CITIZENS RESEARCH COUNCIL OF MICHIGAN

Budgets, Reforms, and Elections Implications for the Non-Profit Sector and Philanthropy

Council of Michigan Foundations
Public Policy Committee Meeting
March 26, 2010

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- Promotes sound policy for state and local governments through factual research – accurate, independent and objective
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What Are the Budget Challenges?

Revenues Crash and Don't Recover

Annual Growth Rates

	FY 2009	Projected FY 2010	Projected FY 2011
Sales Tax	-10.1%	-3.2%	0.9%
Income Tax	-19.0%	-10.0%	1.5%
Use Tax	-19.0%	2.7%	1.5%
State Education Tax	-1.9%	-8.1%	-4.0%
Real Estate Transfer Tax	-26.2%	1.4%	6.3%
GF-GP	-21.3%	-6.3%	1.0%
School Aid	-5.1%	-4.2%	0.2%

Note: Projected totals are the January 2010 Consensus Revenue Estimates.

FY2010 GF Cuts Widespread

- Medicaid provider rates (cut 8% from original FY2009 level)
- Non-Medicaid CMH funding ($40M cut)
- Elimination of $238M from DHS budget
- Revenue Sharing to CVTs down 9.7%
- Scholarships to university students cut by two thirds (incl. elimination of Promise Grants)
- State employee concessions/layoffs (varied)
- Average of -8.4% cut (GF-GP) across all state departments
  - Some larger than others
  - Some areas protected from cuts per ARRA

FY 2010 K-12 Cuts

- Ongoing FY 2010 SAF revenues projected to be $1.0 billion below FY 2008
- Enacted FY 10 Cuts:
  - $165 per pupil ($263M)
  - ISD reduction ($16M)
  - 20j veto ($52M)
  - Other Cuts ($35M)
- Proposed proration $127 per pupil ($212M) was rescinded
- Stimulus money in budget:
  - FY 09 $600M
  - FY 10 $450M
  - FY 11 $186M (remainder of funds)

Stimulus Spending Has Been Supporting State Budgets
(millions of $)

	FY 2009	FY 2010	FY 2011 CSB
Total GF-GP Spending	$9,753.7	$9,151.8	$9,176.7
ARRA	$1,298.1	$1,071.3	$209.6
ARRA % of Budget	13%	12%	2%
Projected GF-GP Shortfall			**$1,160.0**

	FY 2009	FY 2010	FY 2011 CSB
Total SAF Spending	$13,139.6	$12,715.5	$12,773.9
ARRA	$597.5	$450.0	$185.5
ARRA % of Budget	5%	4%	1%
Projected SAF Shortfall			**$422.0**

Source Senate Fiscal Agency estimates adjusted by CRC. GF-GP spending totals have been increased by the ARRA amounts since the ARRA funds are replacing GF-GP spending.

Long-Term Budget Pressures

- 2008 CRC study pointed to long-term structural imbalance in state budget
- Spending, primarily due to healthcare costs, poised to grow faster than revenues over long-term
  - Gap is 1.7% per year on average in SAF
  - Gap is 5.4% per year in GF-GP, exacerbated by scheduled tax cuts, esp. IIT rate cut
- Other states and federal government face similar challenges with healthcare, but Michigan's economic problems accelerate the problem for us

- **Bottom Line: budget problems not self correcting**

Worst is Still Coming for Locals

- Average statewide TV has held up well until now
  - FY 2008 average TV up 1.4%
  - FY 2009 close to flat in part due to high inflation multiplier
- FY 2010 will be painful
  - No one has a SEV/TV gap anymore
  - Home prices declines will go straight to TV
  - Statewide probably down close to 8%
  - Wayne Co. predicting 9% decline; Macomb 10%; Oakland 13%
- SE Michigan may have three straight years of double digit declines

Source: State Tax Commission and Michigan Department of Treasury Estimates.

Local Government Fiscal Health

- Local governments are coming under increasing budget pressure
  - Declines in property tax revenues
  - Reductions in state aid
  - Increases in employee healthcare costs
- Public Act 72 allows the state to appoint an emergency financial manager if there is a fiscal emergency
- Some local governments are going to struggle provide basic services
- Some major cities and school districts are close to insolvency
- State currently has limited capacity to help struggling locals

Budget Proposals for FY 2011

Governor's Proposal

Mix of Short- and Long-Term Fixes for GF

- Spending cuts ($433M)
  - Corrections reforms ($129M)
  - Retirement system changes ($98M)
  - Private college scholarships ($32M)
  - Rescind non-union pay bump ($18M)
  - Community Health ($39M)
  - Human Services ($39M)
- Non-recurring resources
  - Continuation of Medicaid match rate - $500M – **requires yet to be enacted federal legislation**
- Medicaid provider tax on physicians - $100M

Gov's SAF Solution

$420M Problem in FY2011

- Tax Restructuring – two parts
  - Expand sales tax base to group of services @ 5.5%
  - Reduce existing rate of sales and use taxes to 5.5%
  - Net effect: $729M
- Begin two-year elimination of Michigan Business Tax Surcharge
  - Net effect: ($174M)
- Overall: $554M to avert $250 per-pupil reduction
- By 2014 there is no net new revenue from proposal
- Also proposing early retirement program for school employees, savings retained locally ($600M)

