



CITIZENS RESEARCH COUNCIL OF MICHIGAN

Update on Economic and Revenue Outlook

Municipal Advisory Council of Michigan

Jeffrey Guilfoyle, President
Citizens Research Council of Michigan
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www.crcmich.org / jguilfoyle@crcmich.org



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- 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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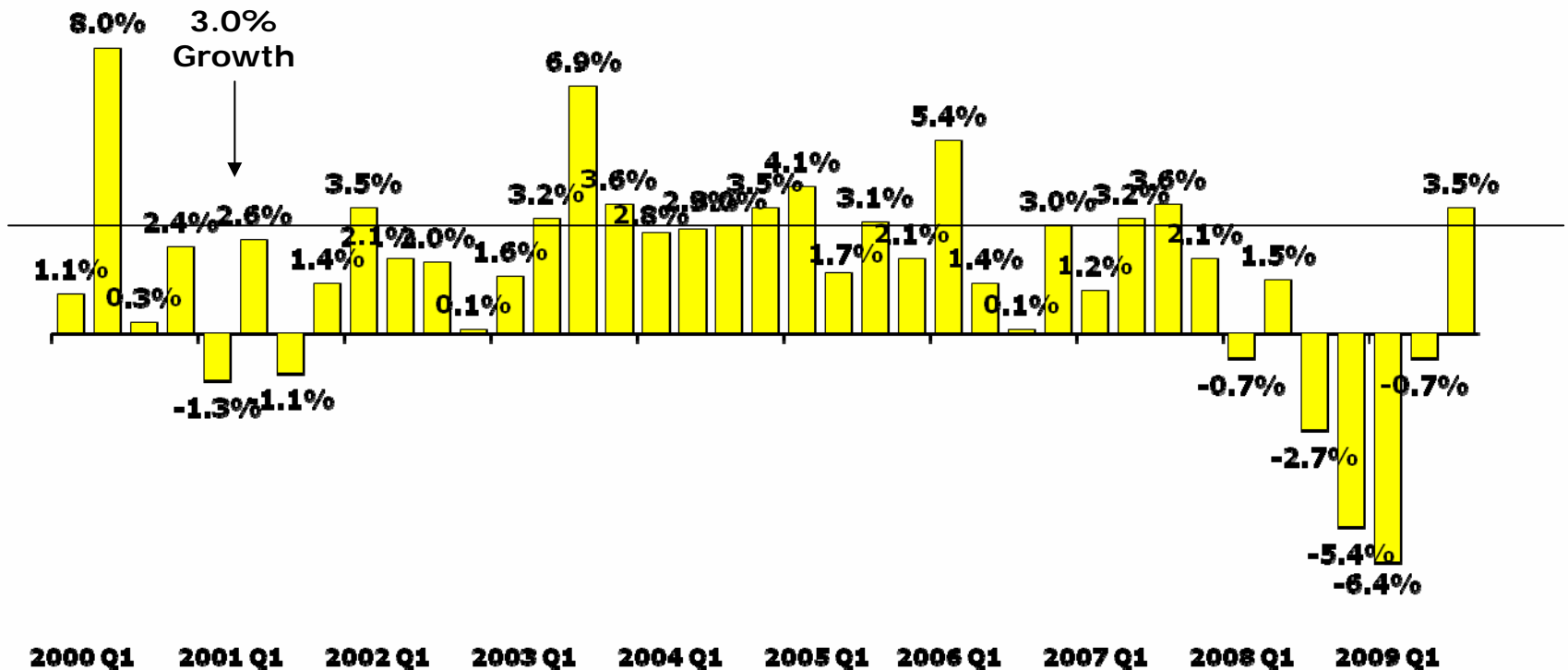
What is the State of the Economy?

- U.S. recession probably ended over the summer, but employment growth still several months off
- Michigan employment growth will trail U.S., but we could see growth towards the end of next year
- Recovery is tenuous and we could easily slip back into recession
- It could have been worse, we did not enter a depression, and Ford, GM, and Chrysler are still here



Recession Over?

