

# Where We Are and How We Got There

Prepared for:  
Bipartisan Freshman Caucus

March 4, 2010



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## State Budget Shortfalls Caused By

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



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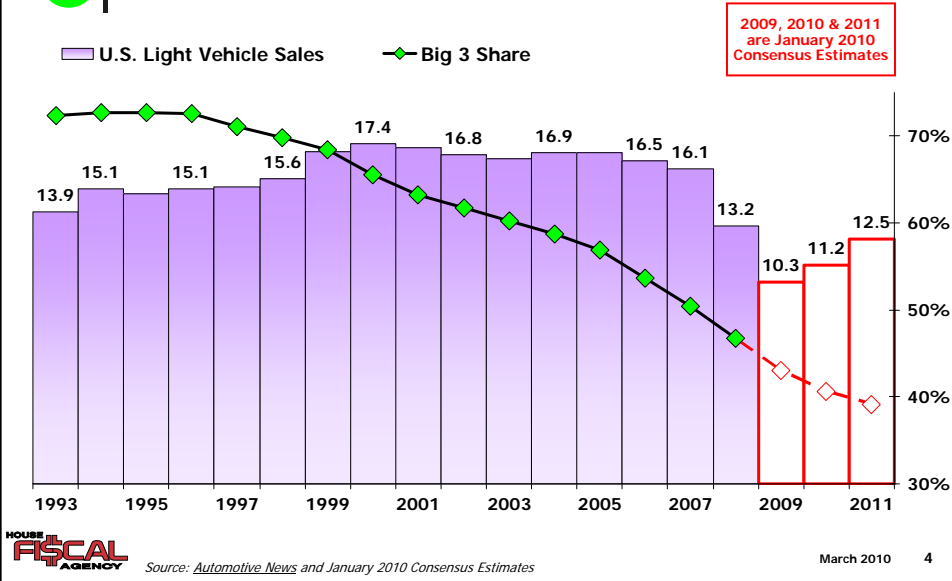


## Structural Budget Deficits

- FY 2010-11
  - GF shortfall approximately \$1.3 billion
  - SAF shortfall approximately \$415 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 \$262 are not restored

