

# Fiscal Fitness: Michigan

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# What to expect?

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- ▶ Overview of Michigan's past economic performance complemented by a future forecast
- ▶ An overview of fiscal health
- ▶ An assessment of Michigan's fiscal health relative to other states
- ▶ A deep dive into fiscal matters with special attention drawn to transportation, education, and unfunded liabilities
- ▶ Suggestions for growth
- ▶ Wrap up



# Economic health

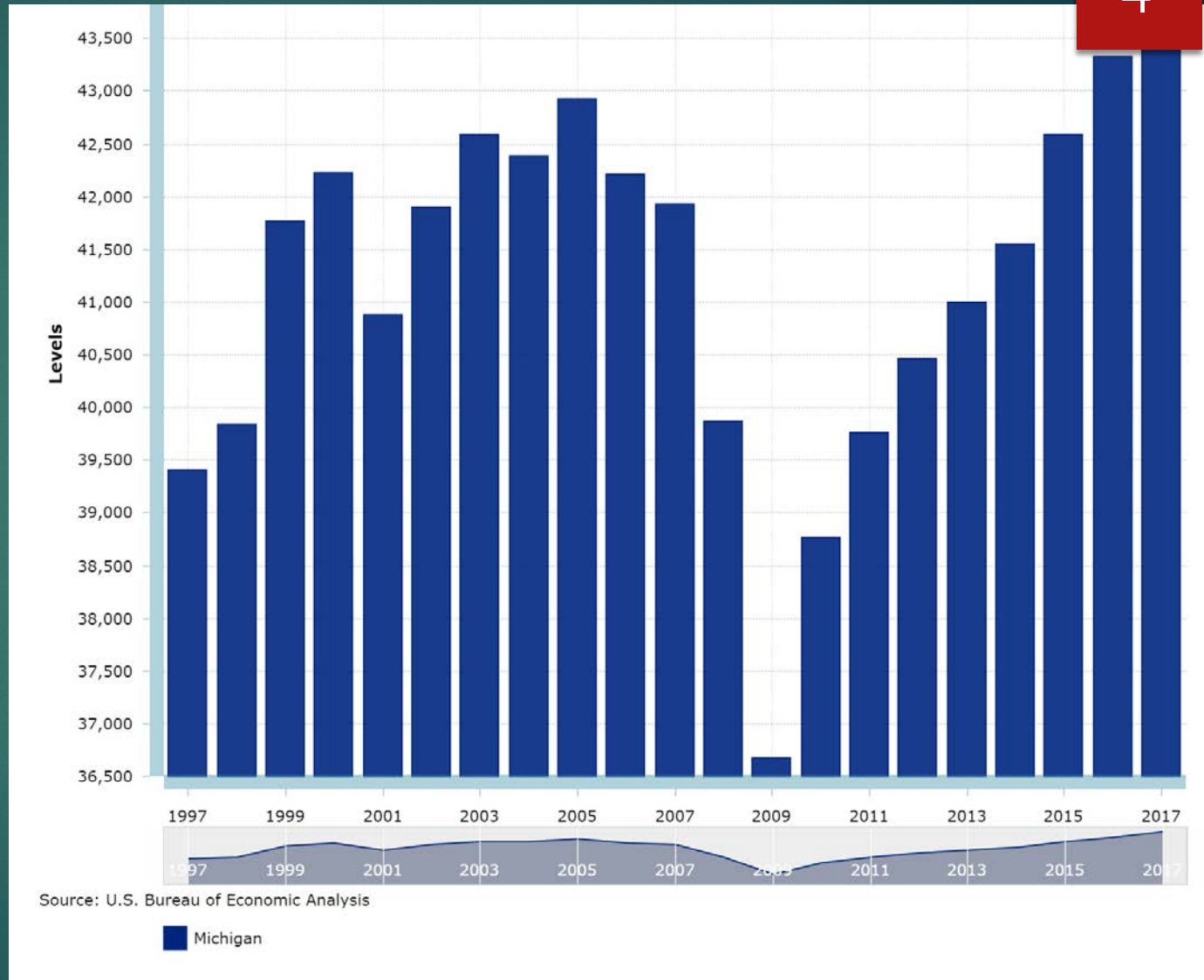
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- ▶ Metrics
  - ▶ Real gross domestic product per person
  - ▶ Real personal income per person
  - ▶ Population
  - ▶ Unemployment
  - ▶ State of the labor force

