

General Session:

A Conversation with the Governor
Live on WWJ News Radio 950

Session Sponsored By

MASCO

Richard Manoogian

Chairman & CEO
Masco Corporation

Moderator:

Vickie Thomas

City Beat Reporter

WWJ News Radio 950

The Honorable:

Jennifer M. Granholm

Governor

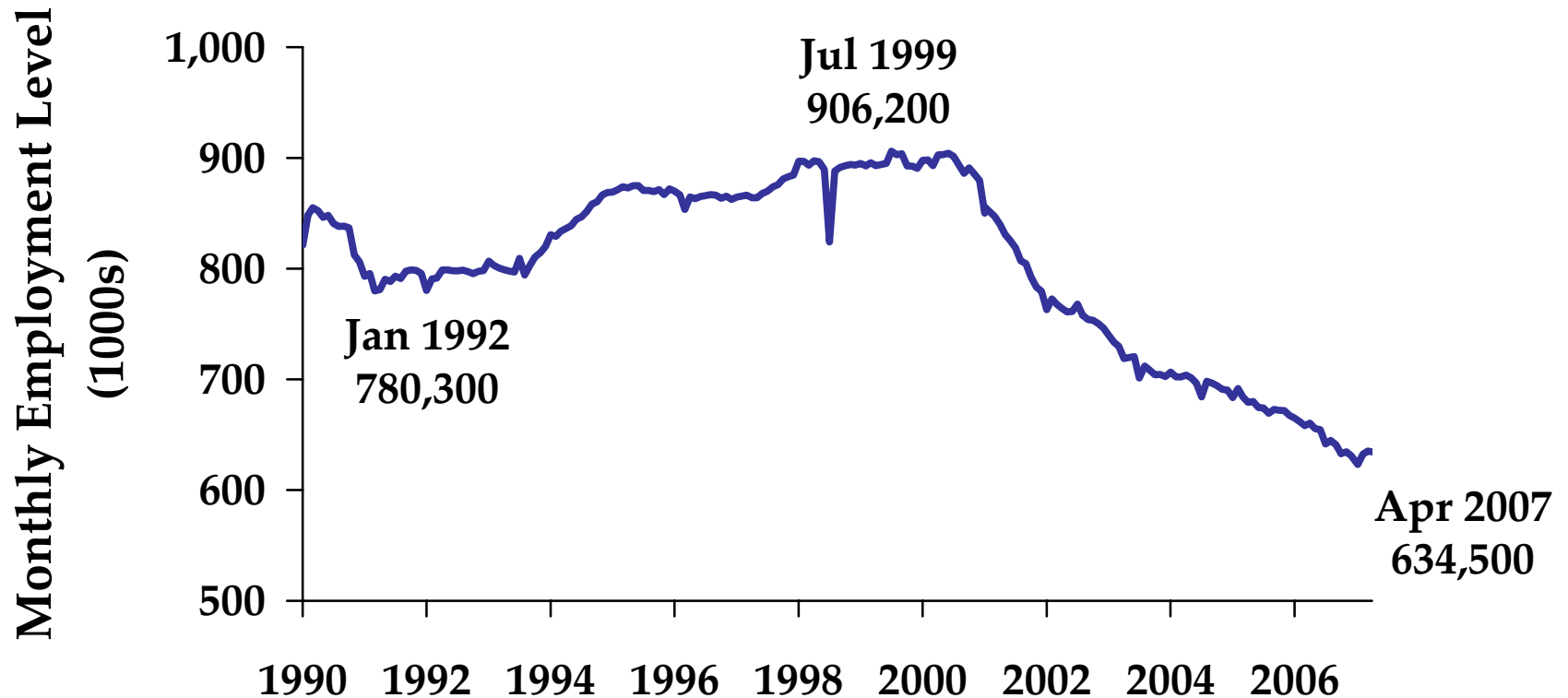
State of Michigan

Michigan's Challenge:

