Michigan League FOR Human Services

May 2009

Revenue Forecast: Restore Revenues or Cut Programs

The directors of the House and Senate fiscal agencies, together with State Treasurer Robert Kleine, convened the Consensus Revenue Forecast Conference on May 15 to discuss Michigan's rapidly deteriorating fiscal outlook. The conferees acknowledged that projected state revenues had declined precipitously since their last meeting in January, due primarily to declines in sales and income tax collections. For the current fiscal year, which ends September 30, the participants acknowledged a combined decrease of $1.54 billion in General (GF) and School Aid Fund (SAF) revenues. For FY2010 the conferees forecast a combined GF and SAF revenue decrease of $1.72 billion, bringing the projected fiscal year deficit to approximately $2.4 billion.

On May 5, in recognition of Michigan's deteriorating revenue outlook, the governor issued and the Legislature adopted Executive Order 2009-22, a recommendation to reduce state spending in the current year by approximately $304 million. The resulting program reductions, which include six layoff days over the next four months for most state employees, together with approximately $1.44 billion in federal stimulus funding, are expected to close a current year deficit of $1.75 billion.

Because the Executive Order cuts are expected to continue into the next fiscal year, the full year impact of Executive Order 2009-22 is projected to reduce state spending by approximately $900 million in fiscal year 2010. Most of the remaining $2.4 billion forecast deficit could be offset with $2.1 billion in un-obligated discretionary federal stimulus funding.

While it appears that forecast deficits through FY2010 could be resolved without implementing significant additional program reductions or revenue enhancements, there are two cautionary notes. First, as highlighted by comments made by Senate Fiscal Agency Director Gary Olson, the revenue forecasts for FY2009 and FY2010 do not reflect a worst case scenario. Director Olson, whose FY2010 revenue forecast was approximately $400 million below the consensus revenue agreement, noted that further deterioration of the Michigan-based auto industry could significantly worsen the state's revenue outlook.

A second major concern relates to a House Fiscal Agency analysis that forecasts a combined General and School Aid Fund deficit of approximately $2 billion for FY2011, the year in which available discretionary federal stimulus funding is expected to decline to approximately $200 million. The House Fiscal Agency analysis, which assumes a relatively normal 4 percent growth in the economy, suggests that the anticipated deficit is structural in nature, implying that it is unlikely that economic growth would resolve a shortfall equivalent to approximately 10 percent of total state funding.

The League continues to work to encourage state policymakers to reform the state's revenue structure in order to address Michigan's worsening structural deficit.

Judy/Consensus Revenue Conf May 2009

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