



CITIZENS RESEARCH COUNCIL OF MICHIGAN

Michigan's Economic, Revenue and Budget Outlook

Women in Finance
2010 Annual Conference

Jeffrey Guilfoyle, President
Citizens Research Council of Michigan
May 14, 2010

www.crcmich.org / jguilfoyle@crcmich.org



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*



Is the Recession Over?



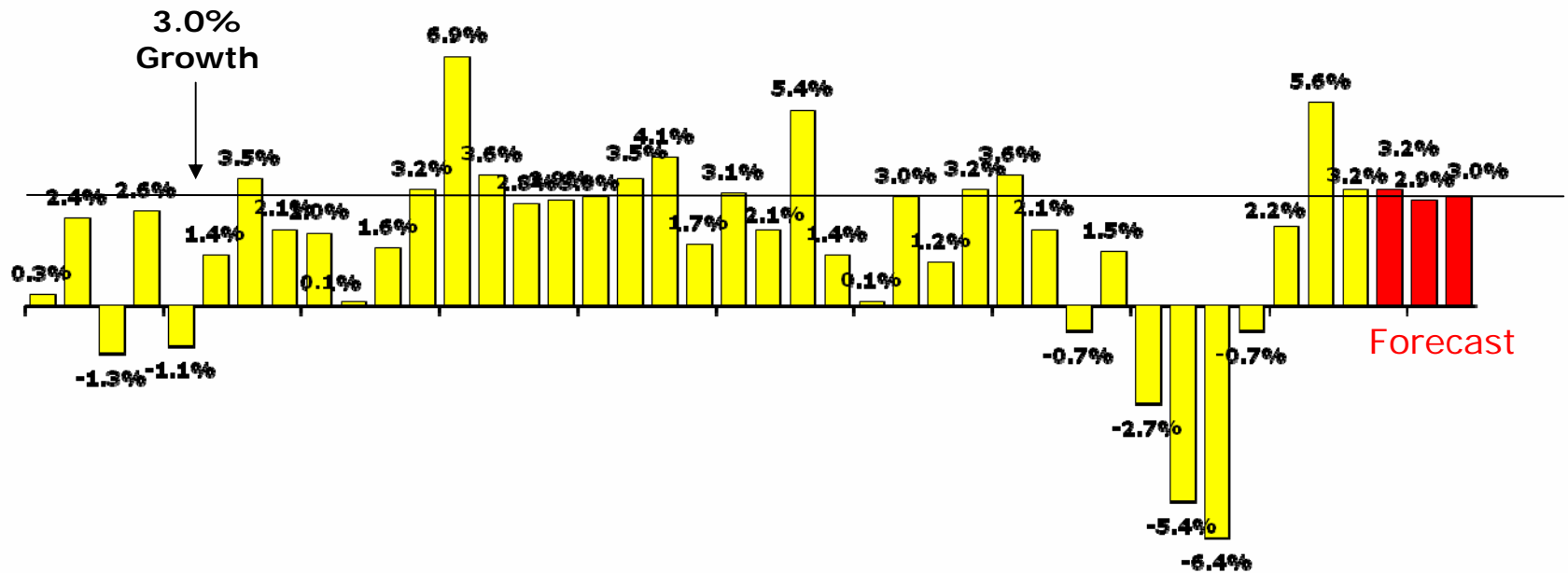
Yes: The Recession is Over!

- The recession is over (at least for now) and output is growing again
- GDP, manufacturing, the stock market, and retail sales, all show signs of recovery
- But, we are not back to where we were
 - Output still below where it was at start of recession
 - Many key sectors remain depressed or are growing off extremely depressed levels
 - U.S. employment is still down over 7 million jobs



GDP Increasing Since 2009 Q3 and Expected to Grow Through 2010 Q4

Real GDP Growth



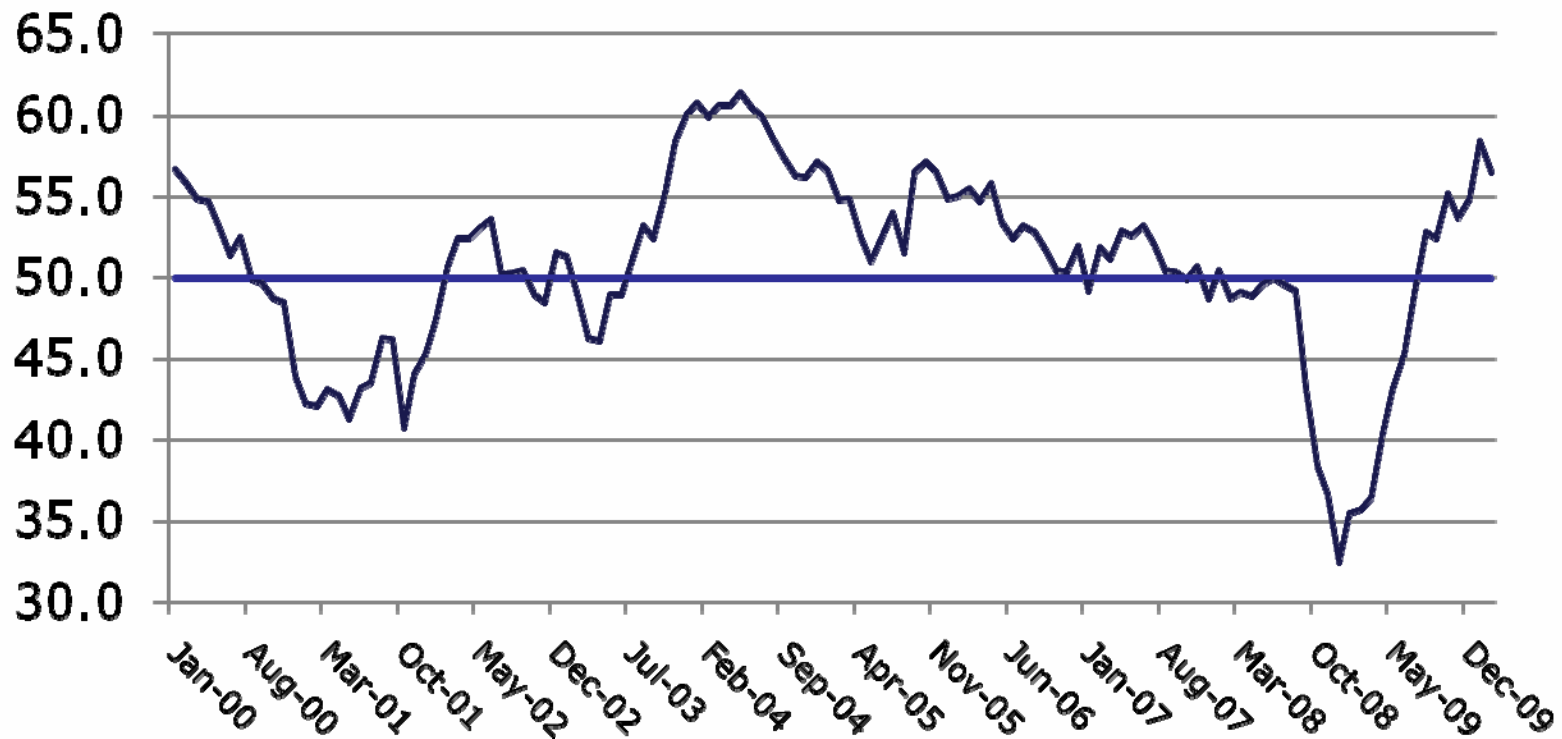
2000 Q3 2001 Q3 2002 Q3 2003 Q3 2004 Q3 2005 Q3 2006 Q3 2007 Q3 2008 Q3 2009 Q3 2010 Q3

Figures are annualized percent change from preceding quarter in 2000 chained dollars.

Source: Bureau of Economic Analysis 3/26/10. Forecast from the Wall Street Journal April 2010 survey of forecasters.



