

# Reforming the Michigan Tax Structure: Putting Michigan Back to Work

By Rick Olson

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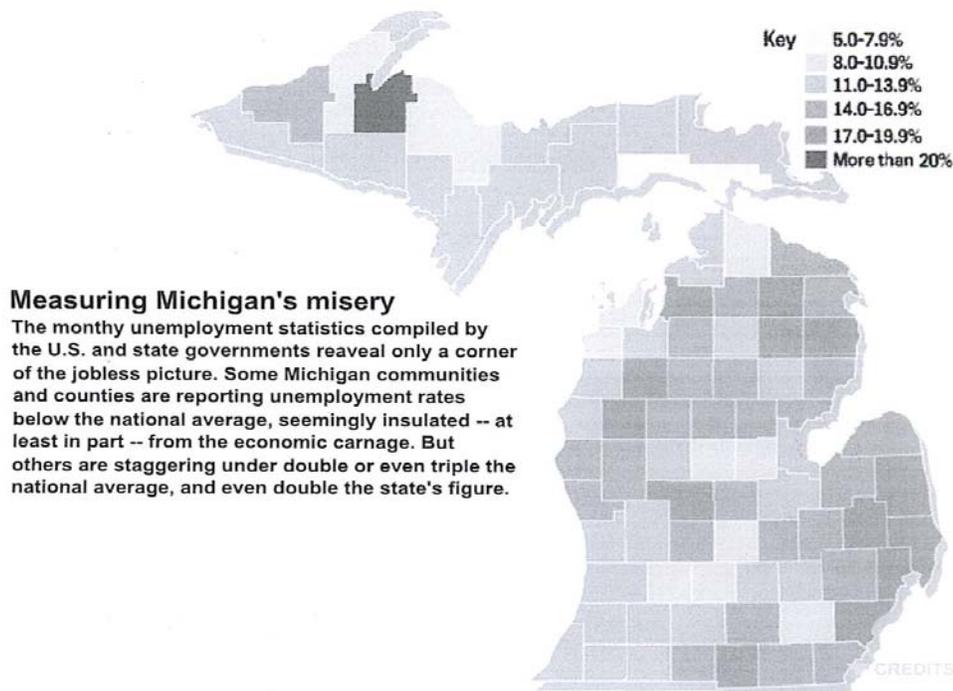
We might envision four approaches to the issue of projected chronic deficit State of Michigan budgets (as projected by the Senate Fiscal Agency, House Fiscal Agency and the Citizens Research Council). But first some background. The overriding goal in this analysis is **creating jobs in Michigan**.

## I. Background

Michigan's economy is in a deep depression. Unemployment averages over 15% in the state, with the cities of Detroit, Flint and Saginaw well over that average. Much of this is caused by the slump in the state's auto industry, but all business sectors have been affected.

Every state has seen a big jump in joblessness since 2007, but Michigan's jobs picture is by far the worst. Nearly 50% of U.S. job losses in the US since 2000 have been in Michigan. Some 750,000 private-sector payroll jobs have vanished from Michigan since the start of the decade, with a total of 1 million jobs lost projected by the end of the decade. Job losses averaged 43,000 the first half of the year, but losses have averaged 11,000 during the last half of the year.

Michigan's unemployment rate in September increased by a tenth of a percent to 15.3 percent, marking its highest level since May 1983, and not far behind the highest unemployment rate recorded in Michigan since the federal government began keeping records was 16.9 percent in November 1982.



By comparison, the national unemployment rate in September also increased by a tenth of a percent this past month, up to 9.8 percent. The state's unemployment rate rose by 6.4 percentage points from September of last year, while the national rate had increased by 3.6 percentage points during this time period.

For every family that has moved into Michigan since 2007, two have sold their homes and left.

There are now 637,000 public employees in Michigan compared to fewer than 500,000 workers left in manufacturing. Government is the largest employer in the state, but the number of taxpayers to support these government workers is shrinking.

**See slides 7-18 from “Michigan Turnaround Plan: A Five-Step Plan to Transform Michigan’s Economy & Create Good Jobs”, from the Business Leaders for Michigan.**

Balancing the state budget has been difficult year after year, with the legislature and the Governor balancing the budget with short-term, band aid fixes, without a long-term plan.

This budget problem for the state is nothing new. The Citizens Research Council has been sounding the alarm since at least 2002 in its reports “State Budget Notes: The Prospects for a Long-Term Solution to Michigan’s General Fund Structural Deficit”, April, 2002, “Review of Michigan’s Budget and the Outlook for School Funding”, June, 2006, and “An Update on Michigan’s Structural Deficit and the Outlook for School Funding”, May, 2006.

Business groups such as the Business Leaders of Michigan attribute the cause of the state’s economic problems to Michigan’s economic competitiveness being below average for both manufacturing and knowledge jobs. **See slides 19-22 from “Michigan Turnaround Plan: A Five-Step Plan to Transform Michigan’s Economy & Create Good Jobs”, from the Business Leaders for Michigan, September, 2009.**

**For another perspective, see “Reforming Michigan’s Tax System” from the Anderson Economic Group, LLC, February 25, 2009.**

## II. Four Possible Approaches to Tax Reform:

1. **Status Quo** – no major changes in tax structure, no new taxes, cut budgets as necessary to live within the state’s means. Focus on
  - a. government efficiency (such as recommendations made by the Legislative Commission on Government Efficiency),
  - b. revising the Urban Cooperation Act (dealing with the consolidation of municipal jurisdictions),
  - c. PA 312 (binding arbitration for police and firefighter unions), and
  - d. efforts such as the Health Care Insurance pool for state employees and public school employees.

Proponents of this approach say we have a spending problem, not a revenue problem. They point out that the Michigan Chamber of Commerce has identified about \$2 Billion of potential savings through various changes on how our state spends its money.

Opponents of this approach say that spending has already been significantly cut. **See pages 15 and 16 of “Issue Guide: Budget & Tax Reform”, as part of the Center for Michigan’s *Michigan’s Defining Moment* project, November 17, 2009.**

Value = efficiency, limit government.

2. **Raise Taxes to Fully Fund Programs.** Another view is to swap the state’s flat income tax rate for a graduated one, eliminating a business surcharge and some business tax breaks and lowering the sales tax rate while extending it to services. This option is estimated to raise an additional \$6.5 Billion in revenue per year that could be used to restore funding for schools, local police and fire protection and important services such as mental health care, say its proponents. It would also provide enough money to fund a new income tax credit that would cover all tuition paid to state universities, community colleges and vocational schools, as well as preschool costs. The change from a flat income tax to a graduated one would require a ballot vote of the people.

Proponents favor this comprehensive approach over a series of small, targeted tax increases. They say the citizens of the state have already suffered enough from the budget cuts.

Proponents of an extension of the sales tax to services say that while in 1950, 60% of sales were sales of products and 40% were sales of services, now the percentages are reversed. Our economy has changed. Michigan taxes only 26 of 168 identified services, ranking it 37th in the country. Other Midwest states tax 51 services on average.

For an argument for a progressive, graduated, income tax, see “[Tax Reform for Michigan](#)”, by Charles L. Ballard, Department of Economics, Michigan State University, which is in short:

- a. the percentage of personal income paid in state and local taxes has declined over the years,
- b. there has been an increase in income inequality, i.e., wealth (and therefore ability to pay taxes) has been increasingly concentrated in the few,
- c. we leave money on the table due to federal income tax deductibility of state income tax paid,

- d. state revenue from a graduated income tax is more responsive to improvement in the economy than a flat tax, and
- e. there is public support for the graduated income tax.

Opponents say that before any comprehensive tax reform is proposed that some serious attention must be paid to spending reform.

Value = provide benefits to citizens of the state.

3. **Selective Tax Increases** to accommodate modest growth in State spending, such as an increase in the Beverage Tax (which citizens can avoid if they wish, that discourages behavior which adds little (if any) to the public welfare, and is in some ways similar to a use tax, as those who drink add somewhat to the public costs of various programs), or perhaps an increase in the gas tax which funds road repairs via a “use tax”. Michigan ranks 6<sup>th</sup> in terms of the liquor tax rate, 30<sup>th</sup> in wine tax rate, 21<sup>st</sup> in beer tax rates and 13<sup>th</sup> highest for gas tax rates. The gas tax was first established in the 1920’s at 2 cents per gallon, and has remained at 19 cents per gallon since 1997.

Proponents of an increase in the Beverage Tax point out that:

“The last time Michigan adjusted the beer tax was 1966 — and we lowered it. Michigan beer drinkers pay two cents per bottle in tax.

If Michigan had simply adjusted the 1966 beer tax to inflation over the years, it would result in an additional quarter-billion dollars a year in tax revenue.

Because the state has long ignored the beer tax as a potential revenue source, beer accounts for an ever-shrinking portion of state tax revenues – and other revenue sources make up the difference. In 1966, Michigan collected \$15.50 in sales tax for every dollar in beer tax. In 2007, Michigan collected \$129 in sales tax for every dollar in beer tax.”

Opponents are opposed to tax increases of any kind, even additional “sin” taxes. They point out that cigarette tax rates are already the 9<sup>th</sup> highest in the country because of recent increases.

Proponents of an increase in the gas tax say that the state could lose a combined \$1.9 billion in federal dollars in 2011, 2012 and 2013 because the state may not be able to afford the 20-percent matching funds necessary to receive federal support.