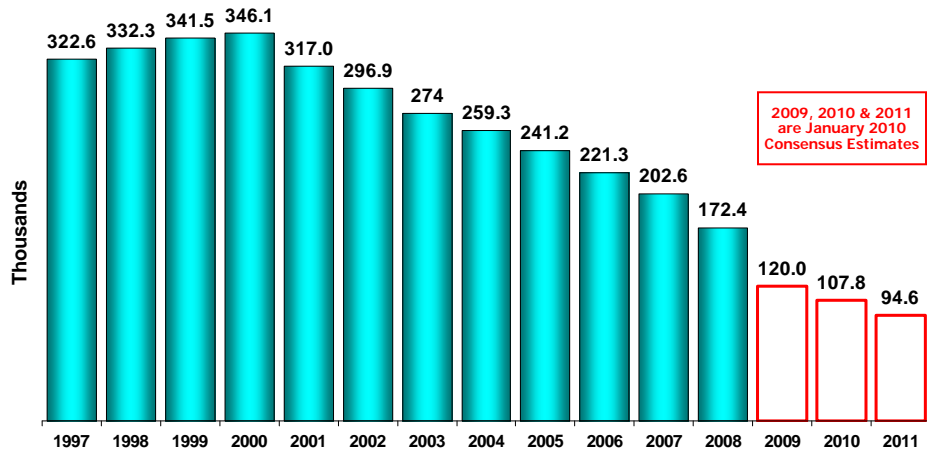


## Big 3 Losing Market Share





## Michigan Vehicle Employment

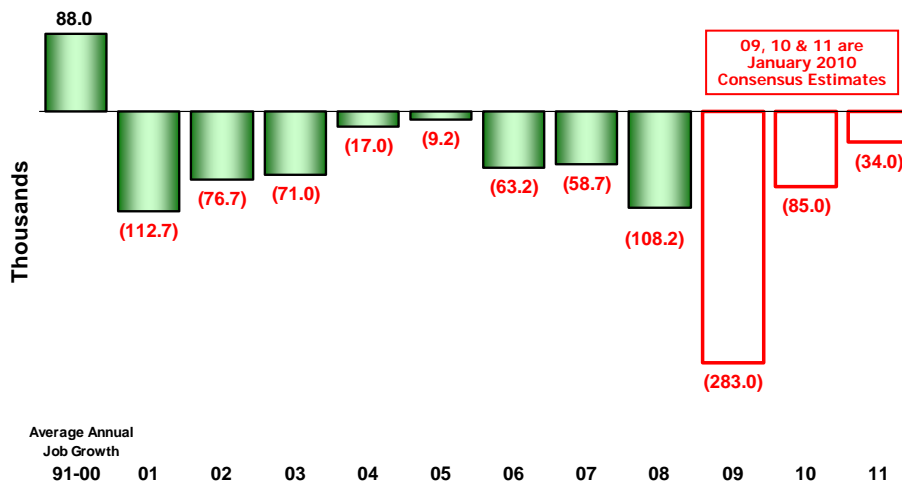


Source: U.S. Bureau of Labor Statistics and January 2010 Consensus Estimates

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## Job Growth in Michigan

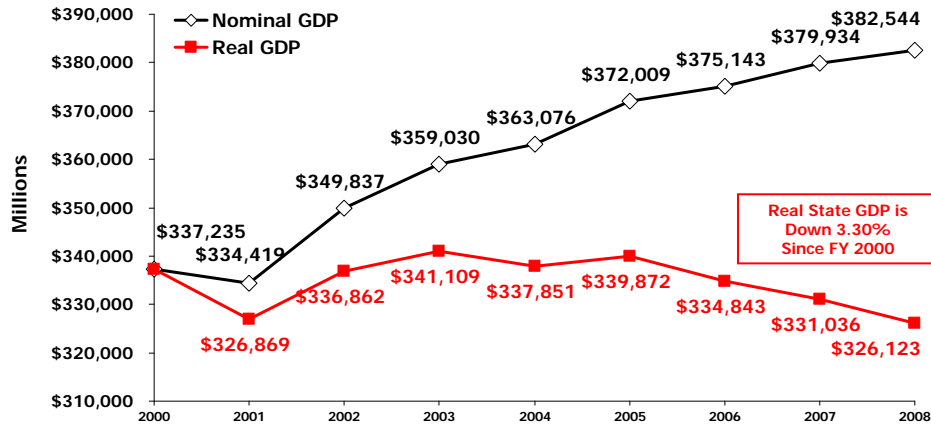


Source: U.S. Bureau of Labor Statistics and January 2010 Consensus Estimates

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## Real and Nominal State GDP

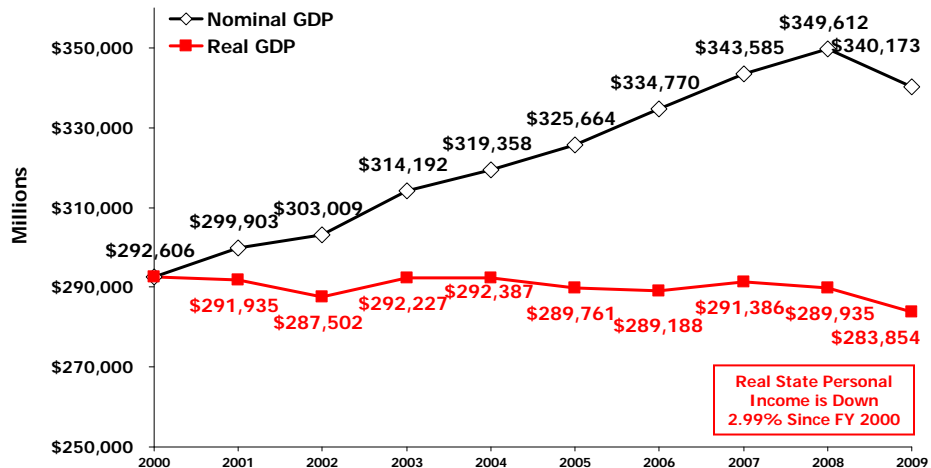


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## Real and Nominal State Personal Income



