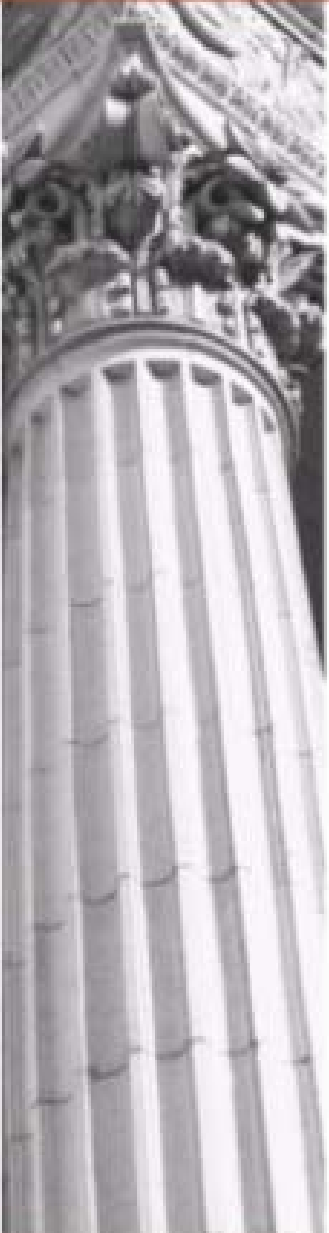




CITIZENS RESEARCH COUNCIL OF MICHIGAN



# **Michigan Economic and State Budget Update and Outlook**

**Presented to  
Council of Michigan Foundations**

**November 17 and 19, 2009  
Webinars**



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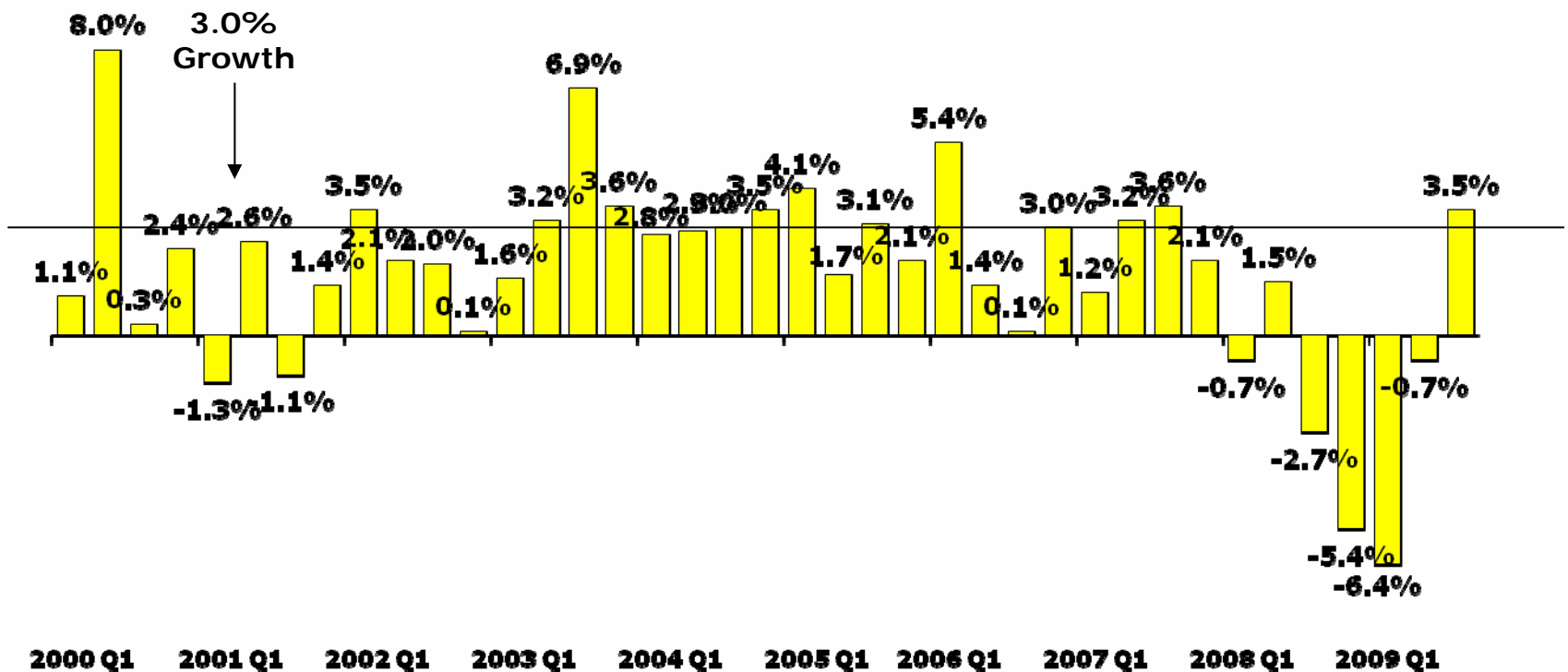
## What is the State of the Economy?

