



Background Issue Guide

COMMON SENSE REFORMS FOR A NEW MICHIGAN

a Business Leaders for Michigan and The Center for Michigan Forum

December 13, 2010

Radisson Hotel
111 N. Grand Avenue, Lansing

*Prepared independently by Public Sector Consultants
to provide context for today's discussion.*

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What kind of place do we want Michigan to be?

Michigan citizens and businesses have answered this question thoughtfully and enthusiastically: our state must accelerate its transformation from the old economy to a new economy where residents and employers want to live and grow. They want a Michigan where talent and initiative are encouraged and rewarded, where more and more great jobs are created, where our children and grandchildren want to stay (or return) and thrive. The things that make Michigan great—our work ethic and innovation, our woods and waters, our rich cultural heritage, our common sense and common ground—must return to prominence.

Over the past three years, Business Leaders for Michigan (BLM) and the Center for Michigan have studied how Michigan can prosper again and listened to business and community leaders and citizens speak about the Michigan they want. BLM member companies and organizations employ more than 300,000 people in Michigan, generate nearly \$1 trillion in annual revenue, and serve more than 130,000 students. As BLM's *Michigan Turnaround Plan* shows, its members believe passionately that our state cannot grow and employ more people without a healthy, vibrant Michigan. The Center for Michigan has just completed an unprecedented series of 600 community conversations across Michigan, in which 10,000 citizens voiced their heartfelt hopes and concrete plans for a new Michigan.

It is a compelling sign that the independent efforts of these two organizations resulted in a shared set of common sense reforms to jump-start Michigan's renewal. These reforms center on public sector efficiency, Michigan's competitiveness, and new budget priorities. To ground today's summit, Public Sector Consultants, an independent Lansing public policy research firm, has prepared this background issue guide with overviews of these topics.

Public Sector Efficiency

Michigan must stretch limited public funds as far as possible. In the Center for Michigan community conversations and BLM member deliberations, citizens and businesses called for much greater levels of regional cooperation among neighboring cities, suburbs, townships, and county governments. They are generally supportive of combining such services as neighboring police and fire departments and public works operations.

Citizens and business leaders also consider education to be a crucial public investment. But they want better return on that investment in the form of more accountable and efficient operations. They see service sharing as an essential strategy for school districts to stretch budgets and assure maximum investment in classroom learning.

Business leaders and citizens alike call for responsible reductions in prison spending that do not jeopardize public safety. And, finally, in the context of declining private sector compensation, they call for scrutiny of pay and benefits for current and retired government workers, educators, and legislators.

As the University of Michigan Center for Local, State, and Urban Policy’s recent survey of Michigan’s 1,800 government units shows, the extent of intergovernmental cooperation across Michigan varies widely by service. Exhibits 1 and 2 offer just two examples, with cooperation on fire services much more widespread than on transportation and mass transit.

EXHIBIT 1
Intergovernmental Service Sharing, Transportation/Mass Transit

	Type of Jurisdiction				All Jurisdictions
	County	Township	City	Village	
Is your government involved in intergovernmental/regional transportation/public transit efforts?					
Not involved at all	25%	59%	34%	60%	53%
Somewhat involved	51%	27%	42%	28%	31%
Very involved	24%	8%	22%	8%	11%
Don't know	0%	5%	1%	4%	4%
Total	100%	100%	100%	100%	100%

SOURCE: University of Michigan Center for Local, State, and Urban Policy, *Michigan Public Policy Survey*, Spring 2009.

EXHIBIT 2

Intergovernmental Service Sharing, Fire Services

	Type of Jurisdiction				All Jurisdictions	
	County	Township	City	Village		
Is your government involved in intergovernmental/regional fire services?	Not involved at all	34%	7%	12%	8%	9%
	Somewhat involved	33	27	32	33	29%
	Very involved	31	65	56	57	61%
	Don't know	2	1	0	2	1%
	Total	100%	100%	100%	100%	100%

SOURCE: University of Michigan Center for Local, State, and Urban Policy, *Michigan Public Policy Survey*, Spring 2009.

There is no comprehensive inventory of the Michigan public school service sharing across districts, but numerous efforts are under way across the state. Businesses and citizens want schools to accelerate these efforts so that education resources can be focused on students in the classroom.