Real GDP Growth

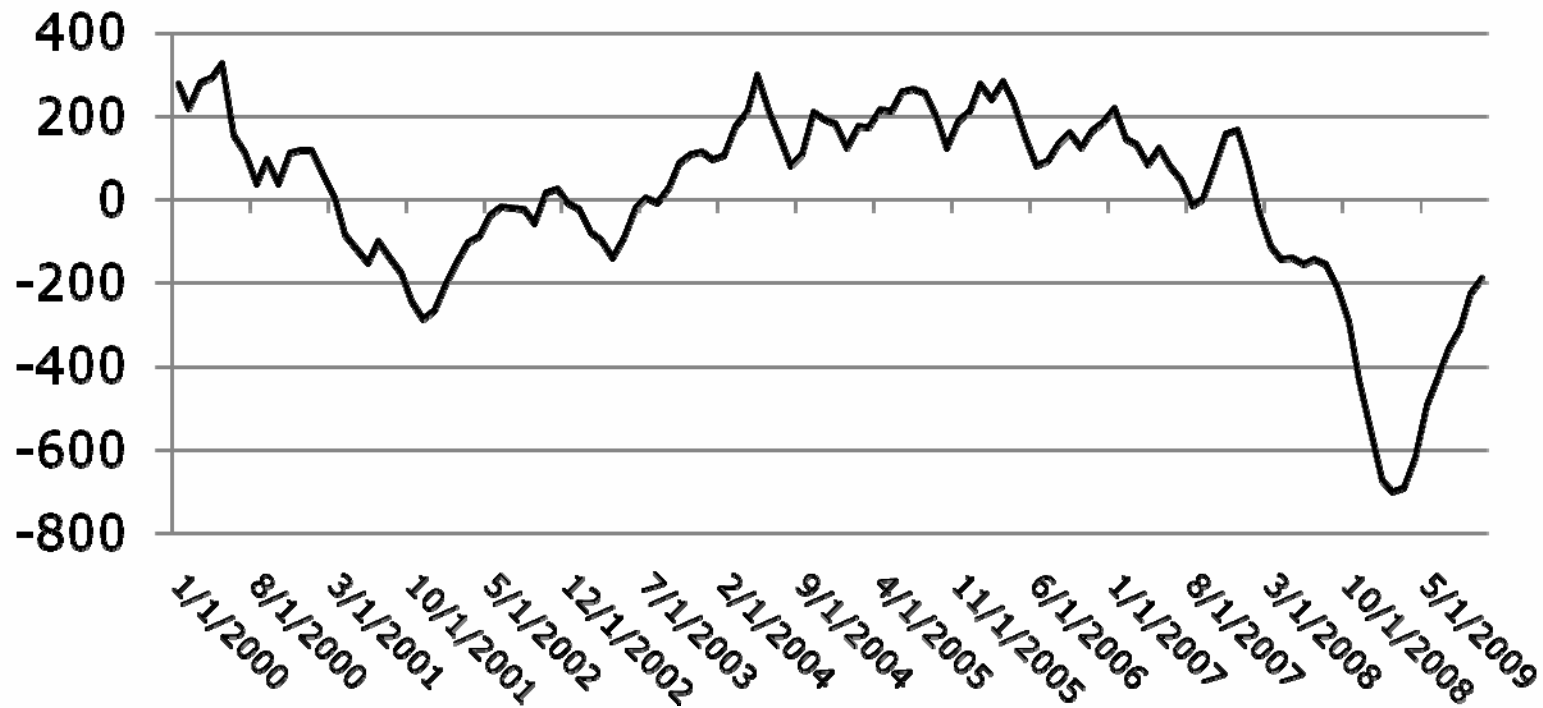


4 Figures are annualized percent change from preceding quarter in 2000 chained dollars.
Source: Bureau of Economic Analysis.



Employment Declines Were Massive But Are Abating

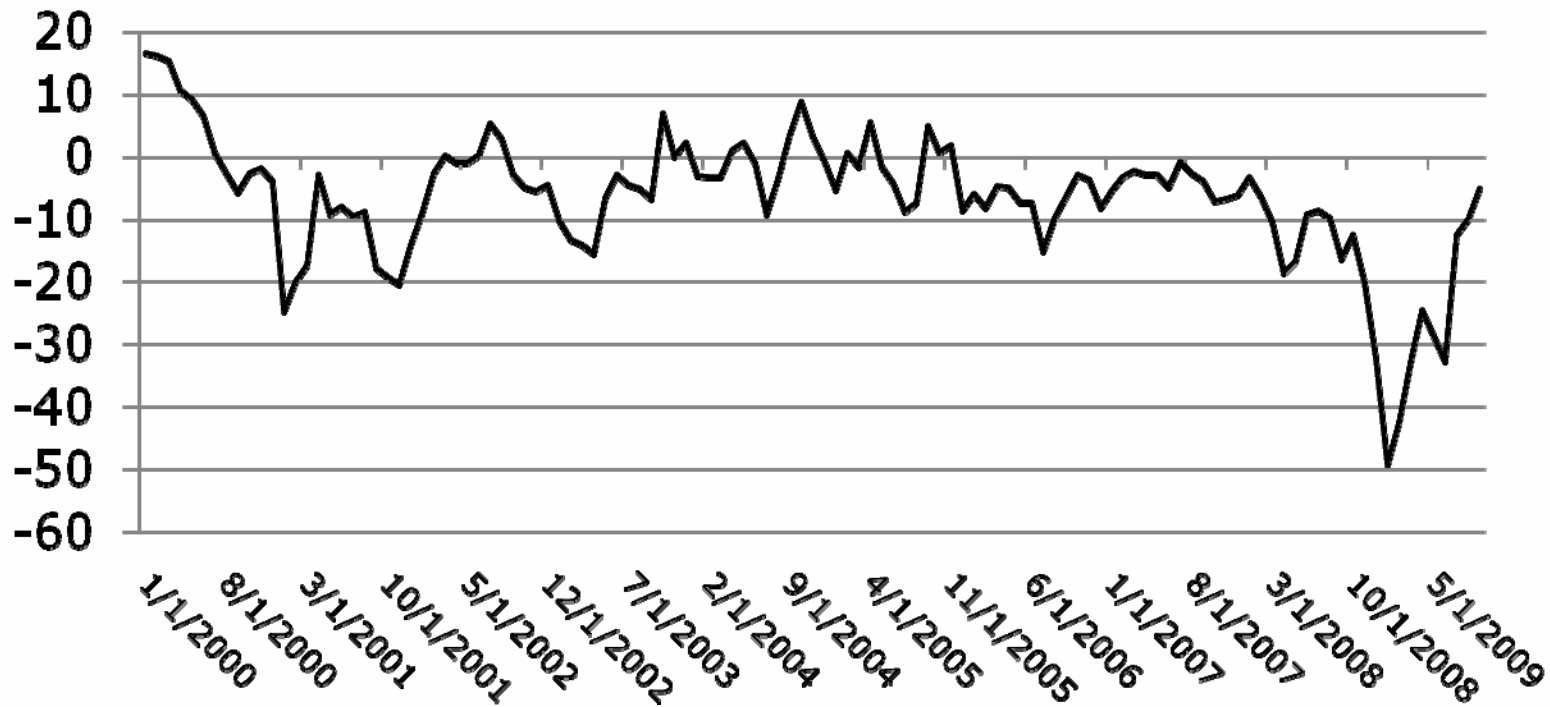
U.S. Employment Change
Month to Month (3 month average in thousands)





