



**METROPOLITAN AFFAIRS COALITION
STATE ISSUES PLATFORM
December, 2009**

Michigan is facing serious challenges. The transformation of our automotive industry, compounded by the global recession, means serious economic impact for our region and state for the foreseeable future. By 2010, some forecast that a quarter of the state's jobs – 1,000,000 in all, many dependent on the auto industry – will have vanished and we will find ourselves among the most challenged states in the nation.

Serious action is needed to return to economic prosperity. We need to face up to new realities and make hard choices. This crisis offers opportunities for right-sizing, restructuring, becoming more competitive and creating jobs. The time for thoughtful discourse, problem-solving and action is now.

The Metropolitan Affairs Coalition (MAC) is uniquely positioned to present this Platform as the only coalition of business, labor and government providing civic leadership in Southeast Michigan. MAC has a history of addressing regional issues through its mission-driven focus on regional cooperation, economic vitality and quality of life, with particular emphasis on the critical issues of economic revitalization, infrastructure, and environment. MAC researches and finds solutions to regional problems with everyone at the table, and with access to superior content expertise and data provided through its partner organization, SEMCOG (the Southeast Michigan Council of Governments).

Many studies provide an analysis of the current situation, benchmarking data, and suggestions for future action. Using this research and data as a guide, we have focused on those issues where there is broad consensus and opportunity for change. The following recommendations are presented for consideration by current and future leaders, and the state and local parties involved, who are responsible for shaping policy to meet the region and state's fiscal challenges.

1) Reduce the cost of state government while maintaining service quality.

The challenge:

- 42% decrease in total general fund revenue since 2000; equivalent of 1960's size budget.
- Total state revenue is projected to further decline 11.5% between FY2008 and FY2010.
- Opportunities for one-time fixes (\$8B over last decade) to balance the budget, including federal stimulus funding, have largely been exhausted.
- With the exception of higher education and government revenue sharing, all major state budget categories have grown faster than inflation since 2000; however state spending *adjusted for inflation* is down 14% overall.
- State had one employee per 161 residents in 2001; one employee per 197 residents in 2008 (16.9% decrease overall '01-09).

- Incarceration rate equals 489 per 100,000 – 45% higher than Great Lakes average; average length of stay 48% higher.

Imperative for change:

- Balance the state budget, responding to sharp drop in revenues
- Fund high priority programs critical to state's return to economic prosperity
- Consider structural changes in revenue sources, such as a different taxation mix

Vehicles for success:

- Enact a two year budget
 - Ensure expenditures align with longer term revenues
 - Provide certainty for schools and local governments in balancing their budgets
- Eliminate or extend term limits to promote informed, bipartisan budget solutions
- With labor and management working together, use best practices to enhance quality, improve services, and identify opportunities to reduce costs.
- Eliminate low priority services and direct resources to the most critical
- Change prison sentencing to bring incarceration rates in line with neighboring states
 - Reduce mandatory/implement alternative sentencing

2) **Reduce the cost of local government while maintaining service quality.**

The challenge:

- Michigan has 1858 units of local government.
- In Southeast Michigan, taxable value, on which property taxes are based, declined by an average of 3.5% in 193 communities in the region in 2009. (57 communities lost between 5% and 16.5%.)
- Forecasts point to an additional taxable value drop of 11.1 % in 2010 and 4.4 % in 2011.
- Proposal A limits increases on taxable value of a property to 5% or inflation, whichever is less.
 - If property values rose dramatically today, it would take many years for property taxes to generate revenues at previous levels.
- The state's watch list of communities potentially facing state financial intervention is approaching 70.
- All of Southeast Michigan's 240 general purpose local governments face serious financial challenges due to property tax and revenue sharing declines.

Imperative for change:

- Ensure fiscal sustainability of local governments
 - Respond to sharply reduced property tax revenues and state revenue sharing
- Ensure high quality local government services essential for business and talent attraction

Vehicles for success:

- Focus available resources on most important local government services
- With labor and management working together, use best practices to enhance quality, improve services, and identify opportunities to reduce costs.
- Reduce impediments and create incentives for local governments to improve services and reduce costs



- Encourage balanced arbitration rulings and intergovernmental collaboration that produce savings
- Consolidate delivery of services to achieve economies of scale
- Implement alternative service delivery approaches
 - Purchase services from governments with excess capacity
 - Create innovative public/private service delivery arrangements
 - Purchase services from the private sector
 - Enter into joint purchasing arrangements

3) Reduce the cost of public education while maintaining/increasing quality and access.

The challenge:

- Michigan has 549 local school districts.
- Michigan ranks 34th in educational attainment (Bachelor's degree or higher), 37th in per capita income, and 36th in wages from knowledge-based economy jobs. (2007)
- Low education attainment industries lost 3,735,000 jobs while high education attainment industries gained 163,000 jobs nationally ('07-09).
- Unemployment rates of high school graduates are more than double that of Bachelor's degree holders.
- Current Michigan higher education investment ranks 38th.
- Up to 50% of graduates at the major Michigan universities leave the state.

