



**Michigan League  
for Human Services**

## **Putting Michigan's Budget in Perspective**

March 7, 2008

Sharon Parks  
Vice President for Policy

1115 South Pennsylvania Avenue, Suite 202, Lansing, MI 48912-1658 • (517) 487-5436  
Fax: (517) 371-4546 • Web site: <http://www.MiLHS.org>

*A United Way Agency*

Michigan League for Human Services

# **Governor Granholm's Recommended 2008-2009 Budget**

- First budget in many years that didn't have to address a deficit
- First budget in many years with enhancements and investments
- Governor's priorities include jobs, education, health care and public protection

# Enhancements for Vulnerable Populations

- 2% increase in cash assistance grants
  - 1<sup>st</sup> since 1990
  - Maximum grant will go from \$489/mo to \$499/mo (\$3 per person/mo)
- Increase in children's clothing allowance to \$75/child/yr
  - Was originally \$75
  - Dropped to \$25 in 2002; \$43 in 2007; school-age children only
  - Will help approximately 154,000 children

# Enhancements for Vulnerable Populations

Cont'd.

- Early childhood education increased by \$32 million
  - \$24 million for Great Start Readiness Program (formerly MSRP); 7,000 additional children
  - \$5 million for additional Great Start collaboratives
  - \$2.5 million for innovation grant
- Expansion of Community Based Care Slots
  - Additional 7,000 slots through various programs
- Additional \$40 million for No Worker Left Behind
  - Will help additional 6,000 workers on waiting lists

# Additional Increases

- Increases in K-12, higher education and revenue sharing
  - Foundation allowance will increase \$108 - \$216 per child to \$7,420
  - 3% increase for higher ed, with tuition restraint
  - 4% increase for statutory revenue sharing – 1<sup>st</sup> increase since 2001

# Some Spending Reductions

- \$170 million overall
- \$50 million reduction in corrections
- First time corrections budget is smaller than prior year

# Reality Check

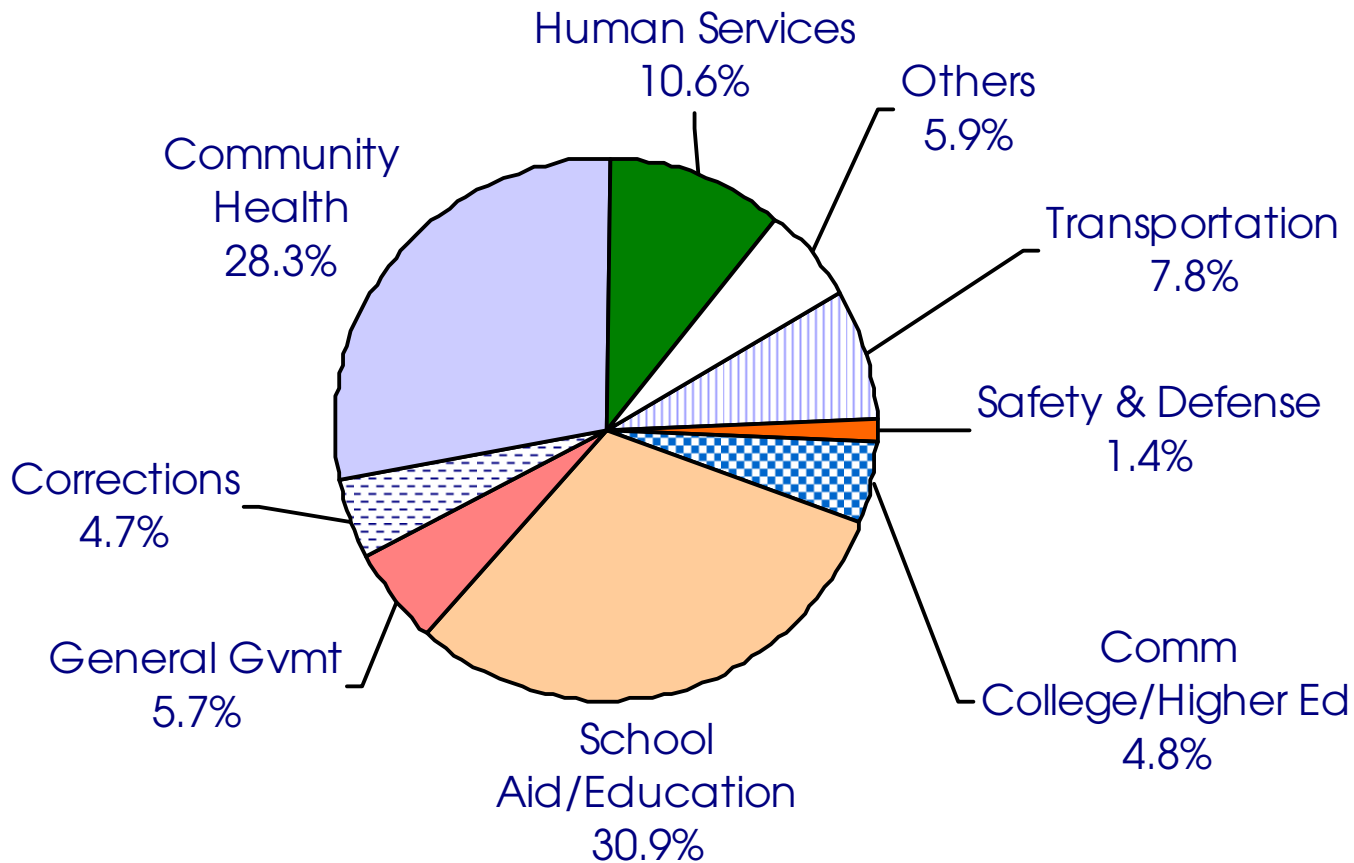
- Budget increases are very modest
- Very optimistic budget; revenues must hold up
- No new taxes/fees
- One time measures fund one-time initiatives

# Bad News

- The structural deficit remains and will materialize in 2010, if not before
- The 2008 tax increases are temporary

