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Our Moment, Our Choice: Investing in Michigan's People *Michigan's Challenge and Michigan's Solution: An Overview*

Michigan is at a crossroads. We have a choice to make. We can invest in our people so that we can grow and compete, or we can make devastating cuts to the very things that make us competitive.

Governor Granholm believes that we must invest in our people so that Michigan can be the best place to live, learn and earn. Her budget proposal, which implements her comprehensive economic plan, is guided by one overriding principle... we must choose to invest so we can build a Michigan where our children choose to raise their own families and where every citizen has the opportunity to have a good job and enjoy a good life.

The Problem

Michigan's structural budget deficit is not a secret. Revenues lag behind estimates and growth is slower than the rate of inflation. The cost of maintaining essential state services grows faster than our revenues.

No *one* factor is responsible for Michigan's structural problems. It has been a combination of many forces – forces both in and outside of state government's control.

Painful spending cuts have occurred and steps toward solving the structural problems have been taken. Governor Granholm has already cut more from state government than any other governor before her. The \$3 billion in cuts have included cuts to schools, police and fire protection, colleges and universities, arts and cultural institutions, and millions of cuts to eliminate waste in state government.

The state has also identified new sources of revenue. The tobacco tax was increased, more revenue was generated from Detroit's casinos, and fees have been increased to support critical initiatives.

Had it not been for permanent cuts and revenue increases made over the past four years, Michigan's budget situation would be even worse. Tough decisions have been made, yet we still face a major structural deficit.

Consider the facts:

- The domestic auto market share has declined dramatically in the last 20 years and has hit Michigan harder than any other state in the nation due to our heavy reliance on the automotive industry. According to a well-respected economist, Michigan is 635 times more reliant on the auto industry than the average state.
- General Fund revenues lag behind inflation by \$2.6 billion since 1998, and with the expiration of the Single Business Tax, will be \$4.3 billion below inflation next year. Revenue for the General Fund remains at early 1970s levels when adjusted for inflation.
- Tax cuts have eliminated \$3 billion in state revenue over the past decade. At the end of this year, the Single Business Tax will expire and reduce General Fund revenue by nearly \$2 billion.

Severe contractions in the state's manufacturing base have led to massive layoffs and reductions in industries and businesses that depend on manufacturing for success. As people lose their jobs, they pay less income tax and spend less – decreasing the state's tax revenue. Many turn to the state for help with health care and basic necessities for their families.

Add to this the state's aging population, the rising cost of health care for citizens and businesses, reductions in the federal government's commitments to cover services at the state level, and an increasing prison population. The result is a state with 32 percent less revenue than it had thirty years ago, but significantly more demand for public services.

The Solution

The Governor has already put in place the most aggressive plan in the nation to move Michigan forward. It revitalizes Michigan by diversifying our economy and investing in our people. The Governor's plan will make Michigan a great place to live, learn and earn.

The Governor's plan will diversify the economy, expand affordable college education and training to every student, put thousands of people to work improving Michigan's infrastructure, hold schools to higher standards, extend access to affordable health care to every family, and grow our cities.

It's the right plan for Michigan – a plan that's been supported by strong bipartisan majorities in the Legislature and affirmed by the people of Michigan last year.

The Governor's budget proposal will keep her economic plan moving forward. A combination of cuts, reform and revenue, the Governor's budget proposal will fix the state's broken tax system while keeping taxes below the national average. Her budget will end the debilitating fiscal crisis and allow us to invest in critical programs, including education, health care, public safety, and worker training.

Part 1: Spending Cuts

The governor's budget proposal contains more than \$400 million in spending cuts to help address the shortfalls in Fiscal Year 2007 and Fiscal Year 2008. These cuts include:

- release of medically-fragile, foreign national, and elderly, non-violent prisoners;
- cuts in day-care and cash assistance payments;
- cancellation of the new worker training academy for Corrections workers;
- cuts to Healthy Michigan funding;
- cuts for local libraries;
- cuts to MSU cooperative extensions;
- administrative cuts in every state department and agency.

