



# Michigan Update

Lansing Lions Club  
March 9, 2010

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Citizens Research Council of Michigan

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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
- *[www.crcmich.org](http://www.crcmich.org)*



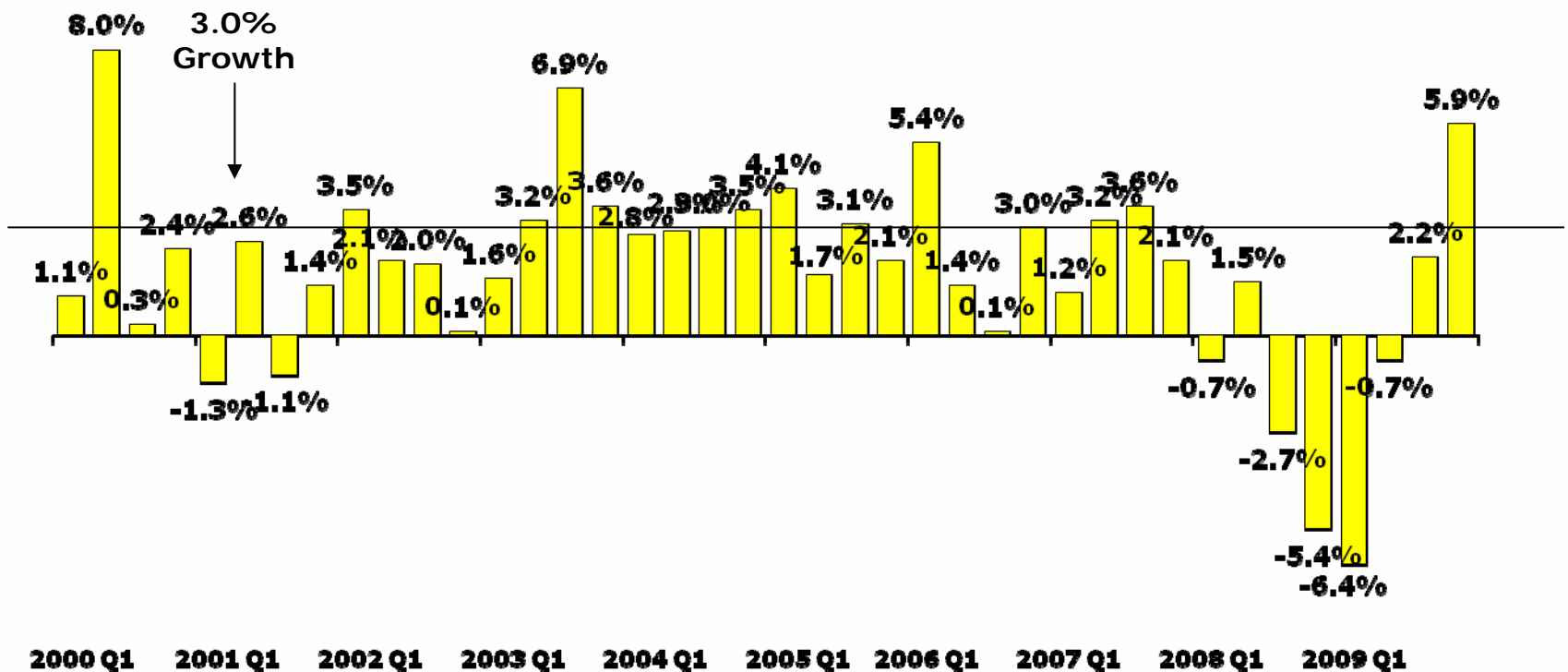
## What is the State of the National Economy

- Worst post war recession almost certainly ended over the summer
- The U.S. economy has lost over 8 million jobs and the unemployment rate stands at just under 10 percent
- Shape of recovery is currently the subject of much controversy: "The Great Ambiguity" (NYT 1/5/10)
- Strong downturns usually followed by strong recoveries but currently concern over consumer balance sheets, commercial real estate, state and local government finances, etc.
- Rebounds from financial crises tend to be slower than other types of downturns



# GDP Increased in 3<sup>rd</sup> & 4<sup>th</sup> Quarters

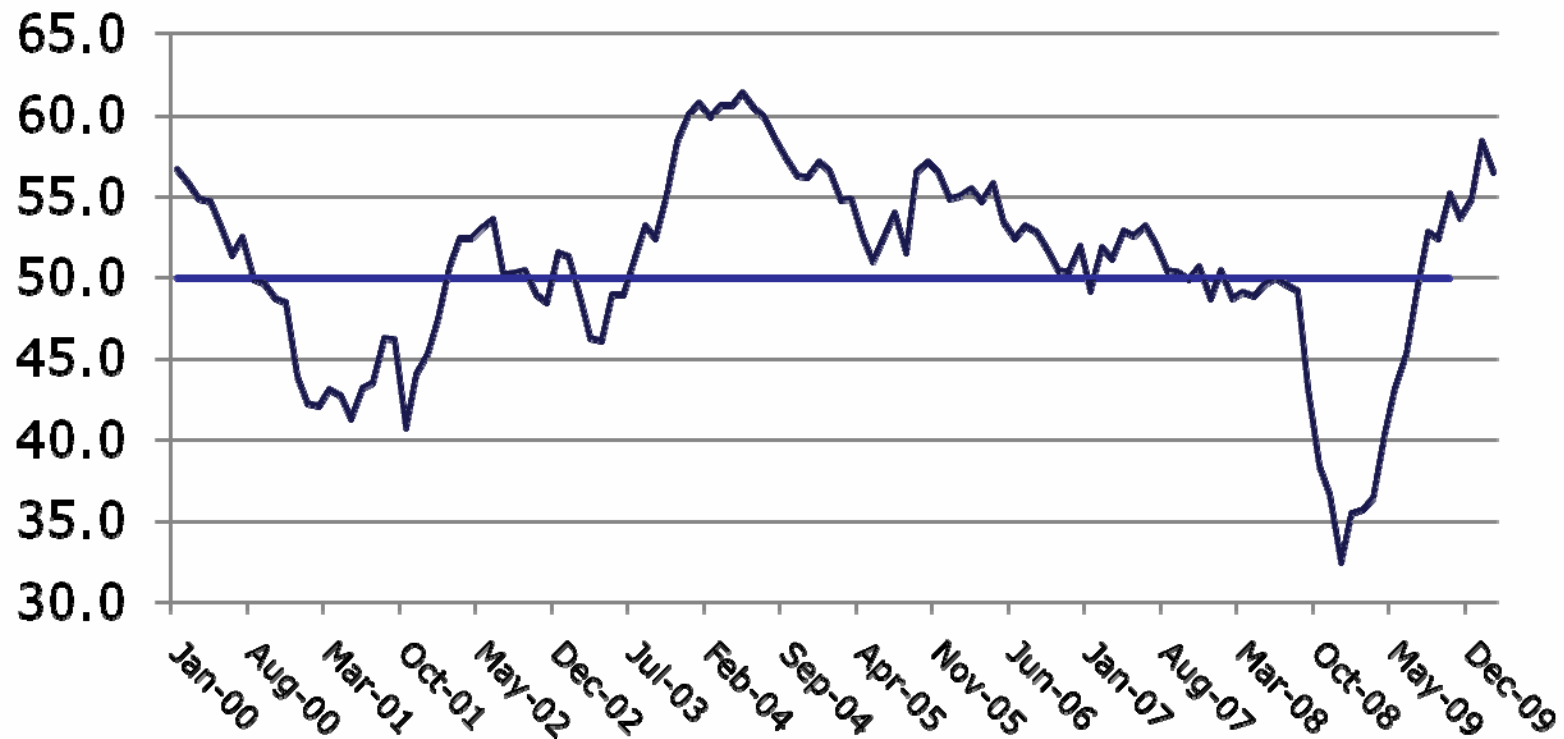
## Real GDP Growth



4 Figures are annualized percent change from preceding quarter in 2000 chained dollars.  
Source: Bureau of Economic Analysis 3/05/10.