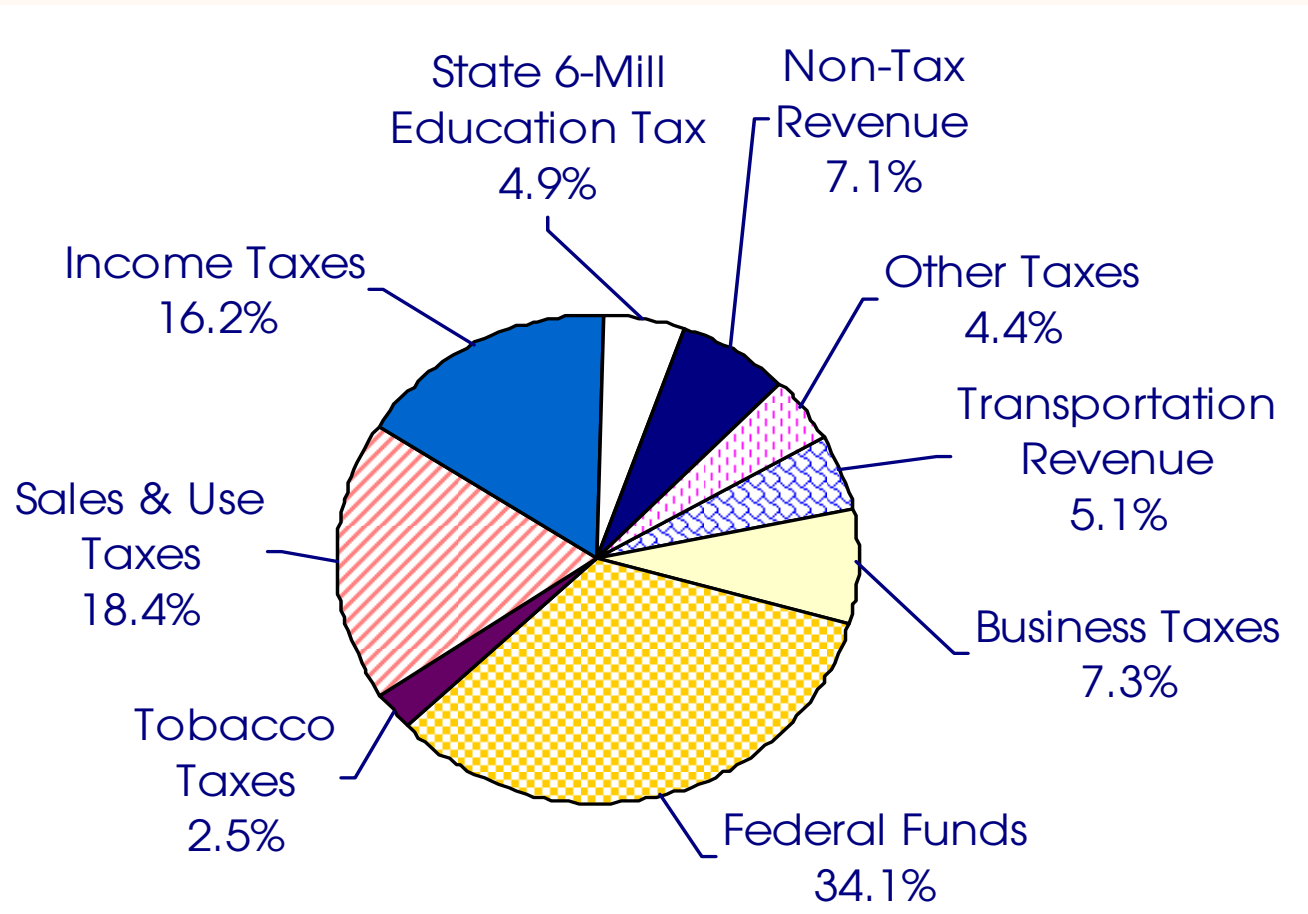


# FY 2008-09 Adjusted Gross Executive Recommendation (\$44 Billion)



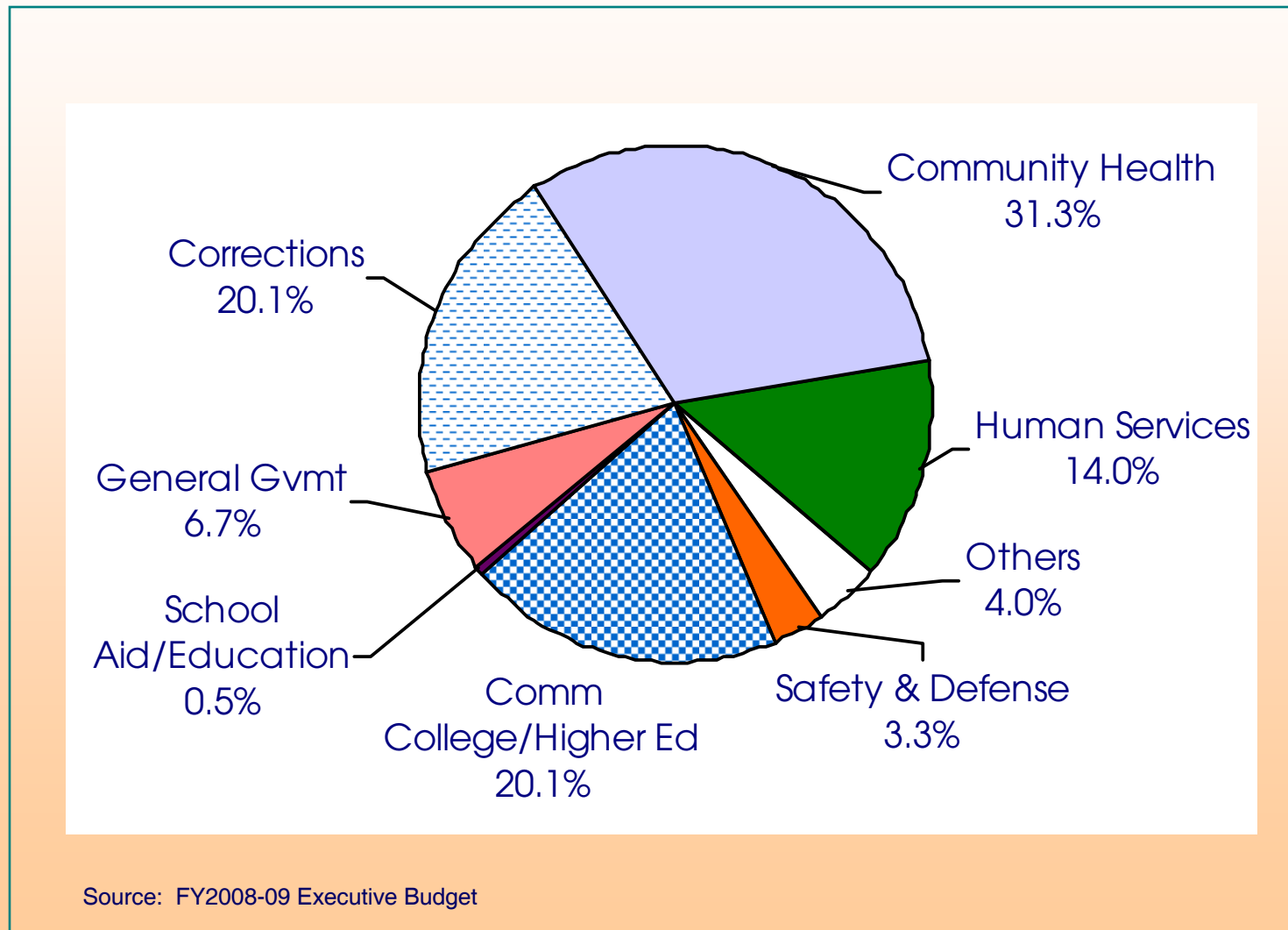
Source: FY2008-09 Executive Budget

# Total Revenue by Source FY 2008-09 (\$43.3 Billion)

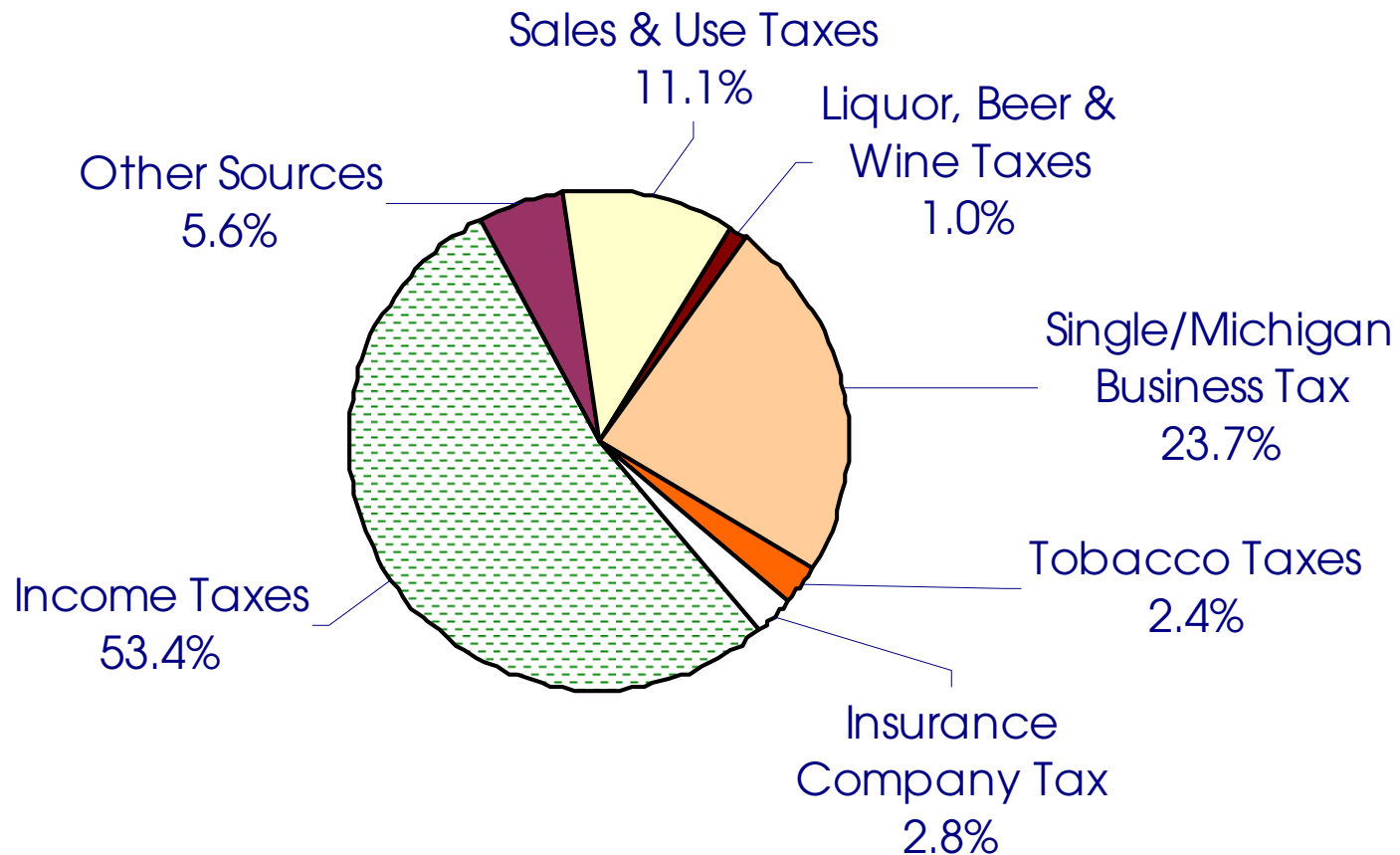


Source: House Fiscal Agency, March 2008

# FY 2008-09 GF/GP Executive Budget Recommendation (\$9.8 Billion)

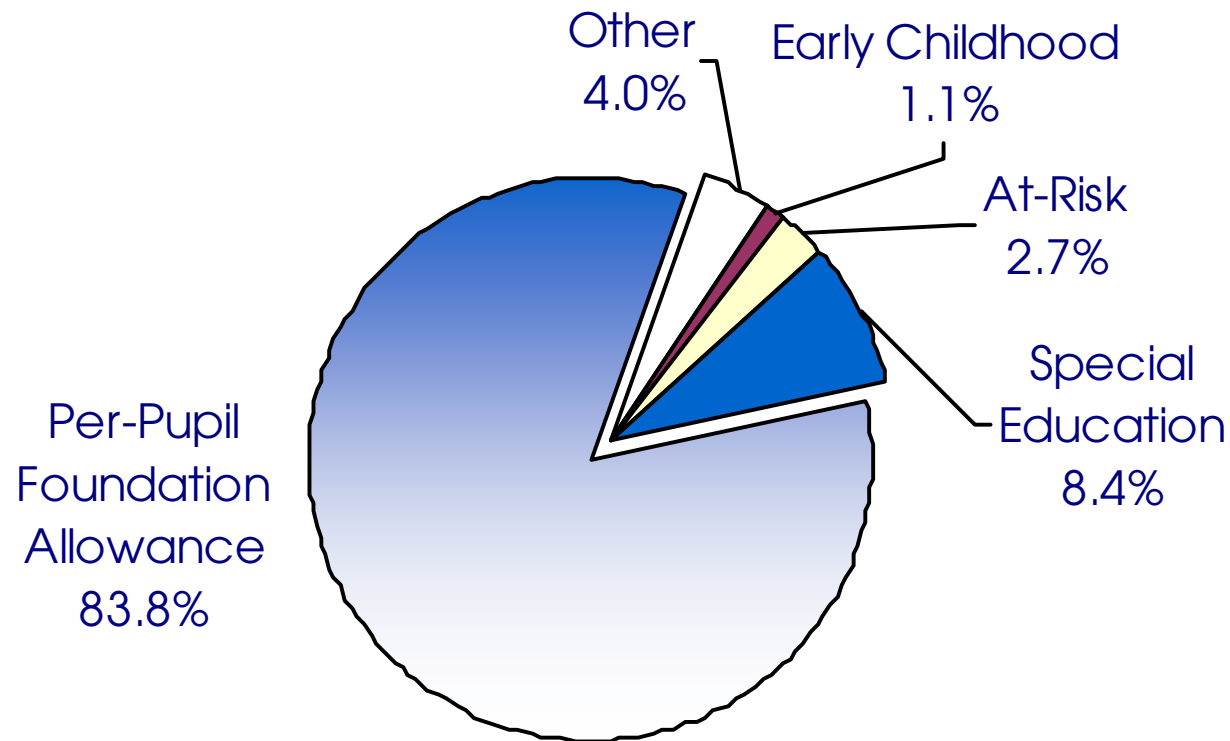