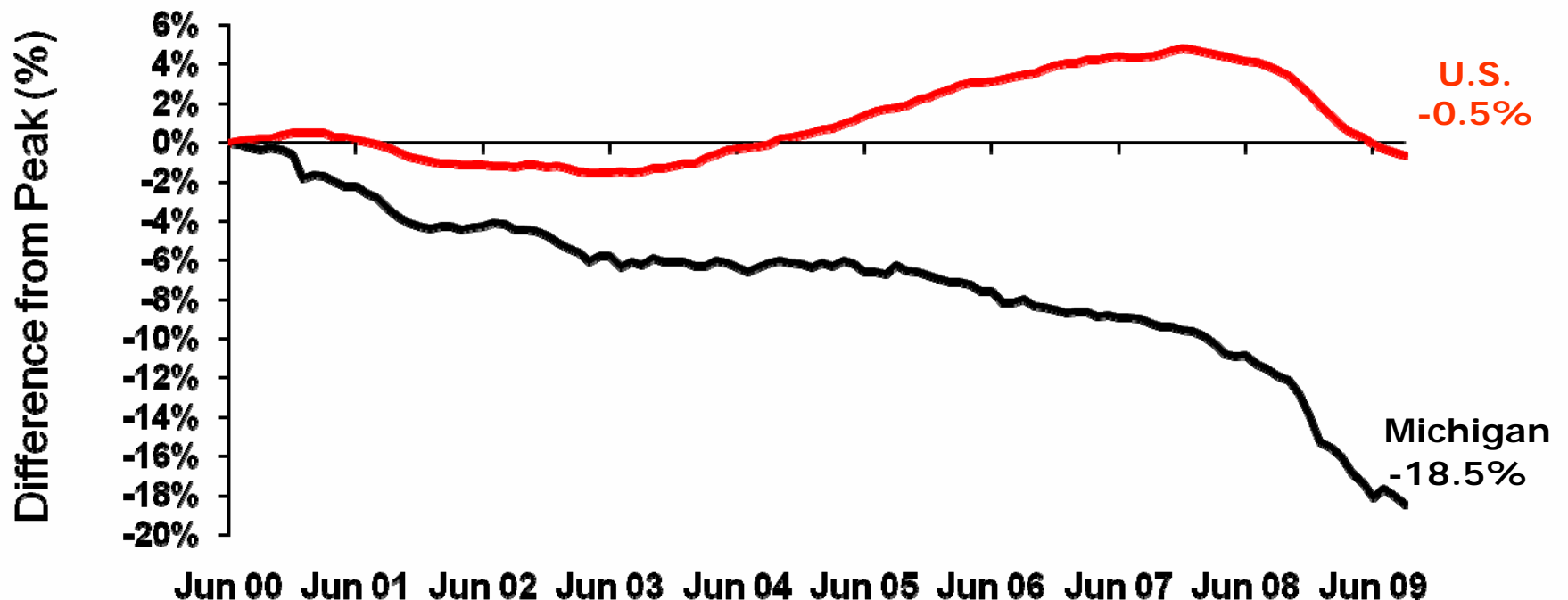
Michigan Employment Declines Are Also Abating

Michigan Employment Change
Month to Month (3 month average in thousands)





Michigan Has Now Lost 1 in 6 Jobs (with 35% of loss in last 12 months)