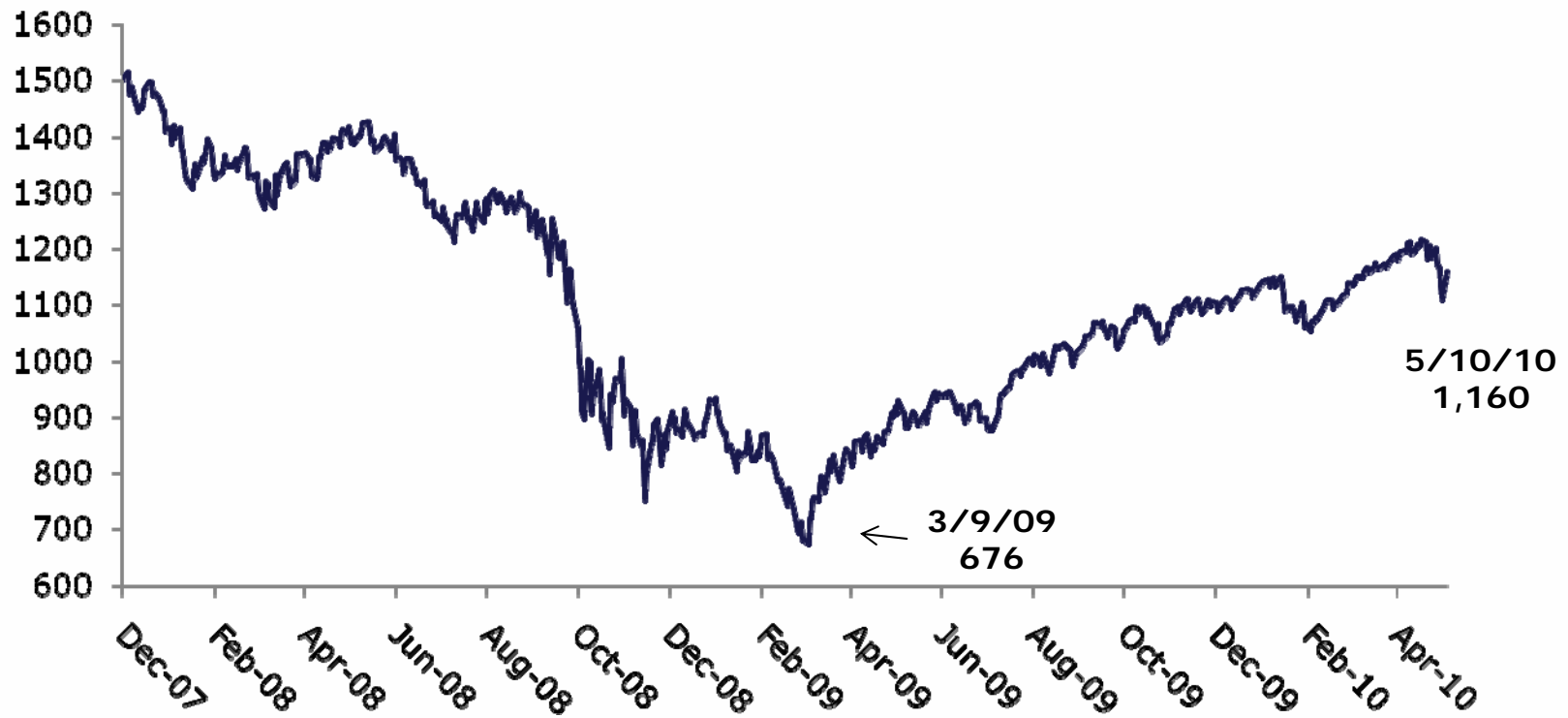
ISM Manufacturing Index Shows Sector Growing Again





S&P 500 Is Recovering Up 71% From March 2009 Low

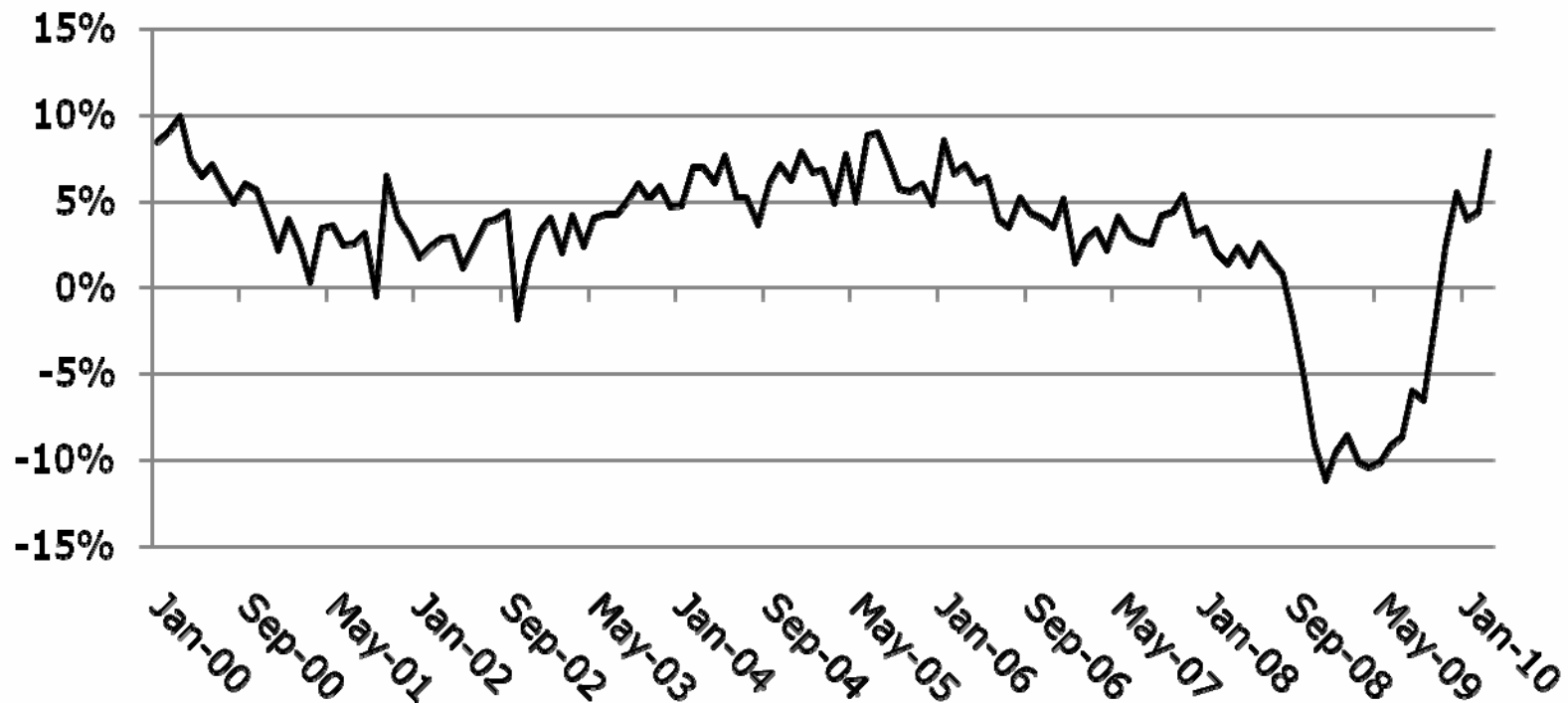
But Still Down 21% from 2007





Retail Sales Plummeted But are Recovering

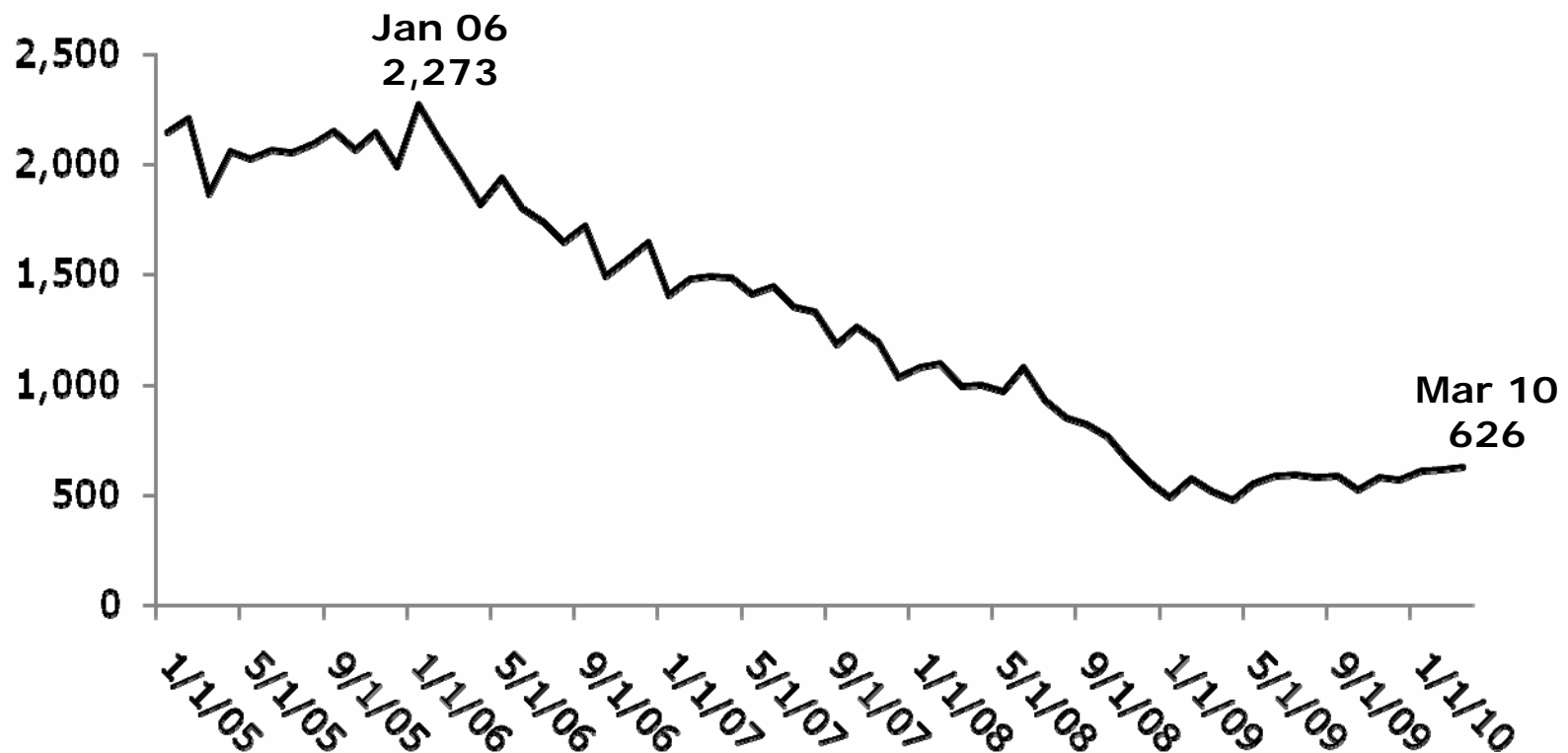
Retail Sales and Food Service
(Year over Year Pct Change)





