39<sup>th</sup> in 4<sup>th</sup> grade math and 34<sup>th</sup> in reading
  - Only 16% of students statewide are "college ready" based on ACT
  - 238 MI high schools have zero college ready students
- While there has been some push back on these statistics, clearly improving educational outcomes is essential to state's future



## Teaching Reforms

- Recent estimate puts the PV of a teacher of 20 students one deviation above the mean at \$400,000; removing bottom 5 to 8 percent of teachers and replacing with average teachers could raise GDP growth by a full percentage point
- Recent law changes have focused on the lowest performing teachers:
  - Increase probationary period
  - Make it easier to dismiss a tenured teacher
  - Reduce importance of length of service in layoff decisions
  - Add requirements for teacher evaluation systems
  - Increase importance of student growth in evaluation
  - Removes some dismissal and recall provisions from collective bargaining
  - See: Public Acts 101 to 103 of 2011



## School Choice

- School reforms in mid 1990s switched to per pupil funding and liberalized schools of choice
- In 2009, Michigan had 241 charter schools serving 103,000 students (6 percent); Detroit had 50 charter schools
- Public Act 277 of 2011 removed the numeric and geographic limitations on the number of charter schools
- SB 619 would increase the limit on the number of cyber schools from 2 to 30 over time; increase the enrollment limit from 400 (1,000 if enrolling dropouts) to half of Detroit's enrollment (currently 68,000) (under H-3)



## **K-12 Budget Challenges**

- Districts are contending with reductions in per pupil funding
- Decline in number of pupils also increasing budget challenges in many districts
- Increasing retirement costs are an added strain on school district budgets – and since the state runs the program schools have no control over this cost



# School Funding Down Sharply

Fiscal Year	State Appropriated Funds		Pupils		Per Pupil Funding	
	Funds (2013\$)	Change From 2000	Number (millions)	Change From 2000	Amount (2013\$)	Change From 2000
2000	\$13,616.3		1.6966		\$8,026	
2001	\$14,217.7	4.4%	1.7042	0.4%	\$8,343	4.0%
2002	\$14,645.1	7.6%	1.7096	0.8%	\$8,566	6.7%
2003	\$14,454.6	6.2%	1.7149	1.1%	\$8,429	5.0%
2004	\$13,783.5	1.2%	1.7144	1.0%	\$8,040	0.2%
2005	\$13,410.3	-1.5%	1.7078	0.7%	\$7,852	-2.2%
2006	\$13,160.5	-3.3%	1.6975	0.1%	\$7,753	-3.4%
2007	\$13,187.5	-3.1%	1.6811	-0.9%	\$7,845	-2.3%
2008	\$12,435.7	-8.7%	1.6526	-2.6%	\$7,525	-6.2%
2009	\$12,122.2	-11.0%	1.6197	-4.5%	\$7,484	-6.7%
2010	\$11,467.3	-15.8%	1.5957	-5.9%	\$7,186	-10.5%
2011	\$11,305.2	-17.0%	1.5694	-7.5%	\$7,203	-10.2%
2012	\$11,217.1	-17.6%	1.5528	-8.5%	\$7,224	-10.0%
2013*	\$10,986.0	-19.3%	1.5429	-9.1%	\$7,120	-11.3%

21\* Gov's recommendation

Source: Senate Fiscal Agency and CRC calculations.