## ISM Manufacturing Index Shows Sector Growing Again

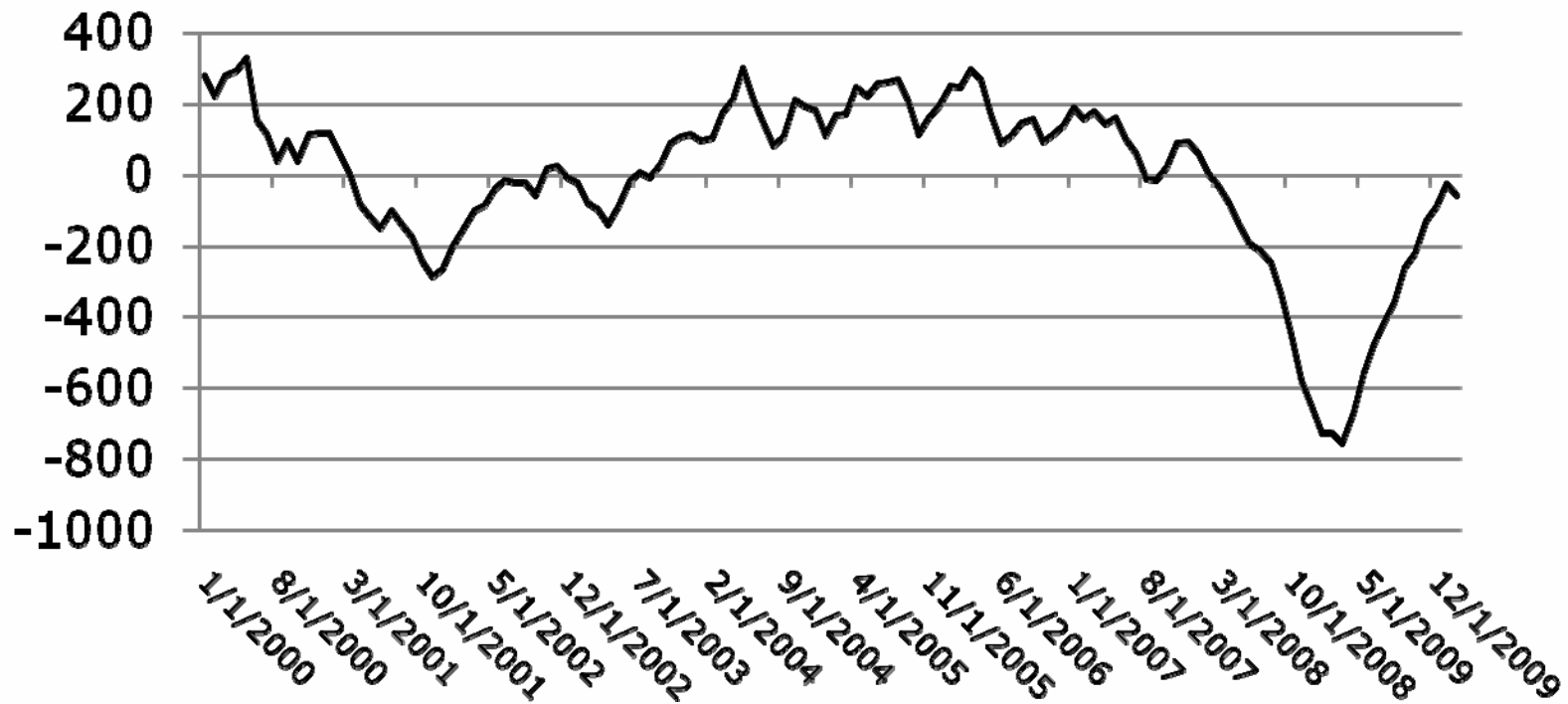


5 Figures are annualized percent change from preceding quarter in 2000 chained dollars.  
Source: Bureau of Economic Analysis 11/24/09.



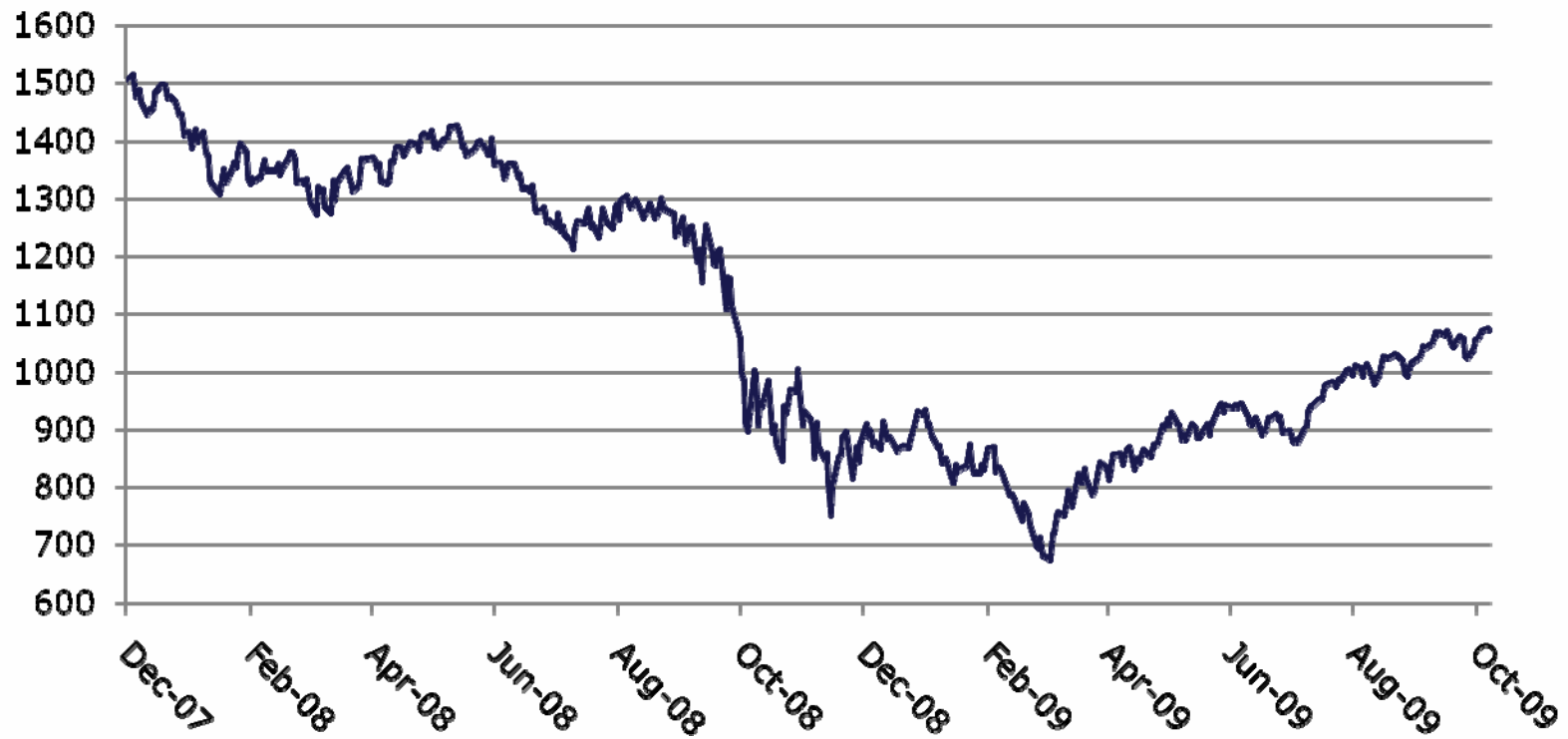
# Employment Declines Are Abating But No Growth Yet