Housing Starts Still Down 75 Percent from Peak

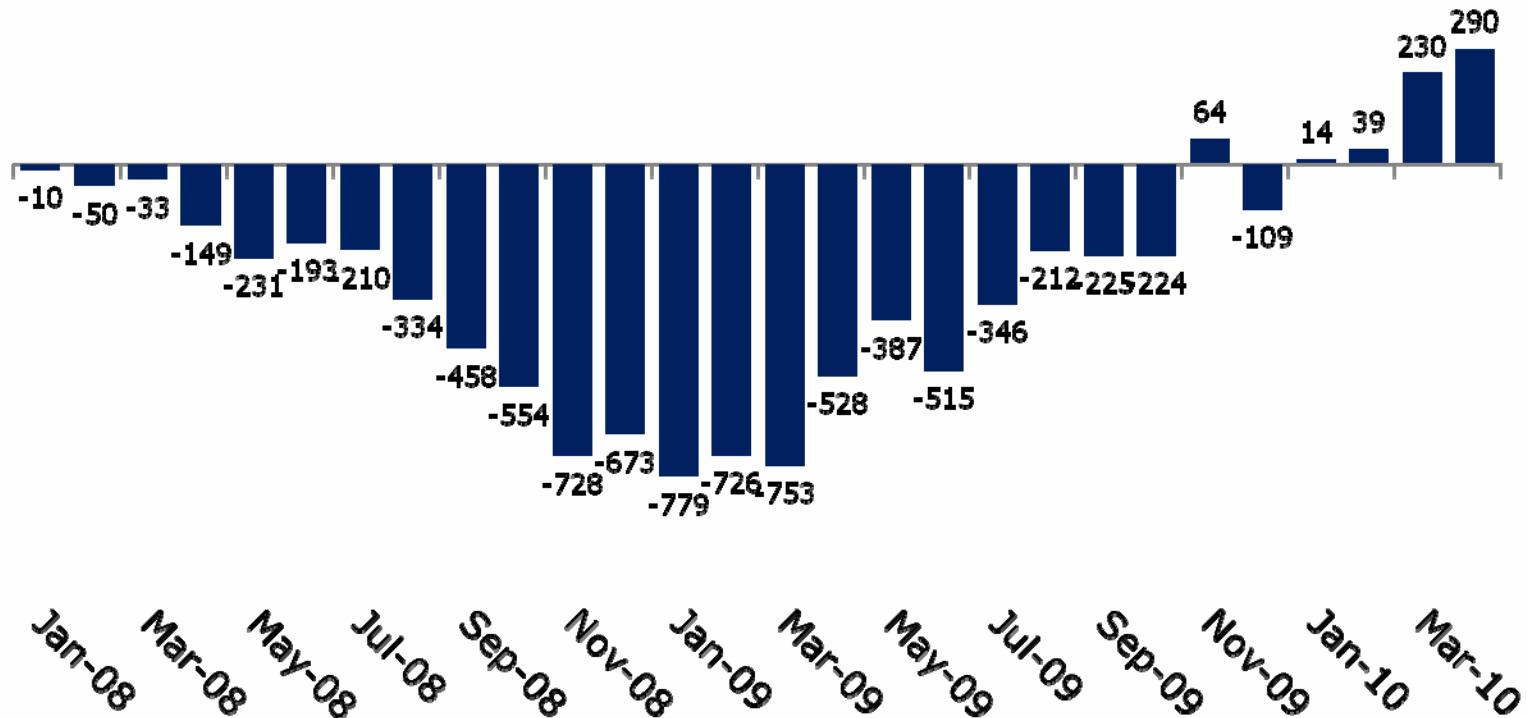
New Privately Owned Houses Started (Thousands)





Employment Has Finally Turned But Still Down Over 7 million Jobs

Monthly Change in U.S. Employment (thousands)





What is Happening in Michigan?

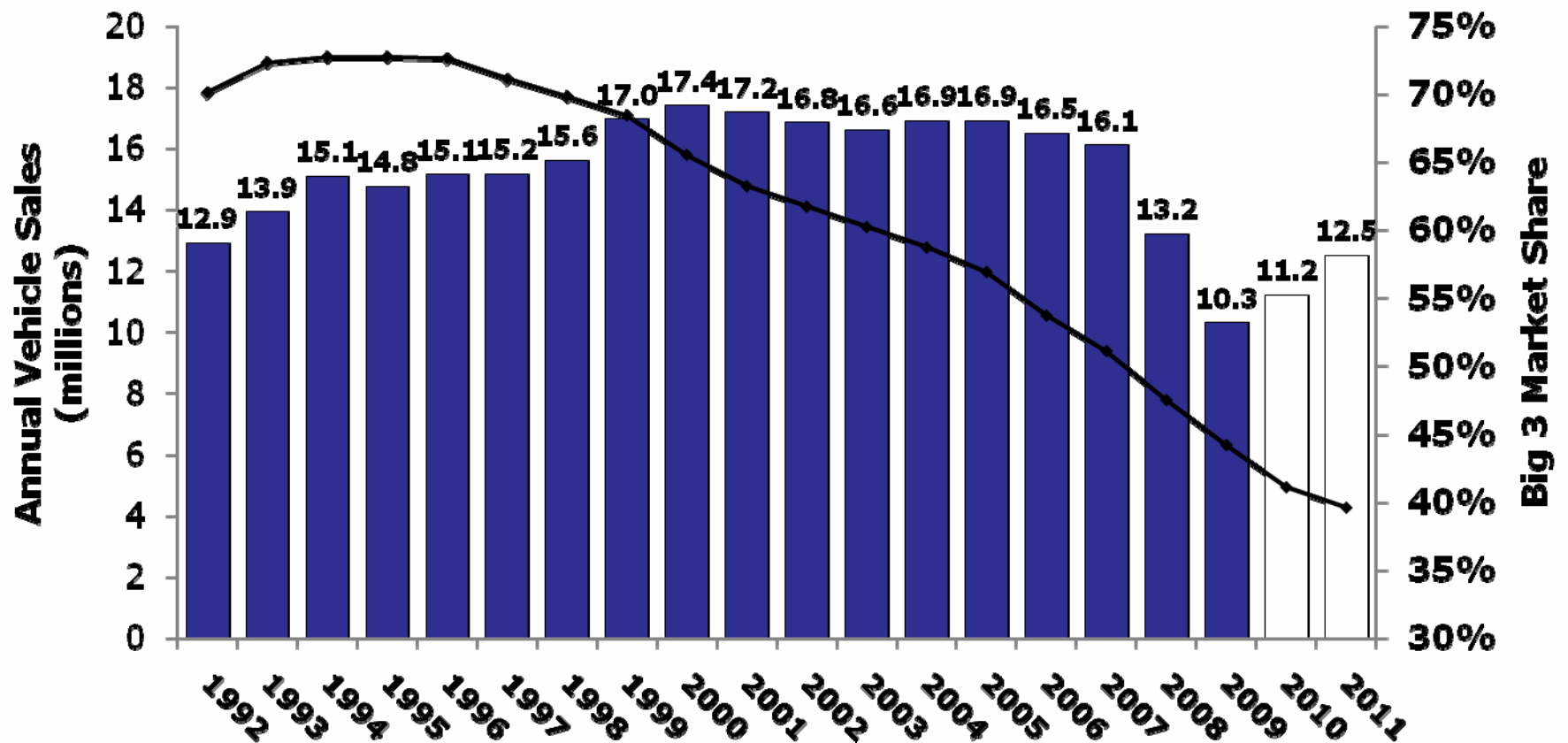


The Last Decade Has Been an Economic Disaster for Michigan

	Growth 2000 to 2009		Michigan
	<u>U.S.</u>	<u>Michigan</u>	<u>Rank</u>
Population	8.8%	0.1%	51
Real Per Capita GDP*	9.7%	-3.8%	51
Employment	-0.7%	-17.1%	51
Real Per Capita Income	3.6%	-7.1%	51



