



CITIZENS RESEARCH COUNCIL OF MICHIGAN

Governor Snyder's FY 2012 Budget and Tax Proposal

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- Promotes sound policy for state and local governments through factual research – accurate, independent and objective
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Michigan's Budget Environment

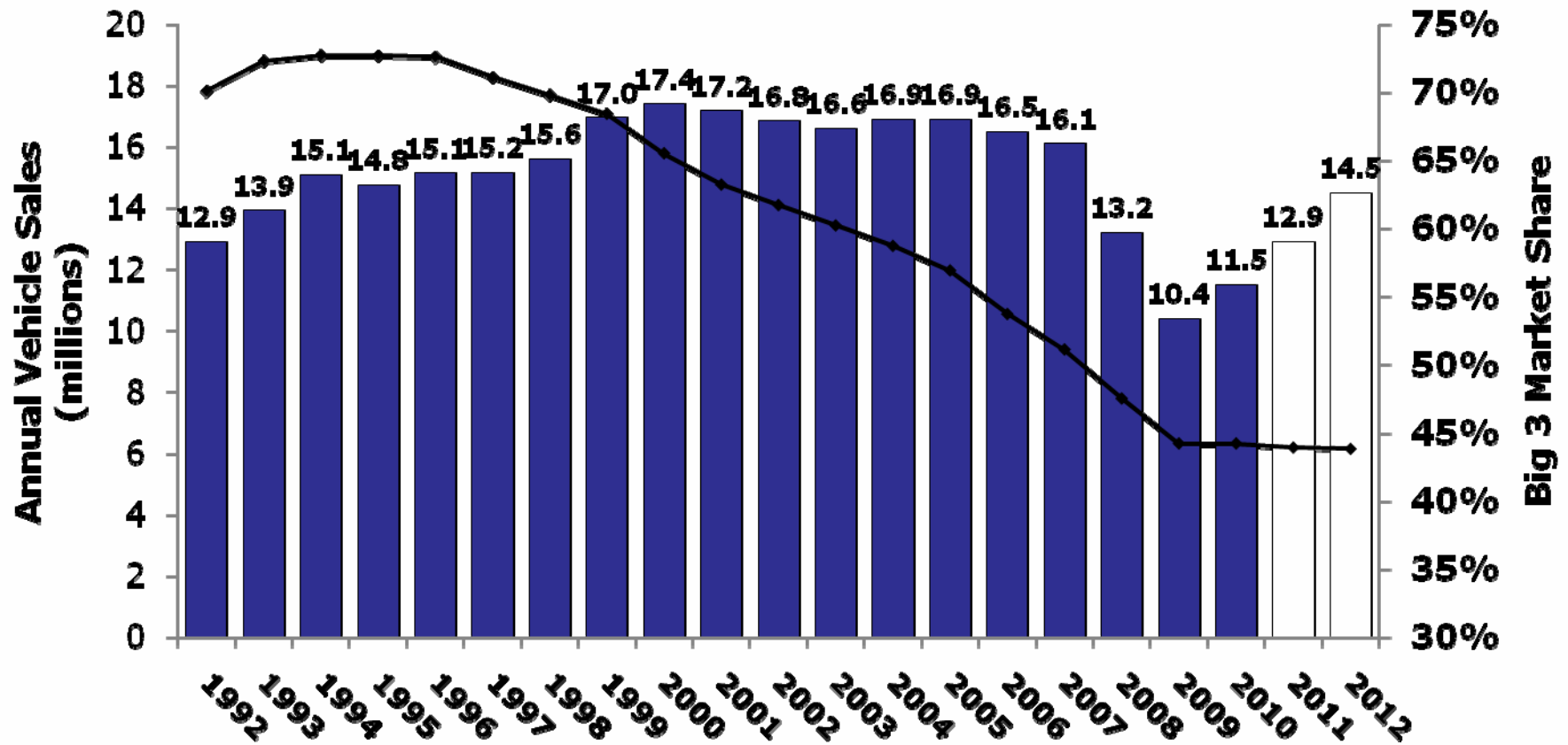


The Last Decade Was an Economic Disaster for Michigan

	<u>Growth 2000 to 2009</u>		<u>Michigan</u>
	<u>U.S.</u>		<u>Rank</u>
Population	8.8%		51
Real Per Capita GDP*	5.7%		50
Employment	-0.7%		51
Real Per Capita Income	3.6%		51



