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In Lansing this week . . . “Putting Michigan’s Fiscal House in Order” was the theme of the annual meeting of the Michigan League for Human Services. Featured speakers included Mitch Bean, Director of the House Fiscal Agency, MSU Economics Professor Charles Ballard, and CEO of the Prima Civitas Foundation, David Hollister. The presentations were webcast, and can be found on the MLHS’ website at www.MiLHS.org.

HFA chief Mitch Bean presented a thumbnail sketch of the Michigan economy. The FY 2010 budget inflicted \$500 million in general fund cuts and another \$350 million in restricted fund cuts. Most departments saw 10% reductions in their general fund appropriations. Statutory revenue sharing was cut by 20%, Medicaid provider rates were cut 8%, mental health general funds were cut \$40 million, and human services programs lost over \$238 in general funds, leaving just enough state money for federal maintenance of effort requirements.

The forecast is bleak for the next two years. Michigan lost 300,000 jobs this year, and is expected to lose over 100,000 more in 2010 and 17,000 more in 2011. Falling property values are and will be creating a funding crisis for local governments that depend on property taxes. General fund revenues are equivalent to 1964 levels. School Aid revenues are down 14% since FY 2000, and transportation revenues have fallen each year since 2004. In contrast, tax expenditures (tax breaks) are at an all time high, exceeding revenues by more than \$6 billion.

One half of Michigan’s general fund is used for Medicaid, now a \$10 billion program, which draws down \$2.50 in federal funds for every \$1 in state funds. Medicaid’s need for general funds is crowding out other programs funded from this source, according to Bean. Medicaid growth is primary due to a burgeoning caseload with 1.7 million people now on Medicaid, or 1 in 6 residents. Forty-two percent (42%) of births and 70% of nursing homes expenditures are paid by Medicaid. Also growing by leaps and bounds – Corrections, consuming 21% of general funds. If no new transportation taxes are generated, Michigan will lose half a billion dollars in federal aid in 2011 and road/bridge quality will start a downward path.

Professor Ballard’s remarks were focused on tax reform, as was his op-ed column published today in the Detroit Free Press. Ballard started by showing that Michigan and the U.S. has had an unprecedented increase in income inequality – the gap between the richest and the poorest has never been greater or growing faster. This phenomenon is not worldwide – for example, it has not occurred in Japan or France where social values have tempered greed.

Contrary to some politician’s claims, Michigan’s tax burden (state & local taxes as a percent of personal income) is average compared to other states, and tax burden has dropped nationwide – meaning as a country, we are paying fewer taxes, not more. In Michigan, the structure of our sales tax and income tax are contributing to fiscal problems since these taxes are not keeping up with personal incomes. The sales tax needs to be broadened to cover services, and the income tax needs to be graduated so that higher income families pay a higher percentage than lower income families. Michigan is one of seven states with a flat-rate income tax. One proposal put forward by the League would cut taxes for 90% of taxpayers yet raise \$600 million more in revenues. Recent opinion polls show a majority of the voting public would vote for a graduated income tax.