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CITIZENS RESEARCH COUNCIL OF MICHIGAN

Michigan's Economic and Budget Challenges

2010 Policy Forum
WEST MICHIGAN

Jeffrey Guilfoyle, President
Citizens Research Council of Michigan
September 16, 2010

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Key Points

- Michigan has rapidly gone from being a relatively wealthy state to a relatively poor one
- State revenues have shrunk far more than spending
- FY 2011 budget will have \$1.6 billion of non-recurring revenues ensuring a budget crisis in FY 2012
- Significant tax cuts that have already been enacted will constrain revenue growth going forward
- **Bottom Line:** Michigan is a poorer state and the current budget does not yet reflect this – Michigan's budget problems will not self correct

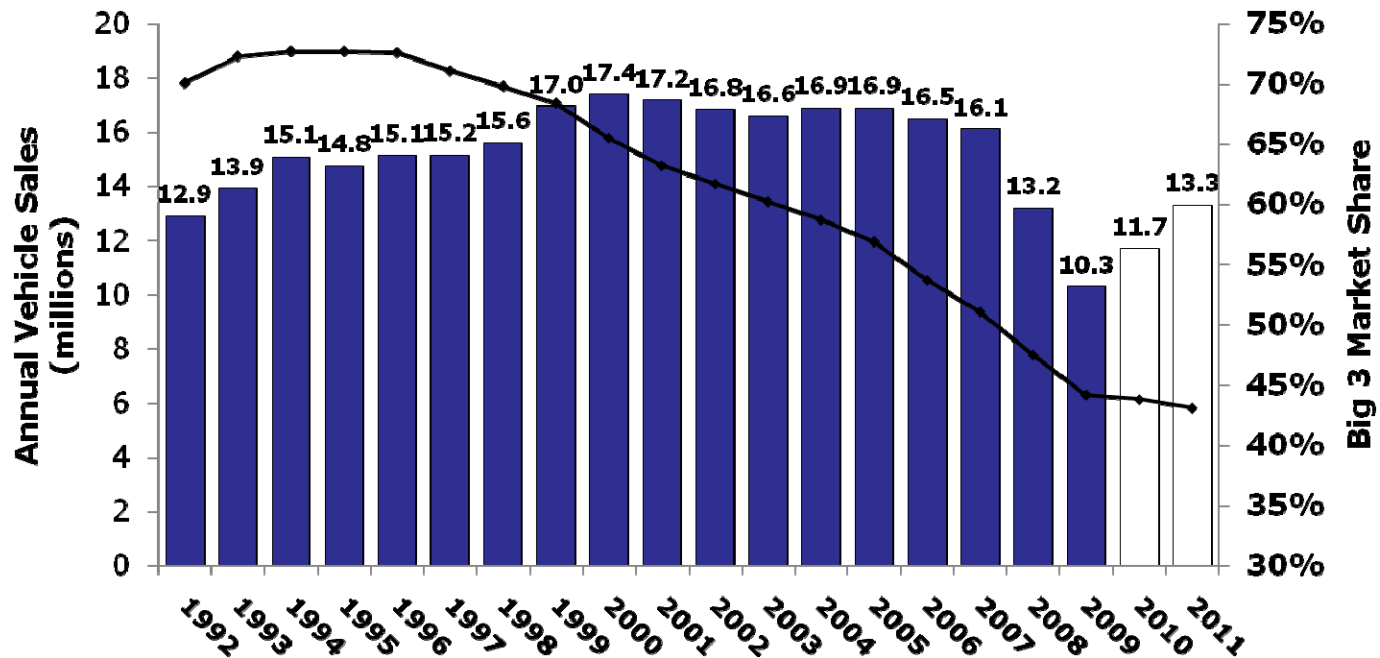


The Last Decade Has Been an Economic Disaster for Michigan

	Growth 2000 to 2009		Michigan Rank
	<u>U.S.</u>	<u>Michigan</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



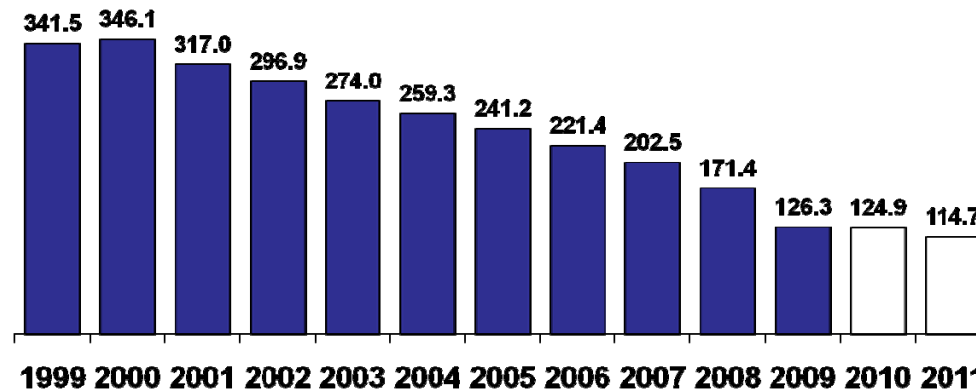
Big 3 Market Share Plummetts





2 in 3 Auto Jobs Lost by 2011

Michigan Transportation Equipment Employment
(In Thousands)

