

Michigan's New Normal

Implications for the Future

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Facilitation: Alliance for Economic Success



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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*



The State of the National Economy

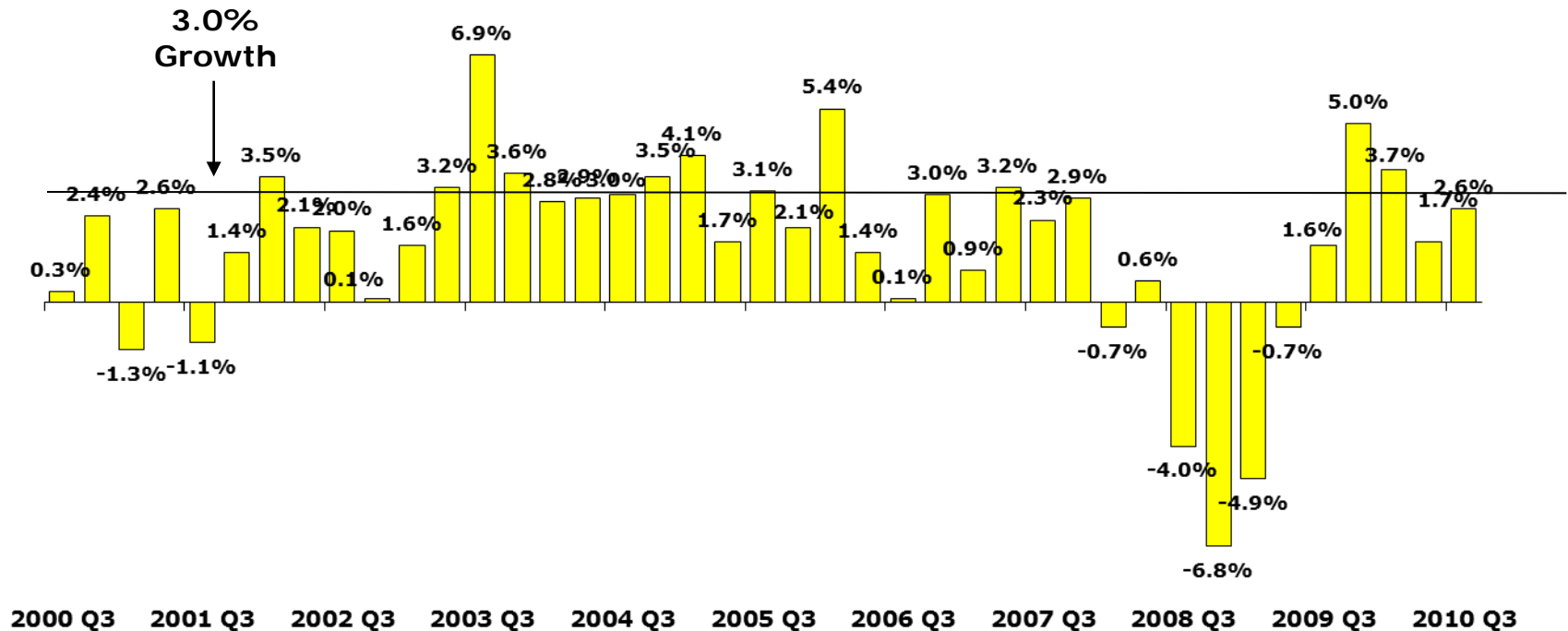


Recession is Over – Sort of...

- National recession ran from December 07 to June 09
- National recession lasted 18 months, longest post-war recession
- Output has been growing since 2009Q3
- But after 5 quarters of growth output still slightly lower than it was at start of recession
- Job growth has been minimal making it feel like the recession is still occurring
- While economic recovery has been disappointing and uneven, growth appears to be improving