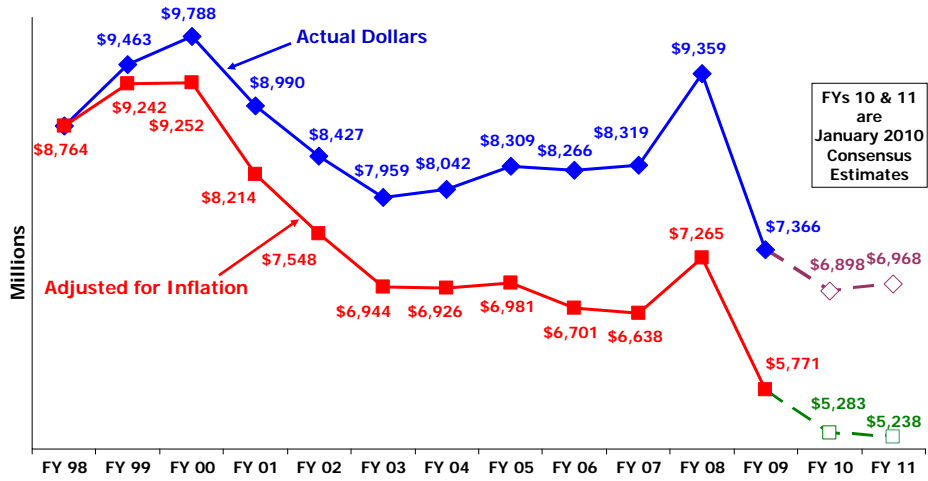
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Source: U.S. Bureau of Economic Analysis. 2009 personal income numbers are from the January 2010 Consensus Revenue Estimating Conference.

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

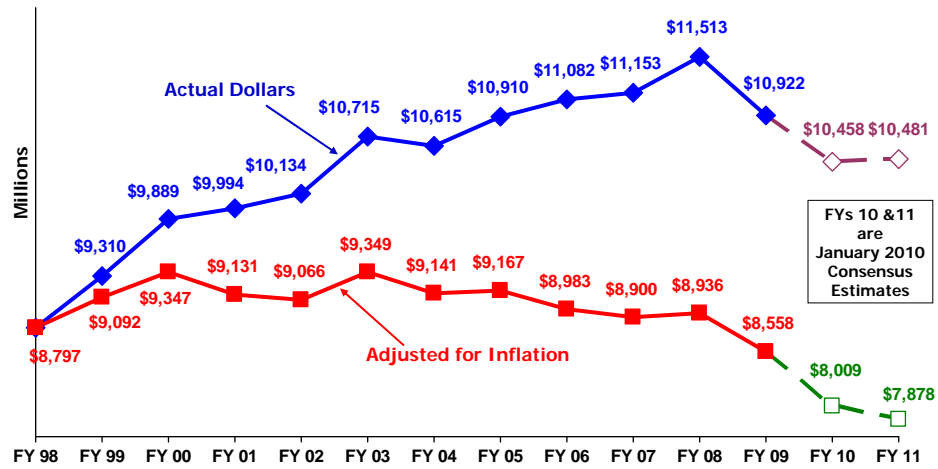


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## Inflation Adjusted SAF Net Revenue Down 15.7% Since FY 2000