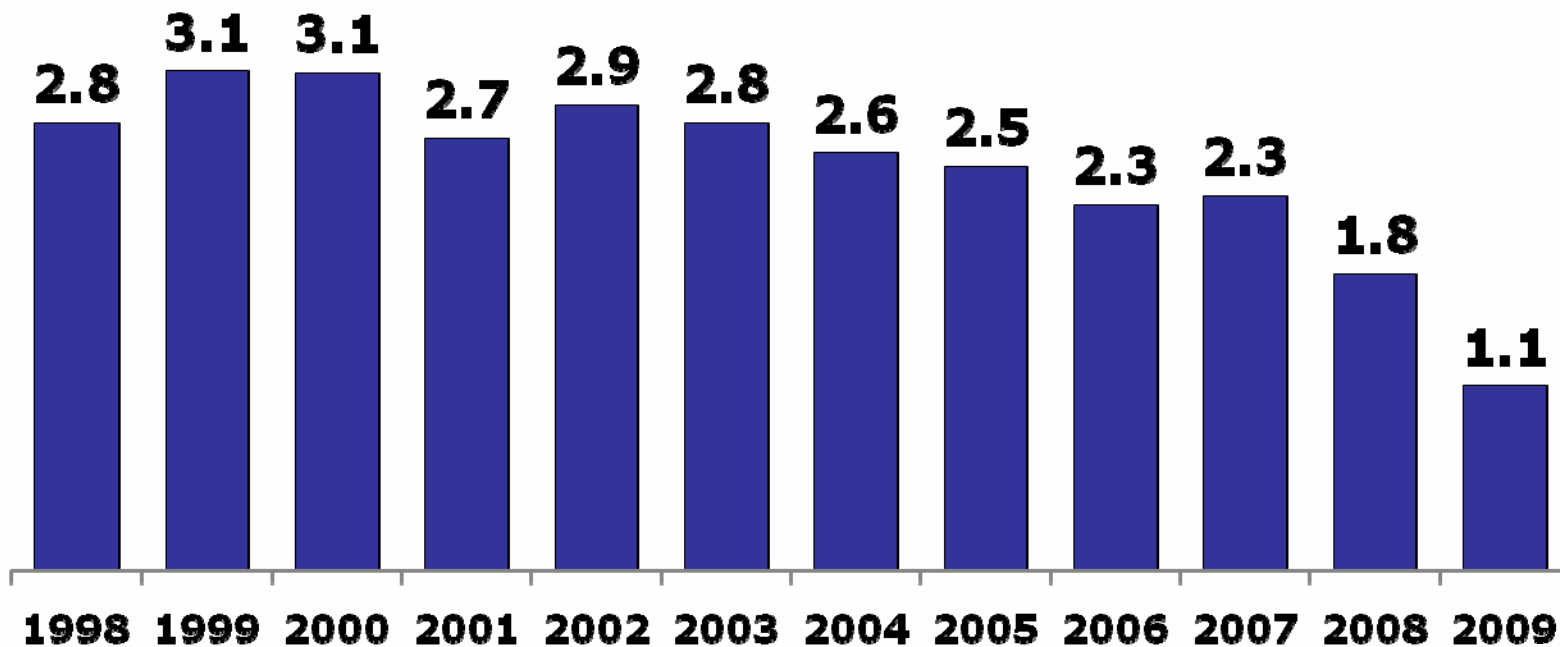
Big 3 Market Share Plummet





Michigan Vehicle Production Has Decreased Significantly

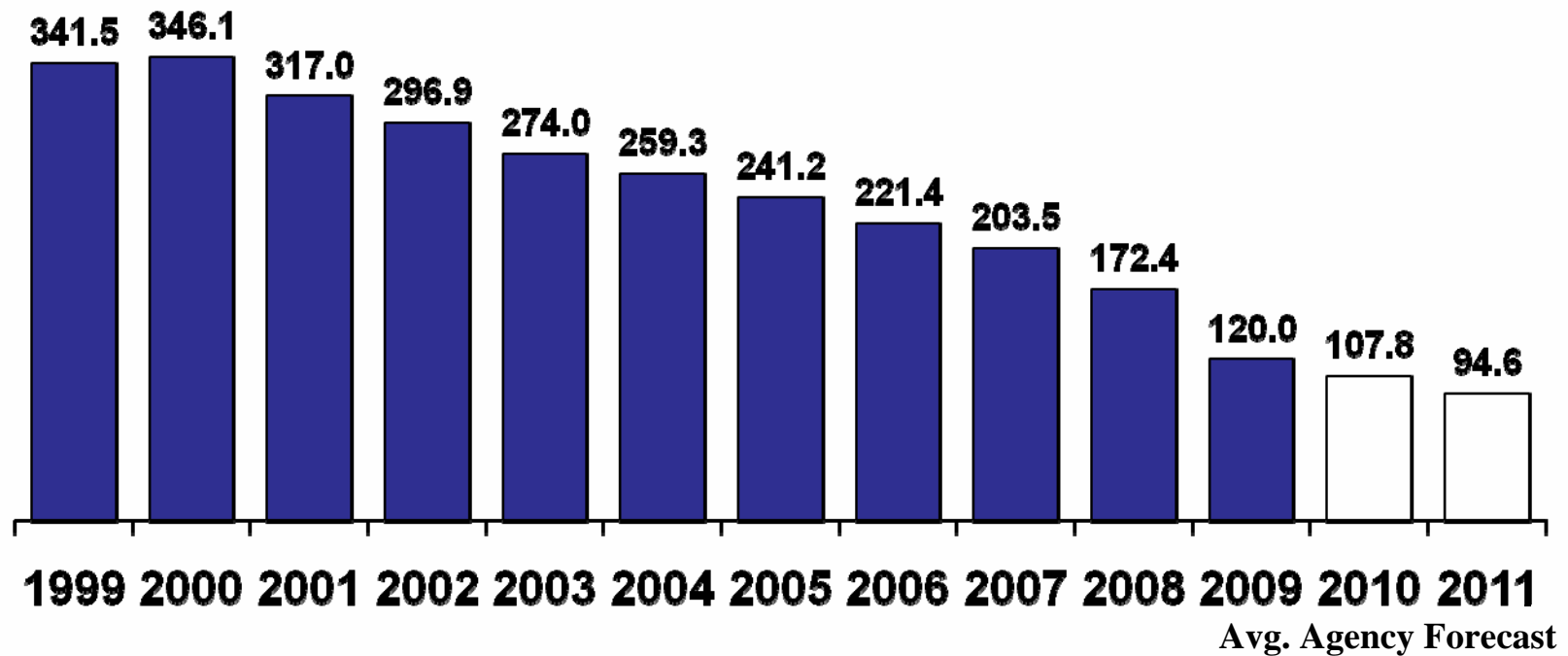
Michigan Vehicle Production
(Millions of Units)





