



Michigan Economic and Budget Update Progress and Challenges

Northern Michigan University Symposium

March 21, 2013

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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

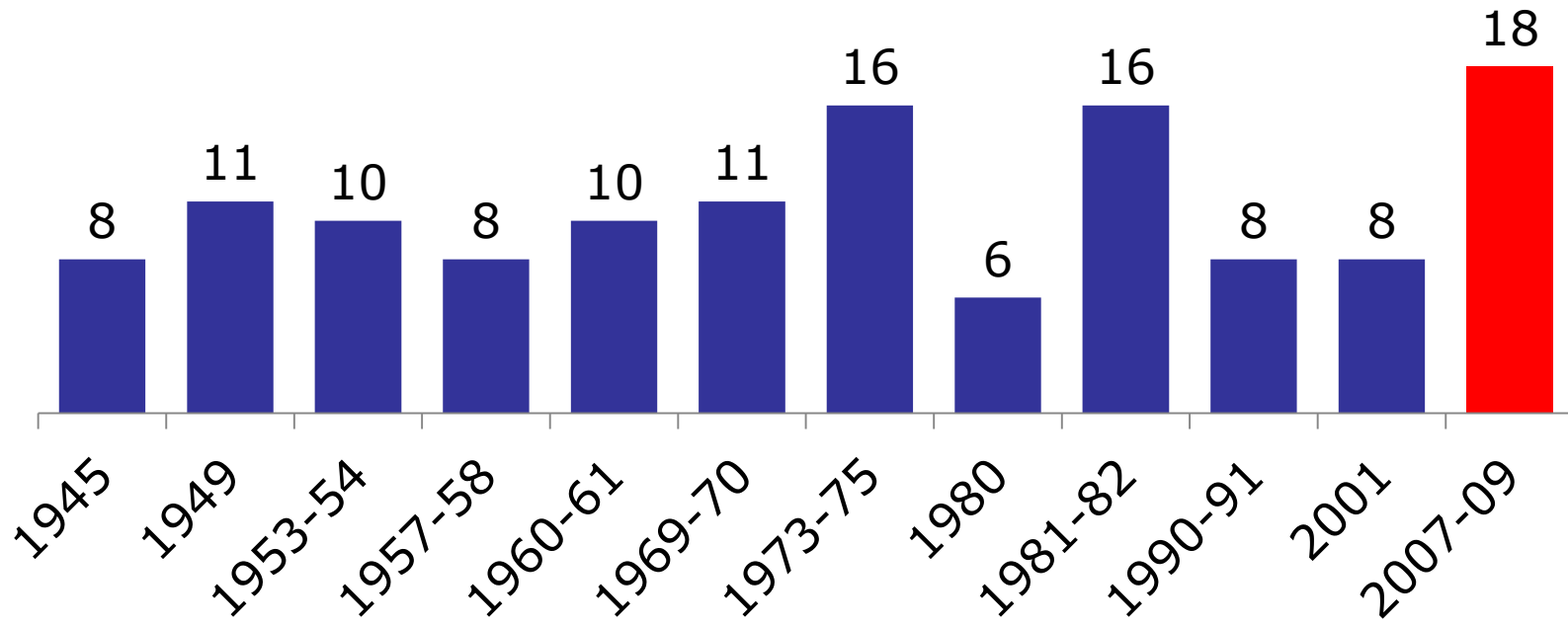


Overview

- Recovery is almost 4 years old
- Employment is growing again, but still well below previous peak
- Federal fiscal policy weighing on recovery
- Housing finally starting to recover

