



Michigan League  
FOR  
Human Services

# Coalition to Reduce Underage Drinking State Budget Update

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# Factors Impacting the Michigan's Budget

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- MI Structural Budget Gap
- Shrinking Safety Net
- Decade of Cuts to Budget
- Revenue Options

# Why are things so bad?

- State budget trouble beginning in 2000 with a decade of cuts
- Structural Gap - Budget with greater needs and less money each year. The cost of programs rise faster than revenues.
- FY 2012 Gap estimated at \$1.8 Billion

# What's happened in the Michigan economy?

- Michigan in longest period of job loss ever
- 895,000 jobs will be lost in the end
- “Detroit Three” losing market share

# FY 2010 Policies were Not Addressing Problems



- The 2007 tax fix is temporary
- Need to preserve state income tax rate & revenue until the jobs return
- New tax cuts pose additional threats to revenue
- Additional spending cuts will be harmful
- Michigan has a structural deficit that is growing

## Safety Net Measures - Child Poverty is increasing in MI

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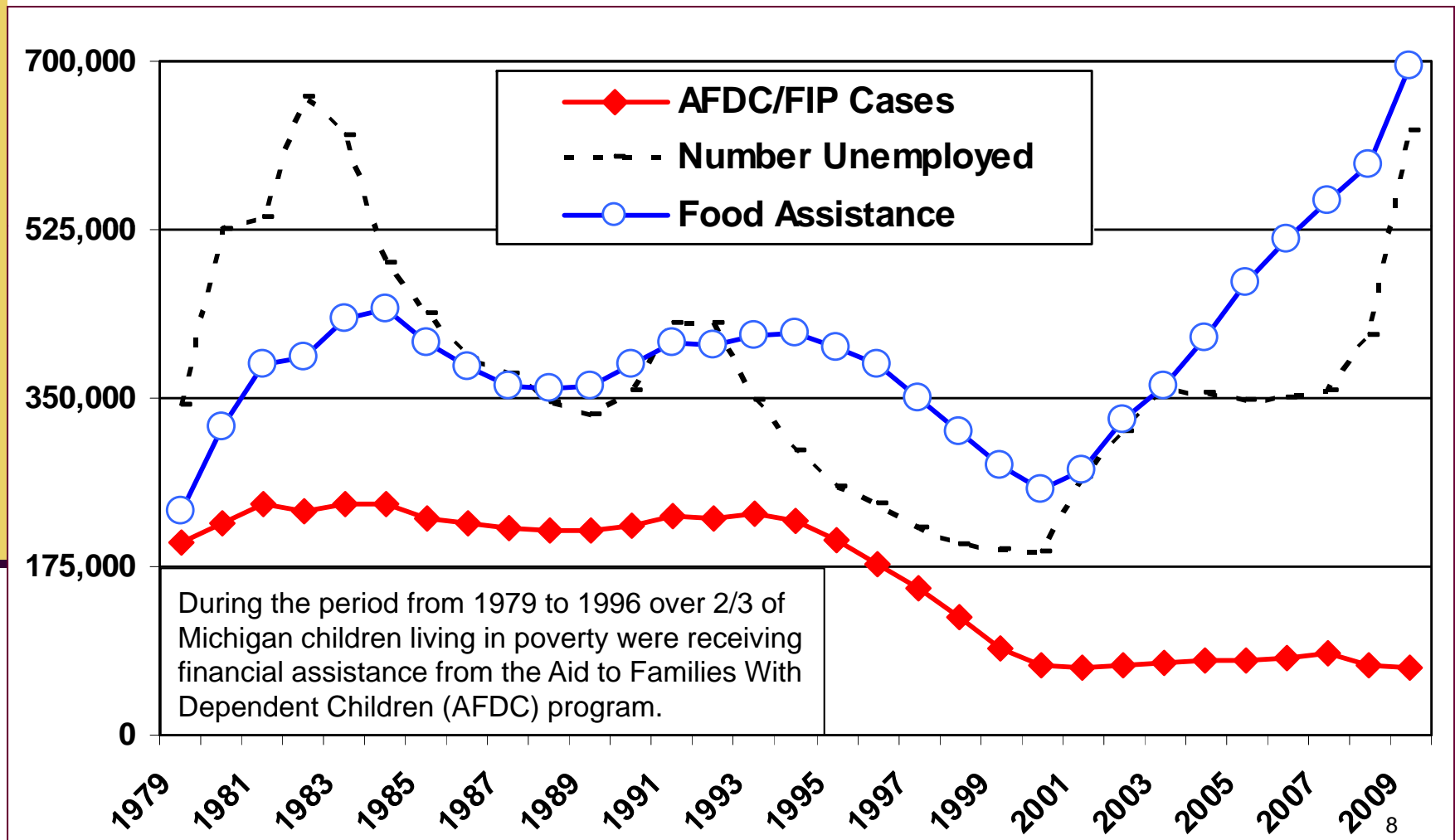
- Michigan's poverty rate in 2009 was **16.2%** (up from 14.4% in 2008 and above the national rate)
- One in five Michigan children under the age of 18 lived in poverty in 2009; one in four children under five were in this category
- Nearly one-third of Michigan children live in households where neither parent has full time employment