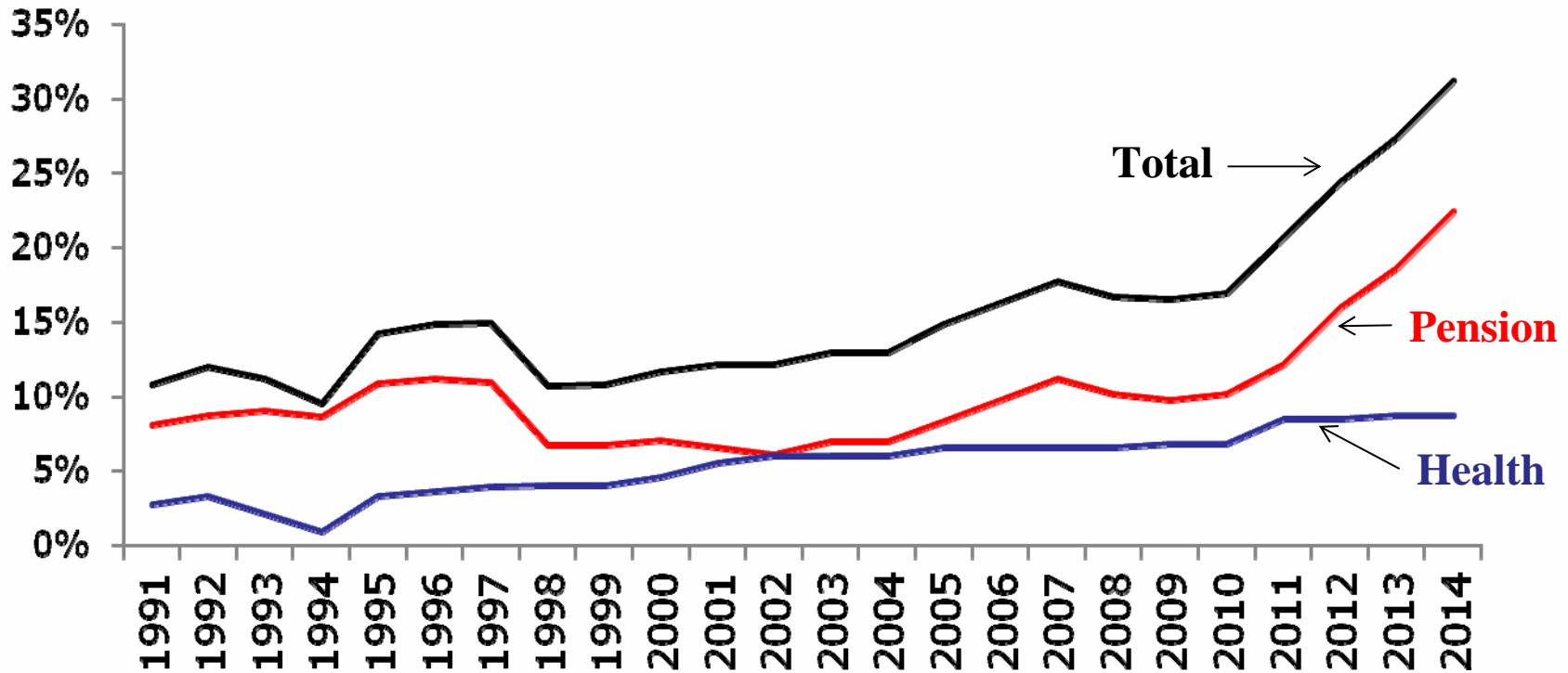
# Some Larger Districts Experienced the Worst of Both Worlds

Changes in Enrollment, Foundation Grant, and Total Revenue in Urban Districts:  
FY1995 to FY2009

	Percentage of Statewide Enrollment	District Enrollment Change	Real Foundation Change	Total Foundation Revenue Change
Flint	0.9%	-44.8%	-1.6%	-45.7%
Benton Harbor	0.2%	-43.8%	12.4%	-36.8%
Pontiac	0.5%	-42.6%	-1.5%	-43.5%
Detroit	6.2%	-40.3%	-2.9%	-42.0%
Grand Rapids	1.2%	-28.0%	1.2%	-27.1%
Lansing	1.0%	-27.3%	-1.0%	-28.0%
Saginaw	0.6%	-27.0%	-2.3%	-28.7%
Muskegon	0.3%	-23.8%	1.3%	-22.8%
Battle Creek	0.4%	-22.6%	-1.7%	-23.9%
Jackson	0.4%	-18.4%	-0.7%	-18.9%
Highland Park	0.2%	-13.9%	-4.3%	-17.6%
Bay City	0.6%	-13.0%	16.8%	1.7%