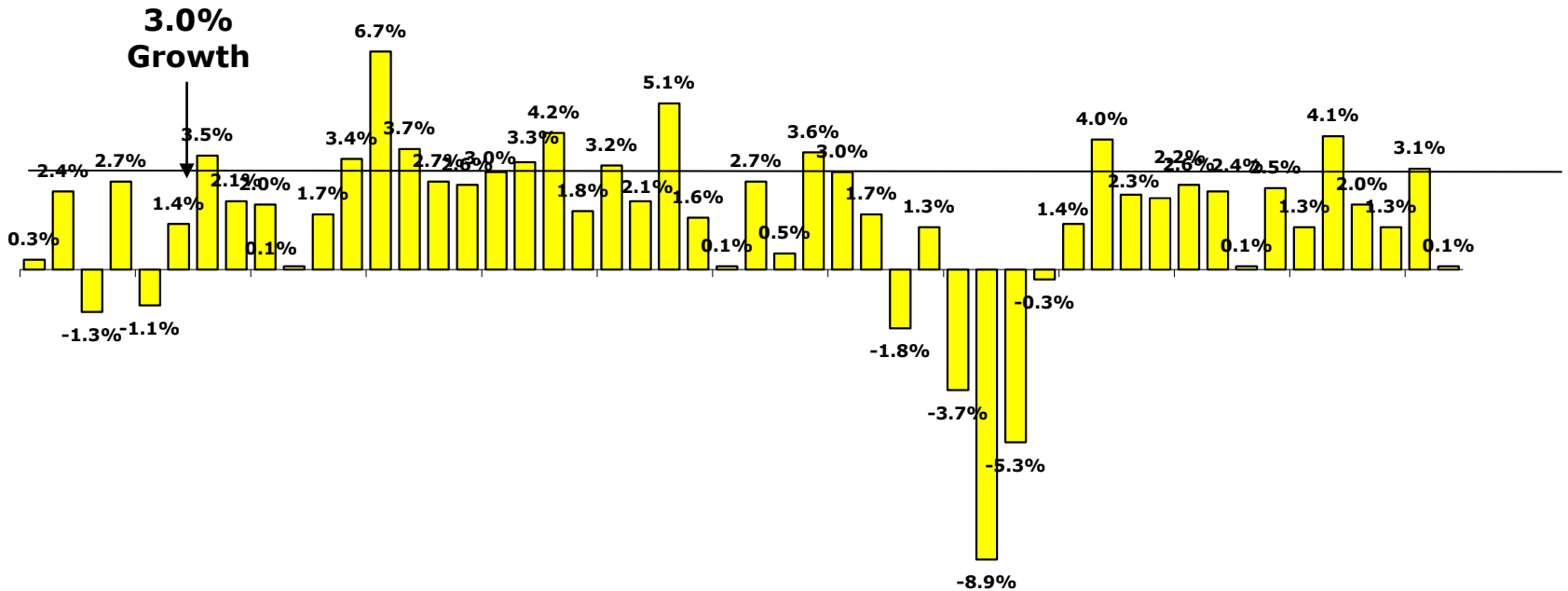
2009 Recession Set Post War Record

Recession Length in Months



GDP Has Grown For 14 straight Quarters

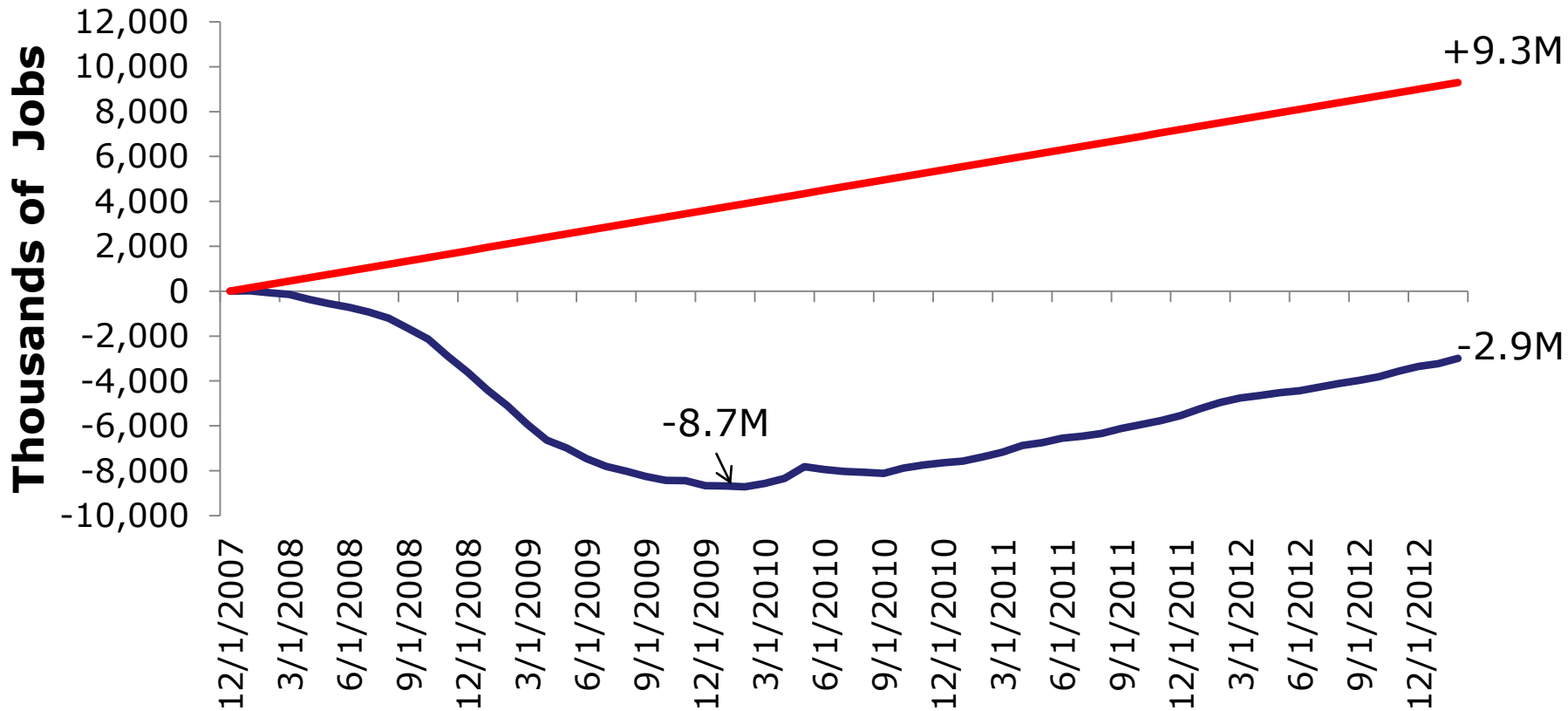
Real GDP Growth



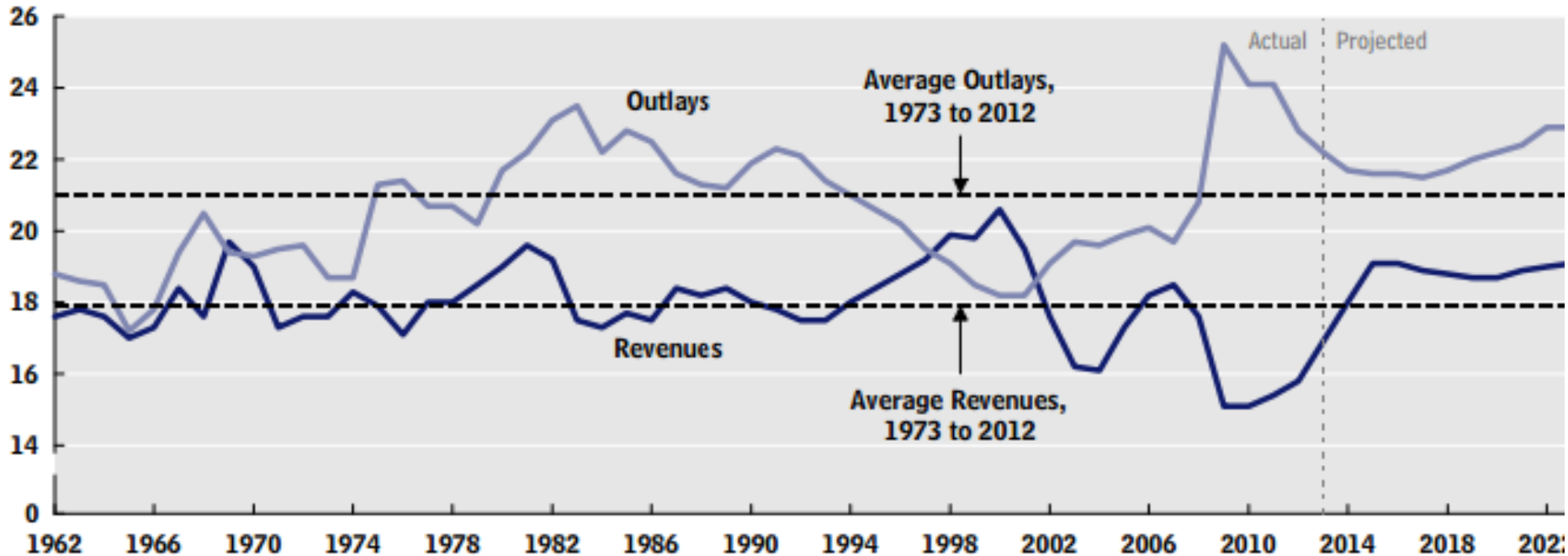
2000 Q3 2001 Q3 2002 Q3 2003 Q3 2004 Q3 2005 Q3 2006 Q3 2007 Q3 2008 Q3 2009 Q3 2010 Q3 2011 Q3 2012 Q3



U.S. Employment Still Down 3 Million Jobs From December 2007



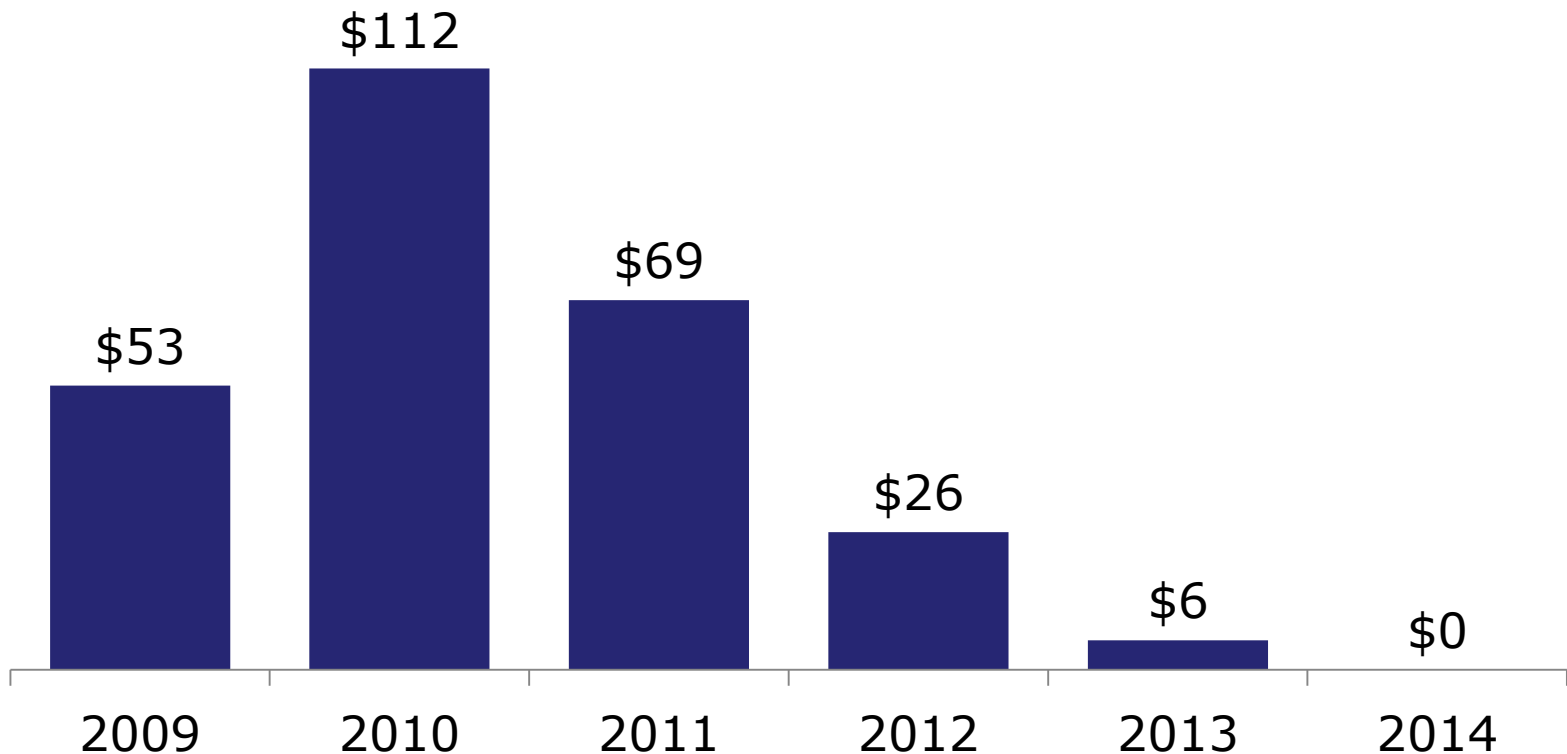
Federal Fiscal Policy Weight on Short Term and is a Concern for Long Term