The salaries and benefits of current and retired state employees, educators, and local government workers are coming under increasing scrutiny. As Exhibit 3 explains, compensation for public sector employees grew less than the national average between 2001 and 2009, but it grew more than compensation for private sector employees in the same period.

Exhibit 4 shows that unfunded pension and other post-employment benefits (OPEB) obligations for retired school employees—public K–12 and community colleges—are more than three times current payroll. Local and state governments also face large unfunded liabilities. These liabilities raise a difficult question: Can the public afford these obligations in a time of limited resources? Which services must be diminished or eliminated to meet these commitments?

EXHIBIT 3

Michigan Public and Private Employee Compensation

In 2009, compensation for state and local public sector workers totaled \$34.2 billion, representing 17% of all compensation in Michigan, ranking 17th among the states.

Michigan state and local public sector compensation grew 36% per worker between 2001 and 2009, ranking 27th highest among the states.

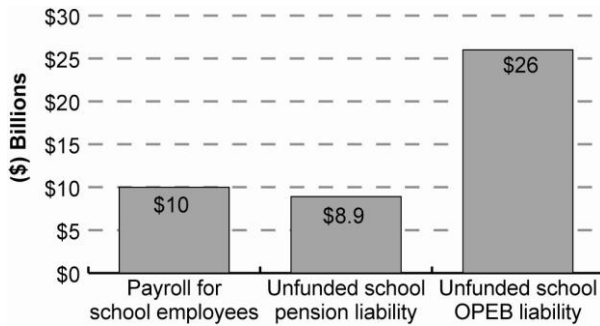
Michigan public sector compensation per worker averaged \$57,733, ranking Michigan 15th highest in 2009

Michigan private sector compensation per worker averaged 19th highest at \$53,231 in 2009.

Michigan private sector compensation grew 17% per worker between 2001 and 2009, the lowest among the states.

SOURCE: Citizens Research Council, 2010.

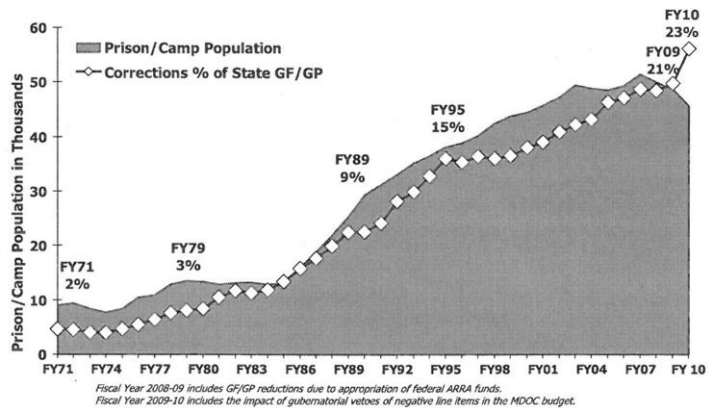
EXHIBIT 4 Unfunded Pension and OPEB Liability Totals \$34.9 Billion for Schools



SOURCE: Citizen’s Research Council from 2009 MPSERS CAFR.
NOTE: MPSERS covers K-12 and community college employees.

EXHIBIT 5 Corrections Budget Increases

Exhibit 5 documents the enormous growth—as a share of Michigan’s general fund—in corrections spending, from 2 percent in FY 1971 to 23 percent in FY 2010. This growth makes Michigan per capita expenditures on corrections higher than those of any other state in the Great Lakes region and well above the region’s average (Exhibit 6).



SOURCE: Mitchell Bean, Director, House Fiscal Agency, *Michigan’s Budget and Revenue System*, October 2010.

EXHIBIT 6. Total Corrections Expenditures, Michigan and Other Great Lakes States, FY2008

	Total	Total per capita
Michigan	\$2.343 billion	\$235
Wisconsin	\$1.217 billion	\$215
Ohio	\$2.035 billion	\$176
GL states average		\$167
Indiana	\$0.734 billion	\$114
Illinois	\$1.426 billion	\$110

SOURCE: National Association of State Budget Officers
<http://www.nasbo.org/Publications/StateExpenditureReport/tabid/79/Default.aspx>, with per capita state Corrections expenditures calculated by PSC.

