



CITIZENS RESEARCH COUNCIL OF MICHIGAN

# Governor Snyder's FY 2012 Budget and Tax Proposal

Jeffrey Guilfoyle, President  
Citizens Research Council of Michigan  
Owosso Rotary  
April 27, 2011

[www.crcmich.org](http://www.crcmich.org) / [jguilfoyle@crcmich.org](mailto:jguilfoyle@crcmich.org)



# Citizens Research Council

- Founded in 1916
- Statewide
- Non-partisan
- Private not-for-profit
- Promotes sound policy for state and local governments through factual research – accurate, independent and objective
- Relies on charitable contributions of Michigan foundations, businesses, and individuals
- *[www.crcmich.org](http://www.crcmich.org)*



# Michigan's Budget Environment

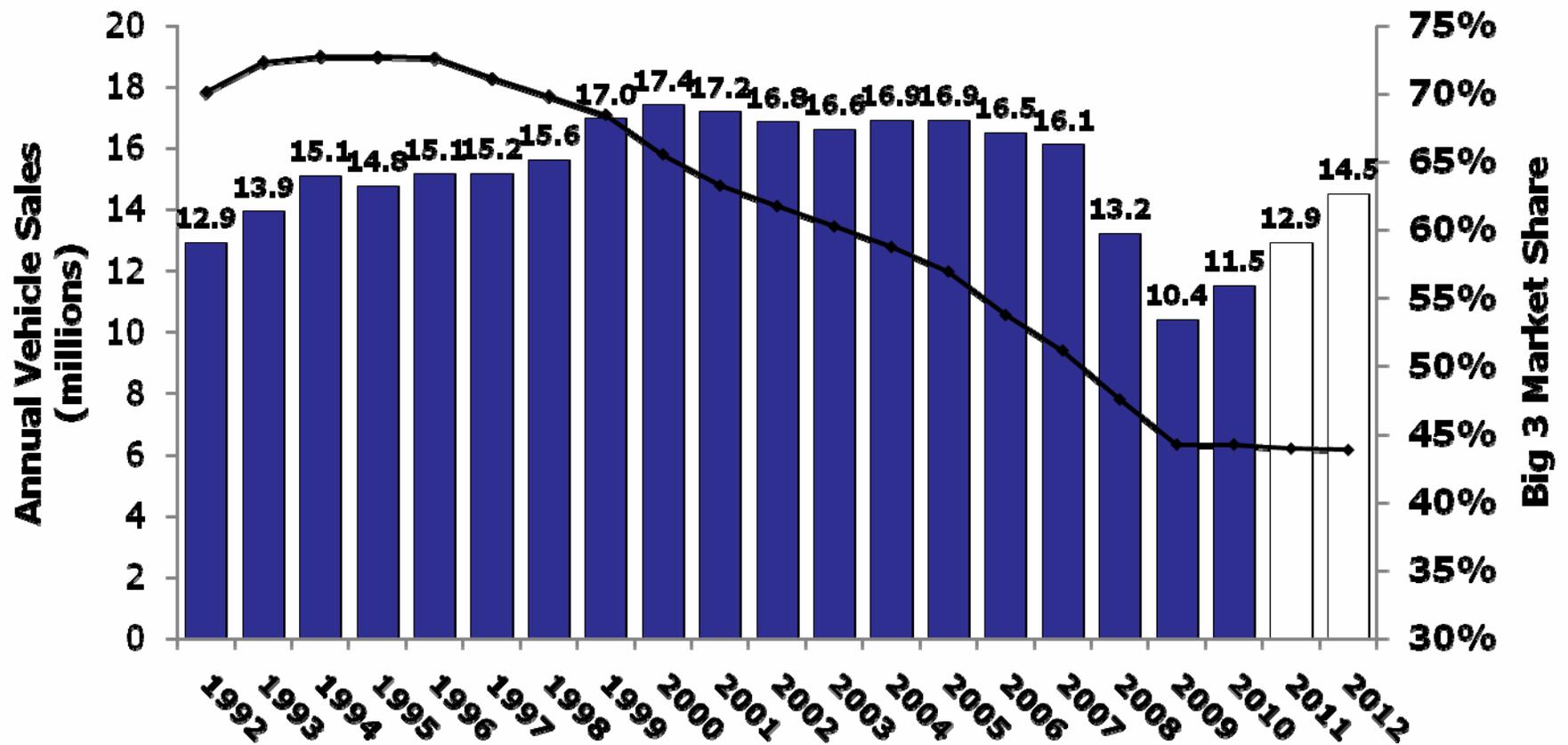