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





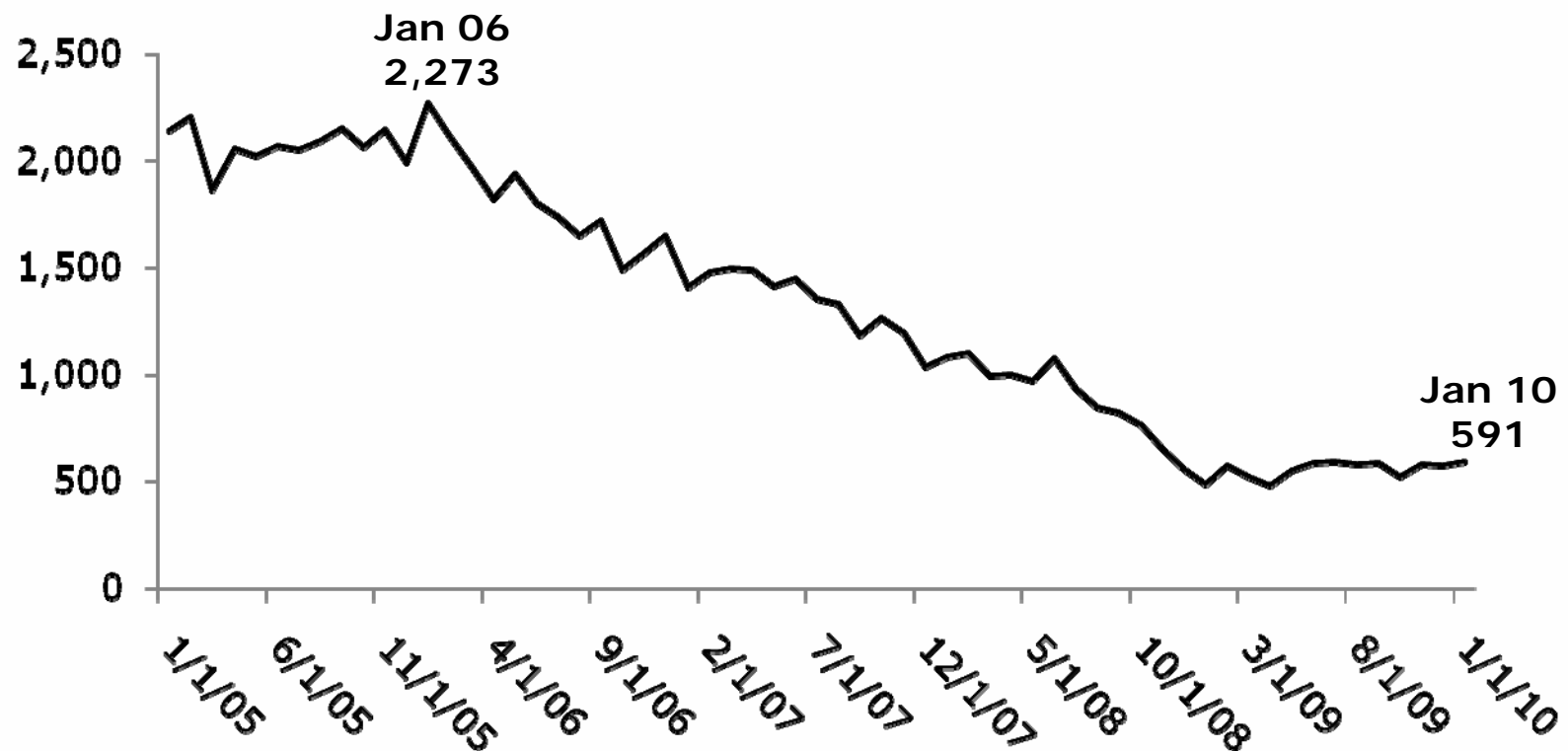
# S&P 500 Is Recovering Up 65% From March Low But Still Down 24% from 2007





# Housing Starts Still Down 73 Percent from Peak

New Privately Owned Houses Started (Thousands)

