“ADJUSTING TO THE NEW NORMAL”
STATE AND LOCAL GOVERNMENT IN MICHIGAN

Presented to

MSU BENCHMARKING CONFERENCE

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Michigan Senate Fiscal Agency

OCT 18, 2010

http://www.senate.michigan.gov/sfa/
Michigan and U.S. Personal Income Per Person

Michigan Rank 1970: 12th
Michigan Rank 1979: 12th
Michigan Rank 1982: 25th
Michigan Rank 1985: 16th
Michigan Rank 2000: 18th
Michigan Rank 2009: 37th

Source: Bureau of Economic Analysis, U.S. Department of Commerce

Is This Permanent?
IS THERE A NEW NORMAL? (NATIONAL/STATE)

- Slower economic growth (2% vs. 3%), higher unemployment

- Global realignment (China and India emerging)
  - Migration of wealth and people to developing countries

- Lower Investment returns (4-5% vs. 8-10%)

- Focus on Government Deficit Reduction
  - Higher taxes, fewer services

Forecasts are almost always wrong, but there are elements of truth in all forecasts
First Significant Decline in Over 50 Years Continues

Will this continue?

Source: Federal Reserve Board of Governors & Bureau of Economic Analysis, U.S. Dept. of Commerce
Wage Earnings in Michigan Lag the Nation
Over the Last 10 Years, Regardless of Sector

Over the Last 10 Years, Regardless of Sector
Wage Earnings in Michigan Lag the Nation

Source: Bureau of Economic Analysis, U.S. Dept. of Commerce
Changing Mix of U.S. and Michigan Employment

Manufacturing Sector Declines, Health Services Sector Increases

U.S. & Michigan Employment Changes, By Occupation

Percent Change from 2000 Avg. to May 2008

U.S. & Michigan Employment Changes, By Occupation

Migration Rates by Educational Attainment: 2008

No High School Graduate

0.0% 1.0% 2.0% 3.0%

2008 Out

2008 In

Courtesy of MI State Demographer
State Revenue and the Constitutional Revenue Limit

$ Amount Under or Over Limit

(Billions of Dollars)


### 10-Year Historical Look at State Appropriations
(Millions of Dollars)

<table>
<thead>
<tr>
<th></th>
<th>FY 1999-2000</th>
<th>FY 2009-10</th>
<th>Dollar Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted Gross Appropriations</td>
<td>$35,417.7</td>
<td>$44,725.0</td>
<td>$9,307.3</td>
<td>26.3%</td>
</tr>
<tr>
<td>Federal Funds Appropriated</td>
<td>9,765.6</td>
<td>19,059.1</td>
<td>9,293.5</td>
<td>95.2%</td>
</tr>
<tr>
<td>State Spending from State</td>
<td>24,579.0</td>
<td>25,197.0</td>
<td>618.0</td>
<td>2.5%</td>
</tr>
<tr>
<td>Resources</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Fund/General Purpose</td>
<td>9,607.7</td>
<td>8,128.5</td>
<td>(1,479.2)</td>
<td>-15.4%</td>
</tr>
<tr>
<td>Restricted School Aid Fund</td>
<td>9,908.9</td>
<td>10,458.1</td>
<td>549.2</td>
<td>5.5%</td>
</tr>
</tbody>
</table>

**Source:** Michigan Senate Fiscal Agency
### 10-Year Historical Look at State Spending from State Resources
(Millions of Dollars)