# Congratulations...

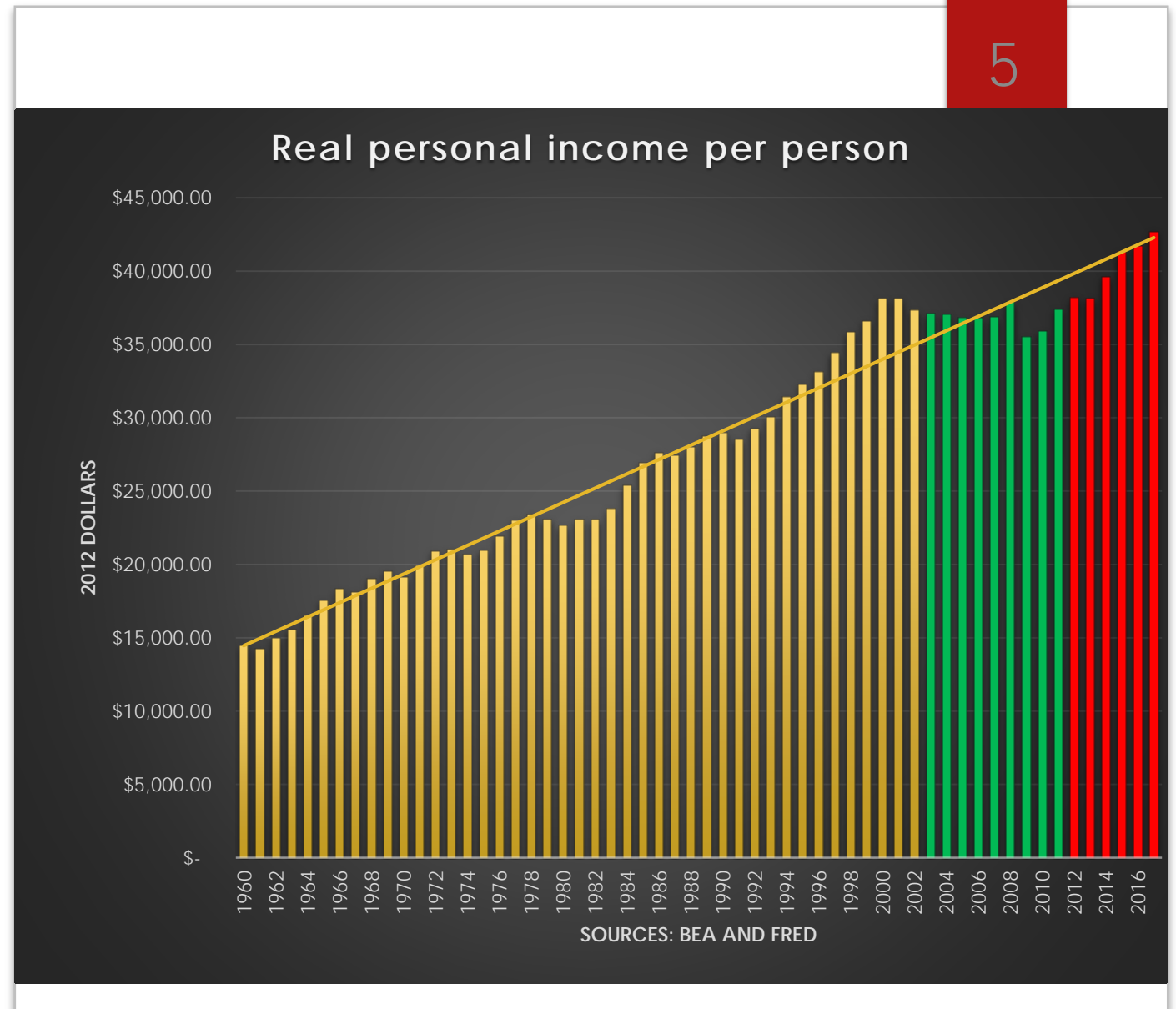
- ▶ Real GDP per person has recovered from the 2008 recession.
- ▶ Income foregone in the lost decade prior to the 2008 Recession led Michigan residents, employees, and employers to pivot and turn into a vibrant economy better suited for global competition





- ❑ Real personal income per person has also grown steadily.

Rents,  
dividends, and  
transfer  
payments are  
included.

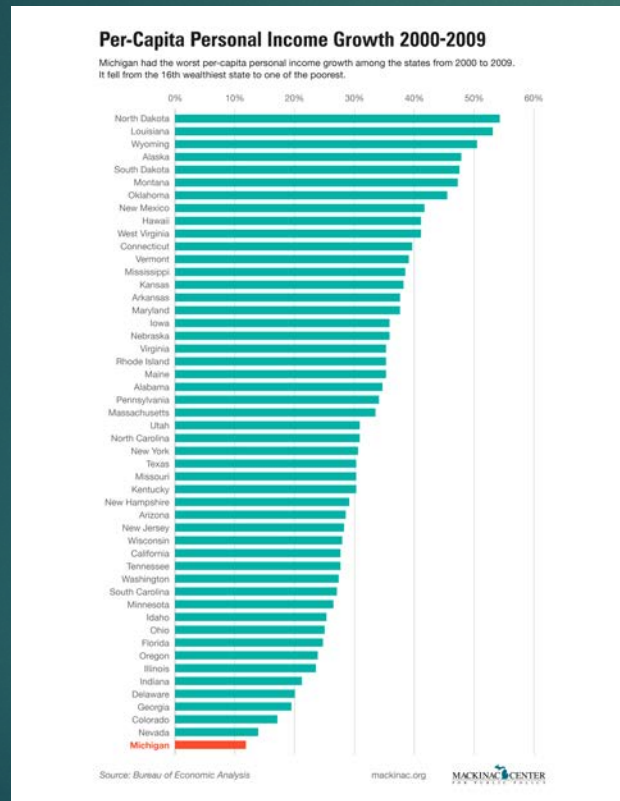


# Per capita personal income growth Congratulations!

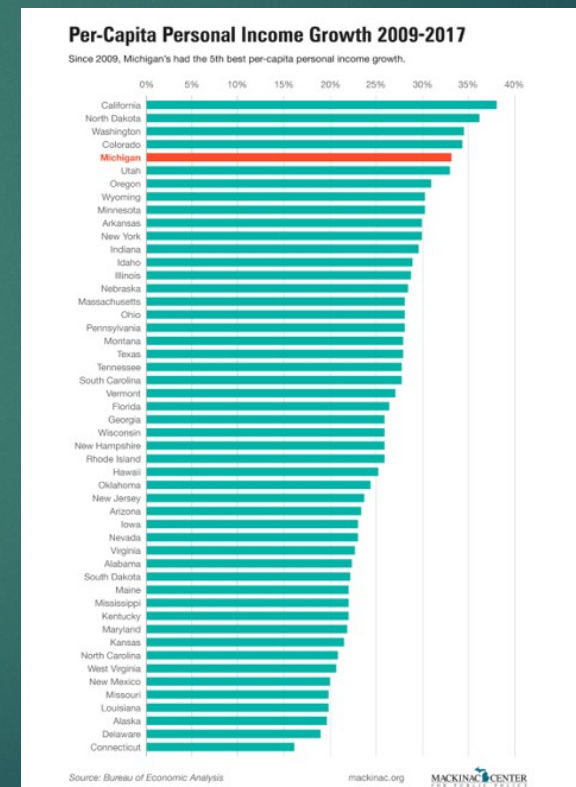
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50/50 2000-2009



5/50 2009-2017





# Industry

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- ▶ U-M economists report five major industry divisions account for 9/10 job gains in the private, nonmanufacturing sector for 2018-19:
  - ▶ construction;
  - ▶ professional and business services;
  - ▶ trade, transportation and utilities;
  - ▶ private education and health services; and
  - ▶ leisure and hospitality.

