Thinking about Michigan state and local government financial future
Thinking about Michigan’s State and Local Government Financial Future

Staff of Citizens Research Council of Michigan

April 28, 2020 Webinar
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 from Michigan foundations, businesses, and individuals

- www.crcmich.org
Recent and Upcoming Publications

Recent Blog Posts

• Will Property Taxes be Immune to the Effects of COVID-19? (April 22)
• All of Michigan Still at Risk from COVID-19 (April 20)
• Local Government Jobs to be Hardest Hit by Pandemic (April 17)
• Pandemic threatens Detroit’s fiscal recovery (April 13)
• Adapting Michigan’s Sunshine Laws to the Cloud of Coronavirus (April 6)
• Coronavirus and the State Budget: What’s at Stake (March 30)
• Public Transit in the Time of Coronavirus (March 24)
• Now is not the Time for Pork-Barrel Spending (March 18)
• Paid Sick Leave is Part of Coronavirus Defense Strategy (March 9)

Michigan Budget Growth Fueled by Federal Dollars

Key Takeaways

• Michigan has become more dependent on federal dollars to fund state programs since the turn of the millennium.
• This has coincided with a slowdown of the growth of in state discretionary dollars – which has shrunk from 40 percent of the state budget to less than 20 percent.
• State funding used to match federal funding has drawn increased amounts of the limited discretionary dollars collected by the state, furthering the impact on the state budget.

Due for release tomorrow, April 29

Text “FACTSMATTER” to 42828 to join email list
Presenters

Eric Lupher
President
elupher@crchich.org

Jill Roof
Local Government
jroof@crchich.org

Craig Thiel
Research Director/
School Finance
cthiel@crchich.org

Jordon Newton
State Finance
jnewton@crchich.org

Tim Michling
Health Policy
tmichling@crchich.org
Economic Perspective

With permission from RSQE at the University of Michigan
SEMCOG Webinar

Research Seminar in Quantitative Economics at University of Michigan April webinar for the Southeast Michigan Council of Governments (SEMCOG)

• The Economic Impacts of COVID-19

• https://register.gotowebinar.com/recording/5624880892104275469
Current State of COVID-19 and Projections

Source: Institute for Health Metrics and Evaluation (IHME) at the University of Washington

RSQE: April 2020
Single-Family Home Price Appreciation

Percent

National Case-Shiller Appreciation, year-over-year
National Case-Shiller Real Appreciation, year-over-year

Forecast

RSQE: April 2020
Quarterly U.S. Real GDP

Billions of 2012 dollars, SAAR

RSQE: April 2020

- Approximately 49% of Michigan workers are essential (federal guidance and Governor’s “Stay Home, Stay Safe” order)
- Approximately 33% of Michigan workers can perform jobs remotely (Dingel and Neiman 2020)
- Accounting for overlap with essential workers, about 65.6% of workers currently able to do their jobs
- Additional 500,000 workers out of work because of decline in demand (“second round effects”)
- Approximately 740,000 workers not working but continue to be paid
  - Using sick or vacation leave, covered by Paycheck Protection Program, large firms avoiding layoffs
- Second quarter payroll employment declines by 1,160,000 jobs (26 percent)
  - Reflects improvement beginning in June

RSQE: April 2020
Michigan Payroll Employment, 2005q1–2022q4

- 2020q2: declines by 26%
Michigan Unemployment Rate, 2005q1–2022q4

- 2020q2 average: 23%
- Higher than national rate because of:
  - Michigan’s more cyclical economy;
  - The sharp decline in light vehicle sales;
  - Michigan’s relatively heavy burden of the disease; and
  - A smaller drop in the labor force participation rate.

RSQE: April 2020
Michigan Personal Income, 2005q1–2022q4
Data Graphics
### Updated State Revenue Projections, (millions of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2019</td>
<td>2020</td>
</tr>
<tr>
<td><strong>General Fund</strong></td>
<td>$11,126</td>
<td>$9,361</td>
</tr>
<tr>
<td><strong>Percent Change</strong></td>
<td>1.6</td>
<td>(15.9)</td>
</tr>
<tr>
<td><strong>School Aid Fund</strong></td>
<td>$13,561</td>
<td>$13,014</td>
</tr>
<tr>
<td><strong>Percent Change</strong></td>
<td>1.7</td>
<td>(4.0)</td>
</tr>
<tr>
<td><strong>Combined Change from February</strong></td>
<td>$0</td>
<td>($2,624)</td>
</tr>
<tr>
<td><strong>Percent Change</strong></td>
<td>0</td>
<td>(10.5)</td>
</tr>
</tbody>
</table>

Source: RSQE.
General Fund Growth, FY1981-FY2022 (Projected)

Source: Historical rates from the Senate Fiscal Agency. Estimates from RSQE.
School Aid Fund Growth, FY1996-FY2022 (Projected)

Source: Historical rates from the Senate Fiscal Agency. Estimates from RSQE.
Historical Rainy Day Fund Balance, FY19780-FY2020 (Projected)

Source: Senate Fiscal Agency.
State Budget is Dominated by Health and Education

- Medical and Behavioral Health Services: 34%
- School Aid: 26%
- Other: 9%
- Transportation: 9%
- Higher Education: 4%
- Revenue Sharing: 2%
- Labor and Economic Opportunity: 2%
- Corrections: 4%
- Public Health: 1%
- Other Health and Human Services: 9%