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<tr>
<td><strong>Total State Spending from State Resources</strong></td>
<td>$24,579.0</td>
<td>$25,197.0</td>
<td>$618.0</td>
<td>2.5%</td>
</tr>
<tr>
<td><strong>Education Programs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>K-12 School Aid</td>
<td>$9,957.6</td>
<td>$10,771.8</td>
<td>$814.2</td>
<td>8.2%</td>
</tr>
<tr>
<td>Community Colleges</td>
<td>297.2</td>
<td>299.4</td>
<td>2.2</td>
<td>0.7%</td>
</tr>
<tr>
<td>Higher Education</td>
<td>1,782.1</td>
<td>1,538.1</td>
<td>(244.0)</td>
<td>-13.7%</td>
</tr>
<tr>
<td>Department of Education</td>
<td>102.1</td>
<td>26.5</td>
<td>(75.6)</td>
<td>-74.0%</td>
</tr>
<tr>
<td><strong>Subtotal Education Programs</strong></td>
<td>12,139.0</td>
<td>12,635.8</td>
<td>496.8</td>
<td>4.1%</td>
</tr>
<tr>
<td><strong>Community Health</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medicaid Program</td>
<td>2,098.7</td>
<td>3,145.5</td>
<td>1,046.8</td>
<td>49.9%</td>
</tr>
<tr>
<td>All Other Community Health Programs</td>
<td>932.1</td>
<td>646.2</td>
<td>(285.9)</td>
<td>-30.7%</td>
</tr>
<tr>
<td><strong>Subtotal Community Health</strong></td>
<td>3,030.8</td>
<td>3,791.7</td>
<td>760.9</td>
<td>25.1%</td>
</tr>
<tr>
<td>Corrections</td>
<td>1,531.3</td>
<td>1,947.1</td>
<td>415.8</td>
<td>27.2%</td>
</tr>
<tr>
<td>Revenue Sharing</td>
<td>1,470.5</td>
<td>972.7</td>
<td>(497.8)</td>
<td>-33.9%</td>
</tr>
<tr>
<td>Human Services</td>
<td>1,246.3</td>
<td>909.3</td>
<td>(337.0)</td>
<td>-27.0%</td>
</tr>
<tr>
<td><strong>All Other Programs</strong></td>
<td>5,161.1</td>
<td>4,940.4</td>
<td>(220.7)</td>
<td>-4.3%</td>
</tr>
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<td><strong>Total State Spending from State Resources</strong></td>
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## Key Factors Affecting the Growth in the State Budget Over the Past 10 Years

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<tr>
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<th>Dollar Change</th>
<th>% Change</th>
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<tbody>
<tr>
<td>K-12 Pupil Count</td>
<td>$1,588,590</td>
<td>$1,597,450</td>
<td>($8,460)</td>
<td>-0.5%</td>
</tr>
<tr>
<td>University Fulltime Equated Students</td>
<td>227,973</td>
<td>257,203</td>
<td>29,230</td>
<td>12.8%</td>
</tr>
<tr>
<td>Community College Fulltime Equated Students</td>
<td>107,660</td>
<td>161,223</td>
<td>53,563</td>
<td>49.8%</td>
</tr>
<tr>
<td>Medicaid Caseload</td>
<td>1,063,300</td>
<td>1,700,000</td>
<td>636,700</td>
<td>59.9%</td>
</tr>
<tr>
<td>Prison Population</td>
<td>44,065</td>
<td>46,364</td>
<td>2,299</td>
<td>5.2%</td>
</tr>
<tr>
<td>Full-Time Equated Positions</td>
<td>63,630.9</td>
<td>55,365.7</td>
<td>(8,265)</td>
<td>-13.0%</td>
</tr>
<tr>
<td>Number of Retired State Employees</td>
<td>36,705</td>
<td>51,029</td>
<td>14,324</td>
<td>39.0%</td>
</tr>
<tr>
<td>Number of Retired Public School Employees</td>
<td>126,115</td>
<td>179,922</td>
<td>53,807</td>
<td>42.7%</td>
</tr>
<tr>
<td>State Employee Payroll (millions)</td>
<td>2,710.7</td>
<td>3,287.9</td>
<td>577.2</td>
<td>21.3%</td>
</tr>
<tr>
<td>State Employee Retirement Contributions (millions)</td>
<td>407.7</td>
<td>825.0</td>
<td>417.3</td>
<td>102.4%</td>
</tr>
<tr>
<td>State Employee Insurance Costs (millions)</td>
<td>342.8</td>
<td>674.1</td>
<td>331.3</td>
<td>96.6%</td>
</tr>
<tr>
<td>Subtotal State Employee Costs (millions)</td>
<td>3,461.2</td>
<td>4,787.0</td>
<td>1,325.8</td>
<td>38.3%</td>
</tr>
<tr>
<td>State Employee Costs Per Employee (dollars)</td>
<td>54,395</td>
<td>86,461</td>
<td>32,067</td>
<td>59.0%</td>
</tr>
<tr>
<td>State Employee Retirement System Contribution Rate</td>
<td>11.04%</td>
<td>33.26%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public School Employee Retirement System Contribution Rate</td>
<td>11.66%</td>
<td>17.81%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Overall Tax Burdens