**Budget Crisis, Economic
Transformation**

Michigan Manufacturing Employment

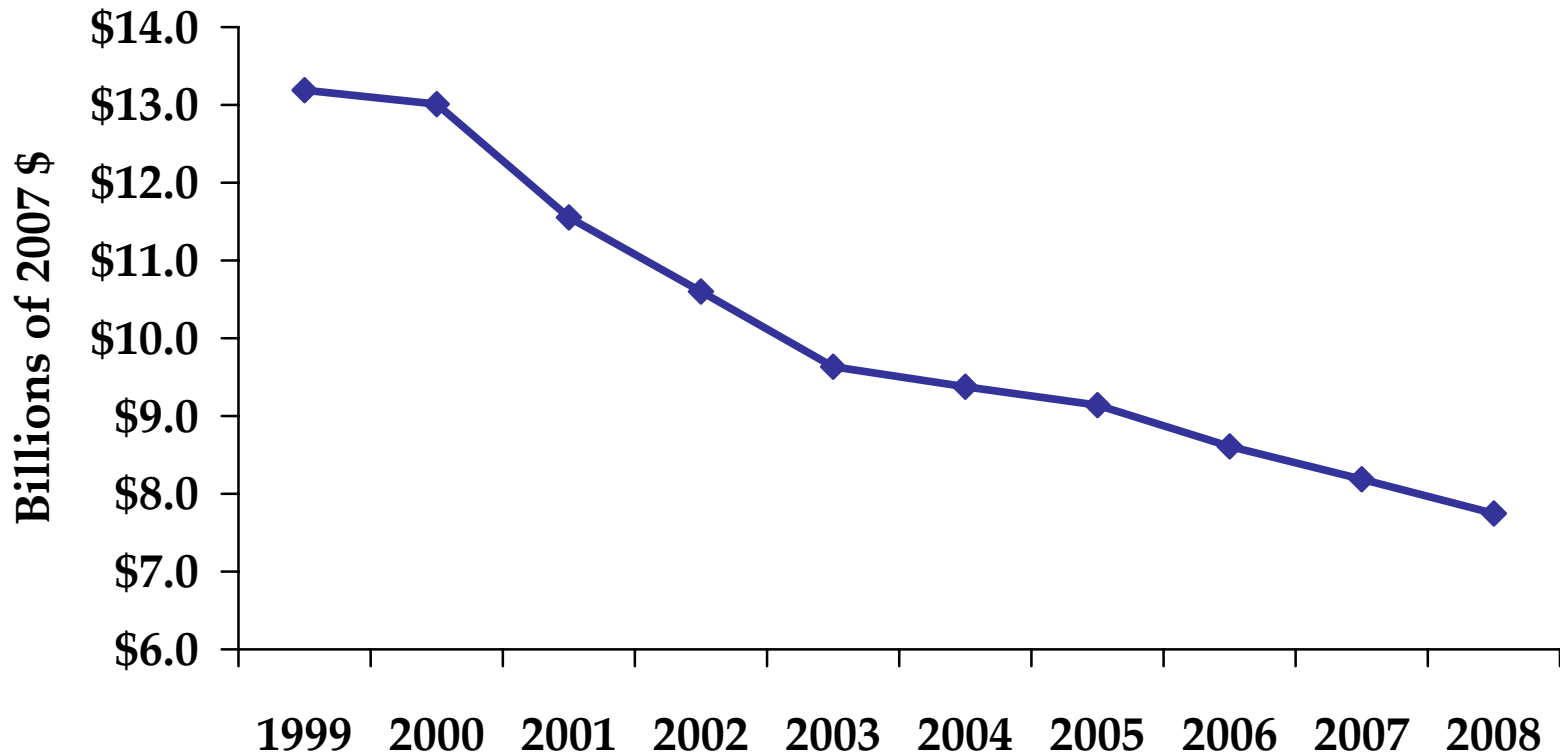
More than 1 in 4 Jobs Lost Since Mid 1999



Source: U.S. Department of Labor, Bureau of Labor Statistics.

Source: Economic and Revenue Forecasting Division, Michigan Department of Treasury, 5/30/07