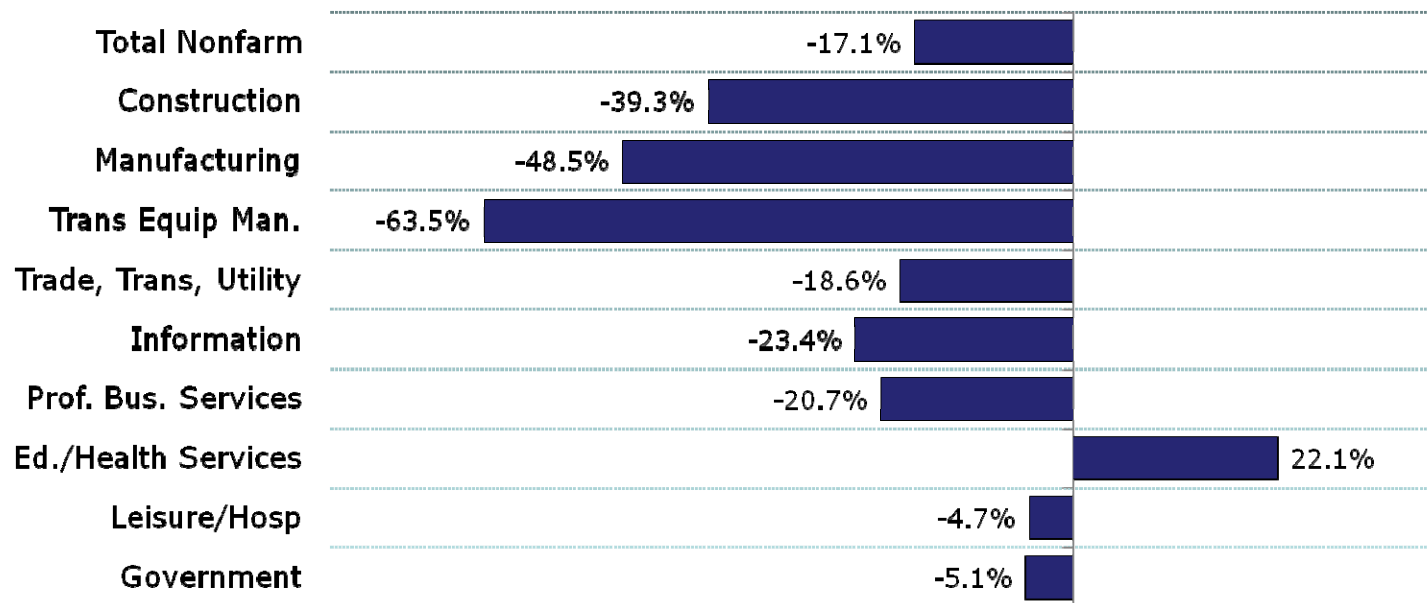


Avg. Agency Forecast



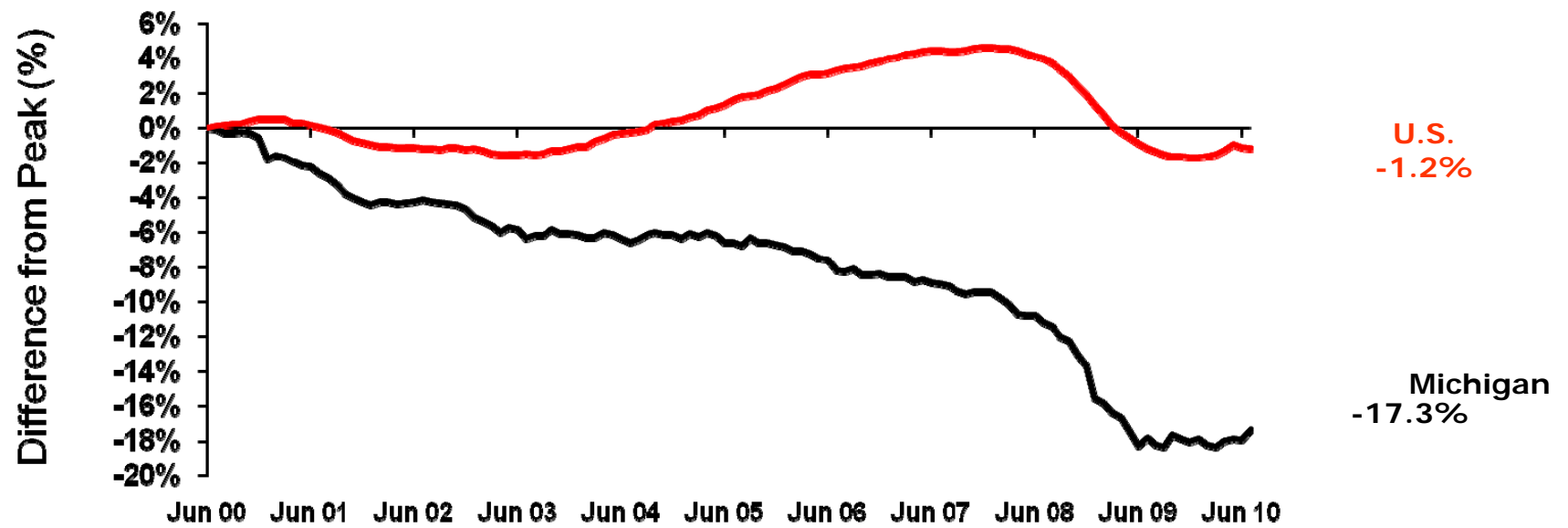
Almost Every Sector in Michigan Has Lost Jobs

2000 to 2009





A Lost Decade of Michigan Employment 1 in 6 Jobs Lost Since June of 2000

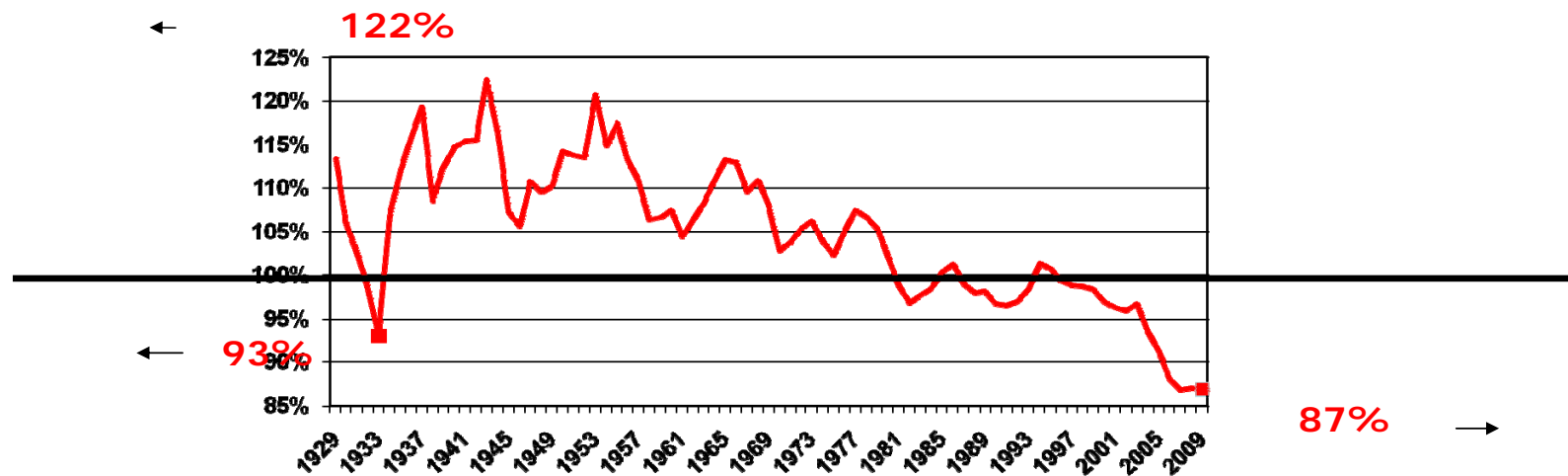


93 Note: Peak is calculated from Michigan's June 2000 Peak. Data are through July 2010.
Source: Bureau of Labor Statistics and CRC calculations.



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





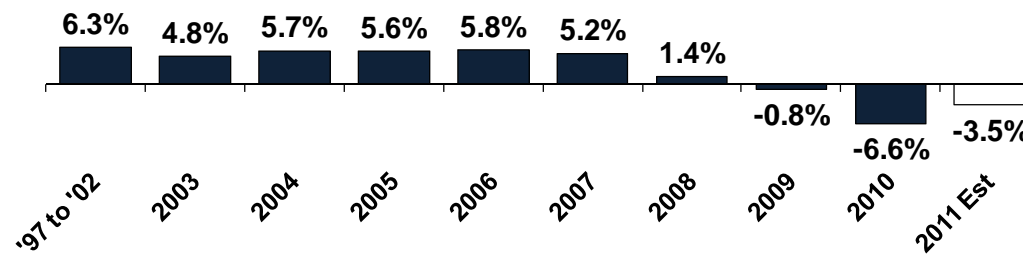
State Spending Changes FY 00 to FY 10

- Inflation up approx. 23%
- Total state spending up 22.5% but increases in federal aid drove increase; state spending from state sources up 2.3%
- Spending changes from state sources:
 - K-12 +8.2%
 - Community Colleges +0.7%
 - Universities/financial aid -13.7%
 - Revenue sharing -34%
 - Corrections +27.2%
 - Medicaid +49.9%



TV Growth Had Been Providing Local Govts With Better Revenue Growth

% Change in Total Taxable Value



Average



Local Cuts Will Be More Noticeable

- Michigan's state budget has been struggling for 10 years but most citizens have limited exposure to state spending (Medicaid, corrections, higher ed, welfare)
- Some local governments have been struggling for years due to population loss and Headlee limits on revenue growth, but others saw robust growth due to new construction
- As local governments pull back cuts will be more visible: police, fire, libraries, parks



Tax Burden Close to National Average But State Share Has Fallen While Local Has Increased

	FY 2000			FY 2008		
	State	Local	Total	State	Local	Total
Michigan						
Income	2.5%	0.2%	2.7%	2.1%	0.1%	2.2%
Sales	2.6%	0.0%	2.6%	2.4%	0.0%	2.4%
Property	0.6%	2.7%	3.3%	0.6%	3.4%	4.0%
Corp Income	0.8%	0.0%	0.8%	0.7%	0.0%	0.7%
Other	<u>1.3%</u>	<u>0.1%</u>	<u>1.4%</u>	<u>1.3%</u>	<u>0.2%</u>	<u>1.5%</u>
Total	7.8%	3.0%	10.8%	7.1%	3.7%	10.8%
U.S. Avg						
Income	2.4%	0.2%	2.6%	2.3%	0.2%	2.5%
Sales	2.1%	0.5%	2.6%	2.0%	0.5%	2.5%
Property	0.1%	2.9%	3.0%	0.1%	3.2%	3.4%
Corp Income	0.4%	0.0%	0.4%	0.4%	0.1%	0.5%
Other	<u>1.5%</u>	<u>0.4%</u>	<u>1.9%</u>	<u>1.6%</u>	<u>0.5%</u>	<u>2.1%</u>
Total	6.6%	4.0%	10.6%	6.4%	4.5%	10.9%



How Do We Rank?

