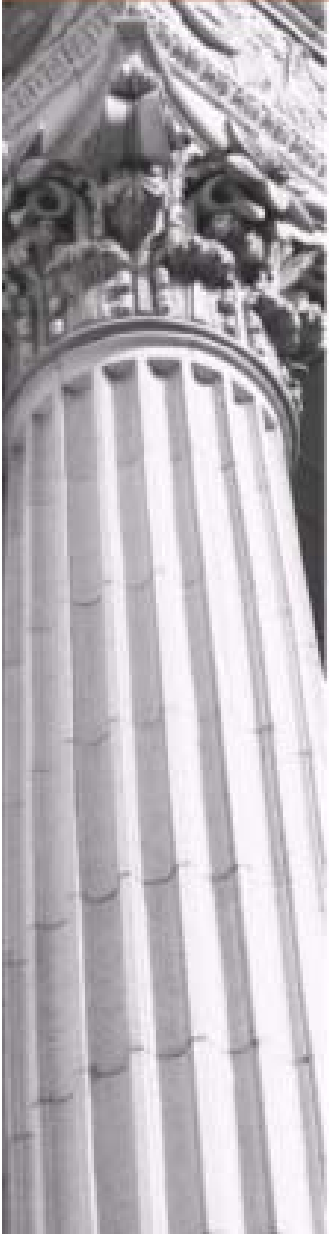




CITIZENS RESEARCH COUNCIL OF MICHIGAN



Michigan State Budget Update and Outlook

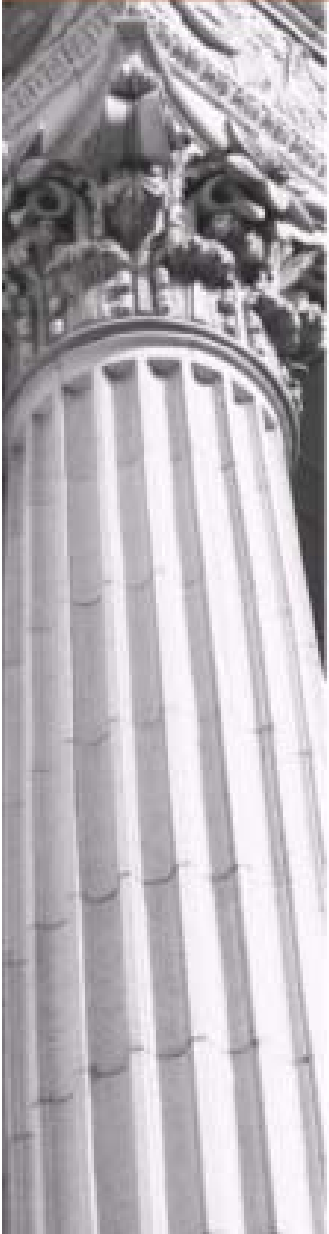
**Presented to
Michigan Agricultural Credit Conference
Michigan State University**

November 5, 2009



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*



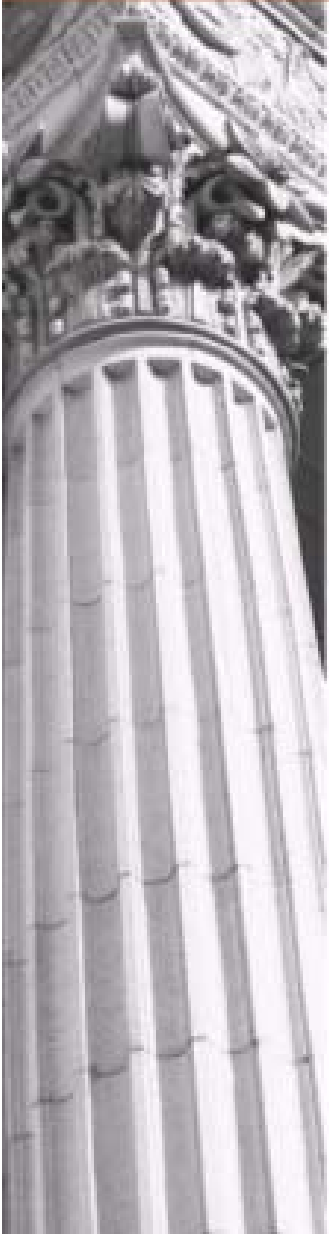
The Story Has Not Changed . .

