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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.