## The Last Decade Was an Economic Disaster for Michigan

	<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



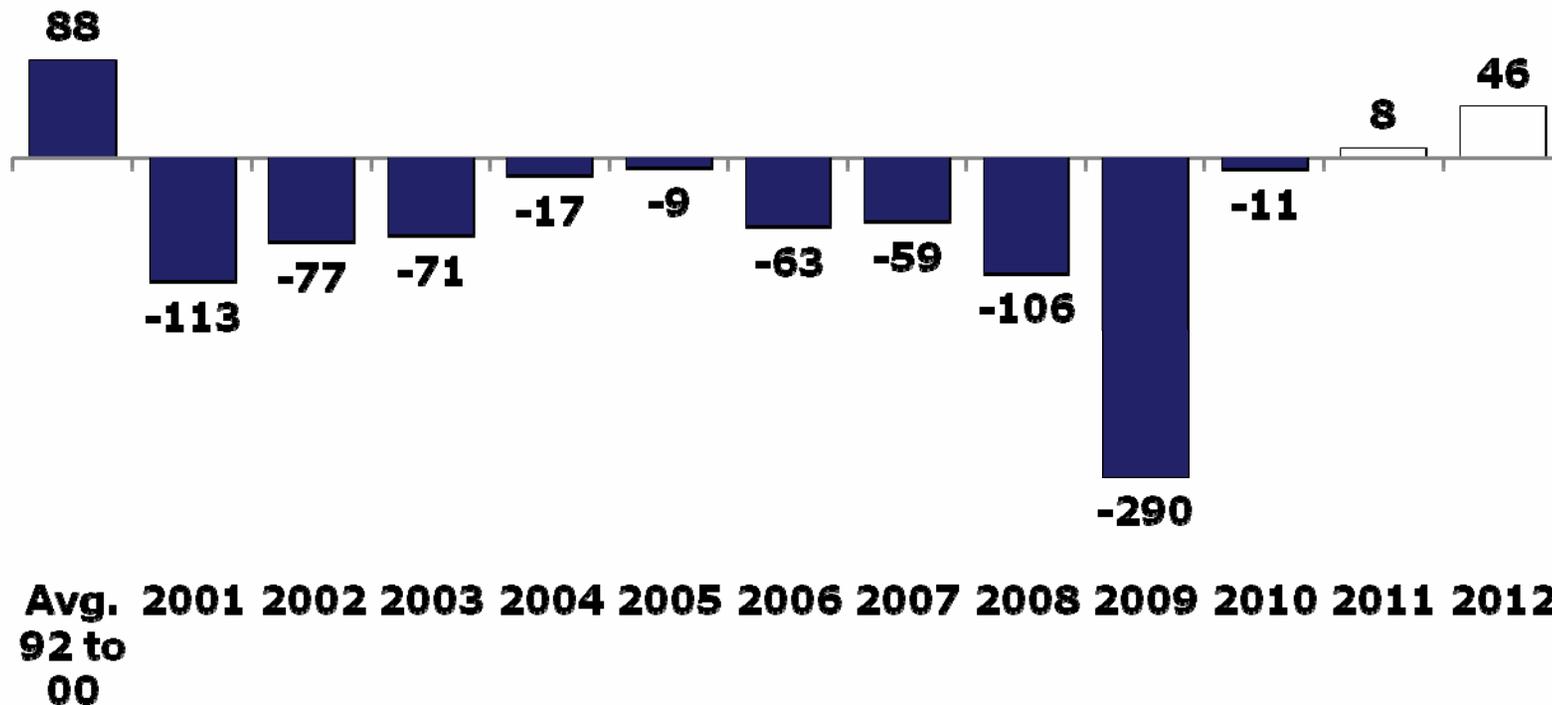
## Big 3 Market Share Plummet





# Michigan Employment Fell For 10 Straight Years

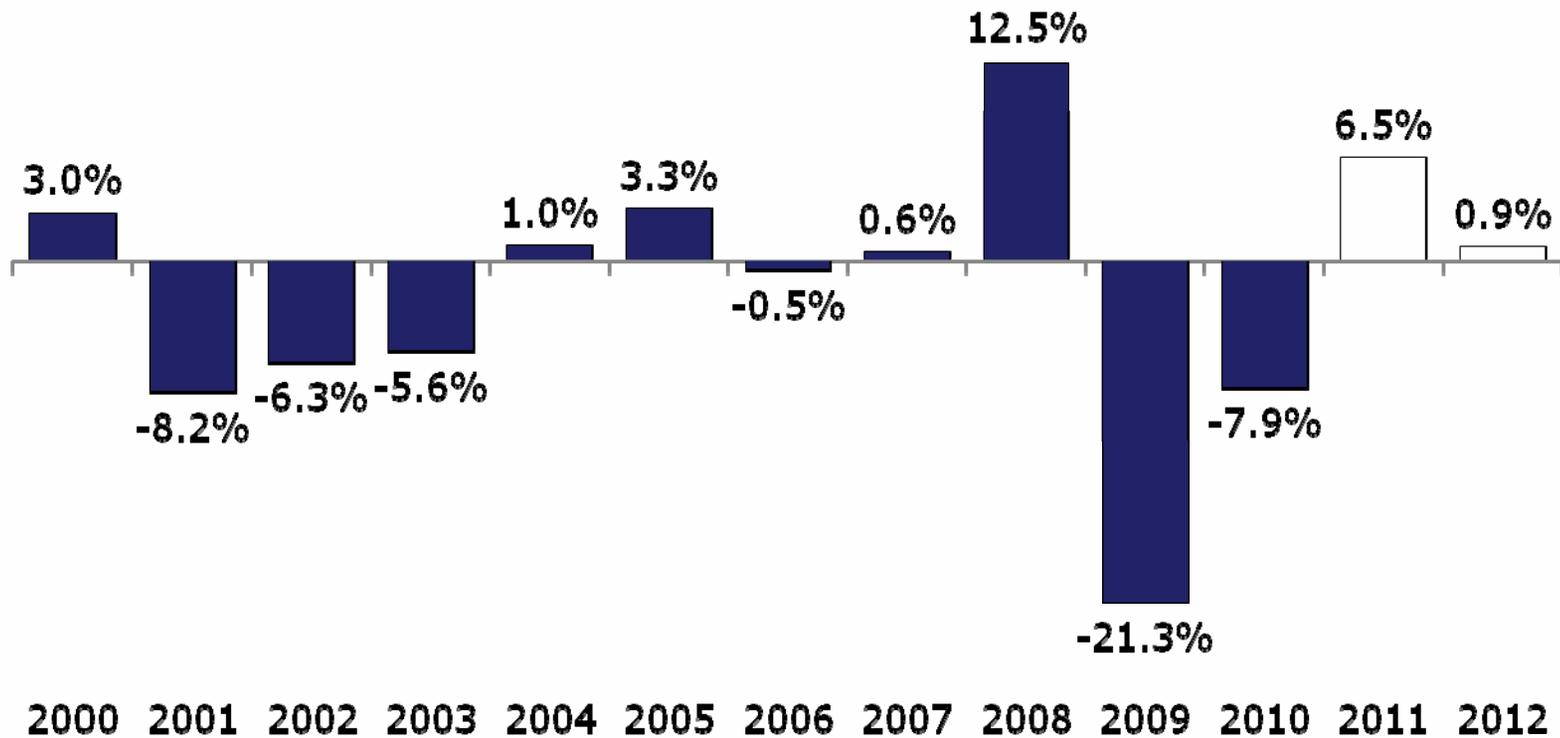
Annual Change in Wage and Salary Employment (000)





