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Michigan Long-Term Care Supports and Services Advisory Commission
Meeting of May 11, 2009
Lansing, MI

- Agenda, Monday, May 11, 2009

- Michigan's Budget Shortfalls – House Fiscal Agency, Mitchell E. Bean, Director

- Perspectives on Michigan's Economy and Budget – Michigan State University, Department of Economics, Charles L. Ballard

- Potential Changes to Michigan's Revenue Structure – Michigan Department of Treasury, Office of Revenue and Tax Analysis, Scott Darragh, Economist

- Putting Michigan's Budget Crisis in Perspective: Unsustainable Trends and Options for Restoring Fiscal Sanity – Michigan League for Human Services, Dale Fickle, Senior Budget and Tax Policy Analyst

- Detroit Long Term Care System Change Task Force *Moving Toward Enhancing the Quality of Care,* 2009 Public Policy Agenda

- Recommendation #2 Money Follows the Person and Recommendation #9 Finance Process Action Teams

- Finance Reform and Money Follows the Person Initiative, Charge to Workgroup

- Public Comment

MICHIGAN LONG TERM CARE SUPPORTS & SERVICES
ADVISORY COMMISSION
MONDAY, May 11, 2009 FROM 10:00–4:00
AGENDA

I. 10:00 A.M. Organizing Ourselves

A. Introductions/Roll Call
B. Review & Approval of March Draft Minutes
C. Review & Approval of May Agenda

II. 10:15 A.M. What's Happening: The Morning After in America – Diving Economies, Deficits vs. State Revenue Modernization – Four Men & Commission Tenor

A. *"Michigan's Plunging Structural Budget Shortfalls"*
– Mitchell Bean, Director, Michigan House Fiscal Agency
B. *"Michigan's Economic Outlook"*
-- Charles Ballard, MSU Department of Economics
C. *"Potential Changes to Michigan's Revenue Structure"*
-- Scott Darragh, Economist, Office of Revenue & Tax Analysis, Michigan Department of Treasury
D. *"Putting Michigan's Budget Crisis in Perspective: Unsustainable Trends & Options for Restoring Fiscal Sanity"*
-- Dale Fickle, Senior Budget & Tax Policy Analyst, Michigan League for Human Services
E. Commission Q&A and Discussion on Advocacy Assuring Adequate Funding for the Array

[12:30 LUNCH BREAK]

III. 1:00 P.M. What Else is Happening:

A. Public Comment
B. *The Detroit Long Term Care System Change Task Force Public Policy Agenda*
Karen Watson, Project Manager, Detroit Area Agency on Aging
Betsy Rust, CPA, Plante & Moran
C. OLTCSS Update *[Director Brey & Co.]*
1. New Executive Order Budget Cuts & Impacts
2. OLTCSS & Departmental Integration News
3. SPE Demonstrations Final Report Status
4. Task Force Recommendation Logic Model Reviews: Finance + Money Follows the Person
5. News and Needs on other Office Activities

[2:30 BREAK]

IV. 3:00 P.M. – What Needs to Happen

A. Commission Action on Next Steps in State Budget Advisement & Advocacy
B. Workgroup Updates
C. July Commission Needs
D. Other Commissioner Announcements & Adjournment