- 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

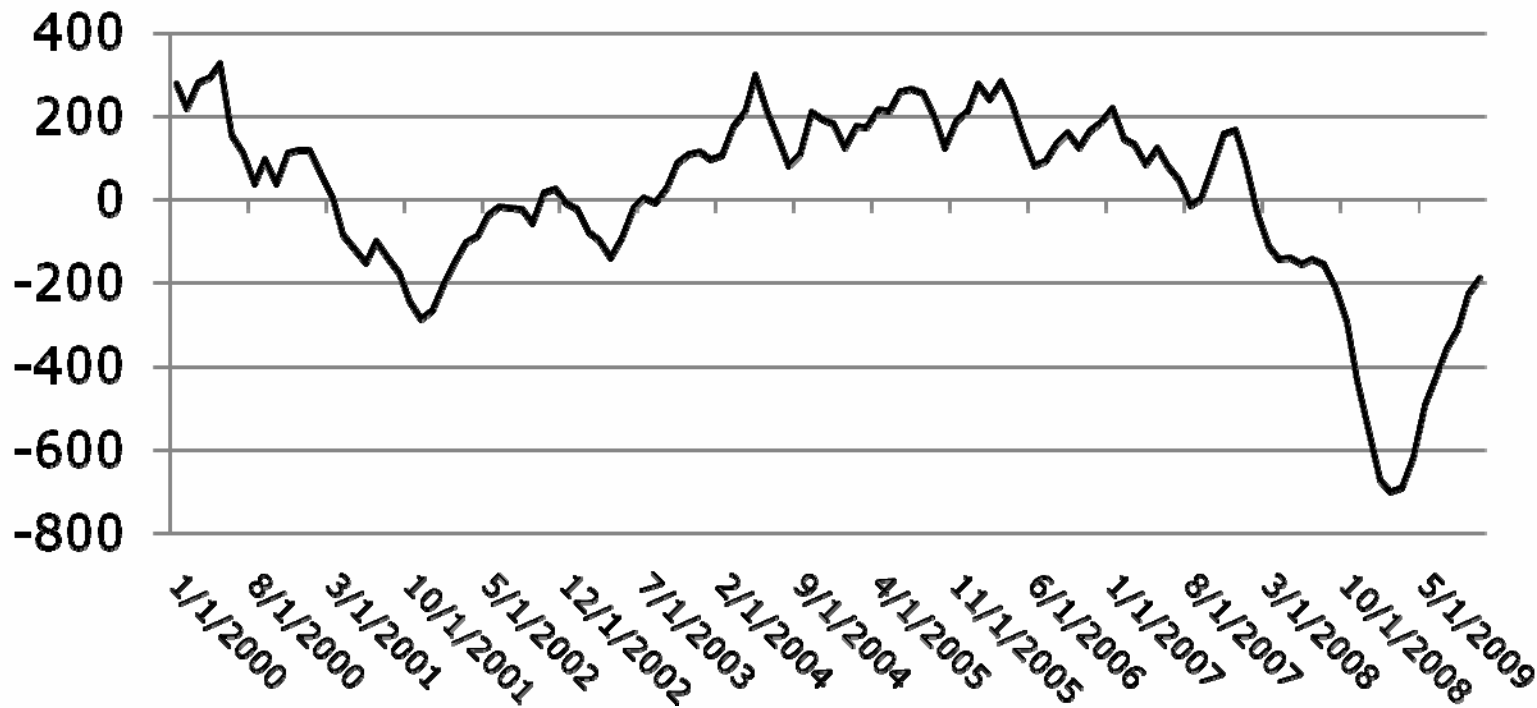


4 Figures are annualized percent change from preceding quarter in 2000 chained dollars.  
Source: Bureau of Economic Analysis.



# Employment Declines Were Massive But Are Abating

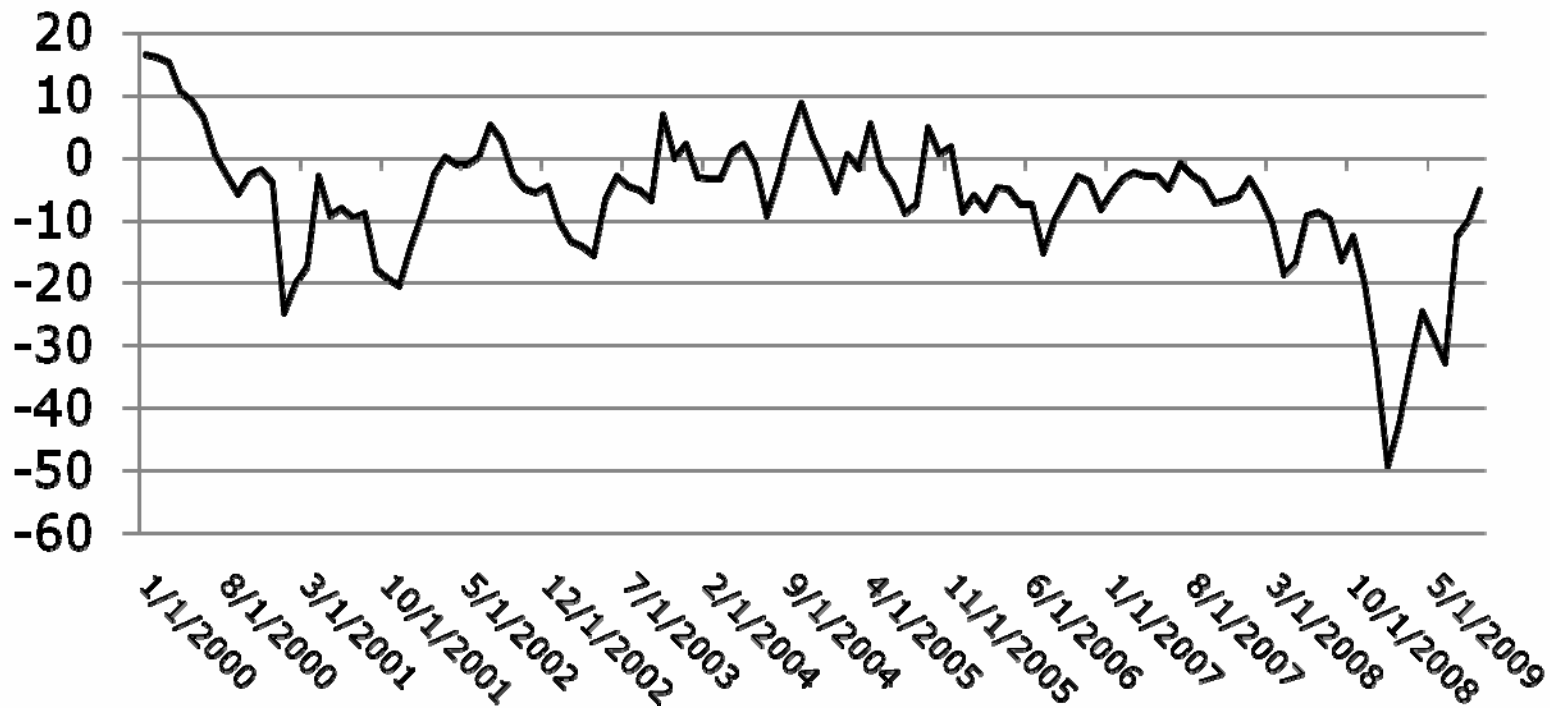
U.S. Employment Change  
Month to Month (3 month average in thousands)