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

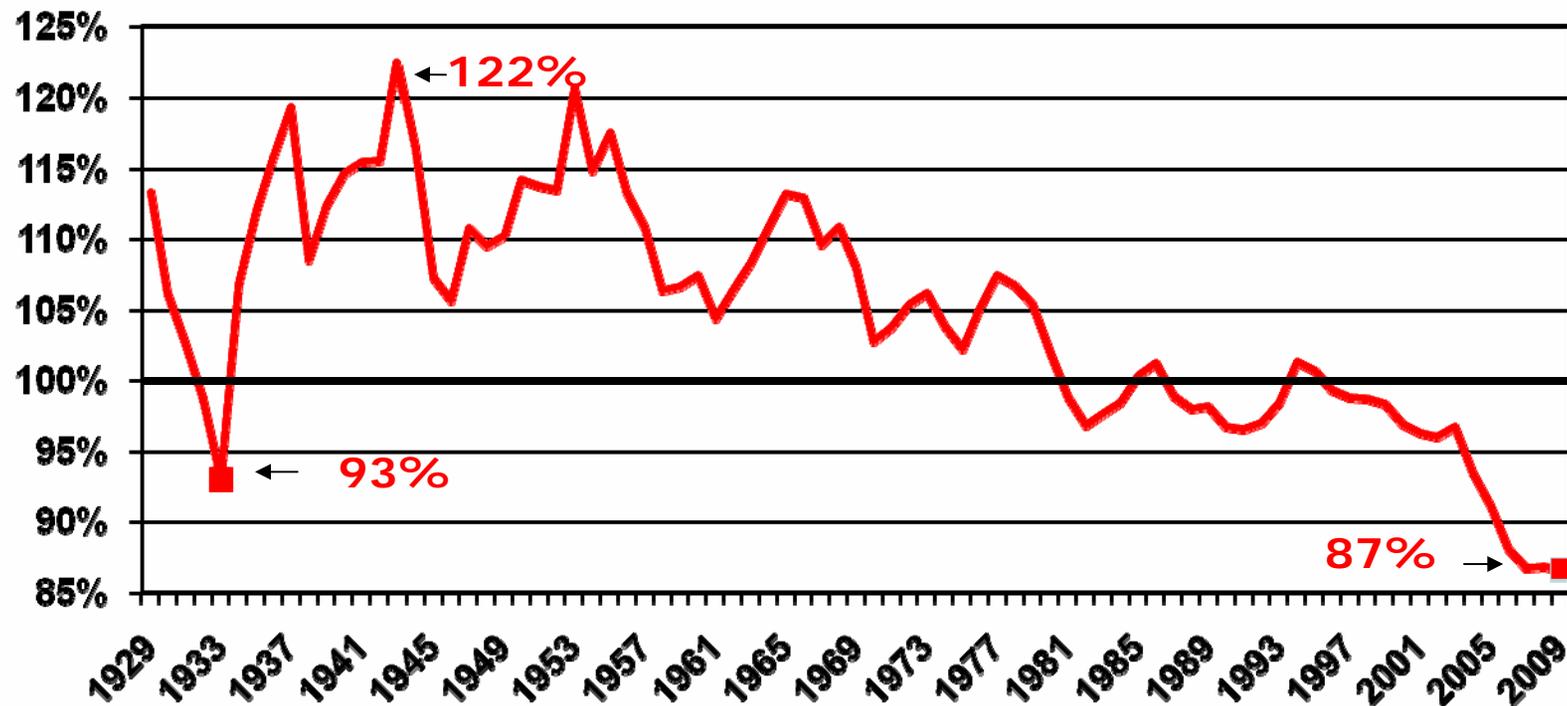
GF-GP Revenues  
Year-Over-Year Pct. Change





## 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 20<sup>th</sup> in 2001 to 37<sup>th</sup> in 2009





# **Governor Snyder's Budget Proposal**



## **Defining the FY2012 GF Problem**

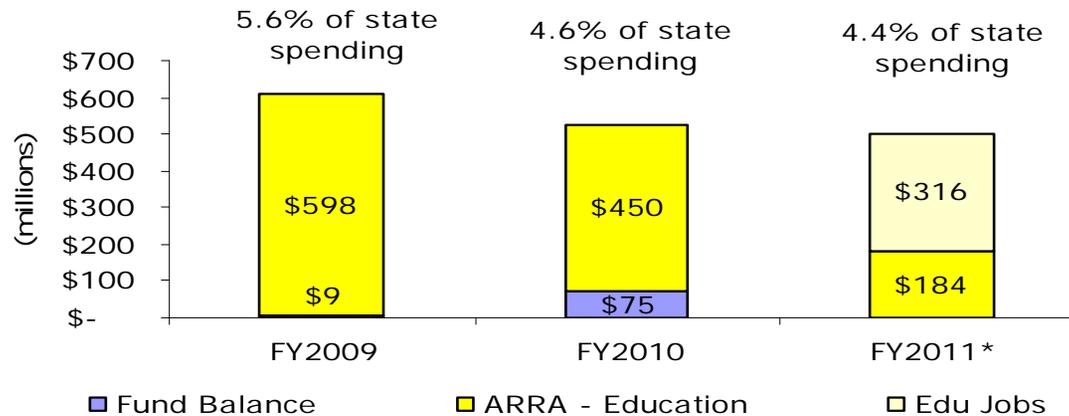
*Loss of Federal \$ and Cost Increases Contribute*