# Population

## 2000-2010 Population:

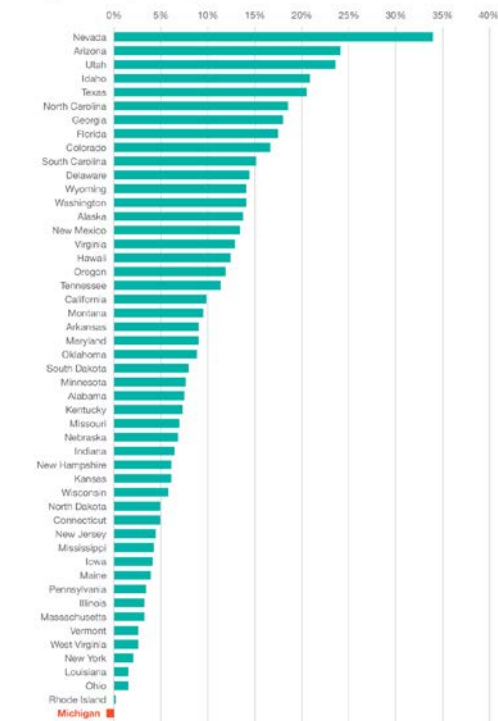
## Worst in the 50 States

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### Population Growth 2000-2010

Michigan was the only state to lose population from 2000-2010.



Source: Bureau of Economic Analysis

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# 2006-2015

## Moved up three positions to 47/50

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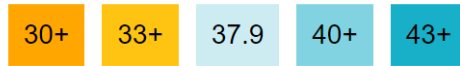
TABLE 2 | State Migration Winners and Losers

The Ten States with the Greatest Net In-Migration Net Domestic Migration (Cumulative 2006-2015)			The Ten States with the Greatest Net Out-Migration Net Domestic Migration (Cumulative 2006-2015)		
Rank	State	Absolute Domestic Migration	Rank	State	Absolute Domestic Migration
1	Texas	1,475,425	41	Pennsylvania	-127,785
2	Florida	779,441	42	Maryland	-158,444
3	North Carolina	609,275	43	Connecticut	-165,489
4	Arizona	450,976	44	Louisiana	-223,156
5	Georgia	378,095	45	Ohio	-363,913
6	Colorado	362,153	46	New Jersey	-525,338
7	South Carolina	359,754	47	Michigan	-593,157
8	Washington	302,829	48	Illinois	-690,578
9	Tennessee	261,544	49	California	-1,103,301
10	Oregon	209,592	50	New York	-1,381,449

Source: U.S. Census Bureau

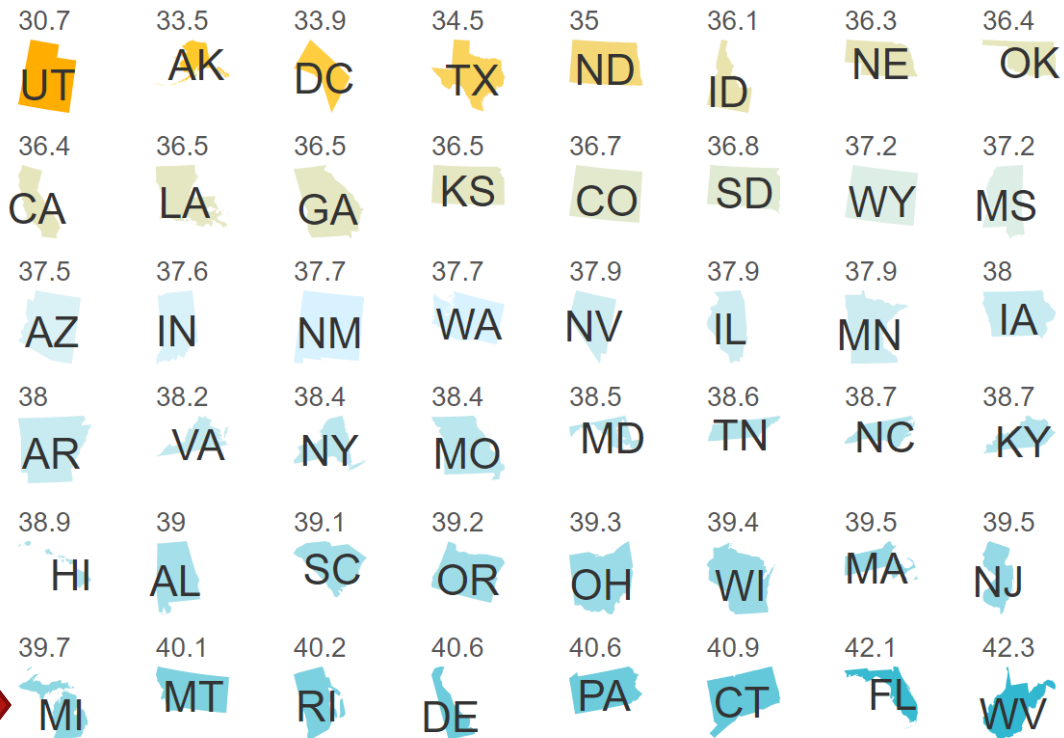
## Median Age per State, 2016

U.S. Median Age



List

Map



TIME

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# Median Age 39.7 (2016)



# Outmigration

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1

Michigan, New York, California, Illinois, and New Jersey have the largest amount of out-migration in the U.S.