Michigan's Budget Shortfalls

Prepared for:
Michigan Long Term Care
Supports & Services Advisory Commission

HOUSE FISCAL AGENCY

May 11, 2009

Mitchell E. Bean, Director

GF/GP Estimated Budget Shortfall

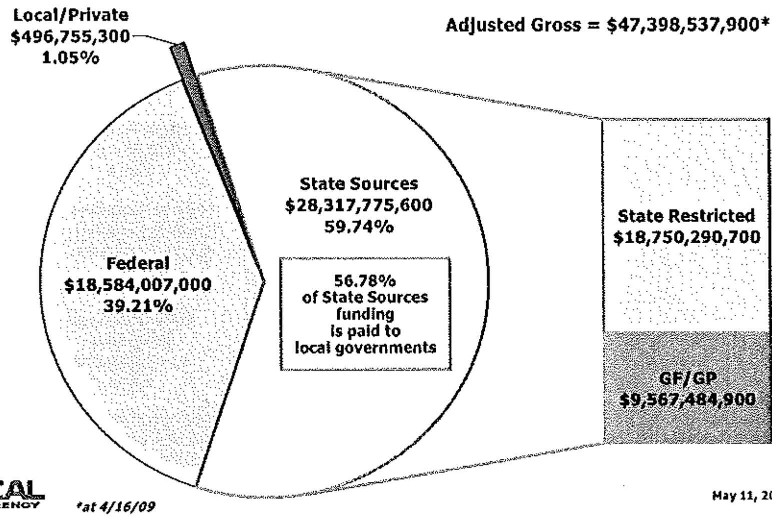
	Millions of Dollars		
	FY 2008-09	FY 2009-10	FY 2010-11
Estimated Revenue	$8,616.5	$7,825.7	$8,127.8
Estimated Expenditures	$9,606.3	$8,655.9	$9,721.0
Estimated Balance Without Enhancements or ARRA	*($989.8)*	*($830.2)*	*($1,593.2)*
Proposed Revenue Enhancements	N/A	$153.2	$159.7
Estimated Balance After Revenue Enhancements	*($989.8)*	*($677.0)*	*($1,433.5)*
Available ARRA Revenue	$1,157.8	$617.0	$239.0
Estimated Balance After Using ARRA	***$168.0***	*($60.0)*	*($1,194.5)*

School Aid Fund
Estimated Budget Shortfall

	Millions of Dollars		
	FY 2008-09	FY 2009-10	FY 2010-11
Estimated Revenue	$12,836.3	$12,177.1	$12,600.1
Estimated Expenditures	$13,255.8	$13,074.3	$12,961.4
Estimated Balance Without Enhancements or ARRA	*($419.5)*	*($897.2)*	*($361.3)*
Proposed Revenue Enhancements	N/A	$65.2	$82.5
Estimated Balance After Revenue Enhancements	*($419.5)*	*($832.0)*	*($278.8)*
Available ARRA Revenue	$1,302.4	$836.3	($42.3)
Estimated Balance After Using ARRA	*$882.9*	*$4.3*	*($321.1)*