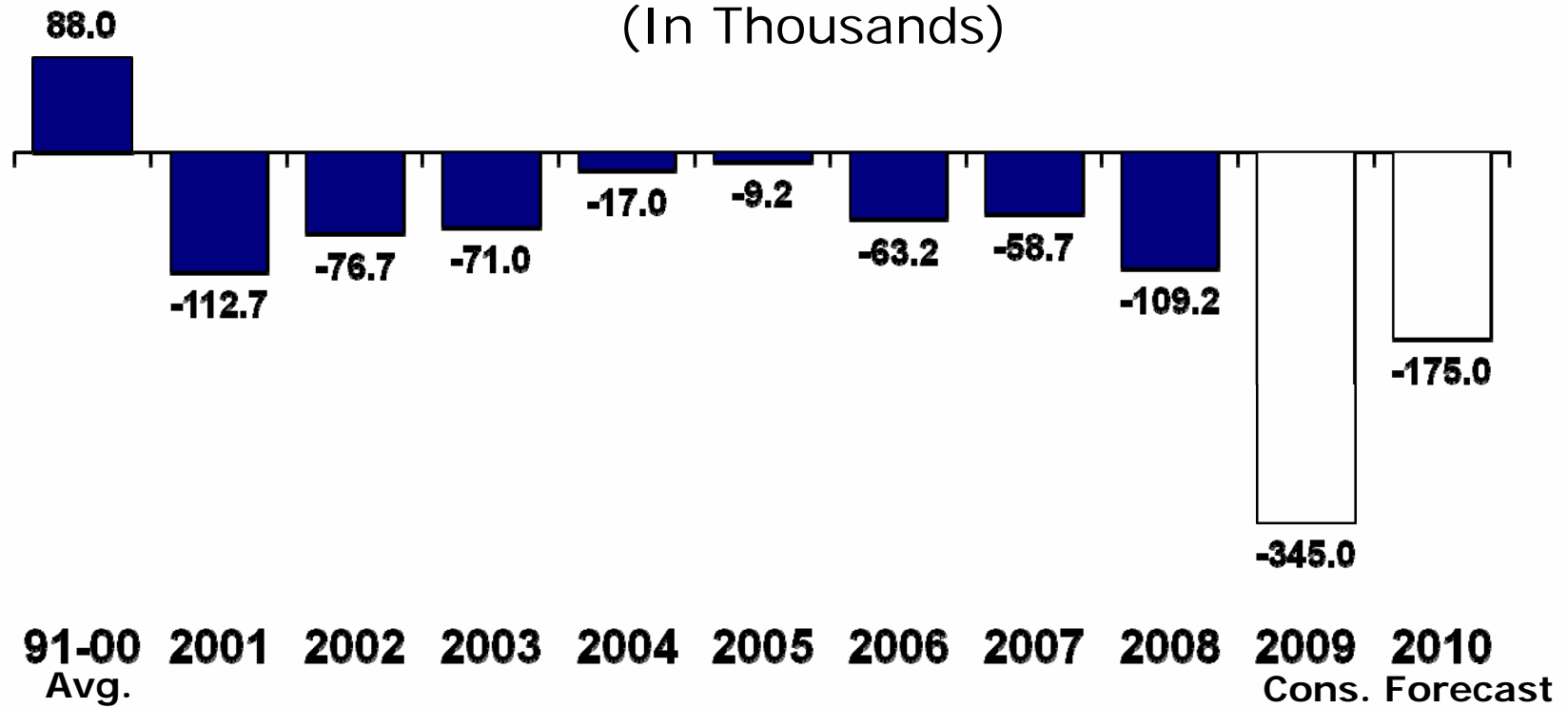


7 Note: Peak is calculated from Michigan's June 2000 Peak. Data through September 2009.
Source: Bureau of Labor Statistics



Consensus Forecast – Michigan Loses 1 Million Jobs

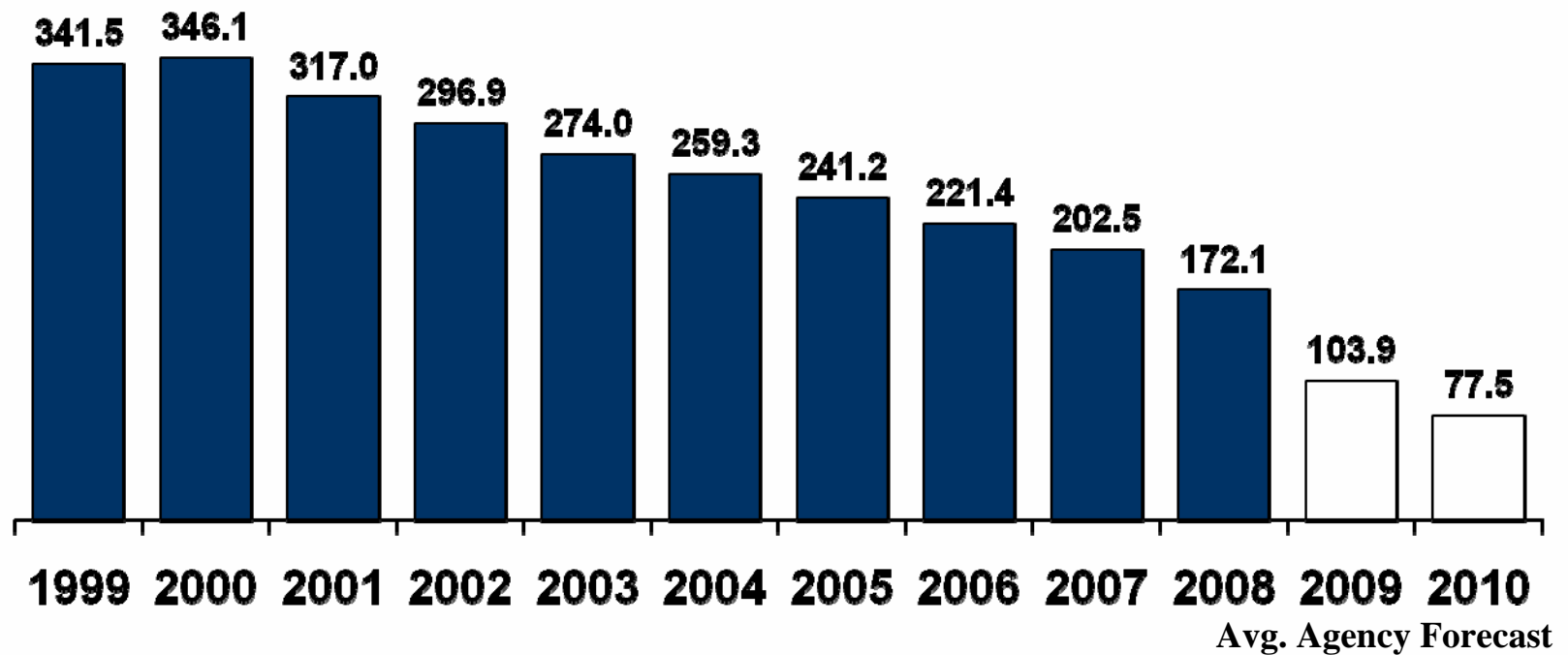
Michigan Wage and Salary Employment Y-O-Y Change
(In Thousands)