Federal Stimulus Ending Weighs on Recovery

Federal Stimulus Aid to States and Localities

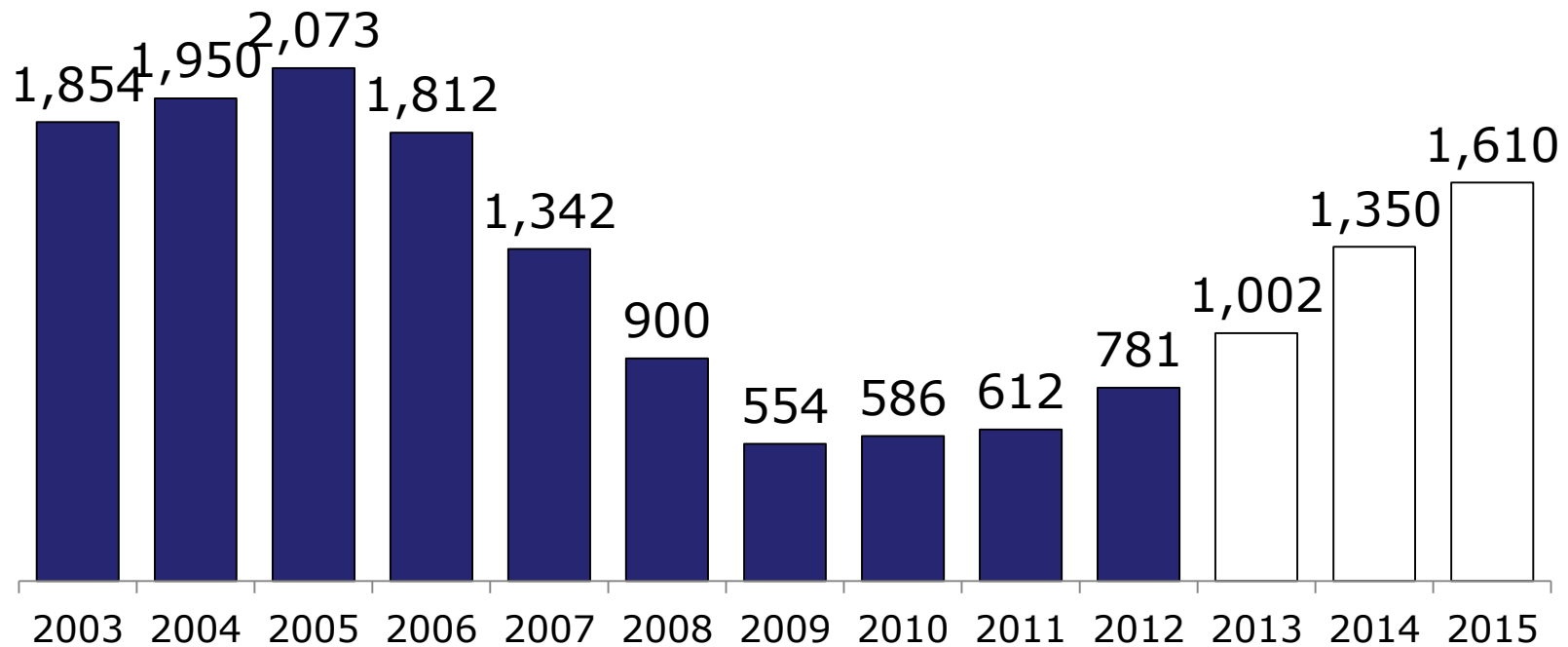


What is Sequestration?

- Was part of the Budget Control Act of 2011, resolving the debt crisis.
- Cuts automatic if budget solution not put in place by November of 2012
- Cuts defense, nondiscretionary appropriations for nondefense, and some Medicare
- Cuts will slow start to take effect – CBO estimates it will reduce growth 0.6 percent, on top of fiscal drag from other fiscal policies

Housing Finally Appears to Be Recovering

New Private Housing Starts – thousands of units





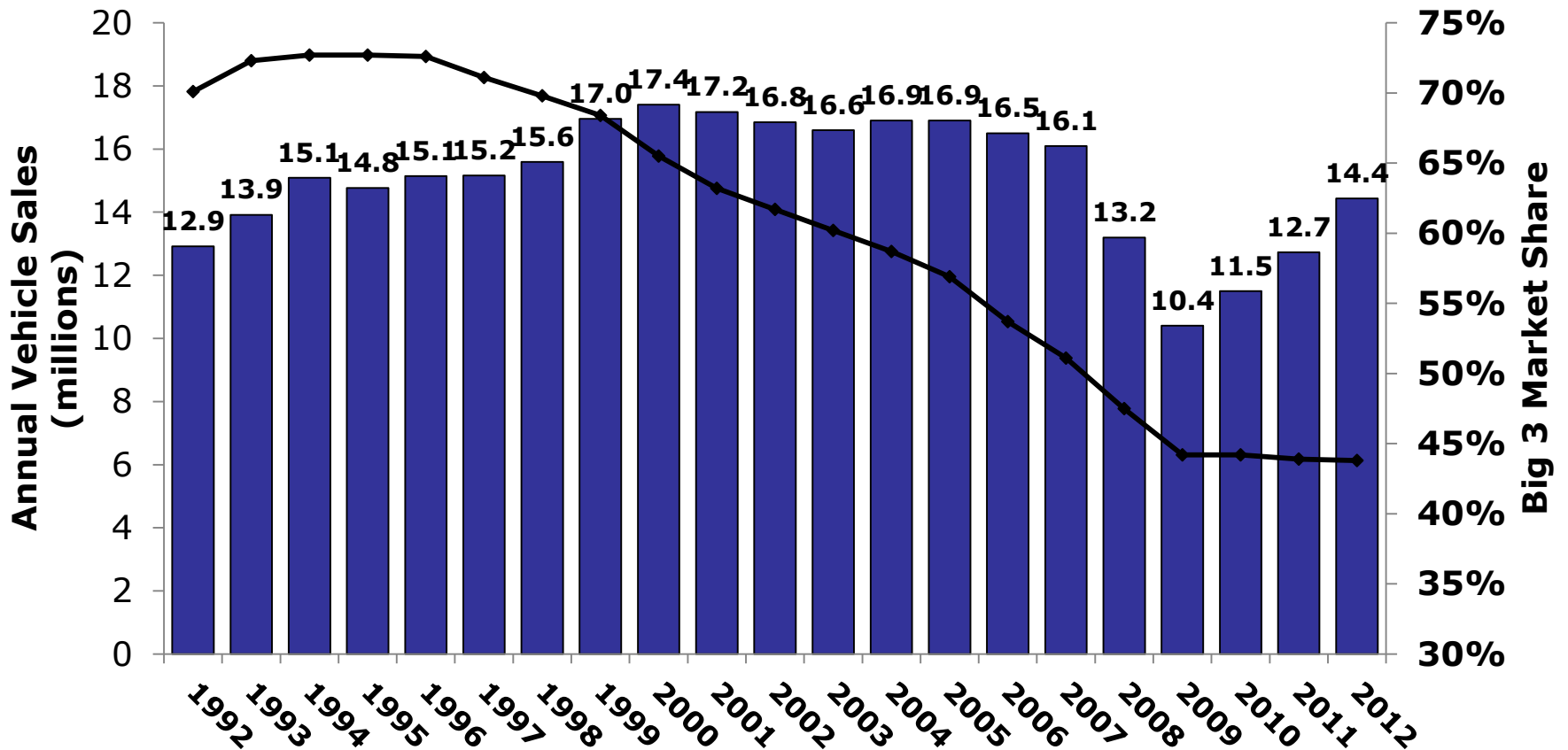
Michigan – Where are We Now?