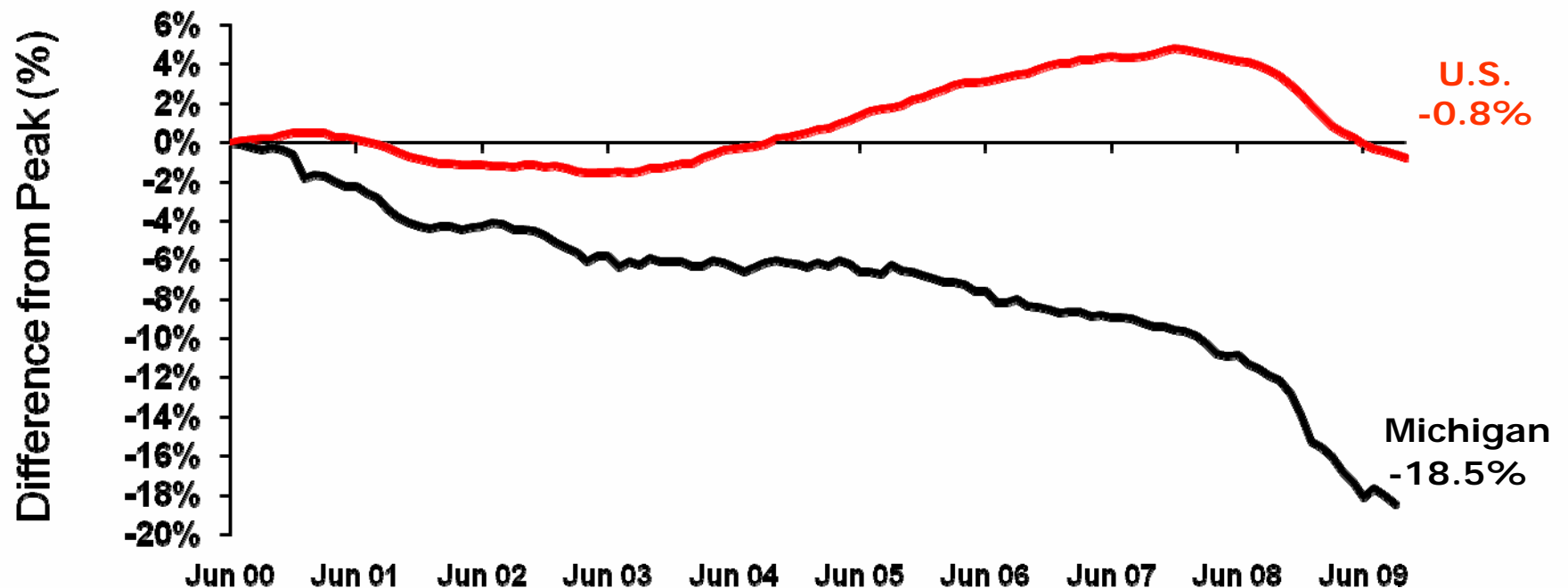
# Michigan Employment Declines Are Also Abating

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)

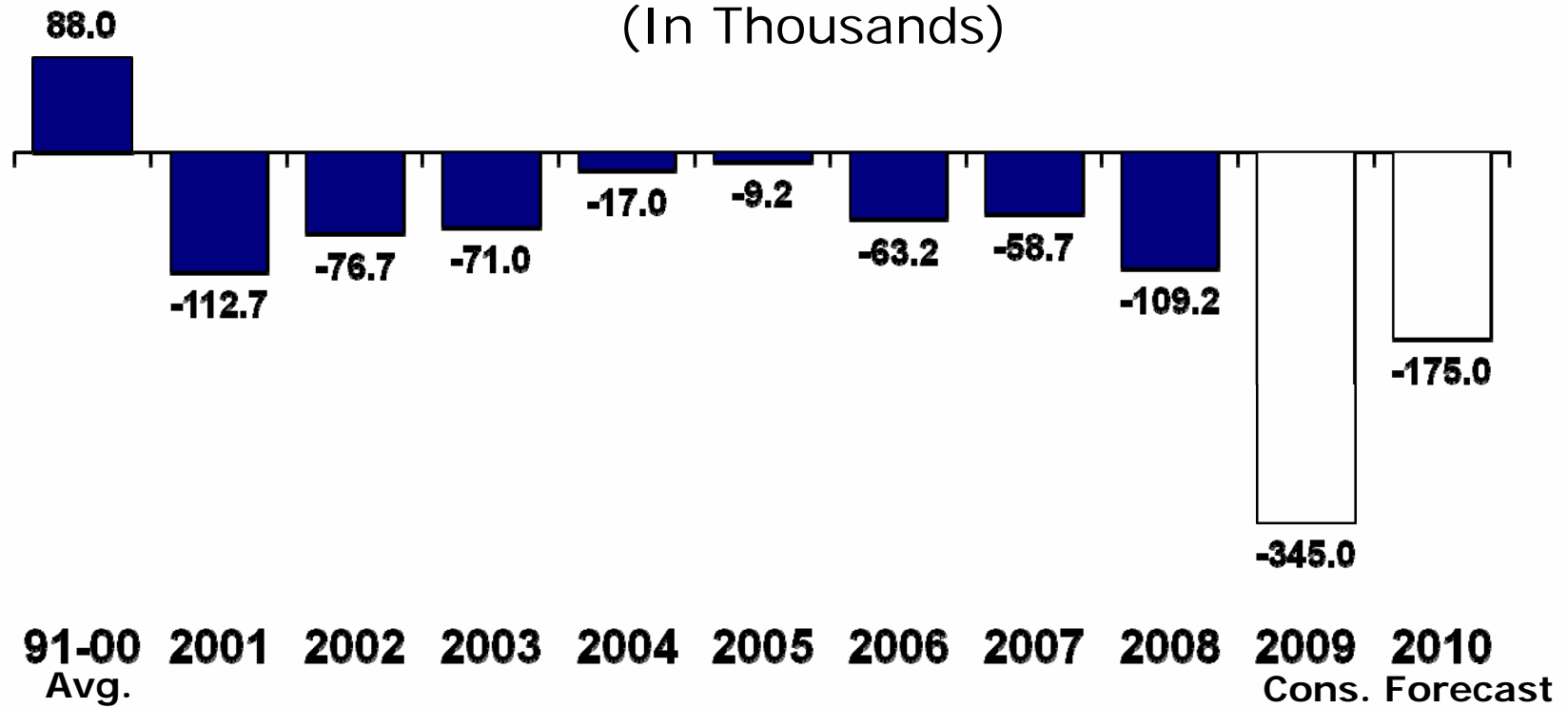


- 7 Note: Peak is calculated from Michigan's June 2000 Peak. Data through August 2009.  
Source: Bureau of Labor Statistics