Big 3 Market Share Plummet

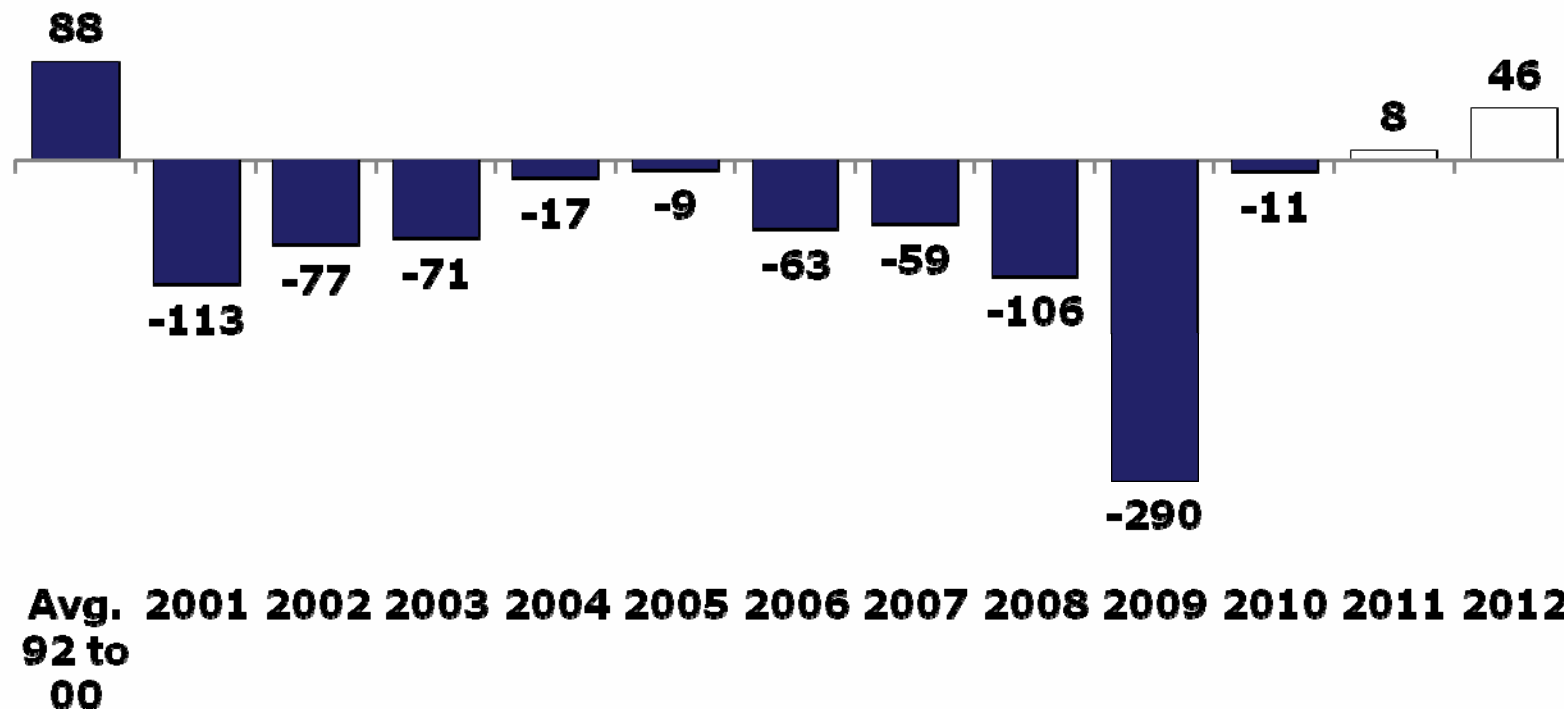


Source: 2010-2012 sales are the Jan 2011 Cons. Estimates; 2010-2012 share MI Dept of Treasury



