

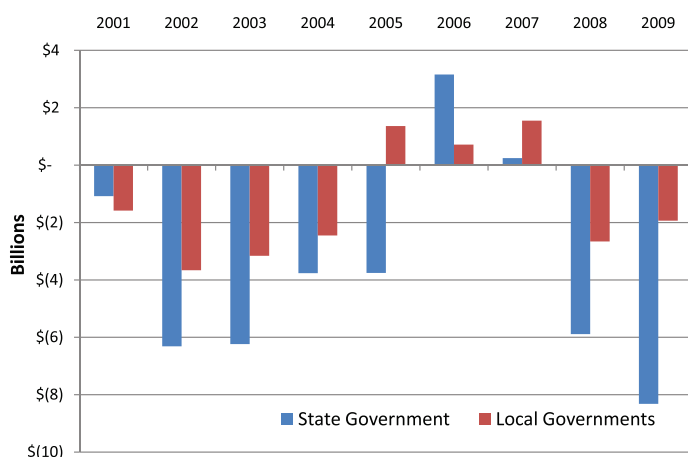
1. Public Budget Gap

Are Michigan governments covering expenditures and other obligations with current year revenues?



A deficit is the extent to which expenditures exceed revenues in any given year. State and local governments have unfunded obligations that are not recognized in their budget deficits — namely, unfunded pensions and other retirement benefits for public retirees. The “fiscal gap” measure shown below takes these unfunded liabilities into account to show the true size of the gap between government revenues and expenditures. We estimate an \$8.3 billion fiscal gap in FY 2009 for the state government and a \$1.9 billion fiscal gap for local governments.

State & Local Governments Fiscal Shortfalls, FY 2001 - 2009



Fiscal Gap, FY 2009

(includes school pensions)

State Government: \$8.3 billion

Local Governments: \$1.9 billion

Source:
2011 Citizen's Guide to Michigan's Financial Health

2. Cash Balances

Are governments paying current bills with cash on-hand?



The State of Michigan does not have any cash reserves. The State borrowed \$1.3 billion in short-term loans at the beginning of the most recent fiscal year that it paid back with interest at the end of the fiscal year. This is how the State made its scheduled payments to school districts and for other operations. At the end of FY 2010, the State had a negative cash balance of \$400 million in its major funds, which includes the General Fund and School Aid Fund. The School Aid Fund and General Fund have had to borrow cash from other funds in order to make payments.

Report Card Guide

Current Performance:

- Strong Fiscal Practices
- Satisfactory Practices
- Unsatisfactory Practices

Progress on Indicator:

- Up Arrow - Improving
- Down Arrow - Declining

3. Reserves

Do Michigan governments have reserves or a Rainy Day Fund equal to at least 10% of operating expenditures?



Reserves provide money for unexpected expenses and provide the cash flow to allow for payments from the fund in the next fiscal year before new revenues come in. A general rule of thumb is to have reserves equal to 10% of operating expenditures. The State of Michigan had almost \$720 million in unreserved (meaning available) fund balances in FY 2010. This is only 1.5% of expenditures. Local school districts had reserves of 5.2% in FY 2009.

Reserves as a Share of Operating Expenditures:

State Government (FY 2010):	1.5%
Local School Districts (FY 2009):	5.2%

4. Pension Obligations

Are governments fully funding their pension and other post-employment benefits?



Public employees who meet certain requirements receive a pension when they retire. Pension benefits are pre-funded, meaning employees and their employers make payments to the pension fund while the employee is working. When future obligations exceed fund assets, the fund has a shortfall. In FY 2009, public pension systems had a shortfall of \$18.2 billion.

Unfunded Pension Liabilities (at end of FY 2009):

State Government:	\$3.1 billion
Local Government:	\$3.1 billion
Local School Districts:	\$12.0 billion

State employees may also receive other post-employment benefits, such as health, dental, and vision insurance. These benefits are not pre-funded. Total future obligations for these benefits for state employees is \$13.5 billion and \$26.8 billion for school employees.

5. Debt Levels

Are incomes growing faster than public debt levels?



Michigan's per capita total state government public debt grew from \$724 in 1979 to \$2,430 in 2009 in real (inflation-adjusted) terms. This includes general obligation debt, backed by the full faith and credit of the taxpayers, and revenue-dedicated debt that is repaid through specific revenue associated with the projects that it funds. Since 2000, total public state and local government debt per capita increased an average of almost 4% per year in real (inflation-adjusted) terms while real incomes of Michigan residents declined an average of 1% per year during this same time period.