“In 2010, the state has \$1.2 billion set aside for highway and maintenance programs. Without the federal aid, that annual figure would drop to \$477 million in 2011, \$524 million in 2012 and \$418 million in 2013.

State and federal gas taxes and vehicle registration fees are the primary sources of revenues for the Michigan Transportation Fund. Every consumer pays 19 cents in state taxes and 18.4 cents in federal taxes for every gallon of gas. That 18.4 cents is given back to the states by the federal government with some conditions. The state must provide matching funds to the returned-federal tax. The federal government returns to Michigan all but about eight cents on every dollar.

Proponents further say that a state gas tax increase would be consistent with the basic principle of public finance is that, to the extent possible, users of government services that directly benefit from the provision of such services should pay for the privilege of doing so. That is, user fees are the most defensible form of taxation. And, while gas mileage varies from vehicle to vehicle, the amount of gas consumed is a close approximation of the usage of the roads and highways. Further, if we are not willing to pay for essential government services that we demand and use, what are we willing to pay for?

Opponents say that before any tax increase is proposed that some serious attention must be paid to spending reform or that any gas tax increase must be coupled with a change in the allocation formula for distributing about \$2 billion of funds per year from the Michigan Transportation Fund under Public Act 51 of 1951, so that the money is allocated more effectively, i.e., more where it is needed, rather than simply allocated on the basis of miles of roads.

Value = caution, taking baby steps.

4. **Adopt the Michigan FairTax**, and abolish the other taxes planned.

“**Overview of the Michigan FairTax** (from <http://www.mifairtax.org/news-docs/MI-FairTax-Proposal.pdf>)

- **Eliminates all business taxes**
  - These are passed on to consumers now, hidden in the cost of Michigan-made goods and services.
  - Workers would no longer bear the cost of a corporate income tax in lower wages and salaries, as now (study by the American Enterprise Institute).
  - The cost of complying with business taxes, which may sometimes exceed the tax owed, is currently also passed on to consumers.
  - Elimination of these taxes and compliance costs will lower the cost of Michigan-made goods and services through competitive pressures.
  - Michigan-made goods will be more competitive in Michigan, in other states and in other countries.
  - A more favorable tax climate for businesses will attract businesses to Michigan
  - More businesses mean more jobs.
  - More jobs will attract workers, new and returning ones, to Michigan.
- **Eliminates the Michigan income tax**
  - No more withholding of Michigan income tax by employers.
  - No more filing of Michigan income tax returns.
  - No more time and money spent on processing your Michigan income tax forms.
- **Replaces state income and business taxes with a 9.75% sales tax on services and new goods**
  - The 3.75% sales tax increase replaces current business taxes and the 4.35% income tax.
  - A monthly payment “prebate” to each legal Michigan household, simply direct-deposited to bank accounts, of the amount of tax that household would pay if spending at the poverty level completely un-taxes the basic necessities for all households.
  - Because of the prebate, a family of 4 spending \$21,200/yr. would have a 0% effective tax rate, but if that family spent \$48,451 (median Michigan household

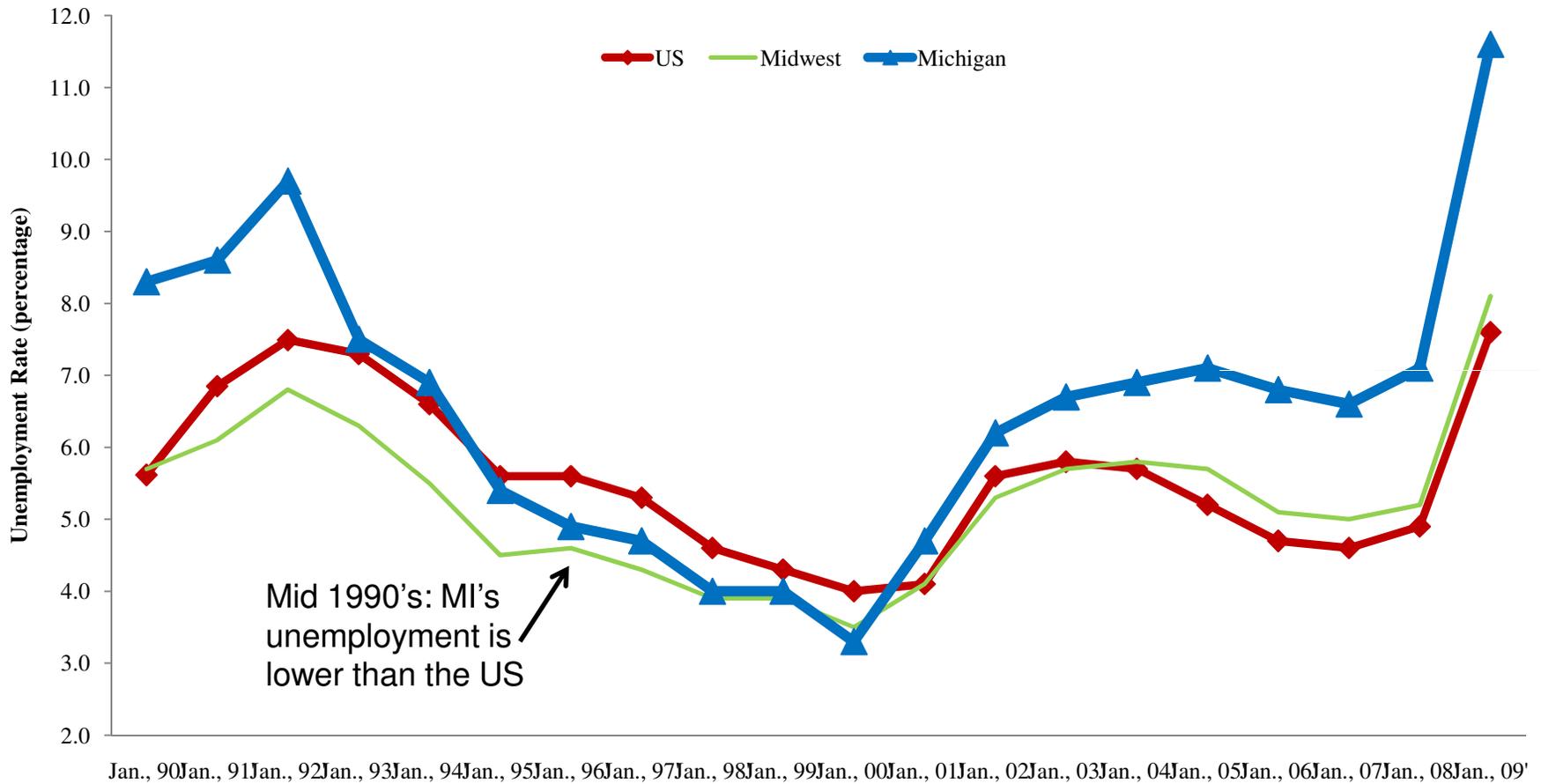
income) it would have a 5.5% effective tax rate, and so on, up to 9.75%. Other untaxed spending reduces the tax rate even further (see graph on next page).

- Money saved, invested, or given away is not taxed until it is spent.
- Tuition, because education is an investment rather than consumption, is exempt.
- Used goods are generally exempt and business purchases are not taxed, to avoid taxing the same thing more than once.
- **Increases the tax base**
  - As the Michigan workforce increases, the added workers will increase tax revenue
  - Those in the underground economy will pay taxes when they spend
  - Visitors, tourists, and other nonresidents will be part of the tax base
- **Other benefits**
  - No new statewide taxes without a vote of the people to change the constitution.
  - It requires the tax rate be lowered if revenues exceed a set amount.
  - There are strict controls on when and how the tax rate can be increased.
  - It will guarantee revenue sharing for local governments and give them an amount they can count on.
  - The revenue source will be more stable than under the present system.
  - It eliminates the selling of tax favors by government officials, which today corrupts our representative system of government.
  - There are no loopholes.”

Opponents say that the change is too complicated, would require a vote of the people and would shift some taxes now collected by businesses to individuals. Retirees might in particular object to the change because they now benefit from the exclusion of retirement pension income from being taxed by the Michigan Income Tax, which would be abolished.

Value = fairness, simplicity, adequacy, create an atmosphere conducive to creating jobs.

# Fact: Rising Unemployment



Source: Bureau of Labor Statistics

# Fact: Severe Private Sector Employment Losses

## 728,000 Jobs Lost

Michigan lost more private sector jobs since the year 2000 than any other state – nearly half of all private sector jobs lost in the United States during this period. While Michigan has been severely impacted by the loss of automotive jobs, the state has under-performed the national average in most job sectors.