# GF/GP Revenue by Source FY 2008-09 (\$9.2 Billion)



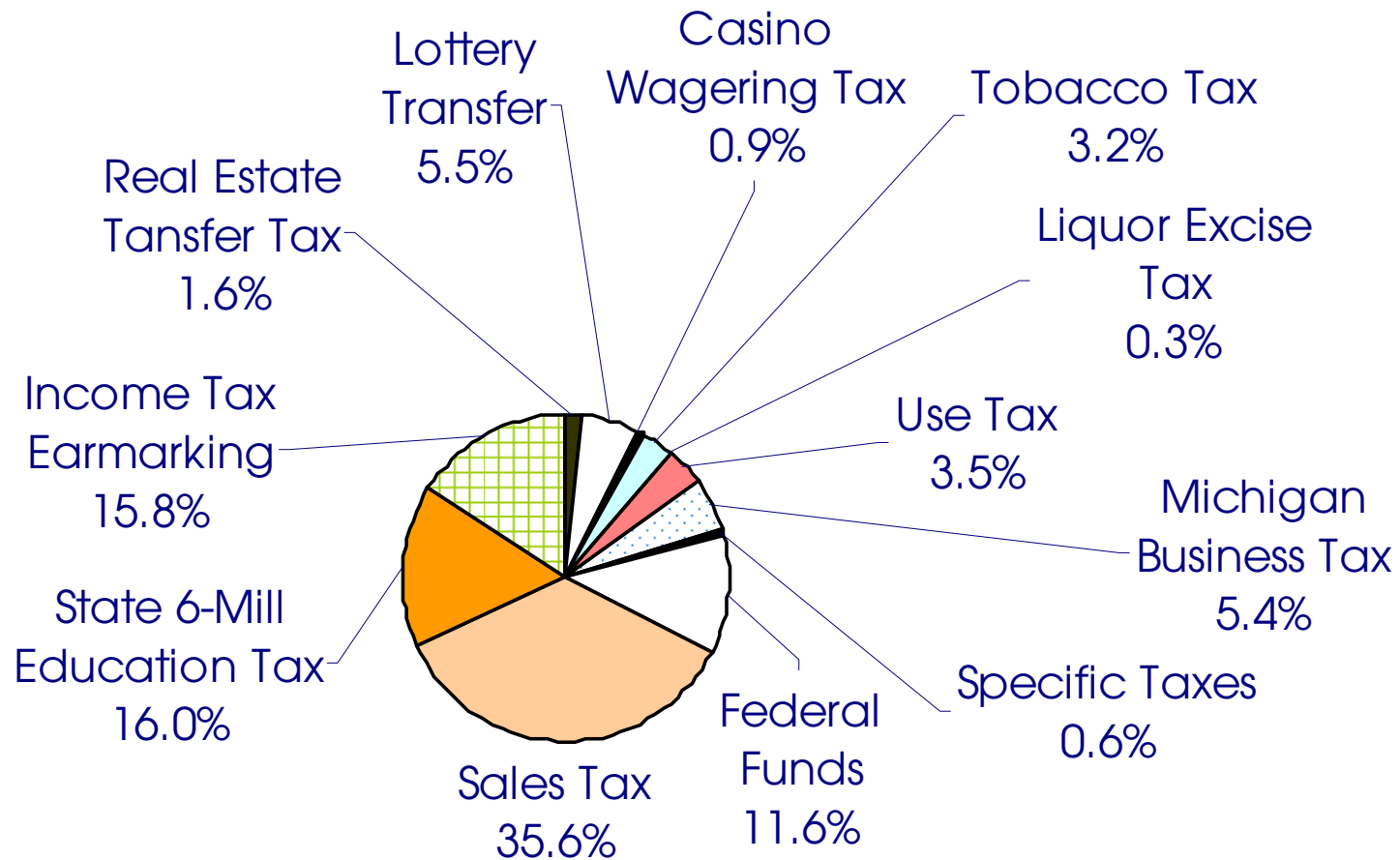
Source: House Fiscal Agency, March 2008

# FY 2008-09 Executive Budget School Aid Fund Recommendation (\$11.9 Billion)



Source: FY2009 Executive Budget

# School Aid Fund Revenue by Source FY 2008-09 (\$13.4 Billion)



Source: House Fiscal Agency, March 2008

# The 2007 Budget Crisis

- The three headed monster
  - FY 2007 deficit of \$900 million
  - Single Business Tax scheduled to expire (\$1.2 billion)
  - FY 2008 deficit of \$1.75 billion

**A Deficit of Nearly \$4 Billion!**

# What Would Nearly \$4 Billion in Cuts Mean?

- Cutting all funding for universities and community colleges **AND** eliminating all mental health services; or
- Eliminating all health care programs for seniors and children living in poverty **AND** releasing all 51,000 prisoners; or
- Cutting \$2,000 in per pupil aid to public schools (nearly one-fourth); or
- Cutting every department of state government by at least 10 percent.