- 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 unprepared to deal with current recession
 - Exhausted reserves
 - Tax increases of 2007
- Must correct for two problems simultaneously
 - Structural deficits
 - Cyclical deficits
 - Each problem requires specific set of tools



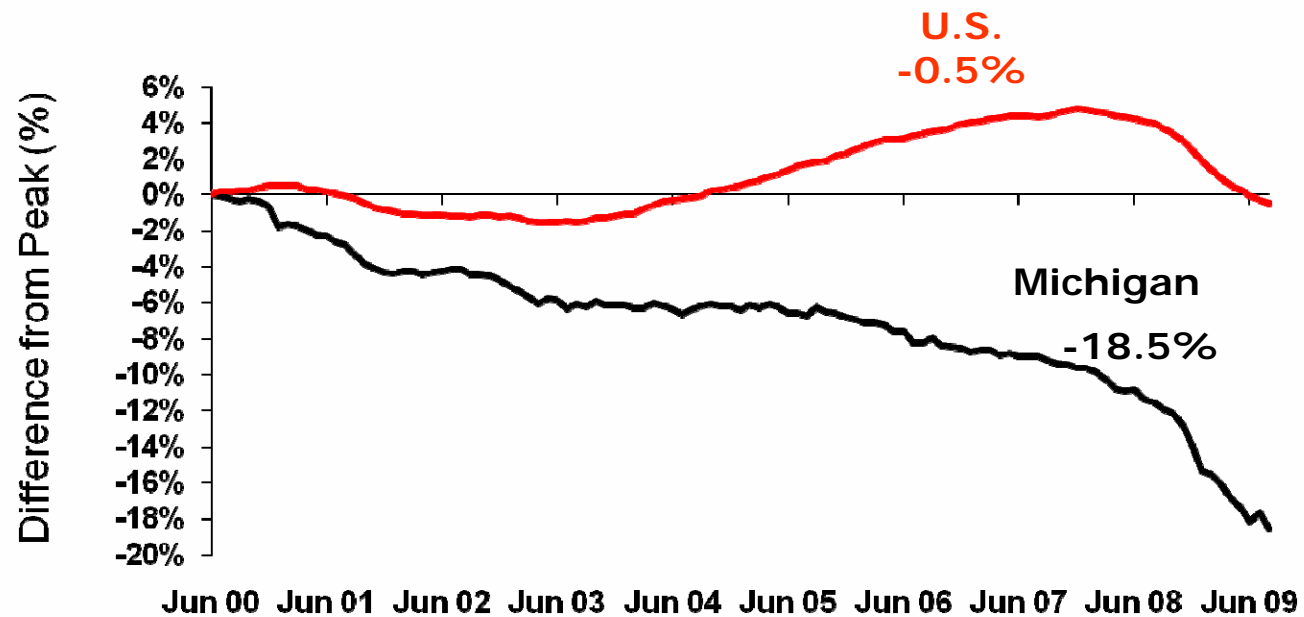


What is Going On in Michigan?

- Michigan economy has shown no improvement since 2001 recession – “single state recession”
- Since employment peak (June 2000), Michigan payroll employment has declined by 750,000 (19%)
 - Concentrated in manufacturing (autos)
- Michigan Personal Income losing ground relative to US – becoming a “poorer” state
- Baseline state revenues experience anemic growth



Michigan Employment Never Recovered in Last Expansion



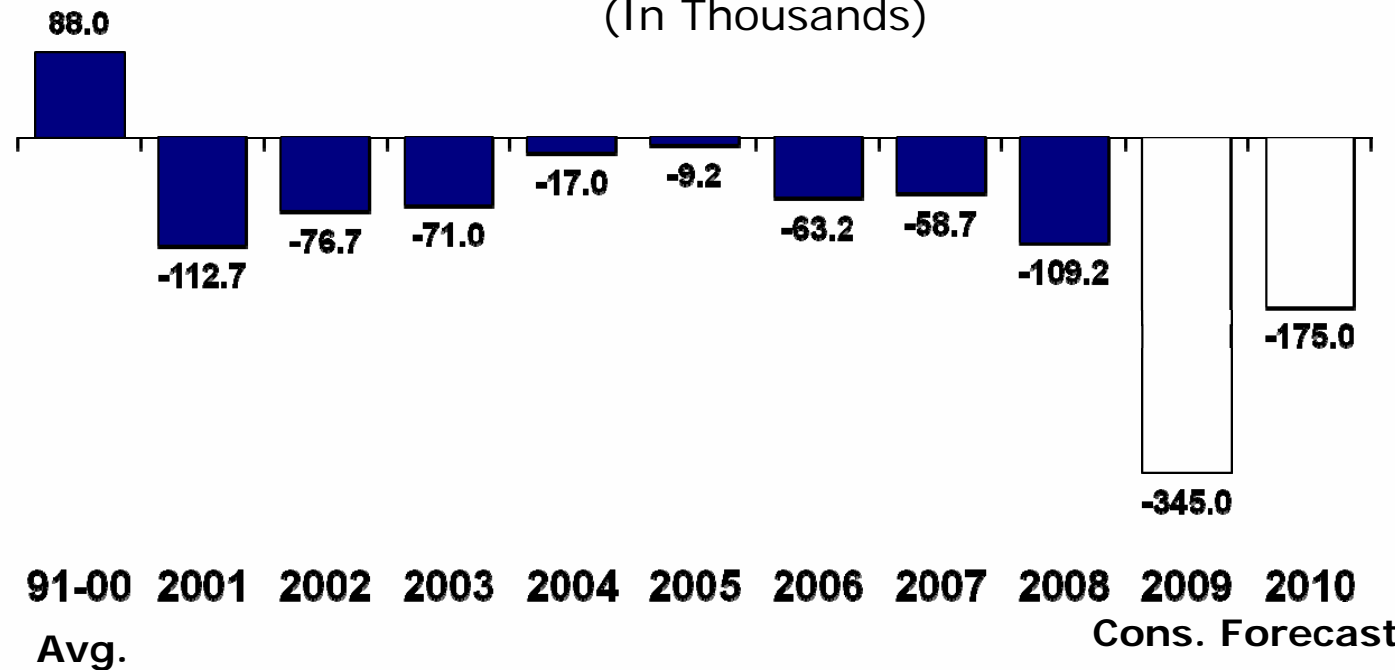
Note: Peak is calculated from Michigan's June 2000 Peak. Data through August 2009.