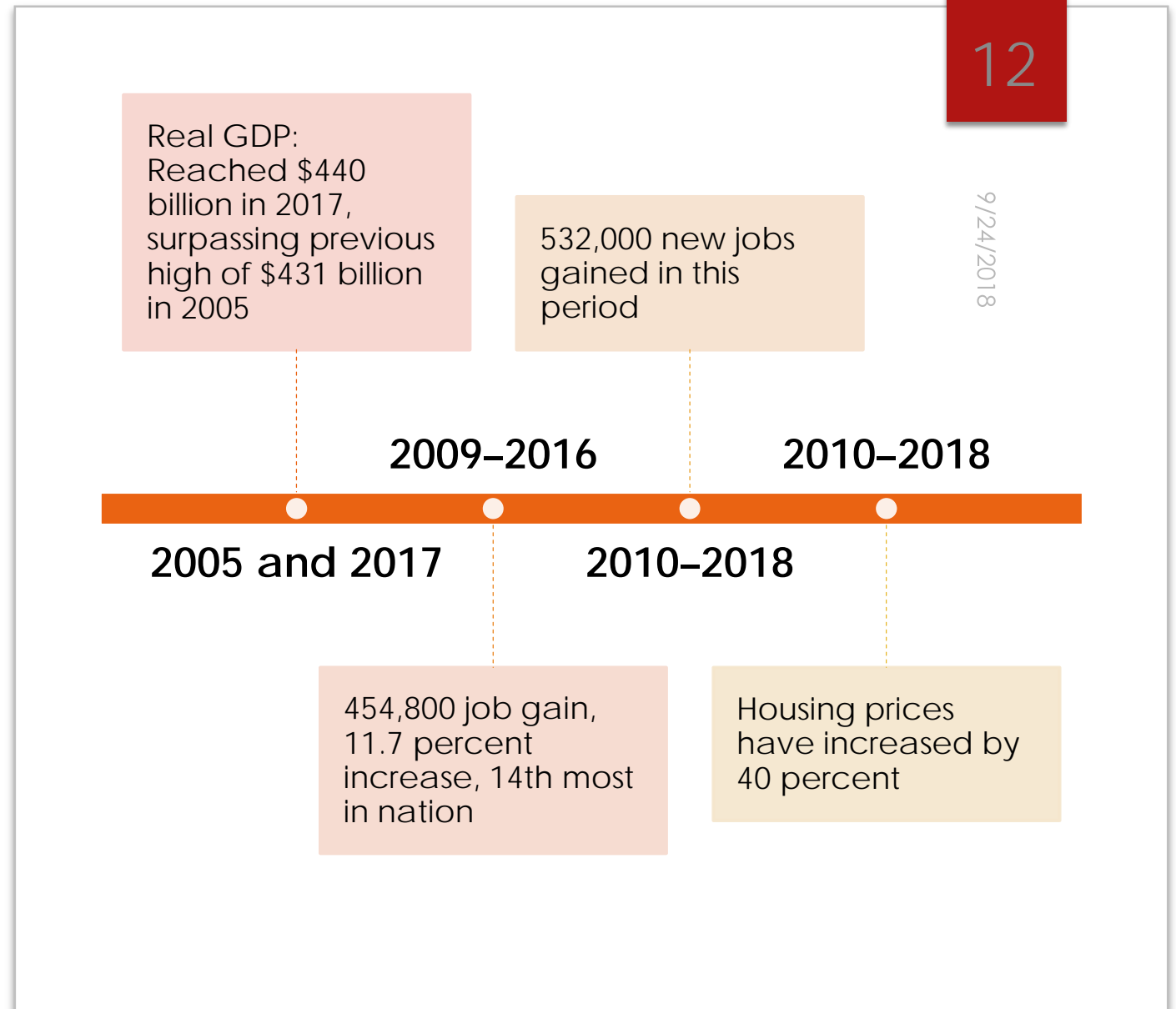
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Positive news: on the state-to-state front, more residents are moving to Michigan from Illinois, on net.

3

Not-so-good news: Michigan is likely to lose one seat in the U.S. House of Representatives, shifting some balance of influence away from Michigan.

# What about the people who reside and work?





# Pro-growth versus anti-growth state policies

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Michigan is recognized nationally for its pro-growth policies after the Great Recession of 2008.



Earns credit for turning around the anti-growth policies of past legislators and governors.



Economic metrics are the focus of this presentation.



Take a quick look at the different political approaches.

# To grow or not to grow, that is the question

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## "Anti-growth Decade:" 2000-2009

- ▶ Leads nation in unemployment rate from April 2006 to May 2010.
- ▶ Michigan loses 805,000 jobs.
- ▶ PCPI rank falls from 18th to 38<sup>th</sup>.

## "Pro-growth decade" 2010- 2017

- ▶ Unemployment falls from 14.6 percent to 4.7 percent, while employed grew from 4.2 million to 4.7 million.
- ▶ Inflation-adjusted average wages and benefits increase 4.1 percent.
- ▶ Average real compensation increases from \$58,674 to \$61,062.
- ▶ Real median household income increases by 5 percent, \$49,985 to \$52,492.



TABLE 9. RANKING OF STATES BY FISCAL CONDITION — WEIGHTED RANKING (FISCAL YEAR 2015)

Rank	State	Fiscal condition index	Rank	State	Fiscal condition index
1.	Florida	3.52	26.	Washington	-0.50
2.	North Dakota	3.48	27.	Hawaii	-0.51
3.	South Dakota	3.02	28.	Iowa	-0.55
4.	Utah	2.86	29.	Wisconsin	-0.56
5.	Wyoming	2.25	30.	Colorado	-0.60
6.	Nebraska	2.02	31.	Delaware	-0.62
7.	Oklahoma	1.80	32.	Kansas	-0.67
8.	Tennessee	1.72	33.	Arizona	-0.72
9.	Idaho	1.36	34.	Mississippi	-0.74
10.	Montana	1.32	35.	Maine	-0.84
11.	Missouri	0.86	36.	Michigan	-0.87
12.	Alabama	0.56	37.	Connecticut	-0.89
13.	Ohio	0.40	38.	Rhode Island	-0.92
14.	Nevada	0.37	39.	New York	-0.93
15.	North Carolina	0.36	40.	Vermont	-0.96
16.	Indiana	0.07	41.	New Mexico	-0.97
17.	Alaska	0.04	42.	West Virginia	-1.04
18.	Virginia	0.03	43.	California	-1.06
19.	South Carolina	-0.02	44.	Louisiana	-1.08
20.	Arkansas	-0.03	45.	Pennsylvania	-1.09
21.	Oregon	-0.10	46.	Maryland <sup>(b)</sup>	-1.09
22.	Georgia <sup>(a)</sup>	-0.10	47.	Kentucky	-1.38
23.	Texas	-0.30	48.	Massachusetts	-2.00
24.	Minnesota	-0.32	49.	Illinois	-2.05
25.	New Hampshire	-0.35	50.	New Jersey	-2.18

Source: Authors' analysis of the FY 2015 CAFRs for all 50 states.

Notes: The fiscal condition index is the sum of the cash, budget, long-run, and service-level solvency indices weighted as follows:  $(0.35 \times \text{cash solvency score}) + (0.35 \times \text{budget solvency score}) + (0.1 \times \text{long-run solvency score}) + (0.1 \times \text{service-level solvency score}) + (0.1 \times \text{trust fund solvency score})$ .

(a) Oregon's fiscal condition score is -0.0983, and Georgia's is -0.1019. Oregon is ranked 21st, and Georgia is ranked 22nd, though the rounded scores are the same.

(b) Pennsylvania's fiscal condition score is -1.0871, and Maryland's is -1.0937. Pennsylvania is ranked 45th, and Maryland is ranked 46th, though the rounded scores are the same.