Michigan Competitiveness

Two generations ago, Michigan was a top ten state for job and economic growth. For the past generation, we have lagged behind the nation. Michigan is becoming economically poorer, smaller, and less competitive. In order to reverse this trend, we must create the conditions for job growth and prosperity.

Michigan should overhaul its tax system and tax expenditures so that they (a) are fair, predictable, and stable; (b) increase Michigan's competitiveness; and (c) reflect the current and future Michigan economy. We must also streamline regulation to create a more business-friendly, entrepreneurial environment without compromising the public interest.

Our state deserves a simplified and stable state tax code. Years of state budget standoffs and tax code tinkering have left citizens and businesses alike weary, wary, and uncertain of their future tax liabilities. Citizens and businesses also want wholesale review of Michigan's complicated network of more than \$30 billion in tax incentives and tax breaks to assure they are providing jobs and boosting the economy.

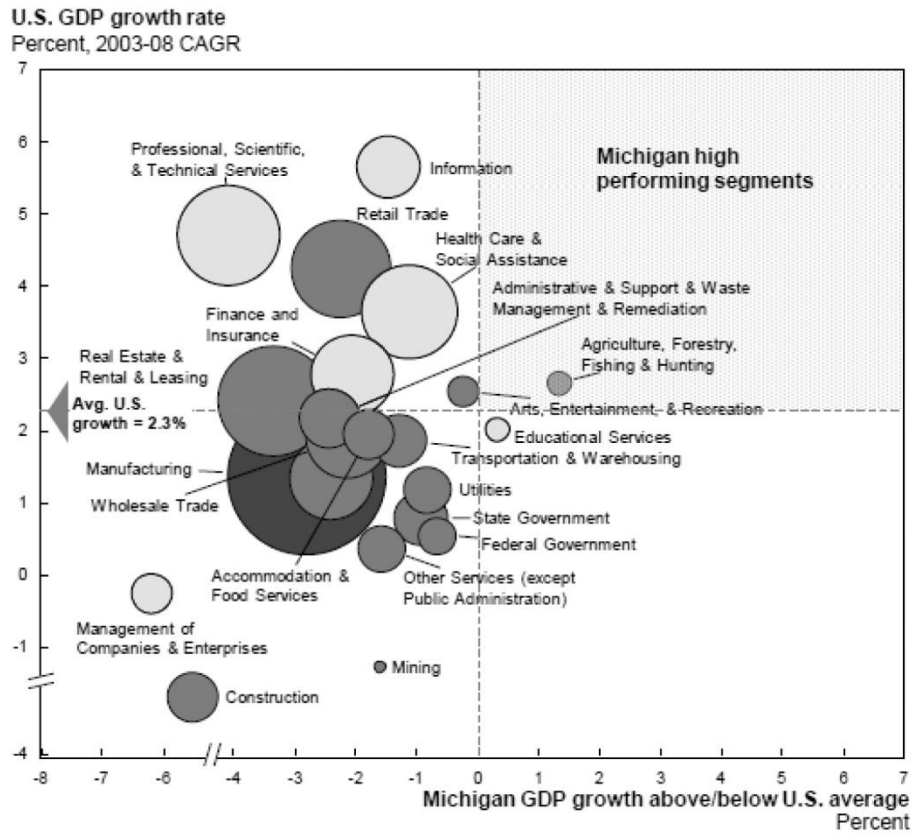
Companies pay on average 3-4 percent more in total business costs in Michigan than the nationwide average. This gap grows to as much as 20 percent between Michigan and the states against which we most often compete for manufacturing or knowledge jobs.

Finally, businesses and citizens call for a streamlined regulatory system that is an ally in, not an impediment to, Michigan's economic rebirth. Government should partner with business across state departments to revitalize Michigan.

According to research done for Business Leaders for Michigan's *Michigan Turnaround Plan*, job growth is lagging in 90 percent of our state's job sectors (Exhibit 7). The circles in the upper right quadrant of this exhibit represent the only sectors in which job growth is greater in Michigan than in the country as a whole. (The size of the circles reflects the relative number of jobs in each industry; the bigger the circle, the more jobs.)

EXHIBIT 7

Michigan's Job Growth, by Sector, 2003-2008



SOURCE: Business Leaders for Michigan, *Michigan Turnaround Plan*, updated June 2010.