Total Private Sector Employment (Thousands)	2000	2009*	% Change (2000-2009)	Number of Jobs Gained or Lost
Michigan	3,996	3,268	<b>-18.2%</b>	-728
United States	110,995	109,736	-1.1%	-1,259

*\*2009 represented by May private sector employment*

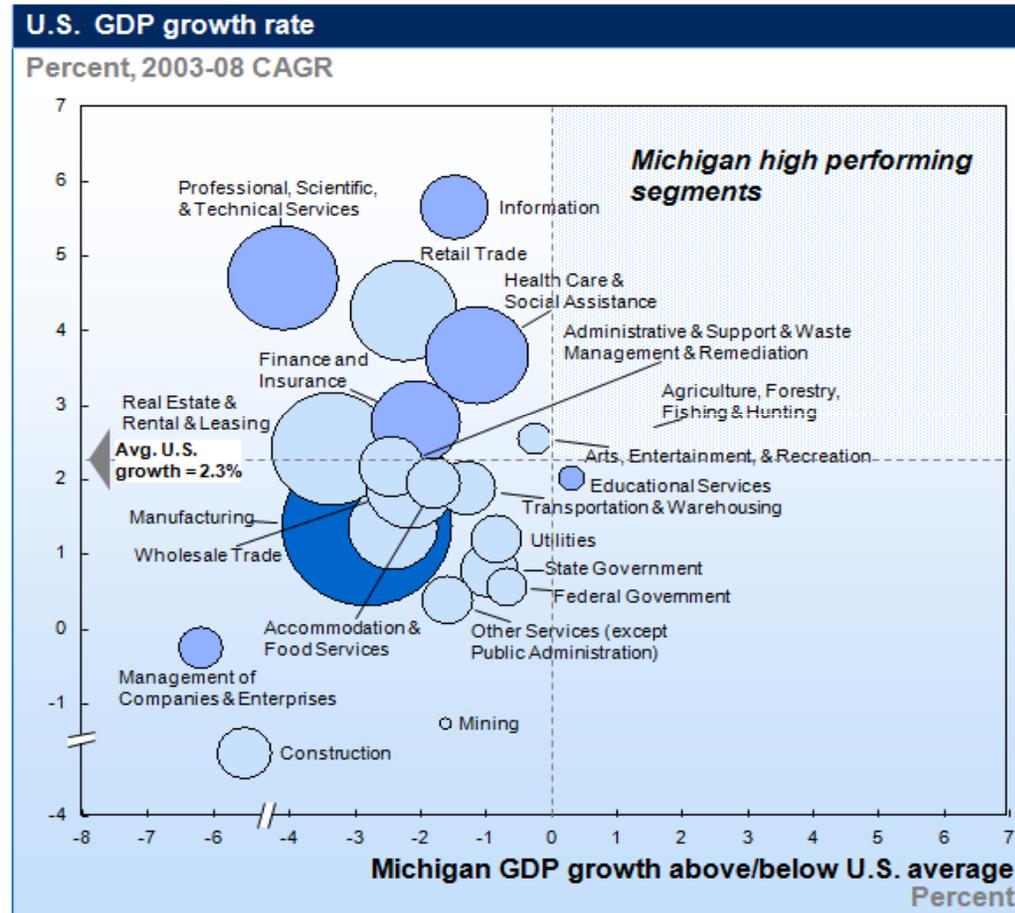
*Source: Bureau of Labor Statistics; Analysis: Anderson Economic Group, LLC*



# Fact: Job Growth Has Lagged Across Most Sectors

## Michigan Is Under-Performing Across Sectors

- Only one of 22 industry groups had both positive Michigan growth, and grew ahead of the US average
- All knowledge-based industries trailed US average growth with exception of Educational Services

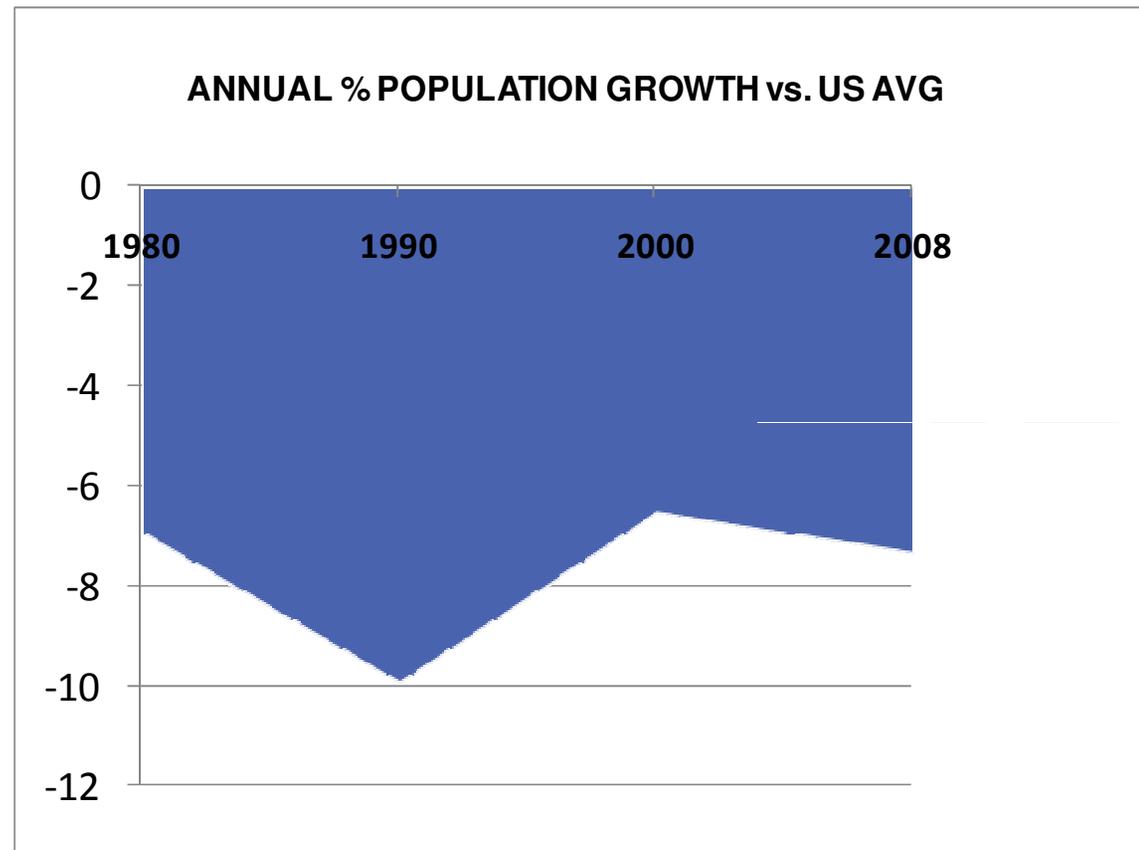


Source: Bureau of Economic Analysis; McKinsey

# Result: Relatively Smaller

## Michigan Is Getting Smaller Relative to US

Michigan has been growing at a slower rate than the average US state for nearly 40 years. This has resulted in Michigan becoming less desirable for business investment as its share of the consumer market declines.

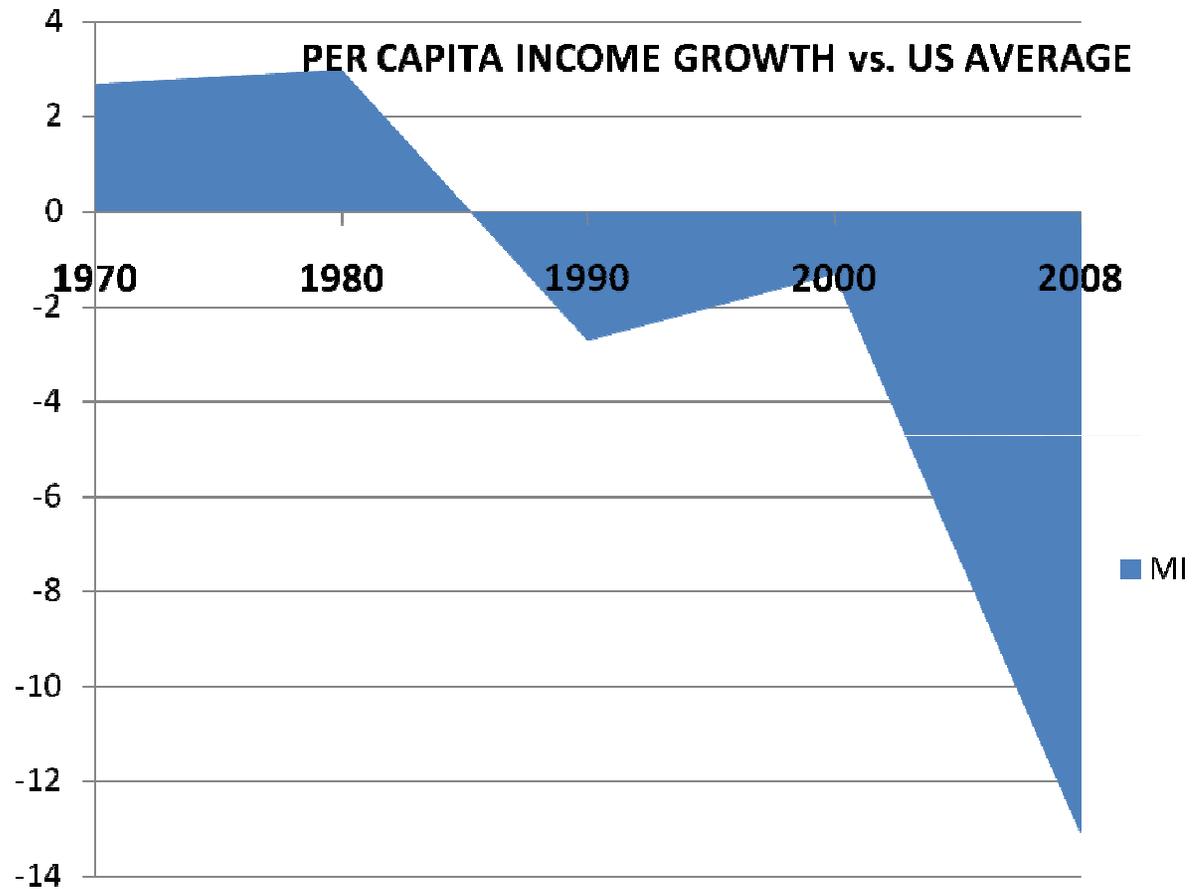


Source: U.S. Census Bureau Population Estimates Program

# Result: Relatively Poorer

## Michigan Is Getting Poorer Relative to US

Michigan's per capita income has been growing below the US average for nearly 30 years. The rate of decline has accelerated dramatically in the past decade.