# What Did the Legislature Do?

- FY2007 budget balanced with more one-time fixes and borrowing (tobacco settlement \$)
- Michigan Business Tax (MBT) replaces the SBT; revenue neutral
- FY2008 budget “deal”
  - Partial State shutdown averted; continuation budget
  - Income tax raised (3.9% to 4.35%)
  - Sales tax expanded to some services, then repealed
  - MBT Surcharge enacted

# What Did the Legislature Do?

Cont'd.

- Changes in public school employees health and retirement benefits
- Healthy lifestyle incentives for Medicaid recipients
- \$440 million in cuts to programs and services

# What Does It Mean?

- Income tax increase
  - Raises additional \$760 million
  - Rate increase begins to drop in 2011
  - Flat tax is regressive
  - Graduated income tax requires vote of public

# What Does It Mean?

Cont'd.

- Sales tax expansion
  - Would have raised additional \$614 million
  - Captures economic growth
  - Applied unevenly, as enacted
  - Sales tax is regressive
- MBT Surcharge goes away in 2017
- More cuts in services = more disinvestment and harm to people and communities
- Budget “deal” balances the FY2008 budget but doesn’t address the structural deficit

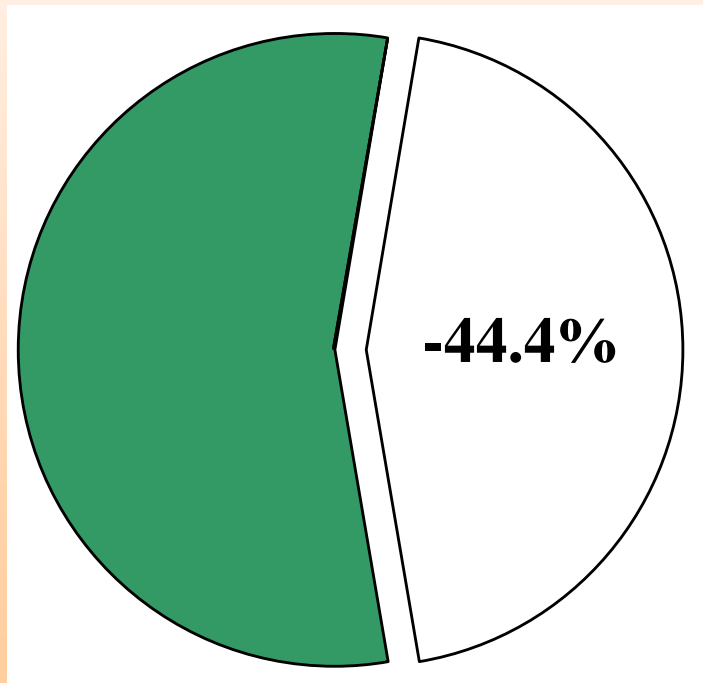
# What Should We Do?

Cont'd.

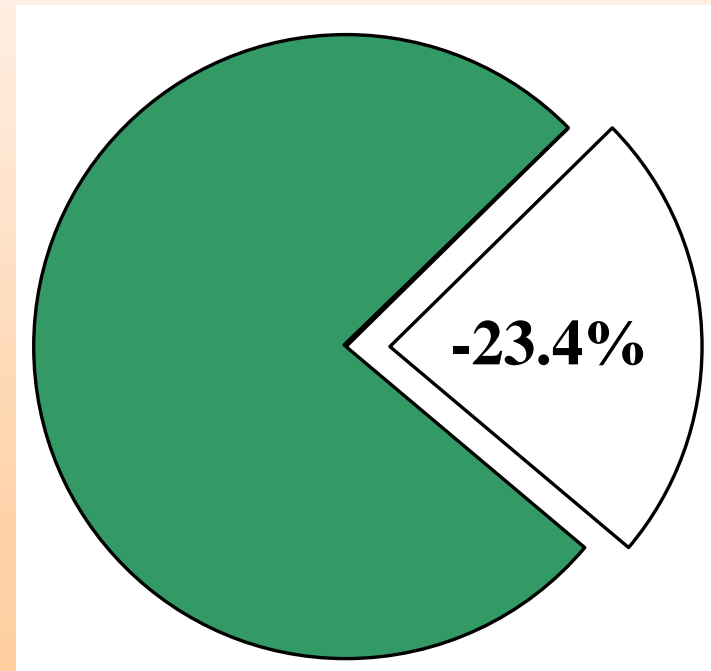
- Stop Disinvesting!