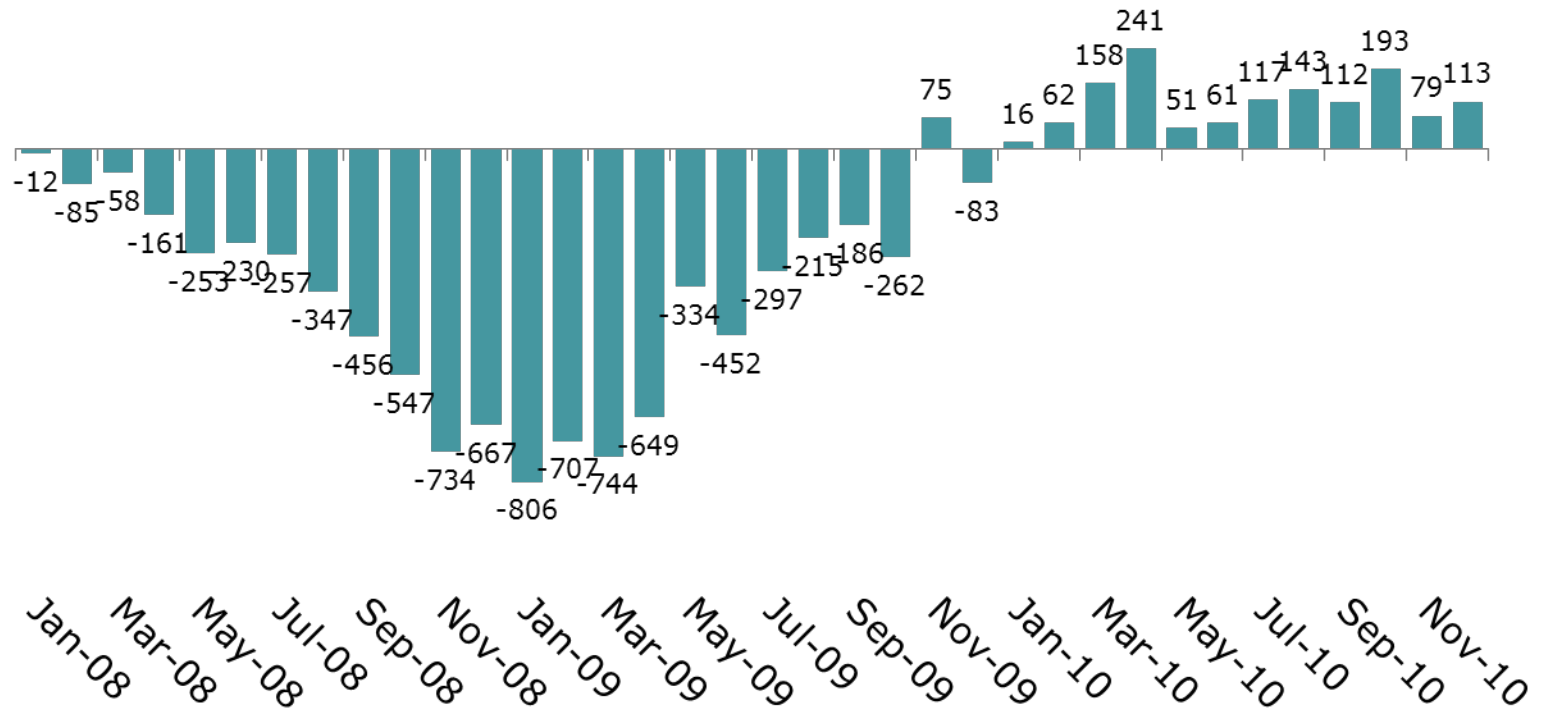
GDP Has Grown for 5 Straight Qtrs

Real GDP Growth



After Losing Over 8 million Jobs U.S. Employment Growing But Slowly

Monthly Change in U.S. Private Employment (thousands)