3 in 4 Auto Jobs Lost by 2011

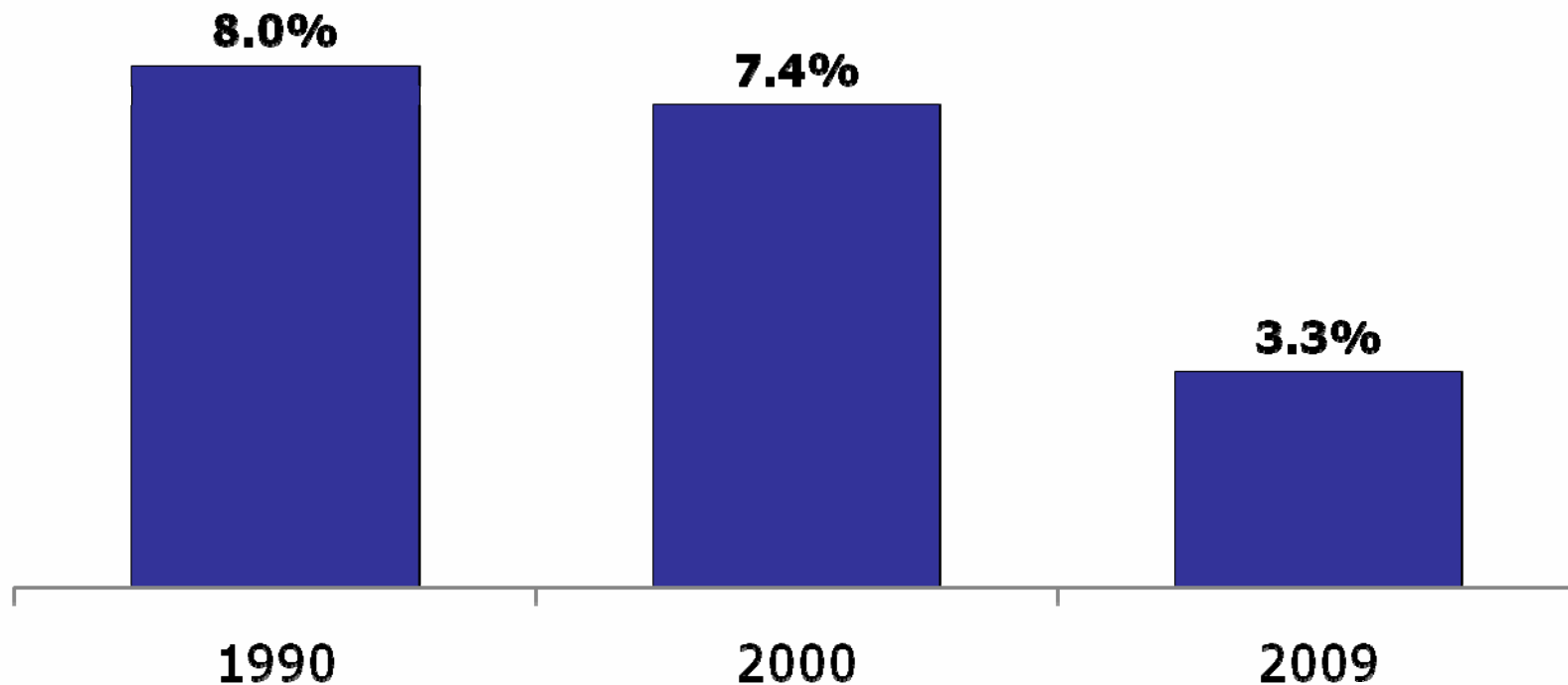
Michigan Transportation Equipment Employment
(In Thousands)





Auto Share of Michigan Employment Drops Dramatically

Transportation Equipment
Share of Total Michigan Employment





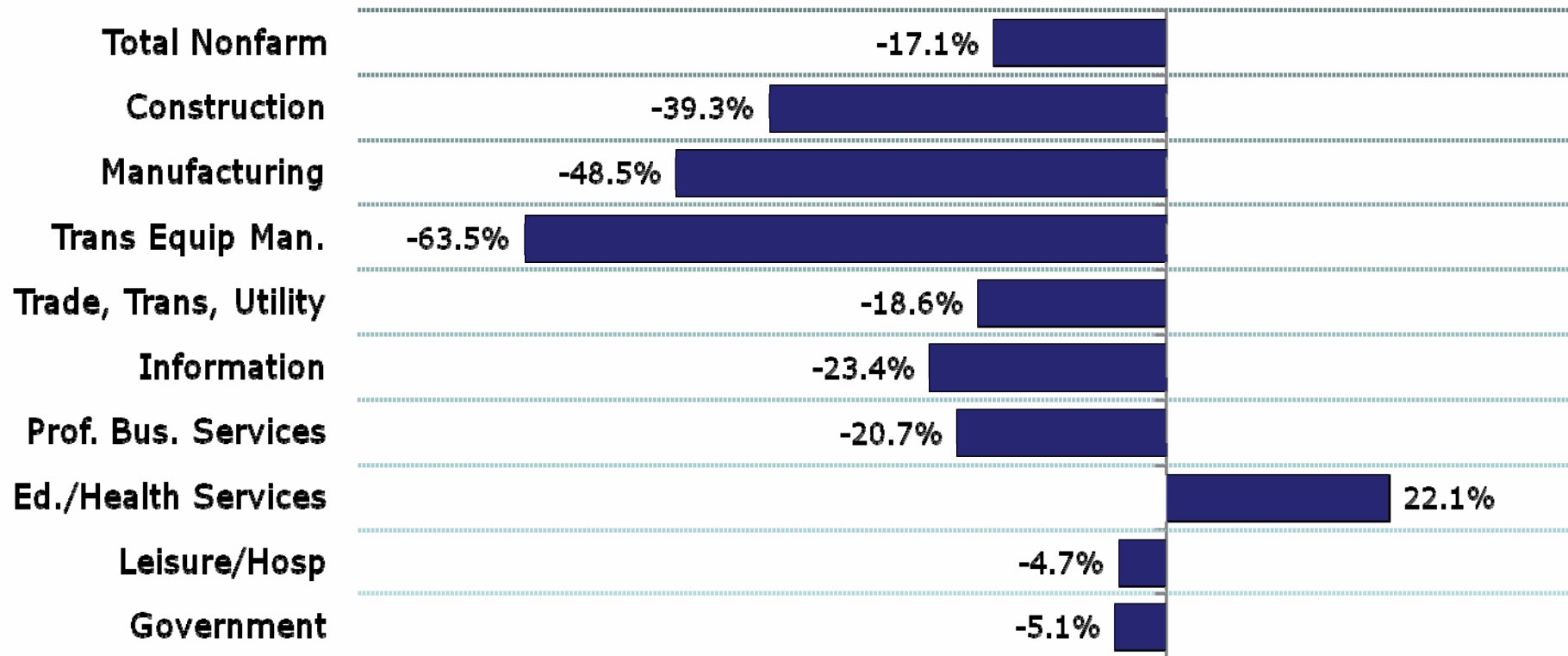
Michigan's Manufacturing's Footprint Now Significantly Smaller

	<u>2001 Q3</u>	<u>2009 Q3</u>	<u>% Change</u>
Number of Establishments	17,924	14,135	-21.1%
Number of Employees	810,594	455,667	-43.8%
Total Wages Paid (000 \$)	\$9,528,420	\$6,431,979	-32.5%