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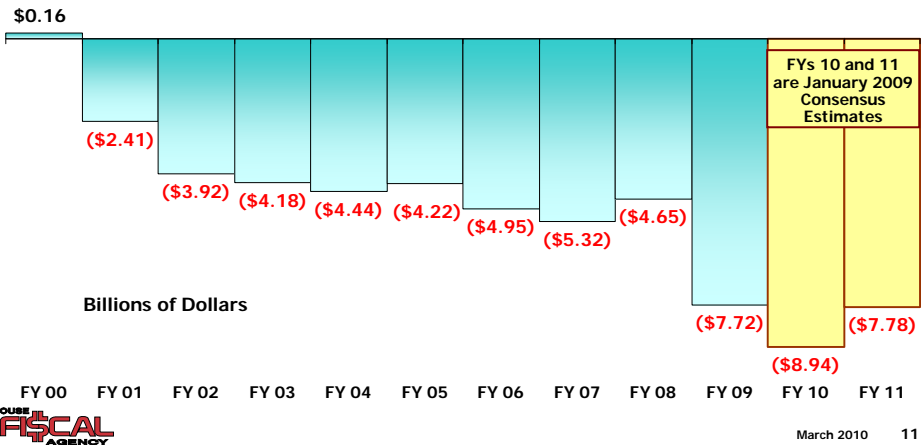
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## Constitutional Revenue Limit

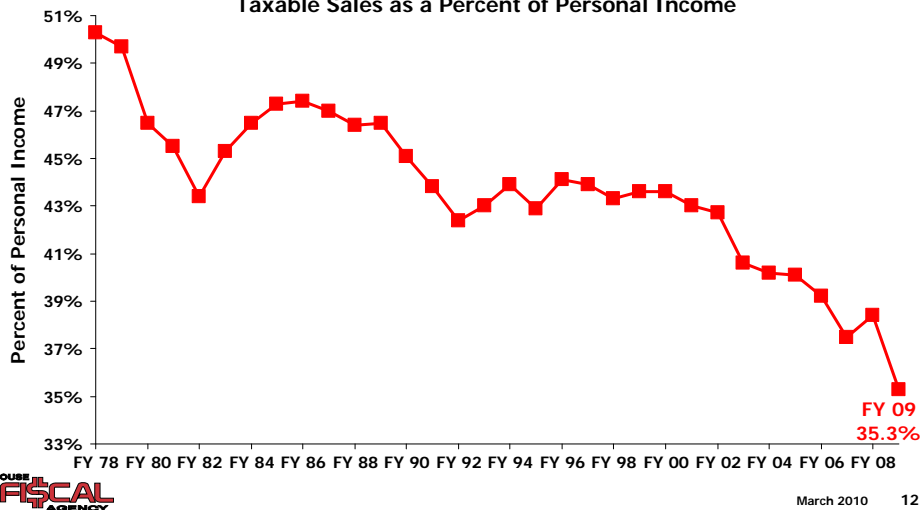
Average growth of Michigan personal income = 2.7% per year from 2000 through 2011