Michigan Employment Fell For 10 Straight Years

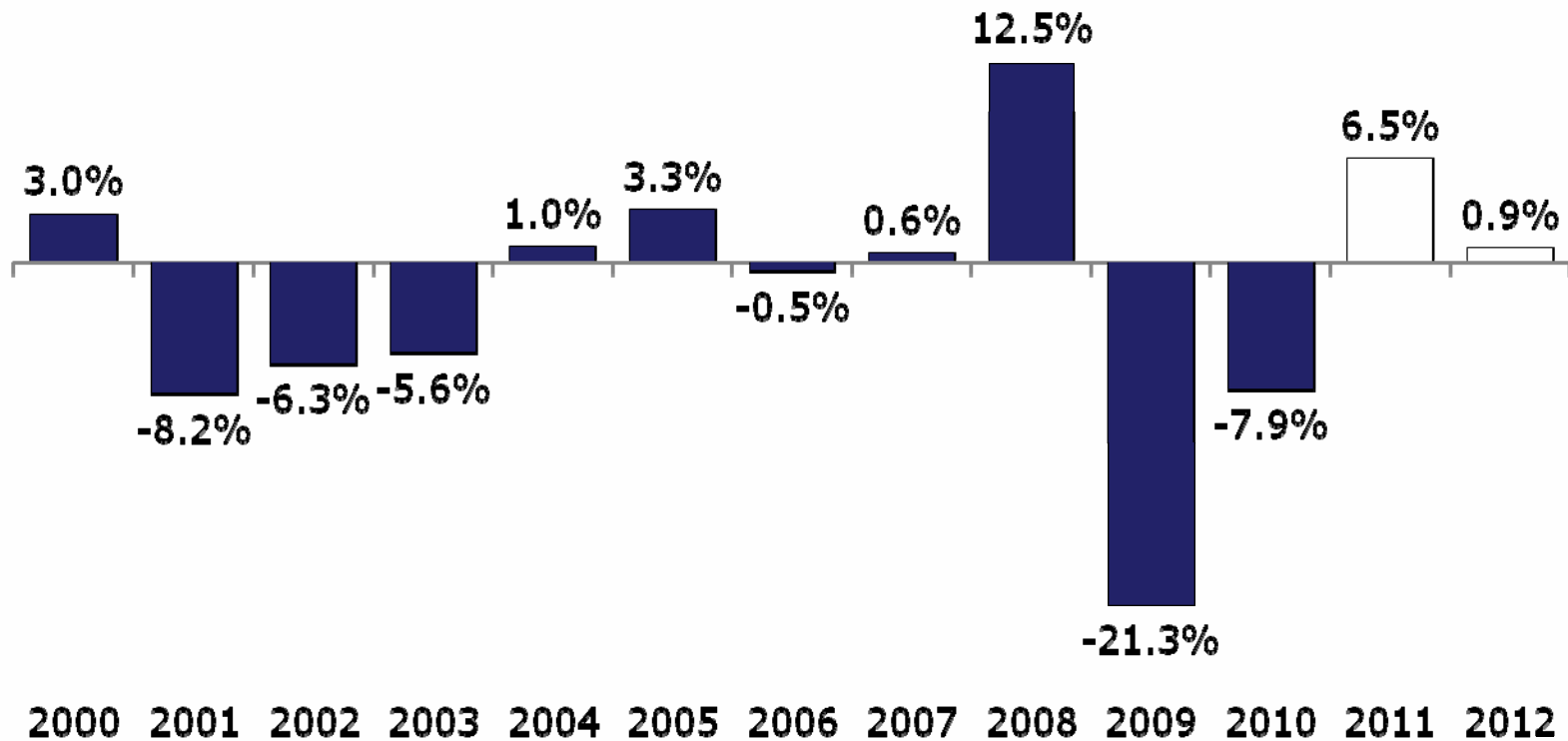
Annual Change in Wage and Salary Employment (000)