Almost Every Sector in Michigan Has Lost Jobs

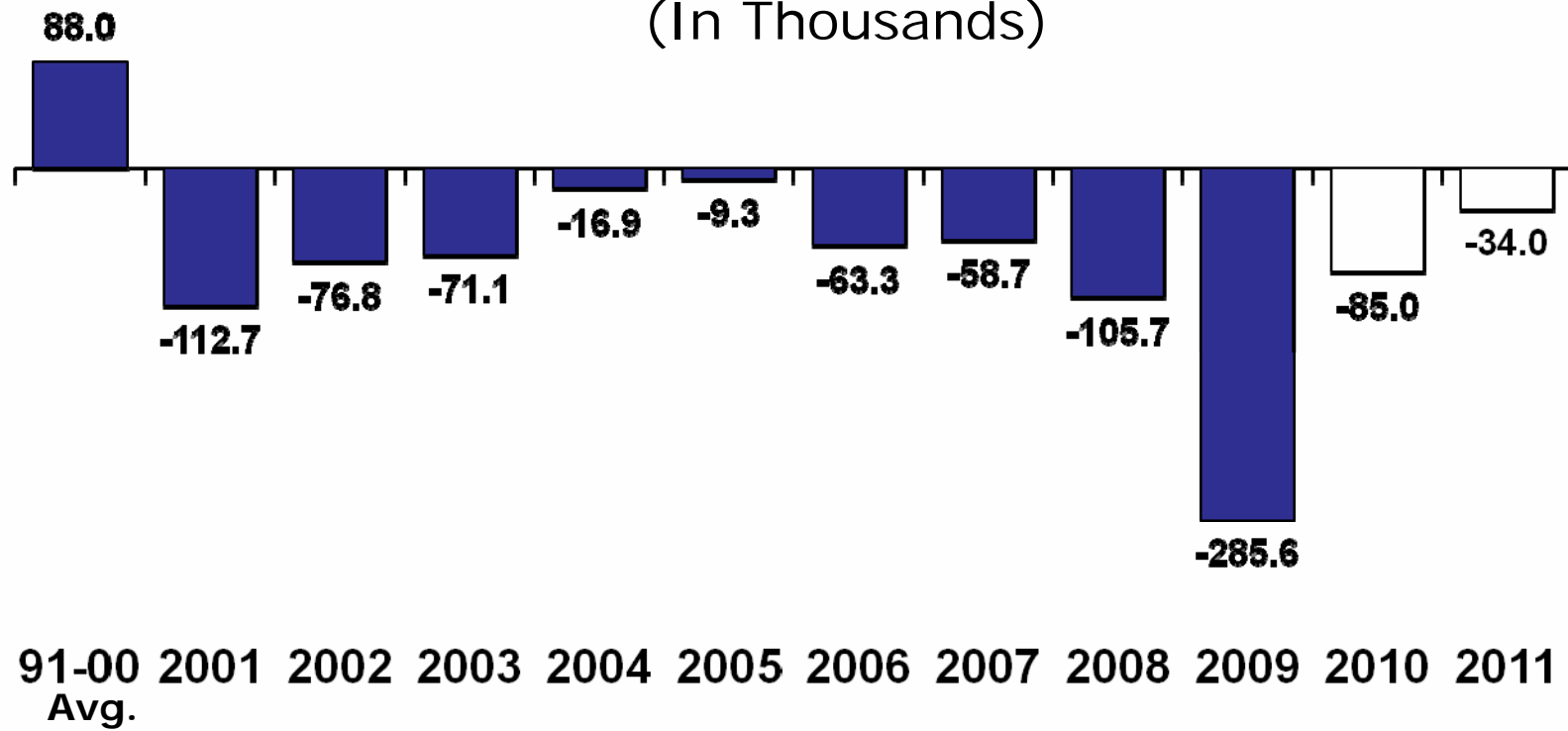
2000 to 2009





State Forecast – No Job Growth for Michigan Yet

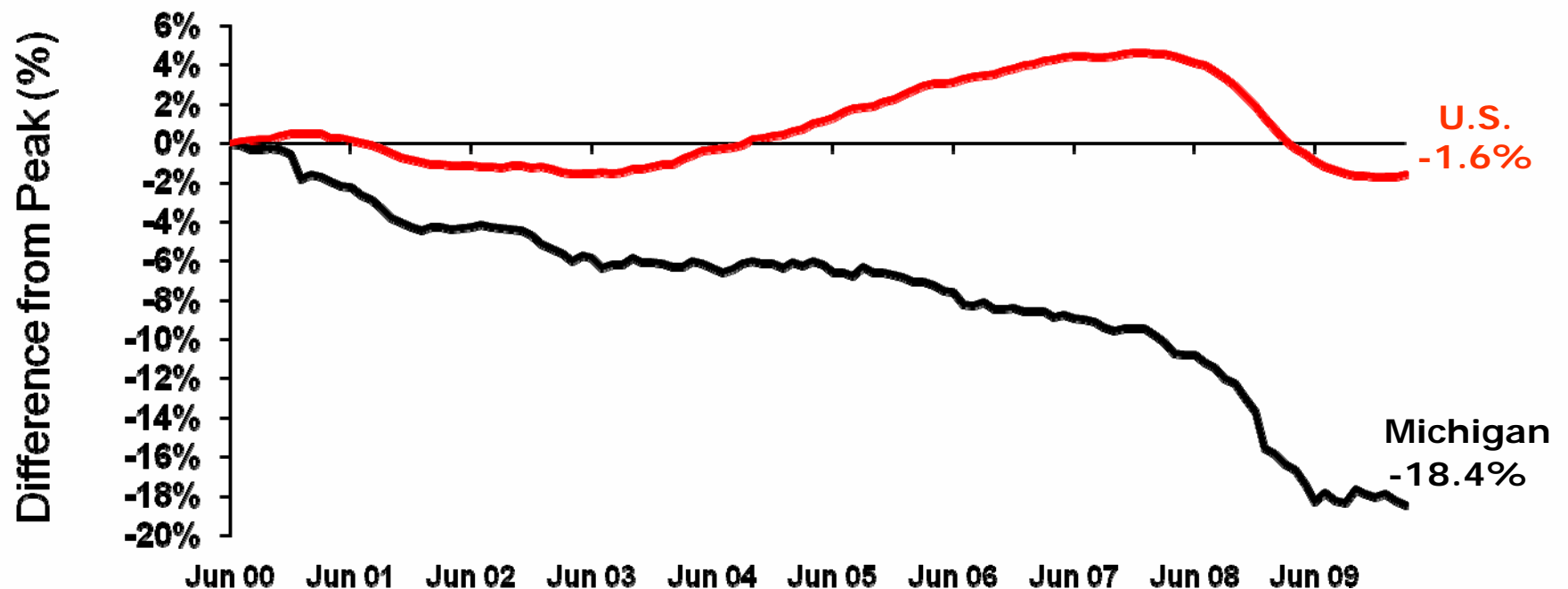
Michigan Wage and Salary Employment Y-O-Y Change
(In Thousands)





A Lost Decade of Michigan Employment

1 in 6 Jobs Lost Since June of 2000



20 Note: Peak is calculated from Michigan's June 2000 Peak. Data are through March 2010.
Source: Bureau of Labor Statistics and CRC calculations.



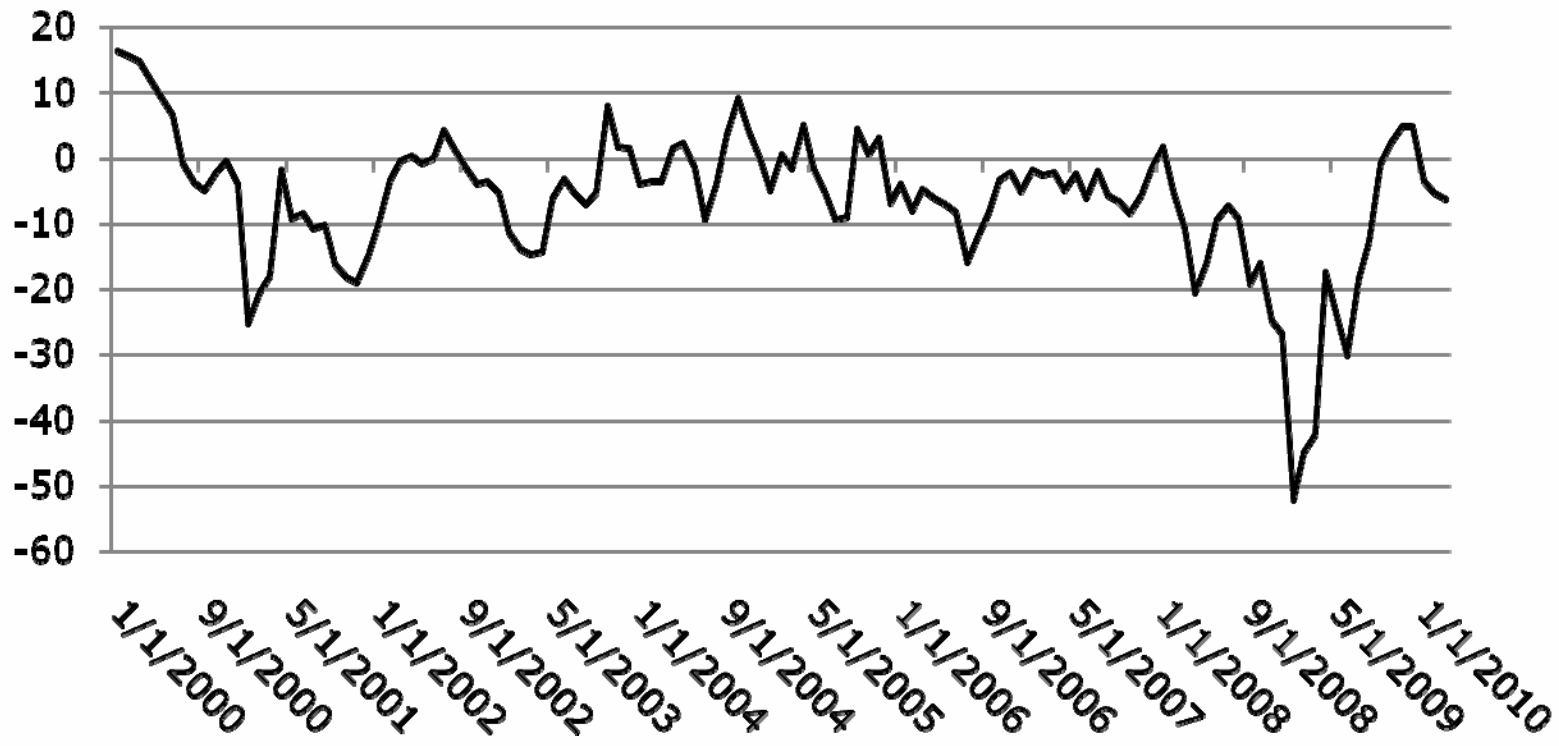
Unemployment is Widespread in Michigan

	March 2010 Unemployment Rate
Statewide	14.1%
Detroit MSA	14.6%
City of Detroit	25.3%
Grand Rapids MSA	12.8%
Saginaw MSA	14.2%
Grand Traverse County	15.3%
Marquette County	12.1%