Source: Bureau of Labor Statistics



By the End of 2010 – Michigan Will Have Lost 1M Jobs

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

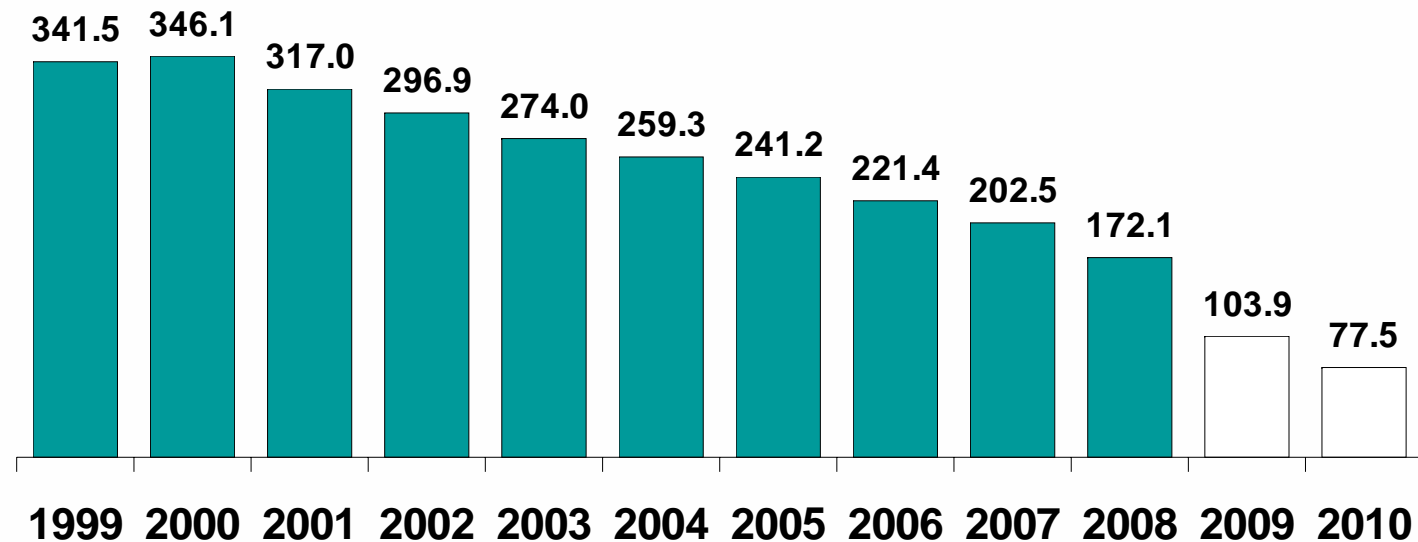


Source: Bureau of Labor Statistics. 2009-2010 estimates are from the May 2009 Consensus forecast.



3 in 4 Auto Jobs Lost by 2010

Michigan Transportation Equipment Employment
(In Thousands)



Source: Bureau of Labor Statistics. 2009-2010 estimates are the average of the 3 agency forecasts for the May 2009 Consensus Conference.