As Exhibit 8 illustrates, Michigan trails by a wide margin the fastest growing states in three measures of competitiveness.

EXHIBIT 8
Selected Measures of States' Competitiveness

Top performing states	1990–2008 Job growth (BEA)	1990–2009 Per capita income growth (BEA)	Number of times among top 25 states in national “Best State” rankings*
1. Wyoming	2.7%	5.1%	4
2. Utah	3.8	3.9	4
3. North Dakota	2.3	4.9	4
4. Montana	2.8	4.3	1
5. Colorado	2.9	4.1	4
6. South Dakota	2.4	4.5	4
7. New Mexico	2.5	4.3	0
8. Texas	2.7	4.0	5
9. Louisiana	1.7	4.6	1
10. Washington	2.1	4.0	3
US	1.7%	3.8%	—
49. Michigan	0.8% (48th)	3.2% (50th)	0

SOURCE: Business Leaders for Michigan, *Michigan's Turnaround Plan*, updated June 2010.

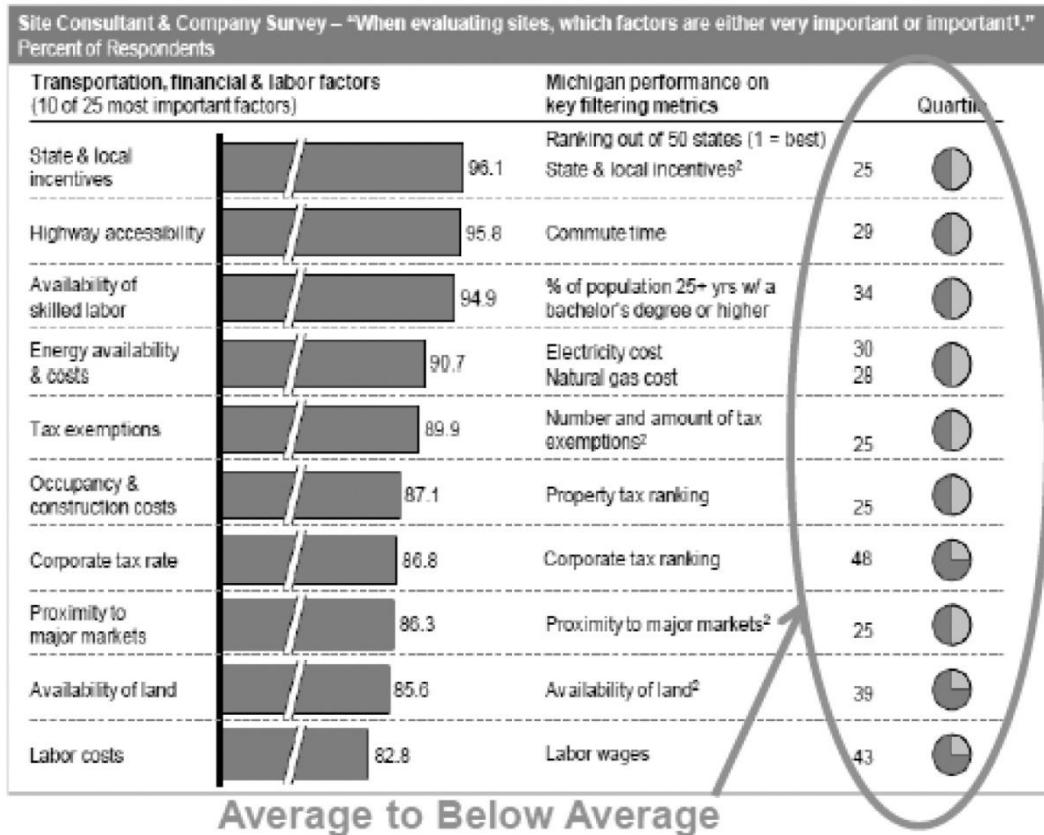
Exhibits 9 and 10 offer two different views of business costs. In the first, the Tax Foundation ranks Michigan's business tax climate as 17th best in the country. Exhibit 10 offers a less positive view of Michigan's standing on several measures of the cost of doing business, including one of the taxes borne by employers, the corporate income tax.