# Consensus Forecast – Michigan Loses 1 Million Jobs

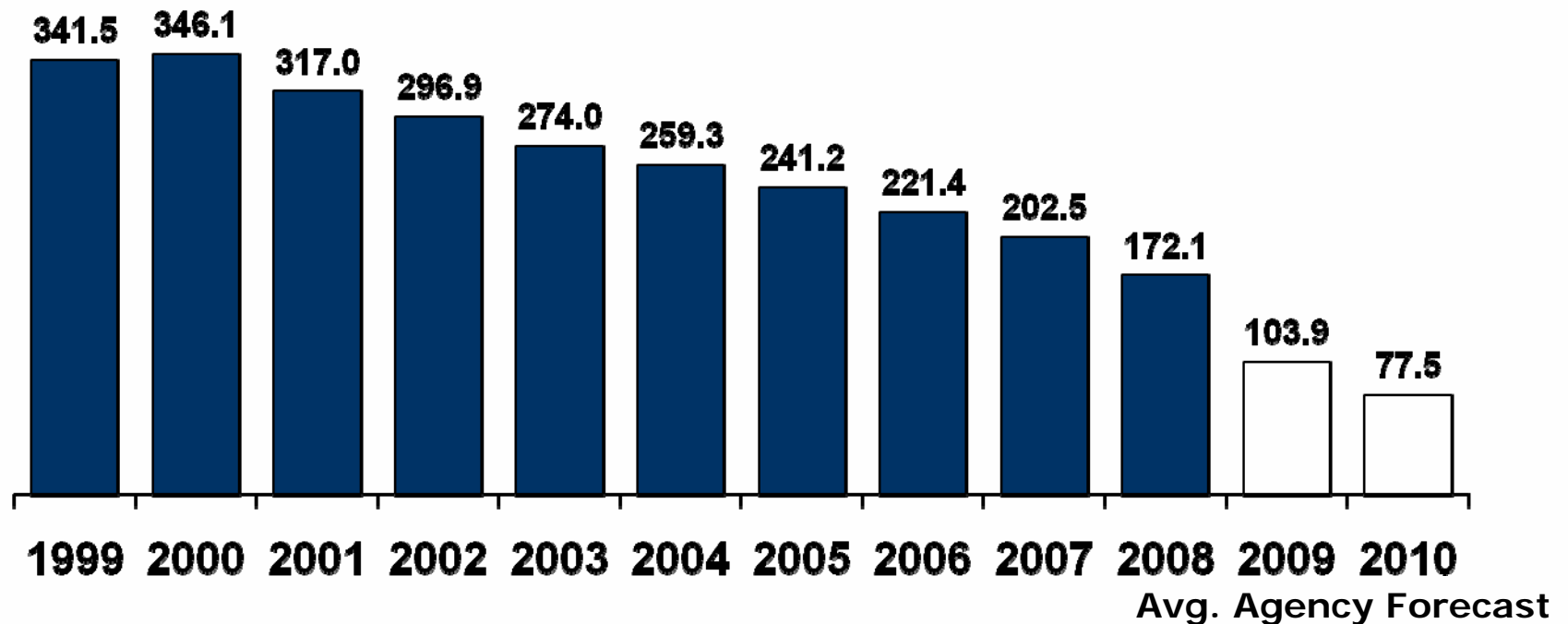
Michigan Wage and Salary Employment Y-O-Y Change  
(In Thousands)





## 3 in 4 Auto Jobs Lost by 2010

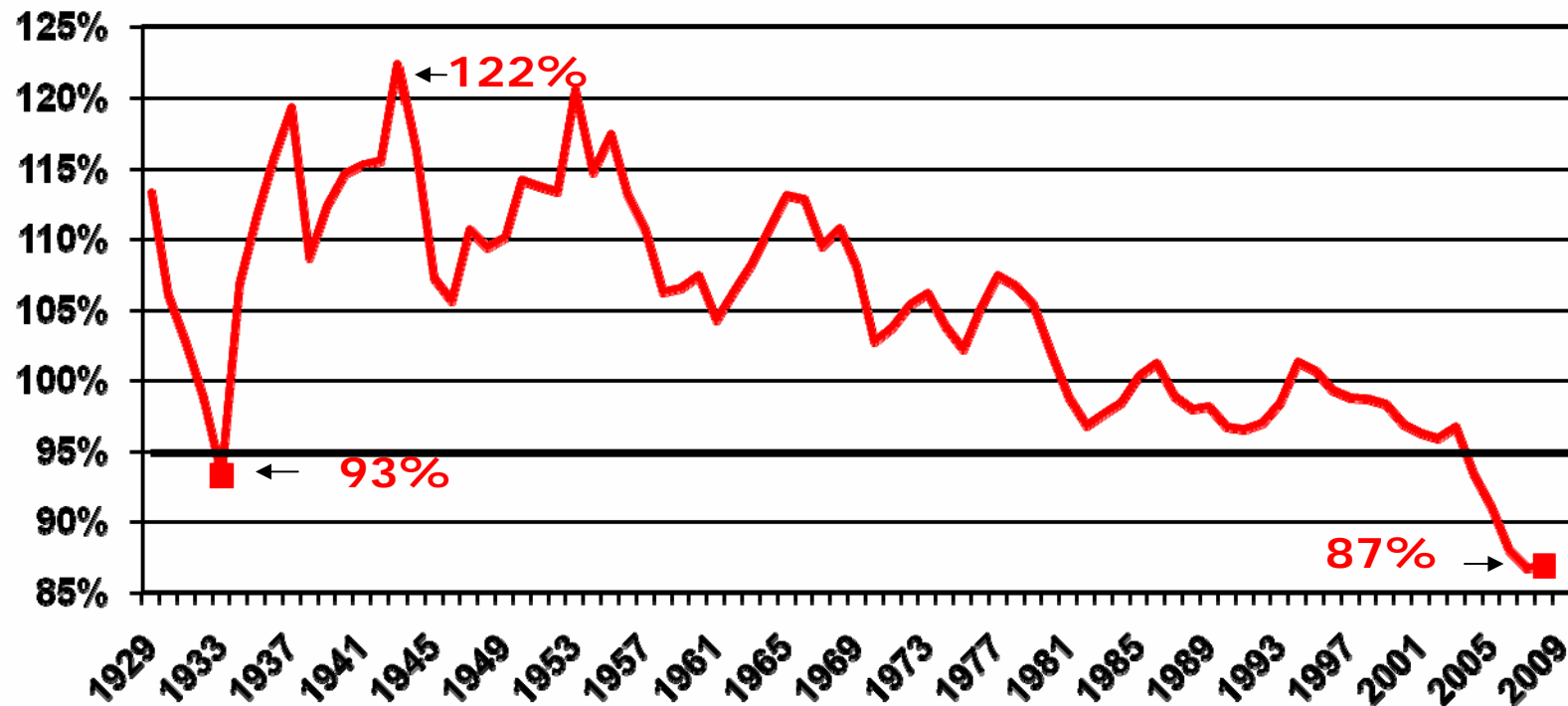
Michigan Transportation Equipment Employment  
(In Thousands)