## K-12 Retirement Costs Soar From 16.9% of Payroll in 07 to 31% in 14





## K-12 Policy Questions

- What will the impact of declining resources be on K-12 outcomes?
- What will the impact of expanded school choice be on K-12 outcomes?
- How will other reforms (teacher evaluation, etc.) impact K-12 outcomes?
- Should local districts be allowed to raise additional funds to offset state cuts or to increase overall spending?
- What efficiencies are available through consolidation, collaboration, and outsourcing and how are these best achieved?
- As new dollars become available how should they be allocated –  
24 equally per pupil, towards lower spending districts, towards districts with high risk students, or some other way?





# Local Government

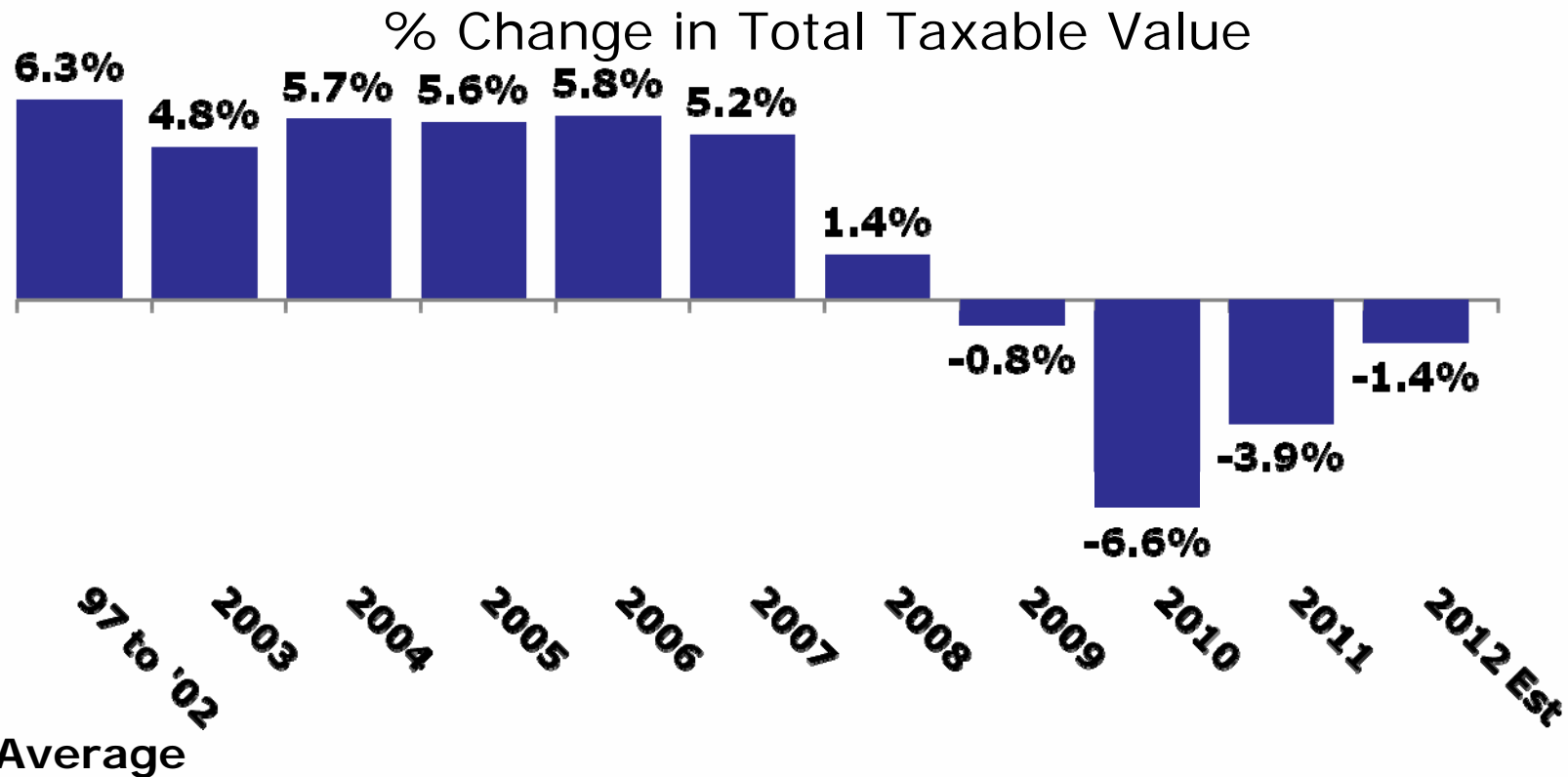


## Local Government Fiscal Issues

- Local governments face many of the same budget challenges as schools with some notable differences:
  - While local governments get revenues from the state they also raise significant revenues locally primarily through the property tax
  - Fiscal pressures vary widely – cities under much more pressure than townships
  - Locals provide a large variety of services provided as opposed to schools districts which mostly provide the same service
  - Local governments set their own retirement policies for pension and healthcare while pension and healthcare for local school districts is a state controlled program



# 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 2011</u>	<u>2000 to 2011</u>
Pontiac	42%	-37%	-11%
Livonia	31%	-20%	5%
Grand Rapids	38%	-3%	34%
Claire	38%	6%	47%
US CPI-U	20%	8%	31%



## Property Tax Recovery Unlikely

- **Headlee Amendment** – Constitution limits unit wide growth (excluding new construction) to the rate of inflation; if growth exceeds inflation tax rates fall
- **Taxable Value Cap** – Constitution limits growth in taxable value of individual parcels to the rate of inflation; ownership transfer causes TV to reset