The Last Decade Was an Economic Disaster for Michigan

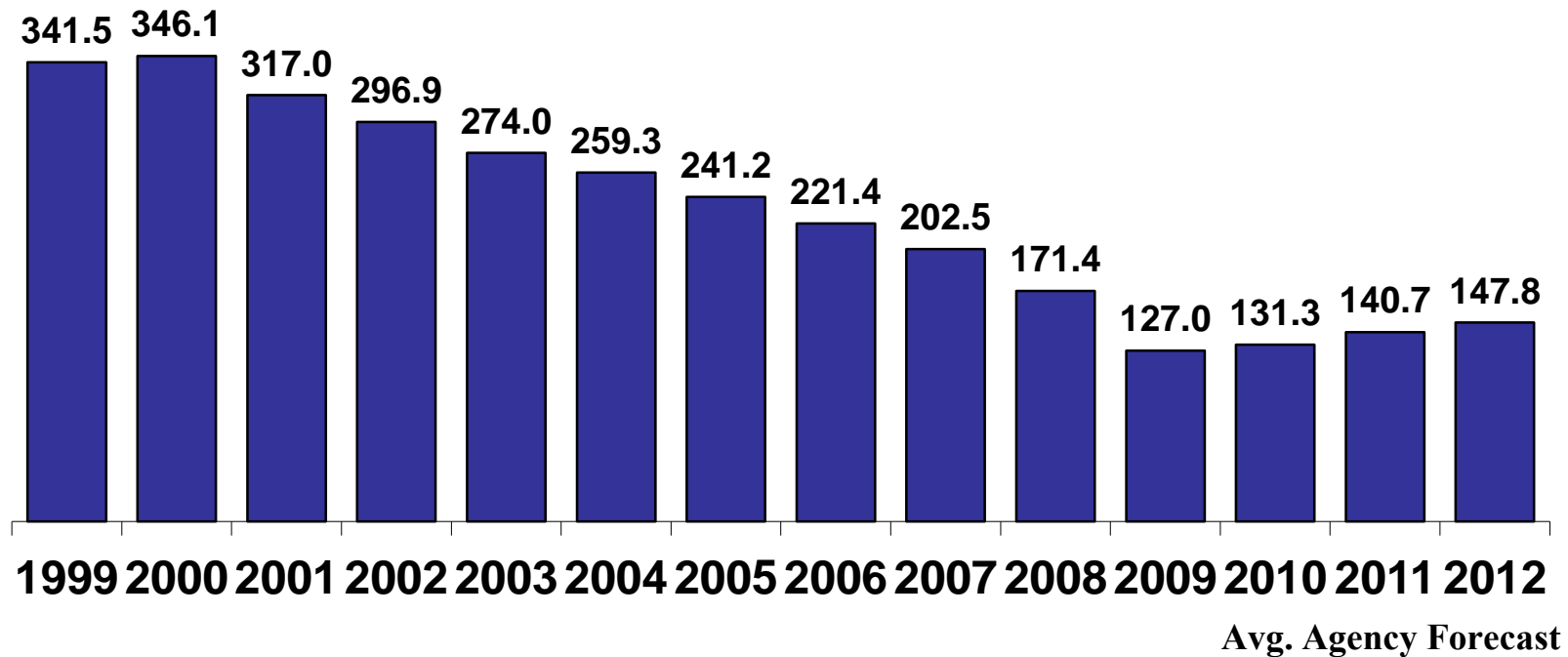
	Growth 2000 to 2010		Michigan
	<u>U.S.</u>		<u>Rank</u>
Population	9.6%	-0.8%	51
Real Per Capita GDP	5.0%	-10.4%	51
Employment	-1.5%	-17.4%	51
Real Per Capita Income*	4.9%	-5.6%	50

Big 3 Market Share Plummet



2 in 3 Auto Jobs Lost by 2011

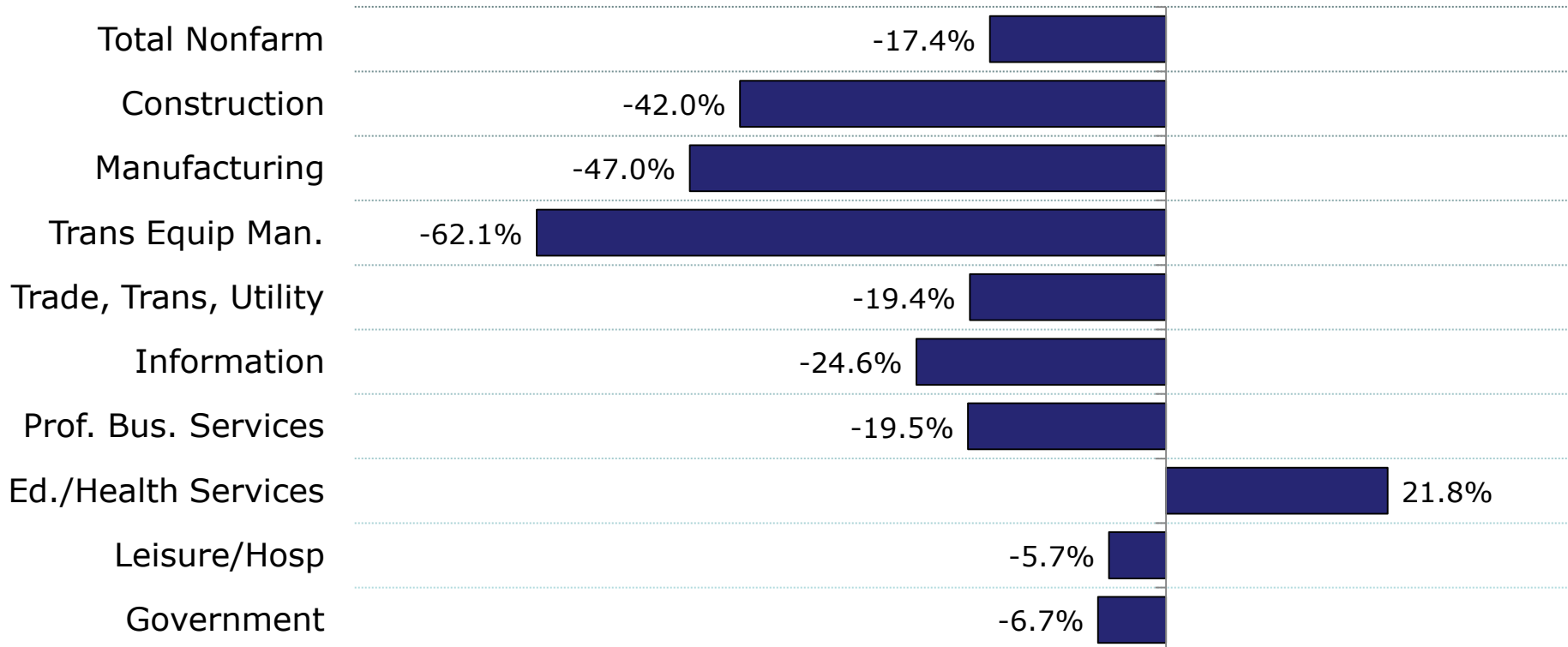
Michigan Transportation Equipment Employment
(In Thousands)