(Data for FY 2007)

- K-12 education
 - 12th in spending per capita; growth 42nd 00 to 07
 - 4th as a % of personal income
 - Teacher salaries 11th highest (<2yrs, 18th highest down from 6th highest)
- Higher education
 - 14th per capita; growth 50th 00 to 07
 - 11th as % of personal income (down from 6th in 00)
 - But spending number includes revenue from all sources (i.e. tuition); MI is 28th in state and local appropriations
- Corrections
 - 18th per capita (but well above neighboring states); growth 32nd per capita
- Taxes
 - 30th per capita (13% below U.S. avg; w/ tax increase 29th)
 - 20th as % income (at U.S. average)



FY 2011 Budget Will Likely Have \$1.6B in One-Time Resources

	<u>FY 2011</u>	<u>FY 2012</u>	<u>Change</u>
<u>GF-GP</u>			
ARRA	\$261	\$0	(\$261)
New Stimulus	\$380	\$0	(\$380)
IIT Rate Cut	\$0	(\$150)	(\$150)
Tax Amnesty	\$89	(\$62)	(\$150)
Unclaimed Property	\$168	\$61	(\$107)
Debt Restructuring	\$120	(\$4)	(\$123)
Total GF-GP	\$1,017	(\$154)	(\$1,171)
<u>SAF</u>			
ARRA	\$184	\$0	(\$184)
New Stimulus	\$316	\$0	(\$316)
Total SAF	\$500	\$0	(\$500)
Total GF + SAF	\$1,518	(\$154)	(\$1,672)



Significant Tax Cuts are in the Pipeline

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
Reducing Michigan IIT Rate	\$0.0	\$0.0	\$0.0	(\$150.0)	(\$329.0)	(\$522.5)
Alternative Energy Credits IIT	(\$16.0)	(\$46.0)	(\$55.3)	(\$42.0)	\$0.0	\$0.0
Michigan EITC	(\$140.0)	(\$325.0)	(\$338.0)	(\$358.3)	(\$379.8)	(\$402.6)
Eliminating MBT Surcharge		Eliminated in Tax Year 2017		(\$715 million)		
MBT Battery Credits(1)	\$0.0	\$0.0	\$0.0	(\$40.0)	(\$268.0)	(\$278.0)
MBT Film Credits & Infrastructure(2)	(\$37.5)	(\$100.0)	(\$125.0)	(\$125.0)	(\$125.0)	(\$125.0)
Polycrystalline Manuf. Credit	\$0.0	\$0.0	\$0.0	\$0.0	(\$25.0)	(\$25.0)
Photovoltaic Tech	\$0.0	(\$0.8)	(\$9.8)	(\$12.5)	(\$12.5)	(\$15.0)
MBT Gross Receipt Changes	(\$115.8)	(\$80.5)	(\$93.4)	(\$117.8)	(\$129.9)	(\$132.7)
Decouple from depr/prod activities	\$172.5	\$23.4	\$19.2	\$45.3	\$52.3	\$60.0
Historic preservation credits	\$0.0	\$0.0	(\$5.0)	(\$8.6)	(\$9.6)	(\$10.6)
Promise Zones	\$0.0	(\$1.0)	(\$4.0)	(\$10.0)	(\$15.0)	(\$20.0)
Use Tax Bad Debt Deduction Change	(\$2.0)	(\$25.5)	(\$16.6)	(\$17.1)	(\$17.7)	(\$18.4)
Exempt supplies for Cobo Center	\$0.0	\$0.0	(\$2.5)	(\$2.5)	(\$3.5)	(\$1.5)
Totals	(\$138.8)	(\$555.4)	(\$630.4)	(\$838.5)	(\$1,262.7)	(\$1,491.3)

(1) Totals if full amount used



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President & Co-Founder
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Our goal

A high prosperity Michigan



What state do we want to emulate?

State	Per capita income (08)	Unemployment (09)	Poverty rate (08)	Education attainment (08)
West Virginia	\$31,634 (49)	7.9 % (20)	17.0 % (7)	17.09 % (50)
Minnesota	\$42,953 (12)	8.0 % (21)	9.6 % (43)	31.52 % (10)
Michigan	\$34,953 (36)	13.6 % (50)	14.4 % (17)	24.75 % (34)
U.S.	\$40,166	9.3 %	13.2 %	27.67 %



What states do we want to emulate?

State	Per capita income (08)	Unemployment (09)	Poverty rate (09)	Education attainment (08)
Texas	\$37,809 (26)	7.6 % (18)	15.8 % (9)	25.2 % (31)
North Carolina	\$35,249 (34)	10.6 % (44)	14.6 % (16)	25.6 % (28)
Minnesota	\$42,953 (12)	8.0 % (21)	9.6 % (43)	31.5 % (10)
Mass.	\$50,876 (3)	8.4% (28)	10.0 % (41)	37.9 % (1)
Michigan	\$34,953 (36)	13.6 % (50)	14.4 % (17)	24.7 % (34)

U.S. Census data



Traits of prosperous states

- High proportion of wages from knowledge industries
- High proportion of college grads
- Big metro with higher per cap income than state
- Largest city in that metro has high proportion of college grads



Most prosperous states are best educated

Income Rank	State	Education Rank	Income Rank	State	Education Rank
1	Connecticut	4	7	Virginia	7
2	New Jersey	5	8	Alaska	24
3	Massachusetts	1	9	California	13
4	New York	9	10	New Hampshire	8
5	Wyoming	40	11	Colorado	3
6	Maryland	2	12	Minnesota	10

2008 income, 2007 education data from U.S. Census



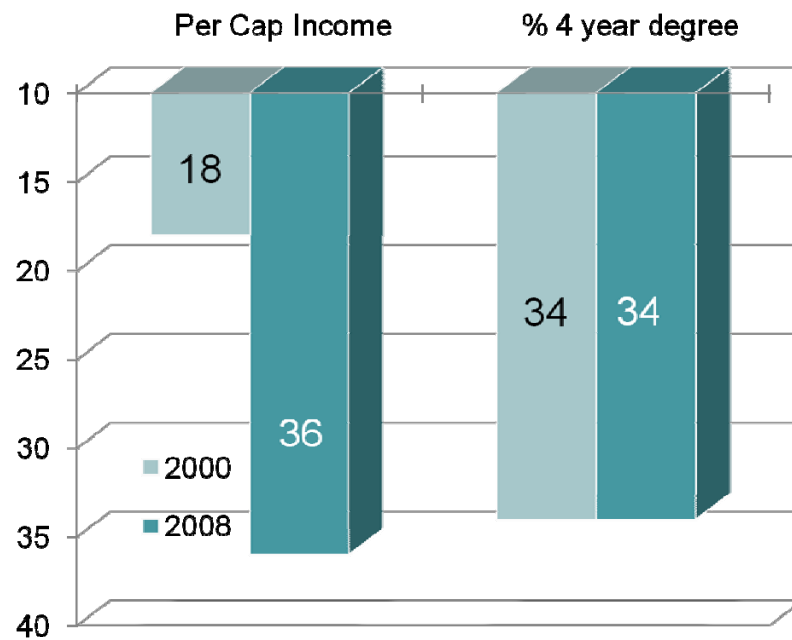
Least prosperous states are least educated

Income Rank	State	Education Rank	Income Rank	State	Education Rank
50	Mississippi	49	44	Idaho	35
49	West Virginia	50	43	New Mexico	33
48	Kentucky	47	42	Alabama	45
47	Utah	17	41	Arizona	35
46	Arkansas	48	40	Indiana	42
45	South Carolina	39	39	Montana	21

2008 income, 2007 education data from U.S. Census



Michigan's income rank aligned with our college attainment rank



Metro Detroit vs. Metro Minneapolis

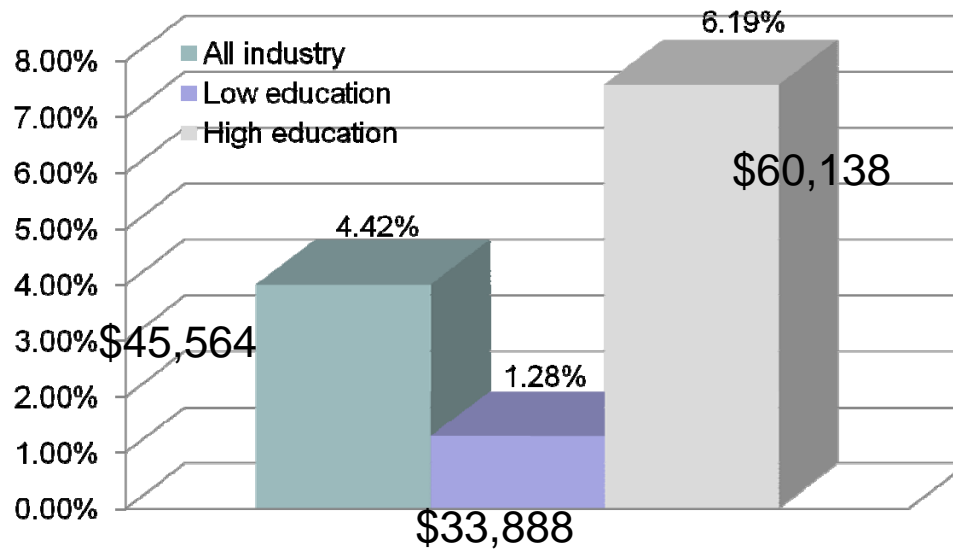
City	Per cap income	Education attainment	Share of wages from knowledge industry
Minneapolis	9	7	10
Pittsburgh	16	29	17
Detroit	37	37	33
Grand Rapids	53	45	54

2008 Rank among 54 metros 1 million population or more



High education industries growing most in U.S.

