



Thinking about Michigan  
state and local  
government financial  
future

# Thinking about Michigan's State and Local Government Financial Future

Staff of Citizens Research Council of Michigan

April 28, 2020 Webinar

# 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 from Michigan foundations, businesses, and individuals
- *[www.crcmich.org](http://www.crcmich.org)*

# Recent and Upcoming Publications

## Recent Blog Posts

- *Will Property Taxes be Immune to the Effects of COVID-19?* (April 22)
- *All of Michigan Still at Risk from COVID-19* (April 20)
- *Local Government Jobs to be Hardest Hit by Pandemic* (April 17)
- *Pandemic threatens Detroit's fiscal recovery* (April 13)
- *Adapting Michigan's Sunshine Laws to the Cloud of Coronavirus* (April 6)
- *Coronavirus and the State Budget: What's at Stake* (March 30)
- *Public Transit in the Time of Coronavirus* (March 24)
- *Now is not the Time for Pork-Barrel Spending* (March 18)
- *Paid Sick Leave is Part of Coronavirus Defense Strategy* (March 9)

## Michigan Budget Growth Fueled by Federal Dollars

### *Key Takeaways*

- Michigan has become more dependent on federal dollars to fund state programs since the turn of the millennium.
- This has coincided with a slowdown of the growth of in state discretionary dollars – which has shrunk from 40 percent of the state budget to less than 20 percent.
- State funding used to match federal funding has drawn increased amounts of the limited discretionary dollars collected by the state, furthering the impact on the state budget.

Due for release tomorrow, April 29

Text "FACTSMATTER" to 42828 to join email list

# Presenters



Eric Lupher  
President  
[elupher@crcmich.org](mailto:elupher@crcmich.org)



Jill Roof  
Local Government  
[jroof@crcmich.org](mailto:jroof@crcmich.org)



Craig Thiel  
Research Director/  
School Finance  
[cthiel@crcmich.org](mailto:cthiel@crcmich.org)



Jordon Newton  
State Finance  
[jnewton@crcmich.org](mailto:jnewton@crcmich.org)



Tim Michling  
Health Policy  
[tmichling@crcmich.org](mailto:tmichling@crcmich.org)

# Economic Perspective

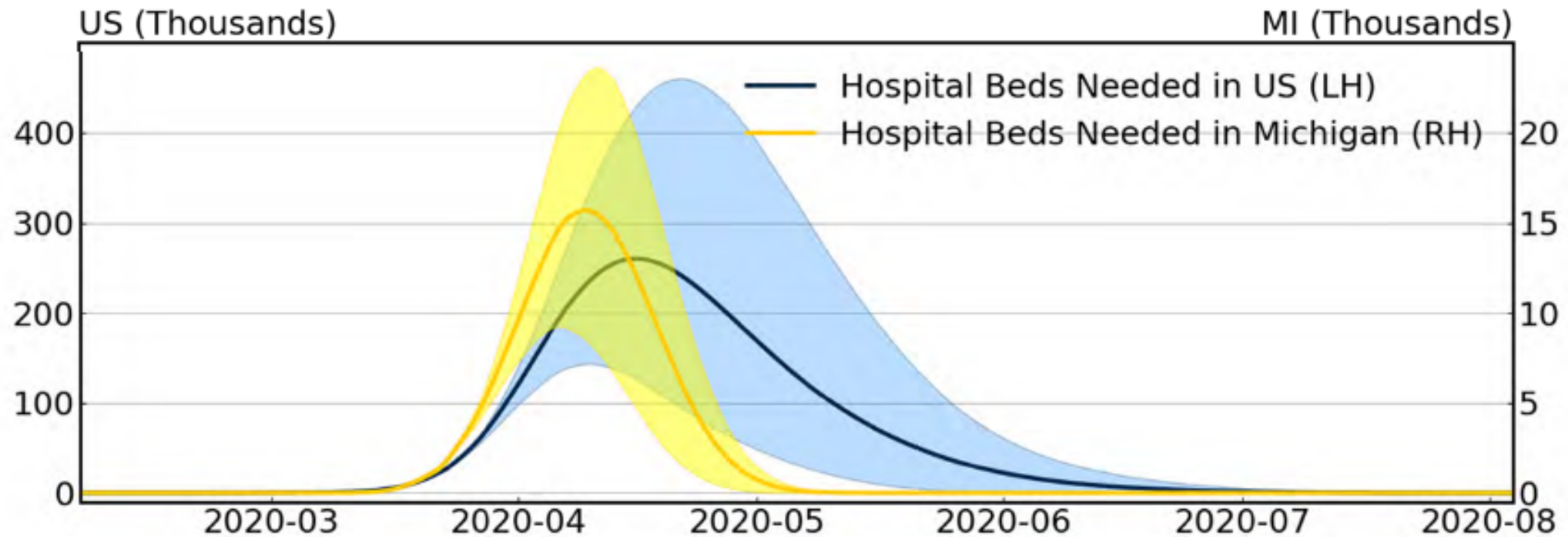
With permission from RSQE at the University of Michigan

# SEMCOG Webinar

Research Seminar in Quantitative Economics at University of Michigan  
April webinar for the Southeast Michigan Council of Governments  
(SEMCOG)

- [The Economic Impacts of COVID-19](#)
- <https://register.gotowebinar.com/recording/5624880892104275469>

# Current State of COVID-19 and Projections

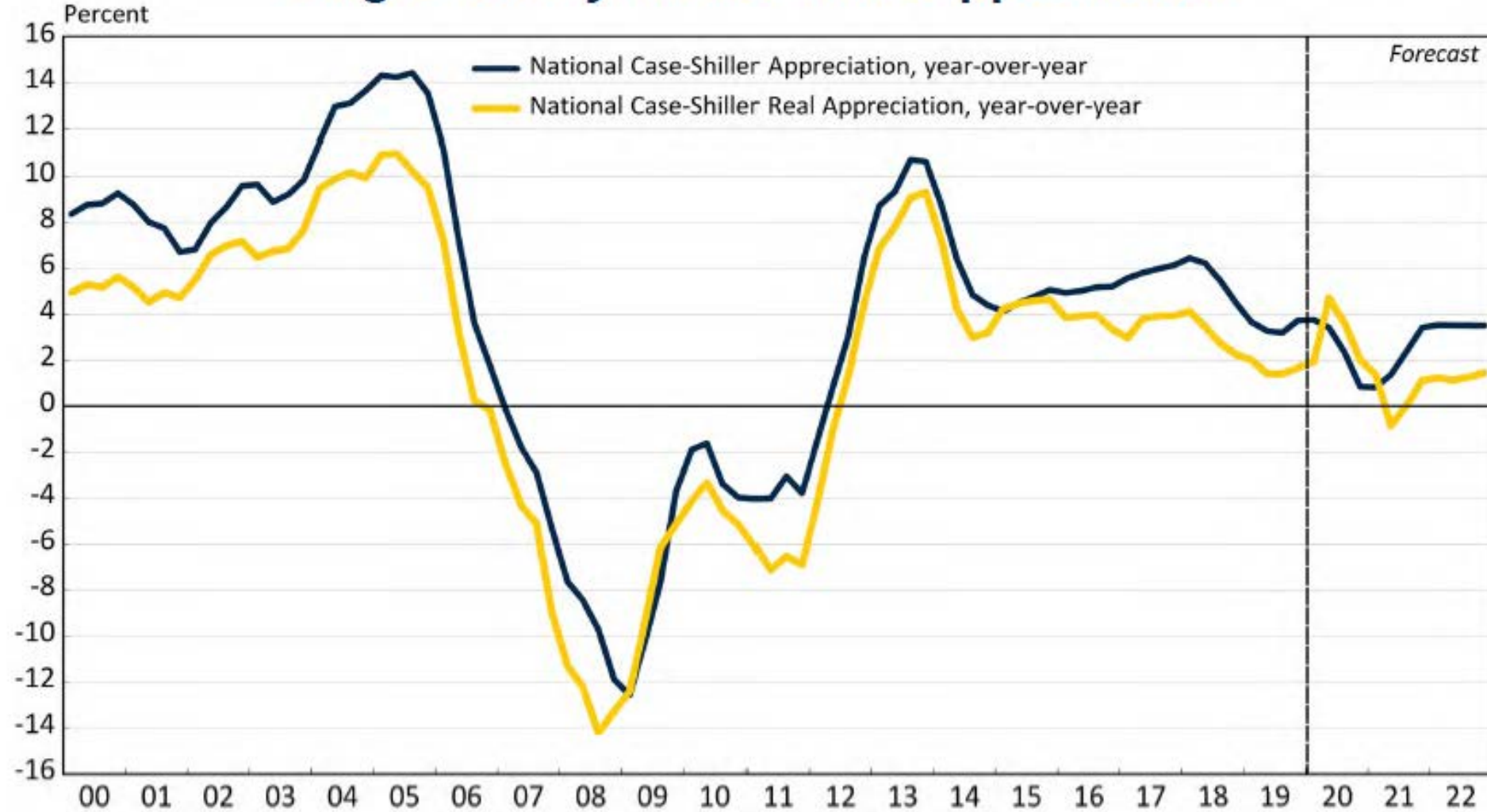


Source: Institute for Health Metrics and Evaluation (IHME) at the University of Washington