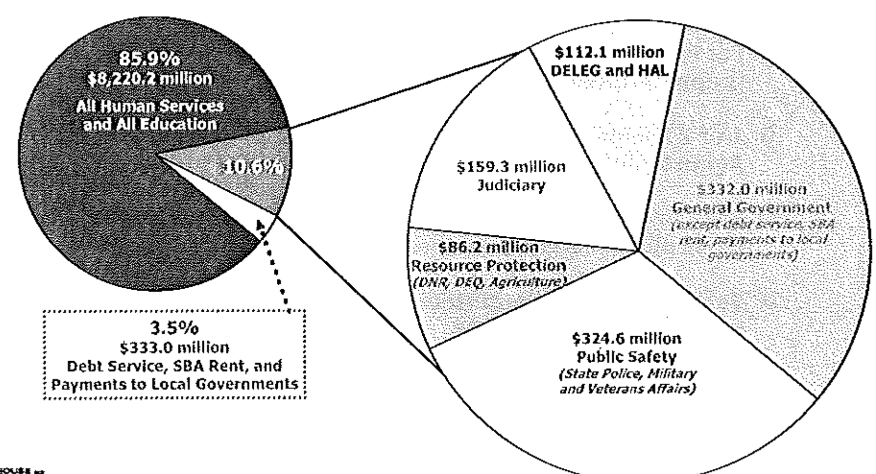
MICHIGAN'S BUDGET

FY 2008-09 Budget Adjusted Gross Funding Sources



*at 4/16/09

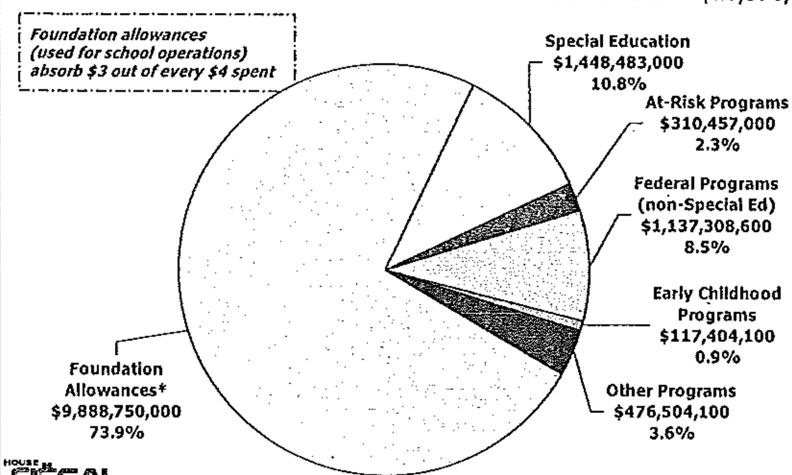
FY 2008-09 GF/GP*



*$9,567.5 million at 4/16/09

School Aid
Major Spending Categories

FY 2008-09 Total = $13,378,906,800



HOUSE FISCAL AGENCY

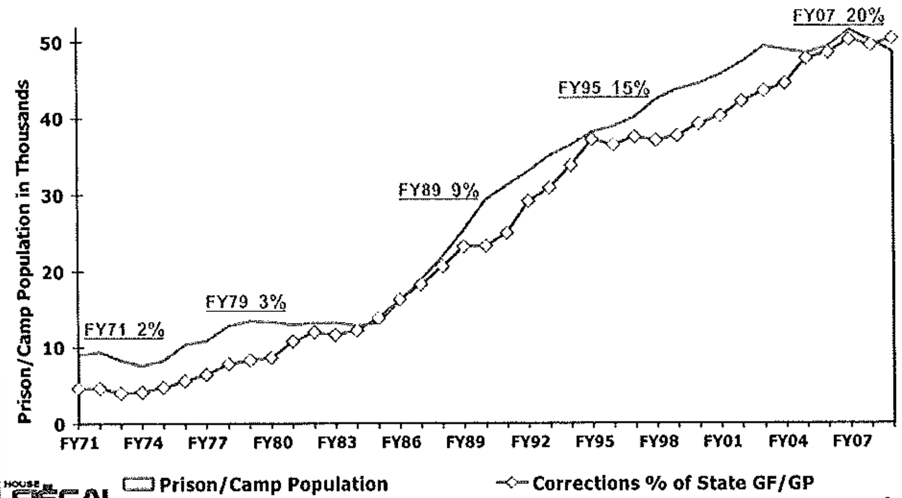
* Does not include local revenue

Medicaid Impact on Michigan Budget

- For FY 09, approximately 22.4% of Michigan GF/GP revenue is appropriated by Medicaid
- 1 of 7 Michigan residents were eligible for Medicaid in August 2008
- 37% of births and 70% of nursing home expenditures in Michigan are financed through Medicaid
- Total state and federal Medicaid appropriation is over $9.9 billion in FY 09
- Since FY 1999-2000
  - 88.4% increase in Medicaid funding
  - 46.6% growth in Medicaid caseload (495,100 cases)