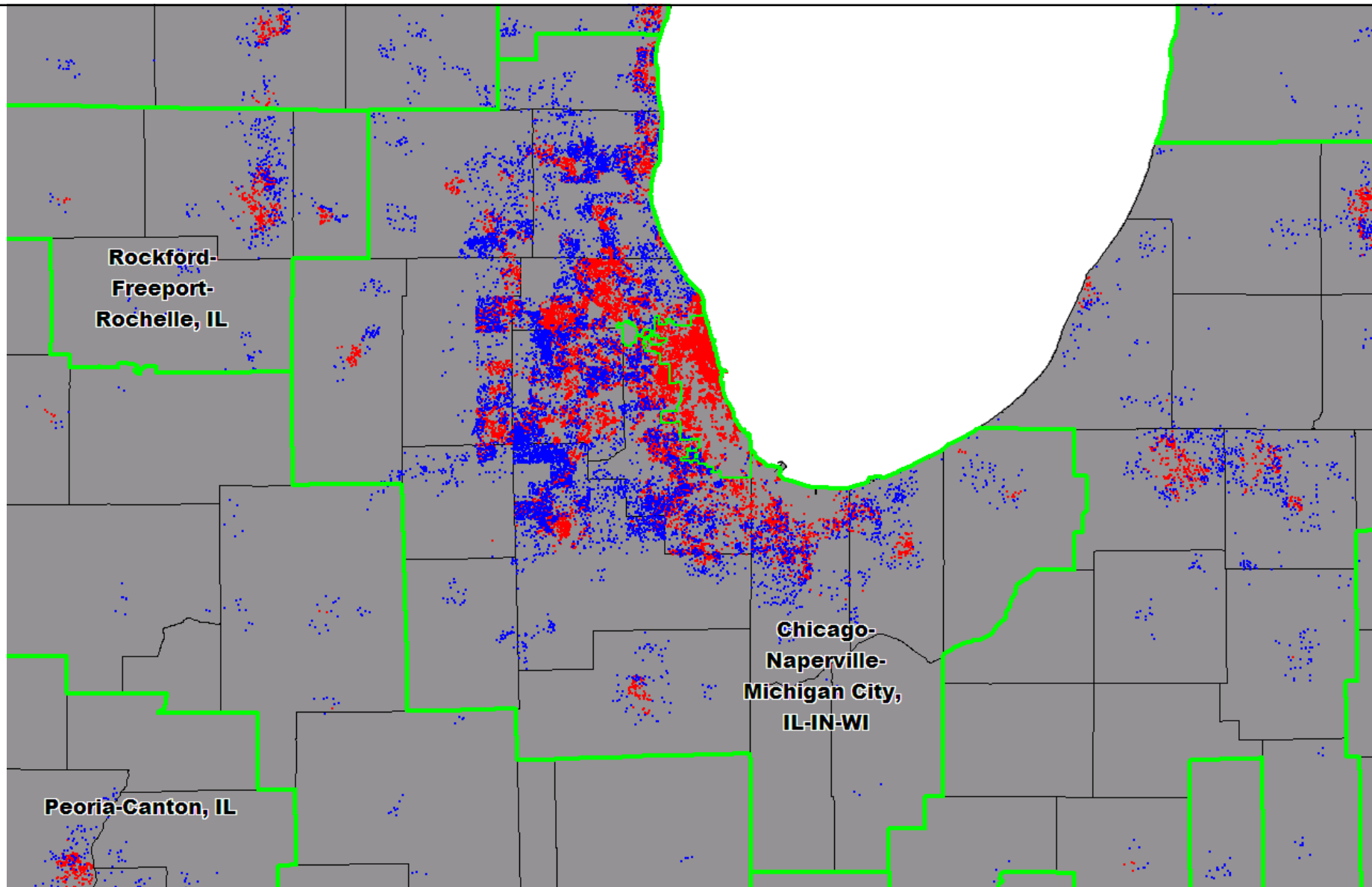
Employment change 2001-08

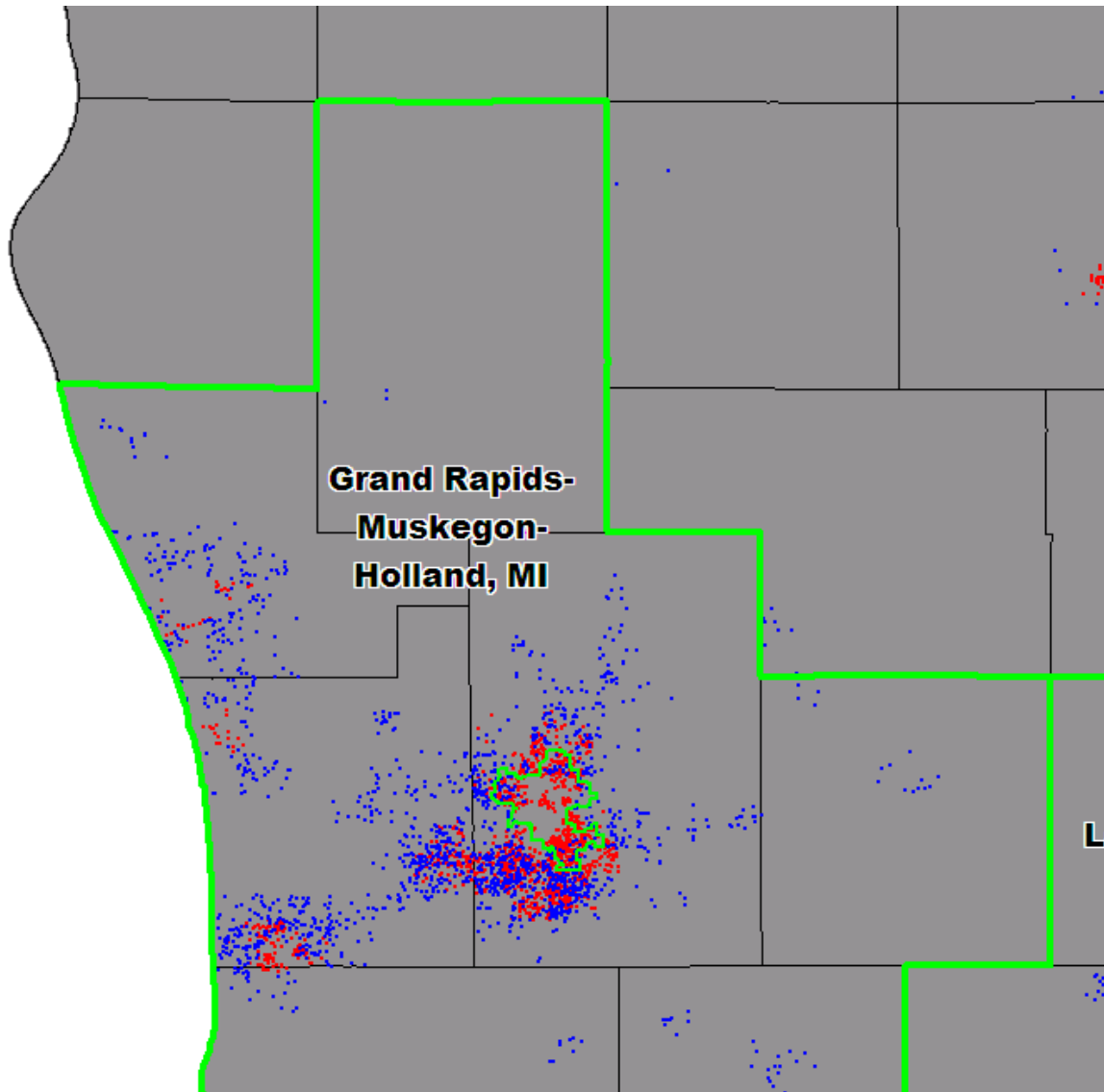


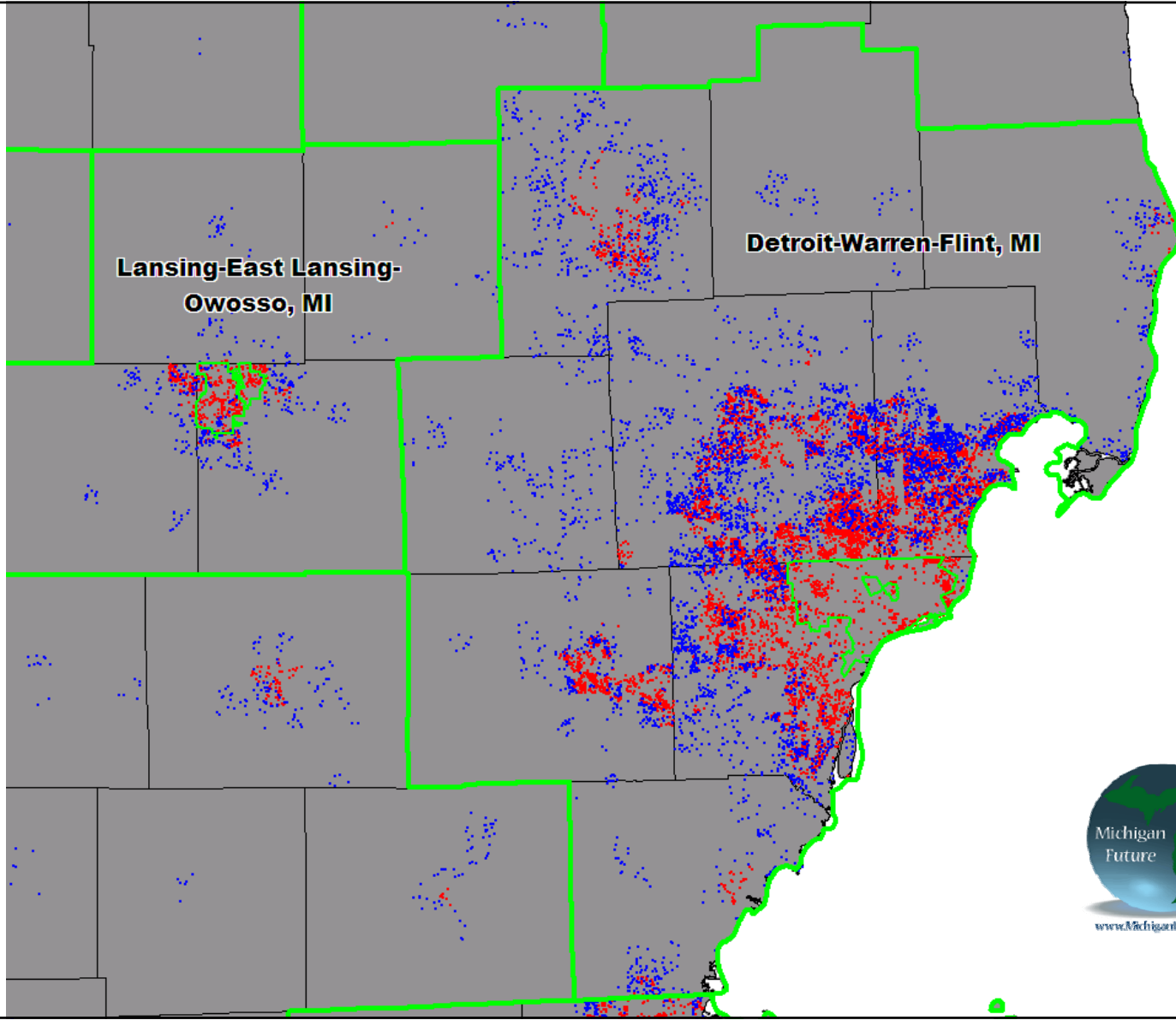
Our conclusion:

The places with the greatest concentration of talent win!









**Lansing-East Lansing-
Owosso, MI**

Detroit-Warren-Flint, MI



Our budget recommendations

- Make structural spending cuts
- Make structural changes to the revenue system both to increase revenues and to have a tax system that grows with the economy
- Make public investments to grow the economy:
 - Higher education
 - Quality of place, particularly vibrant central cities



Bottom line

We must get younger