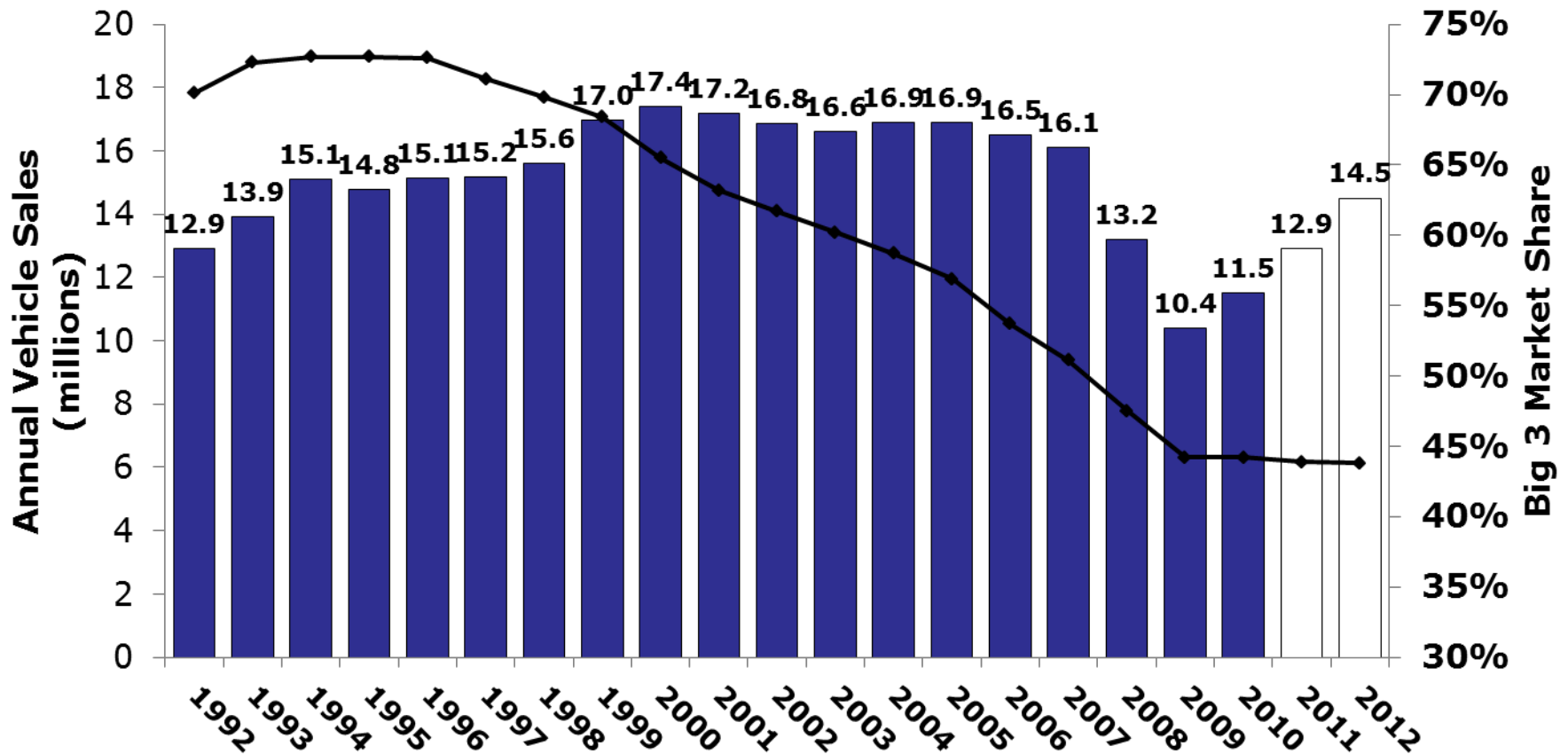
What is Happening in Michigan?



The Last Decade Has Been an Economic Disaster for Michigan

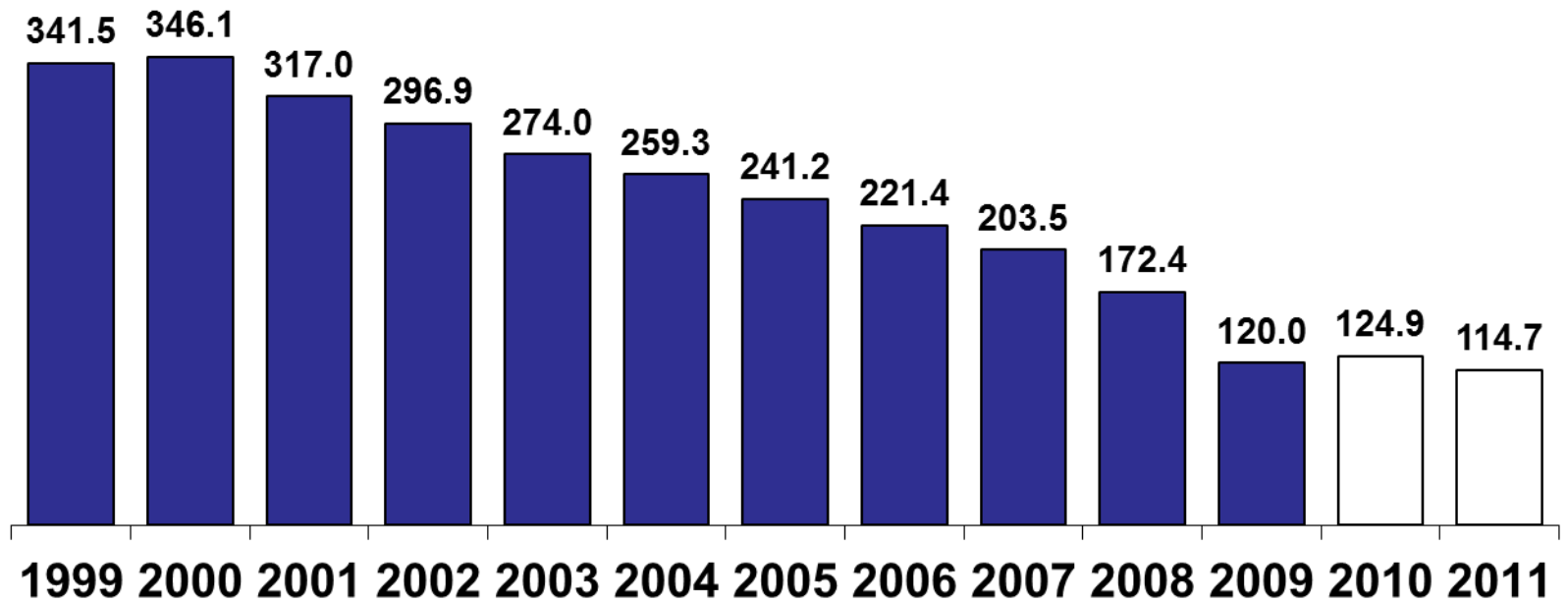
	<u>Growth 2000 to 2009</u>		<u>Michigan</u>
	<u>U.S.</u>		<u>Rank</u>
Population	8.8%		51
Real Per Capita GDP*	9.7%		51
Employment	-0.7%		51
Real Per Capita Income	3.6%		51

