BUSINESS LEADERS FOR MICHIGAN

Michigan Fiscal Scorecard

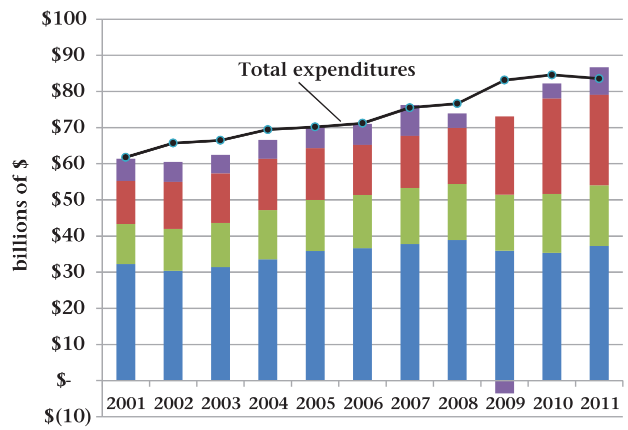
Assessing the Financial Management of Michigan Governments

1. Revenues and Expenditures

Are current revenues for Michigan's state and local governments sufficient to cover expenses?

A deficit is the extent to which expenditures exceed revenues in any given year. Though the state has a balanced budget requirement, state and local governments can draw down unreserved assets and issue debt for capital projects, resulting in expenditures that exceed revenues. State and local governments combined ran a deficit in six of the past ten years. The deficit was particularly large in 2009, when there was a drop in revenue, dramatic investment losses, and increased expenditures on unemployment insurance and social programs due to the recession. In FY 2011, revenues exceeded expenditures by $3.2 billion, resulting in a budget surplus according to our estimates. Total expenditures fell for the first time in over ten years, while revenues grew.

Combined Revenues and Expenditures for State and Local Governments, FY 2001-11



Revenues from:

- Other sources
- Federal government
- Services, licenses, and permits
- Tax revenue

Total Revenues, FY 2011: $86.7 billion

Total Expenditures, FY 2011: $83.5 billion

Analysis: Anderson Economic Group, LLC
Note: Local government data for FY 2011 is an estimate, based on 2009 data and 2010-11 trends.

2. Cash Balances

Is the State paying current bills with cash on hand?

The State of Michigan borrowed $1.1 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 2011, however, the State had a positive cash balance of $1.2 billion in its major funds, which includes the General Fund and School Aid Fund. This marks the first time that these funds have ended the fiscal year with an overall positive cash balance since 2002.

Report Card Guide

Current Performance:
- Exceeded benchmark
- Achieved benchmark
- Missed benchmark

Progress on Indicator:
- Up Arrow – Improving
- Down Arrow – Declining

3. Reserves

Do the State and local school districts have reserves or a Rainy Day Fund that could cover 5-10% 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 5% of operating expenditures at the state level and 10% of operating expenditures at the local level. The State of Michigan had almost $513 million in unassigned (meaning available) fund balances by the end of FY 2011. This is only 1.1% of expenditures. Local school districts had reserves of 5.1% at the end of FY 2010. On a more positive note, the legislature has appropriated $362 million to Michigan's Rainy Day Fund for the current fiscal year (FY 2012), and the Governor has requested an additional $130 million for next fiscal year. (State government reserves for FY 2011 are not directly comparable to levels in previous years due to a change in accounting definitions.)

Reserves as a Share of Operating Expenditures:

State Government (FY 2011): 1.1%
Local School Districts (FY 2010): 5.1%

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 2010, public pension systems in Michigan had a shortfall of at least $25.6 billion. These unfunded liabilities worsened from 2009 to 2010, mainly because significant losses in investment income in FY 2008 and FY 2009 are smoothed over several years in the complex calculation that determines funding status. (FY 2010 is the most recent year in which data is available. We expect that the funding situation improved between FY 2010 and FY 2011, and that changes to the State employee retirement system signed into law in 2011 will bring additional savings.)

Unfunded Pension Liabilities (at end of FY 2010):

State Government: $4.5 billion
Local Government: $3.5 billion
Local School Districts: $17.6 billion

State employees also receive other post-employment benefits, such as health, dental, and vision insurance. These benefits are not pre-funded. Total unfunded future obligations for these benefits are $15.9 billion for state employees and $27.6 billion for school employees, as of the end of FY 2010.

5. Debt Levels

Are incomes growing faster than public debt levels?

Michigan's per capita total state government public debt decreased from $2,426 in 2010 to $2,333 in 2011 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. During the past two years, total debt per capita has decreased, while personal income per capita has increased. From FY 2010 to FY 2011, state debt per capita decreased by nearly 4%, while personal income per capita increased by just over 1%.

This report was prepared for Business Leaders for Michigan by Anderson Economic Group, LLC.