GF-GP Revenues Drop Sharply in FY 2009 and FY 2010

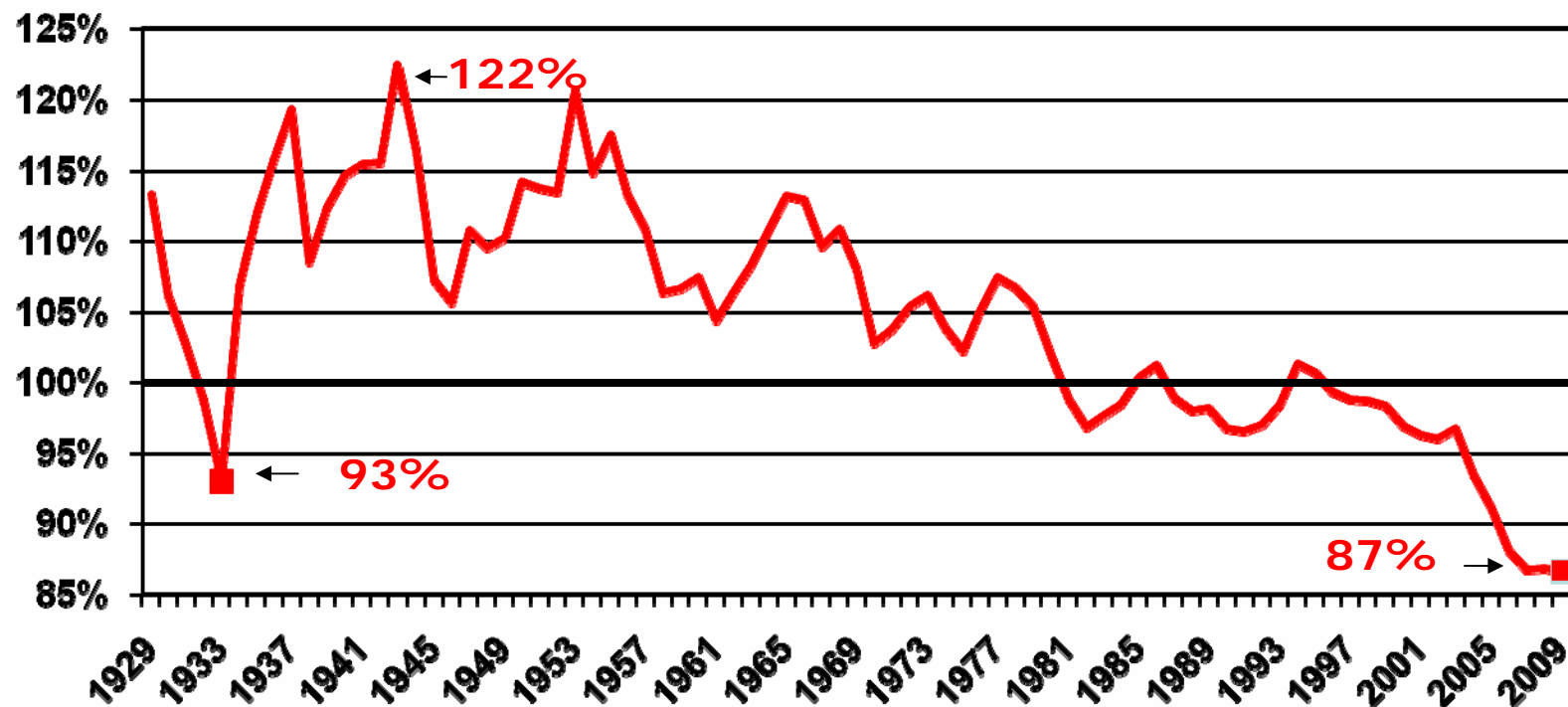
GF-GP Revenues
Year-Over-Year Pct. Change