# Michigan's Shifting Spending Priorities Percentage Changes as a Share of Michigan's Economy (FY1985 to FY2007)

## Higher Education



## Health & Human Services

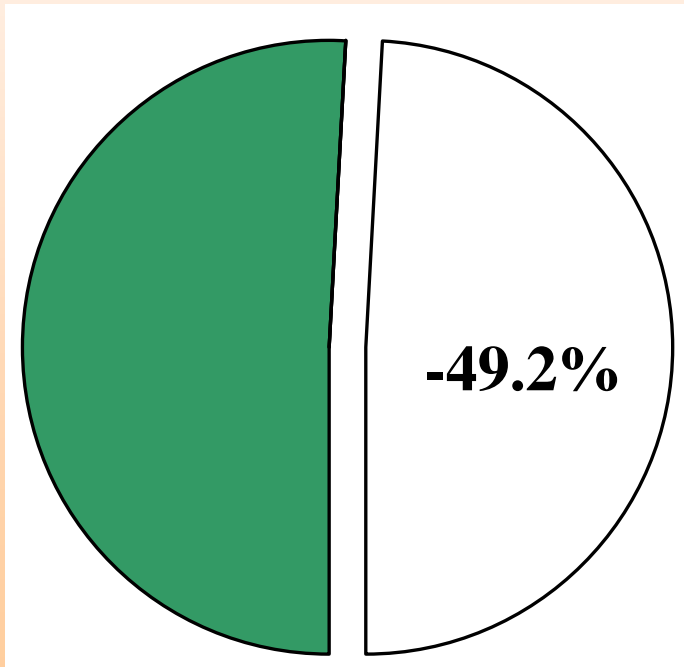


Prepared by Michigan League for Human Services

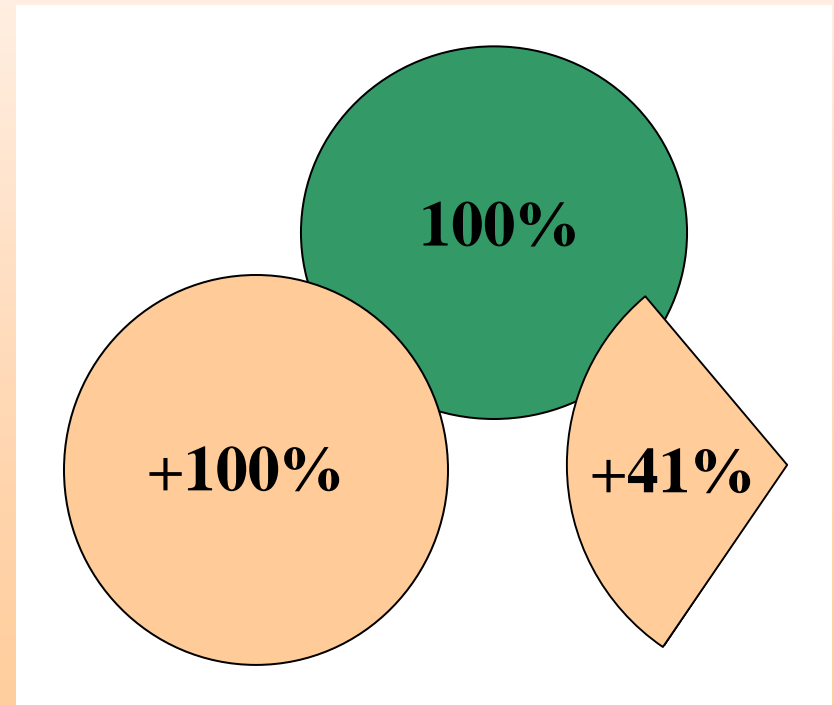
# Michigan's Shifting Spending Priorities Percentage Changes as a Share of Michigan's Economy (FY1985 to FY2007)

Cont'd.

## Local Revenue Sharing

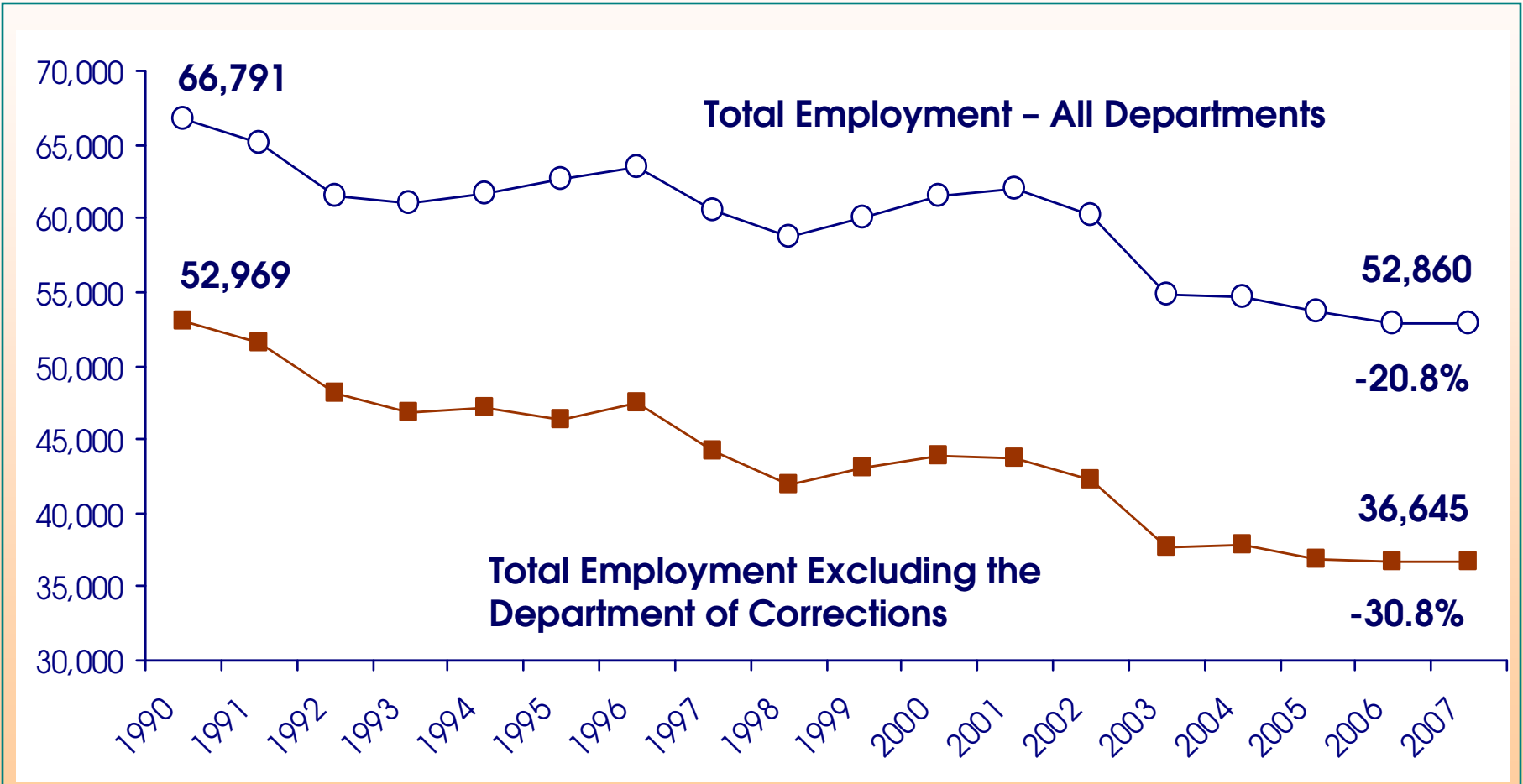


## Corrections



Prepared by Michigan League for Human Services

# Michigan State Employment FY1990 Actual–FY2007 Estimate



Source: Department of Civil Service Average Annual Staffing Report and Senate Fiscal Agency Est.  
Prepared by the Michigan League for Human Services