Big 3 Market Share Plummet



2 in 3 Auto Jobs Lost by 2011

Michigan Transportation Equipment Employment
(In Thousands)

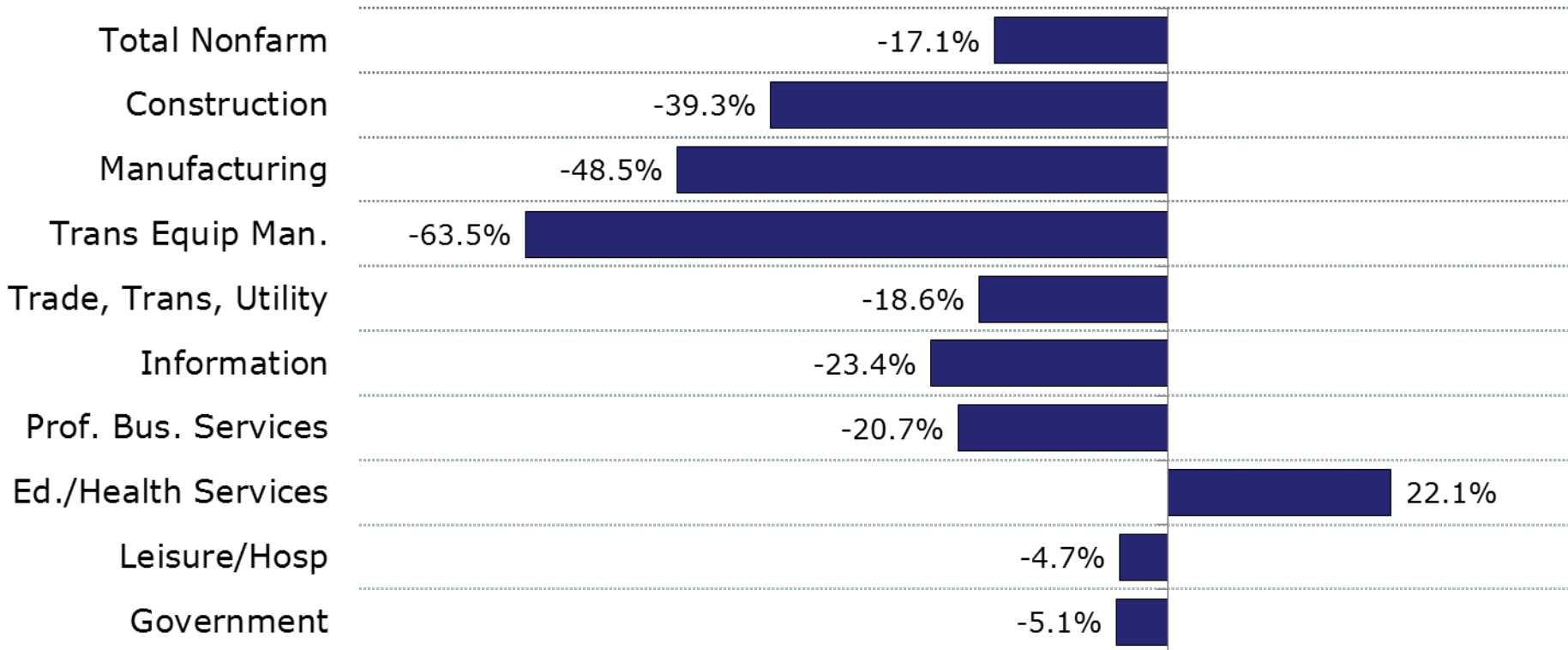


Avg. Agency Forecast



Almost Every Sector in Michigan Has Lost Jobs