3 in 4 Auto Jobs Lost by 2010

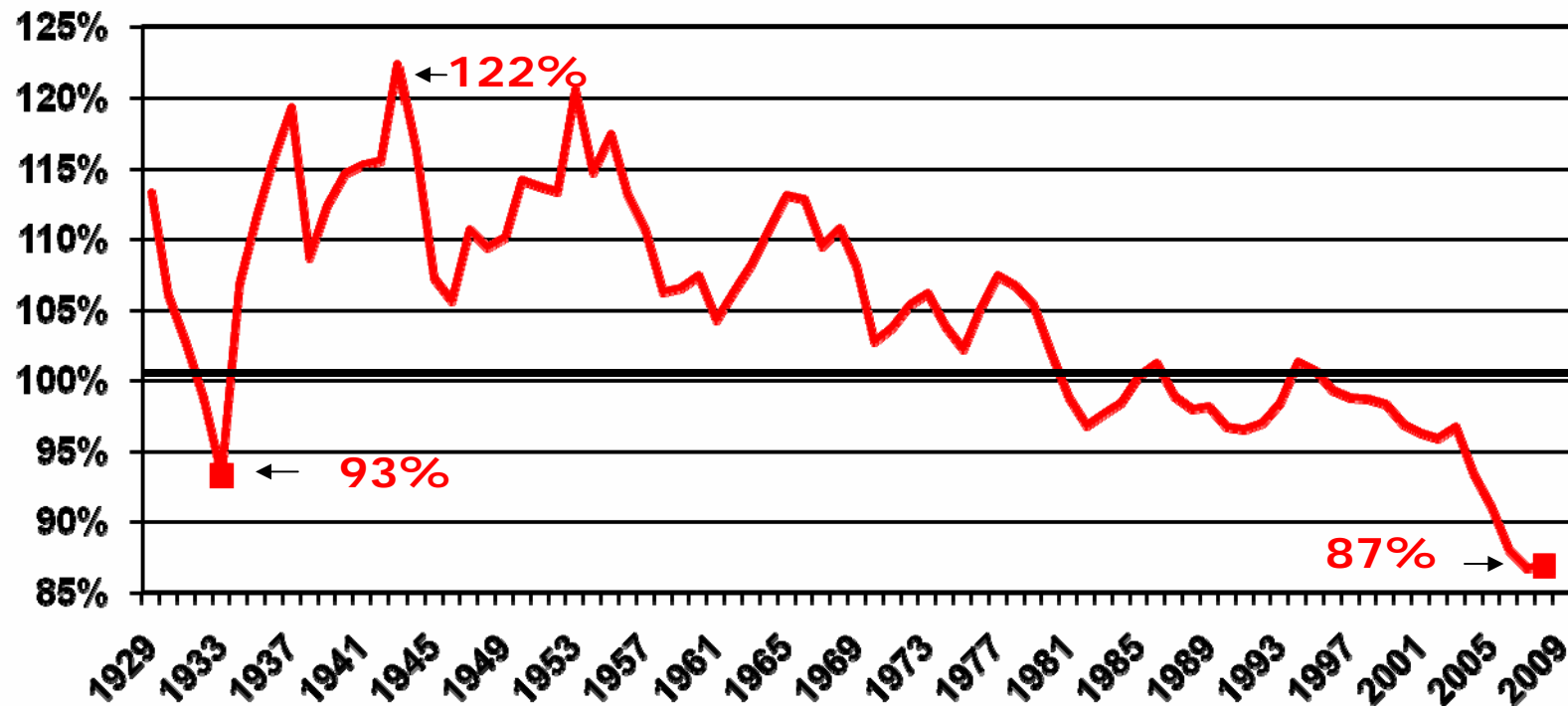
Michigan Transportation Equipment Employment
(In Thousands)