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

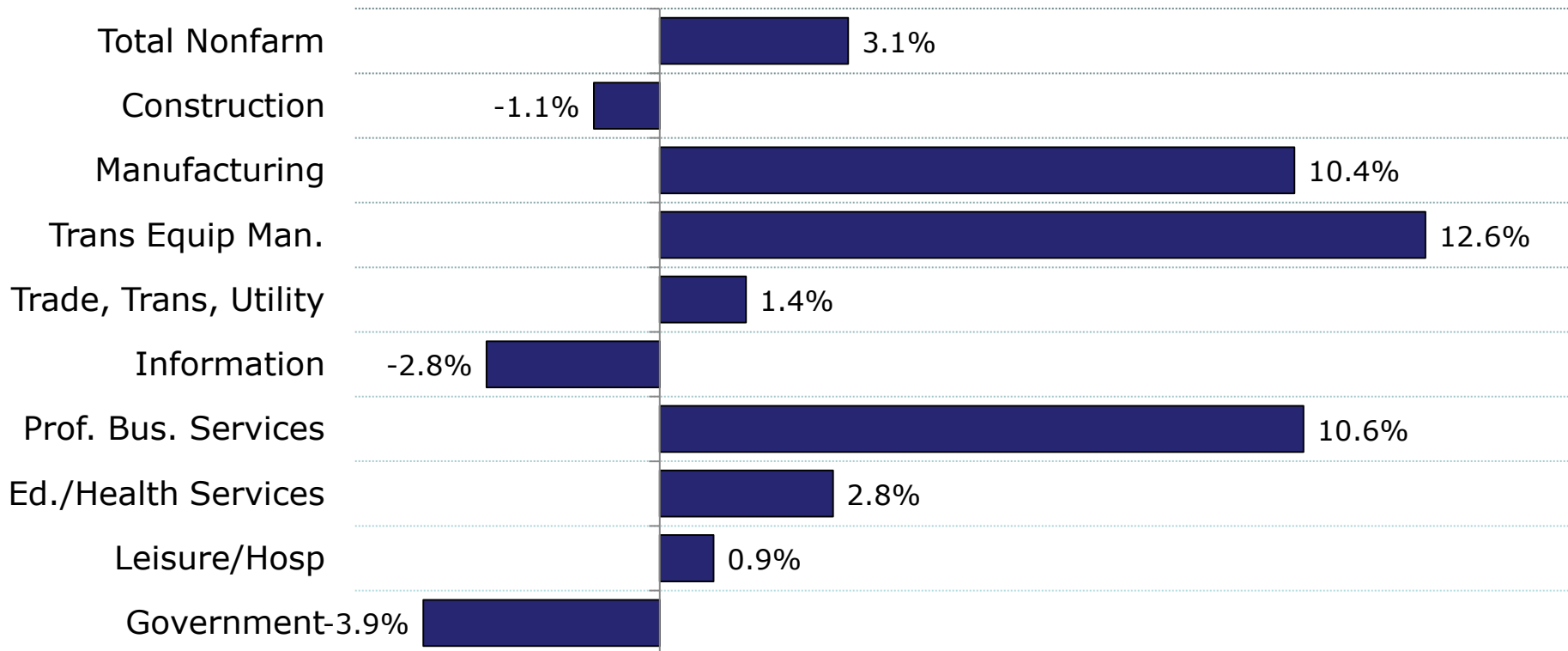
2000 to 2010





Michigan Has Added Jobs Over Past 2 Years

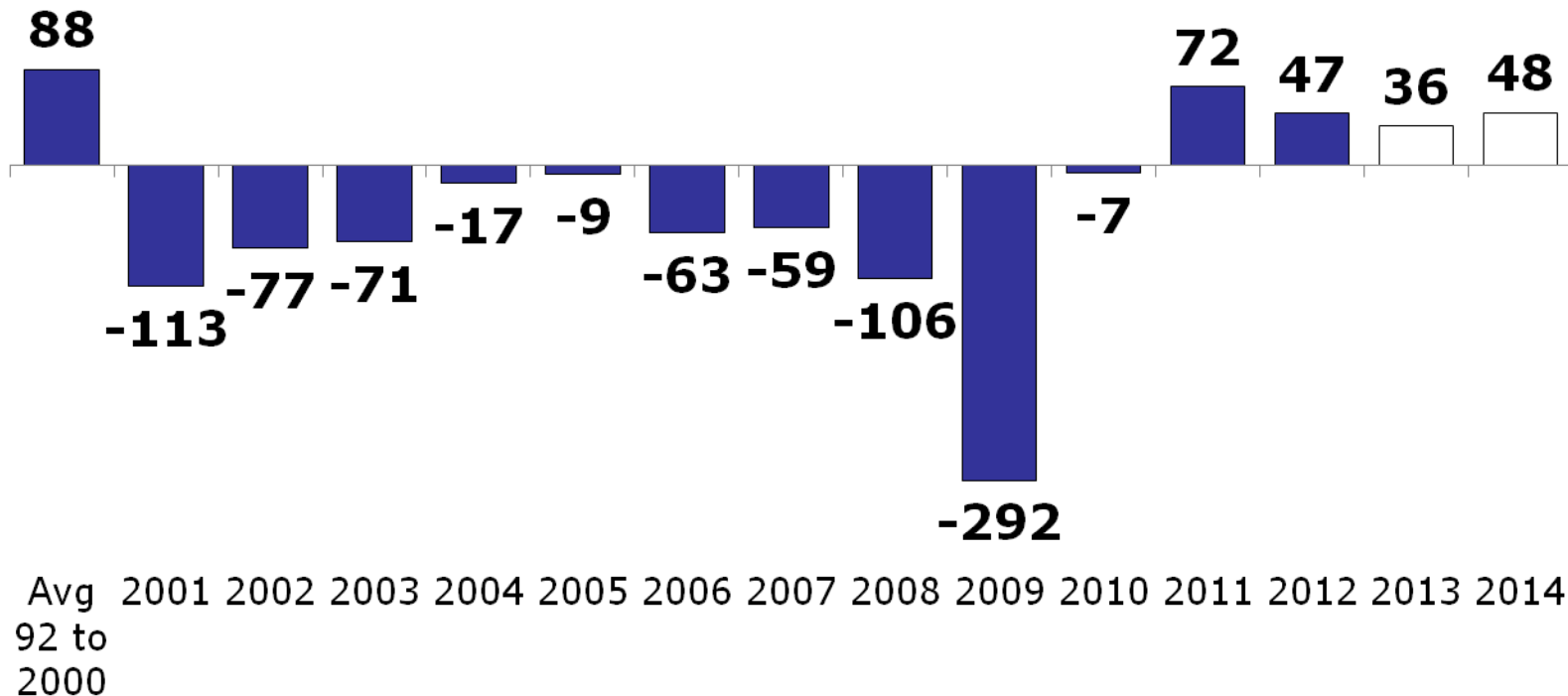
2010 to 2012





Michigan Employment Grows Modestly in 2013 and 2014

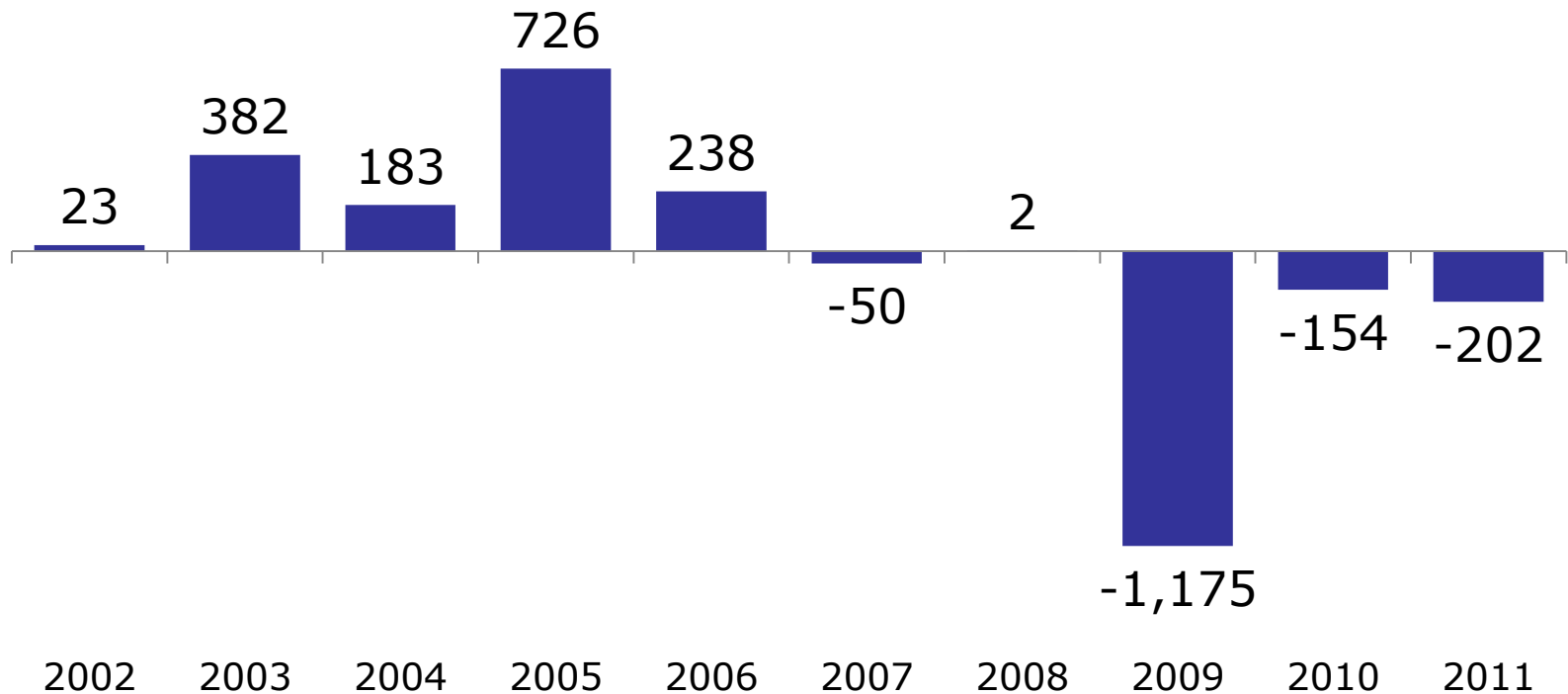
Annual Employment Growth (thousands of jobs)