Part 2: Government Reform

As the governor outlined in her State of the State address, she will continue to “wage a war on waste” to ensure that state government is lean but not mean. The governor's budget proposal calls for a series of reform measures, including reducing the state's prison population and strengthening child protection. In addition, the governor is asking local governments and schools to save taxpayer money by consolidating and sharing services in order to receive additional funding.

Part 3: Revenue

As a part of her budget plan, the governor is proposing to fix the state's broken tax system through a comprehensive plan that is fair and simple. The governor's proposal has six key elements:

1. Replacing the old Single Business Tax with a simpler, new **Michigan Business Tax (MBT)**.
 - The new MBT will tax business assets, revenues and profits, and it will give business a tax cut to offset a modest tax on services.
 - The new MBT provides a \$550 million tax cut for Michigan businesses, including a \$250 million cut for small businesses.
 - The new MBT provides needed personal property tax relief and includes a tax credit for companies creating a headquarters in Michigan.
 - The new MBT ensures that Michigan's business taxes remain competitive, below the national average.
2. Creating a **two-penny tax** on business and consumer services.
 - This new excise tax will extend to services used by businesses and consumers that are not currently subject to taxation.
 - Health care and education services are exempt.

- Traditional exemptions to the sales tax are maintained, including exemptions for nonprofits, government entities, and schools.
 - Businesses are exempt for activity related to research and development.
 - This new tax will cost the average citizen around \$16 per year – or \$1.35 per month – about the cost of a bottle of pop in a vending machine.
3. Taxing inheritances valued at over \$2 million.
 - Changes in federal policy have cost Michigan hundreds of millions of dollars in tax revenue since 2005.
 - Decoupling our estate tax will impact approximately 350 estates in Michigan.
 4. Increase liquor and tobacco taxes.
 - Increasing the tax on tobacco products other than cigarettes will increase revenue and eliminate the incentive to create cigarette-like products to avoid the higher tax.
 - Increasing the mark-up on liquor by 10 percent.
 - Increasing the cigarette tax by \$0.05 per pack.
 5. Closing a number of tax loopholes.
 - Current loopholes allow some businesses to avoid paying their fair share.
 - Proposals include making prisoners pay sales tax, treating commercial property the same way as homestead property, and restoring penalties to those who fail to pay taxes properly.
 6. Cutting the sales tax on the purchase of a new car for those trading in their car.
 - Currently, Michigan citizens who purchase a new car are required to pay sales tax on the full purchase price, regardless of any trade-in received.
 - Reducing the sales tax to cover only the difference between the trade-in value and the purchase price will significantly reduce the cost for many customers.
 - This will both save consumers money and stimulate economic activity.
 - The resulting savings means that a typical customer who trades in a car once every four years receives a **net tax cut** under the governor's plan.

Part 4: Invest

As the governor laid out in her State of the State address, we must invest in critical services to ensure that Michigan can compete and win in a global economy. The governor's budget proposal includes new investments in education, health care, and worker training. She proposed an economic stimulus package at this critical time of transformation. This package provides essential job training and job creation programs to help our economy thrive.

The key to attracting good paying jobs is a well-trained workforce. The governor's budget proposes a 2.5 percent increase in funding for both Michigan's public schools and our community colleges and universities. In addition, the governor is proposing a significant expansion of early childhood education to ensure that all Michigan children have access to preschool and kindergarten.

As our state continues its economic transition, it is critical that workers are provided with the training they need to find new jobs or transition to new careers. The No Worker Left Behind program, which allows displaced workers to receive free training in high-demand fields, is a key part of the governor's economic stimulus plan.

Conclusion

Michigan is, indeed, at a crossroads. The governor has detailed, through her budget, a plan for Michigan that is fair, simple and progressive.

Under the governor's plan, we will be able to invest in health care, education, public safety, and worker training. We will keep Michigan's tax climate competitive and attractive. Our tax burden will remain below the national average.

It's the right plan for Michigan.