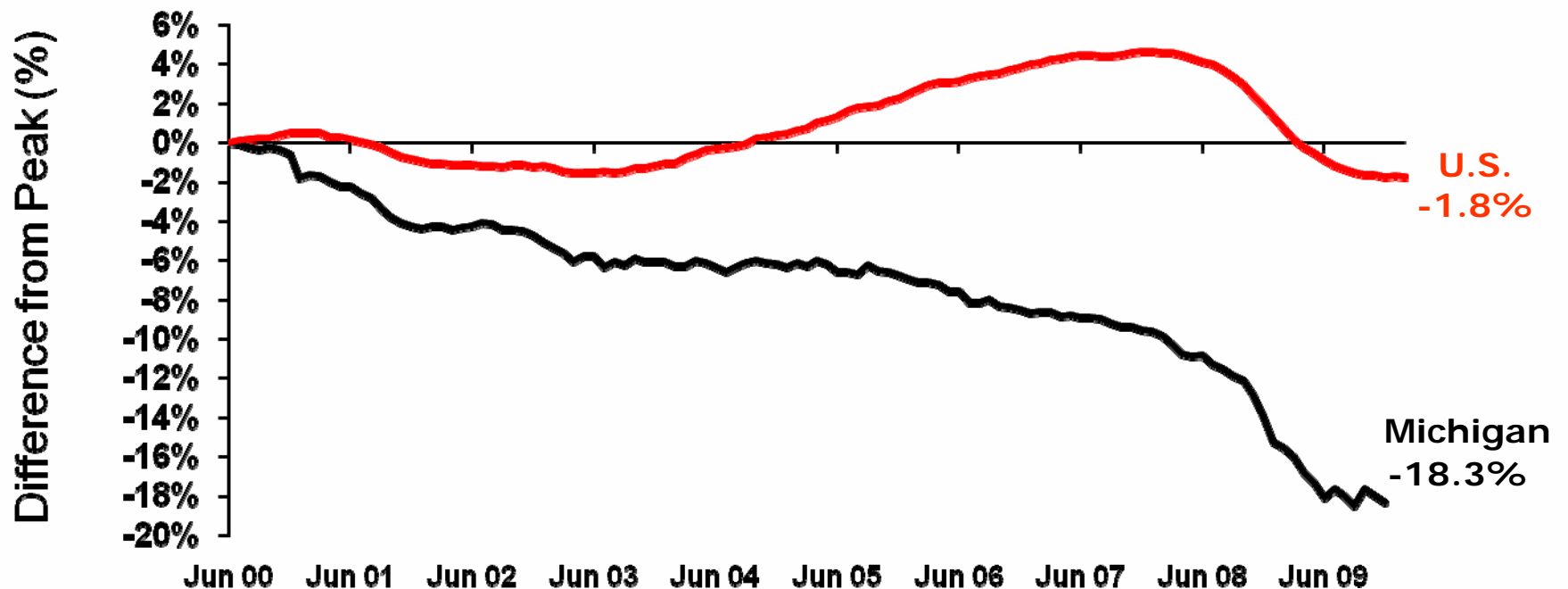




# What is Happening With Michigan's Economy?



# A Lost Decade of Michigan Employment (1 in 6 jobs lost with 1/3 of loss in last 12 months)

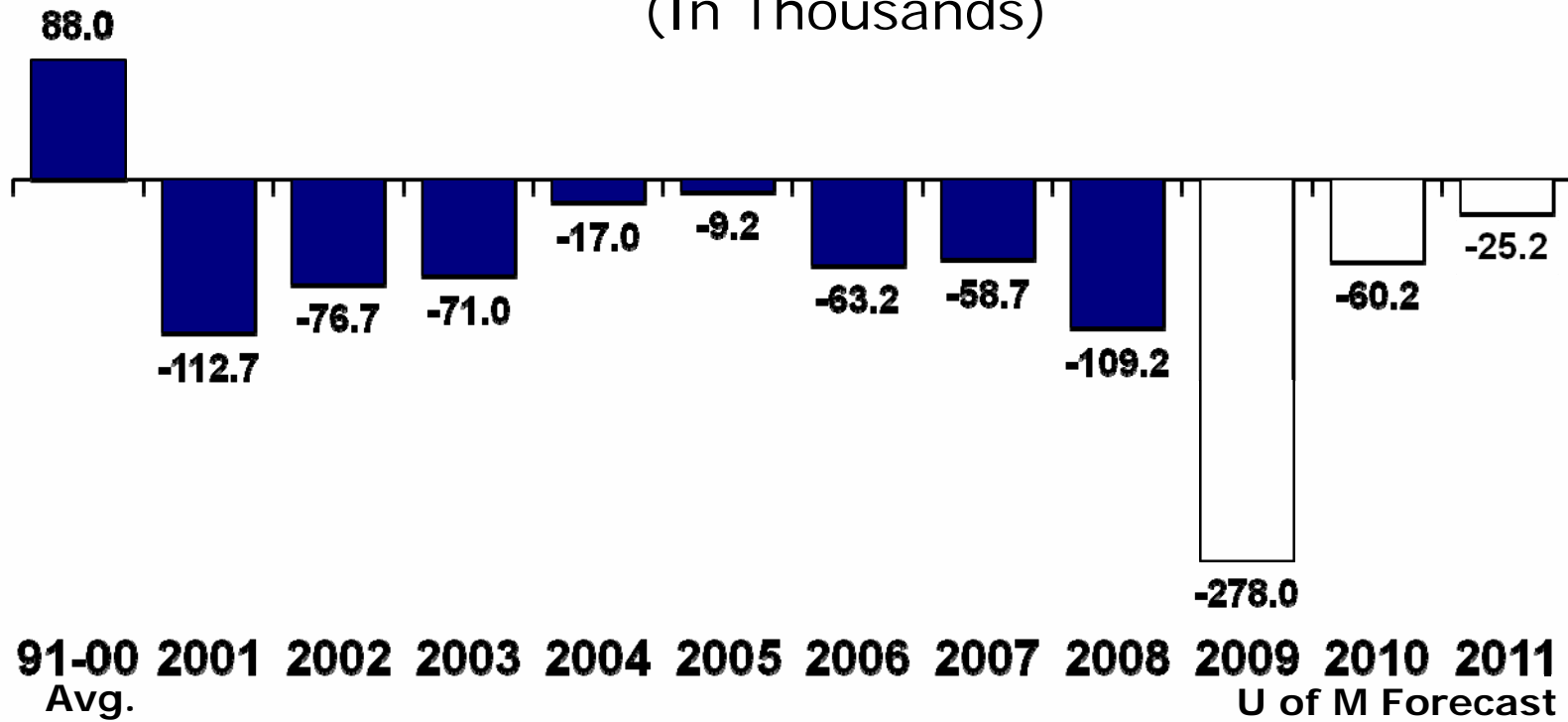


10 Note: Peak is calculated from Michigan's June 2000 Peak. Michigan data through December 2009.  
Source: Bureau of Labor Statistics



# U of M Forecast – No Job Growth for Michigan

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





## Unemployment is Very High Especially in the Detroit Area

| <u>Location</u>  | <u>Unemployment Rate</u> |