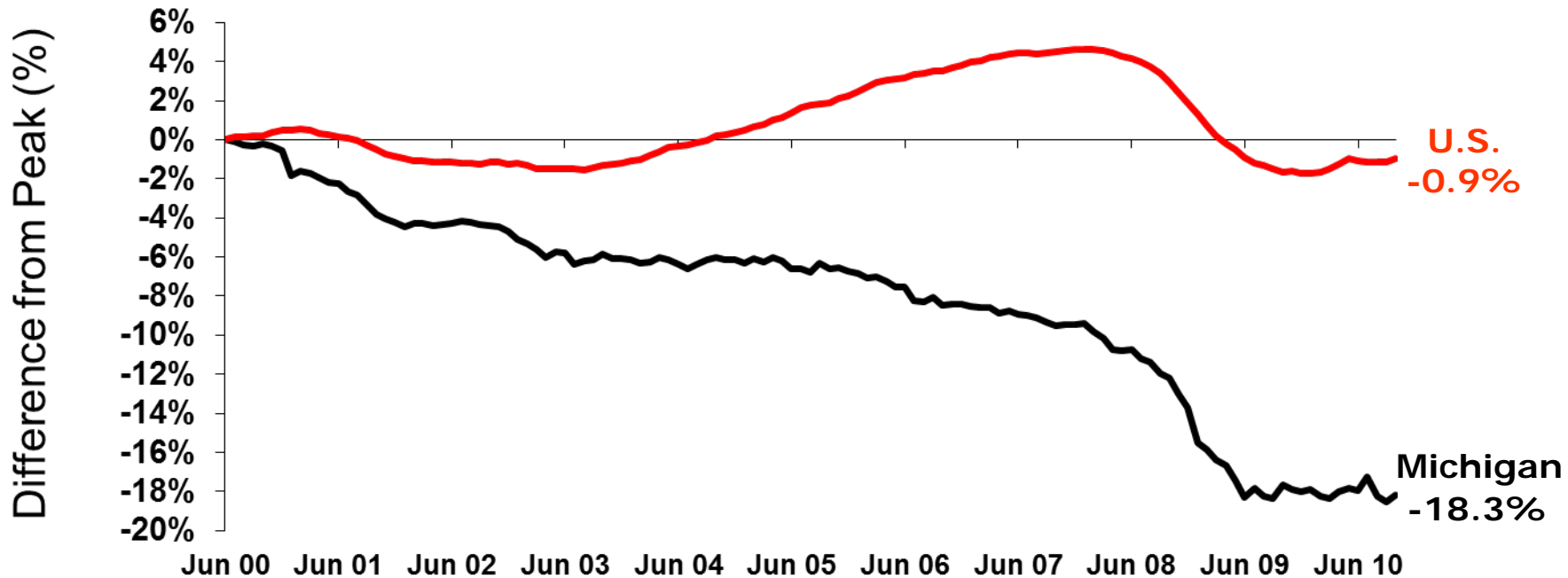
2000 to 2009





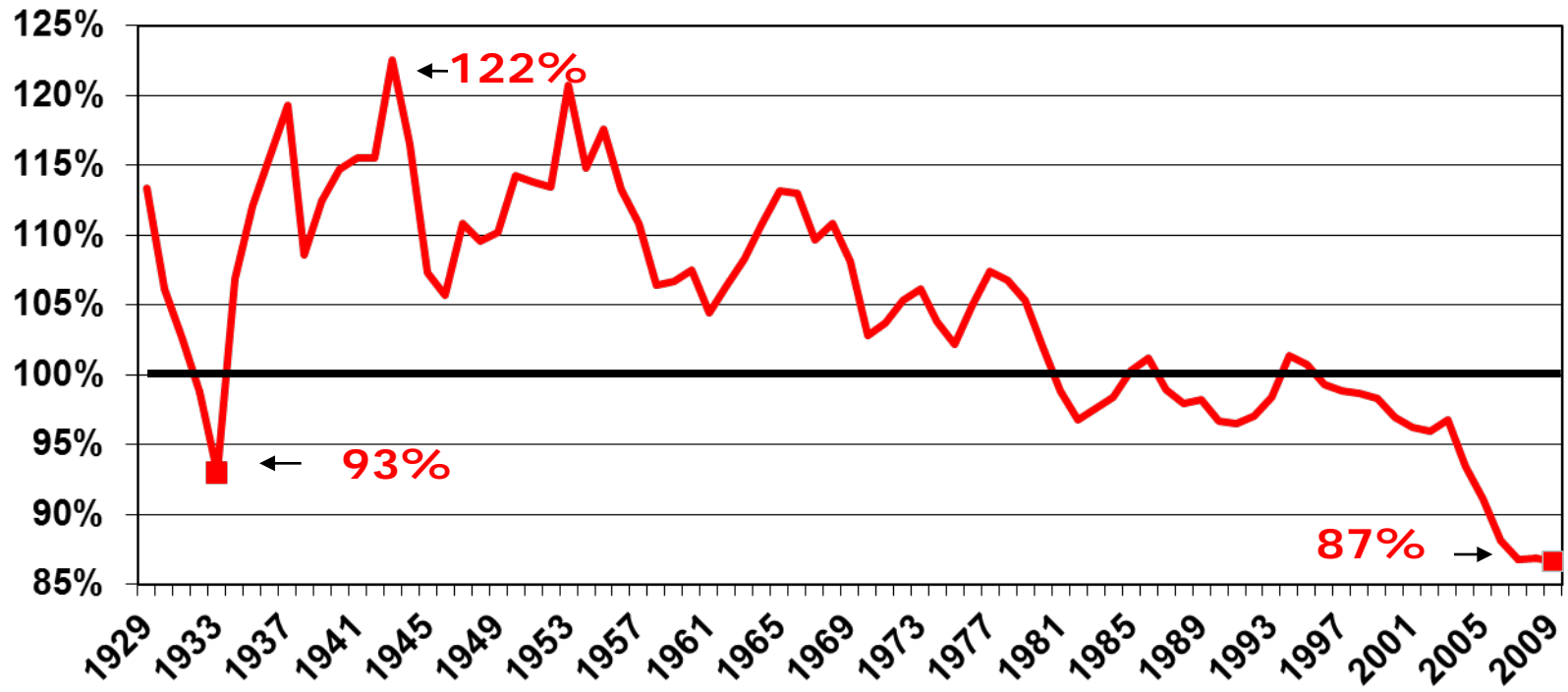
A Lost Decade of Michigan Employment

1 in 6 Jobs Lost Since June of 2000



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





Manistee Has Not Been Immune