Michigan Has Become Poorer Relative to Other States

Michigan per Capita Income as a Percent of U.S. Per Capita Income Rank has fallen from 20th in 2001 to 37th in 2009





Governor Snyder's Budget Proposal



Defining the FY2012 GF Problem

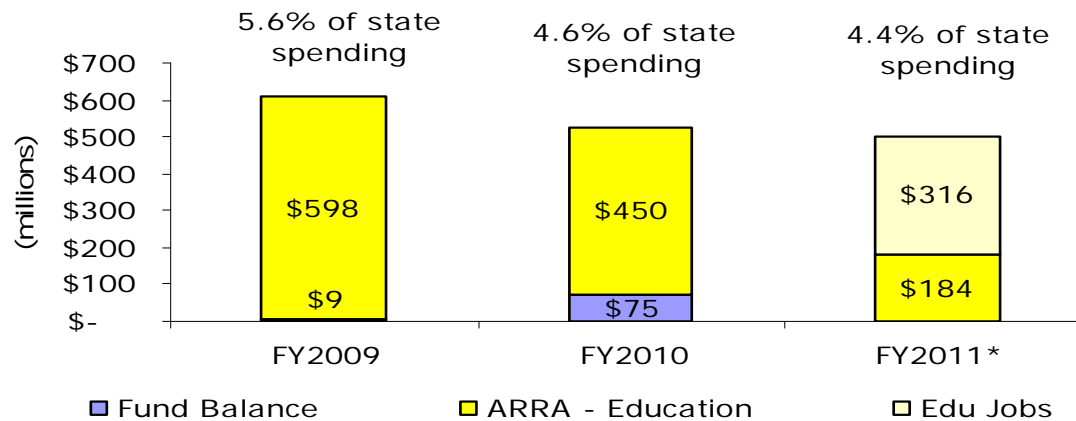
Loss of Federal \$ and Cost Increases Contribute

- FY2012 on-going revenues: \$8.2B
- Current-year spending with adjustments: \$9.6B
- Major adjustments include:
 - \$900M in temp. federal (mostly stimulus)
 - \$193M caseload increase in Human Services and Community Health
 - \$98M increase in debt service payments
 - \$105M increase in employee costs/early out
- Bottom line: \$1.4B structural imbalance in GF