|------------------|--------------------------|
| U.S.             | 9.7%                     |
| Michigan         | 14.5%                    |
| Detroit MSA      | 16.0%                    |
| City of Detroit  | 24.3%                    |
| Lansing MSA      | 11.7%                    |
| Grand Rapids MSA | 12.2%                    |

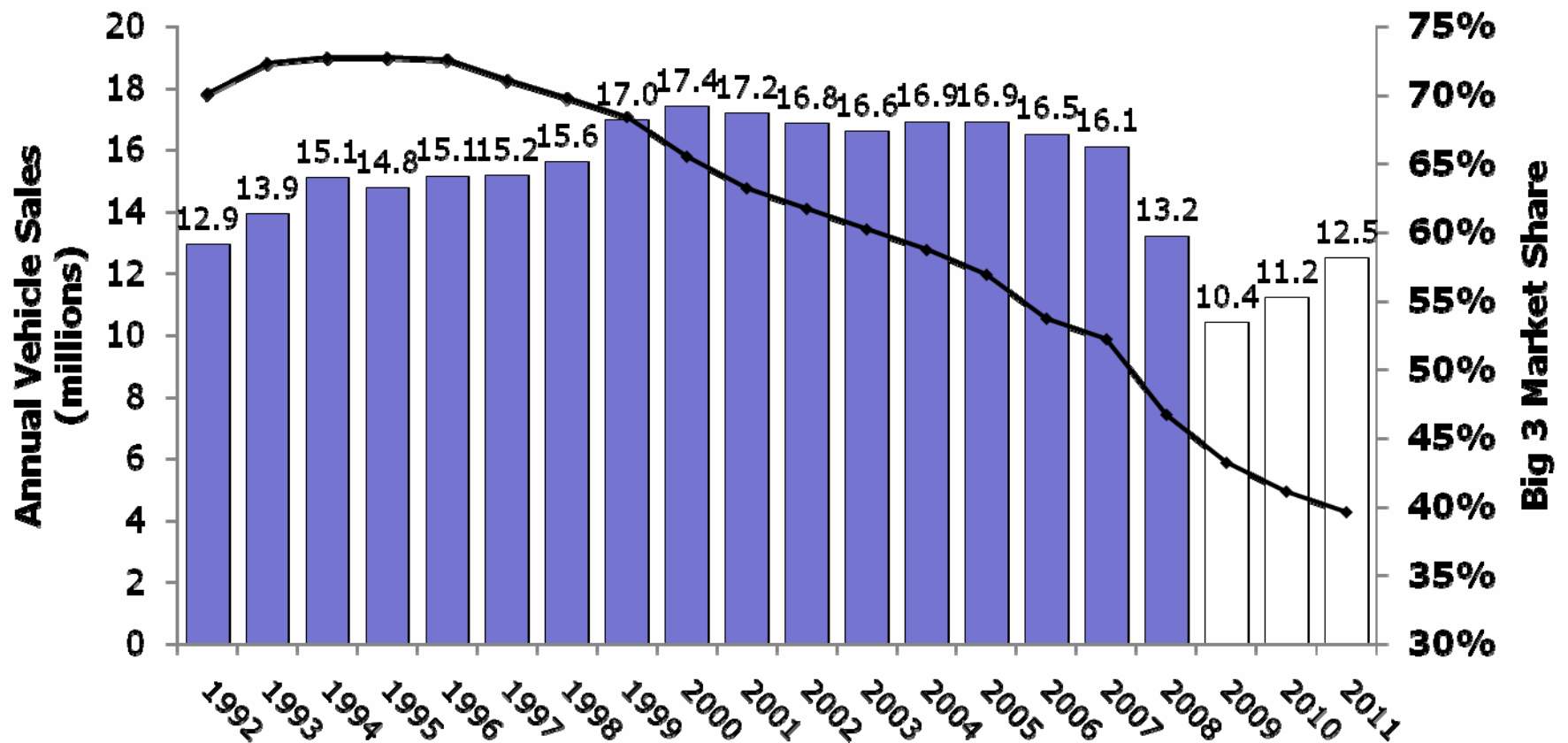
12 Source: Bureau of Labor Statistics. U.S. total for Dec. MI and Detroit MSA totals are seasonally adjusted. City of Detroit, Lansing MSA, and Grand Rapids MSA are not seasonally adjusted.