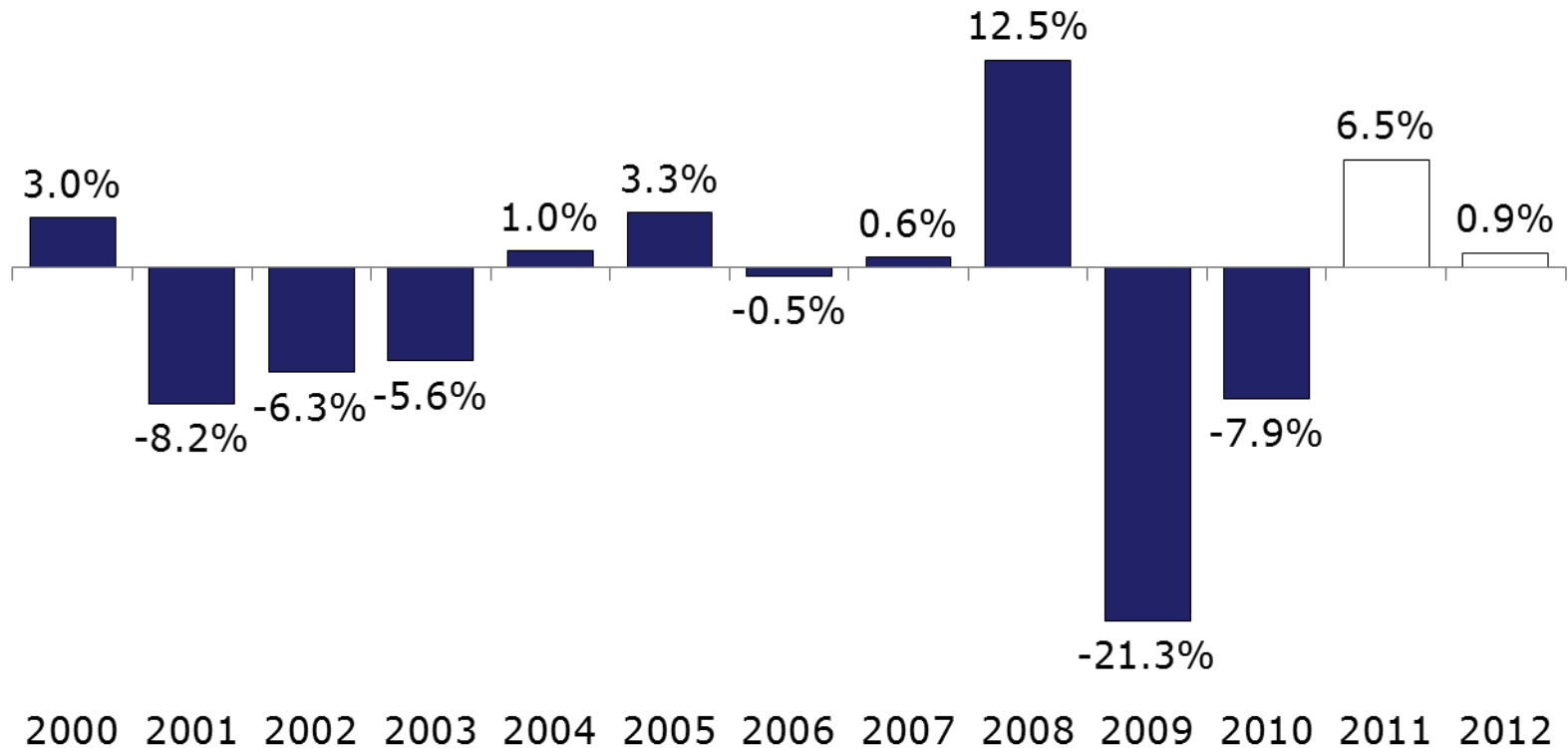
	<u>2001</u>	<u>2009</u>	<u>Percent Change</u>
Employment	8,511	7,217	-15%
Mfr. Employment	1,414	784	-45%
Establishments	699	626	-10%
Wages (millions of 2009 \$)	\$ 277,242	\$ 245,668	-11%