Total State Revenue Falling
as a Share of Personal Income

Source: Bureau of Economic Analysis, U.S. Dept. of Commerce and Michigan Dept. of Management and Budget
Taxable Sales in Michigan Growing Slower Than Michigan Personal Income

Source: Bureau of Economic Analysis, U.S. Department of Commerce and Senate Fiscal Agency
State and Local Government Deficits Over Time

State and Locals are projected to run large deficits over the next thirty years.
UnFunded State and Local Retiree Health Care

Ticking Time Bomb
Share of liabilities for retiree health-care and other nonpension benefits that is funded

- Less than 1%
- 1 to 9.9%
- 10 to 49.9%
- More than 50%

Source: Pew Center on the States
Notes: Data are from 2007 or 2008 for all states except Utah and Wisconsin (2009).
MICHIGAN BUDGET OUTLOOK (FY 2012)

- $4.6 billion in federal funds used to balance budget over last three years
- General Fund ($8.2 bil.)
  - $8.2 bil in ongoing revenue
    - $230 mil in one time revenue
    - ($150) mil income tax rate reduction
- $9.5 bil. In spending
- (1.4) bil. Imbalance
Bottom Line on State Finance’s

- State Tax Burden (both state and local govt.) has **fallen** over the decade

- State spending from State resources is **flat** (large falloff adjusting for inflation)

- State spending from all resources is **up** due to large increase in federal transfers

- State budget pressures **have come** from Medicaid, Corrections and employee economics
  - Other programs had to be reduced to make up difference
  - Higher education, Community Colleges, Agriculture, DNRE, Revenue Sharing, Human Services
IS THERE A NEW NORMAL? (LOCAL)

- Suburbs will urbanize
  - Higher density, infill development, less retail space

- Homeownership rates will fall, rental will be more popular

- Green building and sustainability is here to stay
  - 33 states have climate action plans; 1,000 Mayors have adopted Kyoto protocols

- Ed’s and Med’s will drive knowledge economy of 21st century

- Vacancy and vacant land can be a critical asset in revitalization
State Revenue Sharing Payments

- Actual Revenue Sharing
- Growth at Detroit CPI Rate

FY 2009-10 Estimated under current law, FY 2010-11 Estimated under Gov. Rec.
ROLE OF BENCHMARKING/PERFORMANCE

- REVENUE INCREASES
  - TAXES
  - FEES
  - HOW DO WE COMPARE TO OUR NEIGHBORS?

- EXPENDITURE REDUCTIONS
  - PERSONNEL
  - NONPERSONNEL (OPERATING AND CAPITAL)
  - HOW DO WE COMPARE TO OUR NEIGHBORS?

- RESTRUCTURING AND REFORM
  - REDUCE COSTS WITHOUT REDUCING SERVICE
  - PAYCUTS, BENEFIT REDUCTION
  - HOW DO OUR SERVICE PROVISION MECHANISMS WORK COMPARE TO OUR NEIGHBORS?
## Governmental Options

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Restructuring/Reforms</th>
<th>Spending Cuts</th>
<th>Revenue Increases</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Example</strong></td>
<td>Technology investment</td>
<td>Layoffs/Furloughs</td>
<td>Tax increase</td>
</tr>
<tr>
<td><strong>Example</strong></td>
<td>Intergovernmental cooperation</td>
<td>Closing Facilities</td>
<td>New fees</td>
</tr>
<tr>
<td><strong>Goal</strong></td>
<td>Save Money/Maintain Services</td>
<td>Save Money/Reduce Services</td>
<td>Increase funding/Maintain or increase services</td>
</tr>
</tbody>
</table>
**Summarizing**

- **General Outlook is for a very slow economic recovery**
  - High savings, lower consumption, households fixing balance sheets, government contraction

- **The New Normal reflects these economic constraints:**
  - $6.5 trillion in “assets” that must be readjusted from housing bubble
  - People will be buying more services and fewer durable consumer goods (cars and housing)
  - Higher unemployment for several years, very slow growth in home prices
  - Govt. costs rising with limited tax revenue growth

- **Government Benchmarking and Performance Measurement**
  - Need to assess what our neighbors our doing, learning from others experiences
  - Benchmarking helps formalize what already occurs on an informal basis (but it cannot make the decisions for you!!)
  - Making sure the “right” services are delivered at the “right” cost
  - Its not what services do you want, it is what services do want for $X