Source: U.S. Bureau of Economic Analysis

# Result: Relatively Poorer

## Michigan Ranks Last in GDP Growth

- Michigan's GDP is \$382 Billion as of June 2009<sup>2</sup>
- Since 2000, if Michigan's economy had grown at the average rate of the Top 10 states, Michigan would produce \$118B (31%) more GDP<sup>2</sup>
- The difference translates to \$12,000 more income per Michigan citizen<sup>2</sup>

State	2000-2007 GDP CAGR percent	2008-2009(Q2) GDP growth percent	08-09(Q2) Rank
MI	-0.1	-7.6	50
OH	0.7	-3.6	40
IN	1.3	-4.2	41
GA	2.0	-2.7	36
TN	2.7	-2.2	30
AL	2.7	-2.2	31
IL	1.6	-2.4	33
NC	2.8	-2.6	34
CA	2.7	-1.7	27
MA	1.7	-1.0	19
TX	3.4	-0.4	13
Top 10 <sup>1</sup>	3.2	-1.2	

<sup>1</sup> Top 10 states in per capita GDP growth, 00-08: ND, OR, SD, NY, VT, IA, MT, WY, NE, MD

<sup>2</sup> In June 2009 dollars

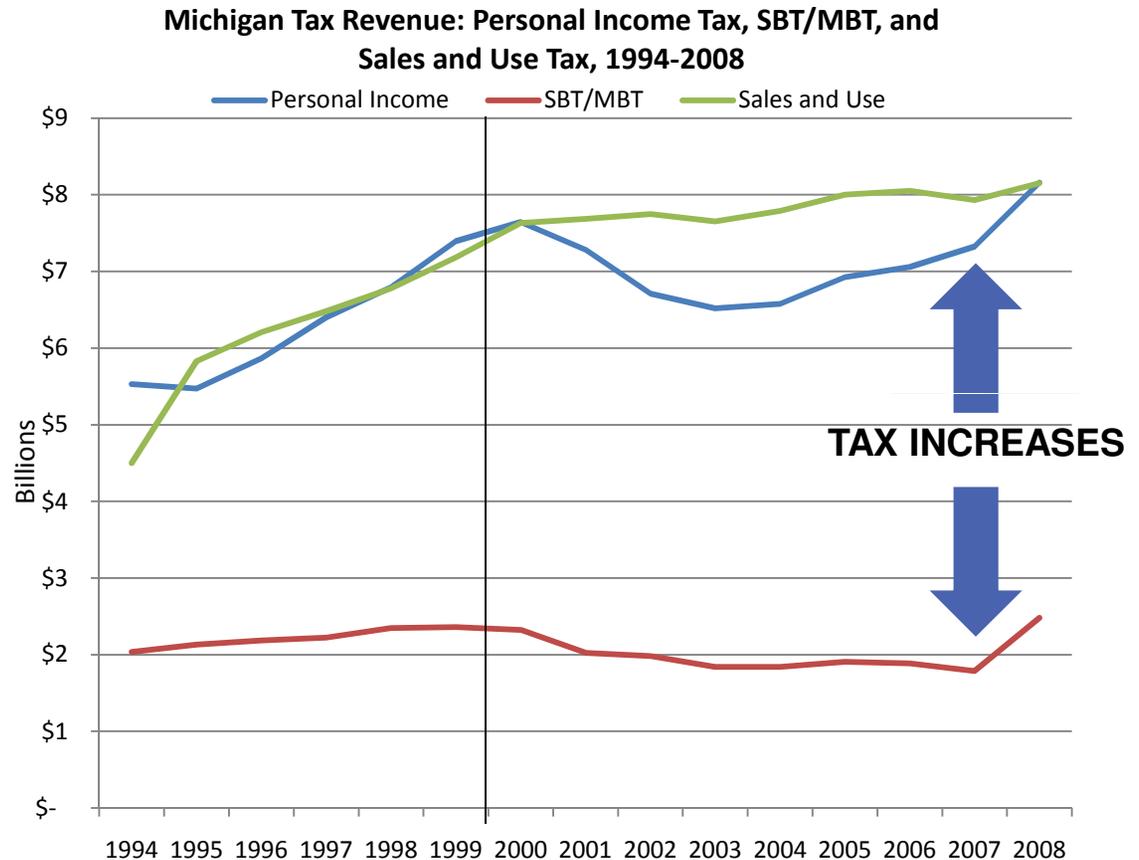
States listed above from McKinsey benchmarking report: Traditional & knowledge competitors

Source: Bureau of Labor Statistics; Bureau of Economic Analysis; Moody's Economy.com

# Result: Declining or Flat Tax Revenue

## Revenues Slump

During the 1990's, state tax revenues grew, especially from personal income and sales/use taxes, as the economy and per capita income grew. But since 2000, state tax revenue from personal income and business taxes has declined and sales/use tax revenue has been flat. Tax increases to the MBT and personal income in 2007 resulted in short-term revenue increases.



Source: Michigan Senate Fiscal Agency, "Major Sources of Tax Revenue"

# Result:

## Further Revenue Shortfalls Projected

### No Let Up In Sight

Even with the MBT surcharge and personal income tax increases, state tax revenues are expected to decline by at least 11.5% between FY 2008 and FY 2010. Tax revenue sources for the School Aid Fund (sales/use taxes) are more stable compared to the General Fund (GF/GP). Starting in FY10 either expenditures must be cut and/or new revenue sources must be found to balance the budget.

### Change in State Tax Revenue FY08-10 (\$ in Millions)

	<u>FY 2008</u>	<u>FY 2010</u>	<u>% Change</u>
<b>Total Tax Revenue</b>	\$27,700	\$24,518	-11.5%
<b>GF/GP</b>	\$8,986	\$6,950	-22.7%
<b>SAF</b>	\$10,773	\$10,563	-1.9%

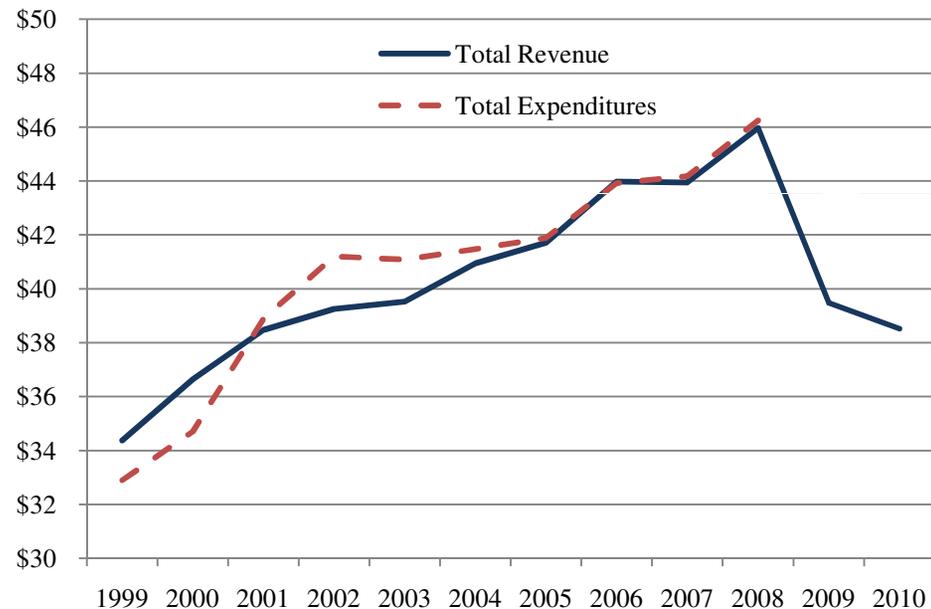
Source: Michigan Senate Fiscal Agency; AEG Projections for FY 2010  
(see source notes)

# Result: State Spending > Revenues

## No More One-Time Fixes Available

Since the 2001 recession, state General Fund spending has exceeded revenues in most years due to the use of mostly one-time budget fixes, such as tapping into the Rainy Day Fund, selling assets, using the federal stimulus, liquidating other fund reserves or other measures. The severity of projected revenue declines in FY09 and FY10 will preclude the use of these practices any further.