EXHIBIT 9
2011 State Business Tax
Climate Index, Great Lakes States

State	2006 ranking	2009 ranking	2011 ranking
Illinois	26	23	23
Indiana	12	14	10
Michigan	28	21	17
Minnesota	39	41	43
Ohio	47	48	46
Wisconsin	37	38	40

SOURCE: Tax Foundation, *2011 State Business Tax Climate Index*, October 2010.
NOTE: The lower the ranking, the more favorable a state's tax system for business.

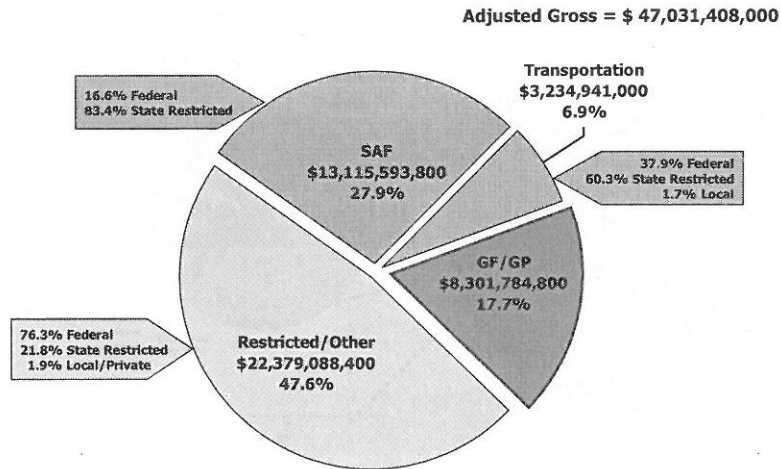
EXHIBIT 10
Selected Measures of Cost of Doing Business,
Michigan's National Ranking, by Quartiles



SOURCE: Business Leaders for Michigan, *Michigan Turnaround Plan*, updated June 2010.

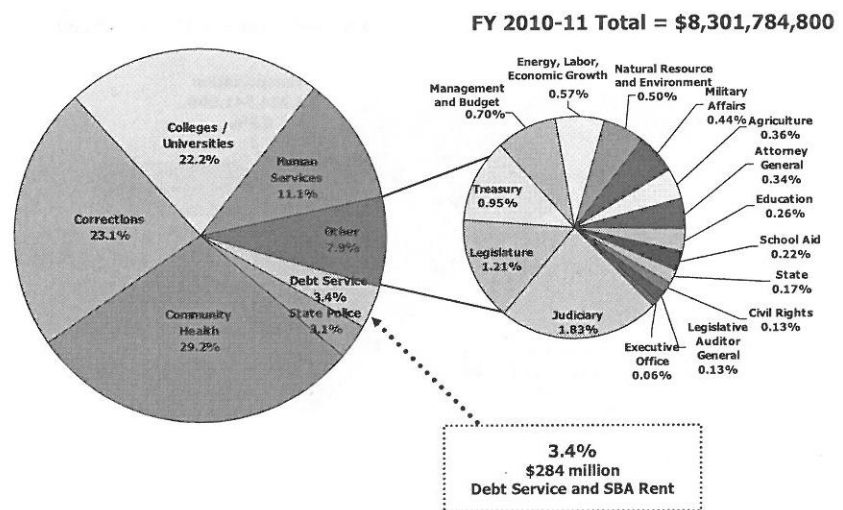
Exhibits 11 and 12 give snapshots of the total FY 2011 state budget by funding source and the state's general fund/general purpose (GF/GP) budget, by department or program. More than one-third of the total state budget is funded with federal dollars. Almost all of these revenues are used to fund spending in a few areas: (1) local schools, largely through the School Aid Fund (SAF); (2) the state's general fund for prisons, colleges and universities, social services, revenue sharing with local government, and general government expenses; and, (3) road maintenance and construction. Eighty-five percent of the general fund budget is devoted to four areas: community health, corrections, higher education, and human services.