Revenue Down 40 Percent Since 1999

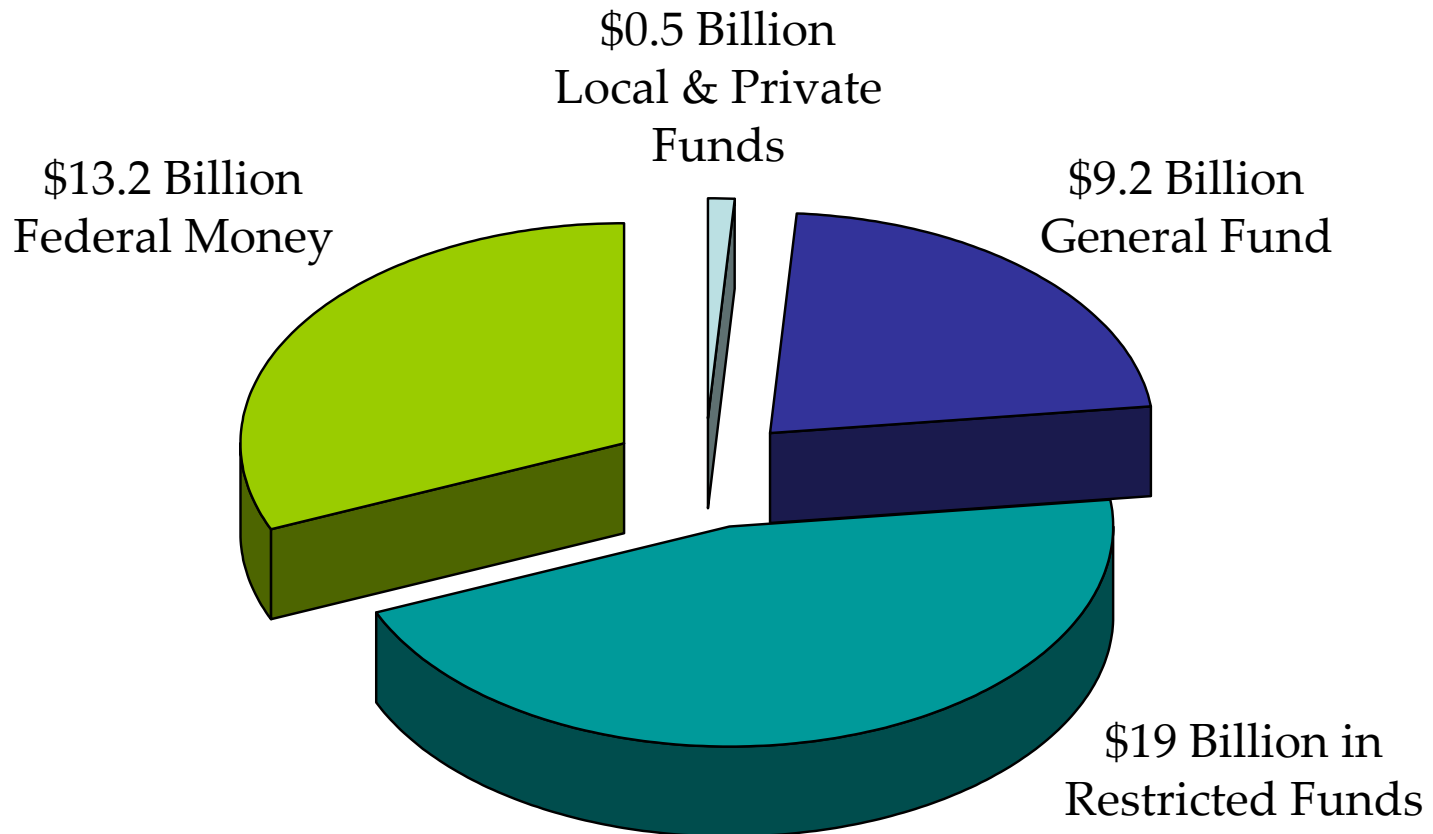


Totals exclude transfers and are adjusted to 2007 dollars using Gov't Price Deflator.
FY 2008 revenue total assumes full replacement of the SBT.