and better educated
or
we will get poorer



For more information about Michigan Future, our reports or what our friends are saying, please visit our Web site at:

www.MichiganFuture.org



How about “high growth rate” states?

	Mississippi	Minnesota
Growth rate 1990-2000	64%	55%
Growth rate 2000-2008	41%	32%
Per cap income 1990	\$12,573 (50 th)	\$18,784 (15 th)
Per cap income 2008	\$31,836 (50 th)	\$46,106 (11 th)

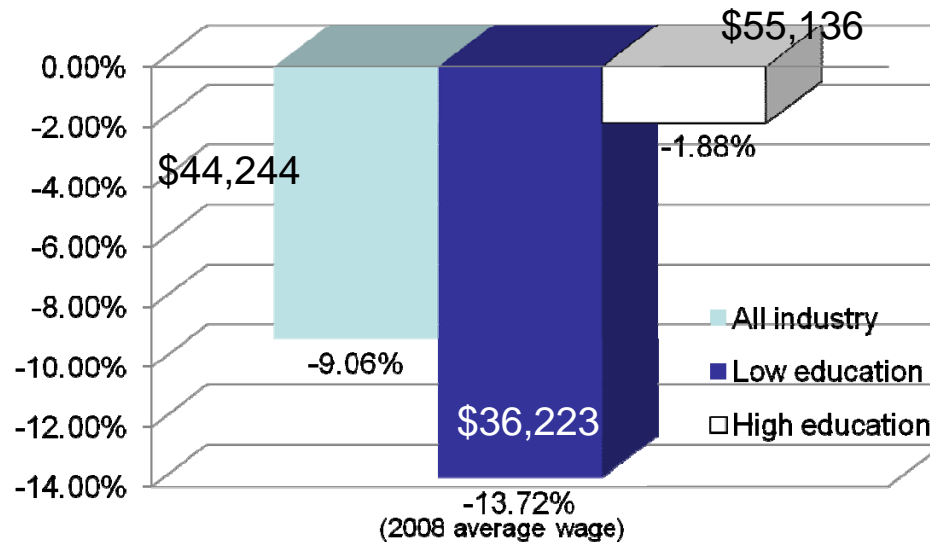
Gap between Mississippi and Minnesota in 1990: \$6,211

Gap between Mississippi and Minnesota in 2008: \$14,270



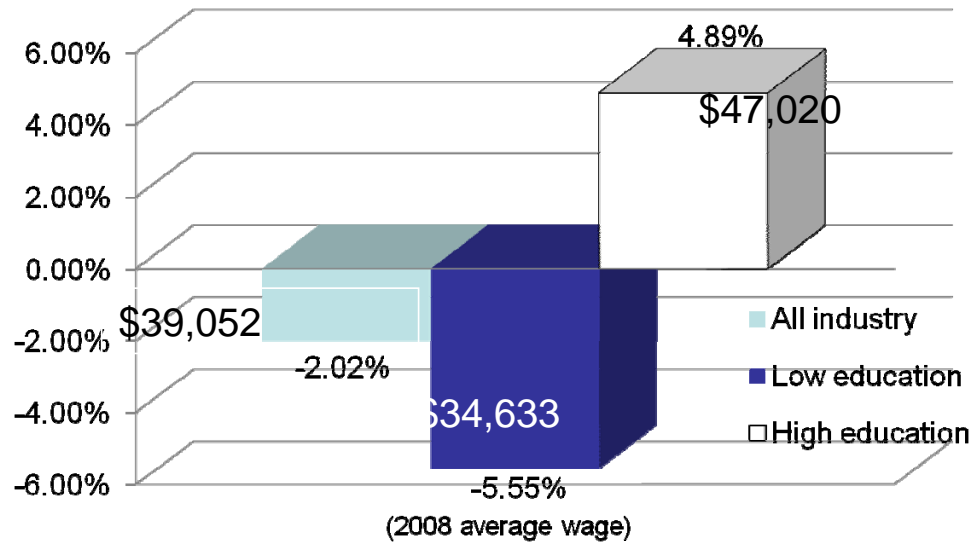
High education industries doing best in Michigan