# What Caused Michigan's Downturn?



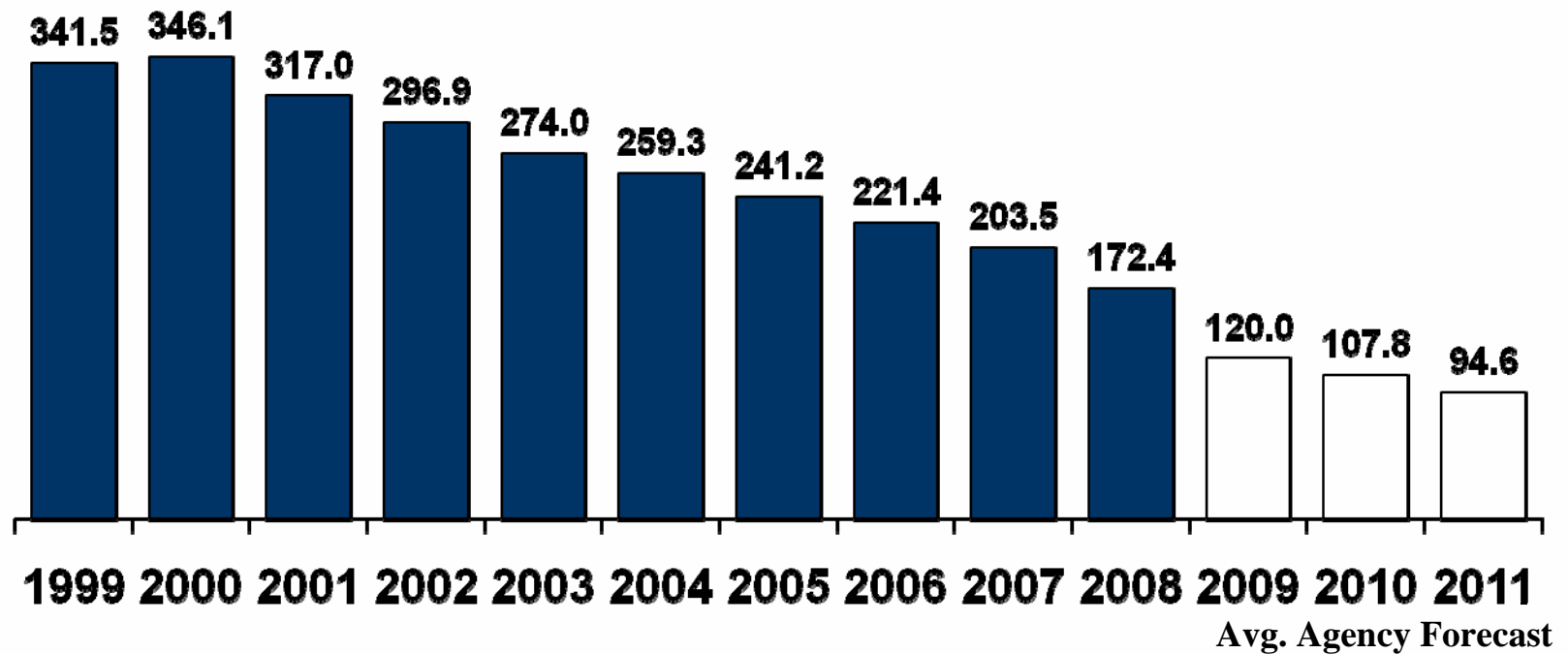
# Big 3 Market Share Plummet





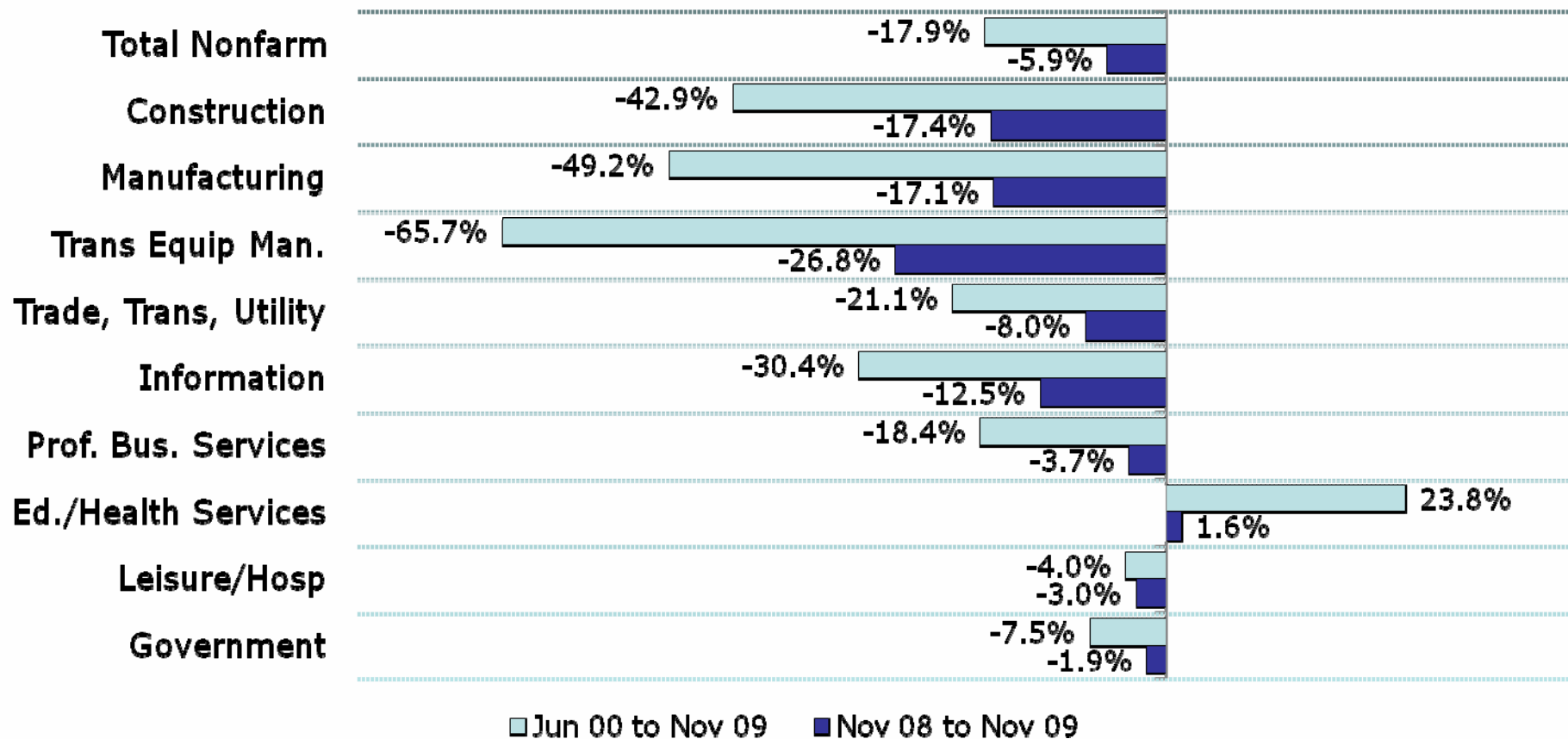
## 3 in 4 Auto Jobs Lost by 2011

Michigan Transportation Equipment Employment  
(In Thousands)





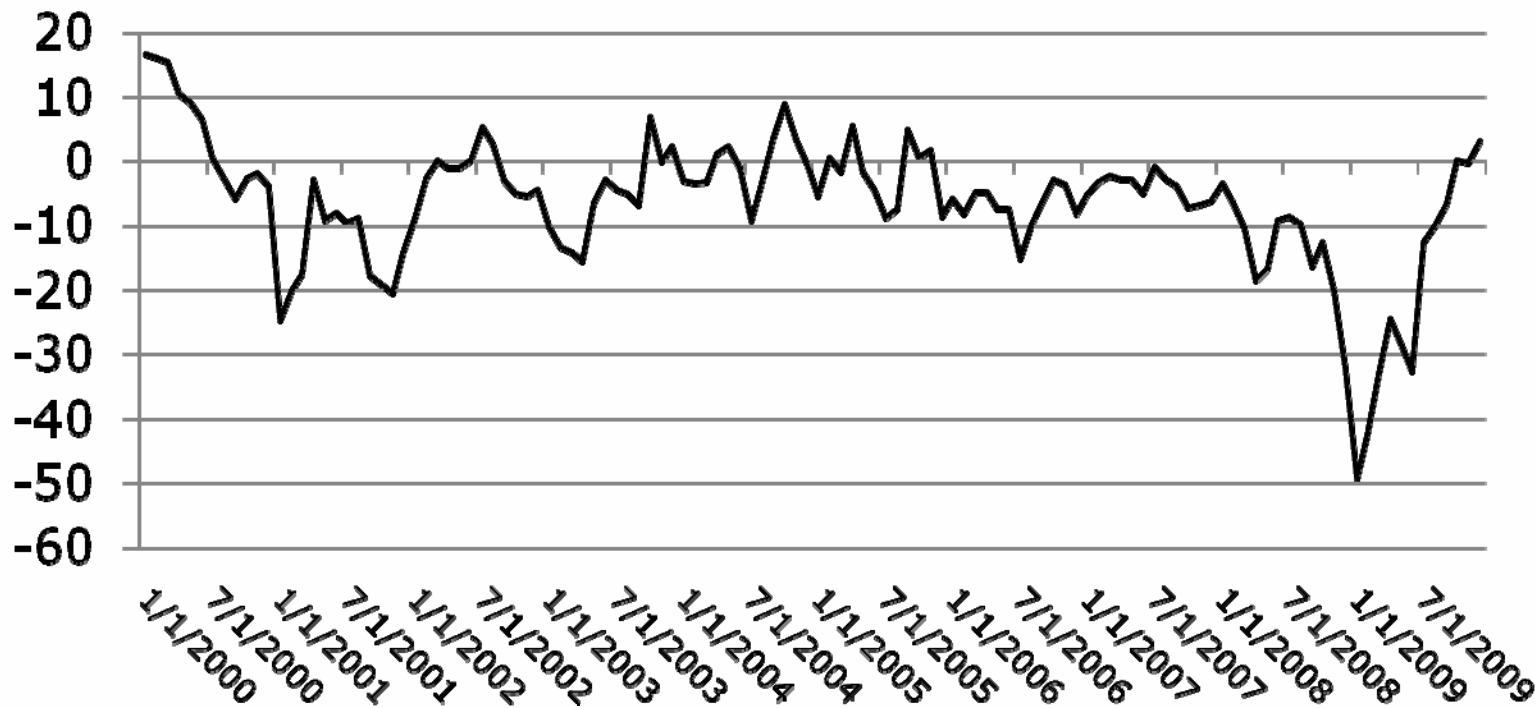
# Almost Every Sector in Michigan Has Lost Jobs





# 2009 Michigan Employment Declines Were Shocking but Are Abating

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





## What is the Economic Outlook Going Forward?

- Auto companies are much more viable than they were a year ago
- Drag from auto sector employment loss will be greatly diminished in the coming decade
- State employment should start to grow soon (but dependent on U.S. recovery)
- Public sector will start to be a significant drag
- It will take a generation or more to recover the lost jobs