FY 2007 Funding for State Government

\$42 Billion Total Budget

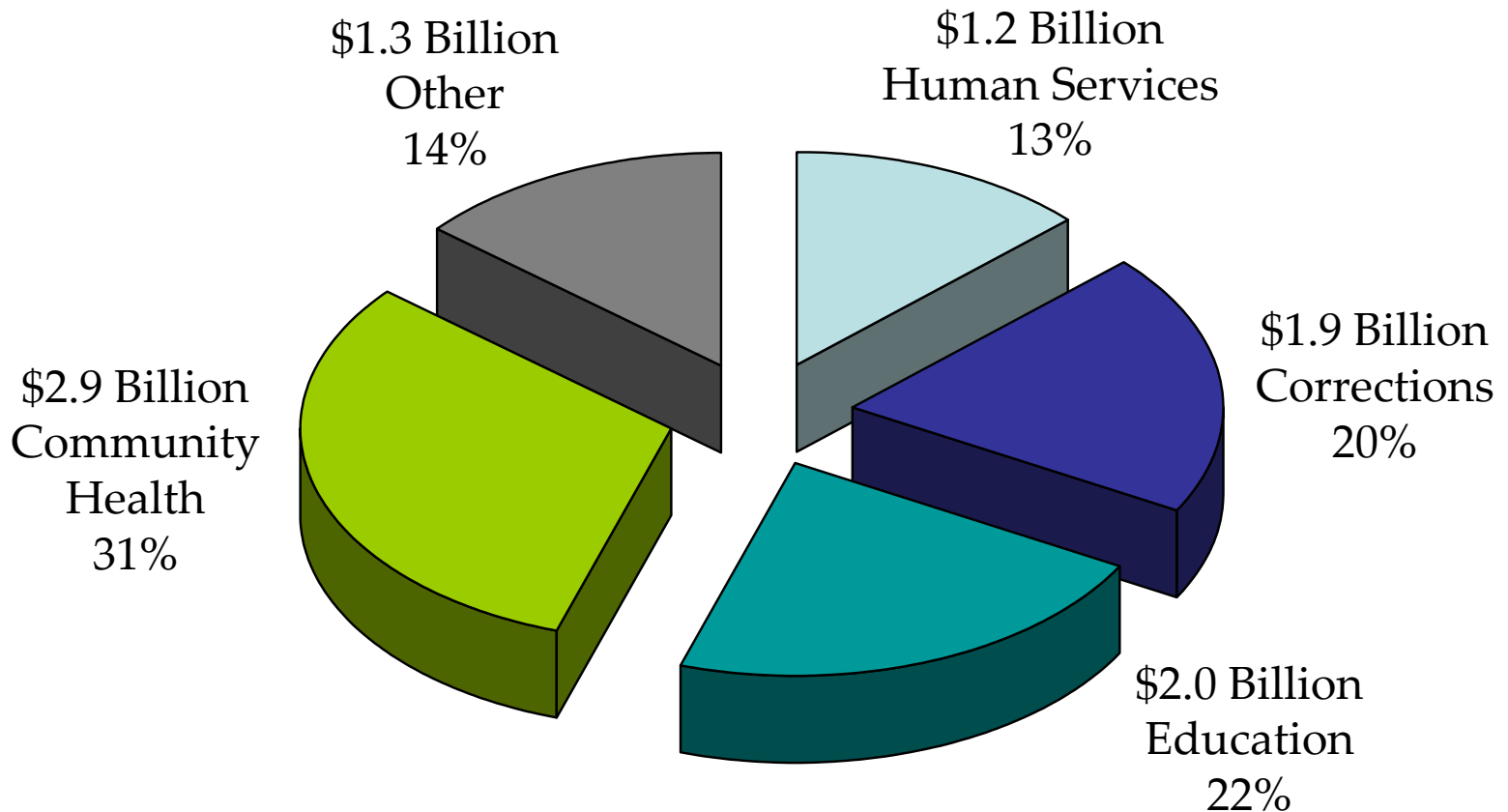
Governor, Legislature Control Only \$9 B



General Fund Budget \$9.2 Billion

\$1.8 B Short in FY 08

86% of GF Spending In 4 Areas



How to Fill a \$1.8 B Hole?

- Eliminate Dept of Corrections – release all 51,450 prisoners (\$1.8 Billion)
- Eliminate all funding for state's 15 universities (\$1.6 Billion)
- Cut 475,000 women, children, seniors off health care
- Cut school funding by \$1,120 for every child in MI

Emergency Financial Advisory Panel

A Bipartisan Group of MI leaders

- Hon. James J. Blanchard
- Hon. William G. Milliken
- Dan L. DeGrow, Superintendent of St. Clair County RESA, frmr Republican State Senate Majority Leader
- Don Gilmer, Kzoo County Administrator, frmr Budget Director under Gov. Engler
- Paul Hillegonds, Senior VP of DTE Energy, frmr Speaker of Republican-led House of Representatives
- Frank J. Kelley, frmr Michigan Attorney General
- Sr. Monica Kostielney, President & CEO of Michigan Catholic Conf.
- Dr. John W. Porter, former EMU President, State Superintendent for Public Instruction
- Douglas B. Roberts, frmr State Treasurer under Gov. Engler
- John J. H. Schwarz, frmr Republican U.S. Congressman
- Dr. Lou Anna K. Simon, MSU President
- S. Martin Taylor, UM Regent, frmr State Dept Dir., Corporate Executive

EFAP Solution: A Mix

“....Michigan must develop a fiscal plan that includes a combination of revenue increases, spending cuts and reform of how public services are delivered”

- Emergency Financial Advisory Panel Report

A Budget to Implement Our Economic Plan

Introduced Feb 8

- A combination of cuts, reform and revenue
 - Prison reforms to reduce prison population, cut costs
 - Local government and schools sharing services
 - Reforms to keep kids safe
 - New revenue to set us on solid fiscal ground and invest in critical programs including education