EXHIBIT 11
FY 2011 Total Michigan State Budget, by Funding Source



SOURCE: Mitchell Bean, Director, House Fiscal Agency, *Michigan's Budget and Revenue System*, October 2010. [

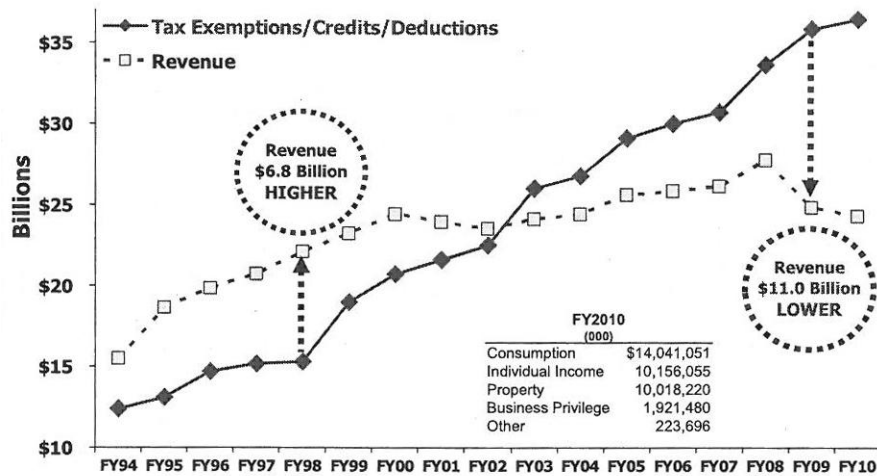
EXHIBIT 12
FY 2011 General Fund/General Purpose (GF/GP) Michigan State Budget



SOURCE: Mitchell Bean, Director, House Fiscal Agency, *Michigan's Budget and Revenue System*, October 2010.

As Exhibit 13 outlines, state tax expenditures—tax breaks for individuals, property owners, and businesses—have grown dramatically in the last two decades.

EXHIBIT 13 Impact of State Tax Expenditures (Tax Exemptions/Credits/Deductions)



SOURCE: Mitchell Bean, Director, House Fiscal Agency, *Michigan's Budget and Revenue System*, October 2010.

New Budget Priorities

Michigan citizens and businesses are puzzled and deeply frustrated by Michigan's annual state budget crises. Many view the process as a muddy wrestle between interest groups with long-time claims on funds rather than a rational public investment strategy. The governor and legislature should pass balanced budgets on time—budgets that outline and explain clear, strategic priorities and clear outcomes. This is particularly important given that the state budget deficit is projected to exceed \$1.5 billion in FY 2012, the year for which Governor-elect Snyder will deliver his budget proposal in early March. It is simply not possible for government to do all that it has done—or do it in the same way—as it has in the past.

The state has managed to balance the budget in the past decade largely with one-time budget fixes, federal stimulus funds, and cutting areas that would most drive economic growth, including higher education, transportation and infrastructure, early childhood development and education, and our cities, among others.

Future job requirements will demand that 75 percent of the workforce have at least some community college education, and yet Michigan ranks below average in funding support for higher education (see Exhibit 14).

EXHIBIT 14 State Support for Higher Education, Per Capita, Selected States, FY 2009

North Carolina	\$409
Georgia	\$326
Minnesota	\$301
US AVERAGE	\$264
Tennessee	\$263
Indiana	\$254
New York	\$250
Illinois	\$233
Wisconsin	\$227
Ohio	\$215
MICHIGAN	\$205
Pennsylvania	\$178
Massachusetts	\$162

SOURCE: Illinois State University Center for Study of Education Policy, *Grapevine Annual Compilation of Data on State Fiscal Support for Higher Education*, February 28, 2010.

Michigan has increased the education level of its workforce but still trails other Great Lakes states and the nation as a whole (see Exhibit 15).

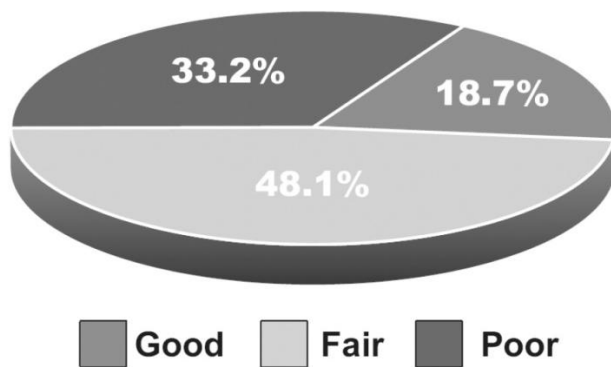
EXHIBIT 15
Percentage of Population with Bachelor's or Higher Degree