# Michigan Personal Income Falling Relative to U.S.

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





## The Budget Story Has Not Changed . .

- The State of Michigan has dual structural deficits affecting:
  - Public K-12 education
  - General Fund financed programs
- Its causes have both spending and revenue components
- We will **not** grow out of it
- Significant spending cuts and/or tax increases will be required

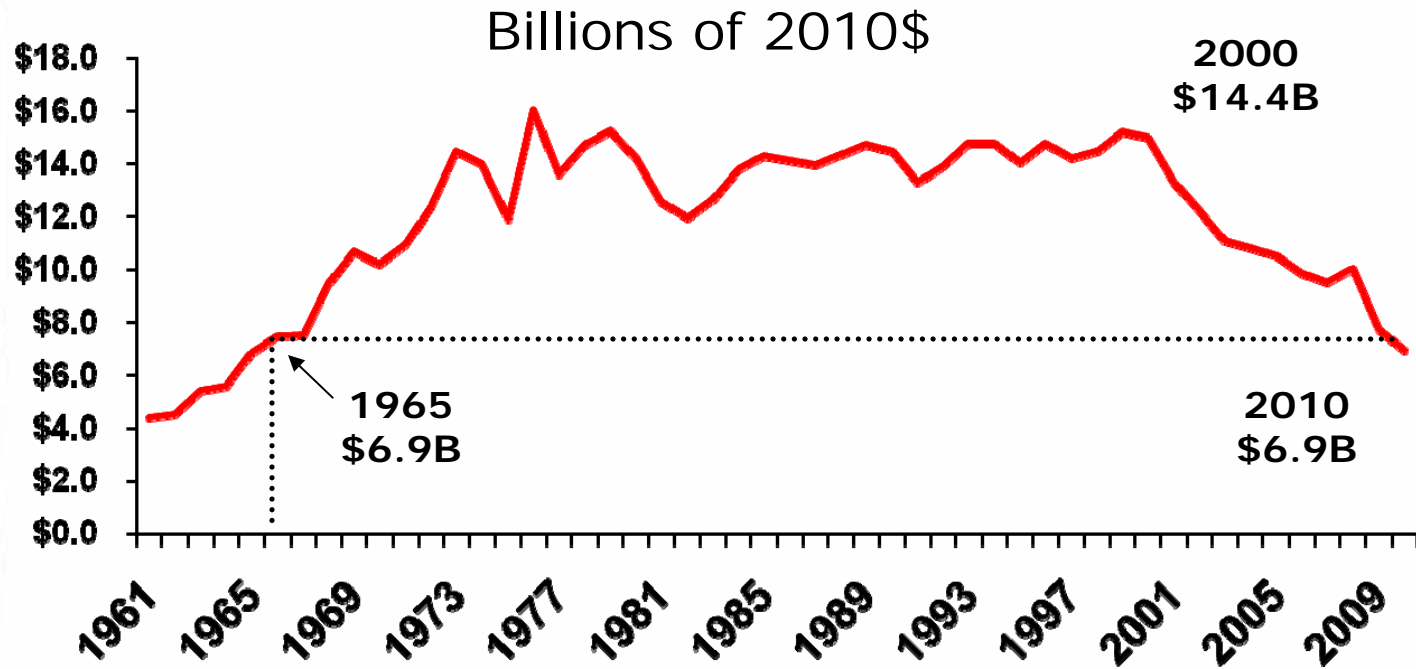


## But There is a New Chapter

- National recession – severe
  - Consumption
  - Business spending
  - Homebuilding
- Michigan's budget unprepared to deal with current recession on its own
  - Exhausted reserves
  - Tax increases of 2007
- Must correct for two problems simultaneously
  - Structural deficits
  - Cyclical deficits
  - Each problem requires specific set of tools