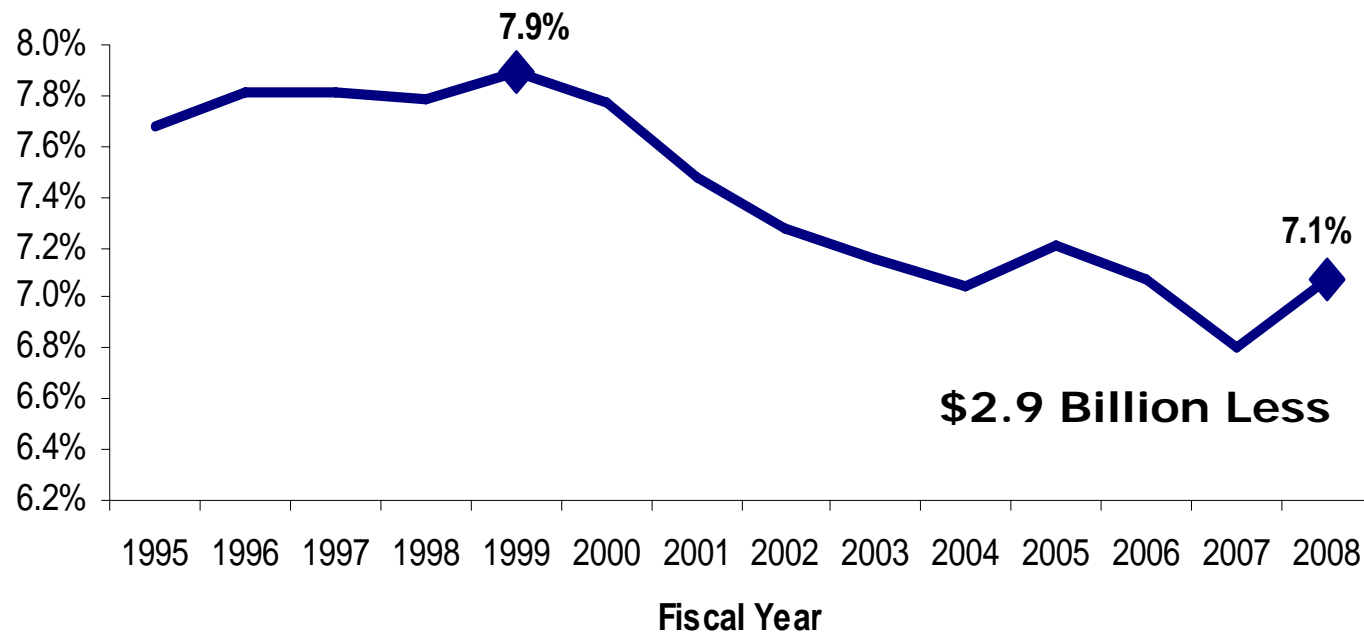
Michigan's Budget Problems *FY2001 to FY2007*

- 7 years of spending cuts
- Major tax cuts since late 1990s
- Anemic revenue growth
- \$8 billion in one-time resources used including reserves
- Cash position improved with 2007 tax increases, but still very tenuous
- Weakened connection between revenue structure and the economy
- Spending pressures growing faster than revenues – structural **not** cyclical



Tax Cuts and Economic Performance Affect State Tax Collections

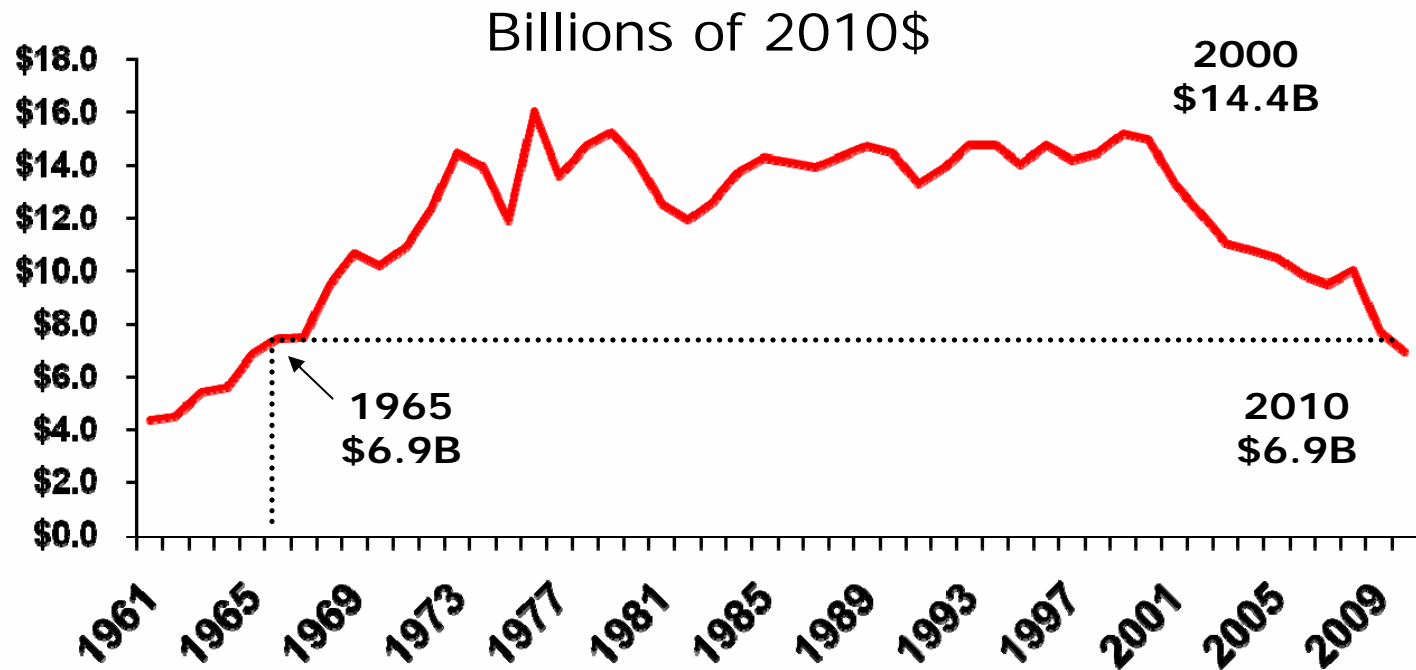
State Taxes as a Percent of Michigan Personal Income