Michigan Job Losses are Starting to Abate

Monthly Change in Michigan Employment (3 month avg. thousands)

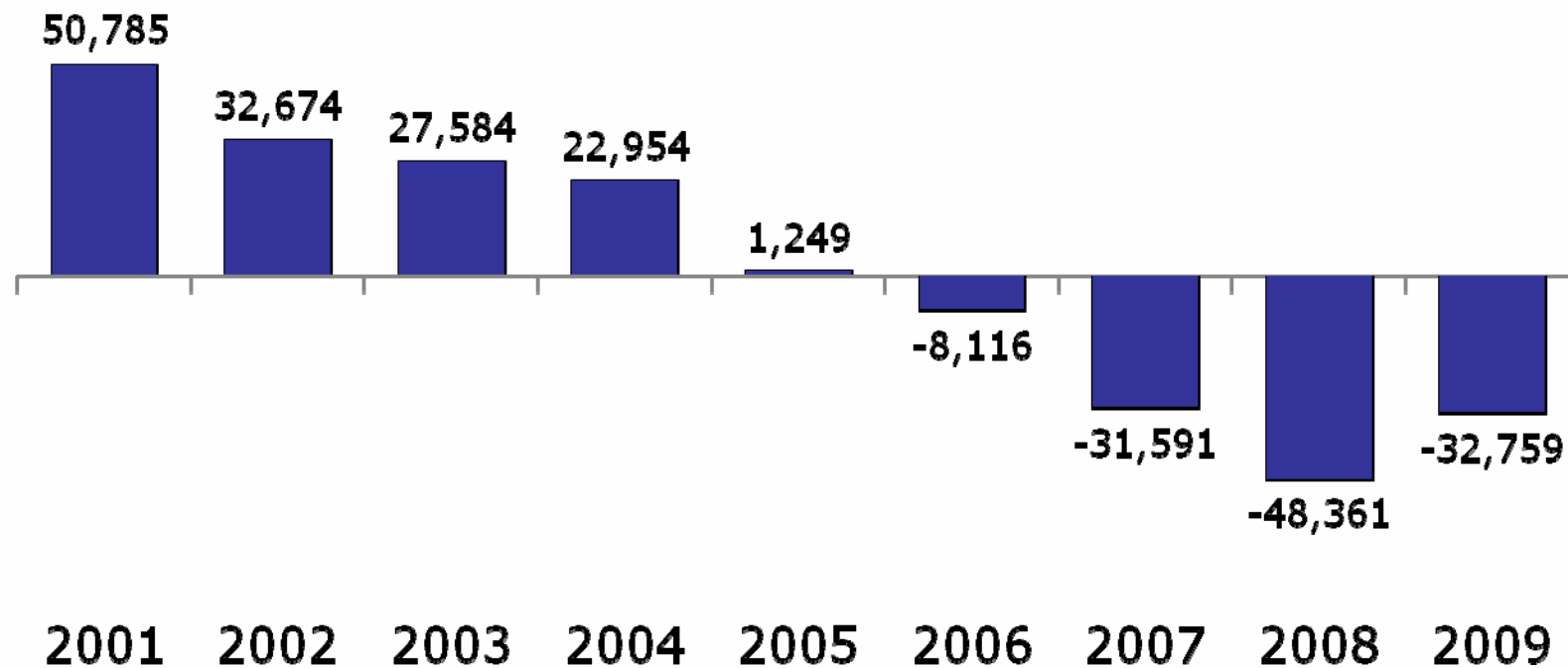




Michigan's Population is Declining

Population Has Declined by 120,000 Since 2005

Annual State Population Change





Georgia Will Soon Pass Michigan in Population

<u>Pop Rank</u>	<u>State</u>	<u>Population 2000</u>	<u>Population 2009</u>	<u>Change 2000 to 2009</u>	<u>Average Ann. Incr.</u>
1.	California	33,994,571	36,961,664	2,967,093	0.9%
2.	Texas	20,945,963	24,782,302	3,836,339	1.9%
3.	New York	18,998,044	19,541,453	543,409	0.3%
4.	Florida	16,047,118	18,537,969	2,490,851	1.6%
5.	Illinois	12,437,645	12,910,409	472,764	0.4%
6.	Pennsylvania	12,285,504	12,604,767	319,263	0.3%
7.	Ohio	11,363,844	11,542,645	178,801	0.2%
8.	Michigan	9,955,308	9,969,727	14,419	0.0%
9.	Georgia	8,230,161	9,829,211	1,599,050	2.0%
10.	North Carolina	8,079,383	9,380,884	1,301,501	1.7%



Michigan's Population is Aging

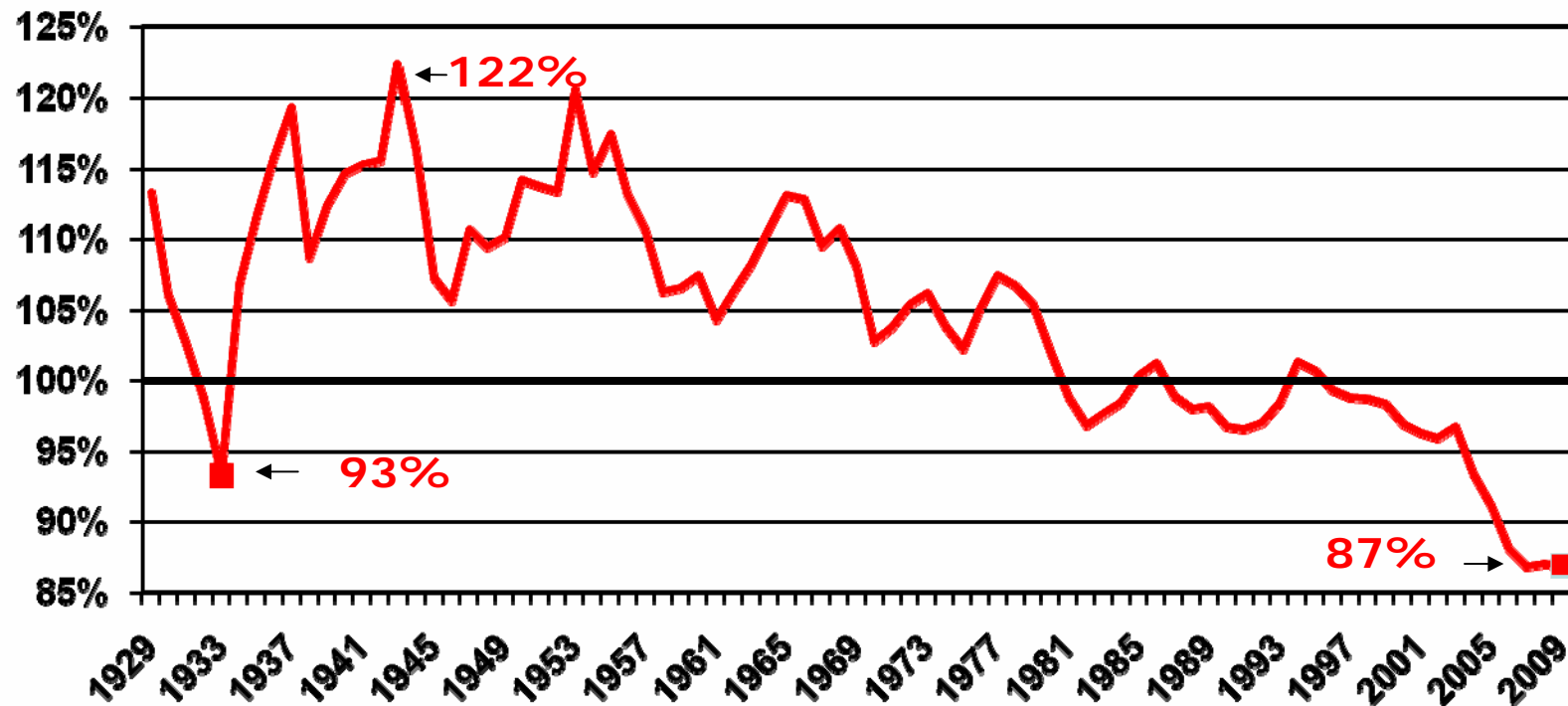
In 2025 Michigan's Over 65 Pop Will Look Like Florida Does Now

<u>Age</u>	<u>2000</u>	<u>Projected 2025</u>	<u>Change</u>	
			<u>Amount</u>	<u>Percent</u>
65+	1,219,018	1,926,396	707,378	58.0%
35 to 64	3,829,351	4,074,733	245,382	6.4%
20 to 34	2,006,010	1,981,634	-24,376	-1.2%
19 and Under	2,884,065	2,730,967	-153,098	-5.3%
Total	9,938,444	10,713,730	775,286	7.8%



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 2009





What Does This Mean for the Budget?