# Needs Continue to Increase

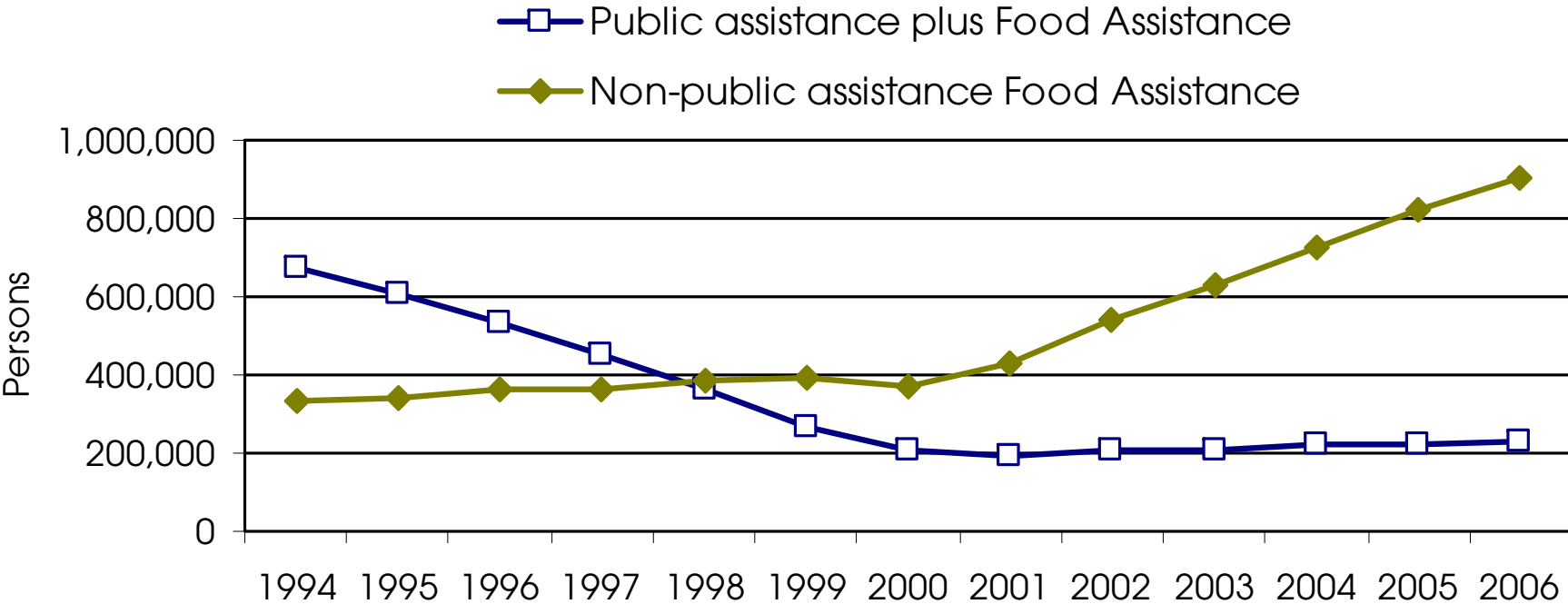
- 1.3 million Michigan residents in poverty in 2006 (13.3%)
  - Poverty level is \$16,242 for a family of three
- Michigan's family poverty rate has increased 21 percent since 2001
- Michigan's unemployment rate is the highest in the U.S.—7.6 percent in December 2007
- Households are earning less; median income below the national average

# Needs Continue to Increase

Cont'd.

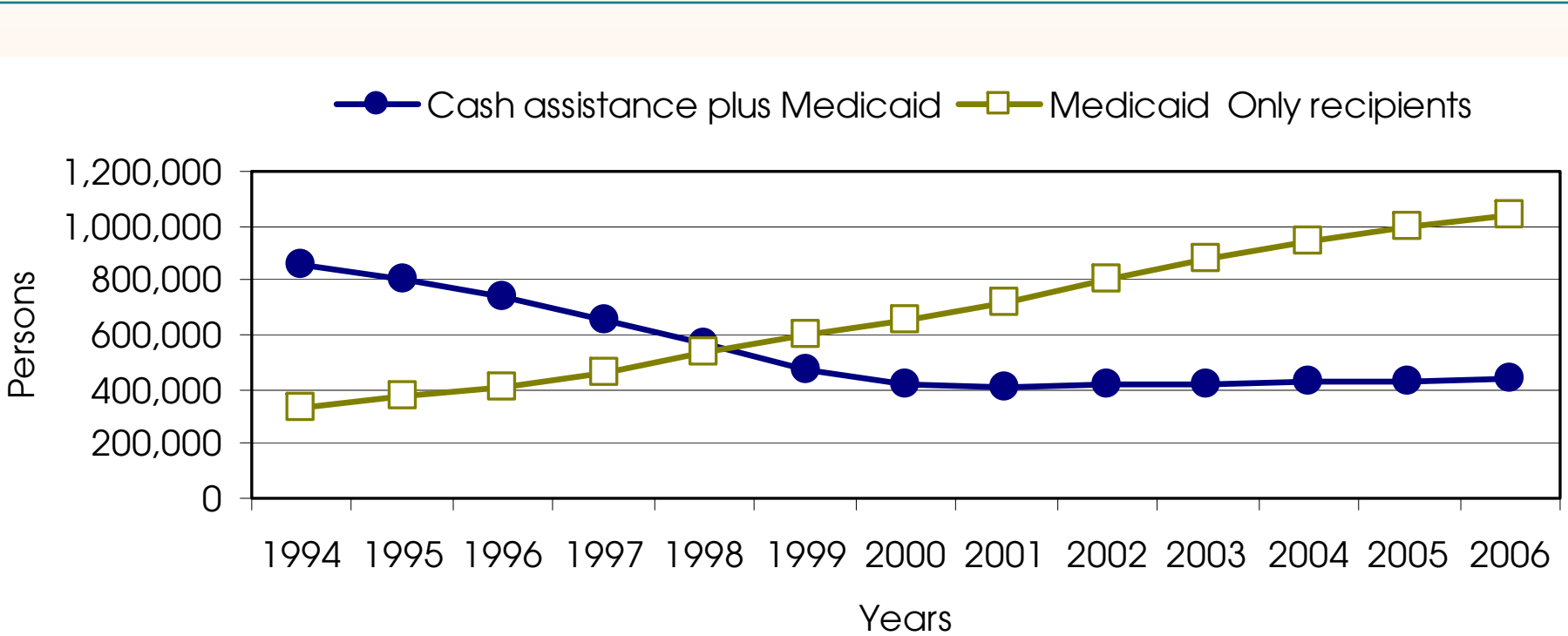
- More than half of renters pay more than 30 percent of income for housing (up from 40% in 2001)
- Michigan's foreclosure rate highest in U.S.
- Personal bankruptcies increasing
- Fewer employers offer health care coverage