Source: Michigan Annual Financial Report



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



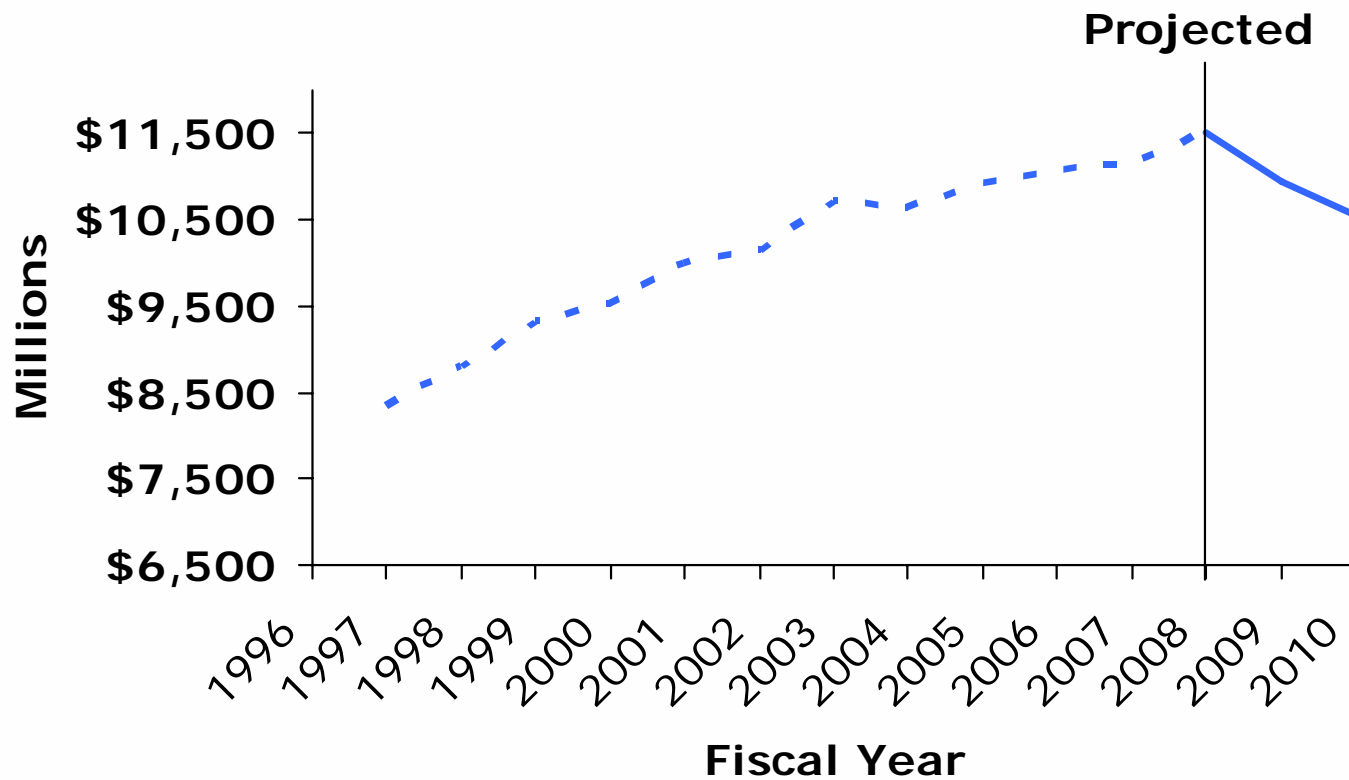
Note: GF-GP figures are presented on a Consensus basis and adjusted for inflation to 2010 dollars using the state and local government price deflator. 2009 and 2010 are estimates.