## Michigan's Discretionary Budget *GF-GP at 1965 Level*



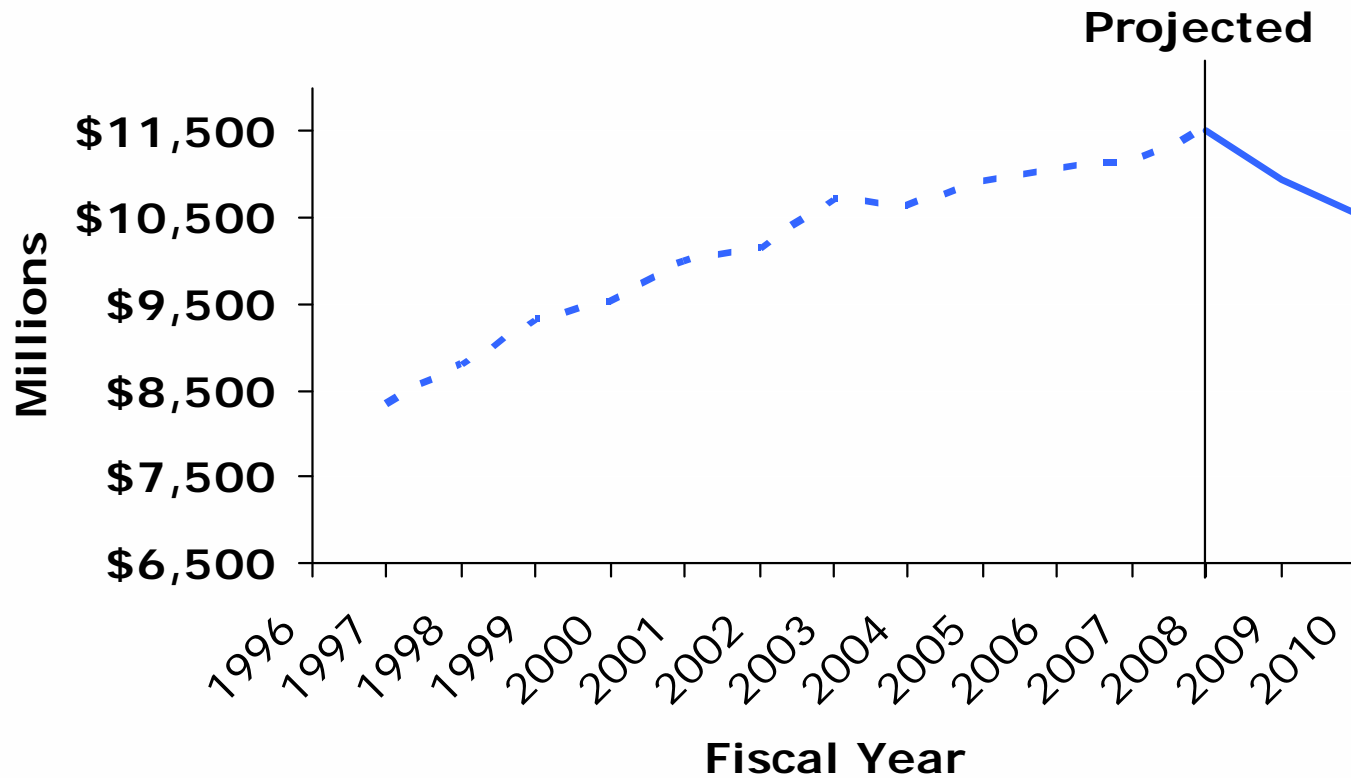
Note: GF-GP figures are presented on a Consensus basis and adjusted for inflation to 2010 dollars using the state and local government price deflator. 2009 and 2010 are estimates.



## First Two-Year Decline

*SAF provides Two-Thirds of K-12 Revenue*

SAF On-Going Revenues



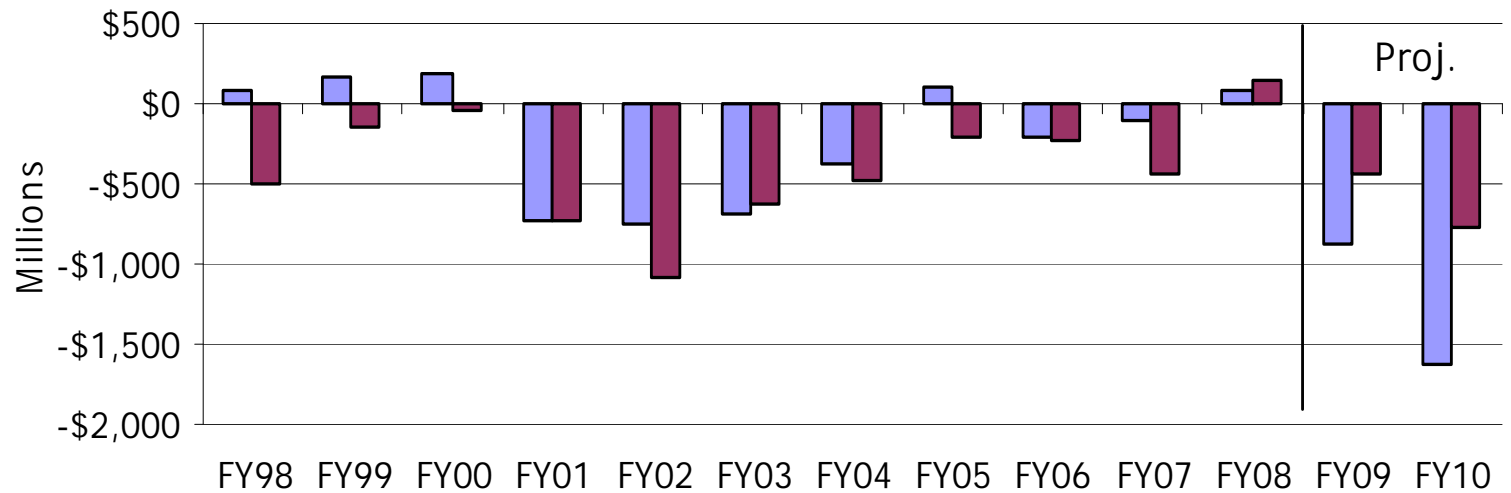
Source: Michigan Department of Treasury



# Persistent Deficits

## *Michigan's Structural Deficit Problem*

GF/GP and SAF Operating Deficits



source: Senate Fiscal Agency

■ GF/GP ■ SAF



# May Revenue Revisions

## *Severity of Recession Apparent*

	FY 2009			FY 2010		
	Jan Cons.	May Cons	Change	Jan Cons.	May Cons	Change
<b>GF-GP</b>	\$8,306.1	\$7,435.3	(\$870.8)	\$7,934.5	\$6,949.7	(\$984.8)
<b>SAF</b>	\$11,368.7	\$10,943.7	(\$425.0)	\$11,295.8	\$10,563.0	(\$732.8)
<b>Total</b>	\$19,674.8	\$18,379.0	(\$1,295.8)	\$19,230.3	\$17,512.7	(\$1,717.6)
<b>Growth</b>						
<b>GF-GP</b>	-11.3%	-20.6%		-4.5%	-6.5%	
<b>SAF</b>	-1.3%	-4.9%		-0.6%	-3.5%	
<b>Total</b>	-5.7%	-11.9%		-2.3%	-2.8%	