# 2015 36/50 State with respect to Fiscal Condition

# Developments: Michigan Budget

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Period of review	2003-2010 Anti-growth period	2011- 2018 Pro-growth period
Budget and rate of increase or decrease	2010 \$45.9 billion budget <ul style="list-style-type: none"> <li>Inflation-adjusted decrease of 5 percent from 2003-2010</li> </ul>	2018 \$56.8 billion budget <ul style="list-style-type: none"> <li>Inflation-adjusted increase of 9 percent</li> </ul>
Federal transfers in state budget	Federal transfers in state budget increased by 28.6 percent under Granholm.	Federal transfers in state budget only increased by 2.8 percent from 2010-2018. <ul style="list-style-type: none"> <li>Growth decreased dependency on federal transfers.</li> </ul>
State spending from state sources	State spending from state sources, decreases by 17 percent in real terms.	State spending from state sources, 2010-2018 Increases by 11 percent to \$33.1 billion from \$26.3 billion, inflation-adjusted
Sources of growth in budget	Growth in federal transfers helped maintain the budget.	Growth in the Michigan economy expanded its budget.



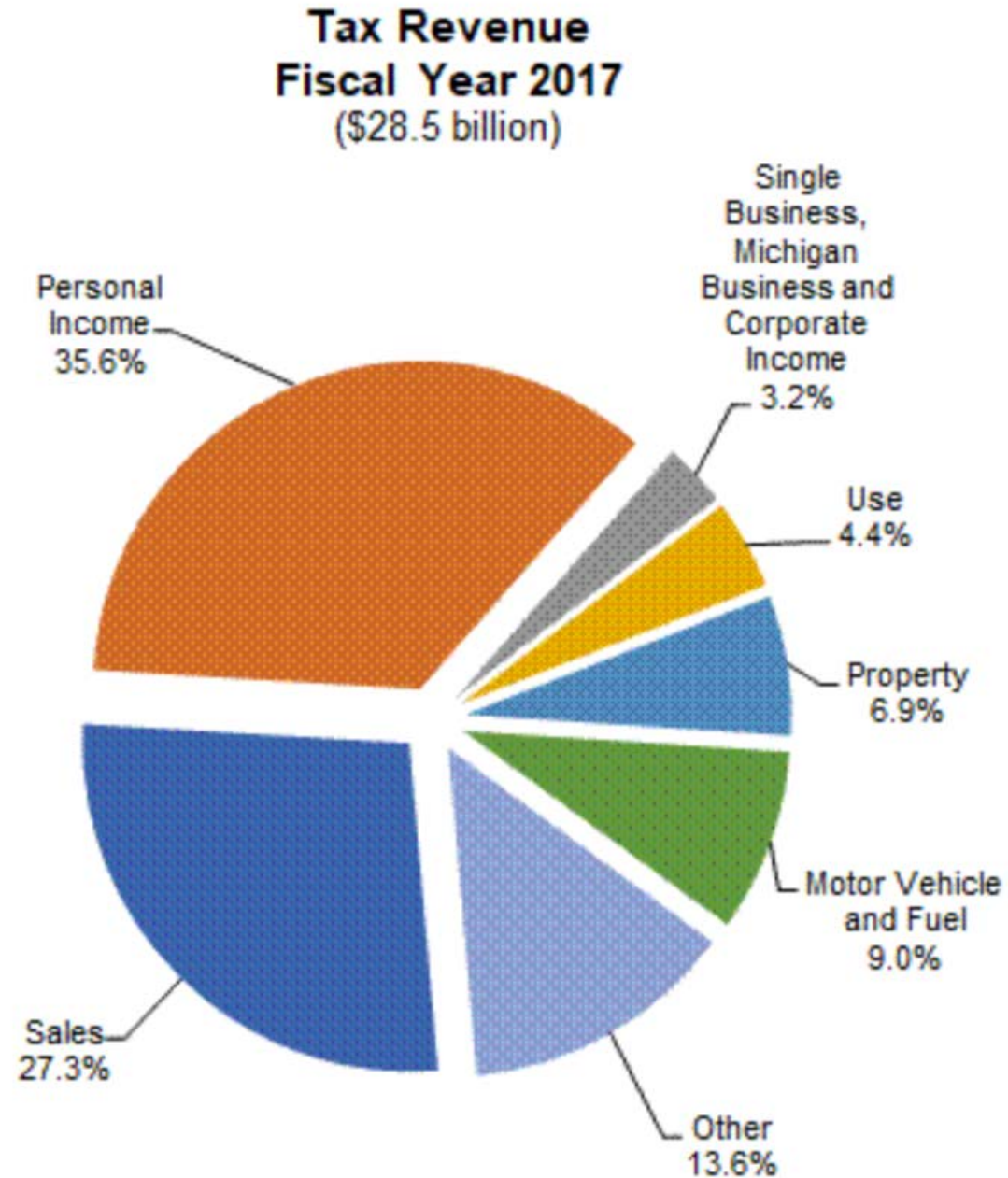
## Michigan Budget



Source: The Senate Fiscal Agency.