School Aid Fund

First Two-Year Decline Since Prop. A

SAF On-Going Revenues



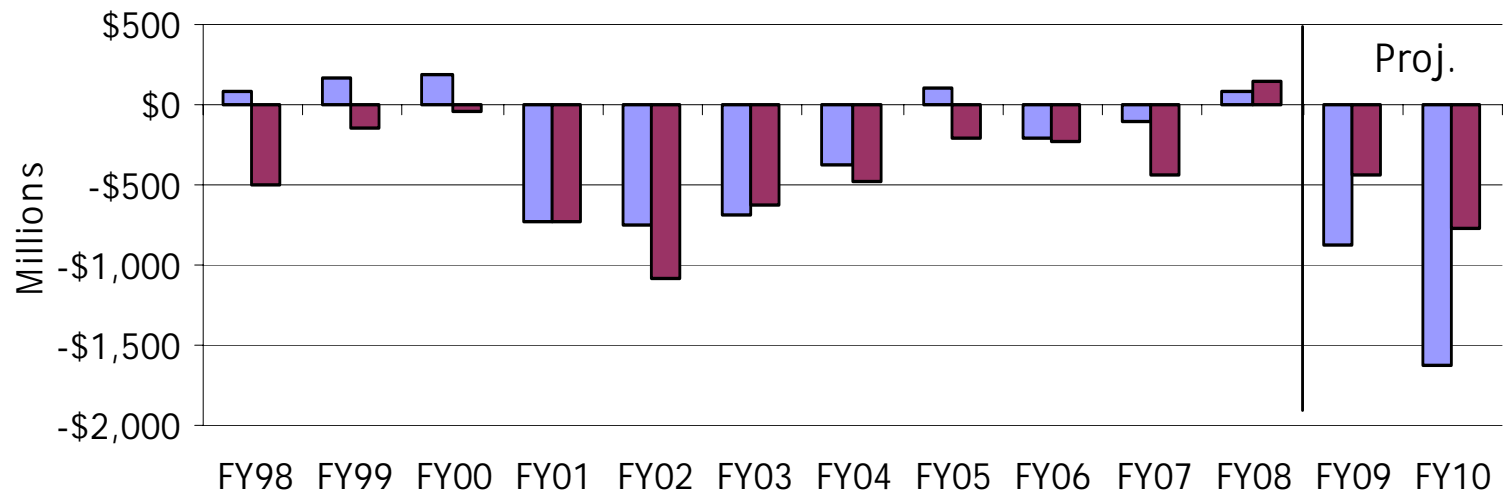
Source: Michigan Department of Treasury



Persistent Deficits

Michigan's Structural Deficit Problem

GF/GP and SAF Operating Deficits



source: Senate Fiscal Agency

■ GF/GP ■ SAF



Reshaping the GF-GP Budget

Major Shifts in Spending

Major GF/GP Program Appropriations (millions)

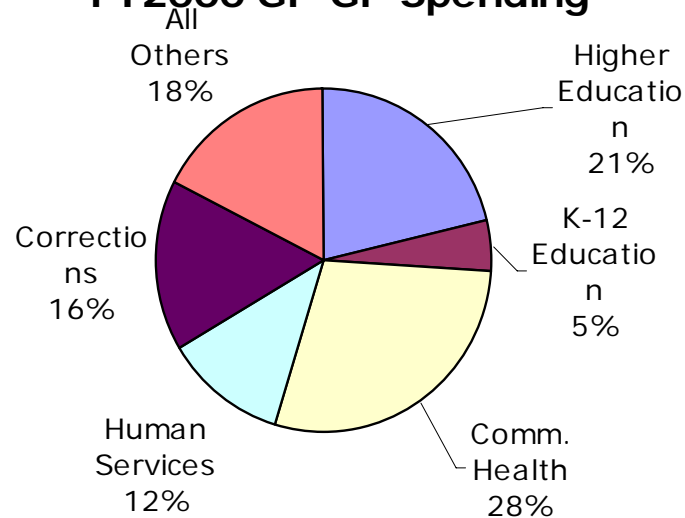
	2000	2005	2010	Differene '00 to '10	Difference '00 to '10
Community Colleges	\$ 297.2	\$ 294.3	\$ 299.4	\$2.13	0.7%
Higher Education	\$ 1,679.3	\$ 1,633.4	\$ 1,507.7	(\$171.60)	-10.2%
School Aid	\$ 420.6	\$ 165.2	\$ 30.2	(\$390.41)	-92.8%
Community Health	\$ 2,636.1	\$ 2,588.8	\$ 2,308.7	(\$327.48)	-12.4%
Human Services	\$ 1,088.7	\$ 1,076.4	\$ 860.3	(\$228.46)	-21.0%
Corrections	\$ 1,486.6	\$ 1,688.9	\$ 1,903.6	\$417.06	28.1%
All Others	\$ 1,620.0	\$ 1,255.9	\$ 1,232.5	(\$387.41)	-23.9%
Total	\$ 9,228.6	\$ 8,702.8	\$ 8,142.4	(\$1,086.17)	-11.8%