State of Michigan Total Revenue  
and Total Expenditures, 1999-2010  
(\$Billions)



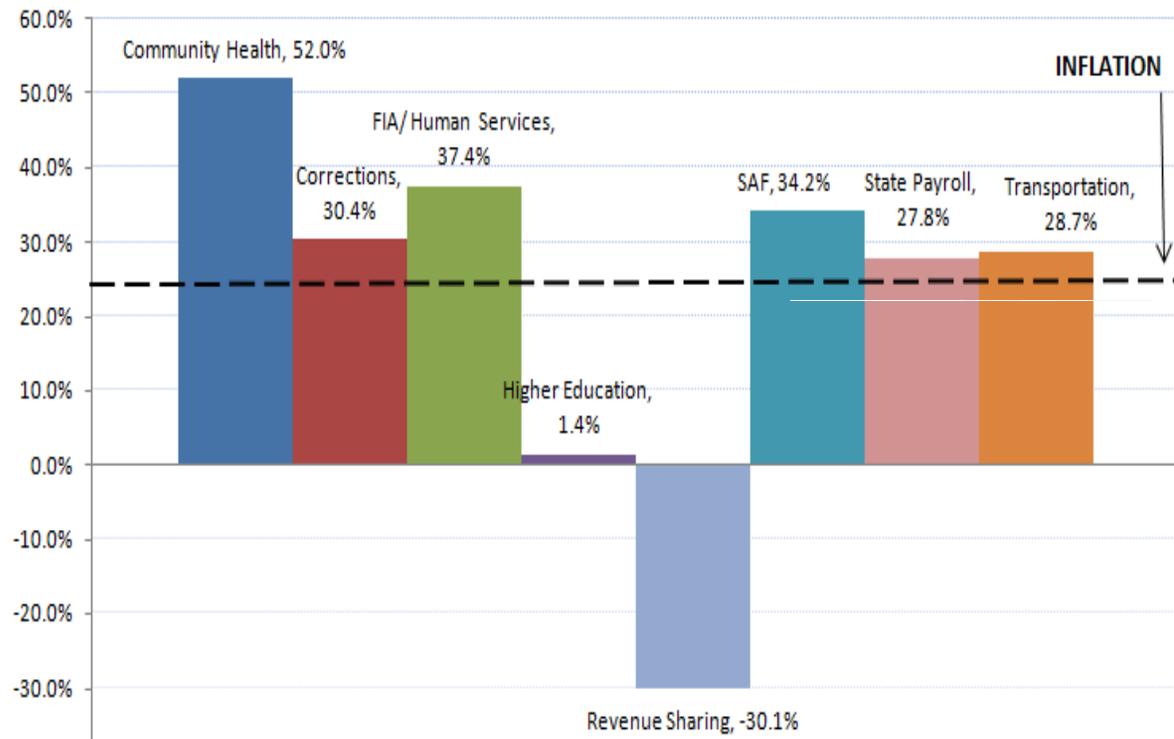
Source: Michigan Senate Fiscal Agency; Anderson Economic Group projections for FY 2010 (see source notes)

# Result: State Spending > Inflation

## State Spending Has Out-Paced Inflation

By using one-time budget fixes during the past decade, the state has out-spent inflation in most budget categories. Further, the state has spent the least in areas that would most drive economic growth – higher education and transportation.

State Gross Expenditures, Percentage Change, FY 2000-2009



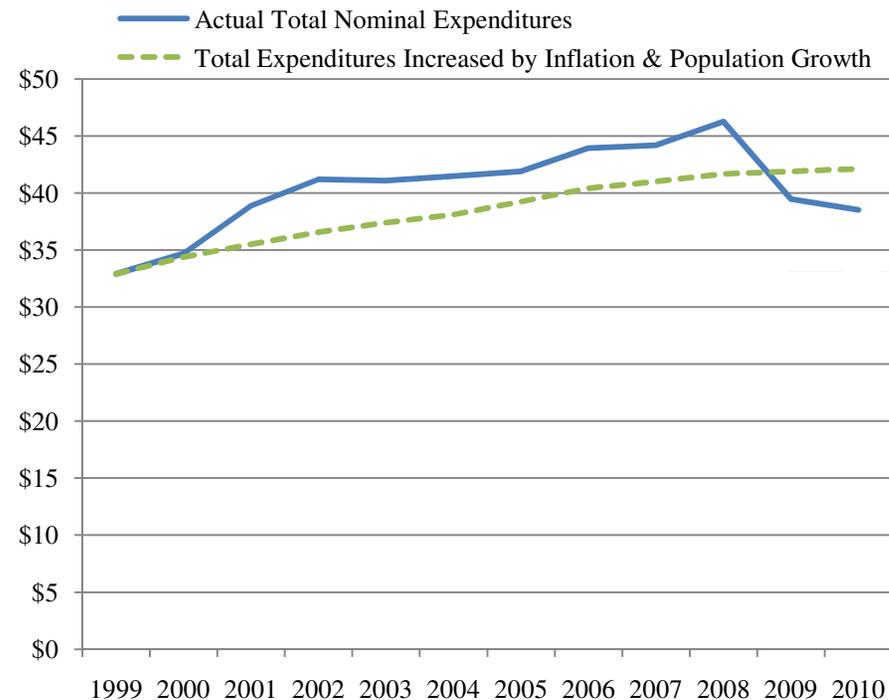
Source: State of Michigan Executive Budget FY 2009, "Historical Expenditures/Appropriations Gross" & U.S. Inflation Calculator.com

# Fact: State Spending > “Pop-flation” Before 2009

## State Spending Outpaced “Pop- flation” Since 2001

**Nominal state expenditures grew at or above the rate of inflation and population growth from FY99 to FY08. However, the projected drop in revenues starting in FY09 will cause spending to be below the rate of inflation and population growth for the first time in over a decade.**

State of Michigan Expenditures: Actual Total Expenditures, and Expenditures Grown by Inflation & Population Growth, 1999-2010 (\$Billions)



Source: Michigan Senate Fiscal Agency for actual expenditures;  
Anderson Economic Group estimates (see source notes) for “pop-flation” growth

# Cause: Costs Matter



***Top 10* States for Job & Income Growth: 1996-2007**

***2 X BETTER BUSINESS COST RANKING***

***Bottom 10* States for Job & Income Growth: 1996-2007**

Source: Forbes & ALEC

# Cause: Uncompetitive Business Climate

## Higher Tax Environment Than Competitors

Companies pay on average 3-4% more on state & local taxes in Michigan than the states we most often compete against for manufacturing or knowledge jobs. In today's global economy, that is the difference between making a profit or not to many businesses.

Michigan's corporate tax rate near worst in nation, driven by gross receipts tax

Breakdown of business tax climate index, FY2009, 1=bestrank

State	Overall	Corporate	Unemp. insurance	Property
MI	20	48	46	25
NC	39	26	6	37
IL	23	28	43	41
AL	21	21	14	13
TN	17	12	32	38
IN	14	23	13	7
OH	47	33	15	46
GA	27	8	20	36

...as a result taxes represent a higher percentage of corporate profits for Michigan companies

State taxes as a percent of corporate profits, 2008 (U.S. avg. = 16%)

State Tax burden

MI	15%
NC	11%
IL	17%
AL	13%
TN	12%
IN	16%
OH	12%
GA	13%

- Companies in Michigan pay 3-4% higher percentage of profits in state and local taxes than most peers

Source: Tax Foundation 2009 Business Tax Climate Report;  
Anderson Economic Group "A Comparison of State Business Taxes" (2008)

# Cause: Uncompetitive Business Climate

## Weaker Value Proposition vs. Competitors

Companies assess the “total cost of doing business” when evaluating site location decisions. In Michigan, business taxes and most other costs are higher than competitor states with not enough distinct advantages to offset the higher cost premium.

Transportation, financial & labor factors (10 of 25 highest rated factors)		Michigan performance on important filtering metrics		Quartile
		Ranking out of 50 states (1=best)		
State & local incentives	96.1	"State & local incentives" <sup>2</sup>	25	●
Highway accessibility	95.8	Commute time	29	●
Availability of skilled labor	94.9	"% Population 25+ Yrs w/ a bachelors"	34	●
Energy availability & costs	90.7	Electricity cost	30	●
		Natural gas cost	28	●
Tax exemptions	89.9	N/A	N/A	
Occupancy & construction costs	87.1	Property tax ranking	25	●
Corporate tax rate	86.8	Corporate tax ranking	48	●
Proximity to major markets	86.3	Proximity to major markets <sup>2</sup>	25	●
Availability of land	85.6	Availability of land <sup>2</sup>	39	●
Labor costs	82.8	Labor wages	43	●

Source: Area Development annual company and site selection survey (2008); BLS; ACCRA; NCES; Tax Foundation; Census; NSF; Site consultant interviews

# Cause: Uncompetitive Business Climate

## Business Decision-Makers Rank Michigan Low as Site Location

Business CEO's and site location consultants view Michigan's business climate as among the worst of all states. These perceptions are driven by their views on the cost and ease of doing business in Michigan.