FY2012 SAF Budget in Much Better Shape *Despite Use of Non-Recurring Resources*

Non-Recurring Resources Used for SAF Budget



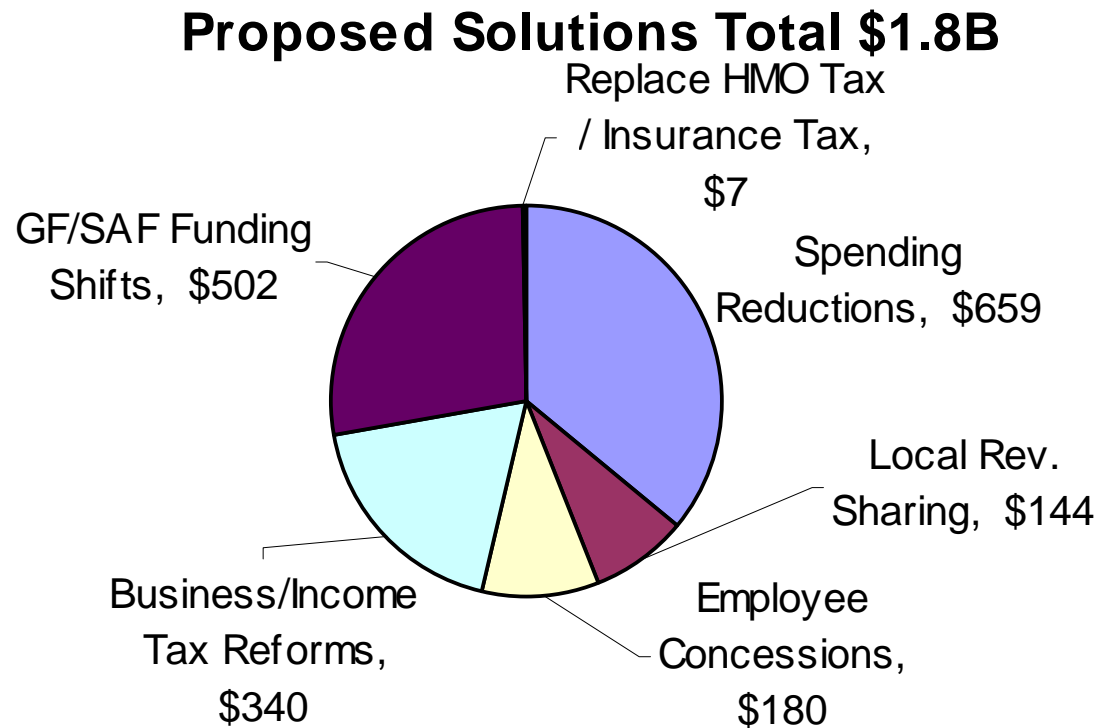
Fund Balance = \$247 million at 10/1/08. State spending excludes federal.

* Based on enacted budget as of 7/10 and projected Edu Jobs funding.

"Balanced" Budget by Using \$500M of SAF Reserves



Mix of Proposed Solutions to Address \$1.4B Gap



Savings Offset By \$260M in New Investments



State Education Funding Act

Funding for K-12 through Higher Ed

- Education appropriations contained in single budget
- K-12 no longer has exclusive claim to School Aid Fund resources – shifts \$896M to colleges and universities
- Overall reduction of \$1B (6.7%)
- After removal of temporary federal funding, cuts \$566M (4.4%) in spending from state resources (GF and SAF)

Total Education Funding (millions)

	K-12	Community Colleges	Higher Education	Total
FY2011	\$ 12,954	\$ 296	\$ 1,578	\$ 14,829
FY2012	\$ 12,174	\$ 296	\$ 1,362	\$ 13,832
<i>Change</i>	\$ (781)	\$ -	\$ (216)	\$ (997)

Source: Executive Budget for Fiscal Years 2012 and 2013



K-12 Education

No Federal \$ and After Funding Shifts - \$470 Hard Cut

- Expiration of one-time federal funds: \$170 per pupil (\$267M)
- Foundation reduction: \$300 per pupil (\$453M)
- Elimination/reduction of various categoricals (\$86M)
- Retirement rate – 20.7% to 24.5% (add'l \$245 per pupil)

	FY2011	FY2012	Change
Min. Grant	\$ 7,316	\$ 6,846	\$ (470)
Basic Grant	\$ 8,489	\$ 8,019	\$ (470)
Max. Grant	\$ 8,489	\$ 8,019	\$ (470)

Effective Per-Pupil Reduction: \$715 (10%)



Higher Education/Community Colleges

- Public universities – uniform 15% cut (\$213M), plus cut of 5% to 10% (\$83M) - varies by school
 - Restoration of \$83M based on tuition restraint (less than 7.1% in FY2012)
- Consolidates all need-based financial aid
 - New “Pathways” scholarship – up to \$875/yr
- Community college funding held constant (\$296M)
- Total of \$896M in SAF revenue (\$567 per-pupil cut in K-12 funding)



State Employee Compensation

- Net increase of \$105M to fund employee costs, primarily related to retirement (pension and OPEB)
 - Retirement contributions increase from 37.4% to 50.9% of payroll for defined benefit employees
- After adjusting for required employee costs (above), \$180M GF savings reflected in budget – to be negotiated later
- Budget includes \$200M to address future unfunded health care liabilities for state retirees, which are currently funded with current dollars