RSQE: April 2020



# Single-Family Home Price Appreciation



RSQE: April 2020

# Quarterly U.S. Real GDP



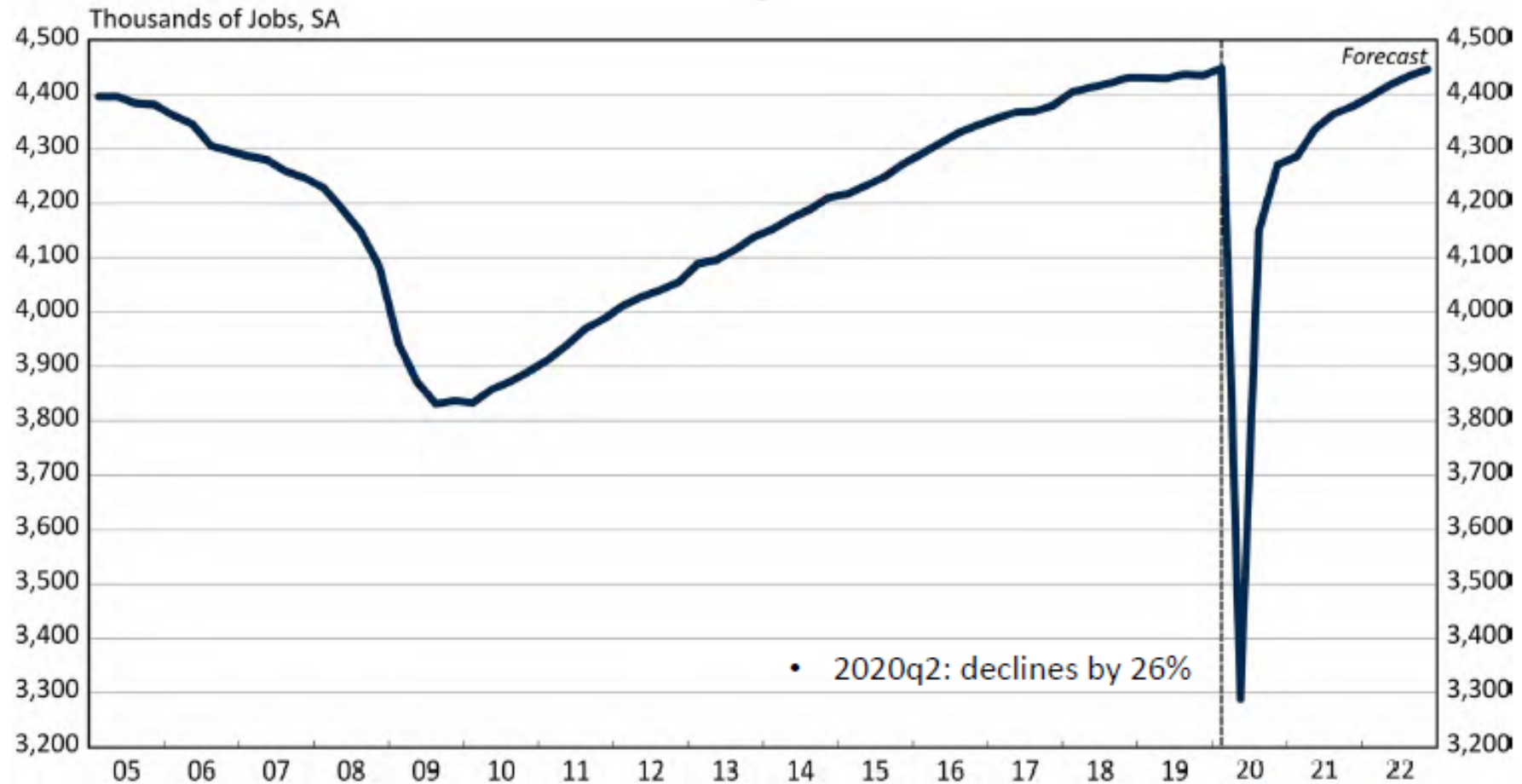
RSQE: April 2020

## Estimating the Impact on Michigan Payroll Employment

- Approximately 49% of Michigan workers are essential (federal guidance and Governor's "Stay Home, Stay Safe" order)
- Approximately 33% of Michigan workers can perform jobs remotely (Dingel and Neiman 2020)
- Accounting for overlap with essential workers, about 65.6% of workers currently able to do their jobs
- Additional 500,000 workers out of work because of decline in demand ("second round effects")
- Approximately 740,000 workers not working but continue to be paid
  - Using sick or vacation leave, covered by Paycheck Protection Program, large firms avoiding layoffs
- Second quarter payroll employment declines by 1,160,000 jobs (26 percent)
  - Reflects improvement beginning in June

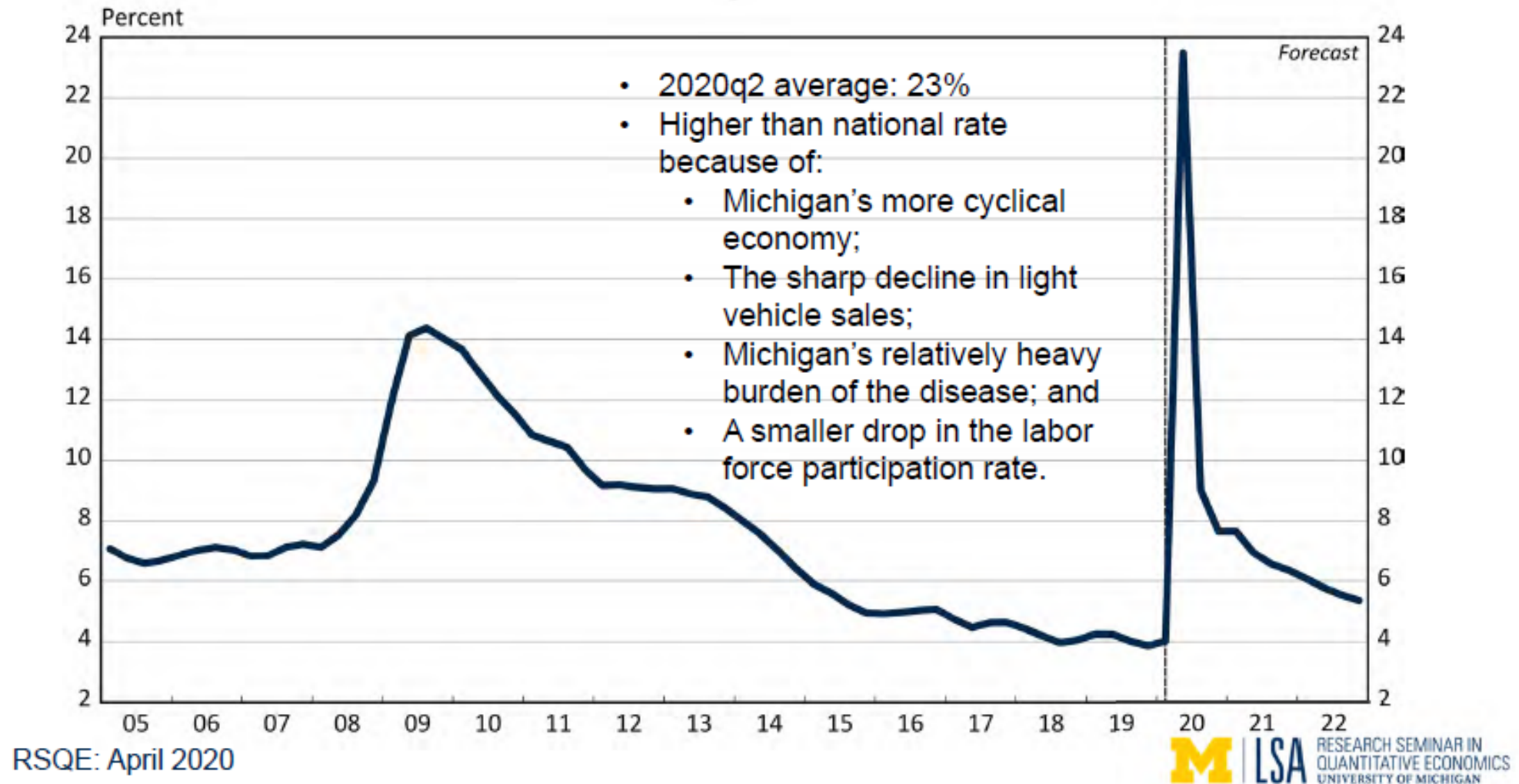
RSQE: April 2020

## Michigan Payroll Employment, 2005q1–2022q4



RSQE: April 2020

## Michigan Unemployment Rate, 2005q1–2022q4





## Michigan Personal Income, 2005q1–2022q4



RSQE: April 2020

# Data Graphics

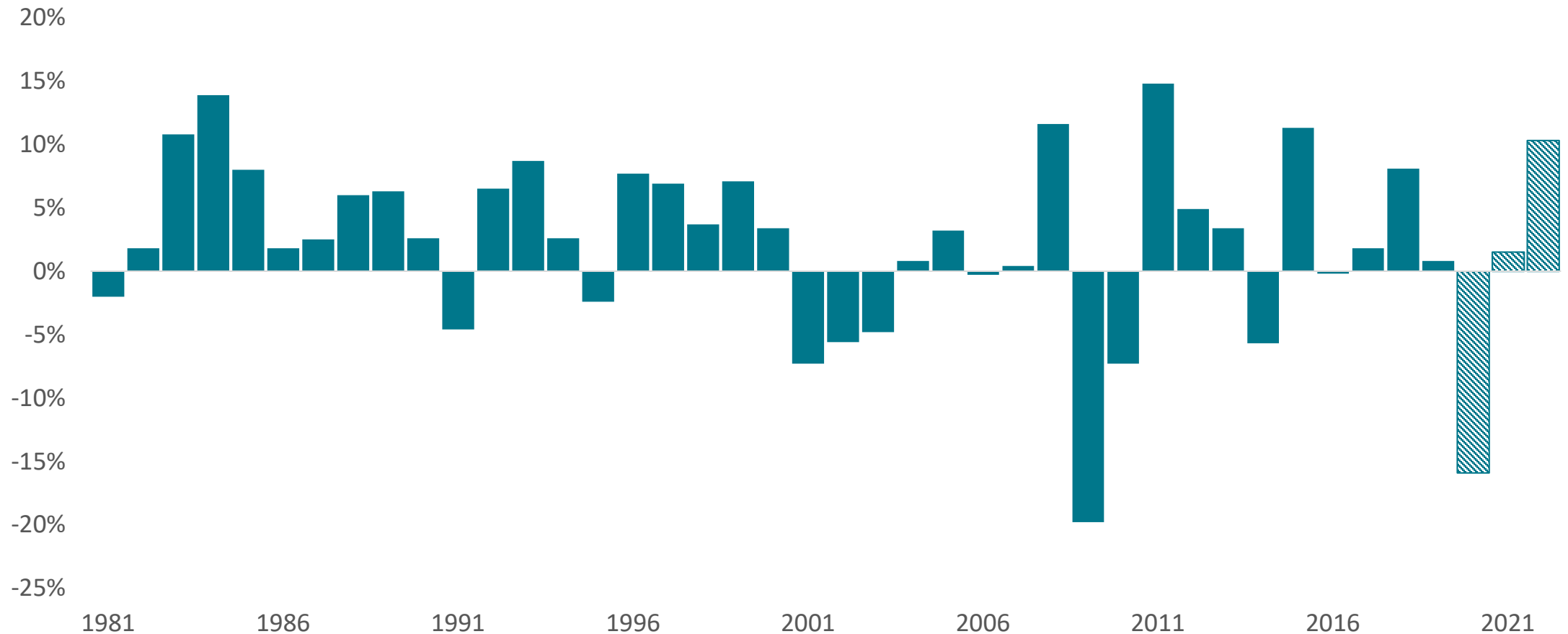
# Updated State Revenue Projections, (millions of dollars)

	<u>Actual</u>		<u>Forecast</u>	
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
<b>General Fund</b>	\$11,126	\$9,361	\$9,505	\$10,484
<i>Percent Change</i>	1.6	(15.9)	1.5	10.3
<b>School Aid Fund</b>	\$13,561	\$13,014	\$13,160	\$14,024
<i>Percent Change</i>	1.7	(4.0)	1.1	6.6
<b>Combined Change from February</b>	\$0	(\$2,624)	(\$3,167)	(\$2,165)
<i>Percent Change</i>	0	(10.5)	(12.3)	(8.1)

Source: RSQE.