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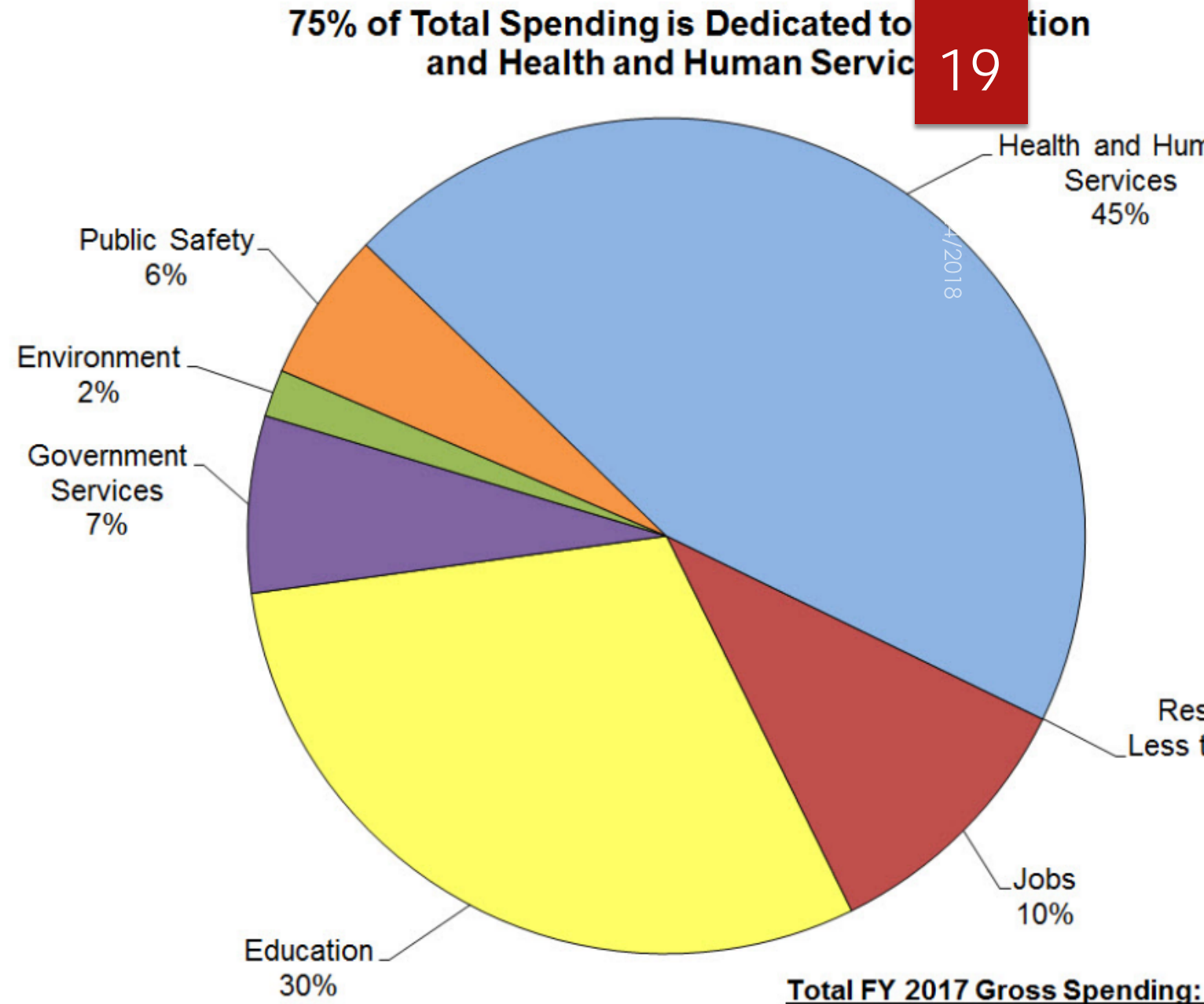
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# 2017 Revenue



# 2017 Spending



# Current Challenges and Past Choices

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- ▶ Recently, revenue surpasses spending during the fiscal year.
- ▶ Unique fiscal challenges remain. Among them, there are four.
  1. Unfunded liabilities
  2. Transportation (roads)
  3. Tax credits
  4. Education



## **Unfunded Liabilities Honoring Promises Made**

# 1. Pension Reform: Honoring the Promises Made

- ▶ Underfunded its pension liabilities
  - ▶ State employees
  - ▶ Public schools employees
  - ▶ Local government



# 1a. State employees: Unfunded

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- ▶ Underfunded its pension liabilities for state employees
  - ▶ Reform completed in 1997 when new employees moved retirement to 401(k) contributions.
  - ▶ In 2011, healthcare moved to 401(k)-style contributions for new employees and state began funding for past commitments.
  - ▶ Significance: retirement is constitutionally protected while healthcare is not. So, this move indicates responsible and accountable legislators.



# 1b. Michigan Public Schools Employees

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- ▶ In 2010, MPSERs created an option for new employees and offered a hybrid—defined-benefit (DB)/ defined-contribution. Very few opted into the program.
- ▶ In 2012, healthcare also went to 401 (k) style system. Prefunding for past obligations. Demonstrates a larger commitment to pay benefits than prior to Great Recession. No more pay-as-you-go.
- ▶ In 2014, more tweaks b/c of the struggles.
- ▶ In 2017 only new employees will only the DC plan. Taxpayers are not responsible for any new DBs. No longer digging the hole bigger. Paying off past liabilities of DBs plus transform program to DC.
- ▶ MI in one of the only states to have DC plans for the state and teacher groups.

