

Where We Are and How We Got There

Prepared for:
MSU Michigan Policy Forum Series

February 17, 2010



Mitchell E. Bean, Director



State Budget Shortfalls Caused By

- Severe economic contraction led by domestic auto industry
- State tax policy
- Increasing cost of health care and corrections



February 2010 2

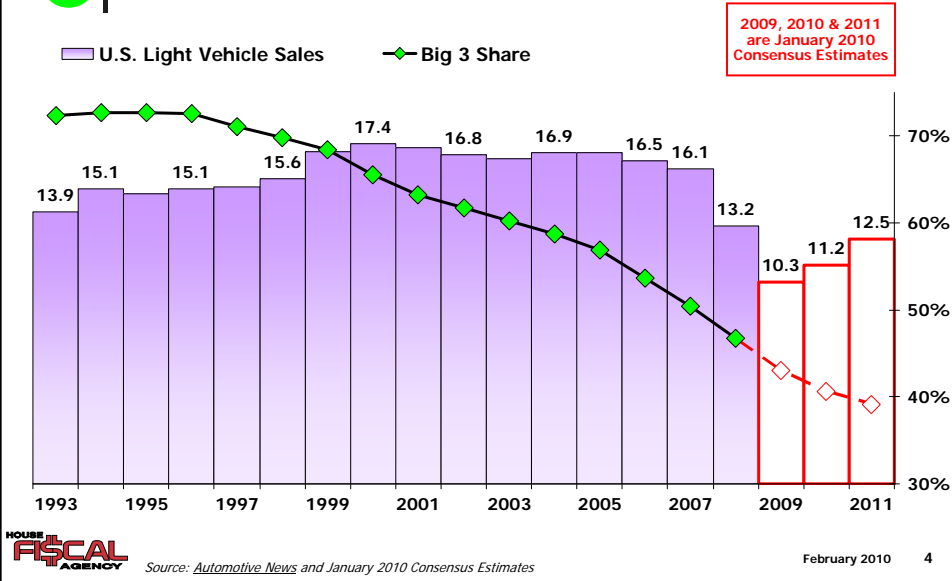


Structural Budget Deficits

- FY 2010-11
 - GF shortfall approximately \$1.3 billion
 - SAF shortfall approximately \$424 million
- FY 2011-12 (under all cuts scenario)
 - GF shortfall approximately \$500 million
 - Per pupil cut of \$165 plus potential FY 2010-11 per pupil cut of \$268 are not restored