Revenues Crash and Don't Recover

Annual Growth Rates

	<u>FY 2009</u>	<u>Projected FY 2010</u>	<u>Projected FY 2011</u>
Sales Tax	-10.1%	-3.2%	0.9%
Income Tax	-19.0%	-10.0%	1.5%
Use Tax	-19.0%	2.7%	1.5%
State Education Tax	-1.9%	-8.1%	-4.0%
Real Estate Transfer Tax	-26.2%	1.4%	6.3%
GF-GP	-21.3%	-6.3%	1.0%
School Aid	-5.1%	-4.2%	0.2%



FY2010 GF Cuts Were Severe

- Medicaid provider rates (cut 8% from original FY2009 level)
- Non-Medicaid CMH funding (\$40M cut)
- Elimination of \$238M from DHS budget
- Revenue Sharing to CVTs down 9.7%
- State employee concessions/layoffs (varied)
- Average of -8.4% cut (GF-GP) across all state departments
 - Some larger than others
 - Some areas protected from cuts per ARRA
- Scholarships to university students cut by two thirds (incl. elimination of Promise Grants)



FY 2010 Had Significant School Aid Cuts

- Ongoing 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) was rescinded
- Stimulus money in budget:
 - FY 09 \$600M
 - FY 10 \$450M
 - FY 11 \$184M (remainder of funds)



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%
Projected GF-GP Shortfall			\$1,160.0
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%
Projected SAF Shortfall			\$422.0



Governor's Proposal for FY 2011

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 – **requires yet to be enacted federal legislation**
- 32 • 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
- By 2014 there is no net new revenue from proposal
- Also proposing early retirement program for school employees, savings retained locally (\$600M)



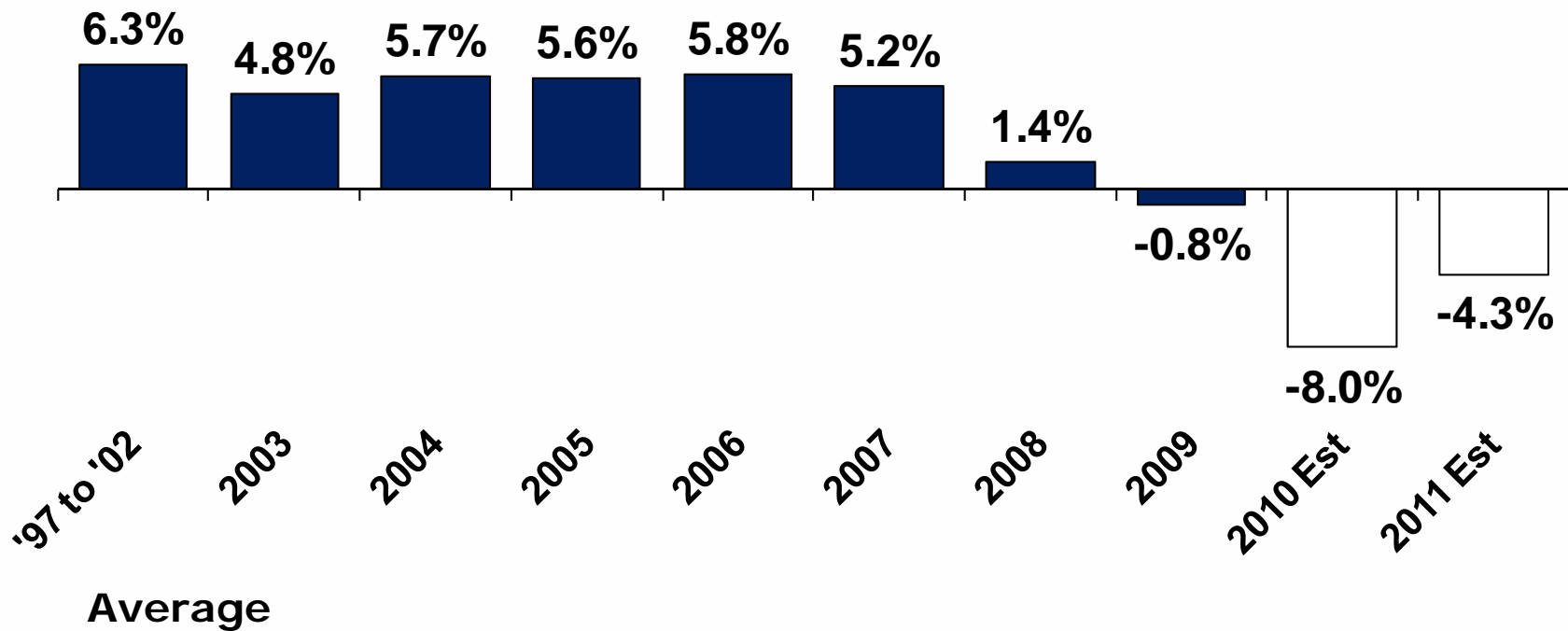
Local Revenues Have Held Up Well Until Now

- To date, local property tax has helped to provide stability to local government revenue picture ~ 5% growth/yr ('00 – '07) and flat in 08 and 09
 - Going forward, this picture changes dramatically
 - Taxable value falls in 2010 and 2011
 - State revenues will not be positioned to help
- Coming out of the downturn, tax value growth capped (Prop. A) – restrains revenue growth
- Local cuts are coming and will be much more visible than many state cuts



TV Growth Provided Stability But Taxable Value Now Falling

% Change in Total Taxable Value





What Reforms Have Been Proposed?



Corrections

- Michigan's incarceration rate is 24% higher than the Midwest average
- Some reductions have begun: current population down 12% (6,300) from 2006 peak
- Gov's Exec Budget proposes reducing prison population by almost 10,000 (20%) between FY 10 and FY 11
- However, short-run savings limited by:
 - Reinvestment of resources to manage released inmates
 - High fixed costs in system
 - Slow reduction in employee head count
 - Less dangerous prisoners (i.e. cheaper to incarcerate) are the ones being released



Retirement Changes

- Gov proposed early retirement incentive to state employees including:
 - Multiplier from 1.5% to 1.6%
 - Cap years of service at 30
 - No vision and dental if don't retire now
- 1 in 5 are eligible in most state departments (1 in 20 in corrections)
- State assuming 85% take rate (6,700 retire)
- 3% retirement contribution will be required for remaining employees in system
- Schools proposal is similar with 39,000 assumed to retire (also includes 3% contribution requirement)
- Without changes: Pension costs (including healthcare) for DB state employees increasing by 4 percentage points of payroll and for school employees 2.5 percentage points



Proposed Public Employee Compensation & Healthcare Changes

- Gov: New employees hired after April 1 receive benefits under new state health plan and will contribute 20% of premium cost; 3% retirement contribution for state and school employees
- Speaker Dillon: Pool benefit coverage for all state, local, and school district employees
- Sen. Republicans: 2 Constitutional ballot proposals
 - Impose a 5% pay cut for all govt employees (incl. schools, comm. colleges, universities, etc.)
 - Require all govt employees pay 20% of premiums (about double what they pay now)
- BLM: reduce state employee comp to average of state workers in U.S.; adjust state employee premium contributions to national public sector average



Other Potential Areas of Reform

- **Tax Structure** – Potential goals include: faster growth; more favorable to economic development; increased progressivity; additional revenues
- **Local Government Service Consolidation or Service Collaboration** – Increased service sharing among local governments, or outsourcing of service provision in an attempt to achieve cost savings
- **Investments in Areas Deemed Key for Economic Development** – Potential areas include infrastructure, higher education, targeted tax credits for key industries (e.g. film credits, battery credits)



Will It Get Better?

- Economy starting to grow, **but there is no quick recovery from an 18% employment decline**
- Spending, primarily due to healthcare costs, poised to grow faster than revenues over long-term
 - Gap is 1.7% per year on average in SAF
 - Gap is 5.4% per year in GF-GP, exacerbated by scheduled tax cuts, esp. IIT rate cut
- Other states and federal government face similar challenges with healthcare, but Michigan's economic problems accelerate the problem for us
- Michigan's problems are long-term and structural we need to start thinking and planning longer-term



CITIZENS RESEARCH COUNCIL OF MICHIGAN

The Citizens Research Council of Michigan is supported by gifts and grants of all sizes coming from many different donors including:

- Foundations
- Businesses
- Organizations
- Individual Citizens like you

We hope you will consider supporting CRC. For more information or to donate, contact us at:

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

(734) 542-8001
www.crcmich.org



CRC Publications are available at:

www.crcmich.org

Providing Independent, Nonpartisan Public Policy
Research Since 1916