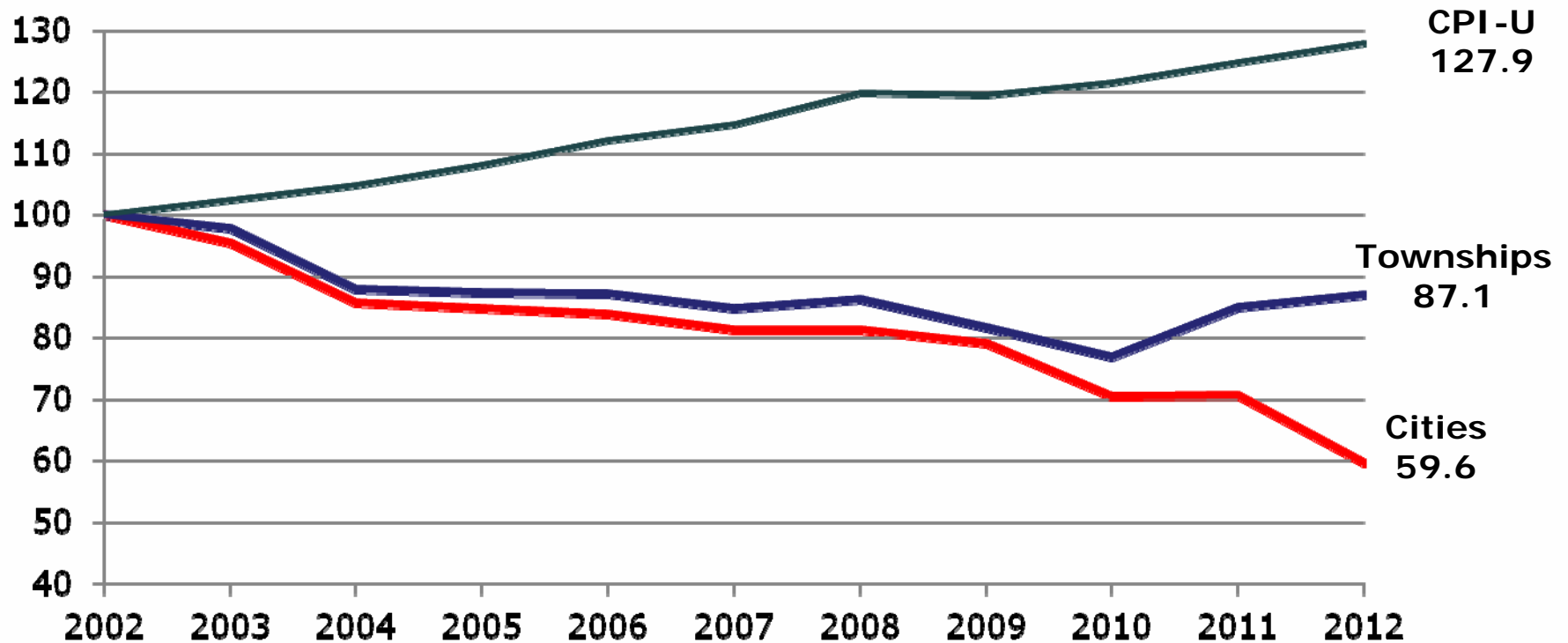


## Revenue Sharing

- Two types of state revenue sharing:
  - Constitutional: 10% of sales tax distributed on per capita basis
  - Statutory: portion of sales tax distributed based on statutory formula
- Per capita distribution favors townships while statutory distribution more weighted towards cities
- After years of cuts, most townships receive zero statutory
- No restrictions on use of aid
- Revenue sharing totaled \$1.5B in FY 2003 (\$0.87B const; \$0.65B stat) and \$0.96B in FY 2012 (\$0.66B const; \$0.3B stat/EVIP)



# State Revenue Sharing Payments Have Fallen Dramatically





## EVIP

- 2012 budget repealed statutory revenue sharing and replaced with **Economic Vitality Incentive Program (EVIP)**
- Amount appropriated for EVIP was 2/3 what was appropriated for statutory revenue sharing
- EVIP did not change distribution formula – locals received 2/3 of what they received in FY 11 if they met certain conditions
- In general, townships did not receive statutory so this cut only effected cities





## EVIP Criteria

- Old statutory revenue sharing grant did not require local governments to do anything
  - In order to receive EVIP funding cities had to do the following:
    - Produce citizens financial guide and performance dashboard (accountability and transparency)
    - Produce a plan to increase level of collaboration and consolidation within or across jurisdictions
    - Employee compensation changes:
      - cap retirement contributions for new hires
      - limit retirement multipliers
      - new employees pay 20% healthcare premiums
- (Note: PA 152 subsequently instituted hard caps on share of healthcare costs public employers could pay)



## **Local Government and School District Accountability Act (PA 4 of 2011)**

- Provides for EM's to address financial emergencies in local govts or schools; powers include:
  - Can remove virtually all powers of elected officials
  - Can abrogate contracts
  - Exempt from collective bargaining
  - Not constrained by local charter
  - Can sell, lease, or transfer assets (with state approval)
  - Can collaborate, consolidate, or disincorporate (with state approval)
- Hope was that threat of PA 4 would incent locals to address their problems more forcefully
- Constitutionality of PA 4 (contracts, local control, etc.) being challenged in court
- Signatures have been submitted to subject to referendum



## Local Government Policy Questions

- Are cities fiscally viable given falling property taxes, diminished state aid, and constitutional caps on property tax growth?
- Given Michigan's long history of local control, how much should the state intervene in areas like collaboration, consolidation, employee compensation, etc.?
- Should more aid be distributed from the state to local governments, and if so, what criteria should be used for distribution: population, income of residents, level of service provision, etc.?
- For public employees in general, what is the appropriate level of compensation, and what should be done about legacy costs?
- How forcefully should the state intervene in the affairs of financially failing local governments?



## Final Thoughts

- Michigan's economy is growing again, **but there is no quick recovery from an 18 percent employment decline**
- State government's budget situation is much improved – revenues are in line with spending, reserves are being replenished, and legacy costs are starting to be addressed
- The fiscal situation for schools and local governments remains dire and will likely get worse before it gets better



**Questions?**



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