HOUSE FISCAL AGENCY

Corrections Budget Increases



HOUSE FISCAL AGENCY

FYs 08 and 09 based on year-to-date appropriations

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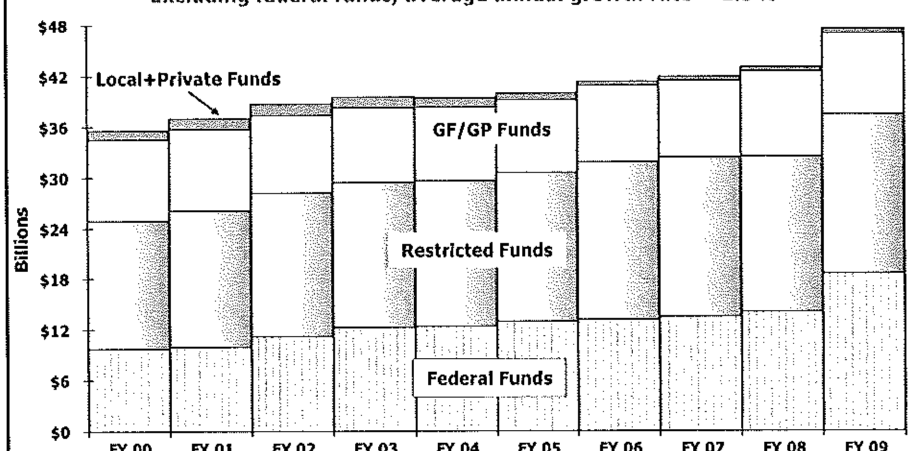
Adjusted Gross Appropriations* by Fund Source

Excluding federal funds, average annual growth rate = 1.3%



HOUSE FISCAL AGENCY

*at 4/16/09

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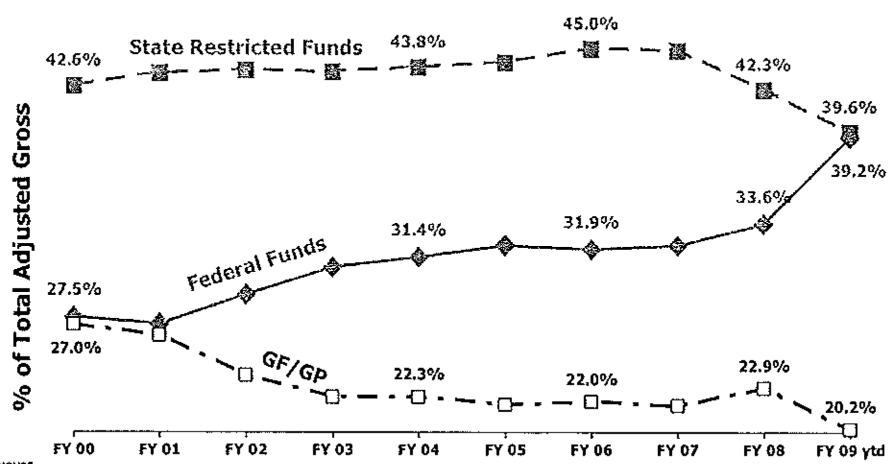
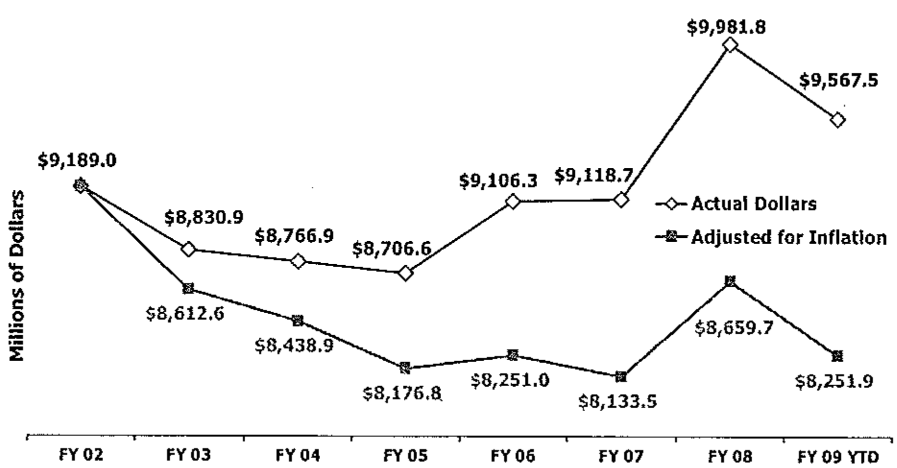
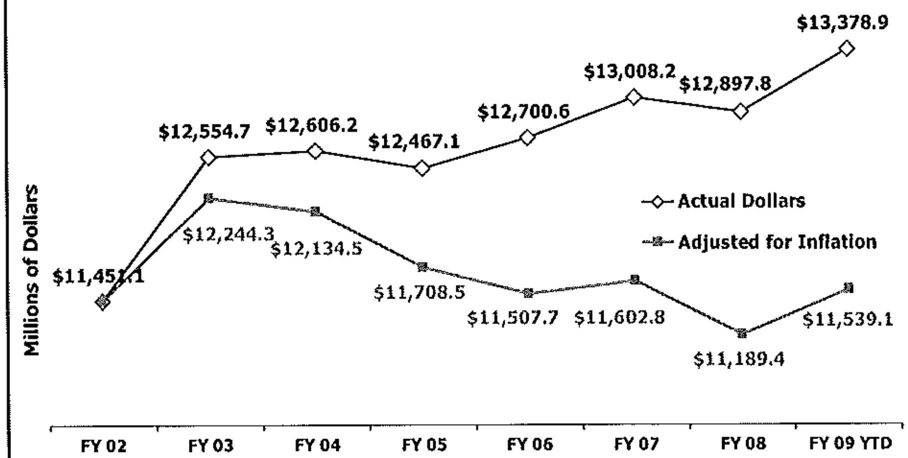
% Change in Source of Adjusted Gross Appropriations*