Location	1990	2000	2006	2006-08
United States	20.3%	24.4%	27.0%	27.4%
Minnesota	21.8%	27.4%	30.2%	31.1%
Illinois	21.0%	26.1%	28.8%	29.5%
Wisconsin	17.7%	22.4%	25.5%	25.5%
Michigan	17.4%	21.8%	24.6%	24.7%
Ohio	17.0%	21.1%	22.9%	23.8%
Indiana	15.6%	19.4%	21.8%	22.3%

SOURCE: Digest of Education Statistics: <http://nces.ed.gov/programs/digest/d01/tables/PDF/table011.pdf> and http://nces.ed.gov/programs/digest/d08/tables/dt08_011.asp and http://factfinder.census.gov/servlet/STGeoSearchByListServlet?_lang=en&_ts=274797884841. Last column: 3-year estimate from American Community Survey, 2009.

Michigan has the potential to be the largest North American land-cargo port, a major rail center, a significant air-cargo hub, and a minor sea port. With strategic infrastructure investments, Michigan could rebuild our crumbling roads and bridges (see Exhibits 16 and 17) and develop these assets.

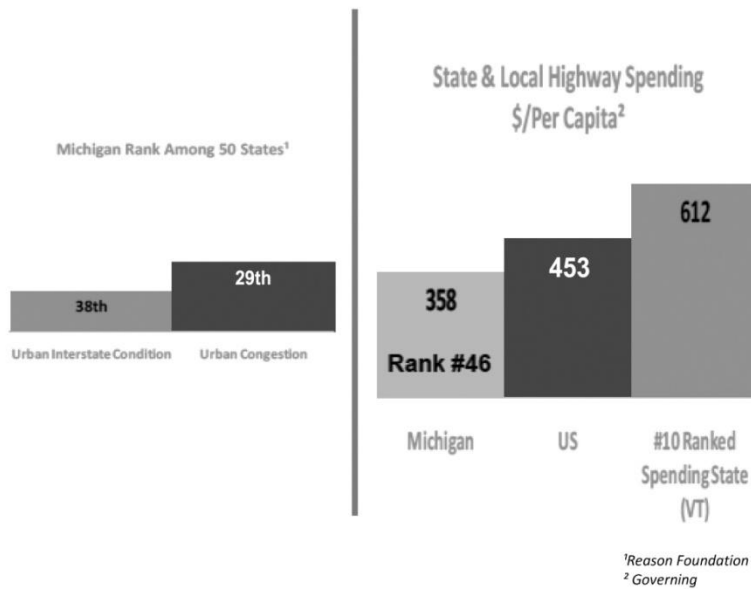
EXHIBIT 16
Michigan 2009 Road Conditions in Lane Miles



SOURCE: Michigan Transportation Asset Management Council, *Michigan's Roads and Bridges, 2009 Annual Report*.

EXHIBIT 17

Selected Measures of Transportation Condition, Congestion, and Funding



SOURCE: Business Leaders for Michigan, *Michigan Turnaround Plan*, updated June 2010.

No state thrives without thriving cities. Michigan cities are not widely seen as desirable places to work, live, or grow a business (see Exhibits 18 and 19). A mix of facts and image drives this perception. We need a comprehensive statewide urban strategy grounded in economic development and distinctive quality of life.

EXHIBIT 18

Per Capita Income and Educational Attainment of Metropolitan Areas and Central Cities

Area Name	Per Capita Income, 2008	Metro Area Bach +, 2008	Central City Bach +, 2008
San Jose-San Francisco-Oakland, CA (CSA)	\$58,780	41.28%	35.23%
New York-Newark-Bridgeport, NY-NJ-CT-PA (CSA)	\$54,956	35.28%	32.69%
Washington-Baltimore-Northern Virginia, DC-MD-VA-WV (CSA)	\$53,273	42.02%	48.24%
Boston-Worcester-Manchester, MA-RI-NH (CSA)	\$49,922	37.40%	42.05%
Hartford-West Hartford-Willimantic, CT (CSA)	\$49,448	33.73%	15.63%
Seattle-Tacoma-Olympia, WA (CSA)	\$48,589	34.91%	55.16%