## FY2009 Problem Magnified

*\$1.2B Shortfall With Less than Five Months*

### FY2009 General Fund Budget (millions)

	<u>Jan</u>	<u>May</u>	<u>Diff</u>
Beginning Balance	\$ 458	\$ 458	
Revenues	\$ 8,945	\$ 8,196	\$ (749)
Spending			
Initial Approps.	\$ 9,701	\$ 9,701	
Supplemental Approps.	\$ (20)	\$ 268	
Exec Order Cuts	\$ (134)	\$ (134)	
Proj. Spending	\$ 9,547	\$ 9,835	\$ 288
<b>Shortfall</b>	<b>\$ (144)</b>	<b>\$ (1,181)</b>	

Source: Senate Fiscal Agency, 7/09



## FY2009 Problem Magnified

### *\$429M Shortfall With Less than One Month*

	2009 SAF Budget (millions)		
	<u>Jan</u>	<u>May</u>	<u>Diff</u>
Beginning Balance	\$ 247	\$ 247	
Revenues			
Dedicated SAF	\$ 11,369	\$ 10,944	\$ (425)
GF Grant	\$ 41	\$ 78	\$ 37
Federal	\$ 1,562	\$ 1,562	
Total	\$ 13,219	\$ 12,831	\$ (388)
Proj. Spending	\$ 13,257	\$ 13,260	\$ 3
<b>Shortfall</b>	<b>\$ (38)</b>	<b>\$ (429)</b>	

Source: Senate Fiscal Agency, 7/09



## Achieving Budget Balance

### *FY2009 Solutions*

#### *General Fund Budget*

- One-quarter (~\$300 M): spending reductions
  - Employee layoffs and furloughs
  - Medicaid reimbursement rate reduction/eliminate optional services
  - Cut revenue sharing to locals
  - Some areas protected per ARRA
- Three-quarters (~\$900 M): federal recovery funding (ARRA)
  - \$300M completely discretionary
  - Remainder from Medicaid match rate increase - states have a significant amount of flexibility

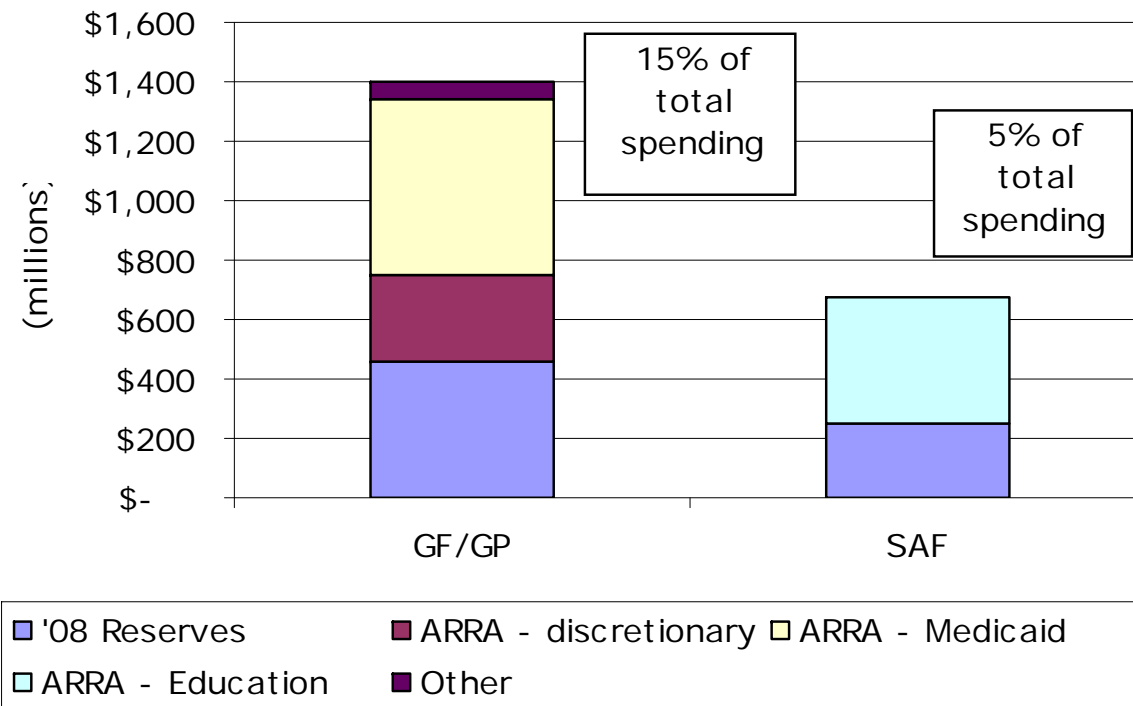
#### *School Aid Budget*

- Use of \$650 M in stimulus



## FY2009 Budgets "Balanced" *Heavy Reliance on Non-Recurring Actions*

FY09 Budget: Non-Recurring Resources Used





## What the Deficit Looked Like?

*\$1.8B Hole Identified*

### FY2010 General Fund Budget (millions)

Revenues	\$	7,700
Spending		
Gov. Rec.	\$	9,460
Medicaid Caseload Adj.	\$	151
Human Srvcs. Adj.	\$	(63)
Proj. Spending	\$	9,548
<b>Shortfall</b>	<b>\$</b>	<b>(1,848)</b>

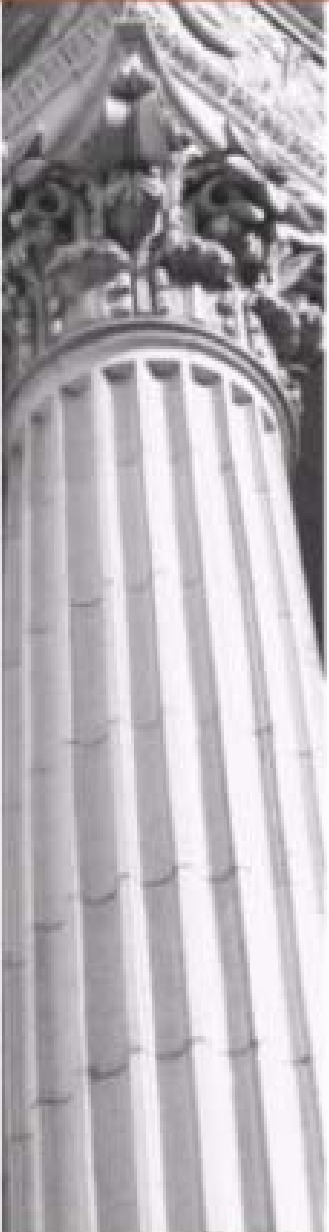


## FY2010 GF-GP Budget Solutions

*Spending Cuts and Stimulus Rule the Day*

<b>Solutions</b>	<b>(millions)</b>	
General Fund cuts	\$ 497	24%
Restricted Fund cuts	\$ 347	17%
ARRA - Medicaid	\$ 973	46%
ARRA - universities	\$ 68	3%
ARRA - FY2009 balance	\$ 209	10%
Balance	\$ 246	