### CEO state rankings for jobs and business growth 2009

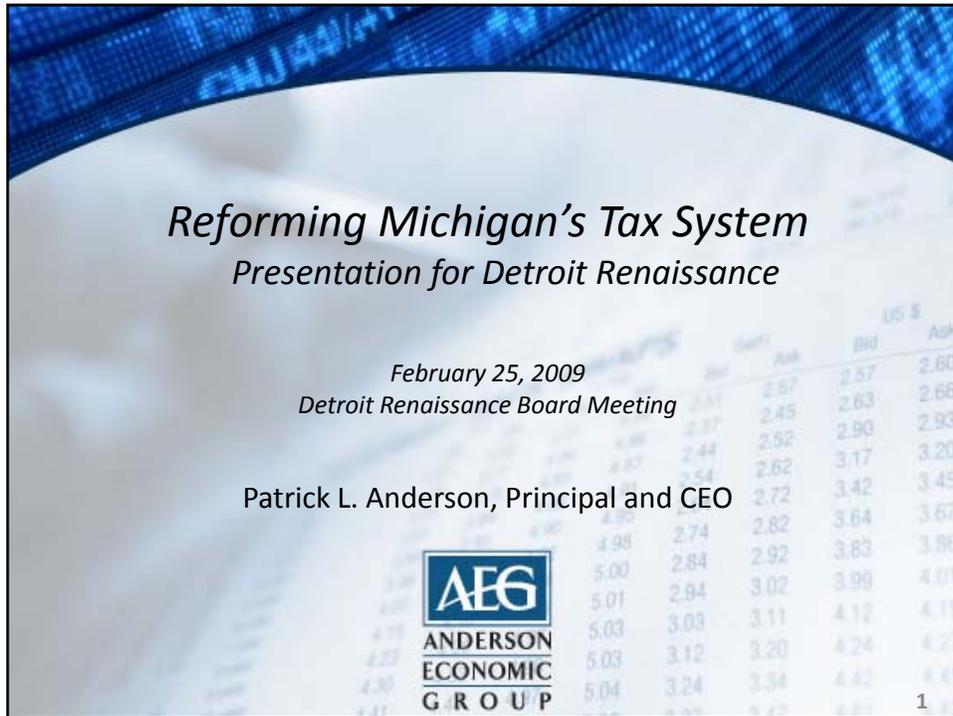
46. Massachusetts  
47. New Jersey  
**48. Michigan**  
49. New York  
50. California

### Site consultant and executive state rankings for 'perceived' business climate favorability 2009

46. Massachusetts  
47. New Jersey  
**48. Michigan**  
49. New York  
50. California

*"Michigan and California literally need to do a 180 if they are ever to become competitive again... they are absolute regulatory and tax disasters" CEO*

Source North American Business Cost Review 2006, Moody's Economy.com; Chief Executive Magazine; Site Selection magazine



## Reforming Michigan's Tax System

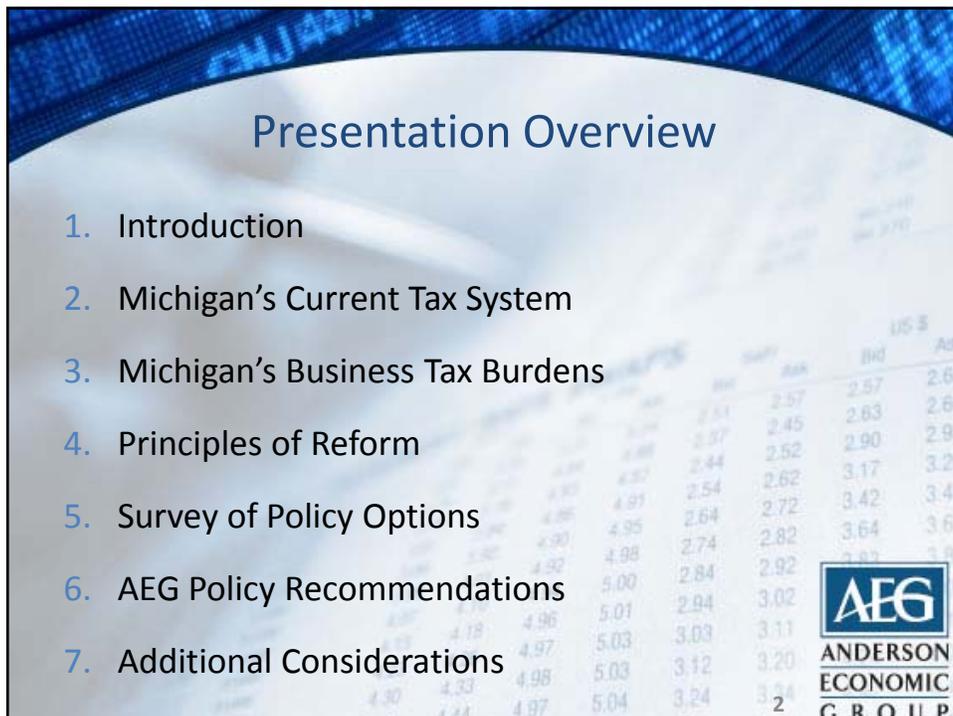
### Presentation for Detroit Renaissance

February 25, 2009  
Detroit Renaissance Board Meeting

Patrick L. Anderson, Principal and CEO



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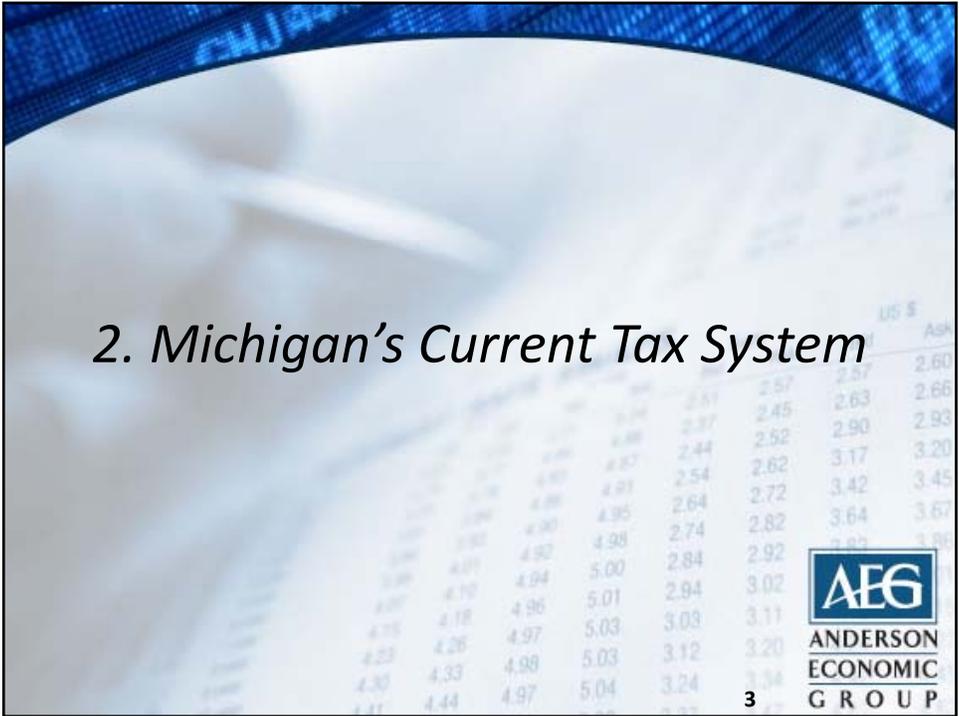


## Presentation Overview

1. Introduction
2. Michigan's Current Tax System
3. Michigan's Business Tax Burdens
4. Principles of Reform
5. Survey of Policy Options
6. AEG Policy Recommendations
7. Additional Considerations



2



## 2. Michigan's Current Tax System



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### Michigan State Tax Revenue

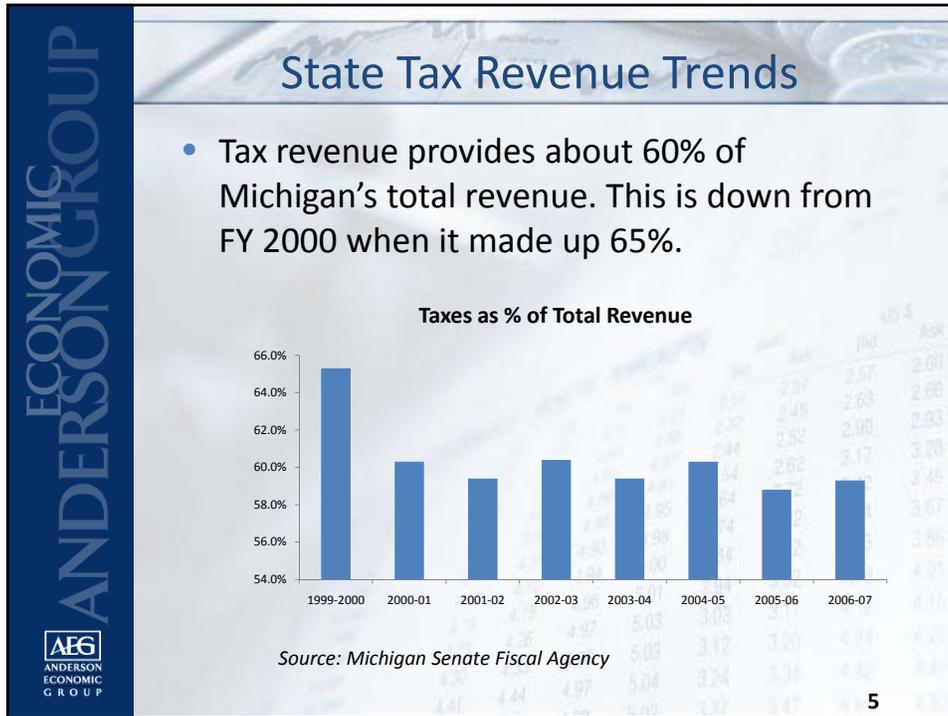
- In FY 2008, Michigan state tax revenue totaled \$24.9 billion.
- Total revenue for the state from all sources totaled \$42.3 billion. Federal funds provided most of the additional revenue.
- Sales and use, income, and "business taxes" generated the most state tax revenue.