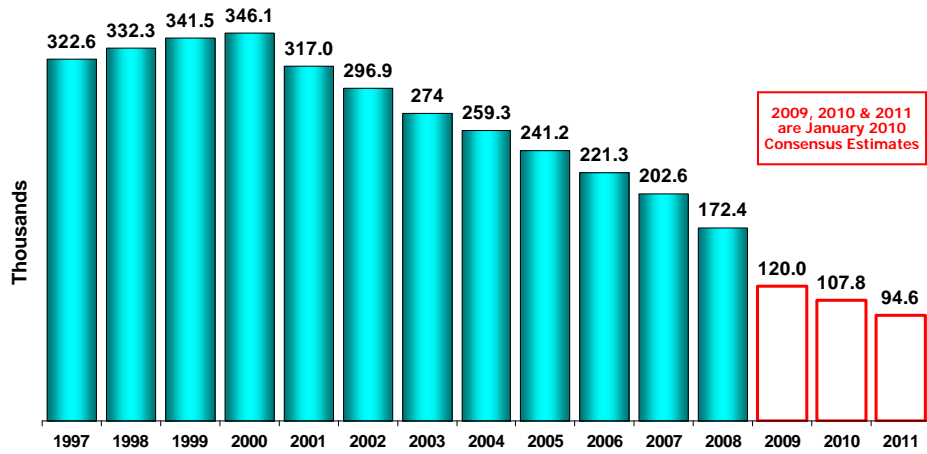


Big 3 Losing Market Share





Michigan Vehicle Employment

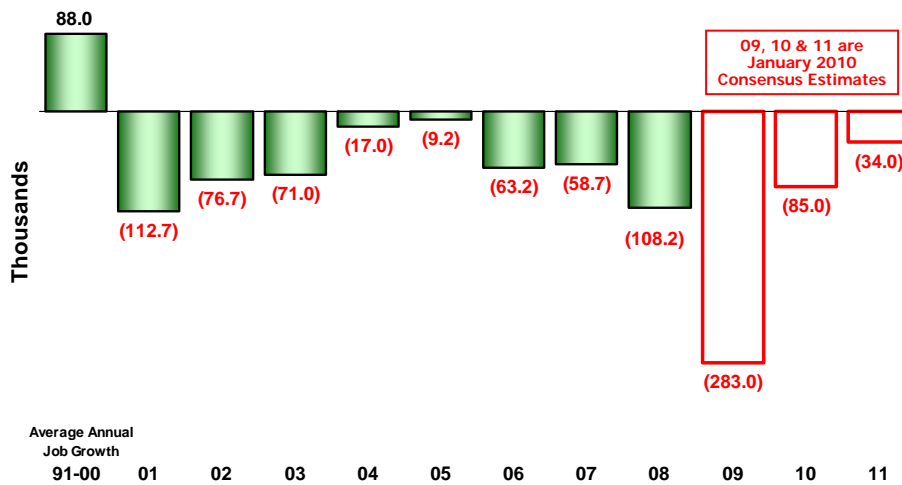


Source: U.S. Bureau of Labor Statistics and January 2010 Consensus Estimates

February 2010 5



Job Growth in Michigan

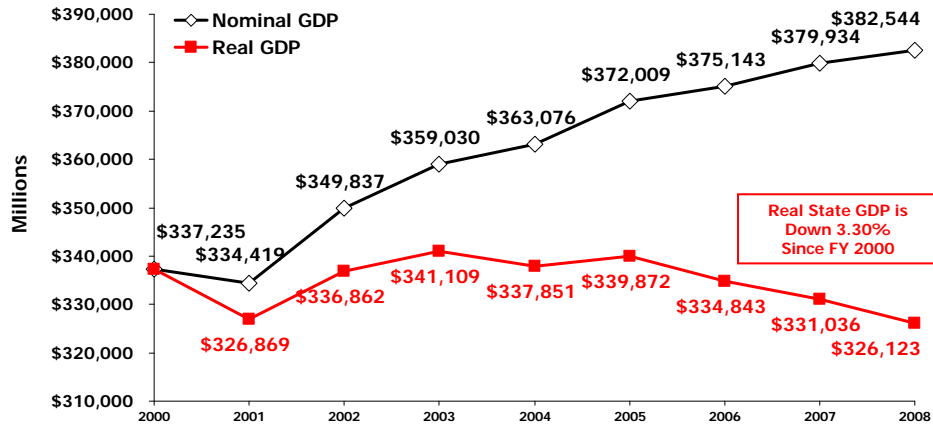


Source: U.S. Bureau of Labor Statistics and January 2010 Consensus Estimates