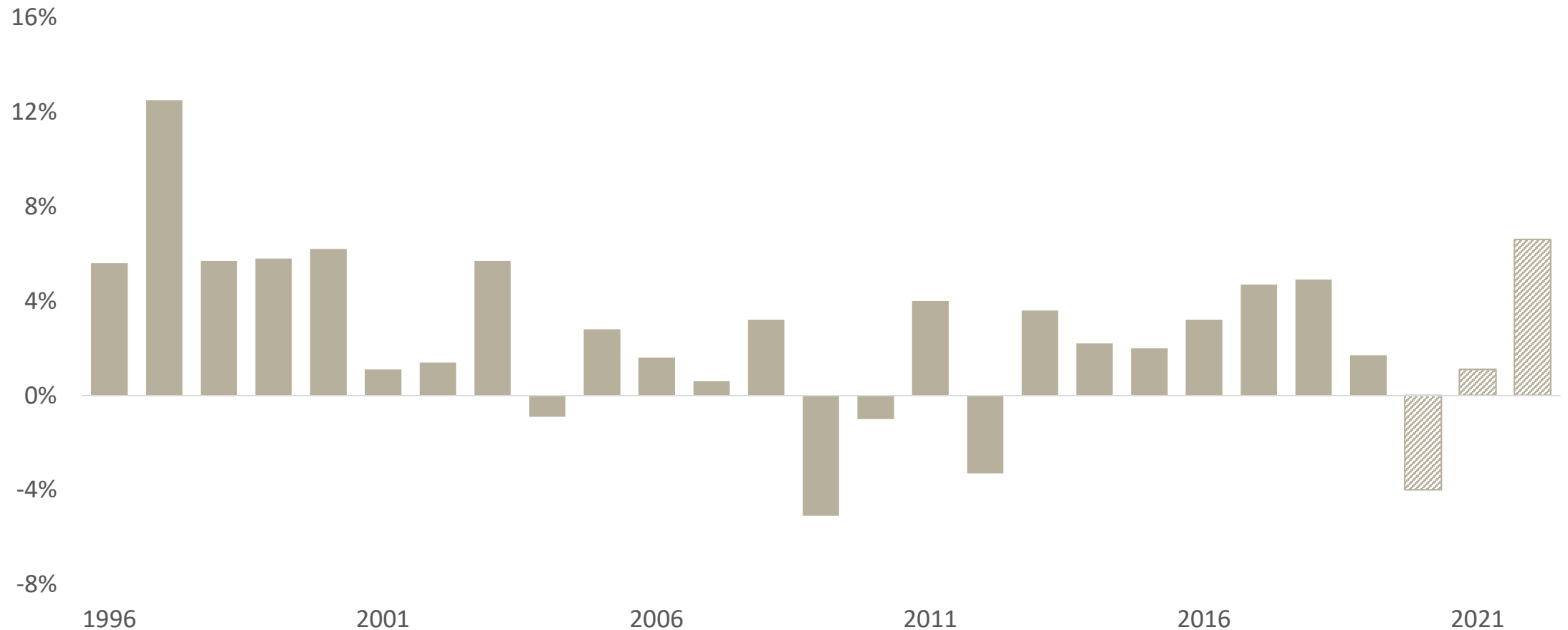


# General Fund Growth, FY1981-FY2022 (Projected)



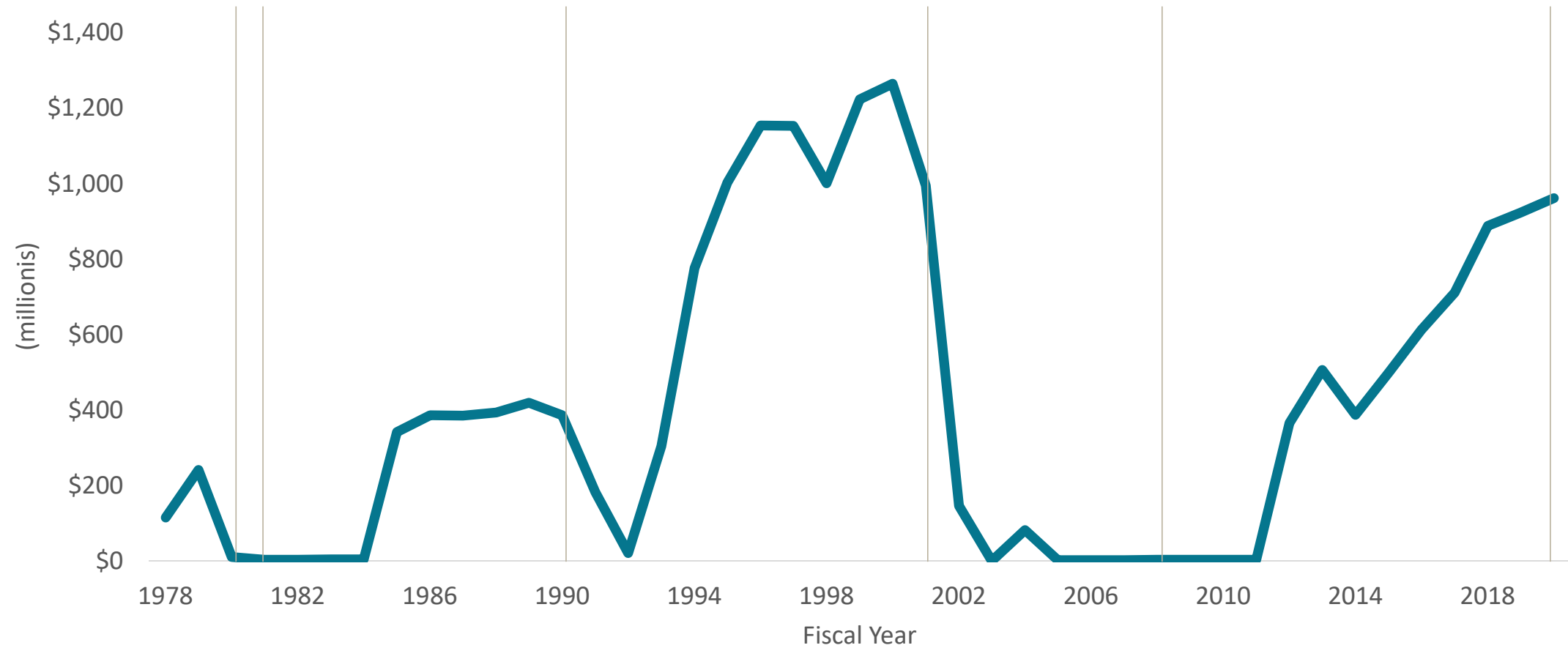
Source: Historical rates from the Senate Fiscal Agency. Estimates from RSQE.

# School Aid Fund Growth, FY1996-FY2022 (Projected)



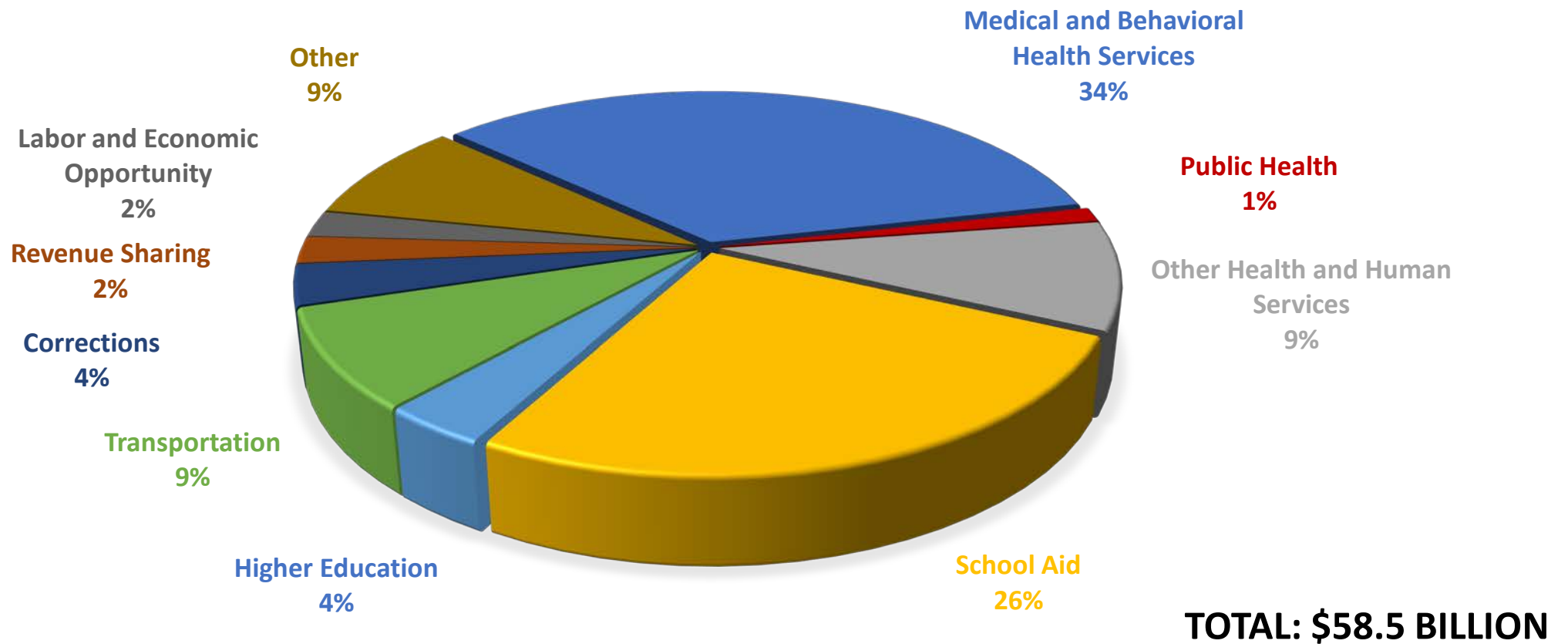
Source: Historical rates from the Senate Fiscal Agency. Estimates from RSQE.

# Historical Rainy Day Fund Balance, FY19780-FY2020 (Projected)



Source: Senate Fiscal Agency.

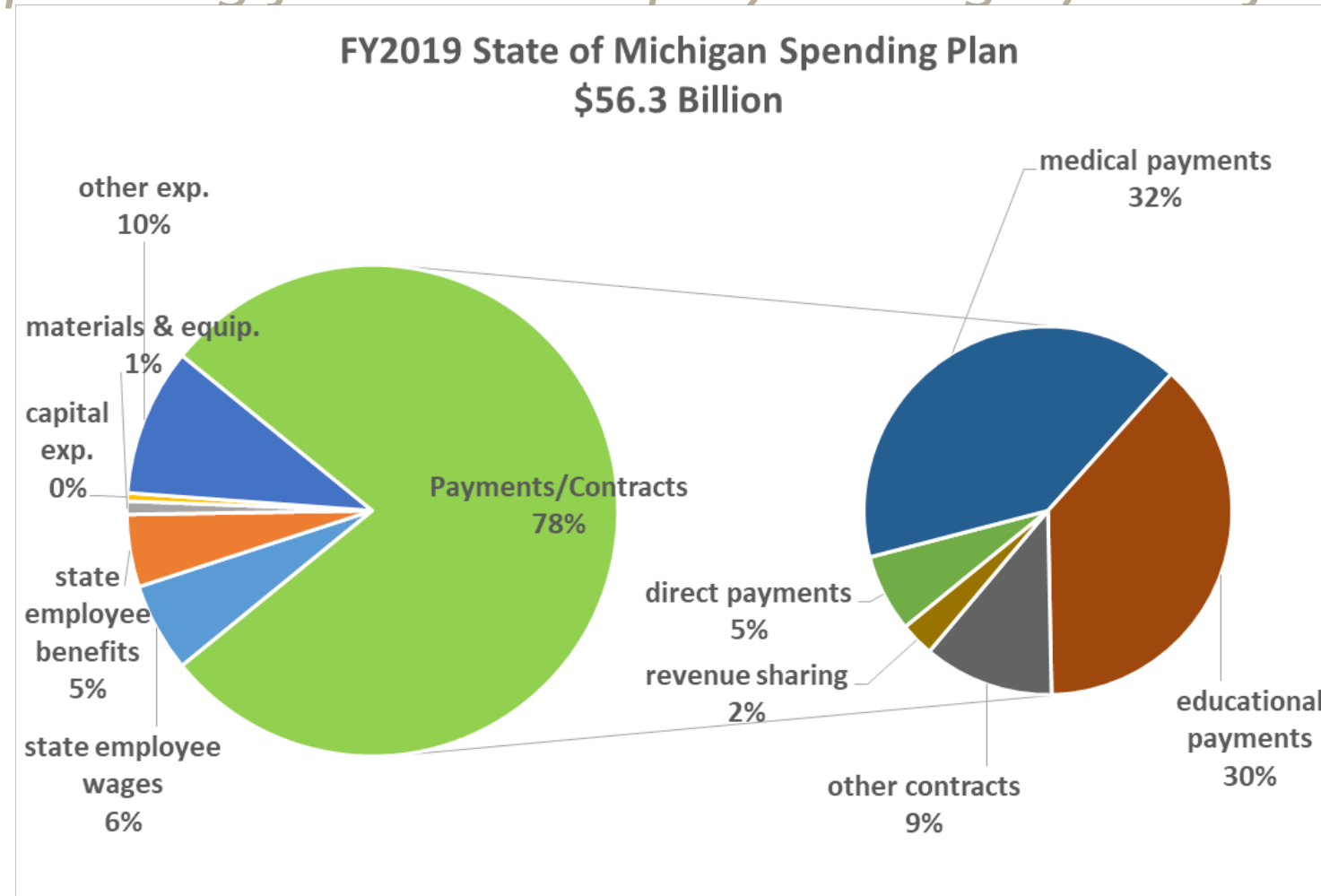
# State Budget is Dominated by Health and Education