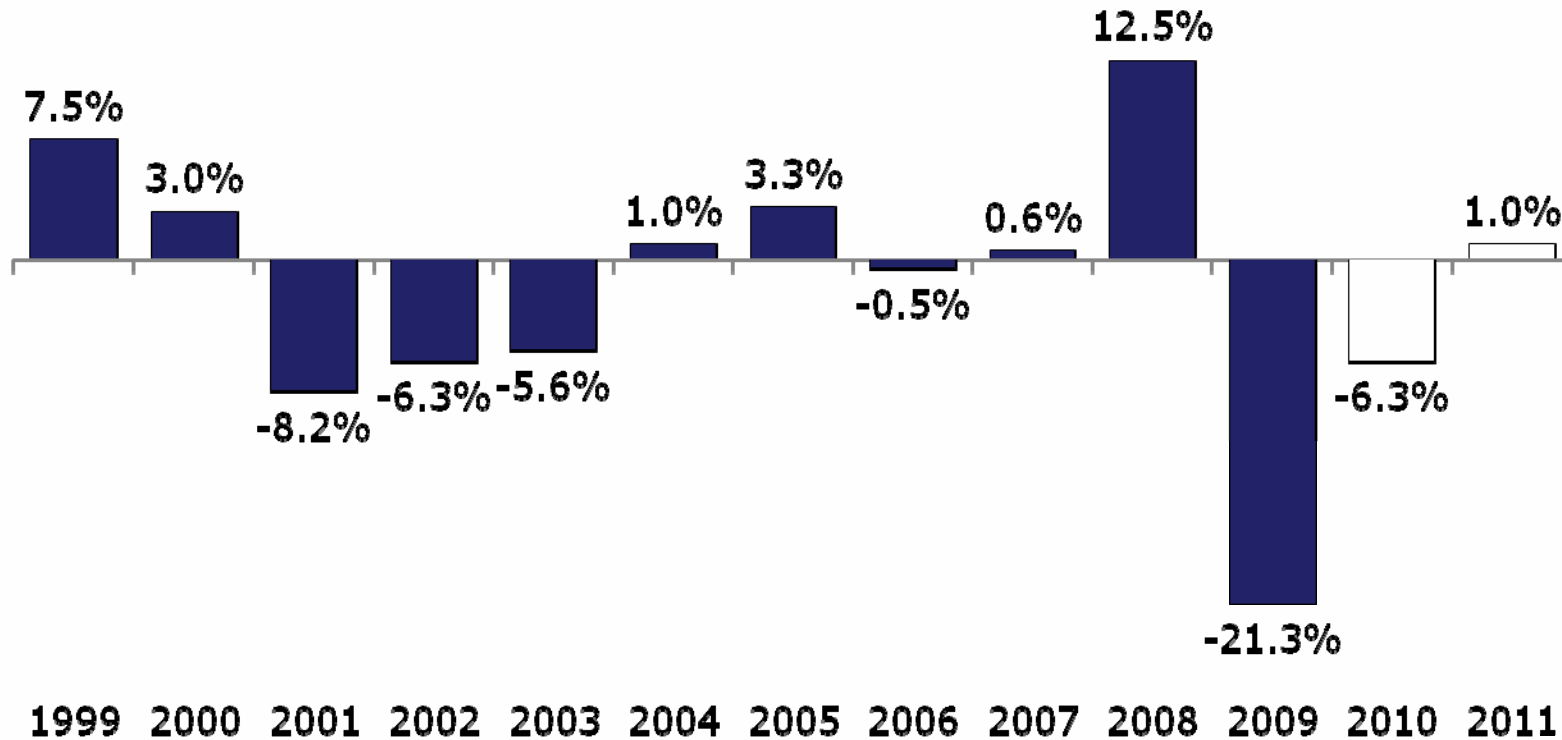


# **What Has Been the Effect on the State's Public Sector?**



# GF-GP Revenues Drop Sharply in FY 2009 and FY 2010

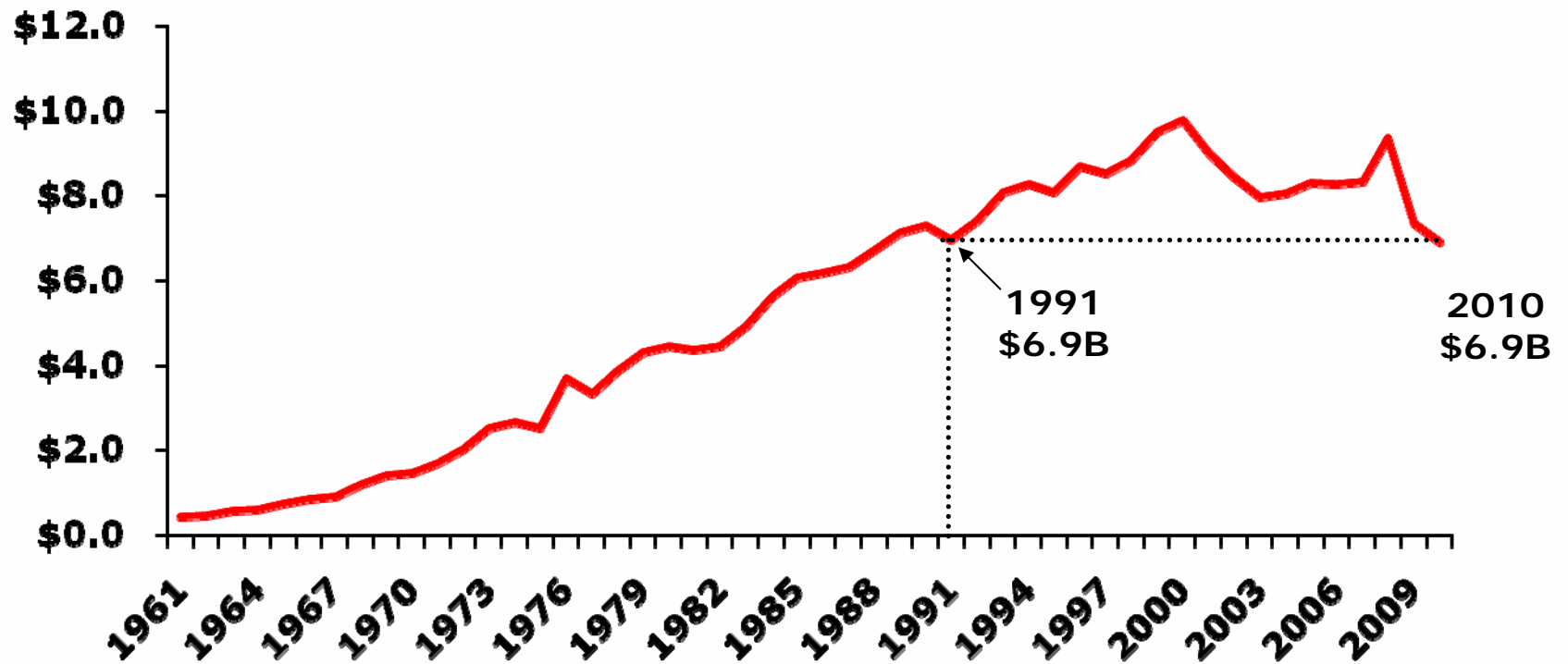
GF-GP Revenues  
Year-Over-Year Pct. Change





# FY 2010 Nominal GF-GP at FY 91 Level

Billions of Dollars



Note: GF-GP figures are presented on a Consensus basis. 2010 total is an estimates.



# Stimulus Spending Has Been Supporting State Budgets

(millions of \$)

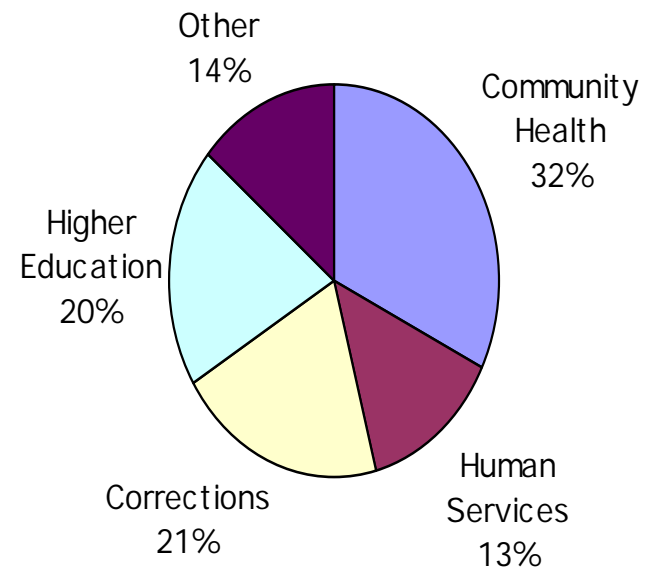
|                                  | <u>FY 2009</u> | <u>FY 2010</u> | <u>FY 2011 CSB</u> |
|----------------------------------|----------------|----------------|--------------------|
| Total GF-GP Spending             | \$9,753.7      | \$9,151.8      | \$9,176.7          |
| ARRA                             | \$1,298.1      | \$1,071.3      | \$209.6            |
| ARRA % of Budget                 | 13%            | 12%            | 2%                 |
| <b>Projected GF-GP Shortfall</b> |                |                | <b>\$1,160.0</b>   |
| Total SAF Spending               | \$13,139.6     | \$12,715.5     | \$12,773.9         |
| ARRA                             | \$597.5        | \$450.0        | \$185.5            |
| ARRA % of Budget                 | 5%             | 4%             | 1%                 |
| <b>Projected SAF Shortfall</b>   |                |                | <b>\$422.0</b>     |