# Food Assistance Participants by Category, FY1994 – FY2006



Data Source: Michigan Department of Human Services  
Prepared by the Michigan League for Human Services

# Medicaid Eligibles by Category, FY1994 – FY2006



Data Source: Michigan Department of Human Services  
Prepared by the Michigan League for Human Services

# What Should We Do?

Cont'd.

## Do Not Continue to Cut Taxes

- Michigan is not a high tax state
- Michigan ranked 25<sup>th</sup> in the nation in share of personal income for 2003-2004
- Michigan's tax burden has been steadily declining; General Fund Revenue as a share of personal income has declined by over 38 percent since 1990
- Businesses make location decisions based on availability of a skilled workforce, infrastructure and quality of life

# What Should We Do?

Cont'd.

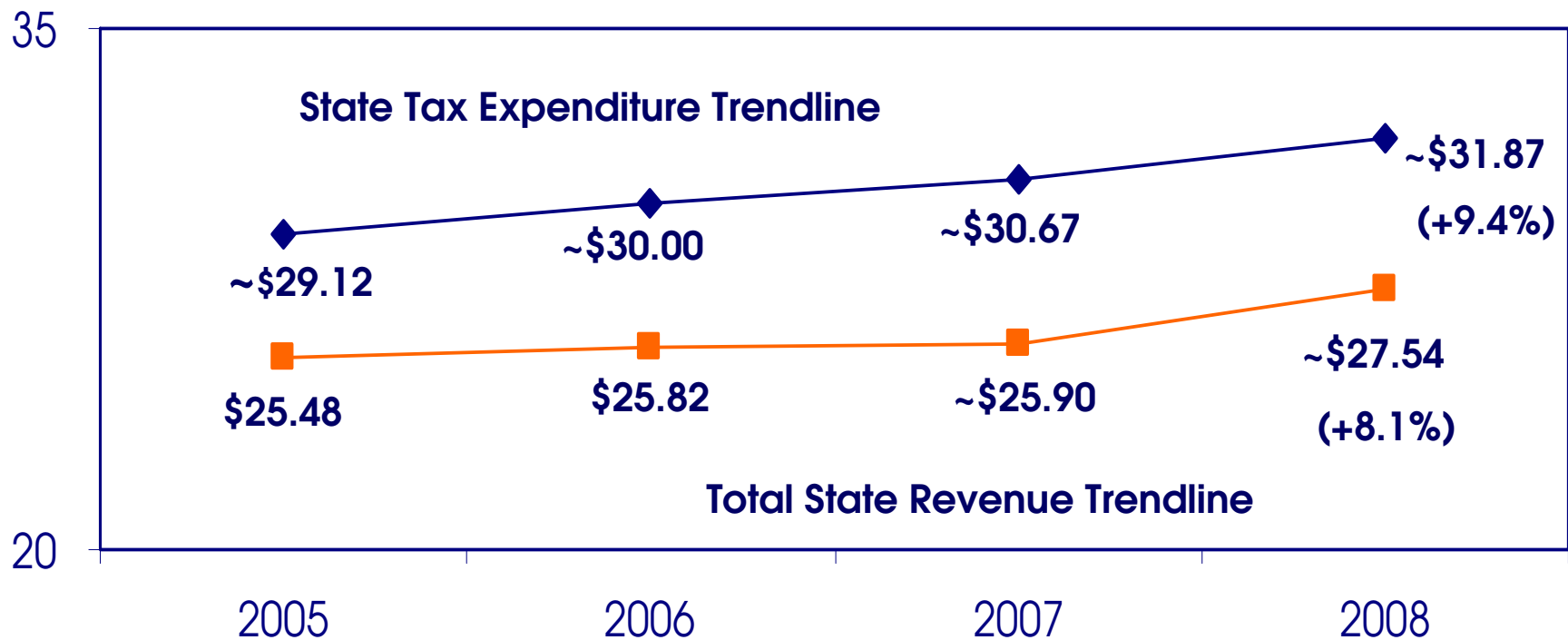
- Broaden the sales tax base to include more services
- Reform Michigan's income tax; enact a graduated income tax
- Begin to address senior tax preferences
  - Generous tax treatment; substantial pension and investment income not taxed
  - Seniors spend less on goods
  - Impact will be felt when Baby Boomers retire

# What Should We Do?

Cont'd.

- Eliminate tax expenditures by closing tax loopholes (i.e. outdated or unfair credits, exemptions, deductions and exclusions)

# Estimated Michigan Revenue and Tax Expenditure Trends (\$s in Billions)



Data Source: Michigan Department of Treasury Executive Budget Appendix on Tax Credits, Deductions and Exemptions FY2005 - FY2008 and Department of Management and Budget Comprehensive Annual Financial Reports  
Prepared by the Michigan League for Human Services



# What Should We Do?

Cont'd.

- Begin to address corrections policies
  - Largest state-operated program
  - 30% of state employees (tripled since 1980)
  - One in five General Fund dollars
  - Incarceration rate nearly 40% higher than neighboring states
- Reinvest in programs and services important to our quality of life

**All of Michigan's citizens rely upon public services in one way or another. In order to provide the services necessary for health and safety, and to enhance our quality of life, we need a revenue base for the future that is adequate, stable, and fair.**



## **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.**