TOTAL: $58.5 BILLION

Source: House Fiscal Agency
Budget Serves Primarily as a Pass-Through

11% of spending for state employee wages/benefits

FY2019 State of Michigan Spending Plan
$56.3 Billion

- Payments/Contracts 78%
- medical payments 32%
- educational payments 30%
- other contracts 9%
- other exp. 10%
- materials & equip. 1%
- capital exp. 0%
- state employee benefits 5%
- state employee wages 6%
- direct payments 5%
- revenue sharing 2%

Note: State constitution requires at least 49% of all state spending (ex. federal $) paid to local units of government.
K-12 Education Operating Funding
State revenues play largest role

Local operating millage revenue includes millages levied by school districts to support their foundation allowances and millages levied by intermediate school districts for operations, enhancement, special education, and vocational education. Local operating millage excludes millage levied for capital purposes, including debt and sinking funds. Dollars shown for local revenue are estimates.
Note:

School Aid Fund
- Mich. Const. (Art. IX, Sec. 11)
- Exclusively for K-12, higher education, and retirement

Constitutional Earmarking
- 75% of Sales Tax
- 60% of 4 cents
- 100% of 2 cents (Prop. A)
- 33% of Use Tax
- 100% of 2 cents (Prop. A)

Total - $6.4B (50% of total)
School Aid Fund Growth
Since FY2012 revenue growth has outpaced inflation

Adjusted for inflation, SAF revenue down 21% since FY2001
School Fiscal Health Improving

Fewest number of “high risk” districts

Note:
- Number of deficit districts way down
  - 15 in FY2019
  - 48 in FY2011
- Most of these are under Treasury’s enhanced oversight
Rainy Day Funds

Districts have built up their reserves since Great Recession

- Statewide – $2.4 billion in General Fund balances in FY2019
  - Up from $1.4 billion in FY2012
- District (median) – 14% of GF revenue or $1,500 per-pupil
  - Equivalent to about 25 school days
  - One-third of districts (250 of 768) have less than 10% of GF revenue in reserve
  - These are one-time resources
- Remember - schools don’t have access to additional property tax
Local Government Revenue Sharing

Constitutional payments guaranteed, statutory are not

FY2020 City, Village, Township Revenue Sharing Payments

- Constitutional $886.1
- Statutory $261.0
- Other CVTs $116.7
- Detroit $144.3

Note:
- Counties are expected to receive $226.5 million in FY2020

Source: House Fiscal Agency
State Revenue Sharing, FY1981-2020 (budgeted)

Source: Michigan Department of Treasury
Act 51 Funding for Local Roads

• Formula divides state tax dollars among
  • MDOT 39.1%
  • Counties 39.1%
  • Cities and Villages 21.8%

• We don’t know what impact will be, but traveling and gas purchases are down considerably

• 2019 report found that almost 700 local governments levy a property tax dedicated to roads to supplement state road funding

• Property tax revenue may be more stable than Act 51 funding, but local governments rely much more heavily on the funding from the state to maintain roads
Property Taxes: SEV and TV Percent Change from Previous Year

Source: Michigan Department of Treasury
Property Values in Michigan (in millions)

Source: Michigan Department of Treasury
Total State and Local Property Tax Revenue (in millions)

Source: Michigan Department of Treasury
City Income Taxes

- 24 of 276 cities levy – represent 15% of state population
- Revenues more cyclical than property taxes
- More than 25% of Michigan’s population has filed unemployment claims
- 2018 report: 56% of these cities’ tax revenue came from income taxes and 44% from property taxes
- Income tax cities could experience deep financial pain
Income and Property Tax Revenue Growth, FY1996-2017

Revenue Trends for Michigan City Income Tax Revenues

Source: Citizens Research Council of Michigan, Outline of the Michigan Tax System; U.S. Census Bureau, Household Income by State
Public Health (dis)Investment in Michigan

Recent increases after years of stagnant funding
Public Health Expenditures in Michigan, FY2003-2017
Essential Local Public Health Services, State Expenditures, FY2003-2017
Public Health Appropriations

Fiscal Years 2016-2020

- Small increases in recent fiscal years
- These gross public health expenditures remain less than 1 percent of the state budget (and represent just over 1 percent of GF/GP spending).
- Obvious need for increased pandemic monitoring (testing; contact tracing).
- Ongoing need for investment in surveillance and, more broadly, public health personnel/capacity.

Source: House Fiscal Agency
Still much we don’t know

• Do state economists see outlook the same as UM?
  • What will be decided at May 15 Consensus Revenue Estimating Conference?

• How will the CARES Act phase 3 funding for COVID-related expenses be allocated?

• Will there be phase 4 funding for state and local governments?

• How fast will the economy reopen?

• Will there be a second wave of the pandemic?
  • Will that lead to another stay-at-home order?
Citizens Research Council of Michigan

Publications are available at: www.crcmich.org
Blogs are at: www.crcmich.org/insights

Please support our work: www.crcmich.org/donate

Follow Us on Twitter: @crcmich

Become a Fan on Facebook: www.facebook.com/crcmich

Find us on LinkedIn: www.linkedin.com/company/citizens-research-council-of-michigan

Providing Independent, Nonpartisan Public Policy Research Since 1916