

2004

ANNUAL REPORT



CRC

Citizens Research Council
of Michigan

Citizens Research Council of Michigan

Providing Independent, Nonpartisan Public Policy Research Since 1916

Letter From the Chair & President

As the Citizens Research Council of Michigan enters its 89th year, the board and the staff can point to a growing list of accomplishments. CRC analyses of the state budget crisis, statewide ballot issues, State of Michigan employment trends, Medicaid, and local fiscal difficulties have helped to shape the debate on these critical issues. CRC has solidified its standing as the premier source of objective, accurate data and analysis regarding state and local government in Michigan.

An endowment is a particularly appropriate means of serving both the goals of financial stability and independent research.

But, the Research Council is not resting on its laurels. In order to assure the continued progress of the Council, CRC leadership has reviewed its research program and financial capacity and is developing an aggressive program designed to create an endowment fund sufficient to 1) stabilize CRC finances and 2) permit CRC to expand its research in the areas of education, health care, and infrastructure development, while maintaining its ongoing research in state-local government organization and finance.

Until now, the Research Council has financed itself through annual operating grants, primarily from the business community, and special projects grants, usually from foundations. With this support, CRC has produced a growing stream of high quality public policy research and is now generating a demand for its work that

cannot be met within the limitations of our traditional sources of income.

The Citizens Research Council of Michigan does not have clients in the conventional sense of the word. It views its “clients” as the citizens of Michigan and, in order to serve them, it must maintain its capability of delivering high quality analyses based on its own independent assessment of the issues involved. CRC must be free to undertake even those studies—perhaps especially those studies—that no outside source wishes to support if it is to be successful in its pursuit of government that is more efficient, more equitable, and more accountable.

An endowment is a particularly appropriate means of serving both the goals of financial stability and independent research. CRC leadership is aware that creation of an endowment fund for the Council will entail commitment and hard work on the part of the Board of Directors and the staff, but a financially-stable, independent Citizens Research Council is ample justification for the effort.

It has been said that if there were no Citizens Research Council of Michigan, one would have to be created. Fortunately, that does not have to be done. What does need to be done is to provide the financial underpinnings for CRC so that, as it enters its second century, it may truly realize its full potential.

W. Frank Fountain
Chair

Earl M. Ryan
President

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About the Citizens Research Council

The Citizens Research Council is a privately funded, not-for-profit public affairs research organization. The objective of CRC is to provide factual, unbiased, independent information on significant issues concerning state and local government organization and finance. The Research Council believes that the use of this information will lead to sound, rational public policy formation in Michigan.

As a result of the objectivity of CRC, it is often the only organization that can address controversial issues in a credible fashion

The hallmark of the Citizens Research Council is timely, reliable information researched in an independent, nonpartisan manner. The Research Council does not lobby, support or oppose candidates for public office, or take positions on ballot issues. As a result of the objectivity of CRC, it is often the only organization that can address controversial issues in a credible fashion.

CRC Core Values

The single most distinguishing attribute of the work of the Citizens Research Council is credibility. Credibility is achieved and maintained over time by adherence to three principles: accuracy, objectivity, and independence.

Accuracy CRC staff strive to assure that every fact and every statement in a Research Council report is accurate and reliable in every respect. It is recognized that one small error in an other-

wise well-researched report can cast doubt on the entire report and that a succession of such errors can destroy the credibility of the organization.

Objectivity Although many issues considered by the Citizens Research Council have political undertones, CRC analyses are noted for their balanced, unbiased approach to such issues. The Citizens Research Council attempts to analyze and reflect as many responsible points-of-view as possible in the conduct and presentation of its research results.

Independence The Citizens Research Council attempts to define and represent the broader public interest in any given issue. The Research Council was not established to represent any special interest. Its value is derived in large measure from its independent stance on issues of public importance.

Over the years, the Citizens Research Council has adhered to these three principles and has maintained a high degree of credibility with public officials and citizens and has become the most respected voice on state and local government organization and finance in Michigan.

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Research Highlights

In 2004, the Citizens Research Council focused on some of the most critical issues confronting Michigan. Research topics ranged from Michigan's structural budget deficit to employment trends in state government. CRC also prepared ballot analyses of two statewide ballot issues before the voters at the November general election and of the ballot issue facing Detroit voters on Detroit Public School governance.

CRC also launched several research projects during 2004: K-12 public school capital funding; facilitating Michigan local government response to fiscal pressures; and Michigan Certificate of Need Program.

In short, CRC continued to build on its reputation of providing policy makers and opinion leaders with independent, nonpartisan information necessary to affect sound government decision making.