Imperative for change:

- Ensure fiscal sustainability of public education system in response to reduced revenues
- Provide quality pre-K-12 and higher education opportunities for all students
 - Prepare students for future high-skill jobs in the knowledge-based economy
- Retain college students educated in the state to contribute to workforce

Vehicles for success:

- Consider alternative more stable funding sources for K-12 education
- Better align K-12 performance (34th) to per capita spending (8th)
 - With labor and management working together, use best practices to enhance quality, improve services, and identify opportunities to reduce costs.
 - Recommend administrative consolidation/shared services
- Align curriculum content with future workforce needs
- Manage public university costs while maximizing efficiencies
- Incentivize colleges/universities to improve graduation rates
- Incentivize college graduates to stay in Michigan (tuition, internships, etc.)
- Increase access to higher education by fully supporting the community college system
 - Train/retrain students/displaced workers for high tech jobs
 - Give students a lower cost entry point into the higher education system

4) Maintain, enhance and promote amenities/quality of life that attract business and talent.

The challenge:

- Elderly population increasing 7% per year; by 2035, 24% will be 65 or older.
- School age population decreasing each year since 2003.

- Promote fresh water resources – the Great Lakes represent 20% of the world’s fresh water supply.
- Maximize state’s unique features and assets that contribute to quality of life and economy. (Each \$1 spent on tourism promotion yields \$40 spent/\$2.86 in tax collection.)
- Transportation infrastructure is the #1 site selection factor, per *Site Selection* magazine.
- In 2008, 57% of Michigan’s roads were in fair and 30% in poor condition.
- Michigan has the 7th lowest transportation revenue per capita; 8th worst roads in nation.
- Aging water/sewer infrastructure face shrinking rate base and large fixed costs.
- Michigan ranks 10th in violent crimes with 562 per 100,000 population.
- 24,000 people with Bachelor’s degrees or higher left Southeast Michigan in 2007.

Imperative for change:

- New economy industries require a highly-skilled knowledge-based workforce attracted by quality of place
 - College graduates leaving state
 - Many in existing workforce low-skilled, less educated
- Site selection decision makers seek quality transportation and utility infrastructure; connections to global economy
- Economic development highly competitive among states

Vehicles for success:

- Improve image of state/region as desirable place to live/locate
 - Promote low cost of living
 - Reduce crime rate; promote public safety
 - Market and promote existing cultural and social assets
 - Develop incentives, policies and funding that encourage business/residential activity in central cities
 - Expand and enhance regional public transit
- Leverage, market and promote the Great Lakes as an exceptional economic/recreational resource
- Maintain and enhance public and private infrastructure
 - Encourage asset management and improved operational strategies
 - Develop long-term reliable and adequate funding sources
 - Enable public/private partnerships
 - Encourage adequate and competitively priced utilities through improved service delivery, conservation, legislation and regulations

5) Create jobs by making Michigan’s business climate more competitive.

The challenge:

- Michigan is ranked between 27th and 35th worst in total business tax burden.
- Executive survey business climate ranking – Michigan ranks 48th overall.
- Michigan has 3-4% higher corporate tax burden than competing states.
- Many calling for elimination of or alternatives to the Michigan Business Tax.
- Wealth of land and buildings available for retrofitting.
- Tax breaks have grown from \$2.6B in 2003 to \$35.8B in 2009.
- Advanced-battery sector/clean energy jobs grew 10.7% (1998-2007).

- Agriculture (\$71.3B revenue with 86,000 jobs) and tourism (\$18B with 193,000 jobs) leading industries to build upon.
- Improved labor/management relations in Michigan are an asset for business attraction.

Imperative for change:

- Create business friendly environment
 - Respond to shrinking economy and job loss
 - Level playing field for business attraction and retention efforts
 - Sustain existing businesses and support expansion efforts
- Develop predictable, equitable, and sustainable tax structure
 - Assist businesses in making market-based location, expansion, and operating decisions
- Support business entry and growth
 - Connect businesses with needed resources, available trained workers and expertise
 - Aid businesses in meeting regulatory requirements
- Fully engage universities as economic drivers

Vehicles for success:

- Restructure tax system
 - Ensure competitive tax structure; consider inter-relationship of taxes at all levels of government
 - Design equitable tax structure for 21st century economy
 - Levied fairly across business sectors
 - Based on earnings
 - Eliminates business surcharge tax
- Lower barriers to business entry and growth
 - Create a broader business, labor, and government support network for attracting and expanding business
 - Provide accurate information on labor/management relations and labor costs
 - Articulate value proposition of labor force
 - Develop partnerships with universities and community colleges to support business
 - Invest in major research universities
 - Speed/ease of technology transfer/commercialization of research
 - Conduct research on behalf of business
 - Jointly develop curriculum/training programs and expand training of available workforce
 - Improve regulatory/permit process
 - Coordinate and streamline permitting process across all levels of government focusing on environmental outcomes
 - Revise process to focus on allocating resources to managing risk