**State Tax Revenue, by Category (FY 2008)**

Category	Percentage
Sales and Use Taxes	32%
Income Taxes	29%
Business Taxes	11%
Transportation Revenue	8%
State Education Tax	8%
Tobacco Taxes	4%
Other Taxes	8%

Source: Michigan House Fiscal Agency  
 Note: HFA's definition of "business taxes" includes: SBT and MBT, insurance company tax, and the casino wagering tax.

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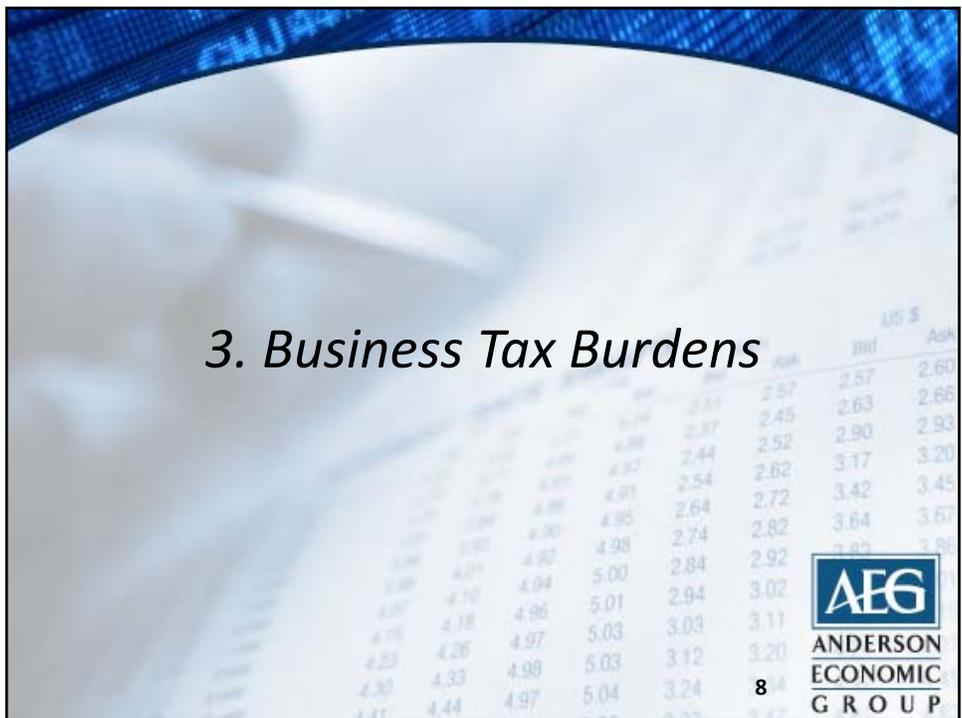
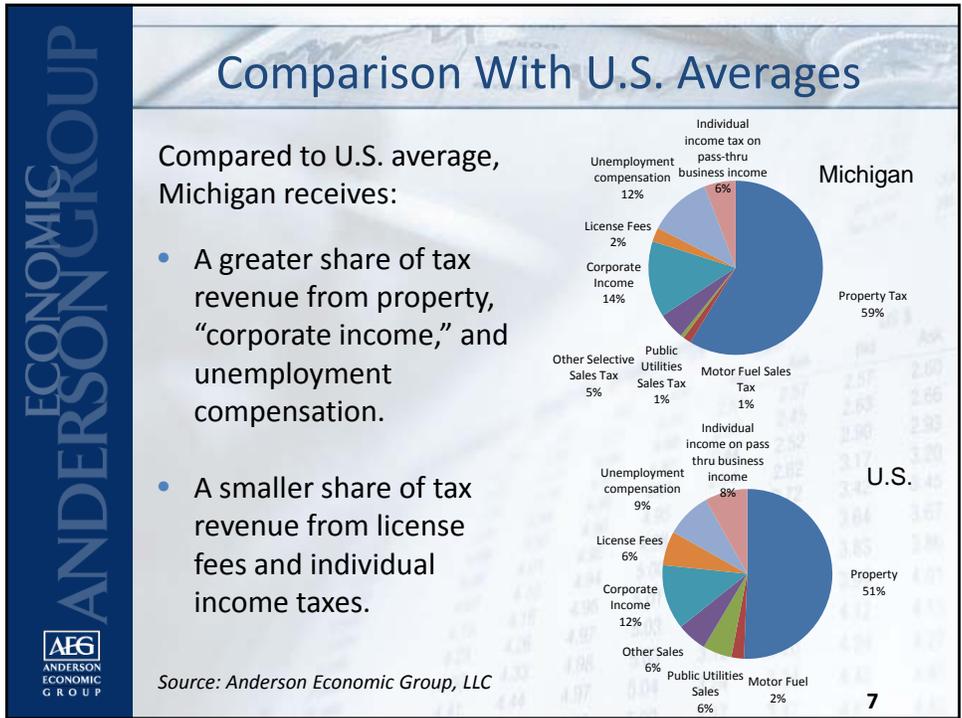
### AEG Estimate: State and Local Taxes Paid by Michigan Businesses

Tax Category	FY 2006 (in thousands)
Property Tax	\$ 7,827,071
Motor Fuel Sales Tax	\$ 196,197
Public Utilities Sales Tax	\$ 91,223
Other Selective Sales Tax	\$ 656,057
Corporate Income	\$ 1,886,168
License Fees	\$ 345,906
Unemployment compensation	\$ 1,553,877
Individual income tax on pass-thru business income	\$ 777,459
<b>Total Taxes Paid by Businesses (in thousands)</b>	<b>\$ 13,333,958</b>

*% of Total State and Local Taxes Paid by Business 37%*

*Source: Anderson Economic Group, LLC*

- Michigan businesses paid over \$13 billion in state and local taxes in FY 2006.
- 37% of all state and local taxes were paid by business.
- Property and "corporate income" (SBT and MBT) taxes raised the most revenue.



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## AEG State Tax Burden Study

1. Annual ranking of state business tax burdens, published in *State Economic Handbook*.
2. Measures burden as business taxes paid divided by profits earned within the state. This provides a good measure of what businesses actually pay compared to available income.
3. Business taxes include: property taxes; motor fuel, public utilities, and other selective sales taxes; corporate income taxes (includes SBT and MBT); license fees; unemployment compensation; and individual income tax on pass-thru business income. (See Exhibits 1 and 2 in board packet.)
4. Uses U.S. Census of Governments and IRS Statistics of Income as base data sources.


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## AEG Business Tax Burden Measures

Level	Measure	MI	MI Rank	U.S. State Average
<b>Below Average</b>	Business Taxes Profits Earned Within State	14.94%	22	16.69%
<b>Average</b>	Business Taxes Personal Income	4.00%	34	4.01%
<b>Above Average</b>	Business Taxes Private Gross State Product	4.00%	36	3.79%

*Source: Anderson Economic Group, LLC*

- We will use the measure that Michigan performs the best on (Business Taxes/Profits Earned within State) for our comparisons with benchmark states.


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## Top 10 Business Tax Burden States

### AEG State Business Tax Burdens, 2008

Ranking	State	All Taxes Paid by Business as a % of Business Profits Earned Within the State
1	North Carolina	10.88%
2	Delaware	11.03%
3	Tennessee	12.01%
4	Ohio	12.01%
5	Missouri	12.10%
6	Louisiana	12.22%
7	Alabama	12.57%
8	Minnesota	12.58%
9	South Dakota	12.60%
10	Connecticut	12.63%
<b>Top 10 State Average</b>		<b>12.06%</b>
<b>22</b>	<b>Michigan</b>	<b>14.94%</b>
<i>U.S. State Average</i>		<i>16.69%</i>

*Data is from FY 2006, last year that Michigan had the SBT. Taxes burdens will be higher in 2007 with MBT. Source: Anderson Economic Group, LLC; See Exhibit 2 in board packet.*

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## Michigan v. Great Lakes States

### AEG State Business Tax Burdens, Great Lakes States, 2008

Ranking	State	All Taxes Paid by Business as a % of Business Profits Earned Within the State
4	Ohio	12.01%
16	Wisconsin	13.54%
20	Pennsylvania	14.63%
<b>22</b>	<b>Michigan</b>	<b>14.94%</b>
30	Indiana	16.08%
34	Illinois	16.91%
<b>Great Lakes Average</b>		<b>14.69%</b>

*Data is from FY 2006, last year that Michigan had the SBT. Tax burdens will be higher in 2007 with MBT. Source: Anderson Economic Group, LLC; Annual business state tax burden rankings are published in Anderson Economic Group, "State Economic Handbook."*

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## Findings from DR Benchmarking Study

Michigan has:

1. "A high cost of doing business."
2. "A talent base that has pockets of select expertise, but overall is relatively less educated than our peer regions..."
3. "A quality of life index that is much better than its perception; however, hurt by a high crime rate and a perception (but not reality) of lack of cultural offerings."

Source: Detroit Renaissance, *Assessing Regional Competitiveness: Benchmarks*, completed by McKinsey & Company, August (2008).