February 2010 6



Real and Nominal State GDP

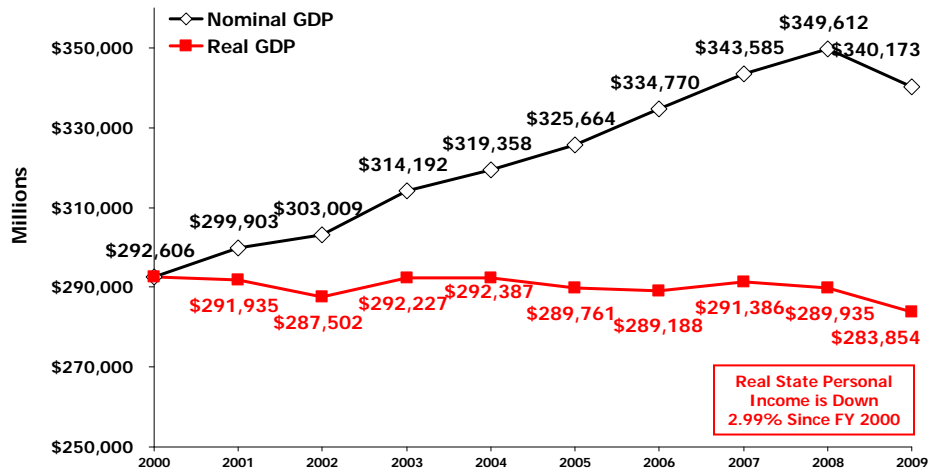


HOUSE FISCAL AGENCY

February 2010 7



Real and Nominal State Personal Income



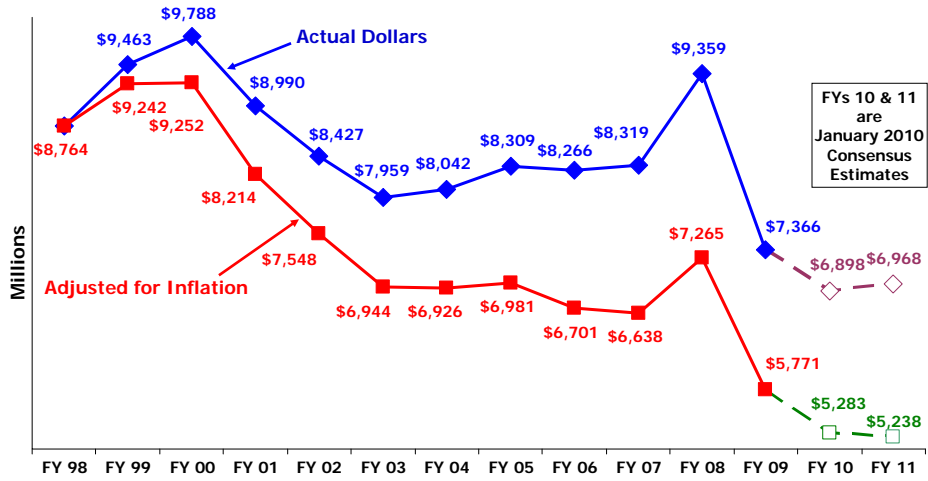
HOUSE FISCAL AGENCY

Source: U.S. Bureau of Economic Analysis. 2009 personal income numbers are from the January 2010 Consensus Revenue Estimating Conference