Marquette County Employment Has Held Up Better Than the State's

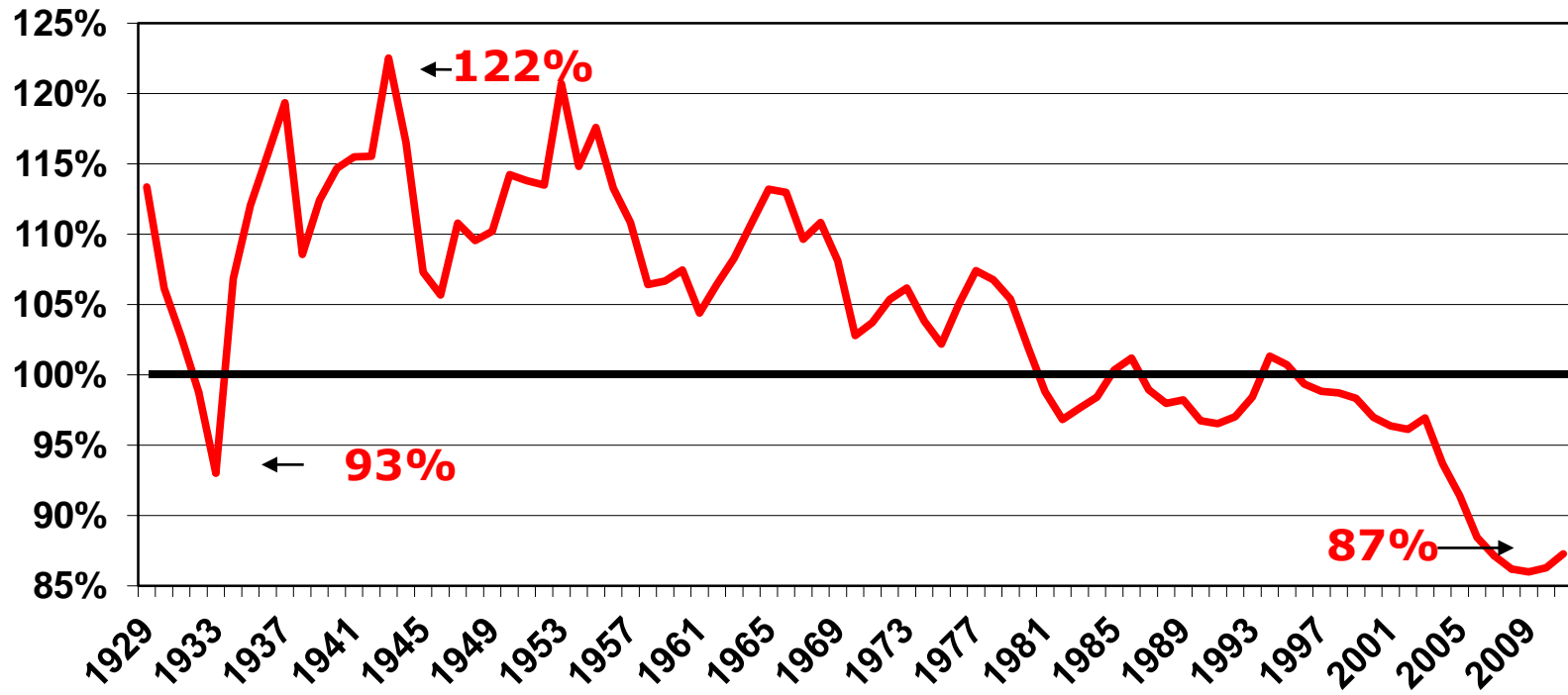
Annual Employment Growth (change in number of jobs)





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 20th in 2001 to 37th in 2011**





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



State Budget Update



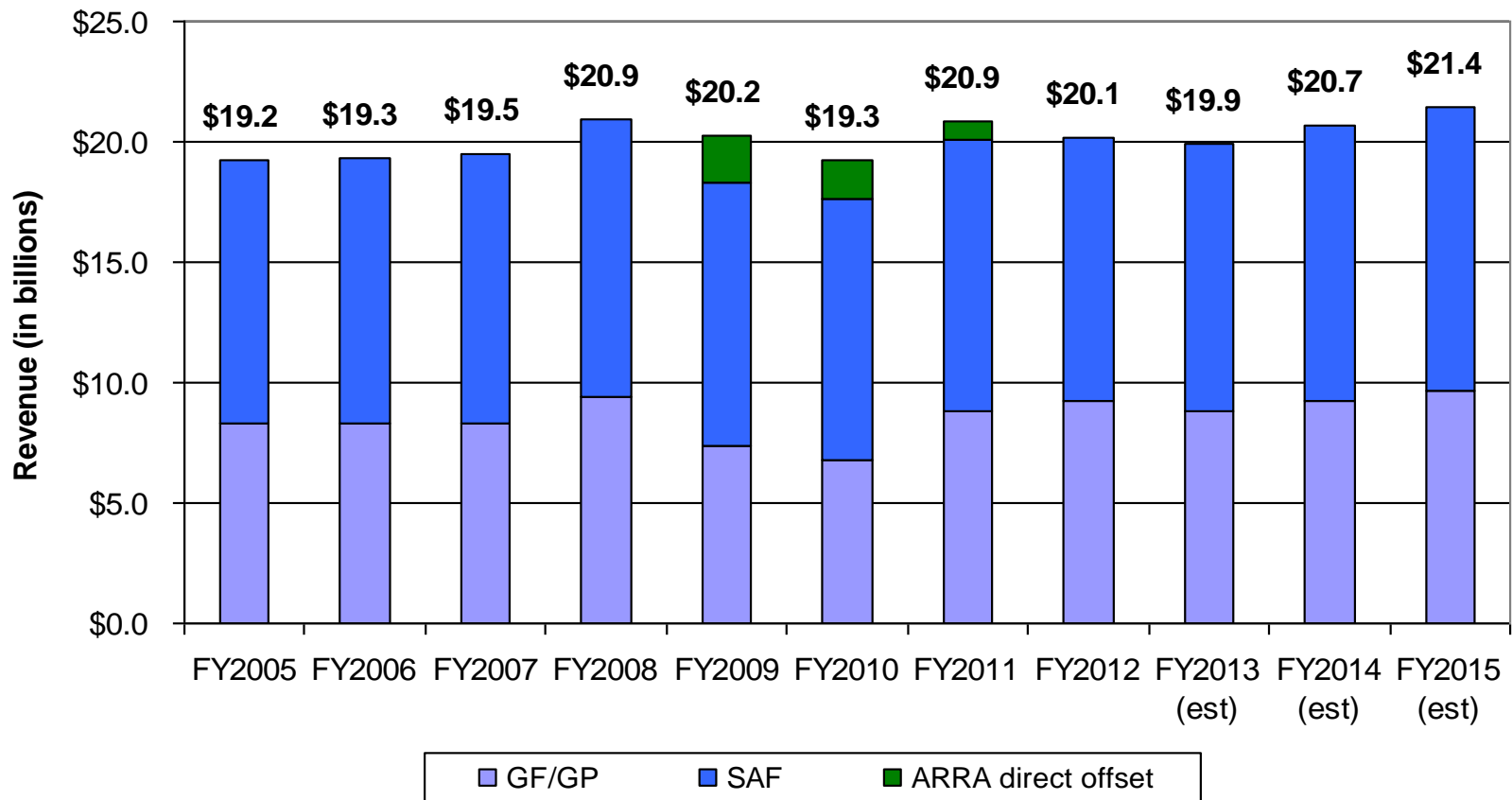
Michigan Taxes at Average as % of Income But Well Below Average Per Capita

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%

Recent History of Major Revenue Funds

Revenues Just Getting Back to FY11 Levels





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

- Surpluses in both GF/GP and SAF with the potential for stable growth in revenue in both FY2014 and FY2015
- Stability shifts decision-making from “how to cut” to “how to spend”
 - Restore previous budget cuts?
 - Revise budget priorities with new programs?
 - Save dollars today to invest in the future?
- State still faced with escalating retirement legacy costs in the short run
- Growing public and political dialogue on two issues that DON'T affect discretionary dollars: roads and health care



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: estimated 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