Source: House Fiscal Agency

# Budget Serves Primarily as a Pass-Through

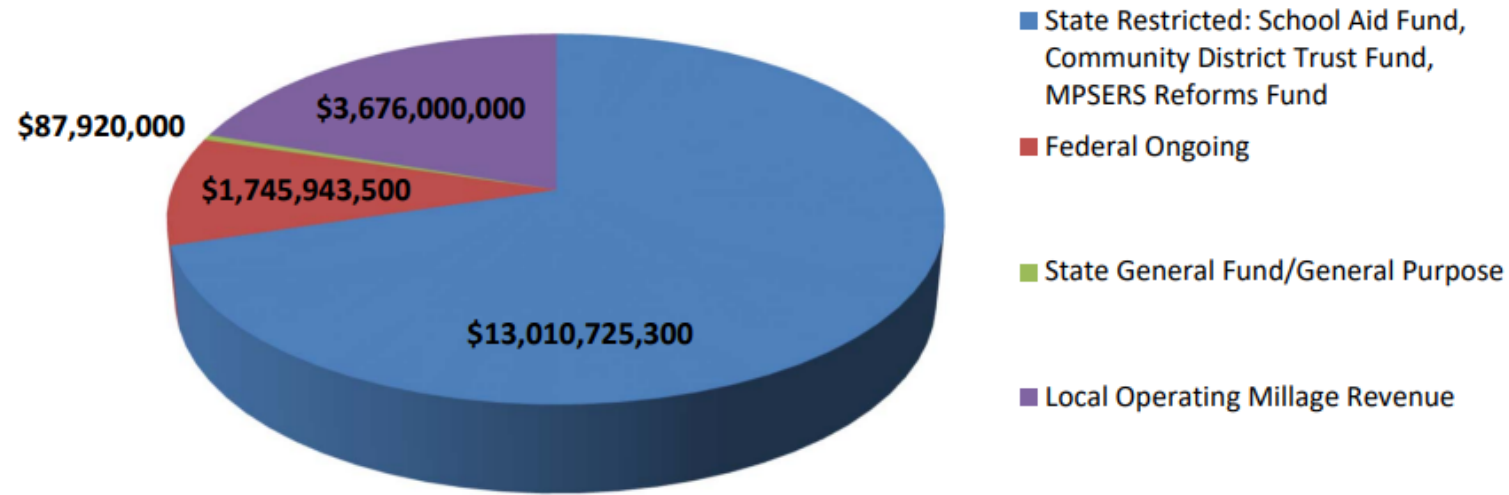
*11% of spending for state employee wages/benefits*



Note:  
State constitution requires  
at least 49% of all state  
spending (ex. federal \$) paid  
to local units of  
government.

# K-12 Education Operating Funding

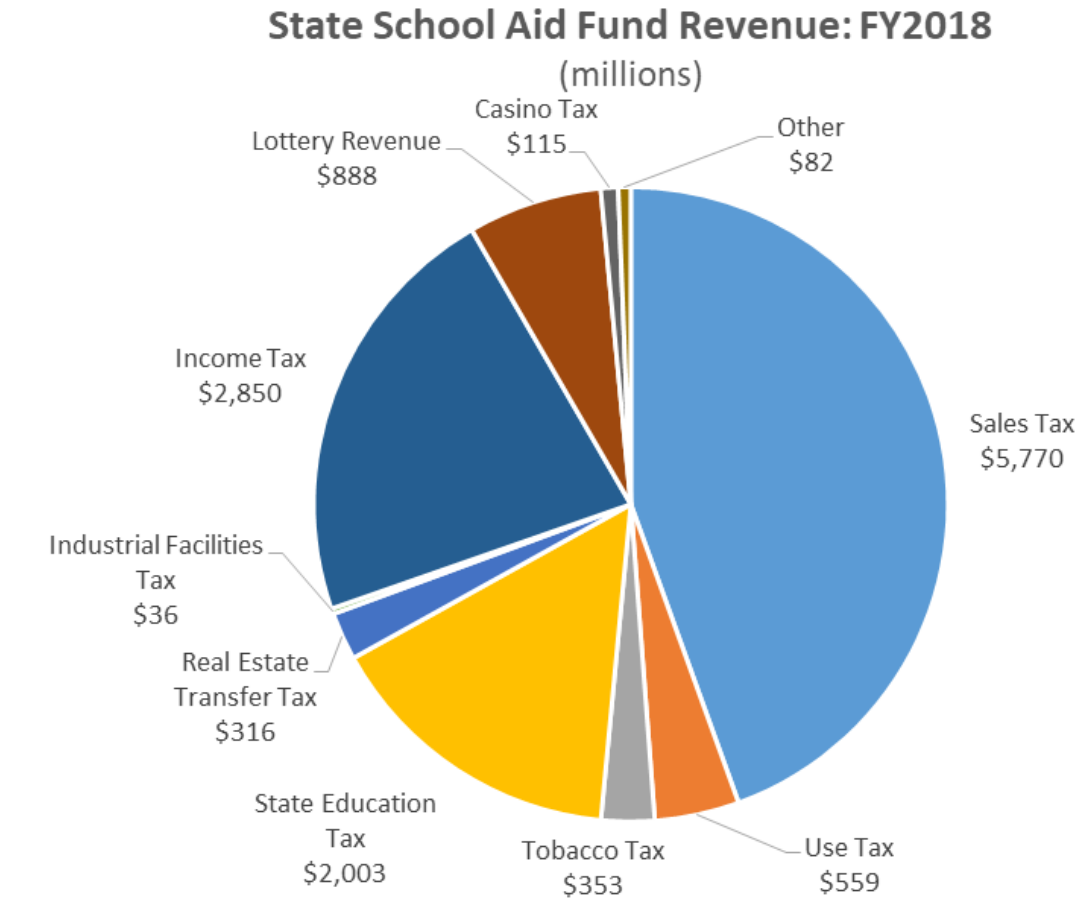
*State revenues play largest role*



Local operating millage revenue includes millages levied by school districts to support their foundation allowances and millages levied by intermediate school districts for operations, enhancement, special education, and vocational education. Local operating millage excludes millage levied for capital purposes, including debt and sinking funds. Dollars shown for local revenue are estimates.



# Where the State Revenue Comes From



Note:

## School Aid Fund

- Mich. Const. (Art. IX, Sec. 11)
- Exclusively for K-12, higher education, and retirement

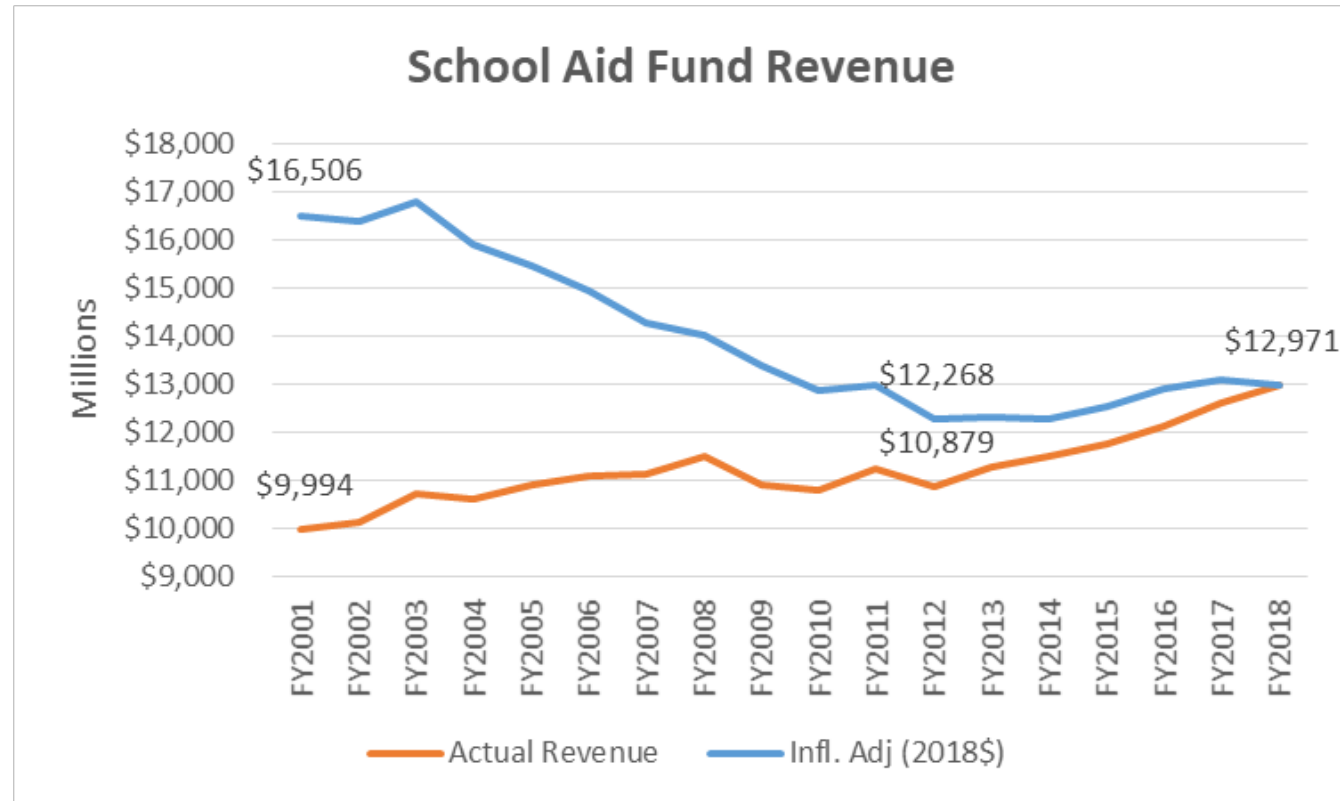
## Constitutional Earmarking

- 75% of Sales Tax
  - 60% of 4 cents
  - 100% of 2 cents (Prop. A)
- 33% of Use Tax
  - 100% of 2 cents (Prop. A)

Total - \$6.4B (50% of total)