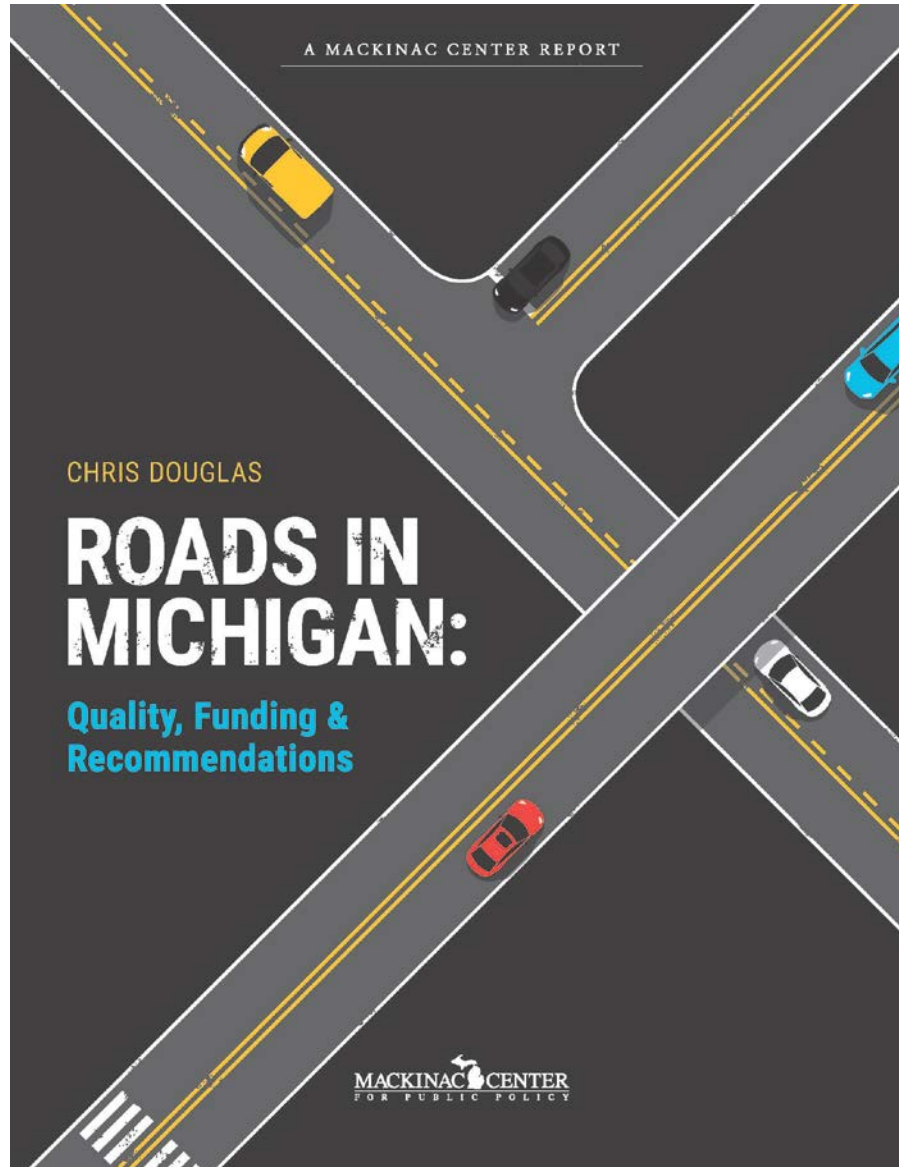


# 1c. Local government: Unfunded pensions

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- ▶ Honoring promises made by local governments to our firefighters, local police, and municipal workers.
- ▶ Avoid declaring bankruptcy.
- ▶ Customize to best fit the needs of local governments given their situation.



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# Transportation Issues



# Don't touch our taxes!

## Proposal 1 2016 "Road Tax Plan"

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Voters said loud and clear: Hands off their taxes!



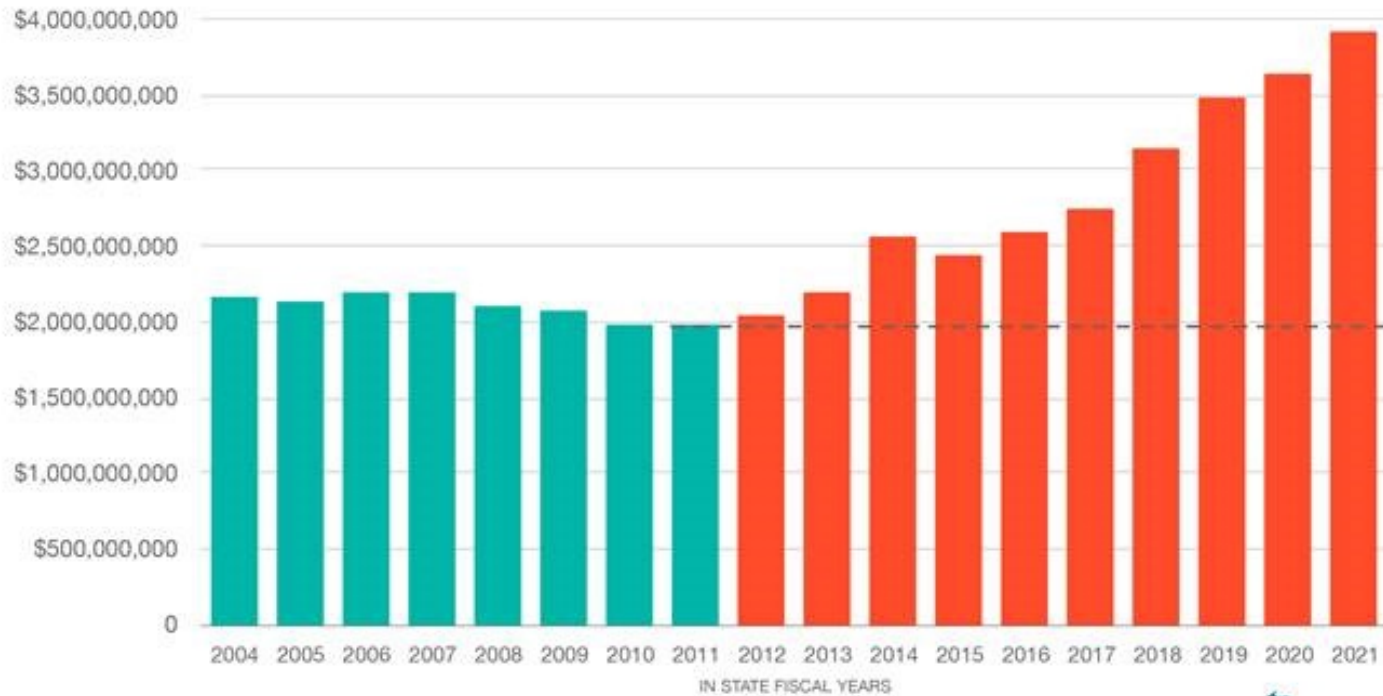
Proposal 1 experiences the largest ballot defeat in Michigan in the last 50 years.



The citizens of Michigan are clear; they pay enough in state taxes and expect lawmakers in Lansing to budget and draw down spending in other areas to make way for new funding for roads and other projects.

## State Transportation Funding

Michigan is expected to spend a cumulative **\$9.1 billion** more on transportation since FY 2010-11.



Source: Senate Fiscal Agency

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# Investment in Transportation



# Tax Credits and Challenges

- ▶ Take additional steps to create a tax structure that is competitive with broad bases and expand economic opportunities.
  - ▶ Eliminate tax breaks for the favored businesses, increasing the tax base of businesses.
    - ▶ Film industry
    - ▶ MEGA (\$9 bn worth of credits outstanding.)
    - ▶ Improve transparency if corporations receive tax credits. Pay-as-you-go.

# Education Reform: Important Questions to Ask and Answer

How does MI school spending compare to other states?