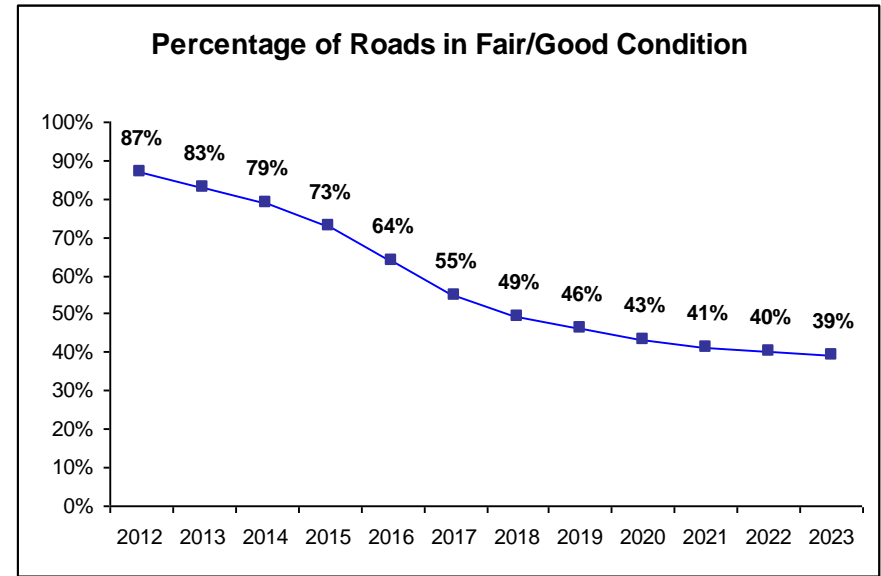
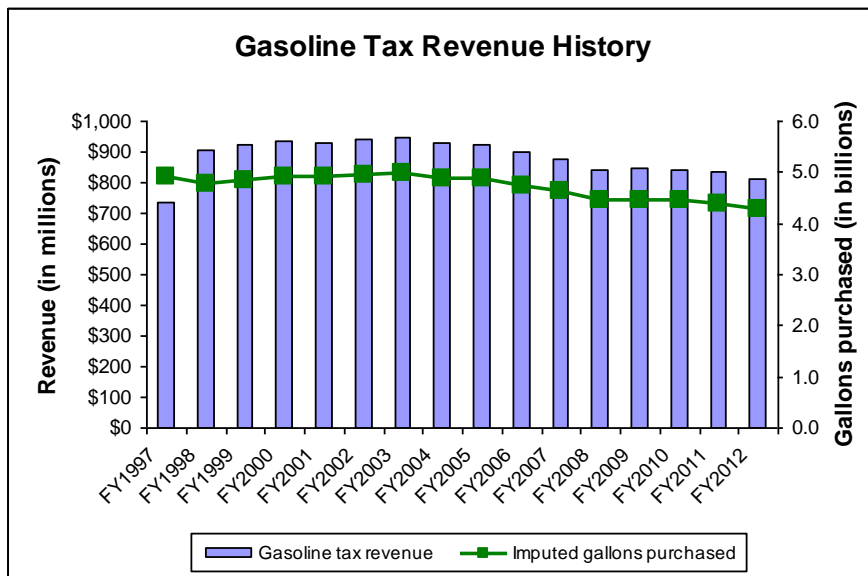
Medicaid Expansion

Costs, Savings, and new Health Savings Fund

- Cost of expanded coverage = \$1,564.9 million (all federal in FY 2014)
- State achieves GF/GP savings by shifting adults currently served by state-funded non-Medicaid programs to federally-funded Medicaid
- FY2014 savings anticipated with Community Health budget (\$181.7 million) and Corrections budget (\$24.2 million)
- Fifty percent of GF/GP savings achieved through 2020 to be deposited into new Health Savings Fund, a sub-fund within the Budget Stabilization 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



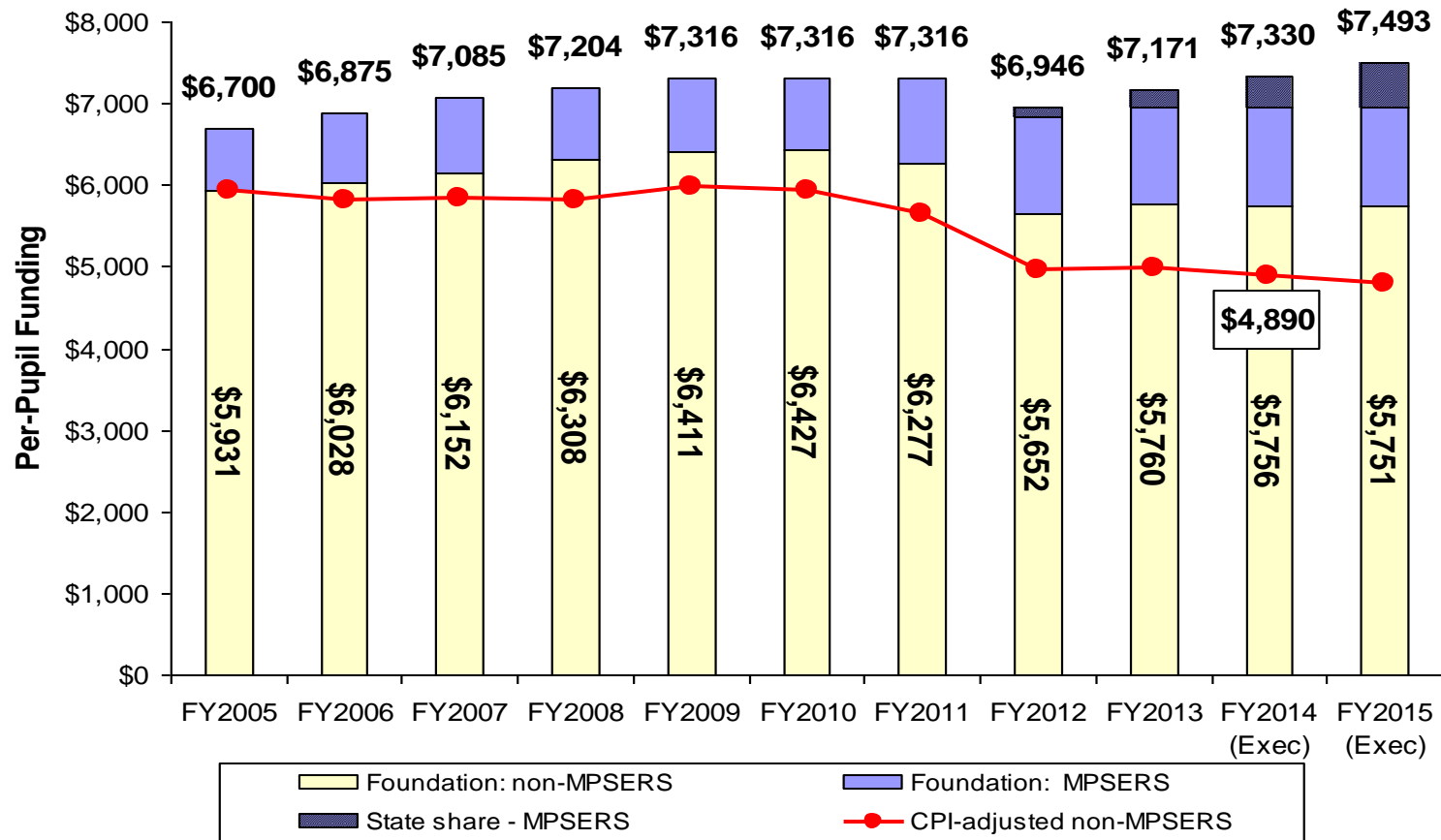
K-12 School Aid Highlights

- 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)



MPSERS Costs and the Foundation Grant

Estimated impact on districts receiving minimum grant





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%

- Allows enrollment of younger children in line with changes to kindergarten age requirements – at least 4 years old, but not less than 5 years old by November 1 of 2013-14 school year; by October 1 of 2014-15 school year
- 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 or notify Department of Education if unable to meet requirement
- Programs must participate in Great Start to Quality Process with at least 3-star rating