Employment change 2001-08



High education industries growing in Metro Grand Rapids

Employment change 2001-08



Joseph Lehman

President

Mackinac Center for Public Policy





Structural Overspending in Michigan's State Budget

One Way to Fix It

West Michigan Policy Forum

September 16, 2010

Joseph G. Lehman

President, Mackinac Center for Public Policy

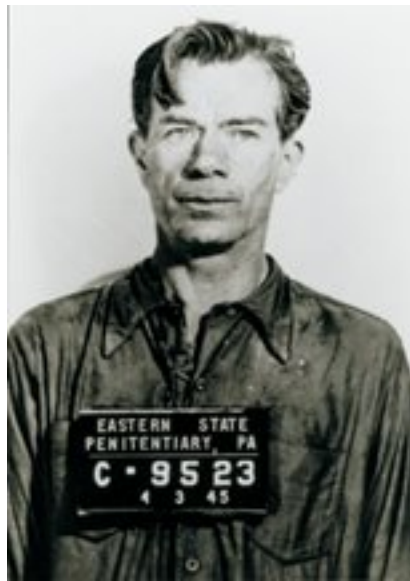


Bring Public Sector Employment Benefits in Line with Private Sector

- The gap is \$5.7 billion annually
- State, school, & municipal
- Insurance, retirement, & vacation only
- What might \$5.7 billion buy?
 - Close the \$1.6 billion deficit
 - Eliminate the \$1.9 billion MBT
 - Fix the roads for \$1 billion or more
 - \$1.2 billion left
- The \$5.7 billion is not all in one place
- Even capturing 60 percent of this is huge

A Tale of Two Willies

Willie Sutton



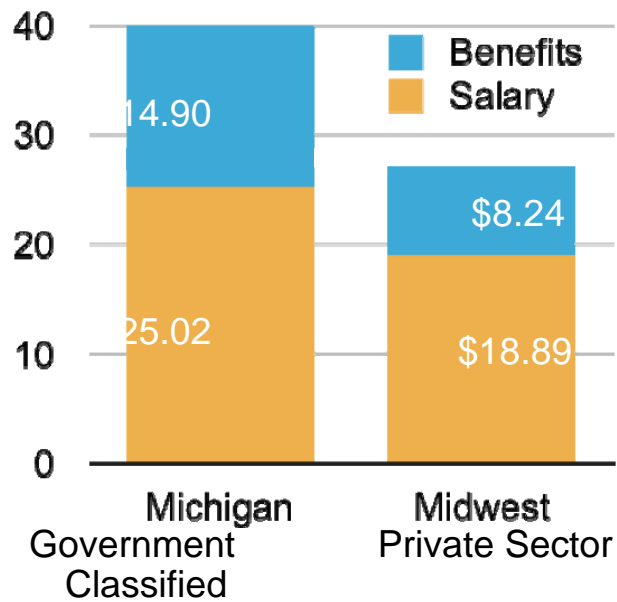
Willie Brown





Michigan Public vs. Private Average Hourly Compensation

This comparison shows the inequity between public-sector and private-sector employees for overall compensation

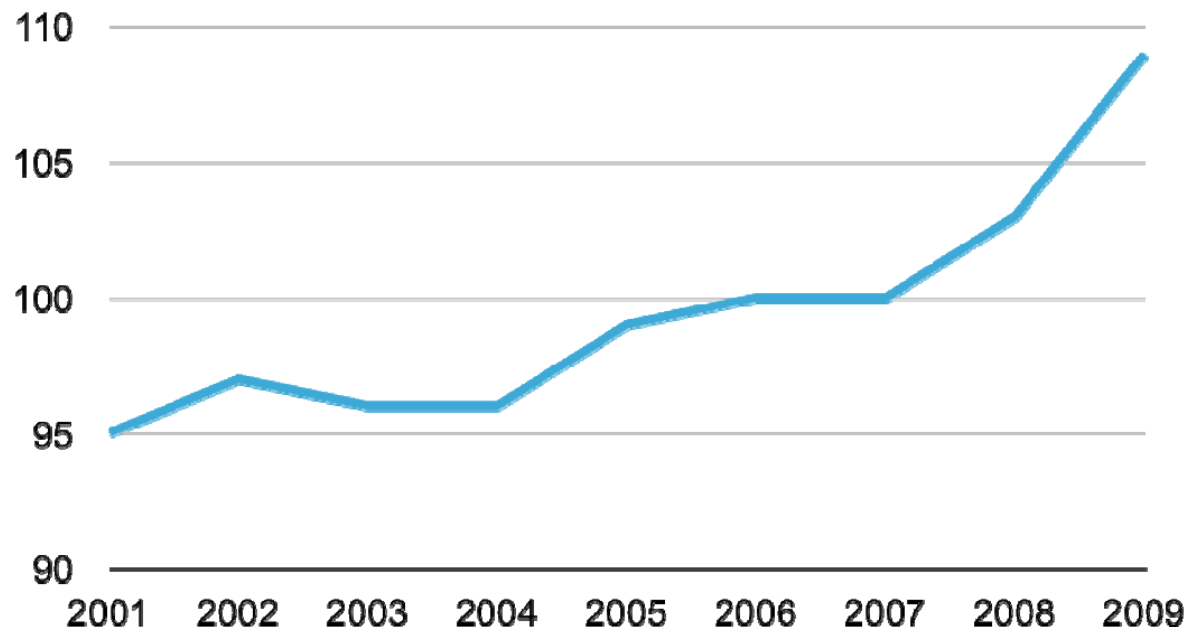


Source: Calculations based on data from the Bureau of Labor Statistics and the Michigan Civil Service Commission



Michigan State and Local Government Employees Average Annual Wage as Percent of Private Average Annual Wage

Government wages increasing much faster than private wages

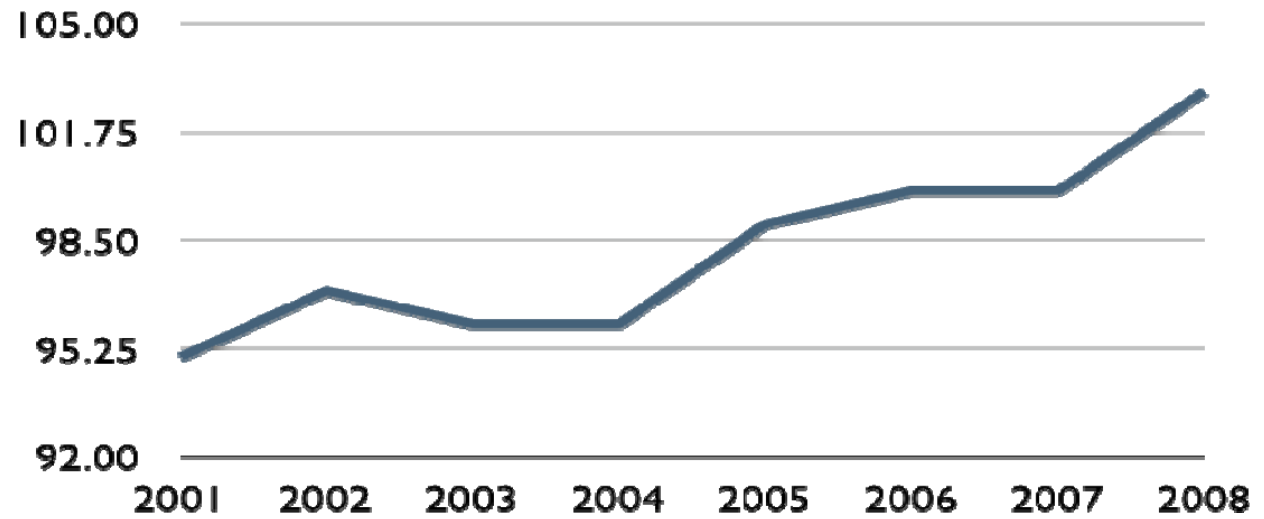


Source: BLS



State and Local Government Employees Average Annual Wage as Percent of Private Average Annual Wage