CRC Reports

Employment Trends in State Government, FY1966 - FY2003 Changes in state policies have resulted in dramatic shifts in the composition of state employment since FY1965 and a CRC Report documented these changes and reflected on their impact.

From FY1966 to FY2004, Michigan's state civil service workforce experienced considerable fluctuation in both size and composition. The total number of state workers rose steadily from around 36,000 in FY1965 to its peak of nearly 70,000 in FY1980. This period of expansion was followed by a modest downtrend, resulting in the current employment level of approximately 55,000. During this time there was considerable redistribution of employment as a result of changes in policy. The most striking change has been in the Department of Correc-

Structural Budget Deficit Remains High Priority

Michigan's state budget situation has deteriorated steadily since 2000. In 2001, CRC began monitoring and reporting on the long-term budget outlook pointing out that a recovering economy would not provide sufficient growth to close the very large structural deficit confronting the state.

In 2003, CRC intensified activities in this area by publishing reports providing projections extending beyond 2003 and giving presentations on the budget outlook to a broad array of organizations with a stake in the state's fiscal affairs. Numerous presentations were made to local school boards, service clubs, school business officials and appearances on television and radio helped convey the message of the state's budget crisis. CRC was called on regularly by the print and electronic media both in the state and nationally to provide objective assessments of the state's budget condition.

CRC continued to monitor Michigan's structural budget deficit throughout 2004 and staff responded to over 50 requests for presentations (see panel, page 8). In addition, CRC organized and conducted three State Budget Forums (see page 8) as a means of targeting private sector audiences. The commitment to monitoring and analyzing the structural budget deficit remains an important priority for CRC in 2005. As a result of the ongoing attention paid to the State's structural deficit, CRC finds itself at the center of policy discussions on this most important issue and continues to play a key role with policymakers and the media.

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Research Highlights, Cont.

tion employment increase from 5 percent of the state's workforce in FY1966 to 7 percent in FY1980, swelling to 31 percent in FY2003. Human services employment increased from 46 percent of the state workforce in FY1966 to a high of 49 percent in FY1980, only to drop to 28 percent in FY2003.

Financing Michigan Retired Teacher Pension and Health Care Benefits This CRC Report analyzed recent changes in investment experience and retiree health care costs for the Michigan Public School Employees Retirement System (MPERS). The report included projections of the contribution rates for the pension and health benefit portions of the system. The report found that the contribution rate paid by the employers will jump significantly from the 14.87 percent charge by the State for FY2005 to over 20 percent in FY2008.

In a year of moderate economic growth, the increase in school aid revenues on a per pupil basis would likely average no more than \$300. Combining increased costs for MPERS contributions and health benefits for working employees leaves little room for increased spending elsewhere in school budgets, even if the economy improves throughout the period.

CRC Memorandums

State Ballot Issues on the November General Election Ballot A CRC Memorandum analyzed two statewide ballot issues before the voters at the November General Election. Proposal 04-01, Casino Gaming, asked voters to amend the 1963 Constitution to require a statewide vote on any state actions to expand gambling opportunities and

voter approval in any municipality to which gambling is proposed for expansion. The proposal passed.

Proposal 04-02, Same-Sex Marriage, asked voters to approve an amendment to Article I, Section 25 of the State Constitution that stated, "...the union of one man and one woman in marriage shall be the only agreement recognized as a marriage or similar union for any purpose." This proposal also passed.

Recent Publications

CRC Memorandums

- 1077 Proposal E: Form of Governance for the Detroit Public Schools
- 1076 State Ballot Issues on the November General Election Ballot
- 1075 Michigan Hospital Finances: Fiscal Years 1998-2002
- 1074 Medicaid Eligibility
- 1073 The Problematic Fiscal Year 2003-04 State Budget
- 1072 Medicaid Health Care Services
- 1071 Medicaid – What It Is and How It Works
- 1070 Organization of State of Michigan Education Functions

CRC Reports

- 337 Financing Michigan Retired Teacher Pension and Health Care Benefits
- 336 Employment Trends in State Government, FY1966-FY2003
- 335 Organization of State of Michigan Education Functions

CRC State Budget Note

- 03-10 A Recap of the FY04 Budget and Look Ahead to FY05 and Beyond

CRC Notes

- 2003-01 Local Ballot Issues in the 2002 General Election

Presentations

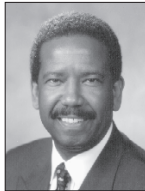
- 03-03 State Budget Overview: Prospects for FY2004 and Beyond
- 03-02 Michigan's FY2004 Executive Budget
- 03-01 Michigan Budget Crisis

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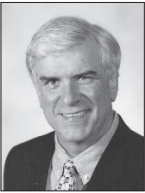


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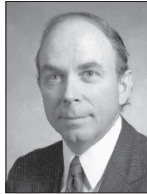
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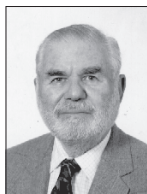
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Research Highlights, Cont.