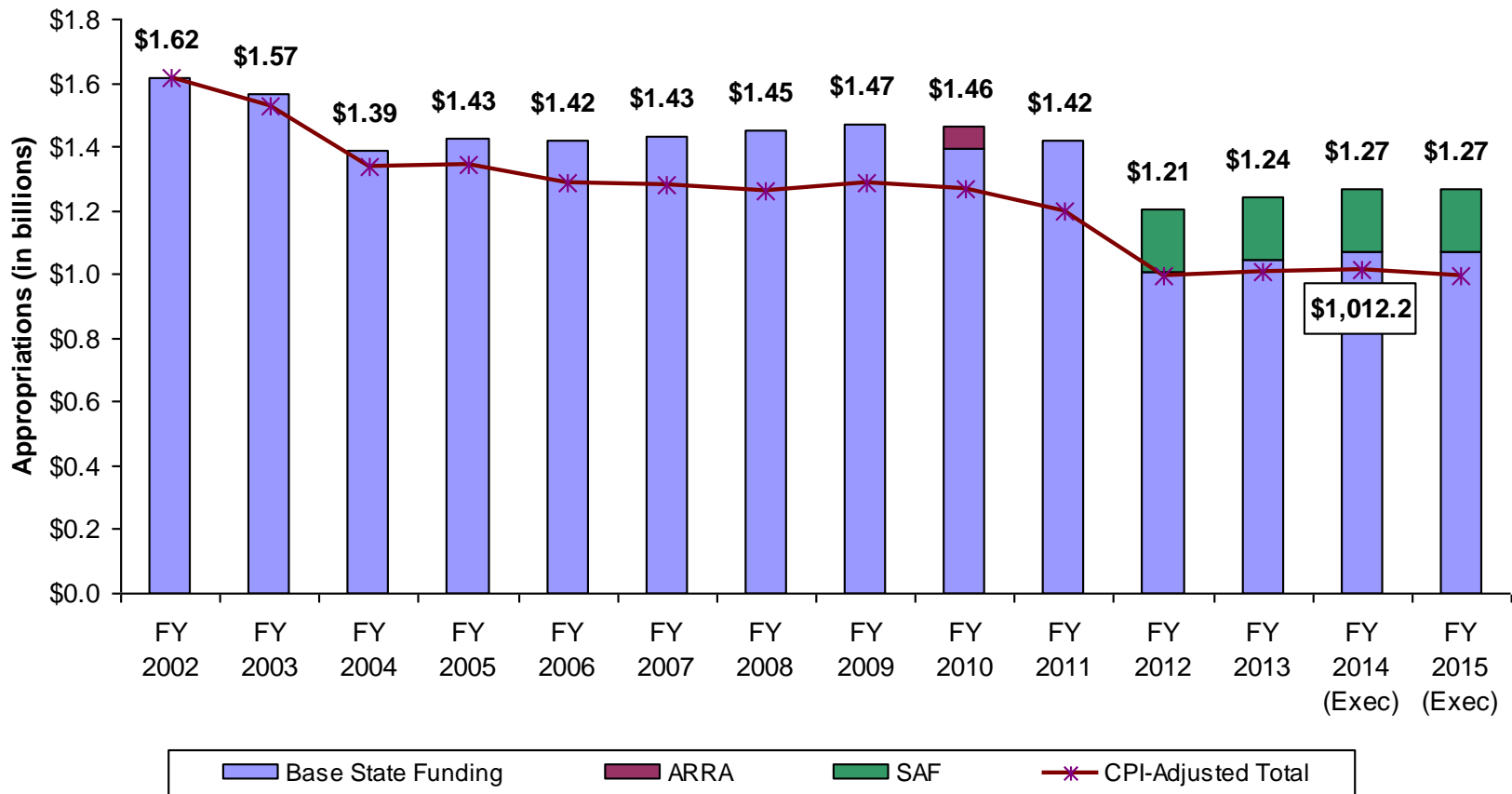
Higher Education

2% Increase through Performance-Based Formula

- Overall \$24.9M increase in FY2014 distributed through “performance funding” formula established in FY2013
- Increases range from 0.2% to 5.1% for individual institutions based on \$18.6 million distribution of performance funding
- Additional \$6.2 million will be distributed based on tuition restraint (below 4.0%)
- Financial Aid Programs: \$3.2M increase for Tuition Incentive Program
- Continues to use School Aid Fund contribution (\$200.6M) for operational support

University Operations Funding History

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





Impact of Budget Cuts on Northern Michigan University

	<u>2002</u>	<u>2012</u>	<u>Change</u>	
			<u>Amount</u>	<u>Percent</u>
Number of Students	7,718	8,568	850	11%
State Appropriation	\$52,012,900	\$38,367,400	(\$13,645,500)	-26%
Approp. Per Student	\$6,739	\$4,478	(\$2,261)	-34%
Tuition and Fees	\$4,357	\$8,766	\$4,409	101%
Tuition and Fees % of GF	39.3%	65.8%	NA	68%
Total Northern GF	\$88,350,814	\$119,681,820	\$31,331,006	35%
FY CPI-U	178.90	228.50	NA	28%



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 Workforce and Employee Compensation

Further Shrinkage

- 1.2% reduction in budgeted classified FTEs (53,027)
- Recognizes the cost increases associated with collective bargaining agreements
 - Permanent 1% increase for non-unionized state employees; one-time 1% increase for unionized workforce - \$29.4 million gross, \$14.7 million GF/GP
 - Continued increases in retirement costs - \$146.1 million gross, \$73.5 million GF/GP
 - 80/20 health care premium sharing effective FY2013 helps to mitigate insurance costs - \$10.3 million gross, \$5.3 million GF/GP
- Continues to prefund OPEB liabilities for state workers (\$280M+)
- \$27.7M GF/GP (\$13.6M one-time) for training 400 corrections officers, 107 state troopers, and 25 conservation officers

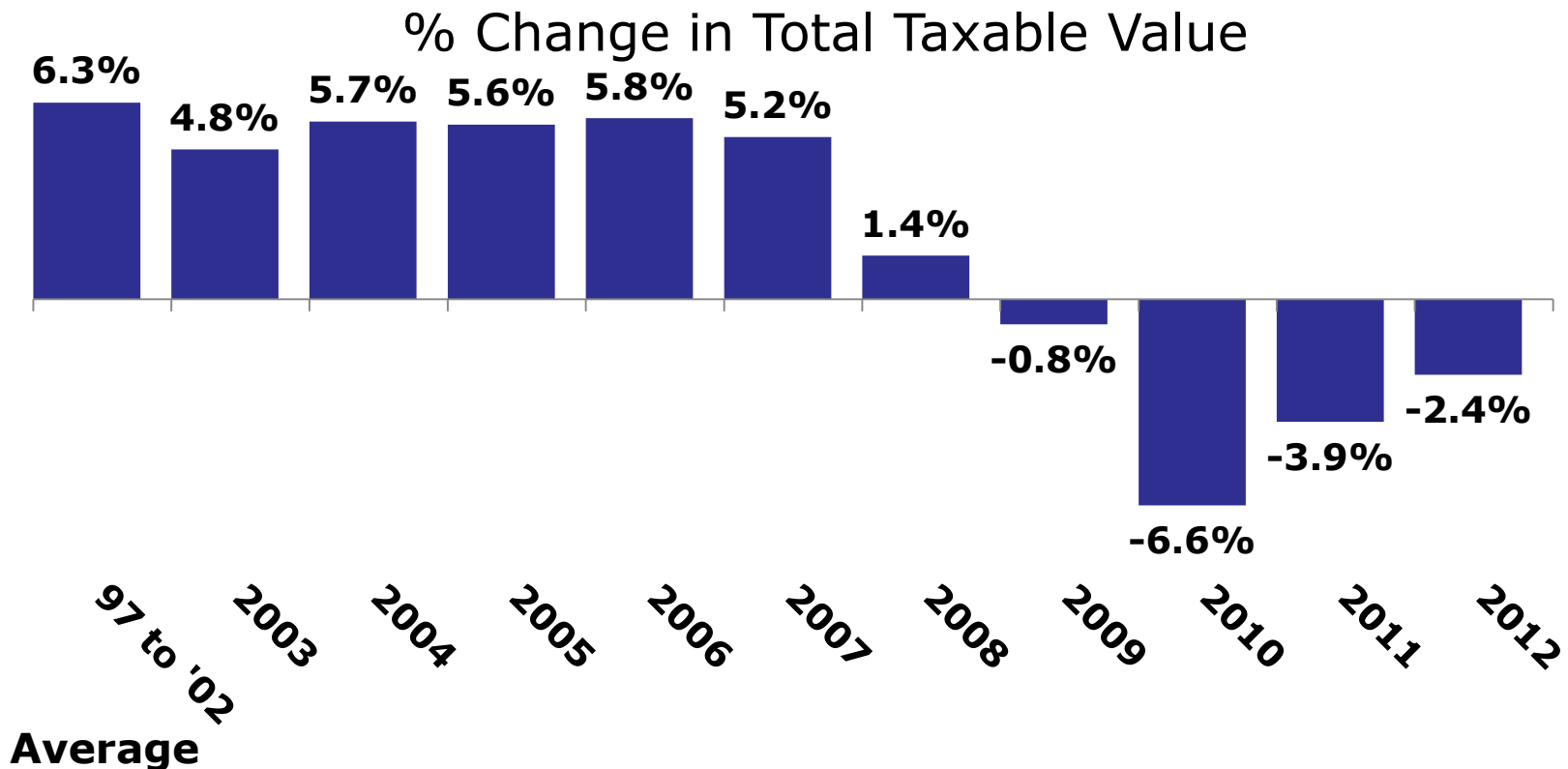


Challenges for Schools and Local Governments

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%
Grand Rapids	38%	-6%	30%
Claire (City)	38%	4%	43%
Marquette City	36%	17%	59%
Marquette County	49%	27%	89%
Escanaba	32%	17%	54%
US-CPI U	20%	11%	33%



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.



K-12 Budget Pressures

- CIT replacement of MBT did not include replacement revenues for SAF (Tax changes lowered SAF revenues ~ \$650 million per year); plus \$400 million of SAF now supporting colleges and U's
- Increasing retirement costs weigh on traditional districts; recent reforms will help
- Declining enrollment – a mixed blessing; funding higher per pupil, but managing declining enrollment difficult
- Increased competition from charters and new providers such as virtual schools
- School aid rewrite will increase choice but will also increase pressure on district finances



Closing Thoughts

- State's economy is growing again – good news, but growth is 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



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