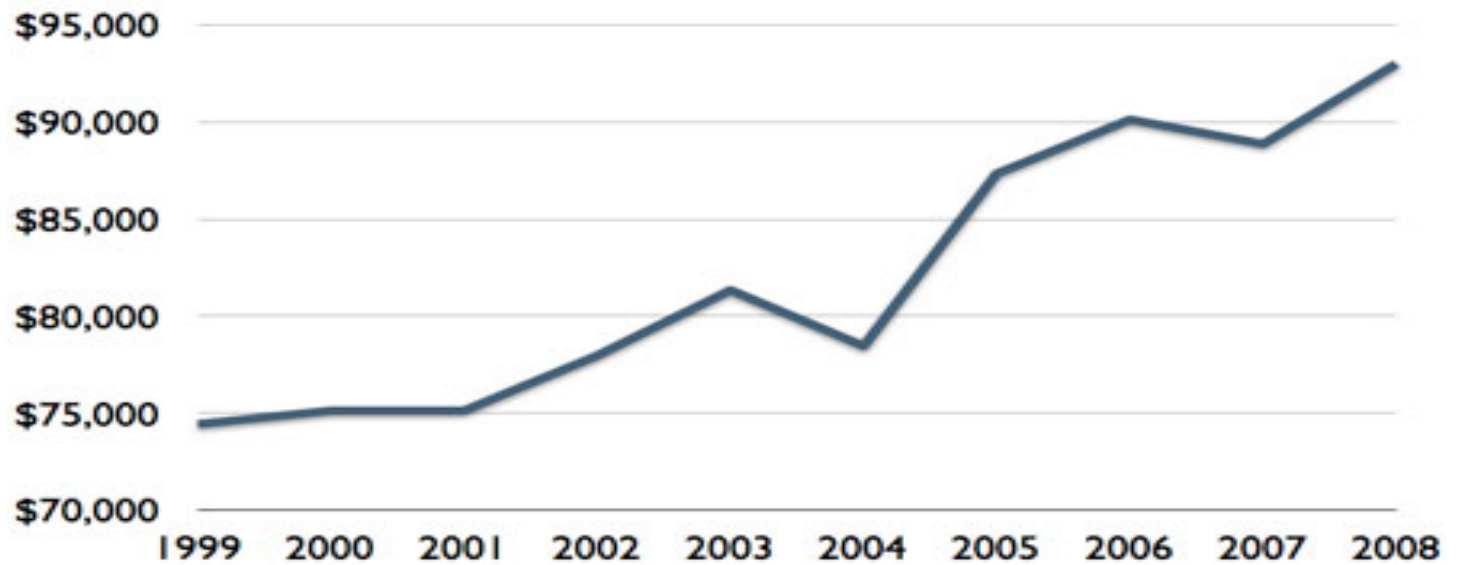
Government wages increasing much faster than private wages



Source: BLS



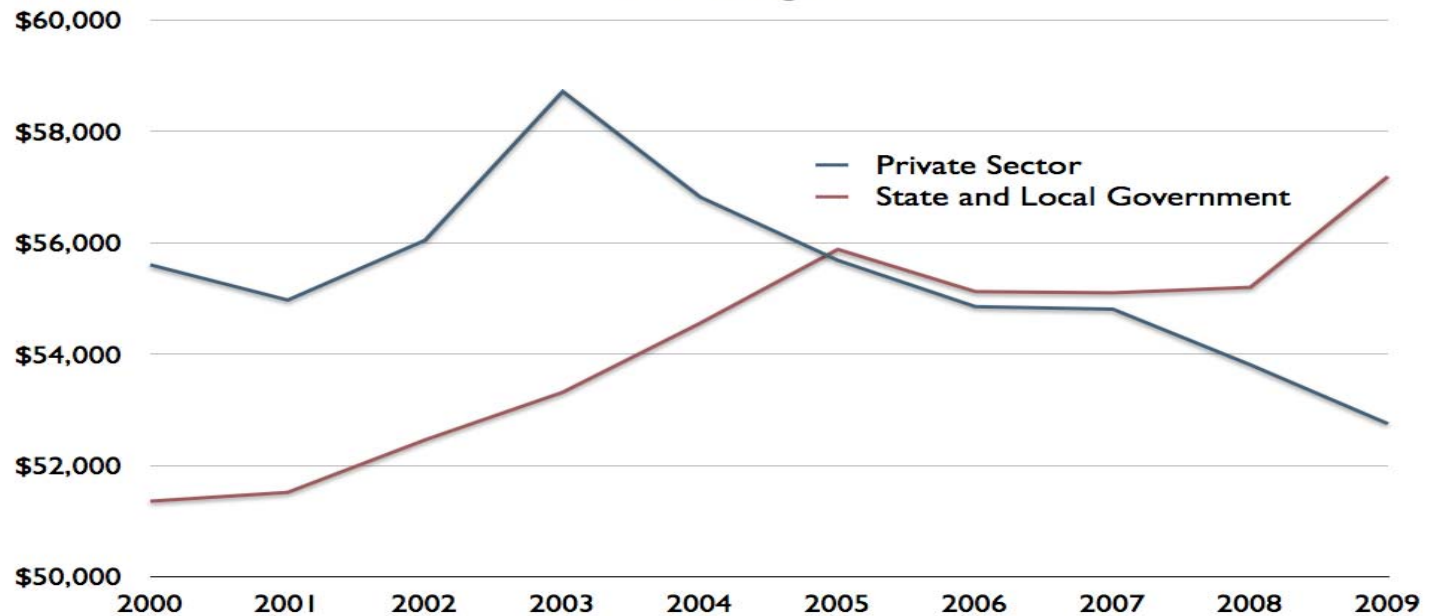
Average Inflation-Adjusted Compensation of Michigan Classified Employees



Source: Author's calculations based on data from the Michigan Department of Civil Service and the Bureau of Labor Statistics



Inflation-Adjusted Average Compensation in Michigan

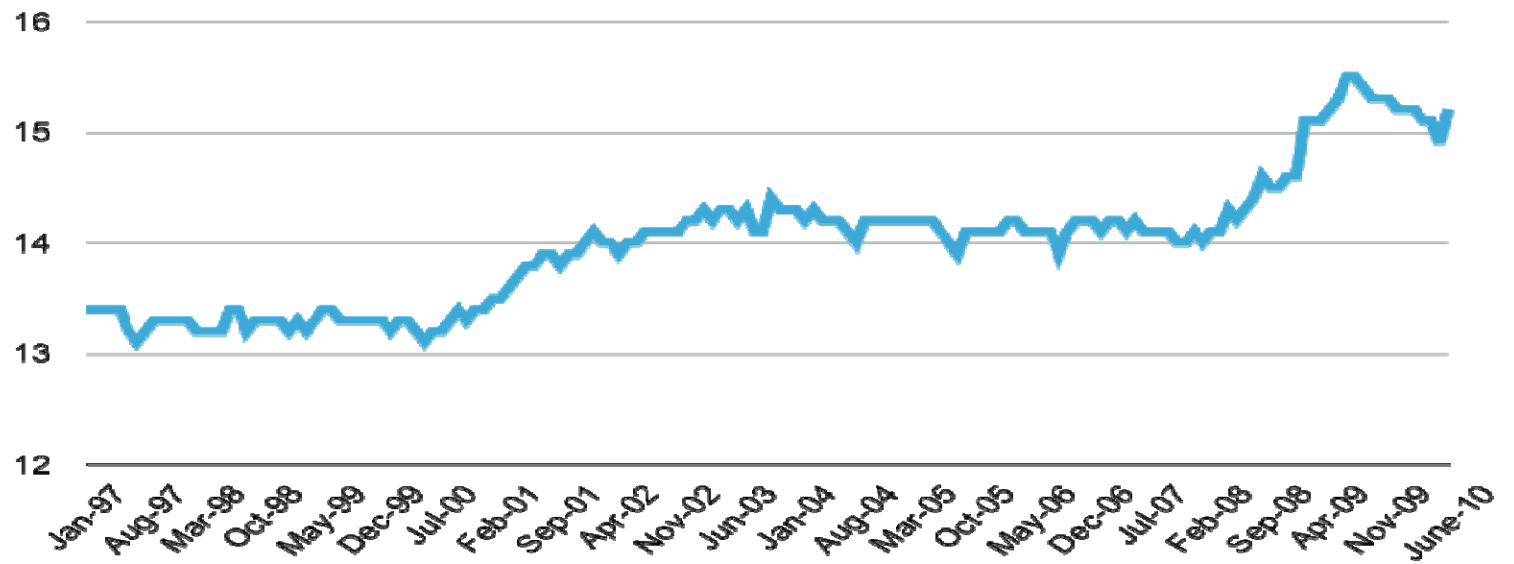


Source: Author's calculations based on data from the Bureau of Economic Analysis and the Bureau of Labor Statistics