February 2010 8



Inflation Adjusted GF/GP Revenue Down 43.4% Since FY 2000

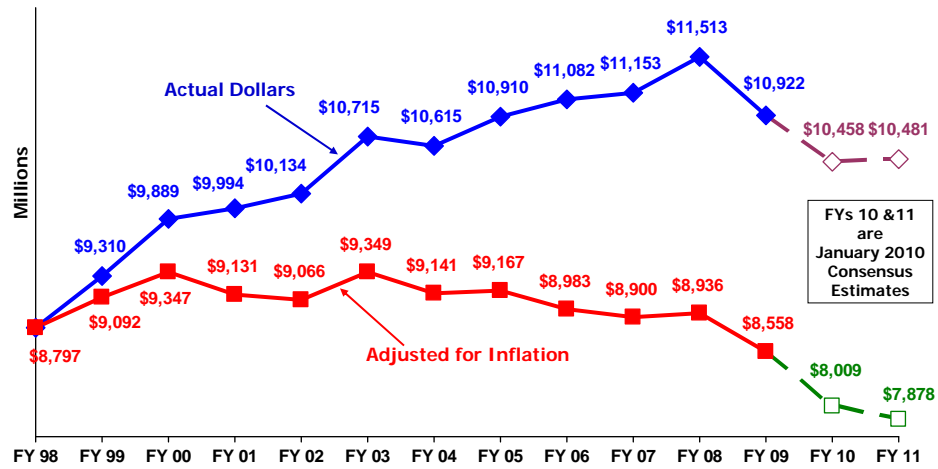


HOUSE OF
FISCAL
AGENCY

February 2010 9



Inflation Adjusted SAF Net Revenue Down 15.7% Since FY 2000



HOUSE OF
FISCAL
AGENCY

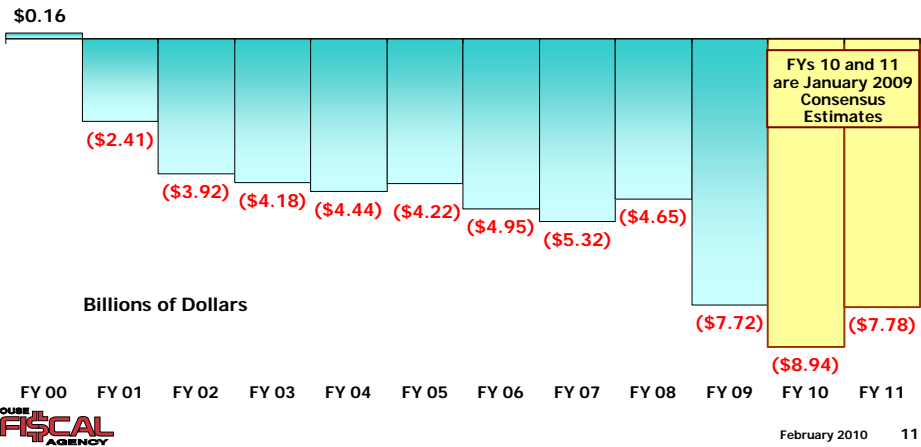
February 2010 10



Constitutional Revenue Limit

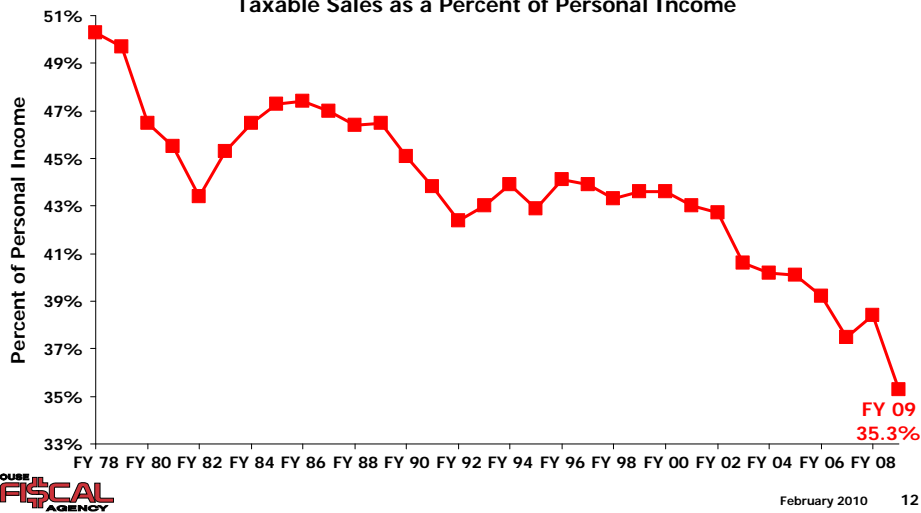
Average growth of Michigan personal income = 2.7% per year from 2000 through 2011