# School Aid Fund Growth

*Since FY2012 revenue growth has outpaced inflation*

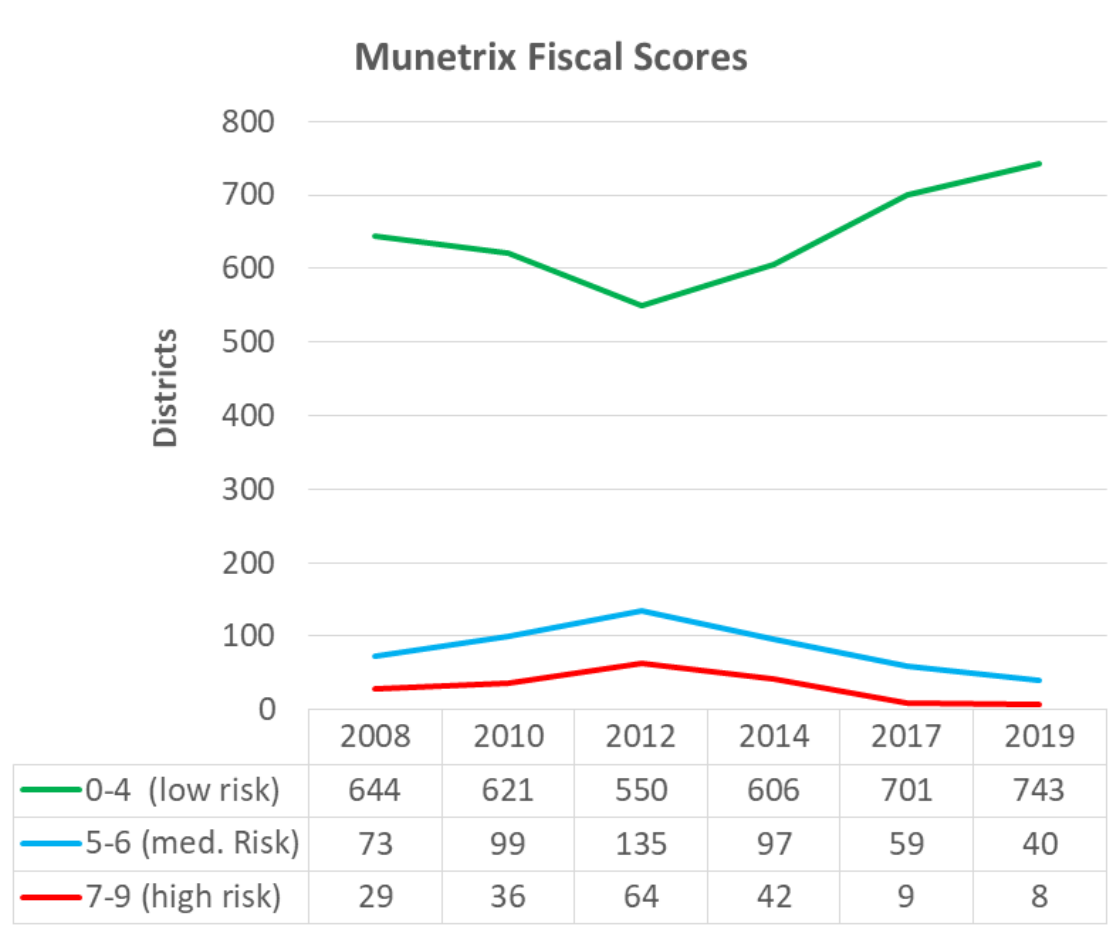


*Adjusted for inflation, SAF revenue down 21% since FY2001*



# School Fiscal Health Improving

*Fewest number of “high risk” districts*



Note:

- Number of deficit districts way down
  - 15 in FY2019
  - 48 in FY2011
- Most of these are under Treasury’s enhanced oversight

# Rainy Day Funds

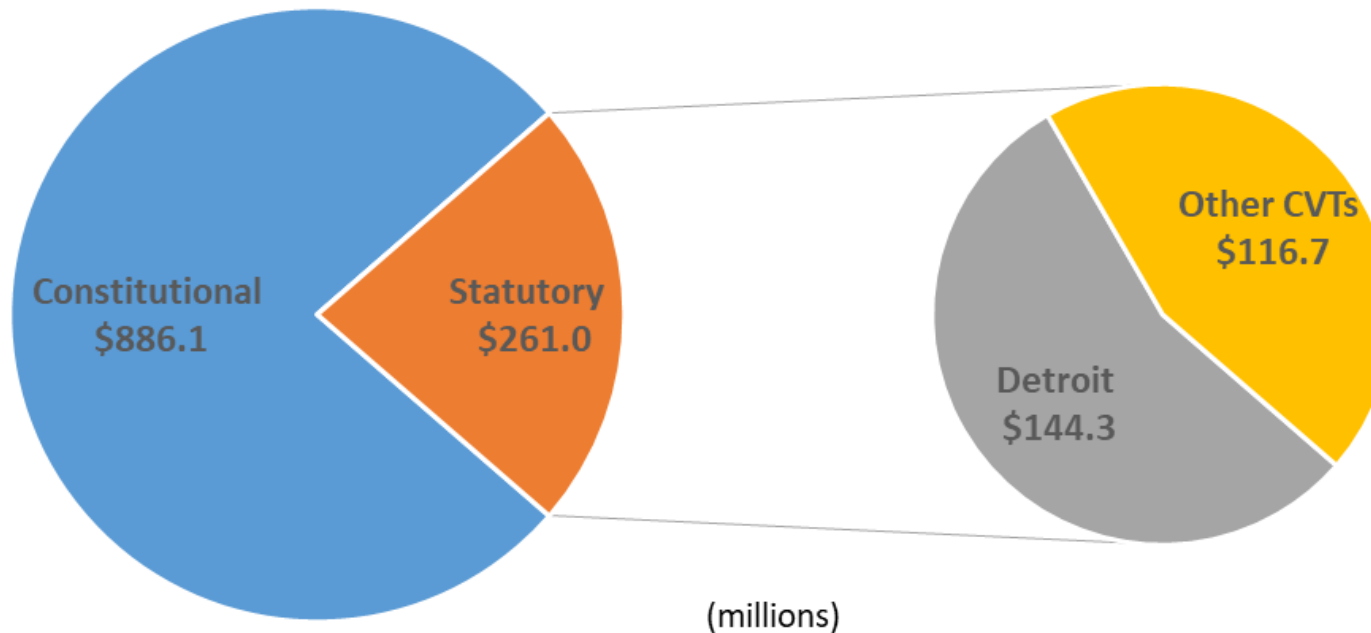
*Districts have built up their reserves since Great Recession*

- Statewide – \$2.4 billion in General Fund balances in FY2019
  - Up from \$1.4 billion in FY2012
- District (median) – 14% of GF revenue or \$1,500 per-pupil
  - Equivalent to about 25 school days
  - One-third of districts (250 of 768) have less than 10% of GF revenue in reserve
  - These are one-time resources
- Remember - schools don't have access to additional property tax

# Local Government Revenue Sharing

*Constitutional payments guaranteed, statutory are not*

FY2020 City, Village, Township Revenue Sharing Payments

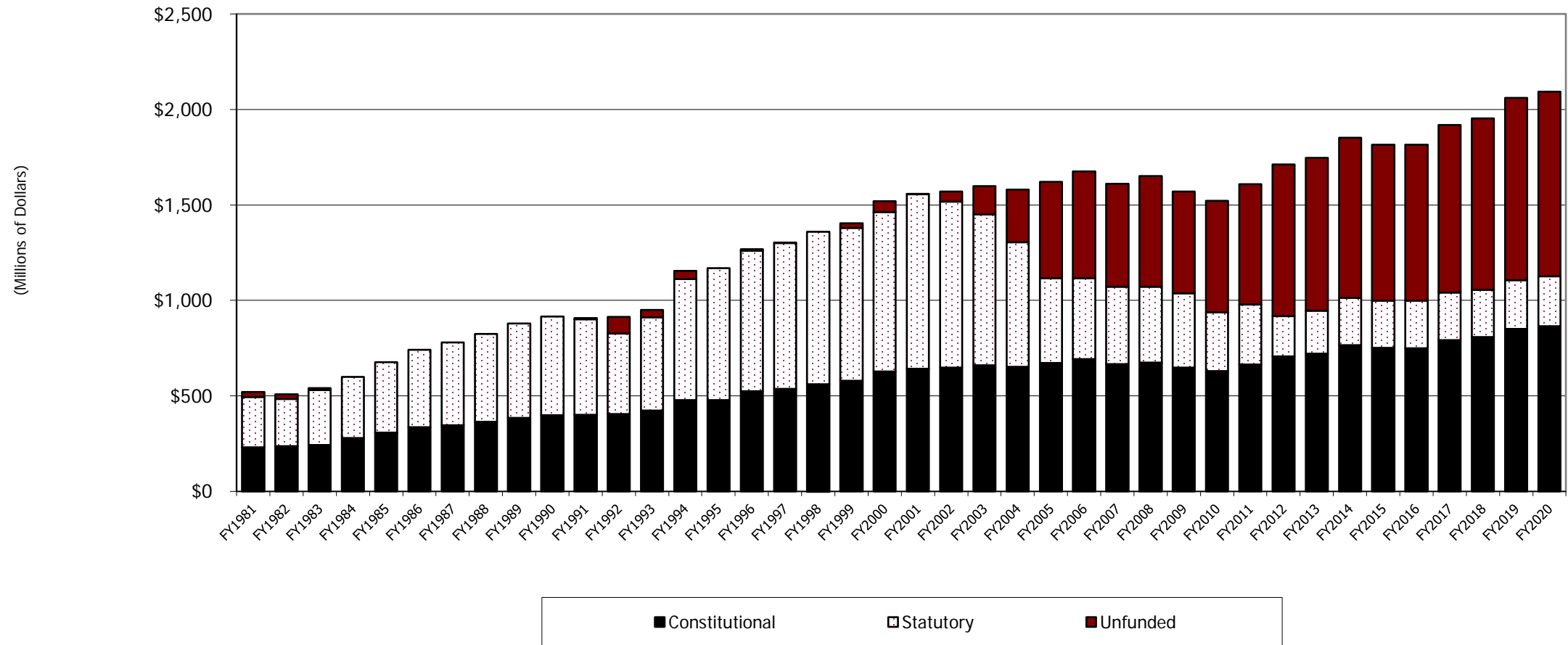


Source: House Fiscal Agency

Note:

- Counties are expected to receive \$226.5 million in FY2020

# State Revenue Sharing, FY1981-2020 (budgeted)

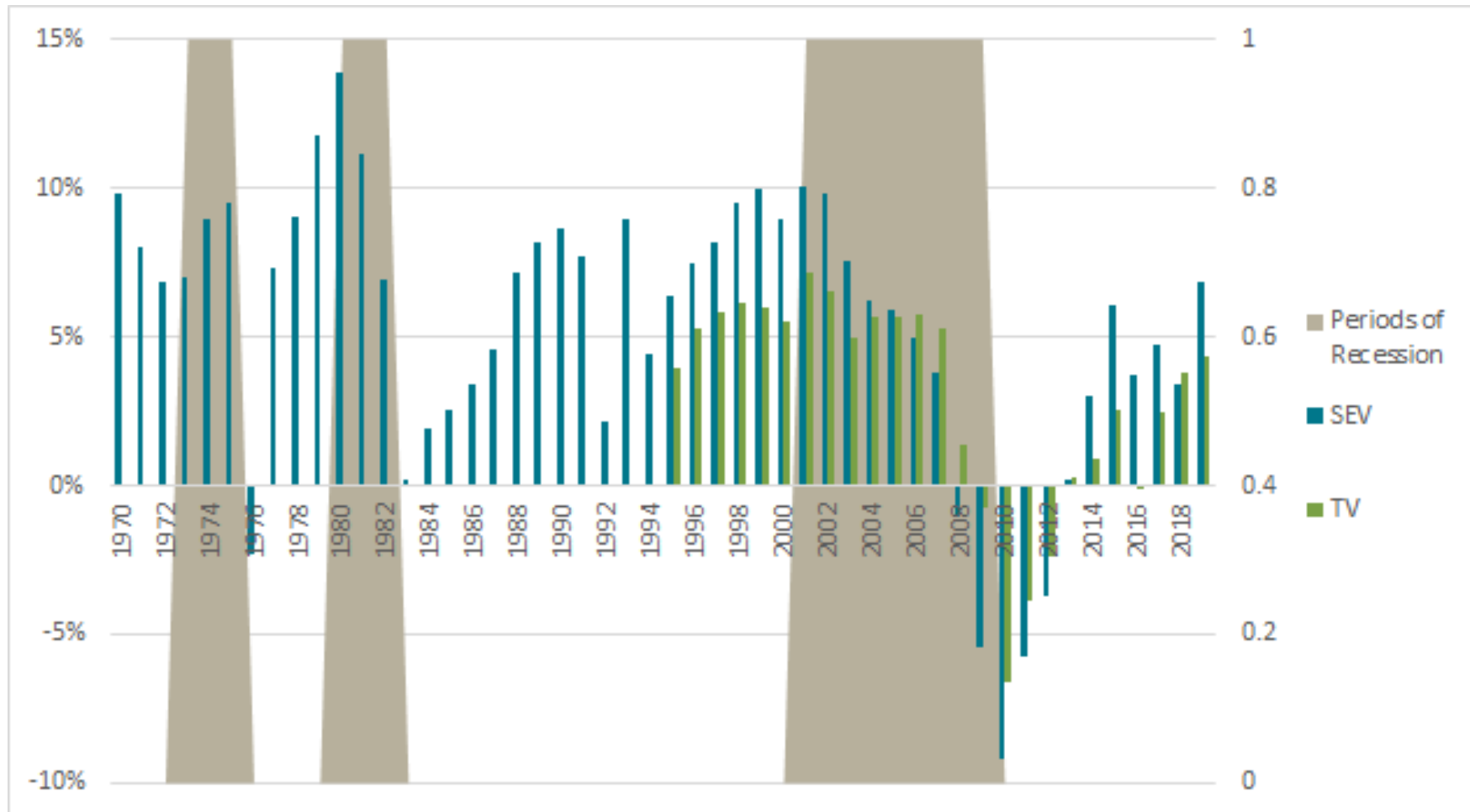


Source: Michigan Department of Treasury

# Act 51 Funding for Local Roads

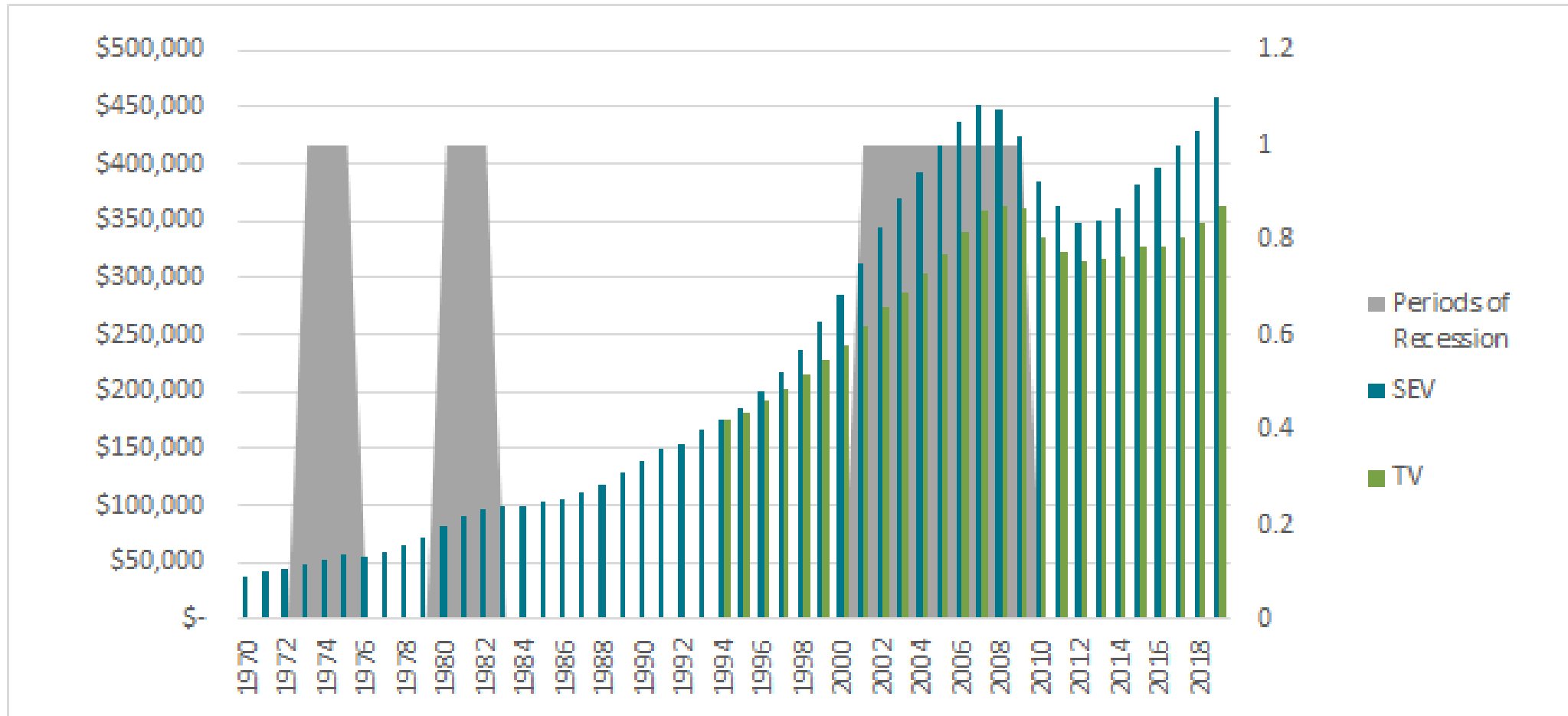
- Formula divides state tax dollars among
  - MDOT 39.1%
  - Counties 39.1%
  - Cities and Villages 21.8%
- We don't know what impact will be, but traveling and gas purchases are down considerably
- 2019 report found that almost 700 local governments levy a property tax dedicated to roads to supplement state road funding
- Property tax revenue may be more stable than Act 51 funding, but local governments rely much more heavily on the funding from the state to maintain roads

# Property Taxes: SEV and TV Percent Change from Previous Year



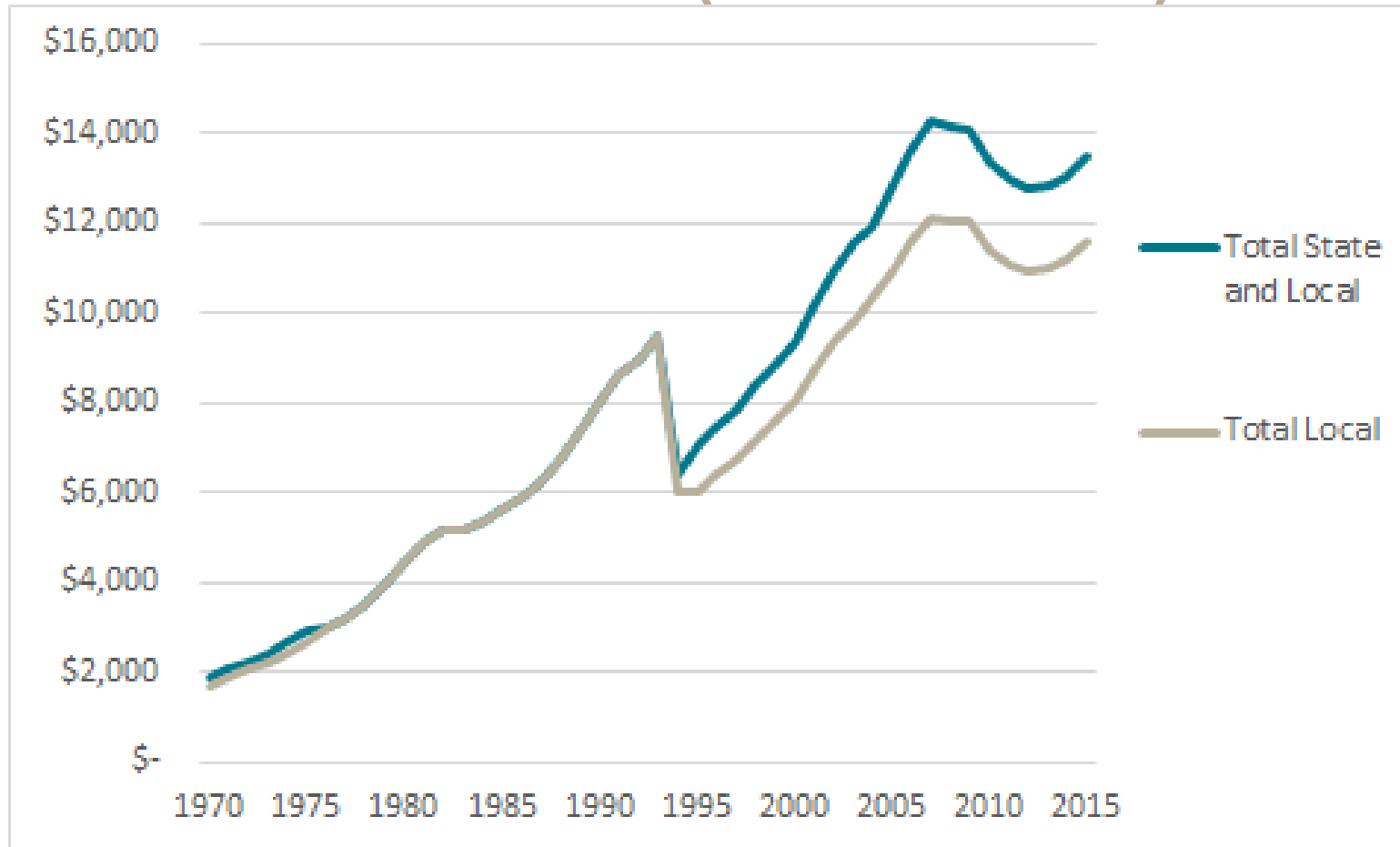
Source: Michigan Department of Treasury

# Property Values in Michigan (in millions)



Source: Michigan Department of Treasury

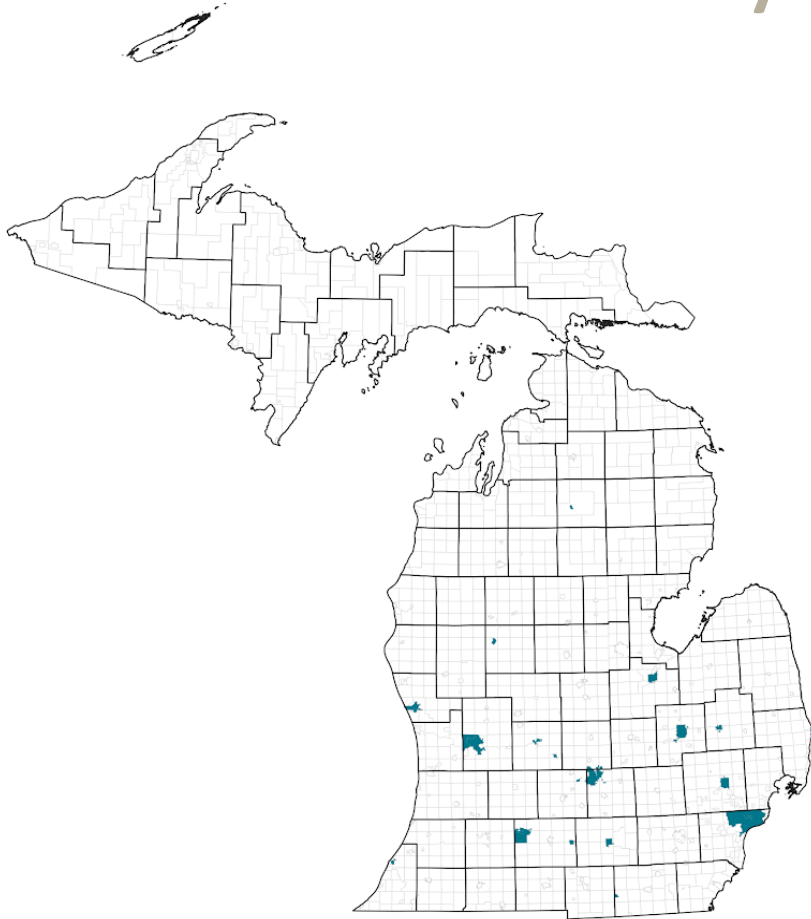
# Total State and Local Property Tax Revenue (in millions)