## Discretionary Spending – GF/GP

- Annual legislative review and most attention
- 4 areas take up 86% of budget
- Corrections largest “state-run” program
- Health care largest cost center and most pervasive item

General Fund Spending-2009



Total: \$9.7 Billion



## FY2011: Another \$1B Deficit

### FY2011 General Fund Budget (millions)

|                           |           |                |
|---------------------------|-----------|----------------|
| Available GF Revenue      | \$        | 7,828          |
| FY2010 Spending Base      | \$        | 8,128          |
| Corrections               |           | 26             |
| Human Services caseload   |           | 118            |
| Employee economic inc.    |           | 140            |
| FY2010 ARRA \$            |           | 1,057          |
| FY2011 ARRA \$            |           | (209)          |
| FMAP inc. - Medicaid      |           | (232)          |
| DCH caseload              |           | (184)          |
| Other adj.                |           | 71             |
| Est. FY2011 Spending Base | \$        | 8,915          |
| <b>Shortfall</b>          | <b>\$</b> | <b>(1,087)</b> |



## **Governor's Proposal**

### ***Mix of Short- and Long-Term Fixes for GF***

- Spending cuts (\$433M)
  - Corrections reforms (\$129M)
  - Retirement system changes (\$98M)
  - Private college scholarships (\$32M)
  - Rescind non-union pay bump (\$18M)
  - Community Health (\$39M)
  - Human Services (\$39M)
- Non-recurring resources
  - Continuation of Medicaid match rate - \$500M
- Medicaid provider tax on physicians - \$100M



## **Gov's SAF Solution**

### ***\$420M Problem in FY2011***

- Tax Restructuring – two parts
  - Expand sales tax base to group of services @ 5.5%
  - Reduce existing rate of sales and use taxes to 5.5%
  - Net effect: \$729M
- Begin two-year elimination of Michigan Business Tax Surcharge
  - Net effect: (\$174M)
- Overall: \$554M to avert \$250 per-pupil reduction
- Also proposing early retirement program for school employees, savings retained locally (\$600M)



## Retirement Proposal

- State and school retiree changes are similar:
  - Increase multiplier from 1.5% to 1.6% if retire by Oct. 1
  - Service years capped at 30
  - End of vision and dental for those employees who don't retire
  - Hybrid plan for new school employees (new state employees already 401k)
  - Required contributions of employees to retirement plan of 3%
- 7,000 state and 39,000 school employees are eligible
- Assumes 85% take rate and 2 in 3 replaced



## Spending Growth Over the Last Decade

- Between FY 2000 and FY 2010 state dollars spent on:
  - Community health up 25% and Medicaid pop up 60% (now 17% of state residents)
  - Corrections up 27% and corrections pop up 5%
  - Higher ed down 13.7% while FTE enrollment up 13%
  - Comm College spending up 1% and FTE enrollment up 50%
  - K-12 up 8% while enrollment down 6%
  - Rev share to local govts down 33%
- Between FY 2000 and FY 2008 total state government spending in Michigan grew 26% 2<sup>nd</sup> slowest rate in nation and less than ½ national average (59%)



## What Is Next?

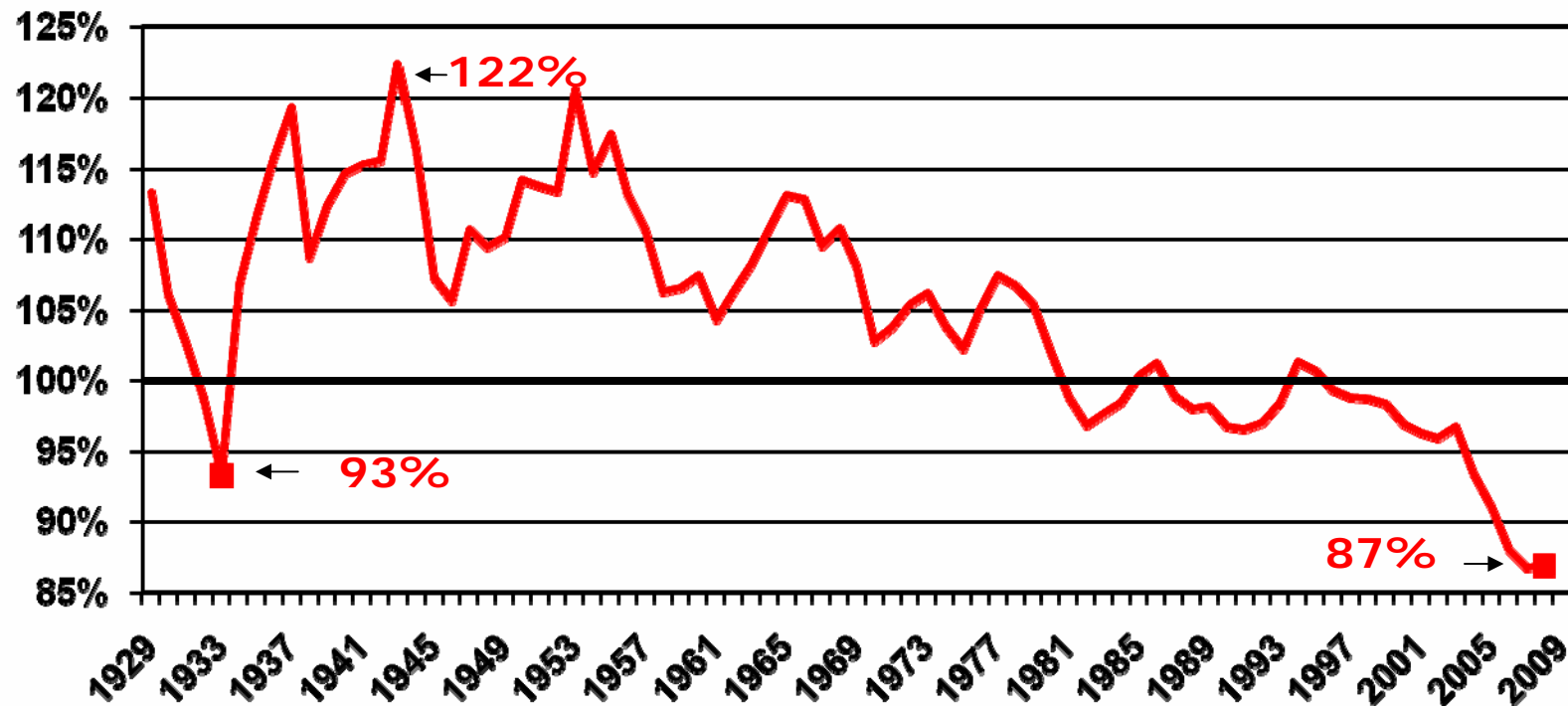
- Legislative debate and alternatives
  - Earlier deadline for retirement changes – end of April
  - Pay raises for unionized state employees – early April
  - Tax restructuring takes time
- Number of proposals attempted previously
  - Tax on services
  - Physician tax
- Will there be a “second stimulus”?
- Budget delay causes problems for sub-state entities with July 1 fiscal year

**2010 is an election year**



## Pers. Income Decline Illustrates Importance and Difficulty of Investing in Future

Michigan per Capita Income as a Percent of U.S. Per Capita Income Rank has fallen from 20<sup>th</sup> in 2001 to 37<sup>th</sup> in 2008





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