Getting \$180M GF in Employee Compensation Savings

- Total compensation (FY2010): \$4.8B
 - For every dollar cut, \$.50 in GF savings
 - Salaries/wages (63% of total), insurance (14%), and retirement contributions (18%)
- Contracts for state unions go through FY2012 complicating the process of achieving savings in FY2012
- Possible solutions:
 - Equivalent to 12% cut in salary (\$6,700 per employee)
 - or
 - Change insurance cost-share (80/20): \$39M
 - 5% wage cut: \$76M



State Revenue Sharing Payments Cut

- Since 2001, statutory revenue diverted to help balance GF budget
 - ~ 1,200 units (cities, villages, twps.) no longer receive statutory payments
 - Eliminates entire \$292M in remaining statutory payments to 600 units
 - \$200M to all units (1,800) based on new formula
 - Details of formula still TBD
 - Overall cut, \$101M (34%)
 - County revenue sharing cut by 34% for 50 counties currently getting payments
- 18 • Revenue sharing cuts combined with property value declines will put significant stress on local budgets



Assessing the Structural Integrity

Progress Towards Solving the Structural Deficit

- Lack of non-recurring resources to achieve balance
- Cuts spending significantly
 - K-12 education
 - Higher education
 - Employee compensation
- New tax structure likely to grow faster than existing one
- Provides look into future (FY2013) – balanced budget
- Major costs drivers – healthcare (Medicaid, state employees and retirees, corrections, school



Governor Snyder's Tax Proposal



Stated Objectives

Business Tax Objectives: Simple fair, efficient, even playing field, enable businesses to grow and create jobs

Income Tax Objectives: Simple, fair, broader base, tax all income the same regardless of source



Business Tax Key Features

- Replace MBT (gross receipts less purchases and business income) with a corporate income tax
- Repeal all credits (except one small business credit)
- Exempt noncorporate entities
- Lower tax burden with a \$1.7 billion cut



Income Tax Key Features

- Pause scheduled rate rollback at 4.25%
 - Repeal most credits including the EITC
 - Eliminate public and private pension exemption
 - Phase-out personal exemption for high income taxpayers
- 23
- Net tax increase of \$1.8 billion



Summary of Tax Changes

	<u>FY 2012</u>	<u>FY 2013</u>
MBT Current Law	\$2,170.0	\$2,024.0
Revenues from Proposed Reforms		
MBT (4th quarter 2011 and annual pymts)	\$900.2	\$0.0
New Corp Tax	<u>\$194.8</u>	<u>\$292.7</u>
Bus. Tax Under Budget Proposal	\$1,095.0	\$292.7
Net Business Tax Cut	(\$1,075.0)	(\$1,731.3)
Income Tax Increases	<u>\$820.9</u>	<u>\$1,863.8</u>
Net Impact Proposed Changes	(\$254.1)	\$132.5 *

* Budget Indicates \$100 million of FY 2013 revenues will be reserved for tax cuts



Will the Tax Changes Improve Economic Growth?

Positive Impacts

- Lower tax on most businesses will spur investment
- Simpler tax will ease compliance and improve Michigan's reputation
- Dollars appropriated for economic development will spur some investment

Negative Impacts

- Revenue neutral change limits economic impact (offset by senior and low-income tax increases)
- Some multistate Michigan based firms pay more, so investment incentive works the other way
- Repeal of some credits (personal property, brownfield, etc) works against investment



Where is the Tax Plan Now?

- Leadership deal would restore much of the pension exemption (taxpayers 67+ held harmless; 60 to 66 get \$20k/\$40k exemption; younger than 60 get \$20k/\$40k at 67) – will require additional budget cutting
- Homestead property tax credit scaled back (but expanded for those under \$20k income)
- EITC may be replaced with \$50 per child credit
- Talk of restoring some business tax credits



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