# Michigan's Safety Net doesn't stretch to meet today's needs

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- 2010 FIP eligibility level for a mom with two children: 43% below poverty level compared to 11% below poverty level in 1970
- Maximum AFDC grant level in 1986: \$449 per month (mom with two children)
- Maximum FIP grant level in 2010: \$492 per month (mom with two children) or 66% percent below the poverty level

# Only a third of poor children receive cash assistance





# Summary of Budget Changes

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- Cut Business Taxes - \$1.6 billion
- Cut Spending – Nearly \$1.5 billion
- Raise Personal Income Taxes - \$1.4 billion

# 83% Business Tax Cut

- Loss of \$1.6 billion in revenue in FY 13
- Michigan eliminated the state's current major business tax and replaced it with a flat 6 percent corporate income tax, exempting all but C corporations from paying a business income tax.
- 95,000 businesses will not be paying a business income tax.
- Eliminates most business tax credits in future but honors firm credits already awarded.

# Total Budget Cuts in millions

- Corrections - \$51.2
- Community Health - \$212.6
- Human Services - \$109.5
- Higher Education - \$222.4
- Statutory Revenue Sharing - \$143.9
- State Employee Concessions - \$145
- Other - \$63.2
- School Aid - \$538.1
- Totals nearly \$1.5 billion

# Personal Income Tax Increase

- Raises taxes by \$1.4 billion on individuals
- Cut state's Earned Income Tax Credit for low-income working families by 70% or \$262 million
- Taxes some pension income costing individuals an estimated \$538 million
- Reduce Homestead property tax credit \$270 M
- Eliminated many credits for such as homeless shelters, food banks & child credit
- Held off on reducing the income tax rate until 2013 to keep \$162 million in revenue

# FY 12 Selected Budget Changes

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- Eliminates 300 field positions within DHS
- Concessions from state workers of \$145 million
- Cut to K-12 education by \$470 per student
- Reduces K-12 by nearly \$400 million in the school aid fund (SAF) by including university & community college spending.
- State support for public universities cut by 15% or \$213 million

# Budget Changes continued

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- Tuition Restrain Program – Raise the cut to as high as 22 percent at universities that raise tuition by more than 7%. Cut of \$83 m
- Universities increase tuition to \$600 - \$900 for in-state undergraduate students
- Cut community colleges by 4%
- Cut of \$7.5 million for longer FIP sanctions
- Cut Unlicensed Child Day Care Costs

## Budget Changes continued

- Cuts \$77.4 million with a lifetime limit retroactively and eliminates many exceptions to the limit. Cash assistance will end for 15% of cases or 12,600 families in FY 12.
- Cut \$4.7 m or  $\frac{1}{4}$  the monthly cash assistance to poor people with disabilities (SDA) to \$200
- Ends \$79/child for purchase of school clothes for 124,000 poor children for \$9.9 m cut
- Ends state funding for helping poor families with funeral expenses (State pays only when the remains are not claimed) for \$3.2 m cut

# Substance Abuse & Mental Health Budget Changes

- Cut to Coordinating Agencies administrative cost by \$152,900 general fund (GF)
- Ends one-time \$1 million to community health outreach by Self-Help Addiction Rehabilitation (SHAR)
- Cut \$224,300 GF for SDA Substance Abuse Services
- Cut \$165,000 GF for Salvation Army Harbor Light and Odyssey House



## Substance Abuse continued

- Cut \$182,100 GF for Community Substance Abuse Prevention, Education and Treatment
- New language requires population data from most recent census be used for distribution of substance abuse block grant
- Non-Medicaid Mental Health cut 3% - \$8.5 M
- Savings from mental health medications
- Cut to Mental Health for special populations - \$1 M or 15%