What Does This Mean for the Budget?

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

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





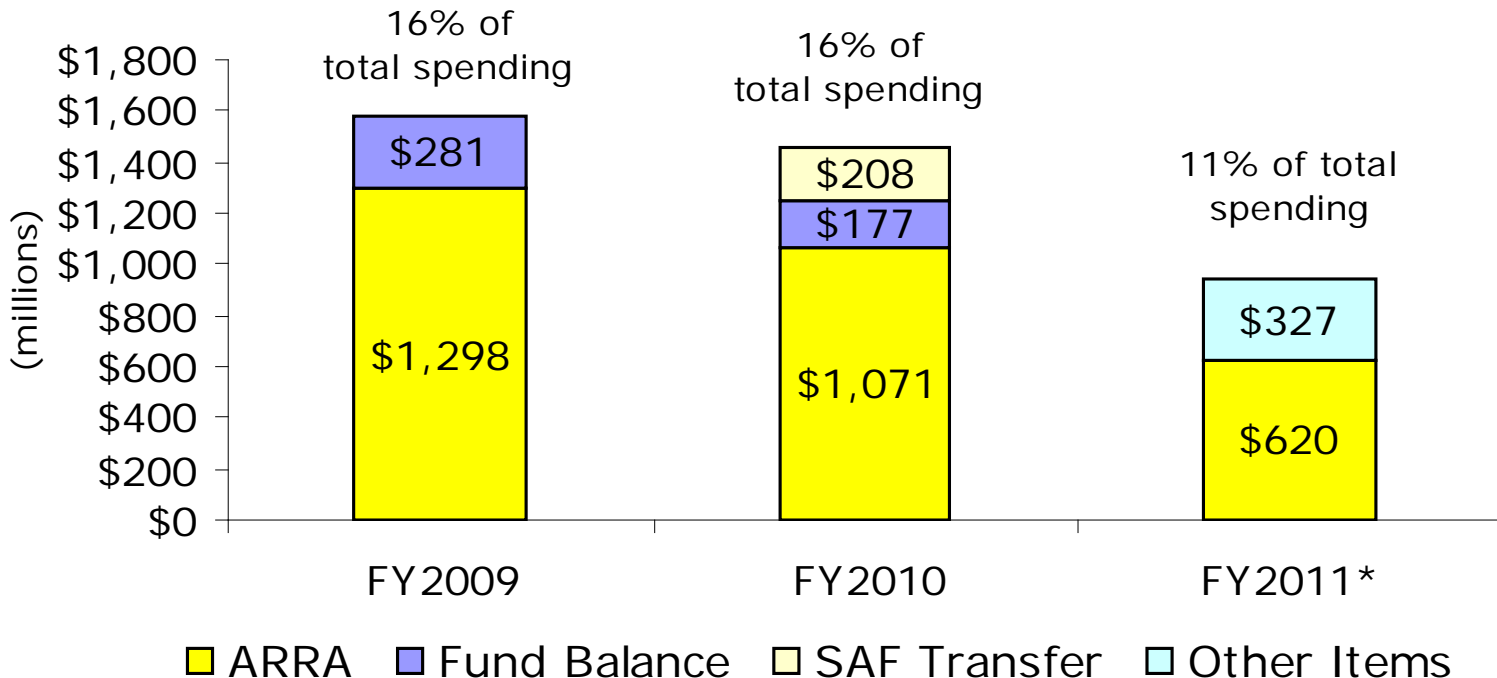
State Spending From State Sources Down Sharply in Real Terms