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GOVERNOR GRANHOLM'S ECONOMIC PLAN

***OVERALL* Key Message and Key Talking Points**

- Michigan is in economic crisis.
- The question is: will we advance or will we retreat? What kind of state do we want Michigan to be?
- The Governor wants a Michigan that is the best place to live, learn and earn.
- Her economic plan is the most aggressive economic plan in the nation. It will diversify our economy and invest in our people in order to reinvent Michigan.
- To drive that plan forward, she presented a budget that makes \$400 million in cuts, restructures government, and proposes revenues that are fair and will make us competitive by enabling us to invest in our people, our education, and accessible health care.
- It's certainly worth two pennies to invest in Michigan's future by protecting education, health care and public safety?
- That investment is the equivalent of a bottle of pop from a vending machine once a month, per person. That investment buys us access to college for our kids, retraining for the adults who have been left behind, a diverse economy that leads the nation in the growing sector of alternative energy, universal access to affordable health care.
- Michigan is worth it.

GOVERNOR GRANHOLM'S ECONOMIC PLAN

BUDGET Key Messages and Key Talking Points

The Governor's 2007 & 2008 combined budget proposals contain a mix of cuts, reforms and revenue.

Her budget cuts spending, but invests in order to grow our economy.

Her budget proposal will end the state's debilitating fiscal crisis and allow us to invest in our people so they can build good lives here in Michigan.

The Governor's budget implements her economic plan.

- The combined '07 and '08 budget proposals contain more than \$400 million in cuts, including a 5% cut for all state departments, cuts to daycare spending, cuts to Healthy Michigan funding and cuts to the Agriculture experiment station.
- A new tax structure will fix the state's broken tax system. The new structure is simple and fair. It preserves the competitiveness of the business climate and allows us to make critical investments in our people so our state can succeed in the future. Under the new tax structure, the state's tax burden will be below the national average for businesses and individuals.
- The budget proposal protects funding for education, health care, public safety and child protection in this (2007) year, and calls for greater investments next year.
- It also contains an aggressive economic stimulus package to further diversify our economy, create new jobs, and give those most impacted by the changes in Michigan's economy access to the tools to land new jobs.
- The budget also contains incentives for local communities and school districts to share and consolidate services and contains important reforms of state government – like prison reform – that will reduce government spending even further.

GOVERNOR GRANHOLM'S ECONOMIC PLAN

REVENUE – Additional Messages and Talking Points

- Investing in Michigan is the right thing to do.
- The Governor's plan is simple and fair.
- Michigan must invest in its people so the state can grow and ensure people can build a good life in Michigan.
- For Michigan to be competitive, the state must invest in health care, education and training for all of its workers. Making massive cuts to education and health care is the surest way to make Michigan lose competition for jobs.
- It's certainly worth two pennies to invest in Michigan's future by protecting education, health care, and public safety.
- That investment is the equivalent of a bottle of pop from a vending machine once a month, per person. That investment buys us access to college for our kids, retraining for the adults who have been left behind, a diverse economy that leads the nation in the growing sector of alternative energy, universal access to affordable health care.
- Under the plan, we'll be able to invest in health care, education and public safety and we'll keep Michigan's business climate attractive and competitive.
- Under the Governor's plan, the state's tax burden will still be below the national average for both businesses and individuals.
- Some have suggested that Michigan should use Indiana as a role model. Though it has a lower per capita income than Michigan, Indiana's state's tax burden is 4.5% - exactly where Michigan's will be under this plan.
- It's time to make Michigan right again by fixing our tax system so we can invest in job creation, education and healthcare we need.