Corrections

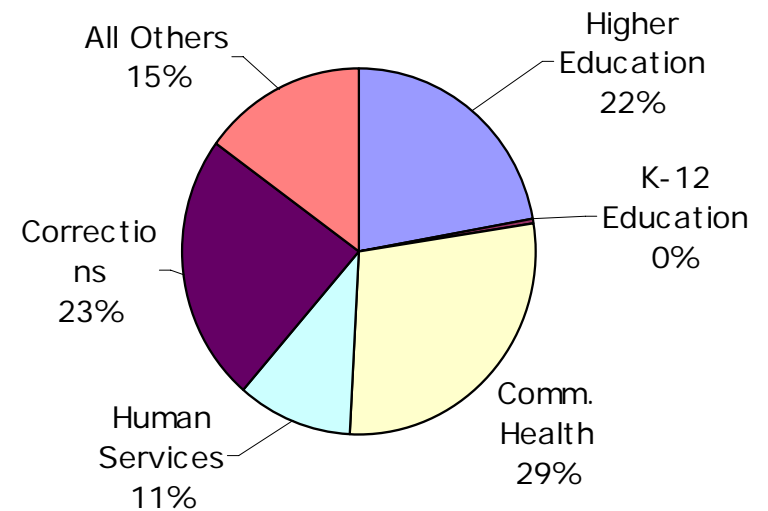
Consuming a Larger Piece of Shrinking Pie

FY2000 GF-GP Spending



Total: \$9.2B

FY2010 GF-GP Spending



Total: \$8.1B



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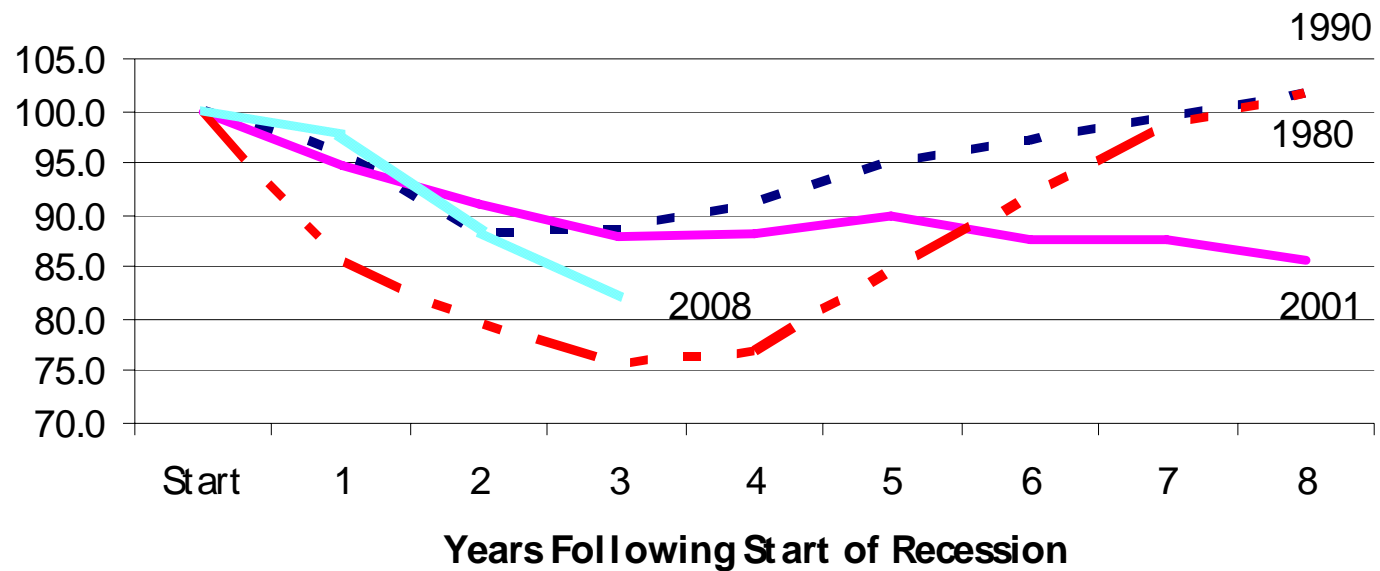
May Revenue Revisions

