

V. SEMCA'S FISCAL ENVIRONMENT

Federal and State Revenues and Expenditures

Federal Federal funds comprised 31.9% of Michigan revenues in fiscal year (FY) 2005-2006 down from 32.3% in FY 2004-2005.ⁱ Since Federal funds comprise one-third of all State revenue they are an important factor in the level of funding available for grants to local government. Michigan's FY 2003 share of grants to state and local governments was 2.9%, and Michigan ranks 41st among the States in receipt of federal grants for a per capita expenditure of \$1,287. Federal funding formulas based on per capita income place Michigan at a disadvantage in the receipt of federal grants to state and local governments.ⁱⁱ The current federal budget deficit which is not projected to fall below \$300 billion during the next ten yearsⁱⁱⁱ will drive further cuts to discretionary domestic spending (e.g., education, health care, housing and environmental protection). Funding for domestic discretionary programs will be reduced \$23 billion or 5.9% in 2006 alone.^{iv}

State Federal revenues as a share of Michigan revenues are declining. State revenue from State taxes decreased 2.4% between FY 2000-01 and FY 2003-04. Revenue from personal income tax declined 14% and revenue from the single business tax fell 20.8%. These declines are driven primarily by cuts to the income and single business tax, estate and intangibles taxes enacted by the legislature in the 1990s. Contributing to the decline in State revenues is the 6.1% loss of Michigan wage and salary jobs between 2000 and 2004. Between 1995 and 2004 Michigan lost 20.2% of its good wage and benefit manufacturing jobs.^v As a result of these combined revenue losses, State revenues are at the lowest level since 1970. Michigan has and continues to be faced with a structural deficit. Because of the structural deficit, each year the State budget will start out with a minimum deficit of \$300 million forcing more cuts to State general fund spending to meet the State Constitution's requirement for a balanced budget. The State's revenue system reflects the economy of the 1950s, 60s and 70s, resulting in slower revenue growth than the rate of growth in the economy. The State taxes very few services, which are over half of Michigan's private sector economic activity. Instead Michigan focuses on consumption taxes, as if the State was still producing goods at the rate it did between the 1950s and 1970s.^{vi}

Medicaid Between 1999 and 2003, increases in Medicaid enrollment in Michigan (21.8%) were well below those nationally (30.6%).^{vii} Medicaid spending in Michigan has been reduced by \$375 million since 2002.^{viii} As the State's economy continues to lose manufacturing jobs with health benefits the increase in Medicaid enrollments will continue. The Medicaid caseload is projected to grow 6% in 2005 and 4.7% in 2006. In an attempt to control caseload growth the State is seeking an 1115 demonstration waiver from the Centers for Medicaid and Medicare Services to freeze enrollments of 19 to 20 year olds and caretaker relatives. The waiver will limit prescription drug benefits to 4 prescriptions a month and require \$10 co-pay for emergency room services.^{ix}

Appropriations In 1998, Michigan spent \$2.7 billion, on problems related to addiction and substance abuse (e.g. criminal justice, child welfare) While the cost of public programs to remediate substance abuse problems is the 12th highest in the nation, Michigan ranks third

from last among the states on spending for substance abuse prevention and treatment.^x This situation will not improve any time soon given legislative priorities.

The legislature in 2005 began a new process of prioritizing budget expenditures. This process placed funding for substance abuse services as priority #48, non-emergency transportation costs for Medicaid recipients as priority #96 and State Disability payments to support per diem payments for room and board in residential substance abuse treatment facilities as priority #116.^{xi} The House Taxation Committee is also considering HB 4064, which will reduce the percentage of liquor tax revenues to counties in the Lower Peninsula by 25%.^{xii}

ⁱ M. Bean, (June 2005). *State of Michigan Revenue Source and Distribution*. Lansing, MI: House Fiscal Agency.

ⁱⁱ G.S. Olson, (March/April 2005) "Federal Expenditures in Michigan" in *State Notes*. Lansing MI: Senate Fiscal Agency

ⁱⁱⁱ Shapiro I. & R. Greenstein (August 2005). *Cuts to Low Income Programs May Far Exceed the Contribution of These Programs to Deficit's Return*. Washington, DC: Center on Budget and Policy Priorities.

^{iv} J. Horney, (May 2005). *Assessing the Conference Agreement on the Budget Resolution*. Washington, DC: Center on Budget and Policy Priorities.

^v Olson, G. & T. Mangla (July 2005). *The Michigan Economy and State Budget FY994-95 and FY2003-04 Ten Years of Significant Changes*. Lansing, MI: Senate Fiscal Agency.

^{vi} Ibid.

^{vii} D. Fosdick. (March 2005). *Medicaid Enrollment in the State of Michigan 1994-2004*. Lansing, MI: Senate Fiscal Agency.

^{viii} S. Parks. (April 2005). *Update on the State Fiscal Crisis*. Lansing, MI: Michigan League for Human Services.

^{ix} S. Fitton, (May 2005). *Modernizing Michigan Medicaid Section 1115 Demonstration Draft Waiver Proposal*. Lansing, MI: Michigan Department of Community Health.

^x Public Sector Consultants (2002). *Michigan in Brief*. 7th Edition Lansing, MI: Public Sector Consultants.

^{xi} Wp:05:progr:required April 01 MASTER POG full PLUS current.xls:comm..health (5/17/05) House Fiscal Agency.

^{xii} House Bill No. 4064