Source: Michigan Department of Treasury

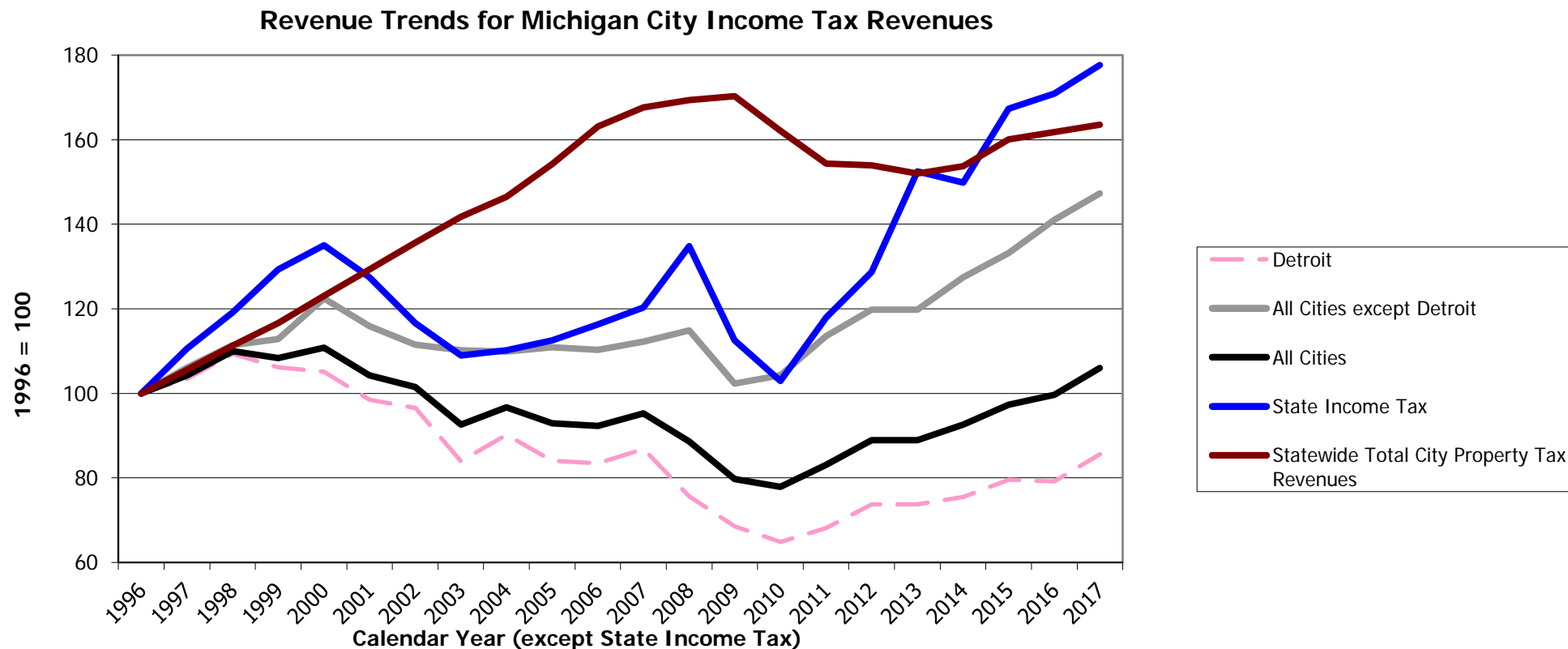


# City Income Taxes



- 24 of 276 cities levy – represent 15% of state population
- Revenues more cyclical than property taxes
- More than 25% of Michigan's population has filed unemployment claims
- 2018 report: 56% of these cities' tax revenue came from income taxes and 44% from property taxes
- Income tax cities could experience deep financial pain

# Income and Property Tax Revenue Growth, FY1996-2017

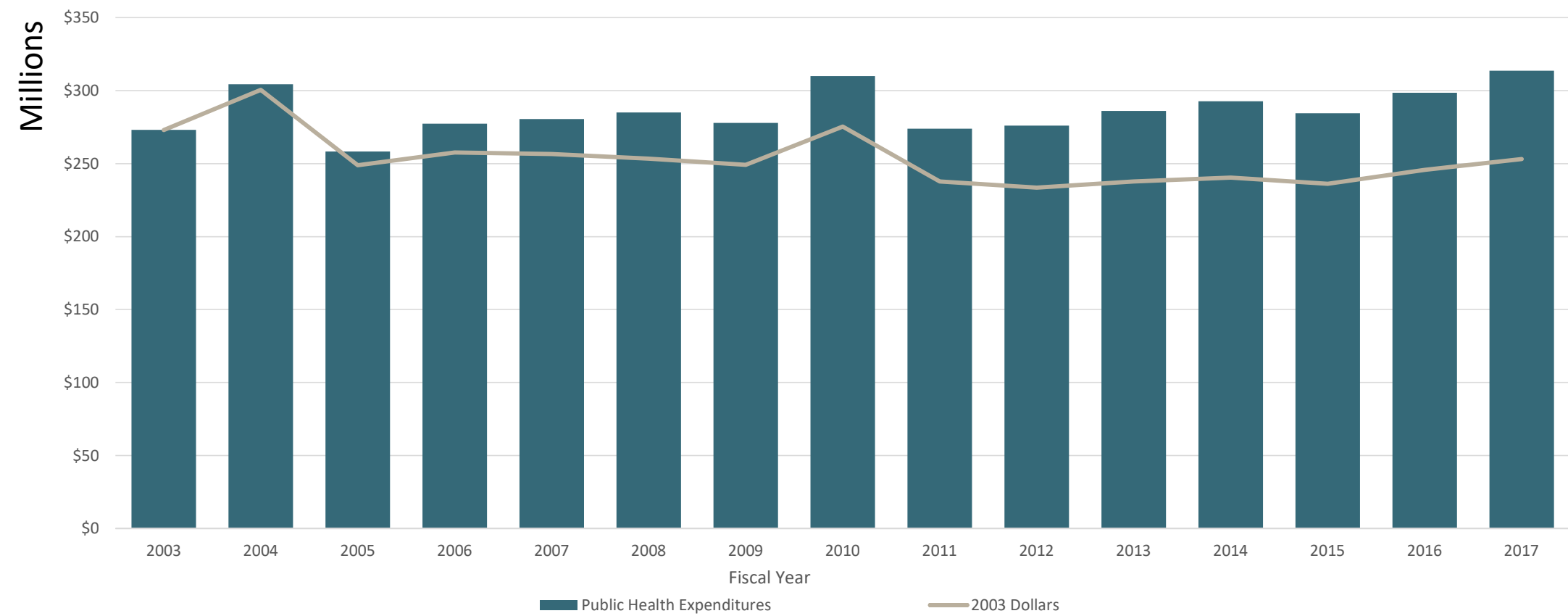


Source: Citizens Research Council of Michigan, Outline of the Michigan Tax System; U.S. Census Bureau, Household Income by State

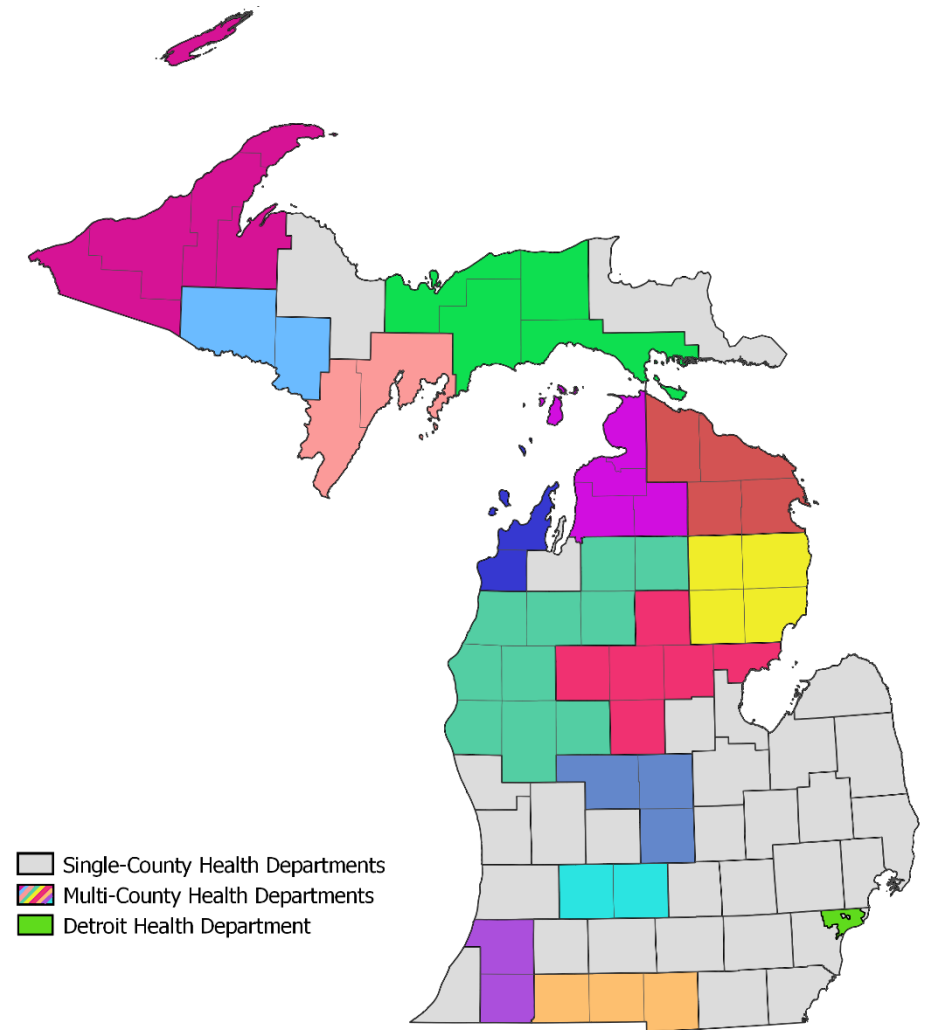
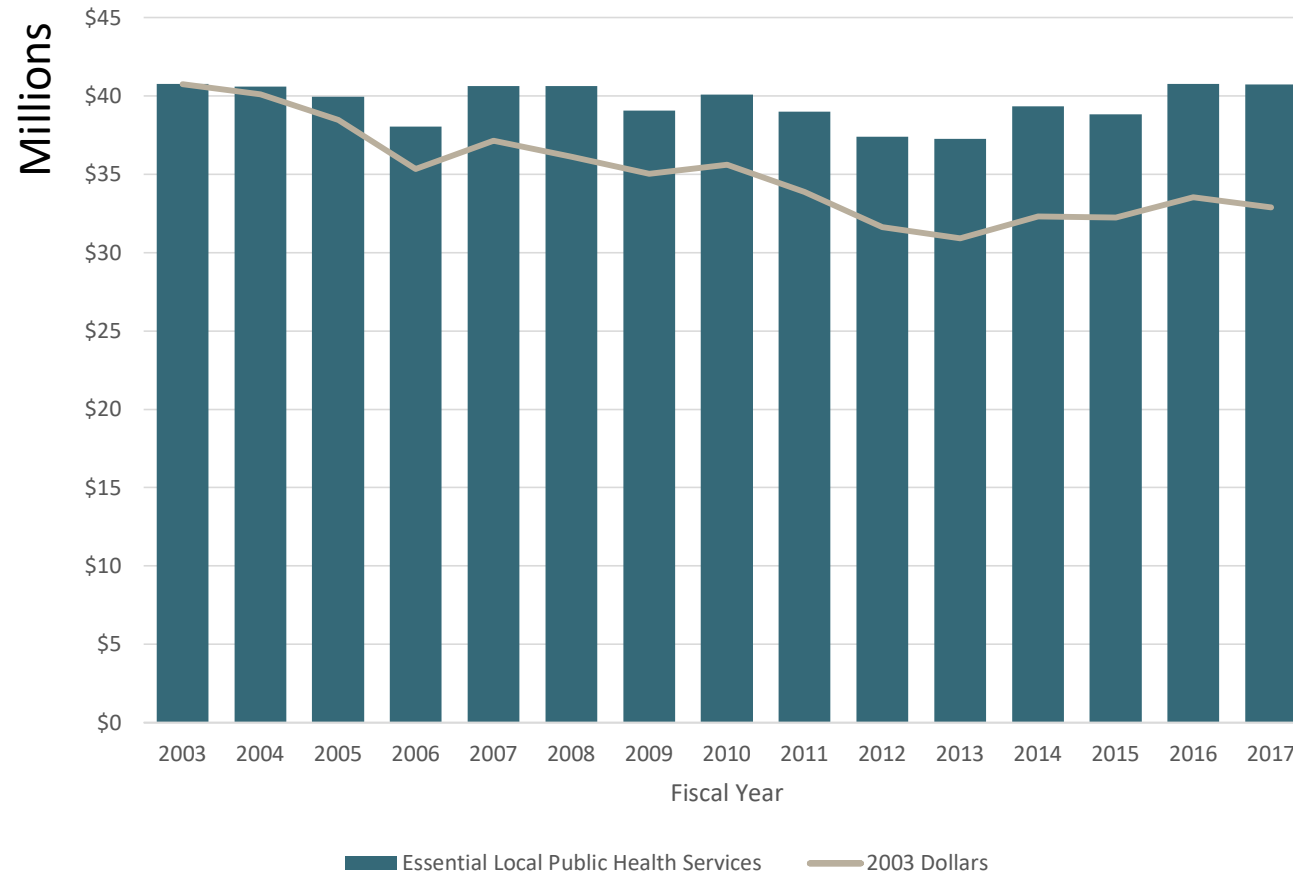
# Public Health (dis)Investment in Michigan