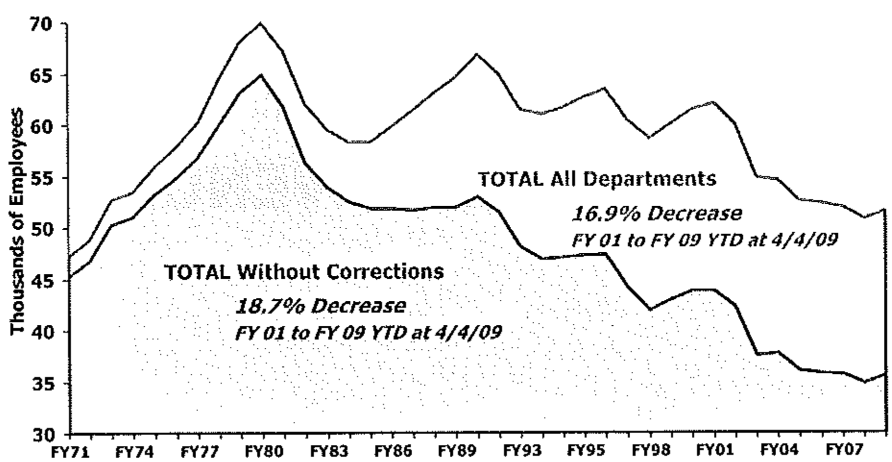
GF/GP Appropriations*



School Aid Budget
Adjusted Gross Appropriations*



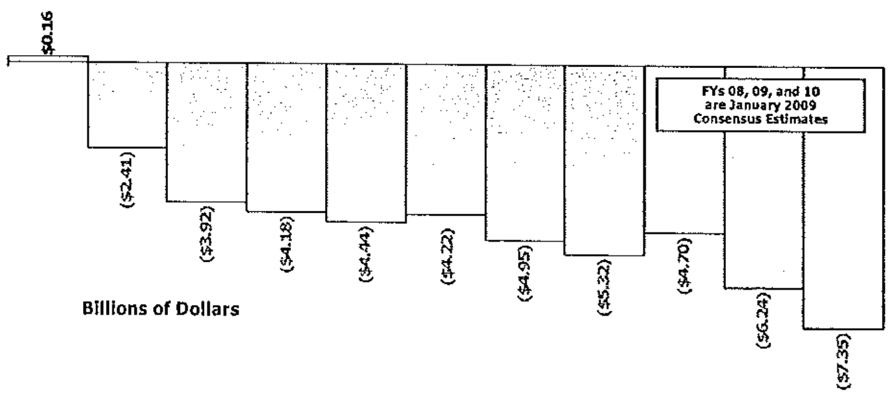
Average Number
of Classified State Employees