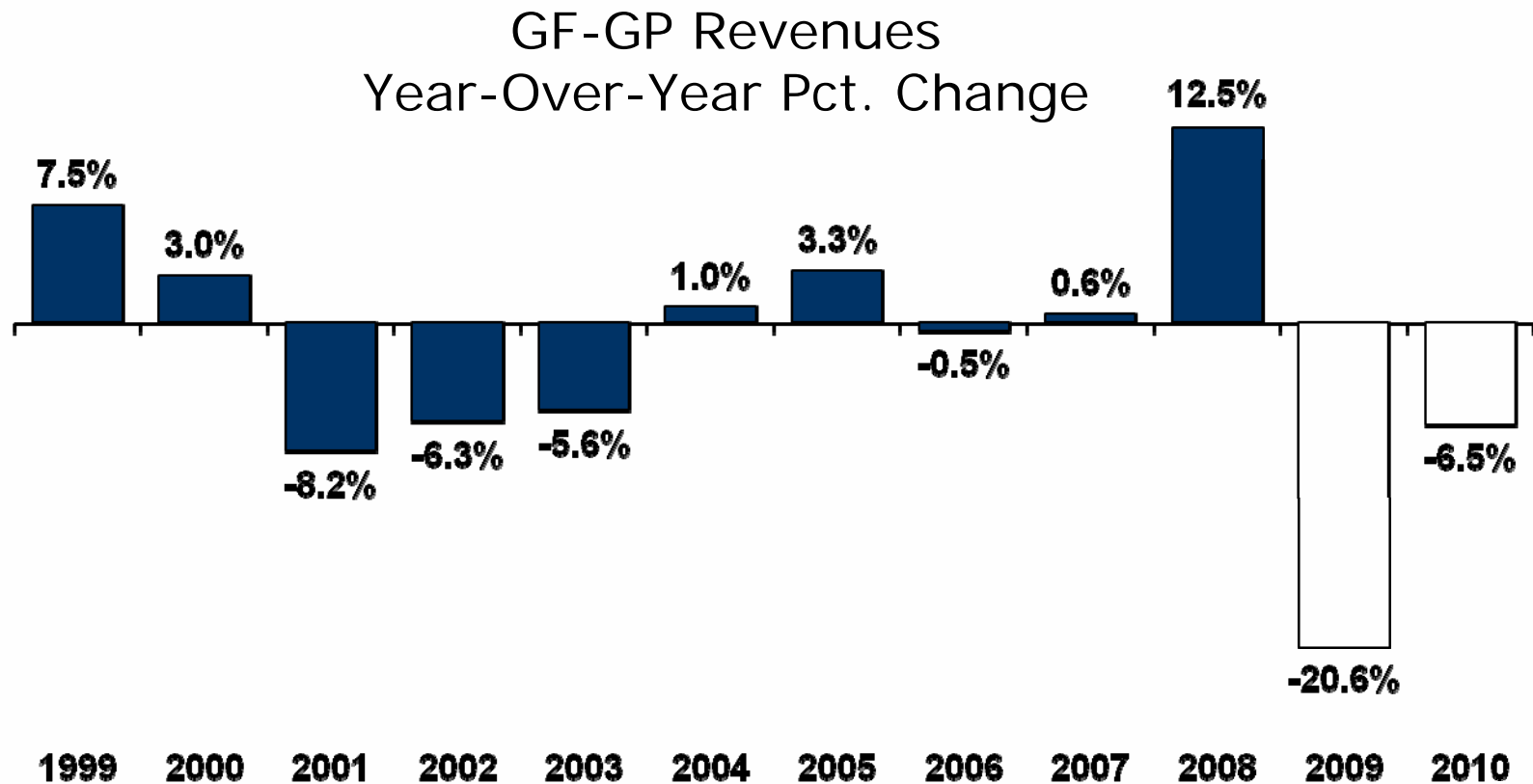
Michigan Personal Income Falling Relative to U.S.