- From FY 2000 to FY 2010
- Inflation up approx. 27.8%
- Total state expenditures up 31% but increases in federal aid drove increase; state spending from state sources up 3.1%
- Spending changes from state sources:
 - K-12 +6.3%
 - Community Colleges -2.2%
 - Universities/financial aid -16.2%
 - Revenue sharing -34%
 - Corrections +29.1%
 - Medicaid +27%



"Balanced" Budget Achieved *Heavy Reliance on One-Timers*

GF/GP Budget: Non-Recurring Resources Used



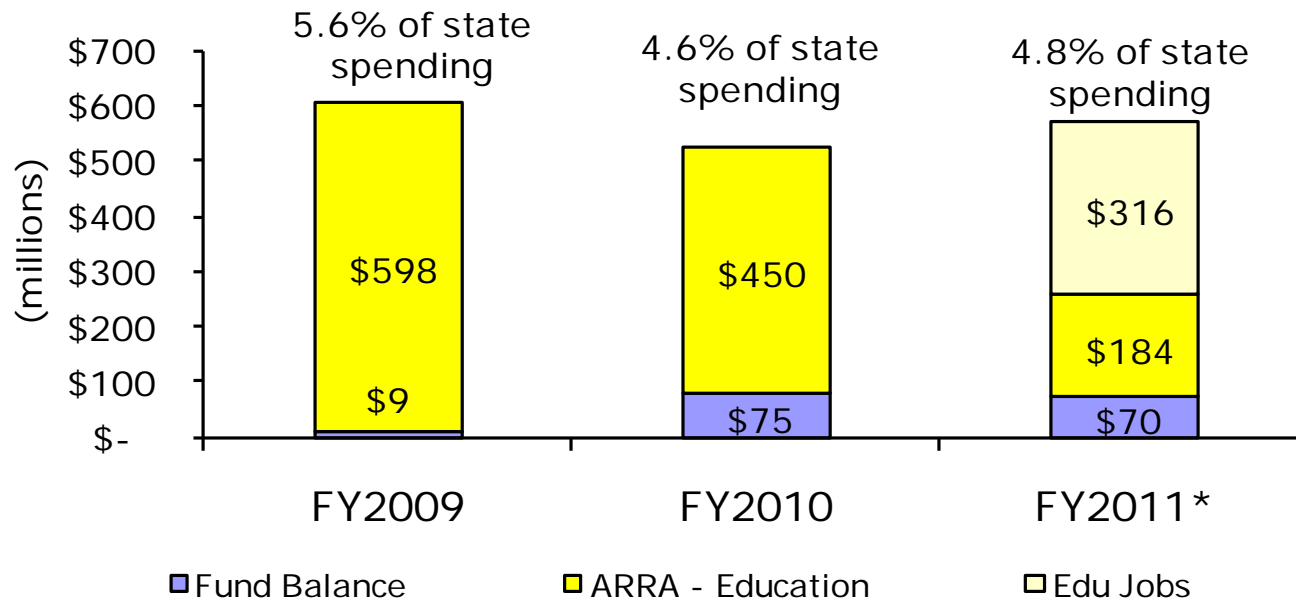
*Based on projected spending

•Based on May 2010 Consensus Revenue Estimate

•Fund balance = \$458 million on 10/1//08

Schools Face Revenue "Cliff" in FY2012

Non-Recurring Resources Used to Balance SAF Budget



Fund Balance = \$247 million at 10/1/08. State spending excludes federal.

* Based on enacted budget as of July 2010.



What is the State Budget Outlook?

- FY 2012 GF shortfall is at least \$1.1 billion (approx. 11% of total)
- Shortfall may rise depending on decisions on business tax reform and federal decisions on Michigan Medicaid policies
- Significant GF expenditure categories include: Community Health (32%), Corrections (21%), Higher Education (20%), and Human Services (13%)
- School Aid Fund is “balanced” but schools must contend with declining enrollment, rapidly rising retirement costs and the potential diversion of funds to support the GF

What About Local Governments?

- In aggregate, locals fared relatively better over the last decade strong property value growth
- Growth was not uniform
- Taxable value has fallen sharply over the past two years particularly in SE Michigan
- Statutory revenue sharing has been cut and remaining funds very much at risk
- Structure of property tax in Michigan prevents revenue recovery even if values recover
- Legacy costs for retiree pension and healthcare payments are a significant issue for many local governments

What is the bottom line?

- Michigan's economy is finally improving, **but there is no quick recovery from an 18% employment decline**
- While private sector is starting to improve, the worst is ahead for the public sector
- Economic recovery will help but will not fix budget problems for the state and local governments:
 - Healthcare costs will rise faster than revenues
 - End of stimulus has a far bigger effect on revenues than the improvement in revenues from expected economic growth
 - Significant tax cuts have already been enacted at the state level and more may be coming
 - Legacy costs are a big problem for Michigan governments



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