Constitutional Revenue Limit

Average growth of Michigan personal income = 1.8% per year from 2000 through 2010

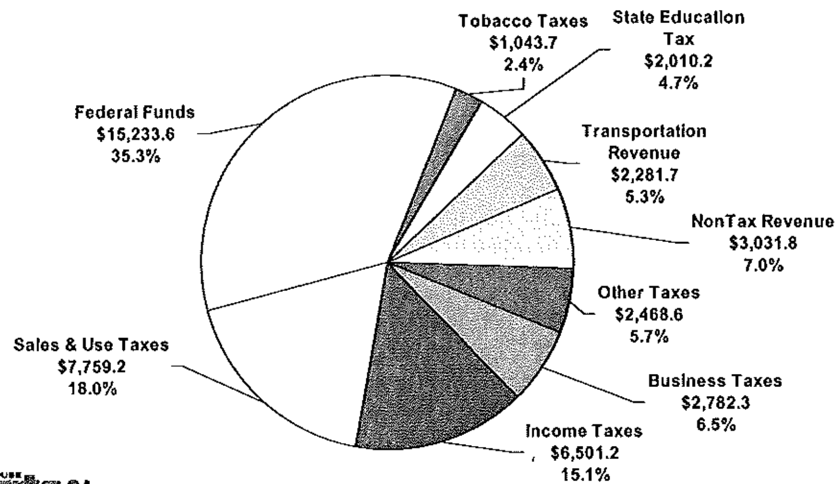
Average growth of Michigan revenue = 0.84% per year from 2000 through 2010



MICHIGAN REVENUE

State of Michigan Revenue Sources

FY 2008-09 Total = $43,112.4 million*



HOUSE FISCAL AGENCY

**January 2009 Consensus Estimate*

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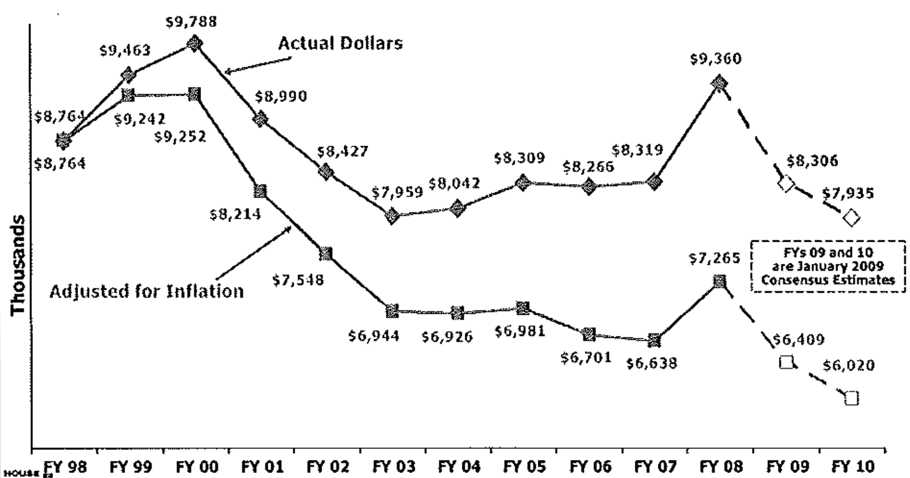
Inflation Adjusted GF/GP Revenue Down 35% Since FY 2000