Michigan per Capita Income as a Percent of U.S. Per Capita Income





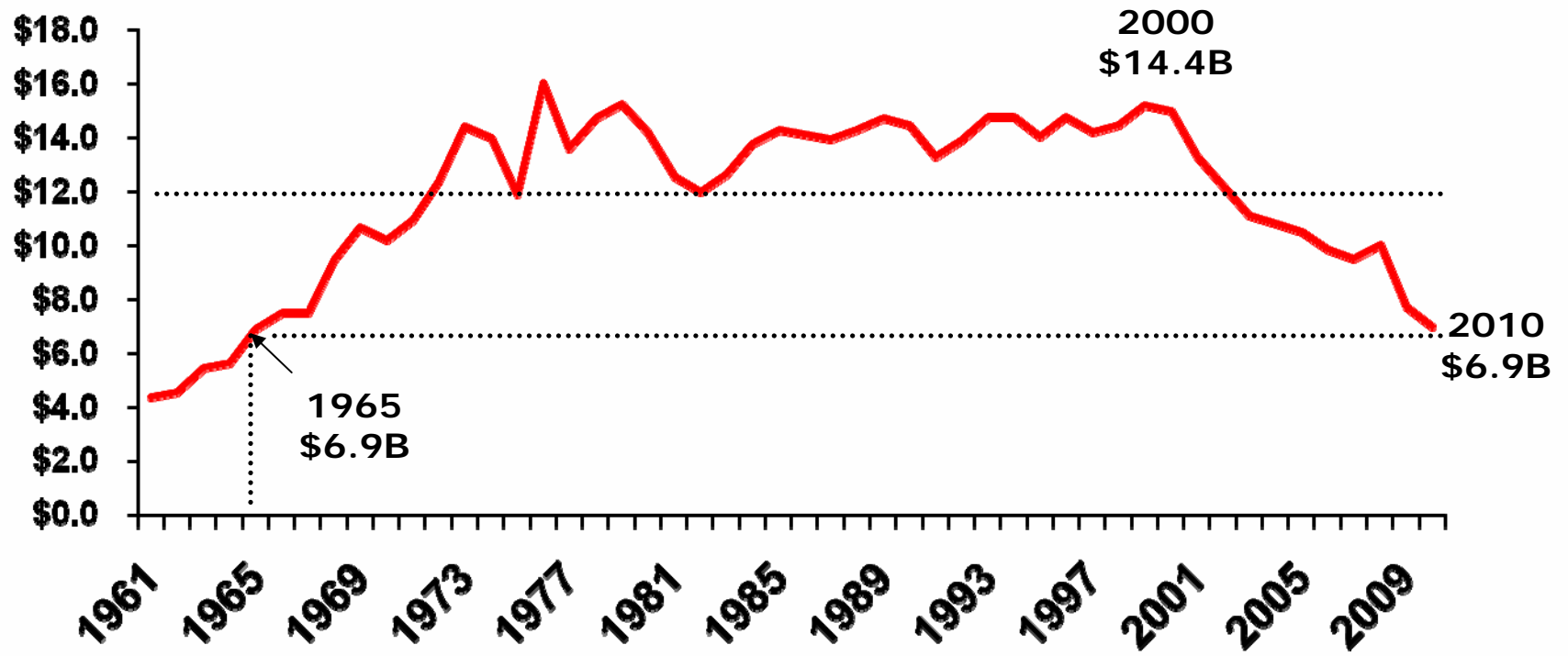
GF-GP Revenues Fall Off Table





Inflation Adjusted GF-GP at 1965 Level

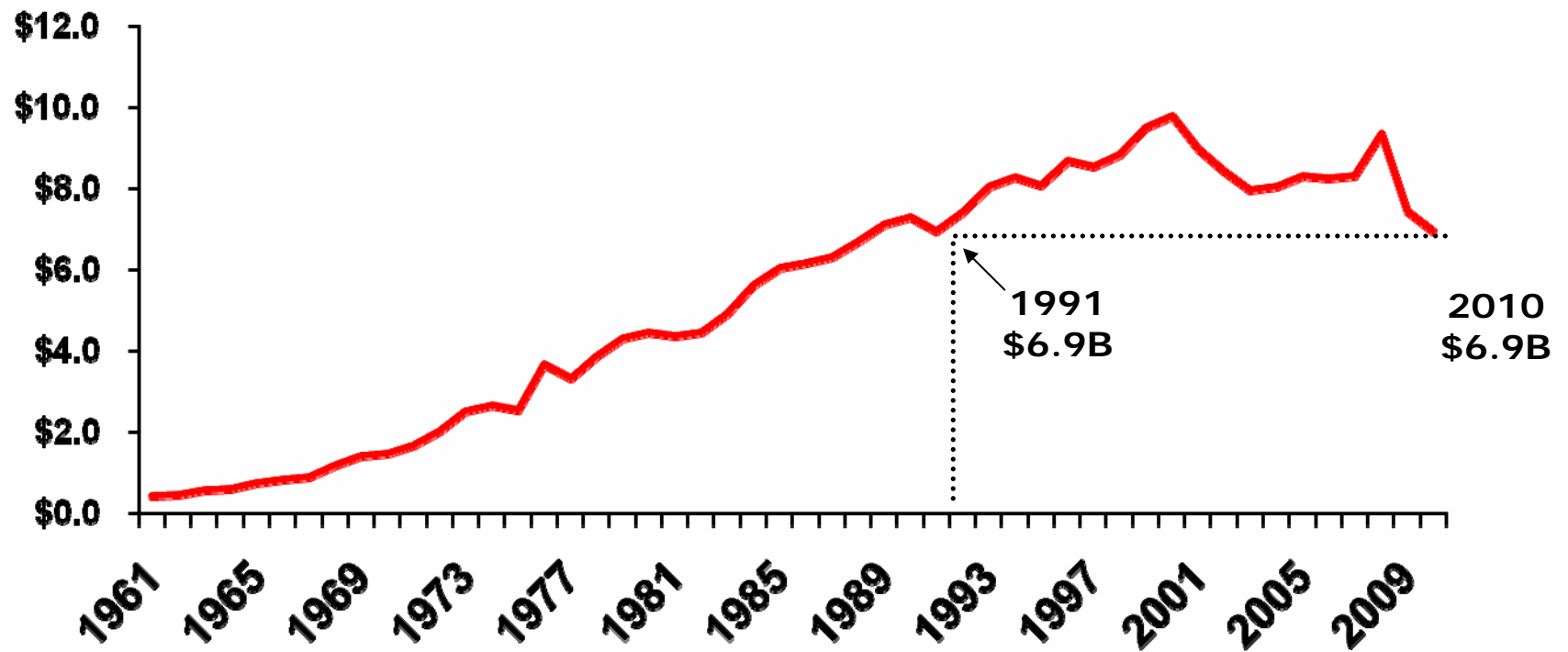
Billions of 2010\$





Nominal GF-GP Back at FY 91 Level

Billions of Dollars





State Budget Realities

- Balanced budget is a constitutional requirement
- Budget totals over \$48 billion, but
 - \$4 out of \$5 is restricted for transportation, education, health, etc.
 - \$1 out of \$5 is unrestricted (GF/GP)
- 80% of state funds spent outside of state government
- Only 11% spent on state employees