# Better Options to Keep Revenues Stable



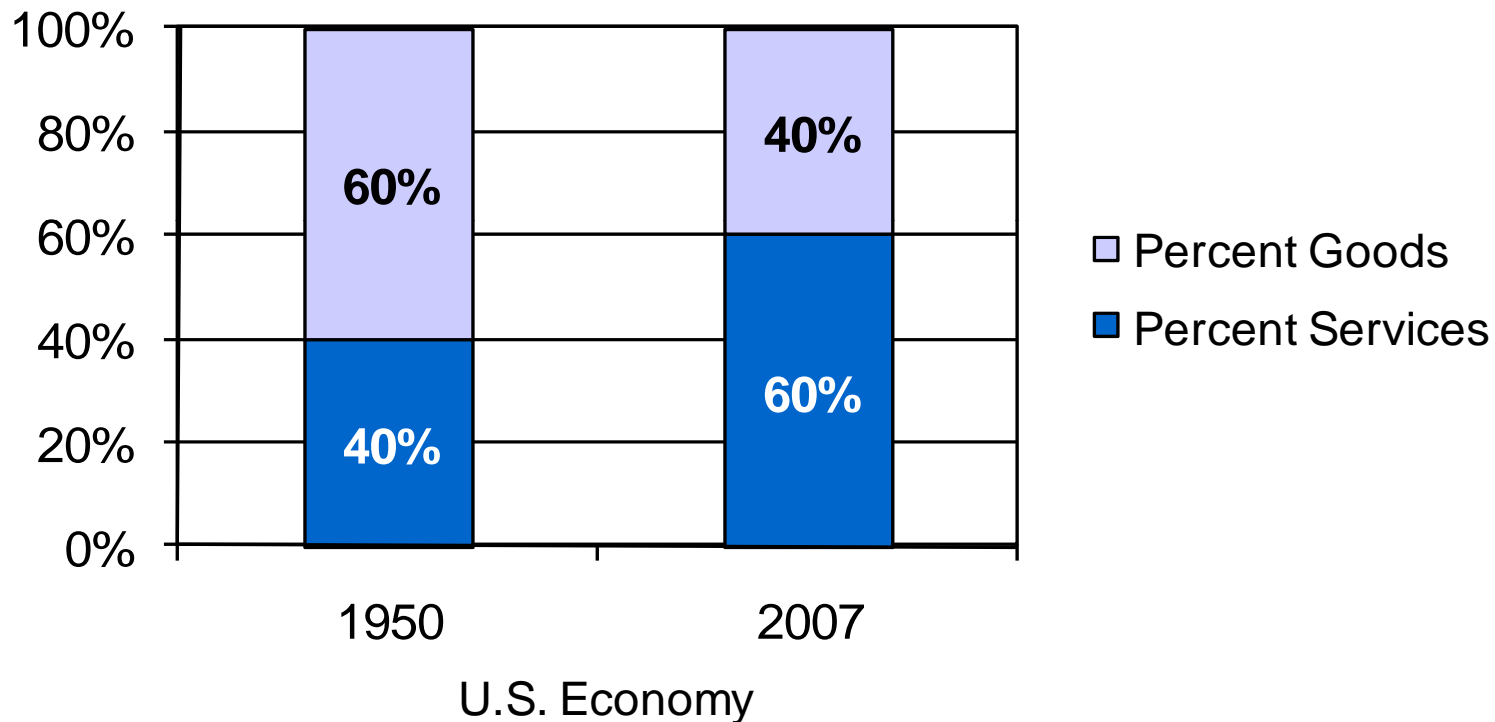
- 6 percent Sales Tax on Services - **\$1.65 billion**
- Graduated Income Tax - **\$600 million**
- Increase Beer Tax - **\$100 million**
- Decouple from Federal Estate Tax - **\$100 million**
- Reduce Prison Spending - **\$300 million**

# Income Tax: It's time for the flat tax to go

- Only seven states have a flat tax
- 34 states and the District of Columbia have a graduated tax
- A graduated tax could help a majority of filers

<b>Tax Bracket</b>	<b>Taxable Income: Single</b>	<b>Taxable Income: Married, Filing Jointly</b>
3.9%	\$0-\$20,000	\$0-\$40,000
4.35%	\$20,001-\$60,000	\$40,001-\$120,000
6.9%	\$60,001 and above	\$120,001 and above

# Michigan's outdated tax structure misses sales tax on services



Michigan taxes only 26 of 168 identified services, ranking it 37<sup>th</sup> in the country. Other Midwest states tax 51 services on average.

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- Sign up for “First Tuesday” newsletter to get the latest information
- Check out our blog
- Join the League (or donate!)



## Michigan League for Human Services

**The Michigan League for Human Services is a state-level policy organization focused on the needs of Michigan's low-income families and individuals. The League's activities include research, analysis, public education and advocacy. The League was founded in 1912 and is a private, nonprofit charitable organization.**

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