State and Local Government Jobs as Percent of Total Michigan Employment

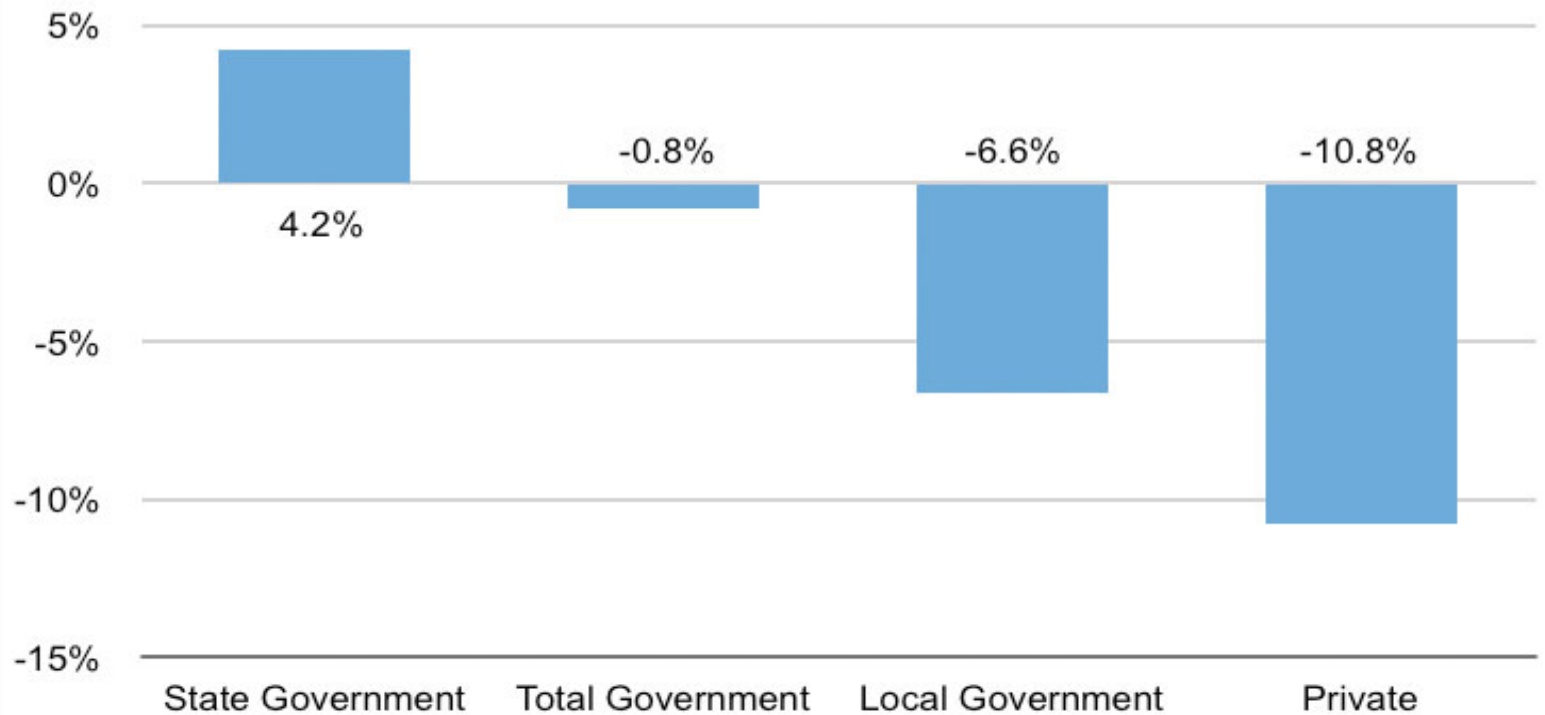
Michigan's private sector has to support greater share of public sector



Source: Bureau of Labor Statistics



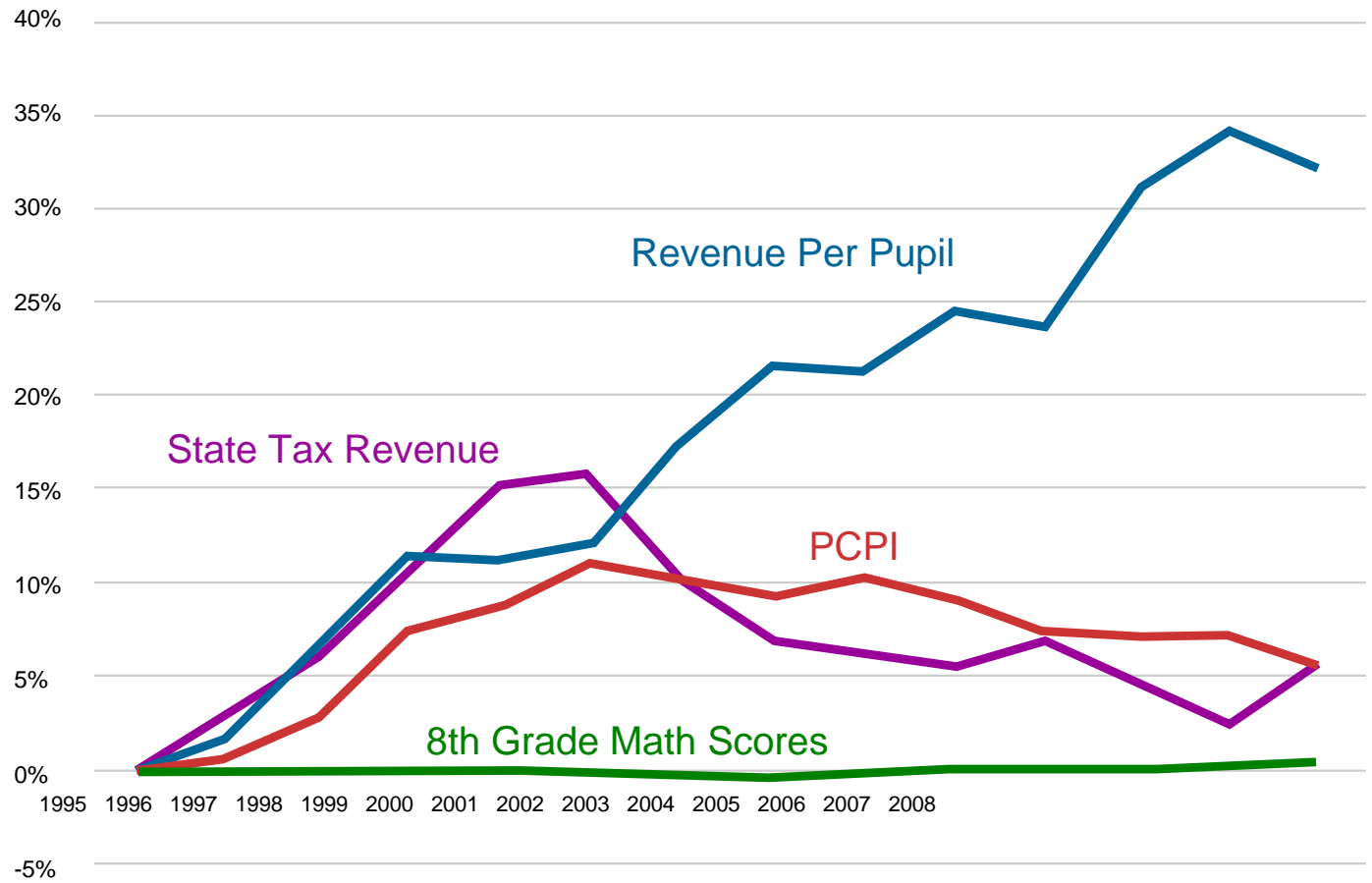
Payroll Employment Growth Since Recession Began



Source: Bureau of Labor Statistics



Percent Change Since 1995



Source: Center for Educational Performance and Information, National Assessment of Educational Progress, Bureau of Labor Statistics, Senate Fiscal Agency. Some tests scores linearly interpolated.



Backup Data & More Info:

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For more information...

- Citizens Research Council of Michigan
 - www.crcmich.org
- Michigan Future, Inc.
 - www.michiganfuture.org
- Mackinac Center for Public Policy
 - www.mackinac.org
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