Significant Reforms/Changes Proposed

Corrections

- Michigan's incarceration rate is 24% higher than the Midwest average
- Gov's Exec Budget proposes reducing prison population by almost 10,000 (20%) between FY 10 and FY 11
- However, short-run savings limited by:
  - Reinvestment of resources to manage released inmates
  - High fixed costs in system
  - Slow reduction in employee head count
  - Less dangerous prisoners (i.e. cheaper to incarcerate) are the ones being released

Retirement Changes

- Gov proposed early retirement incentive to state employees including:
  - Multiplier from 1.5% to 1.6%
  - Cap years of service at 30
  - No vision and dental if don't retire now
- 1 in 5 are eligible in most state departments (1 in 20 in corrections)
- State assuming 85% take rate (6,700 retire)
- 3% retirement contribution will be required for remaining employees in system
- Schools proposal is similar with 39,000 assumed to retire (also includes 3% contribution requirement)
- Without changes: Pension costs (including healthcare) for DB state employees increasing by 4 percentage points of payroll and for school employees 2.5 percentage points

Key Departments Have Significant Numbers of Staff Eligible For Early Retirement

Department	% Eligible
Education	24%
DMB	23%
Attorney Gen.	21%
Human Services	21%
DEQ	20%
DLEG	20%
Agriculture	19%
DNR	19%
Community Health	19%

Source: Senate Fiscal Agency.

Proposed Public Employee Compensation & Healthcare Changes

- Gov: New employees hired after April 1 receive benefits under new state health plan and will contribute 20% of premium cost; 3% retirement contribution for state and school employees
- Speaker Dillon: Pool benefit coverage for all state, local, and school district employees
- Sen. Republicans: 2 Constitutional ballot proposals
  - Impose a 5% pay cut for all govt employees (incl. schools, comm. colleges, universities, etc.)
  - Require all govt employees pay 20% of premiums (about double what they pay now)
- BLM: reduce state employee comp to average of state workers in U.S.; adjust state employee premium contributions to national public sector average

Other Potential Areas of Reform

- **Tax Structure** – Potential goals include: faster growth; more favorable to economic development; increased progressivity; additional revenues
- **Local Government Service Consolidation or Service Collaboration** – Increased service sharing among local governments, or outsourcing of service provision in an attempt to achieve cost savings
- **Investments in Areas Deemed Key for Economic Development** – Potential areas include infrastructure, higher education, targeted tax credits for key industries (e.g. film credits, battery credits)

2010 Election Issues

Many Elected Officials Leaving Due to Term Limits

- Current Law: Two 4-year terms for Governor, Secretary of State, Attorney General and State Senators; Three 2-year terms for State representatives
- Currently Governor, Attorney General, and Secretary of State are all term limited out
- Michigan currently slated to lose: 29 of 38 senators and 34 of 110 house members
- Many members are currently seeking other jobs:
  - Speaker: Running for Governor (as are at least 2 other legislators)
  - Senate Majority Leader: Running for Attorney General
  - At least 4 members are running for congress
  - At least 2 are leaving early

Term Limits Continued

- Term limits were added to the Michigan Constitution by voter initiative in November 1992
- Courts struck down limits on federal officeholders
- Term limits first affected house in 1998, senate and governor in 2002
- Changing or repealing limits requires a Constitutional amendment and therefore a vote of the people
- If legislature puts item on ballot takes 2/3 vote and must be done 60 days in advance
- If citizens put item on ballot, requires signatures equal to 10% of votes cast in last gubernatorial election and must be done 120 days in advance

Article XII Section 3

"At the general election to be held in the year 1978, and in each 16th year thereafter and at such times as may be provided by law, the question of a general revision of the constitution shall be submitted to the electors of the state…."

	Yes Votes	No Votes
1978	640,288	2,112,549
1994	777,779	2,008,070

Options for Voters

Vote No

- Current Constitution is maintained
- Changes can be made through amendment and revision process
- Next scheduled vote would be 2026

Vote Yes

- Constitutional Convention called
- Historically revisions have been incremental
- But nothing limits delegates to incremental reform
- Results of convention submitted to state's voters for approval

Key Con Con Issues

- **Fiscal Issues**: Headlee, taxable value cap, sales tax cap and earmarking, progressive income tax, gaming restrictions, etc.
- **Social Issues**: Definition of marriage, affirmative action, definition of life, capital punishment, etc.
- **Govt Organization**: Term limits Initiative/referendum/recall procedures, election of judges, apportionment, structure of local govts, etc.
- **Education:** "forever encouraged" or stronger language, aid to parochial school ban, independence of universities, etc.

Implications for Philanthropy

- Public funds for non-profits will continue to be cut
- Term limits reduce incentive for policymakers to address longer-term problems or implement solutions without immediate savings
- Public will increasingly look to non-profits support activities that have lost public funds such as arts, parks, social safety net issues (healthcare etc.), even school activities
- Government service provision will be hampered by loss of institutional knowledge – over longer run may see reduction in quality of public sector workers due to wage and benefit cuts

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