Budget Solution: A 4-Part Mix

- New Michigan Business Tax
- Cuts
- Reform
- Revenue

Budget Solution: A 4-Part Mix

New Michigan Business Tax

- Fair, simple, keeps Michigan competitive
- Provides credits for businesses who locate and hire people in Michigan
- Provides significant personal property tax relief
- Provides significant relief for small business

Budget Solution: A 4-Part Mix

Cuts

- Already resolved \$4 billion in deficits, cut \$3 billion
- Even before most recent round of budget cutting:
 - Higher Ed – cut \$275 M in 4 years (13%) – tuition has increased 34.5%
 - Revenue Sharing – cut \$447 M in 5 years (29%) – 1,600 fewer cops, 2,400 fewer firefighters on the street
 - Human Services – cut \$172 M in 5 years (14%)

Budget Solution: A 4-Part Mix

Reform

- Like business, consolidated state administrative functions
- Eliminated departments, abolished 154 boards and commissions
- State employees have gone without pay, contributing \$300 M in savings; don't get pensions
- Issued 27 Ex. Directives restricting state spending –19 this year alone

Budget Solution: A 4-Part Mix

Reform

- Saved \$21 M in three months through hiring freeze, stopping grants
- Cut state fleet by 2,500 cars, sold 4 state airplanes, eliminated travel, ended subscriptions, ended personal use of cars
- Ended no-bid contracting, saved \$550 M by instituting competitive bidding
- Streamlined permitting – 200+ permits online; time for receiving tax ID numbers now 5 days v. 6 – 8 weeks; some permit times reduced by 30% -avg. permit issued in 55 days; some issued in as little as 24 hours

State Government is Smaller

<u>Fiscal</u> <u>Year</u>	<u>Governor</u>	<u>Number</u> <u>State</u> <u>Employees</u>	<u>Non-Corrections</u> <u>State</u> <u>Employees</u>
1973	Milliken	52,673	50,316
1978	Milliken	64,456	59,990
1989	Blanchard	64,560	52,038
1999	Engler	60,066	43,003
2000	Engler	61,493	43,841
2006	Granholm	52,259	35,813

Budget Solution: A 4-Part Mix

Reform

- Teacher & state employee health care:
 - Require bidding and competition between health care providers
 - Allow for “pooling” with other districts and other units of government to get the best possible price.
 - Will seek further savings from state employees for health care savings
- State government & teacher pensions:
 - End “double dipping”
 - Toughen rules for vesting - end ability of some to draw lifetime health care benefits after only five years of work.

Budget Solution: A 4-Part Mix

Reform

- Local government & school district service sharing/consolidation:
 - Remove barriers to consolidation/service sharing
 - Proposed incentives for sharing services among school districts
 - Proposed incentives for local units of government to share services
- Corrections reforms:
 - Proposed changing laws that make our incarceration rates higher, more expensive than other states
 - Proposed changing sentencing guidelines to reduce costs of incarceration

Budget Solution: A 4-Part Mix

Revenue

- Necessary reforms and cuts don't add up to fill \$1.8 B hole.
- 86% of state's General Fund comes from prisons, health care, higher education, child protection
- Through 06, cut \$3 Billion in state spending
- Already cut additional \$300 M in FY 07

Budget Solution: A 4-Part Mix

Revenue

- Feb – proposed budget for 2008
- With reforms/cuts – that budget still 1.8B short
- Conceptual agreement to make SBT replacement revenue neutral
- Reforms, Cuts will save \$300 Million
- Fill remaining \$1.5 B with revenue
- Can only be done two ways:
 - Income tax
 - Luxury tax on services
- Reasonable solution: a mix, with triggers

Where Can We Go?

- Two crises – one budgetary, one economic
- How we solve budget crisis will define how we solve our economic one

Where Can We Go?

- One D Work Groups – Road to Renaissance – Jobs Today, Jobs Tomorrow
- Common Elements:
 - Economic Development through investment, diversity
 - Economic Development through academic preparedness
 - Quality of Life – “healthy, balanced and fulfilling lives as part of a caring community”
 - Race Relations – One D, One Michigan
- Have to resolve the budget in the right way in order to grow Michigan’s economy

Where Can We Go?

“Investment is what matters. No one can be expected to invest in a state that does not invest in itself. The new economy based on information, knowledge, and rapid response to changing demands requires a highly-skilled workforce...an investment strategy means support for education – one that produces results. It also means reinvestment in those elements that create the quality of life that ... workers seek – the state’s natural resources, educational institutions, cultural assets, infrastructure and urban centers.”

- Emergency Financial Advisory Panel Report

What's Next?

Let's get it done.
Now.