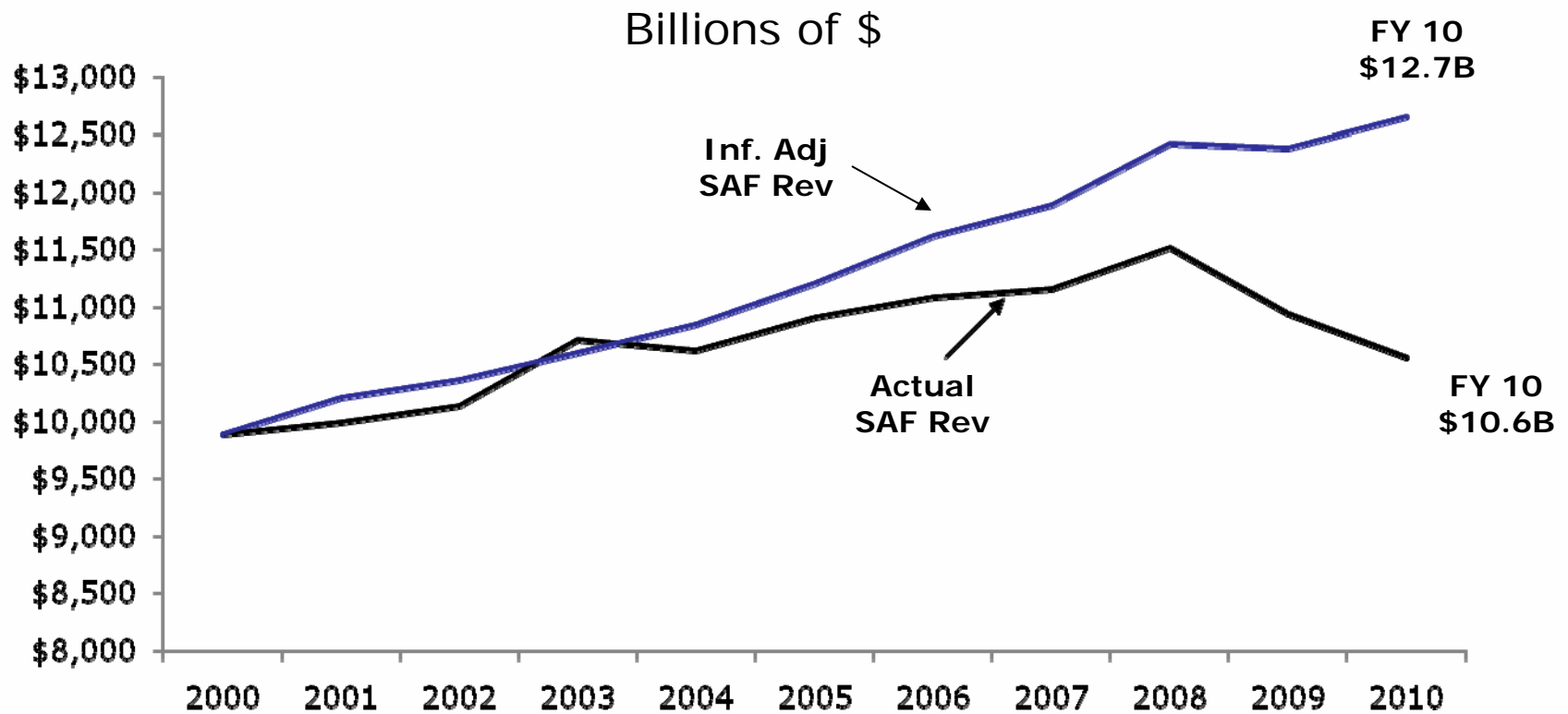


GF/GP Solutions: 2010

- Appropriations reductions of \$843 million
 - 11% cut to revenue sharing
 - 8% to Medicaid reimbursement
 - 5% corrections cut
 - Elimination of Michigan Promise Scholarship
- \$973 million of ARRA money used to balance the GF
- \$400 million of ARRA money will be left for FY 2011, but projected shortfall is still \$783 million after using the \$400 million



SAF Revenues Trail Inflation By \$2 Billion Since 2000





SAF Budget Balancing Measures

- FY 2010 SAF revenues projected to be \$1.0 billion below FY 2008
- Enacted FY 10 Cuts:
 - \$165 per pupil (\$263M)
 - ISD reduction (\$16M)
 - 20j veto (\$52M)
 - Other Cuts (\$35M)
- Proposed proration \$127 per pupil (\$212M)
- Stimulus money in budget:
 - FY 09 \$600M
 - FY 10 \$450M
 - FY 11 \$184M
- FY 11 close to balanced with these cuts, 3% revenue growth and \$184M of ARRA



Worst is Still Coming for Locals

- Average statewide TV has held up well until now
 - FY 2008 average TV up 1.4%
 - FY 2009 should be close to flat in part due to high inflation multiplier
- FY 2010 will be painful
 - No one has a SEV/TV gap anymore
 - Inflation adjuster will be 0%
 - Home prices declines will go straight to TV
 - Statewide probably down more than 6%
 - Wayne Co. predicting 9% decline; Macomb 10%; Oakland 13%



Conclusion

- Recession may be over and the worst is past for the private sector
- Michigan has experienced massive job losses with 1 in 6 jobs lost since 2000 (and 35% of this in last 12 months)
- The budget pain is just starting
 - Many cuts have been enacted but not yet felt
 - GF will still be over \$700 million short in FY 11
 - Local government shortfalls in 2010 will be very difficult to manage



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Citizens Research Council of Michigan
38777 Six Mile Road
Livonia, MI 48152

(734) 542-8001

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