Area Name	Per Capita Income, 2008	Metro Area Bach +, 2008	Central City Bach +, 2008
San Diego-Carlsbad-San Marcos, CA (MSA)	\$46,649	34.17%	40.80%
Denver-Aurora-Boulder, CO (CSA)	\$46,612	38.62%	38.57%
Minneapolis-St. Paul-St. Cloud, MN-WI (CSA)	\$46,383	36.28%	44.32%
Houston-Baytown-Huntsville, TX (CSA)	\$45,480	28.04%	28.37%
Chicago-Naperville-Michigan City, IL-IN-WI (CSA)	\$45,049	32.56%	31.07%
Madison-Baraboo, WI (CSA)	\$43,455	37.70%	49.37%
Pittsburgh-New Castle, PA (CSA)	\$41,704	28.25%	34.25%
Detroit-Warren-Flint, MI (CSA)	\$38,107	27.07%	10.84%
Grand Rapids-Muskegon-Holland, MI (CSA)	\$32,593	24.63%	26.88%
Lansing-East Lansing-Owosso, MI (CSA)	\$32,943	28.58%	24.44%

SOURCE: Michigan Future Inc., *Michigan's Transition to a Knowledge-Based Economy: Third Annual Progress Report*, May 2010.

EXHIBIT 19 Selected Rankings of Michigan Cities

	MICHIGAN: Highest Rank Cities	TOP TEN STATES: Highest Rank Cities	Source
Best cities for young professionals	38—Detroit	3—Atlanta, GA	Forbes
Best for career	65—Ann Arbor	2—Fort Collins, CO	Forbes
Best to live for families	60—Brighton	3—Fort Collins, CO	Pew
Best cities for careers and quality of life	None—in top 50	2—Albuquerque, NM	Kiplinger
Most desirable cities	2 nd worst—Detroit	7—Denver, CO	Business Week

SOURCE: Business Leaders for Michigan, *Michigan Turnaround Plan*, updated June 2010.

Citizens and business leaders understand the essential value of early childhood development and education because, by age 5, as much as 90 percent of a child's intellectual and emotional brain wiring has been set for life. As Exhibit 20 outlines, the economic development benefits of pre-kindergarten and students reaching other education milestones are enormous.

EXHIBIT 20

Economic Development Benefits for Michigan of Educational Improvements

High-quality pre-K for disadvantaged	\$59,625
High-quality universal pre-K	\$13,714
Increase in early elementary school test scores equivalent to one-half school year	\$41,560
High-quality summer school during elementary school for students who are behind	\$16,624
Being taught by a top quartile teacher rather than a bottom quartile teacher for one grade of elementary school	\$39,185
Increase in secondary school test scores equivalent to one-half school year	\$7,050
High school graduation	\$175,234
High school career academy	\$24,134
Community college graduation	\$126,995
4-year college graduation	\$375,912

NOTE: The effects of these educational improvements are calculated for one Michigan resident experiencing that educational improvement. The earnings effects calculated are the present value of the increased earnings stream generated in Michigan due to one additional person experiencing that educational improvement. The earnings effects are adjusted downward to reflect Michigan residents who move out after experiencing the educational improvement. The earnings effects are also adjusted downwards to reflect some displacement of other Michigan workers due to this one person experiencing the educational improvement. The educational improvements are compared to the following counterfactuals, going through the table row by row: a disadvantaged child who does not go to any pre-k program; the "average" child, who may go to some pre-K program even if this universal pre-K program did not exist; a child whose test scores in early elementary school are behind one-half grade level compared to the average child; a child who is behind in elementary school who does not go to summer school; a child who has a bottom quartile teacher for one grade in elementary school; a child whose test scores in secondary school are behind by one-half grade level compared to this child; a high school dropout; a high school graduate who applied to a career academy and was turned down; a high school graduate who did not graduate from a community college or a 4-year college; a high school graduate who did not graduate from a 4-year college.

SOURCE: Timothy Bartik, Upjohn Institute, Testimony to House Education, 12/14/2009.

Our state abounds in unique assets. Michigan businesses and citizens are immensely proud of their state and see much to build upon. They see great potential to retool our manufacturing base and further high-tech research and development. They want to protect our natural resources and promote tourism and invest in marketing Michigan to the world. And many view arts and culture as essential to economic development and the attraction and retention of a talented, highly skilled workforce. These areas—among others—must be strategic budget priorities if Michigan is to transform itself.



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