Proposal E: Form of Governance for the Detroit Public Schools Proposal E asked Detroit voters to choose a new method of school board governance. This CRC Memo documented the history of the relationship between Detroit Public Schools and the City of Detroit, looked at other major U.S. cities in similar states of reform, and analyzed the two options before the voters in terms of accountability, local control and school improvement. The proposal failed.

2005 Research Agenda

CRC will continue to monitor the State's structural budget deficit and prepare publications when appropriate and continue to address groups interested in this issue. Several projects were started in 2004 and are anticipated to be completed in 2005 including: an analysis of K-12 public school capital expenditures; facilitating Michigan local government response to financial pressures; and a study of Michigan Certificate of Need program.

Inter-local Cooperation Project

Since 2001, Michigan local governments have experienced growing financial difficulty. Declining payments to local units from state shared revenues coupled with constitutionally imposed limits on increases in property taxation have resulted in constrained finances for a large number of local governmental units. In addition, local governments have had to deal with pressures on expenditures.

CRC has started a multi-phased project regarding opportunities for inter-local cooperation. One

phase is to identify the nature and extent of the structural fiscal problems facing local governments in Michigan, both in terms of revenue constraints and expenditure pressures. In other phases, CRC will identify opportunities for inter-governmental cooperation by identifying current inter-local agreements and by cataloguing local services and activities for each local unit in major metropolitan areas in Michigan.

The project is underwritten by grants from the C. S. Mott Foundation, Earhart Foundation, Frey Foundation, Irving S. Gilmore Foundation, and the Community Foundation for Muskegon County.

Get CRC Reports Instantly

Most CRC reports are now published only online, although hard copies will be supplied on request. You can access them immediately on the CRC website if you sign up for CRC's E-Mail Update Service. To do this, go the CRC website, www.crcmich.org, click on the "E-Mail Update Service" tab and follow the directions. Or call us at (734) 542-8001. We will then send you e-mail notification of new CRC publications as soon as they are posted on the website.

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CRC News & Events

CRC Budget Forums

Michigan's structural budget deficit continued to be of vital interest to the public and private sectors, and CRC conducted three forums addressing what was Michigan's most critical issue in 2004. The purpose of the forums was twofold: to disseminate information on the nature and severity of the structural deficit issue and to introduce to selected guests the work of the Citizens Research Council. Locations, dates and sponsors of the forums:

- Grand Valley State University's Eberhard Center in Grand Rapids, February 22, 2004. Sponsors: Grand Valley State University and Varnum, Riddering, Schmidt and Howlett LLP.
- Michigan Manufacturers Association in Lansing, June 22, 2004. Sponsors: Michigan Manufacturers Association; National City Bank of Michigan/Illinois; Presidents Council, State Universities of Michigan.
- Standard Federal Bank in Troy, November 3, 2004. Sponsors: Michigan Manufacturers Association; Standard Federal Bank; and Varnum, Riddering, Schmidt & Howlett LLP.

CRC plans to conduct additional budget forums in 2005 and the first is already set for Kalamazoo in February.

Eighty-eighth Annual Meeting

The 2004 Annual Meeting of the Citizens Research Council was held at Burton Manor in Livonia, Michigan on September 29, 2004. The meeting began with a preview briefing of an analysis of Michigan's Certificate of Need program. CRC Senior Research Associate Stuart Paterson gave a presentation describing the CON pro-



Douglas Roberts, Director of Institute of Public Policy and Social Research, Michigan State University; Joshua Eichenhorn, center, CRC director from Standard Federal Bank; and Paul Hillegonds, President, Detroit Renaissance Bank prior to the start of the Troy CRC Budget Forum

Presentations on Michigan's Structural Budget Deficit

During 2004, staff gave 52 presentations summarizing CRC's findings of the state structural budget deficit. A sampling of the groups that took part in the presentations is as follows:

- Lansing State Journal Economists Panel on State Budget Crisis
- Michigan Department of Transportation Leadership Group
- Region II ISD/RESA Directors of Special Education
- Kalamazoo RESA staff
- Art Serve Michigan – State Conference
- Grand Rapids City Commission
- Tri-County Economic Club
- Michigan State Business Officials – State Conference
- Family Independence Agency Strategic Planning Team
- Tuscola County Administrator's Workshop
- Grand Valley Metro Council
- Michigan Council of Michigan Foundations Conference
- Traverse City Rotary Club
- Michigan Health and Hospital Association
- State Board of Education

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CRC News & Events, Cont.

gram including a brief history, it's purpose and administration, salient features of the program, and a summary of current issues.