GOVERNOR GRANHOLM'S ECONOMIC PLAN

OVERALL – Additional Messages and Talking Points

- The Governor's economic plan is the right plan for Michigan. It invests in our people to help them succeed in this new economy.
- We must continue to implement that plan and invest in our people so that Michigan can be the best place to live, learn, and earn.
- The state faces an economic crisis because the world's economy has changed. Michigan's economy is 635 more times reliant on the auto economy, and the market share of the domestic auto companies has dropped dramatically – costing the state jobs. Revenue to the state is 40% lower today than it was under her predecessors, but the number of people seeking health care and support services is growing.
- The Governor has already cut more from state government spending than any governor before her – nearly \$3 billion to solve \$4 billion in budget deficits over four years. Cuts have included cuts to schools, police and fire protection, colleges and universities and millions to eliminate waste in state government.
- The state faces another \$3 billion deficit in a single year – but she will not cut the things that will make us competitive in the future – things like our children's schools, our health care or our safety in our communities.
- Michigan faces a choice: we can invest in our people to give them the tools for success and grow our economy; or we can cut, disinvest and perish. We choose success for Michigan.
- We cannot solve this crisis through cuts alone; investing in Michigan is the right thing to do.
- For Michigan to be competitive, the state must invest in health care, education and training for all of its workers. Making massive cuts to education and health care is the surest way to make Michigan lose competition for jobs.
- Michigan must invest in it people so the state can grow and ensure people can build good lives in Michigan.
- The Governor's plan is simple and fair.
- It's certainly worth two pennies to invest in Michigan's future by protecting education, health care, and public safety.
- Under the Governor's plan, the state's tax burden will still be below the national average for both businesses and individuals.
- It's time to make Michigan right again by fixing our tax system so we can invest in job creation, education and healthcare we need.



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Questions & Answers

How much money does the Governor's tax proposal raise?

Accounting for cuts that business will get under the new Michigan Business Tax, approximately \$1.2 billion in a full year. That revenue will eliminate the state's budget deficit without forcing deeper cuts in the things that make Michigan competitive while allowing for additional investment in those same areas.

Won't businesses just leave the state if we tax them more?

When the Governor's budget proposal is adopted, Michigan taxes, both for businesses and for individuals will remain below the national average. And, if low taxes were the only key to attracting businesses and jobs, Michigan would have all the business it needed – even before the elimination of the single business tax, Michigan's business taxes were as low as they'd been since the business tax was invented in this state. No business will choose to come to a state with a poorly skilled workforce, an un-educated population, an inadequate health care system or inadequate police and fire services.

Isn't it the wrong time to raise taxes when the economy is so poor and people are already hurting?

We can't afford NOT to invest in our people. Our people need every tool possible to be successful in the new economy. Cutting health care and education is the surest way to make Michigan lose the competition for jobs.

Republicans say there are lots of easy ways to fix the budget without new spending – they say there's plenty of room to cut state spending?

The question is who will foot the bill for their cuts? What IS their solution? Who will they cut?

Why not fix the teacher health care system?

Governor is very supportive of efforts to control costs of providing health care and retirement benefits to teachers. She thinks it's critical that we do that in a way that doesn't make it more difficult to retain and attract the quality teachers we need in Michigan schools. Some of these issues are being worked out at the bargaining table, some require action at the state level. In either case we need to have broad buy-in in the education community if we want to both control costs and maintain quality schools.

Why not sell the lottery?

Selling the lottery is a one-time fix that puts funding for our kids' school in jeopardy in the long run. We need long-term solutions to this crisis. We can't afford to sacrifice our kids' educations to foot the bill for our fiscal crisis.

Why not opt for a graduated income tax?

We need an immediate solution to this fiscal crisis to avoid deep cuts to education, health care and protection of our families this year. The Governor’s overall fix of the tax structure is the right plan and it can be implemented now.

How soon do you expect the Legislature to act on this plan?

Immediately. In order to prevent deep cuts to schools in the middle of their school year, the Legislature needs to act now.

Can the Department of Treasury implement the collection of these new taxes so quickly?

Yes. The plan assumes a June 1 start date. As soon as the Legislature acts, the Department of Treasury can begin to implement it.

What’s Plan B if the Legislature doesn’t pass your plan?

There is no plan B if we want to move Michigan forward, we need to get our fiscal house in order and need this solution of cuts, reform and revenue to do it. If they don’t pass the Governor’s plan, we’ll be anxious to see the specifics of *their* plan and we’ll assume they’ll be ready to tell the citizens who they’re willing to cut.

How is this plan “progressive?”

A tax on services is more progressive than a tax on goods because people with lower incomes tend to spend less of their income on services than they do on goods. Those who have higher incomes are likely to spend more on services and are more able to afford the modest increased cost of the tax.