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## MI v. DR Benchmark States for Knowledge Jobs

**AEG State Business Tax Burdens for Detroit Renaissance Benchmark States: Knowledge Jobs, 2008**

Ranking	State	All Taxes Paid by Business as a % of Business Profits Earned Within the State
1	North Carolina	10.88%
18	Washington	13.86%
21	Massachusetts	14.84%
<b>22</b>	<b>Michigan</b>	<b>14.94%</b>
24	Texas	15.28%
34	Illinois	16.91%
<b>DR Benchmark States Average</b>		<b>13.96%</b>

Data is from FY 2006; includes SBT. Tax burdens will be higher in 2007 with MBT.  
Source: Anderson Economic Group, LLC; Annual business state tax burden rankings are published in Anderson Economic Group, "State Economic Handbook."  
Note: Detroit Renaissance Benchmark states for knowledge jobs from: Detroit Renaissance, "Assessing Regional Competitiveness: Benchmarks," completed by McKinsey & Company (2008).



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## MI v. DR Benchmark States for Manufacturing Jobs

**AEG State Business Tax Burdens for Detroit Renaissance Benchmark States: Manufacturing Jobs, 2008**

Ranking	State	All Taxes Paid by Business as a % of Business Profits Earned Within the State
3	Tennessee	12.01%
7	Alabama	12.57%
13	Georgia	13.22%
18	Washington	13.86%
<b>22</b>	<b>Michigan</b>	<b>14.94%</b>
34	Illinois	16.91%
<b>DR Benchmark States Average</b>		<b>13.92%</b>

*Data is from FY 2006; includes SBT. Tax burdens will be higher in 2007 with MBT.  
 Source: Anderson Economic Group, LLC; Annual business state tax burden rankings are published in Anderson Economic Group, "State Economic Handbook."*

*Note: Detroit Renaissance Benchmark states for manufacturing jobs from: Detroit Renaissance, "Assessing Regional Competitiveness: Benchmarks," completed by McKinsey & Company (2008).*

  
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## 4. General Tax Principles

  
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## Principle #1

***Michigan's tax system should impose significantly lower costs on businesses that employ workers and invest in Michigan than it does today.***

We observe that:

- The level of business taxation is one of the few location factors under direct control of the state government.
- Employers in Michigan face significantly higher costs than in other, more competitive, states.

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## Principle #2

***Michigan's tax and budget systems should provide a stable and predictable tax environment for business.***

Michigan's businesses would benefit from:

- Steps to reduce the frequency and severity of fiscal crises.
- Steps to limit the state legislature's ability to impose new taxes or significantly increase existing taxes.

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**DISCRETIONARY SPENDING: 2000-2010 GEN. FUND (Inflation-adjusted in 2010 \$ millions)**

	1999-2000	2009-10	CHANGE 00-10	% OF 2010 GF
Community Colleges	\$364.2	\$299.4	-18%	
Education Department (Administration)	\$46.3	\$19.4	-58%	
Higher Education	\$2,057.5	\$1,507.7	-27%	
General Fund contribution to school aid	\$515.3	\$31.8	-94%	
<b>TOTAL EDUCATION</b>	<b>\$2,983.3</b>	<b>\$1,858.3</b>	<b>-38%</b>	<b>23%</b>
Attorney General	\$39.3	\$28.8	-27%	
Civil Rights	\$15.9	\$11.7	-26%	
Executive Office	\$6.6	\$4.8	-27%	
Information Technology	\$0.0	\$0.0		
Legislative Auditor General	\$15.3	\$11.6	-24%	
Legislature	\$124.6	\$104.8	-16%	
Management & Budget	\$163.5	\$295.3	81%	
Secretary of State	\$73.6	\$18.0	-76%	
Treasury - Operations	\$77.6	\$60.2	-22%	
Treasury - Michigan Strategic Fund	\$79.5	\$27.1	-66%	
Treasury - Debt Service	\$114.5	\$64.7	-44%	
Treasury - Revenue Sharing	\$8.0	\$0.0	-100%	
<b>TOTAL GENERAL GOVERNMENT</b>	<b>\$718.5</b>	<b>\$626.9</b>	<b>-13%</b>	<b>8%</b>
Community Health	\$3,229.8	\$2,308.7	-29%	
Human Services	\$1,333.9	\$860.3	-36%	
<b>TOTAL HUMAN SERVICES</b>	<b>\$4,563.7</b>	<b>\$3,168.9</b>	<b>-31%</b>	<b>39%</b>
Agriculture	\$56.2	\$30.6	-46%	
Environmental Quality	\$117.9	\$27.0	-77%	
Natural Resources	\$63.1	\$16.7	-73%	
<b>TOTAL RESOURCE PROTECTION</b>	<b>\$237.2</b>	<b>\$74.3</b>	<b>-69%</b>	<b>1%</b>
Corrections	\$1,821.3	\$1,870.2	3%	
Military & Veterans Affairs	\$48.6	\$36.4	-25%	
State Police	\$329.2	\$267.3	-19%	
Judiciary	\$197.2	\$153.1	-22%	
<b>TOTAL PUBLIC SAFETY</b>	<b>\$2,396.5</b>	<b>\$2,327.0</b>	<b>-3%</b>	<b>29%</b>
Capital Outlay	\$339.8	\$0.0	-100%	
Energy Labor, Economic Growth	\$25.9	\$55.1	113%	
History, Arts, & Libraries	\$42.0	\$0.0	-100%	
Unclarified employee concessions	\$0.0	(\$27.5)		
Unclarified contract savings	\$0.0	(\$20.0)		
Unclarified "other adjustments"	\$0.0	(\$10.0)		
Transportation	\$0.0	\$0.0		
<b>TOTAL OTHER</b>	<b>\$407.6</b>	<b>(\$2.4)</b>	<b>-100%</b>	<b>0%</b>
	\$0.0	\$0.0		
<b>TOTAL GENERAL FUND APPROPS</b>	<b>\$11,306.8</b>	<b>\$8,053.0</b>	<b>-29%</b>	

**Sources:**

1999-2000 Senate Fiscal Agency Appropriations Report:

<http://www.senate.michigan.gov/sfa/Publications/Approps/Initial2000.pdf>

2008-09 Senate Fiscal Agency Appropriations Report -- Initial Appropriations by Source of Funds:

<http://www.senate.michigan.gov/sfa/Publications/Approps/Initial2009.pdf>

2009-10 Senate Fiscal Agency 2009-10 State Budget Update from Conference Reports:

<http://www.senate.michigan.gov/sfa/Publications/BudUpdates/StateBudgetUpdate100209.pdf>

## K-12 EDUCATION SPENDING AT A GLANCE

Inflation-adjusted overall state spending on education – mostly for local school districts – increased 11 percent from 1995-2008. Looking forward, school districts are likely to see increasing retirement and benefits costs pressures, declining local property tax bases, and declining enrollments.

A clarification... More than 80 percent of the total “education” spending in the state budget is to fund statewide K-12 schools. The “school aid fund” is made up primarily of sales tax and lottery revenues, though in years when money has been available the state general fund also contributes to local schools.

<b>INFLATION-ADJUSTED STATE SPENDING (1995-2008) IN 2008 \$ MILLIONS</b>						
	<b>1995</b>	<b>2000</b>	<b>2005</b>	<b>2008</b>	<b>CHANGE 95-08</b>	<b>% OF TOTAL</b>
<b>EDUCATION</b>	<b>\$13,568</b>	<b>\$15,119</b>	<b>\$15,685</b>	<b>\$15,029</b>	<b>11%</b>	<b>35%</b>
HEALTH & HUMAN SERVICES	\$12,291	\$13,408	\$15,425	\$16,198	32%	38%
PUBLIC SAFETY & CORRECTIONS	\$2,161	\$2,411	\$2,473	\$2,615	21%	6%
TRANSPORTATION	\$1,876	\$2,022	\$2,342	\$2,339	25%	6%
ENVIRONMENT/RECREATION/AGRICULTURE	\$887	\$686	\$648	\$580	-35%	1%
REVENUE SHARING w/ LOCAL GOV'T	\$1,652	\$1,816	\$1,205	\$1,076	-35%	3%
OTHER	\$3,881	\$4,331	\$4,679	\$4,673	20%	11%
<b>TOTAL EXPENDITURES</b>	<b>\$36,316</b>	<b>\$39,794</b>	<b>\$42,458</b>	<b>\$42,511</b>	<b>17%</b>	

**Sources & Methodology:** Calculations from Michigan Comprehensive Annual Financial Reports ([http://www.michigan.gov/budget/0,1607,7-157-13406\\_13419---,00.html](http://www.michigan.gov/budget/0,1607,7-157-13406_13419---,00.html)), Inflation adjustments made with the same Detroit CPI adjustment factor used by state fiscal analysts in their routine budget projections – See Table 4, “Economic Forecast Variables” (<http://house.michigan.gov/hfa/PDFs/source0709.pdf>).

<b>2000-2010 GENERAL FUND TRENDS (inflation-adjusted in 2010 \$ millions)</b>				
	<b>1999-2000</b>	<b>2009-10</b>	<b>CHANGE 00-10</b>	<b>% OF 2010 GF</b>
Community Colleges	\$364.2	\$299.4	-18%	
Education Department (Administration)	\$46.3	\$19.4	-58%	
Higher Education	\$2,057.5	\$1,507.7	-27%	
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<b>TOTAL EDUCATON</b>	<b>\$2,983.3</b>	<b>\$1,858.3</b>	<b>-38%</b>	<b>23%</b>

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<http://www.senate.michigan.gov/sfa/Publications/BudUpdates/StateBudgetUpdate100209.pdf>