Following lunch and the annual business meeting, CRC guests were entertained by the Capitol Steps - a troupe of current and ex-Capitol Hill staffers - who provided a humorous, satirical take on current events and personalities on Capitol Hill, in the Oval Office and in other centers of power.

Thanks to Annual Meeting Sponsors

The 2004 Annual Meeting would not have been a success without the participation of our sponsors. Sponsors of the event include: Blue Cross-Blue Shield of Michigan; Comerica Incorporated; Deloitte.; DTE Energy; Ernst & Young LLP; General Motors Corporation; Hennessey Capital LLC; Lear Corporation; Masco Corporation; and Standard Federal Bank. Thanks to all for your generous support. Special thanks

and recognition goes to DaimlerChrysler Corporation for underwriting the Capitol Steps.

Officers, Directors and Trustees Elected

At the Annual Meeting, the Citizens Research Council elected officers of the Board of Directors for the coming year. Elected as Chairman for his third year, **W. Frank Fountain**, DaimlerChrysler Corporation; Vice Chairman, **Kent J. Vana**, Varnum, Riddering, Schmidt & Howlett LLP; Treasurer, **Jeffrey D. Bergeron**, Ernst & Young LLP; and President & Secretary, **Earl M. Ryan**.

Three additions were made to the Board of Directors at the Annual Meeting. The CRC board welcomes new directors **John T. Bozzella**, Ford Motor Company; **David O. Egner**, Hudson-Webber Foundation; and **Ingrid A. Gregg**, Earhart Foundation. Earlier in 2004, **James G. Davidson**, Pfizer Inc.



Newly elected Directors, David Egner, Hudson-Webber Foundation (left), and John Bozzella, Ford Motor Company (right) are congratulated by CRC Director Frank Hennessey, Hennessey Capital

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joined the board of directors filling a vacancy created due to retirement.

Also at the Annual Meeting, the Citizens Research Council selected officers of the Board of Trustees. Elected Chairman, **Daniel J. Kelly**, Deloitte. and Vice Chairman, **Patrick J. Ledwidge**, Dickinson Wright PLLC.

Several additions were made to the CRC Board of Trustees including: **Jeffrey Bergeron**, Ernst & Young LLP; **Terry Daoud**, Al Long Ford; **Mark Gaffney**, Michigan State AFL-CIO; **William L. Matthews**, Plante & Moran, PLLC; **Glenn D. Mroz**, Michigan Technological University, **Nancy M. Schlichting**, Henry Ford Health System; **Lou Anna K. Simon**, Michigan State University; and **Brian C. Walker**, Herman Miller, Inc. Elected as Advisory Directors to the CRC Board of Directors were **Louis Betanzos** and **Will Scott**.

CRC Website Sets Record Highs

CRC's website attracted a record number of users in 2004 seeking information on Michigan state and local policy issues. Monthly average visitors to www.crcmich.org increased by 58 percent in 2004 compared to 2003 - the previous high-water mark for CRC website utilization. Monthly average visits for 2004 totaled 18,561 in 2004 compared to 11,707 in 2003, an increase of 6,854.

Users not only found their way to the CRC website, they also established new all-time record totals for downloads off the website. Average

monthly downloads in 2004 were 159,333, up 63,872 from 2003 levels - an astonishing 68 percent increase.

CRC Recognized by GRA

At the Annual Conference of the Governmental Research Association (GRA) in Chicago on August 3, 2004, CRC received the 2004 Award for Outstanding Policy Achievement for its report, *Avoiding Local Government Financial Crisis: The Role of State Oversight*. GRA, established in 1914, is a national organization of individuals professionally engaged in government research. The award marks the fourth consecutive year that CRC has been recognized by its peers at GRA for its outstanding research.

Development Task Force

In June 2004, a Development Task Force was authorized by the CRC Board of Directors to enhance the fund development activities of the Research Council with a goal to ensure continued independent, unbiased, nonpartisan research by increasing CRC funding levels. The six-person task force, chaired by **Frank M. Hennessey**, includes **Jeffrey D. Bergeron**, **David O. Egner**, **Alfred R. Glancy III**, **Amanda Van Dusen**, and **Kent J. Vana**.

The Development Task Force will report to the CRC board early in 2005. The report from the Task Force will include recommendations regarding a new five-year fund development plan.

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