Source: Senate Fiscal Agency, CRC calculations



## Spending Cuts Widespread

- Medicaid provider rates
- Assistance to local governments
- Scholarships to university students
- State employee concessions/layoffs
- Average of -8.4% cut (GF-GP) across all state departments
  - Some larger than others
  - Some protected from cuts per ARRA



## What the Deficit Looked Like?

*\$1B Hole Identified*

### FY2010 SAF Balance Sheet (millions)

Revenues		<u>May</u>
Dedicated SAF	\$	10,563
GF Grant	\$	32
Federal	\$	1,562
Total	\$	12,157
Baseline Spending	\$	13,157
<b>Shortfall</b>	<b>\$</b>	<b>(1,000)</b>



## FY2010 SAF Budget Solutions

*Mix of Cuts, Stimulus, and Revenue*

### Legislative Response (millions)

Appropriation Reductions (before vetoes)		
\$165 per pupil cut	\$	263
ISD grant cut	\$	16
Other cuts	\$	30
Federal Stimulus	\$	450
<i>New Revenues</i>	\$	100
Beginning Balance	\$	202
Total	\$	1,061



## Governor's Actions

### *Prompted by Concerns About Revenue*

- Veto – Sec. 20j (hold harmless)
  - \$52M - \$119 per pupil to \$324 per pupil
  - Legislative revenue package (\$100M) questioned
- Proposed proration
  - \$127 per pupil reduction
  - Clock is ticking on legislative response
- Some districts face cut of \$616 per pupil (8%)



## Is That the Last Word?

### *Adjustments to FY2010 Budget*

- No.
- Concerns over revenue performance since May.
- January revenue conference – revisit.
- Revenue performance will depend on timing of national and Michigan recovery.
- Further adjustments may be in works.



## **Very Early Look Ahead**

*Funding "Cliff" Appears in FY2011*

A number of issues to resolve:

- FY2010 cuts carried into FY2011?
- State revenue growth in FY2011?
- What will legislature do on tax policy front?
- Federal stimulus funding nearly exhausted, replacement revenue?
  - GF-GP - \$413M (reduction from \$1.2B)
  - SAF - \$307M (reduction from \$450M)

*Remember: 2010 is an election year*



## FY2011: One Scenario

*General Fund Budget Faces \$800M Hole*

### FY2011 General Fund Budget (millions)

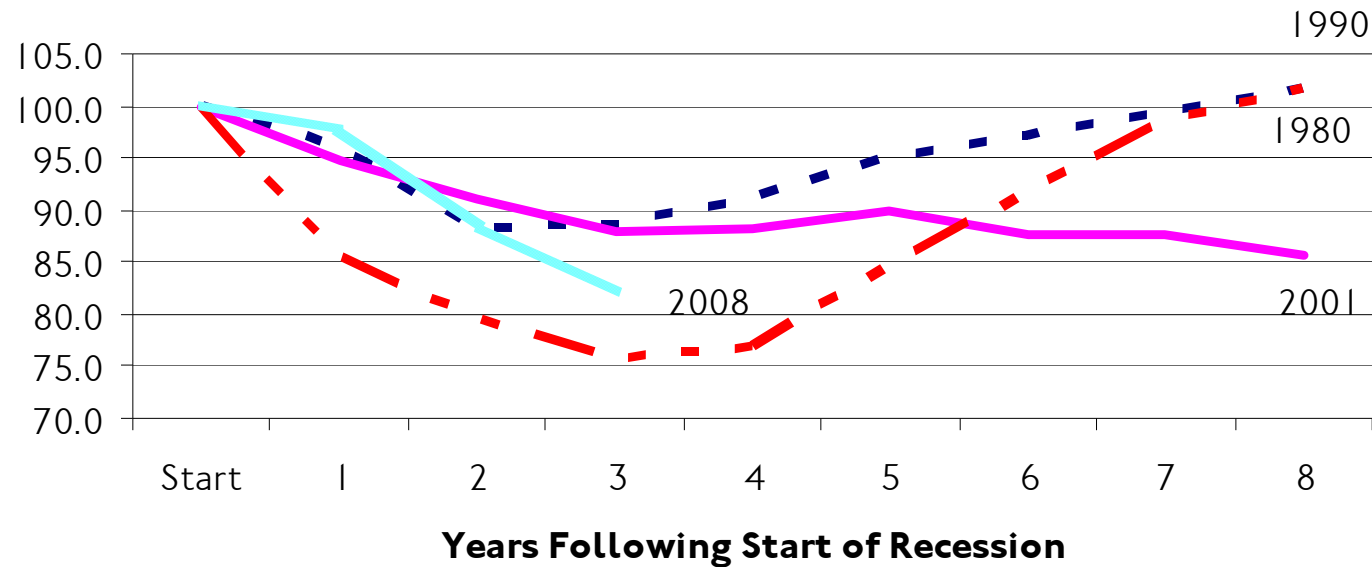
Revenue (assume 4% growth)	\$	8,032
Projected Baseline Spending	\$	10,071
Shortfall	\$	(2,039)
<b>Solutions</b>		
FY2010 Spending Cuts	\$	843
ARRA - Medicaid match	\$	210
ARRA - FY2010 balance	\$	203
Balance	\$	(783)

Source: Senate Fiscal Agency, October 2009



## 2008 Recession Impact on Revenue *How Will Revenues Respond?*

Real Per Capita Baseline Revenue Growth  
Combined GF/GP and SAF



Source: Senate Fiscal Agency; CRC calculations



## Conclusions

- Michigan's economic recovery will be long and lag overall US recovery
- Michigan's structural budget deficit still present
- Stimulus responsible for "balance" in FY2009 and FY2010
- Real funding "cliff" in FY2011



## Questions?

CRC Publications available at  
[www.crcmich.org](http://www.crcmich.org)

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