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



2008 Recession Impact on Revenue *Looks More Like 1980 Than 2001*

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



Source: Senate Fiscal Agency; CRC calculations



FY2009 Problem Magnified *\$1.2B 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
Shortfall	\$ (144)	\$ (1,181)	

Source: Senate Fiscal Agency, 7/09



FY2009 Problem Magnified

\$429M 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	
Shortfall	\$ (38)	\$ (429)		

Source: Senate Fiscal Agency, 7/09



Achieving Budget Balance *FY2009 GF-GP Solutions*

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



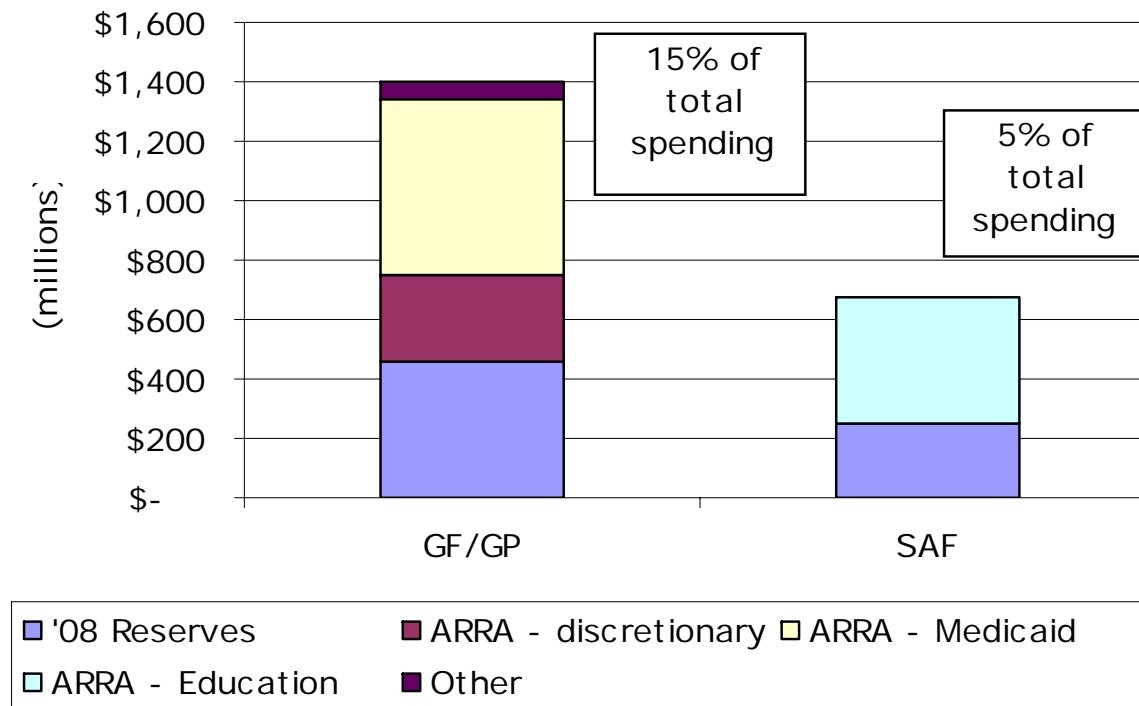
Stimulus \$ Significant *Budget Balancing Somewhat Limited*

- Of total \$787B – one third in tax relief provisions and two thirds (\$500B) in public spending
- Public spending component: \$7B Michigan share
 - Does not include \$ directly to locals
 - State and local governments play major role in this process – they do most of federal spending
- About 50% is “fungible” in 3 areas:
 - Discretionary: \$300M
 - Education: \$1.3B
 - Medicaid: \$2B
 - How work? One-time money used to supplement existing state resources
 - Available for three years, with \$1.3B used in FY2010
- Remaining \$ is categorical (transportation, spec. ed., environmental, etc.)



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

FY09 Budget: Non-Recurring Resources Used





Where Things Stand Today

FY2010 Budget Update

- State operated under a temporary, one-month budget for October
 - Enacted only *after* start of fiscal year
 - Did not include funding for schools
- Full-year budget enacted by Oct. 31 deadline – avoiding “shutdown”
- Largely a “legislative” product, with little input from the Governor



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
Shortfall	\$	(1,848)



FY2010 GF-GP Budget Solutions

Spending Cuts and Stimulus Rule the Day

Solutions	(millions)	
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
Shortfall	\$	(1,000)



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
New Revenues	\$	100
Beginning Balance	\$	202
Total	\$	1,061



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 Michigan's 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



Questions?

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