- 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**



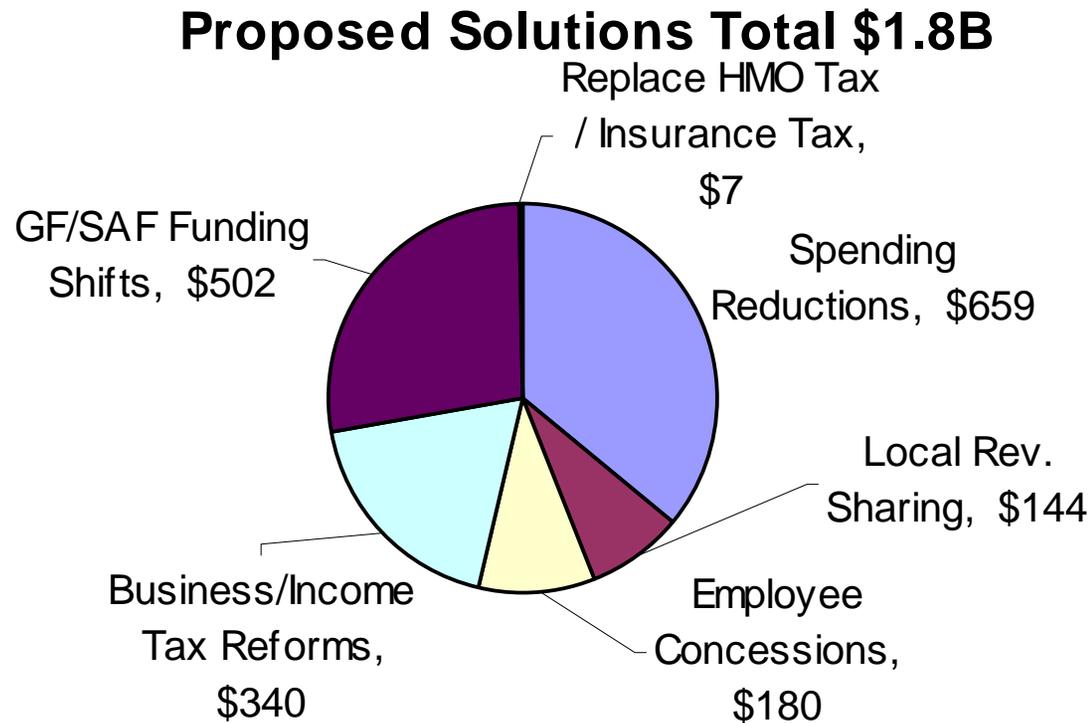
Fund Balance = \$247 million at 10/1/08. State spending excludes federal.

\* 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)

	<b>K-12</b>	<b>Community Colleges</b>	<b>Higher Education</b>	<b>Total</b>
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)

	<b>FY2011</b>	<b>FY2012</b>	<b>Change</b>
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
- 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
- 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



## CITIZENS RESEARCH COUNCIL OF MICHIGAN

The Citizens Research Council of Michigan is supported by gifts and grants of all sizes coming from many different donors including:

- Foundations
- Businesses
- Organizations
- Individual Citizens like you

***We hope you will consider supporting CRC. For more information or to donate, contact us at:***

Citizens Research Council of Michigan  
38777 Six Mile Road  
Livonia, MI 48152

(734) 542-8001  
[www.crcmich.org](http://www.crcmich.org)



CRC Publications are available at:

[www.crcmich.org](http://www.crcmich.org)

Providing Independent, Nonpartisan Public Policy  
Research Since 1916