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



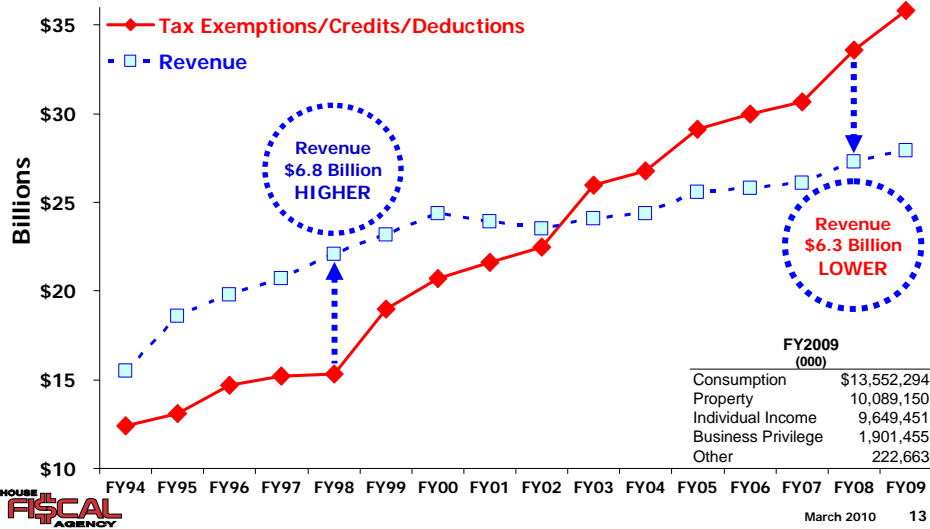
## Sales/Use Tax Share Declining

Taxable Sales as a Percent of Personal Income

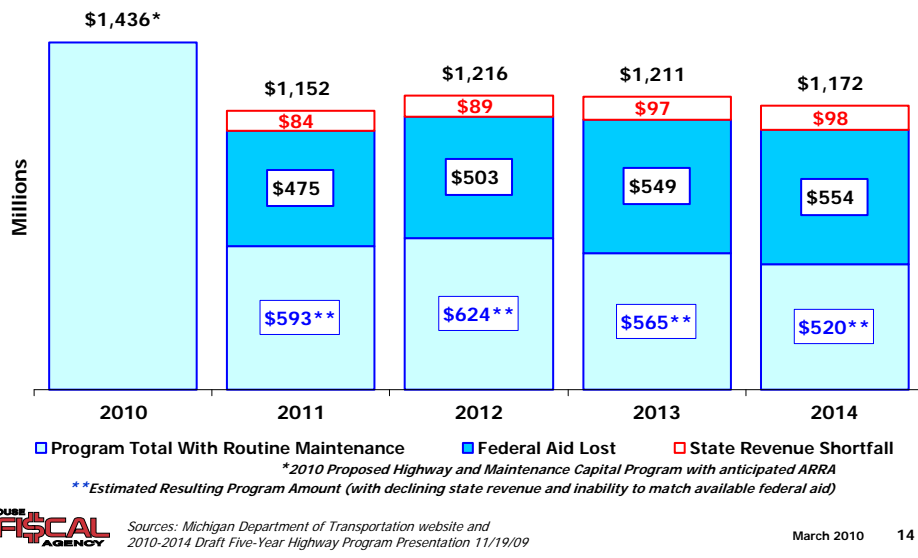




## Impact of Tax Exemptions/Credits/Deductions



## Reduced State Revenue May Lead to Loss of Federal Aid



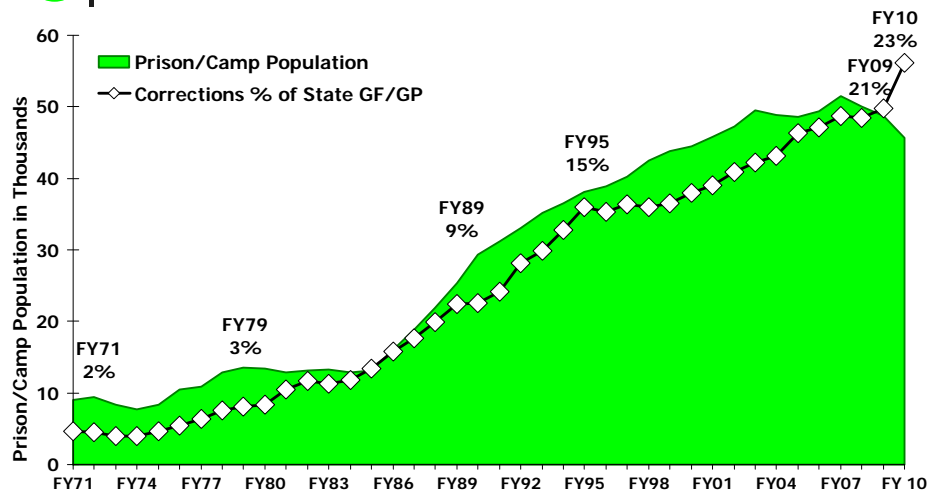


## Medicaid Impact on Michigan Budget

- For FY 10, approximately 17.7% 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 \$10.7 billion in FY 10
- Since FY 1999-2000
  - 109.8% increase in Medicaid funding
  - 52.6% growth in Medicaid caseload (559,400 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 \$415 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



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