Average decline of Michigan revenue = 0.1% per year from 2000 through 2011



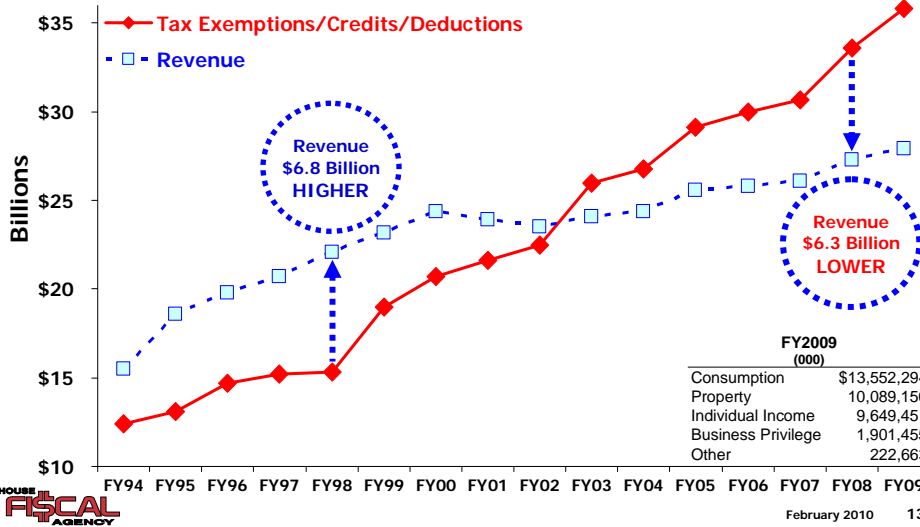
Sales/Use Tax Share Declining

Taxable Sales as a Percent of Personal Income

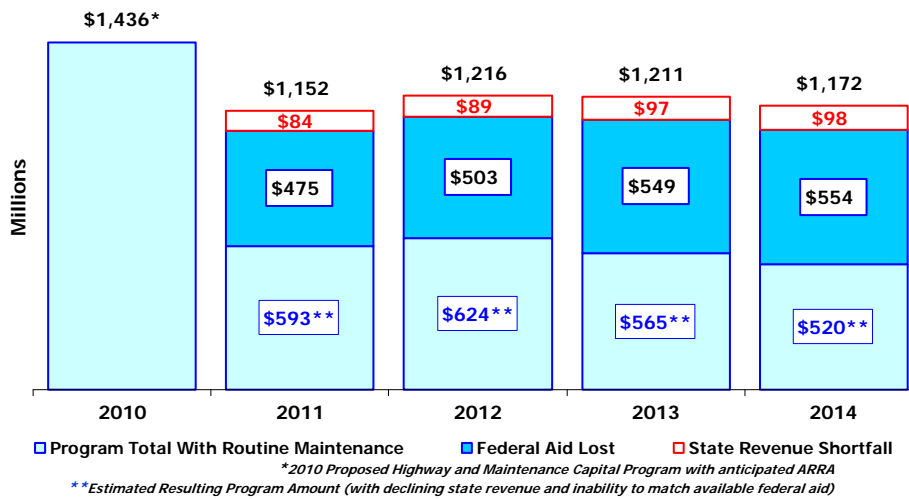




Impact of Tax Exemptions/Credits/Deductions



Reduced State Revenue May Lead to Loss of Federal Aid



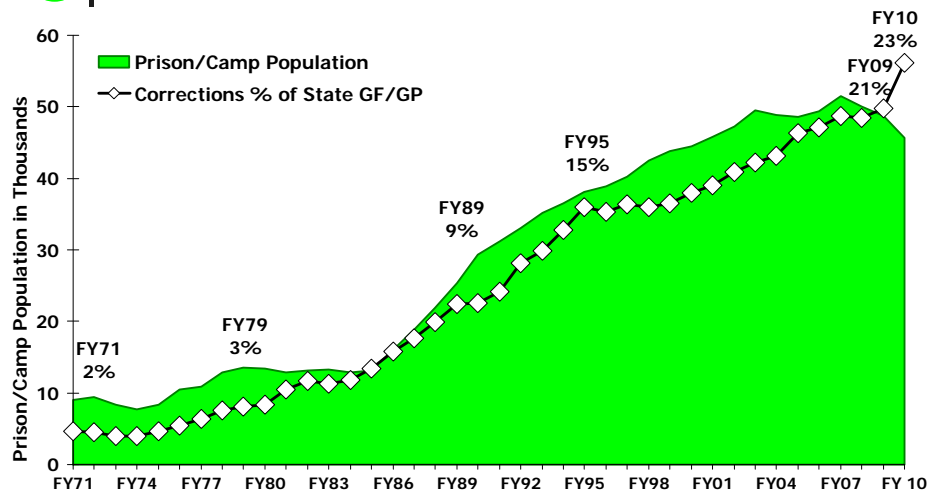


Medicaid Impact on Michigan Budget

- For FY 09, approximately 22.4% of Michigan GF/GP revenue is appropriated for Medicaid
- 1 of 6 Michigan residents were eligible for Medicaid in April 2009
- 42% of births and 70% of nursing home expenditures in Michigan are financed through Medicaid
- Total state and federal Medicaid appropriation is over \$9.9 billion in FY 09
- Since FY 1999-2000
 - 88.4% increase in Medicaid funding
 - 53.0% growth in Medicaid caseload (564,000 cases)



Corrections Budget Increases



*Fiscal Year 2008-09 includes GF/GP reductions due to appropriation of federal ARRA funds.
Fiscal Year 2009-10 includes the impact of gubernatorial vetoes of negative line items in the MDOC budget.*



Summary

- This year, the GF/GP and SAF budgets are probably OK
- In FY 2011, the GF shortfall is about \$1.3 billion and the SAF shortfall is about \$424 million
- In FY 2012, the GF shortfall could exceed \$500 million
- Transportation revenue shortfalls could lead to loss \$2.0 billion federal transportation funds by 2014
- Revenue is about \$9.0 billion below the Headlee limit since 2000
- The state economy has contracted about 3.5% since 2000 — due primarily to the restructuring of the auto industry
- Real GF/GP revenue is down 43.4% since FY 2000
- Real SAF revenue is down 15.7% since FY2000 — and 16.6% since first year of Proposal A
- A 3.5% contraction in the state economy doesn't fully explain revenue declines
- The structure of the state tax code is a real problem



www.house.mi.gov/hfa