Recent increases after years of stagnant funding

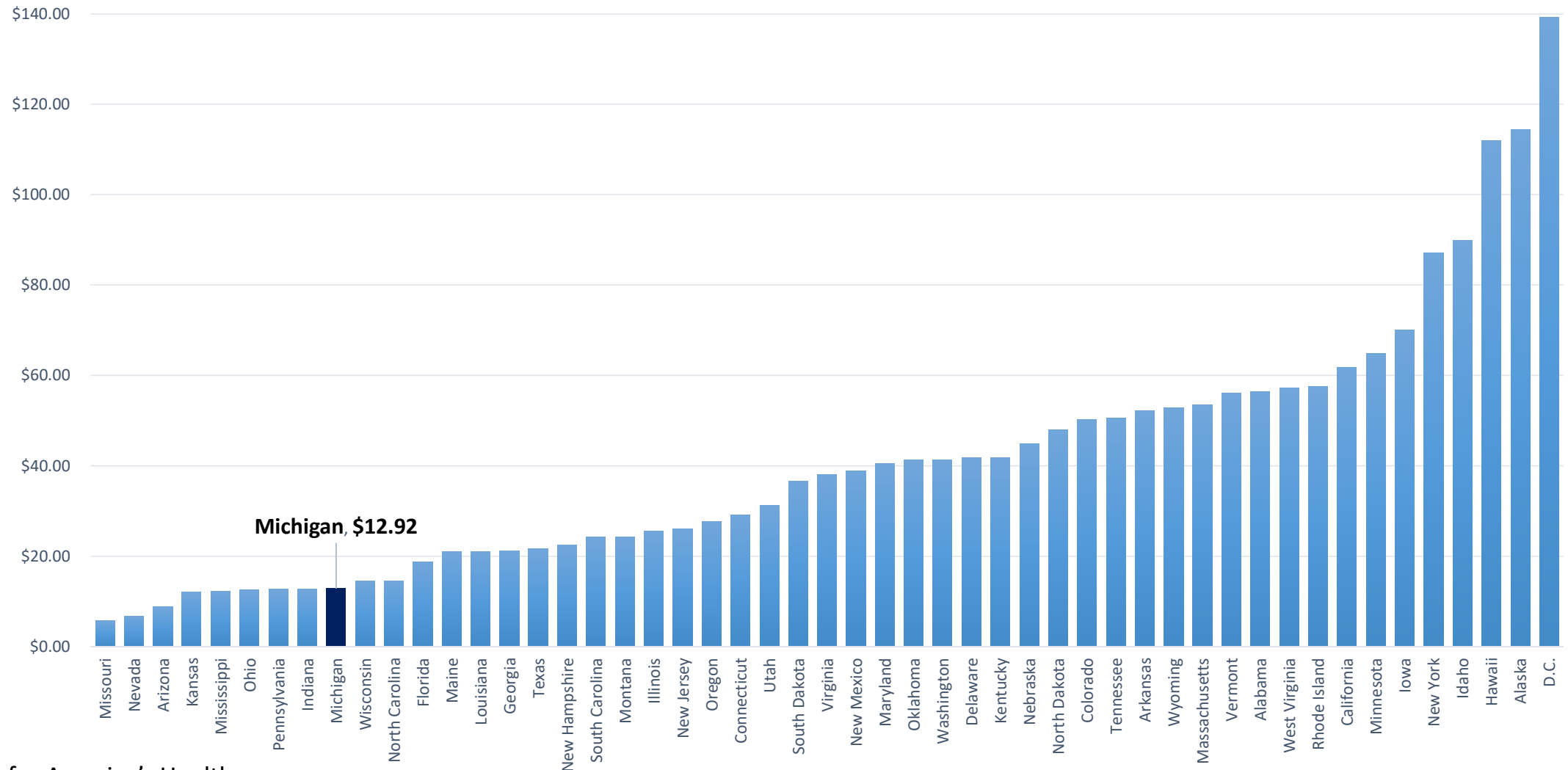
# Public Health Expenditures in Michigan, FY2003-2017



# Essential Local Public Health Services, State Expenditures, FY2003-2017



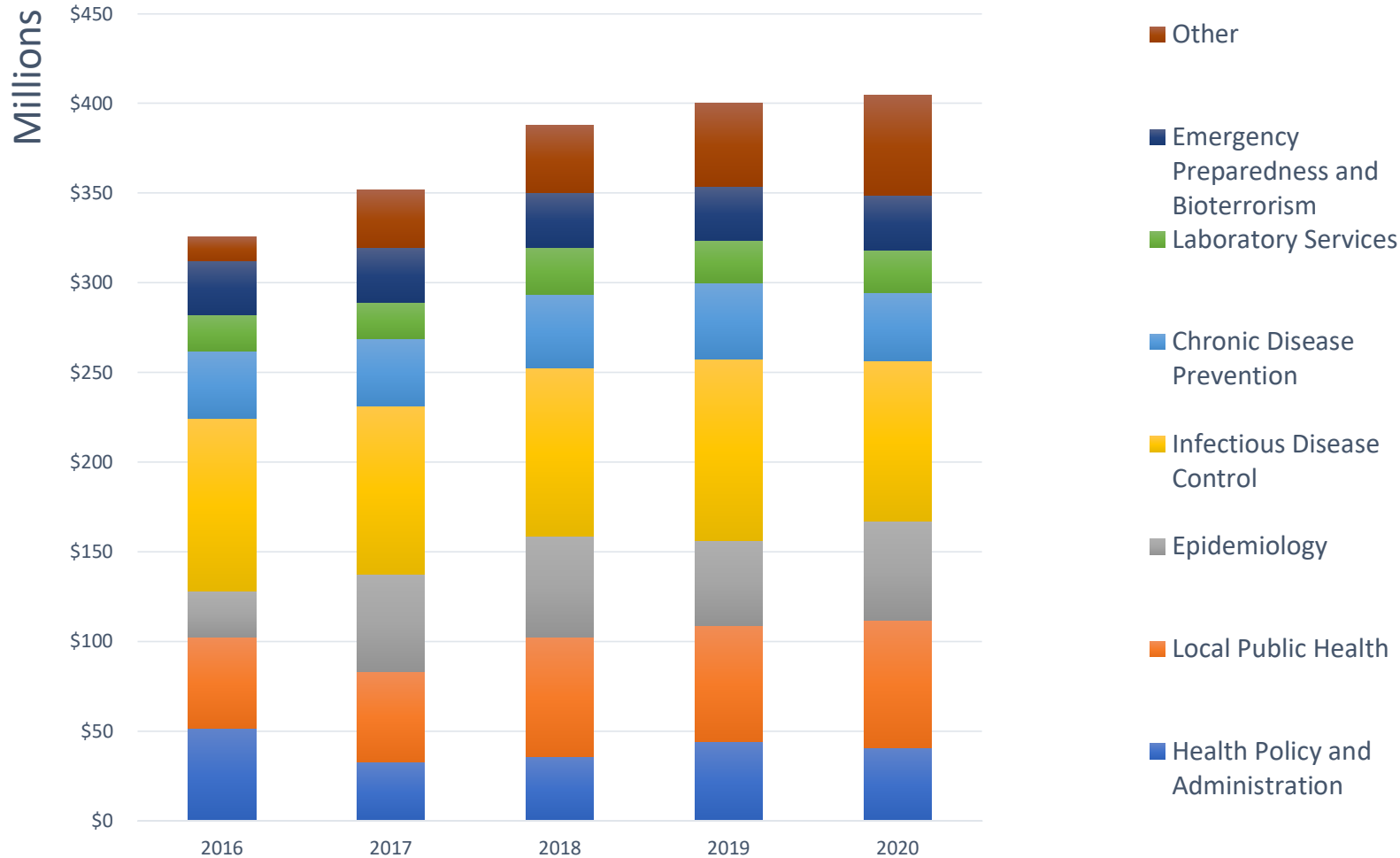
# Per-Capita State Funding for Public Health, FY2017



Source: Trust for America's Health

# Public Health Appropriations

Fiscal Years 2016-2020



Source: House Fiscal Agency

- Small increases in recent fiscal years
- These gross public health expenditures remain less than 1 percent of the state budget (and represent just over 1 percent of GF/GP spending).
- Obvious need for increased pandemic monitoring (testing; contact tracing).
- Ongoing need for investment in surveillance and, more broadly, public health personnel/capacity.

# Still much we don't know

- Do state economists see outlook the same as UM?
  - What will be decided at May 15 Consensus Revenue Estimating Conference?
- How will the CARES Act phase 3 funding for COVID-related expenses be allocated?
- Will there be phase 4 funding for state and local governments?
- How fast will the economy reopen?
- Will there be a second wave of the pandemic?
  - Will that lead to another stay-at-home order?



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