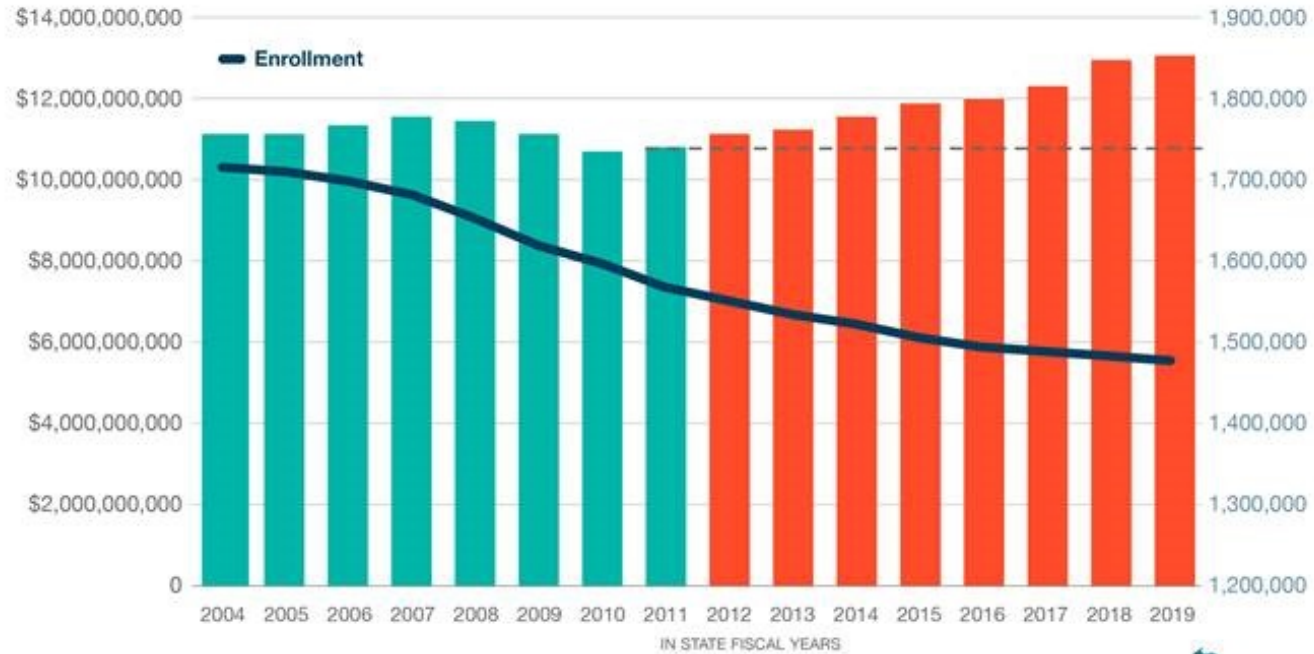
How does MI student performance compare to other states?

Return on investment?



## State School Aid Funding

Michigan spent a cumulative **\$9.5 billion** more on education since 2011.



Source: Senate Fiscal Agency

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Education: Funding increases while student population decreases.



# Return on the education dollar?

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## Performance

- ▶ 47<sup>th</sup> in higher education
- ▶ 21<sup>st</sup> in K12 education (go as low 35)
- ▶ 36<sup>th</sup> in overall education



## BEST STATES

Data Powered by McKinsey&Company



# Others are watching education, fiscal responsibility, and more in MI!

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## BEST STATES


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[NEWS](#)

[STATES](#)

[DATA EXPLORER](#)

Overall	State	Health Care	Education	Economy	Opportunity	Infrastructure	Crime & Corrections	Fiscal Stability	Quality of Life
#37	 Michigan	32	36	22	20	40	33	32	29



Set targets:  
For example, infrastructure: D+ to C+!

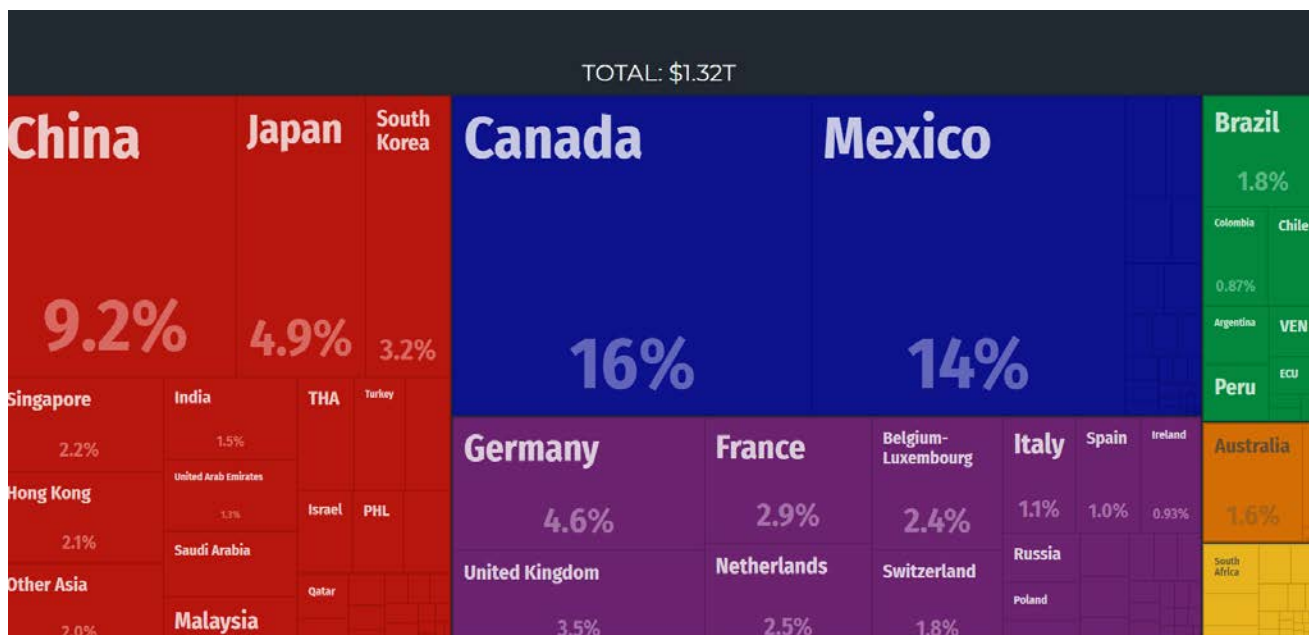


# Consider opportunities

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- ▶ Tax Cuts and Jobs Act is allowing businesses and households to keep more of their income, increasing take-home pay, boosting private savings, resulting in expanded production capacity, and higher employment.
- ▶ Utility companies are passing on tax savings to consumer in the form of lower utility rates.
- ▶ U.S. Census Bureau reports an increase in real income and a decrease in poverty rates between 2016 and 2017.
- ▶ Small Business Optimism Shatters Record Previously Set 35 Years Ago



Recognize  
external  
threats to MI  
– Trade wars



# What does all of this suggest?



Progress in fiscal health has been made in Michigan.



The pro-growth period in Michigan has been good to residents, businesses, and investors across Michigan.



Economic growth and the increase in activity has led to increase tax revenue. Responsible and effective use has unleashed creative and innovative talents, investments, and energies.



Financial fitness is improving.

- Unfunded liabilities
- Education
- Infrastructure
- Personal income



Look forward with fitness in mind. Keep residents, businesses, investors, and other stakeholders moving up and out.

# Stay in touch!

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