HOUSE FISCAL AGENCY

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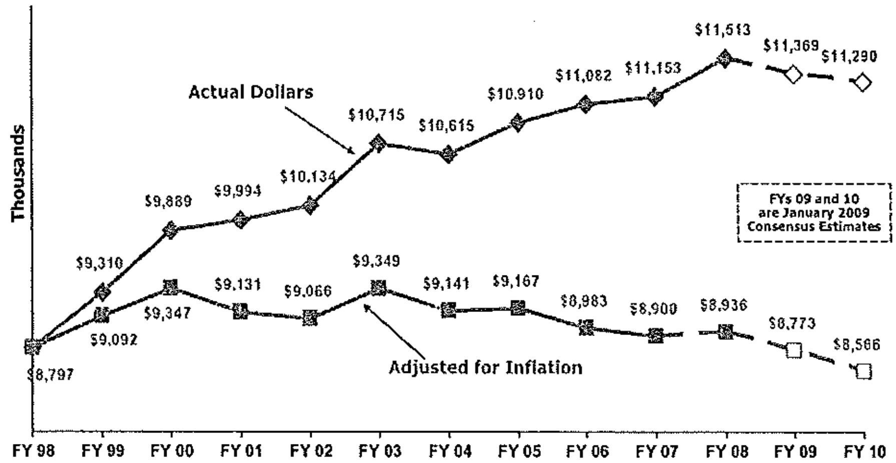
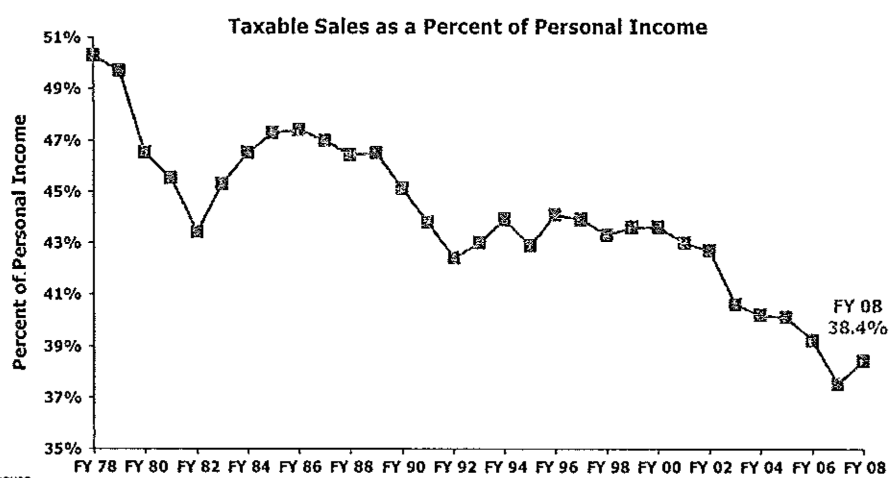
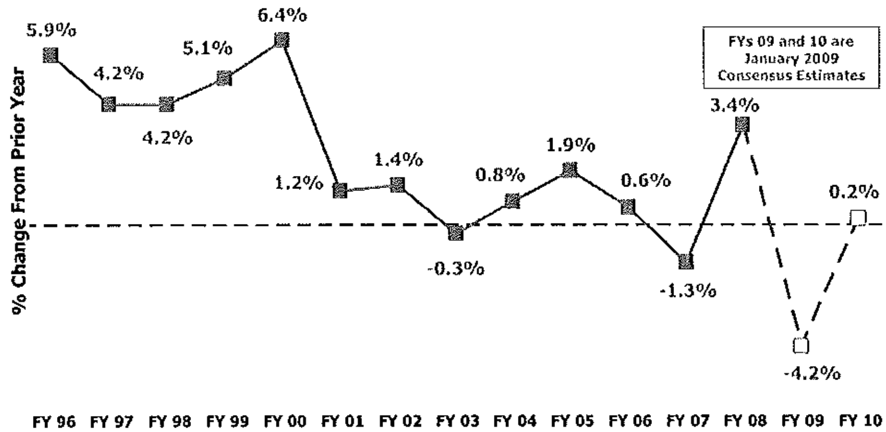
Inflation Adjusted SAF Net Revenue Down 8% Since FY 2000



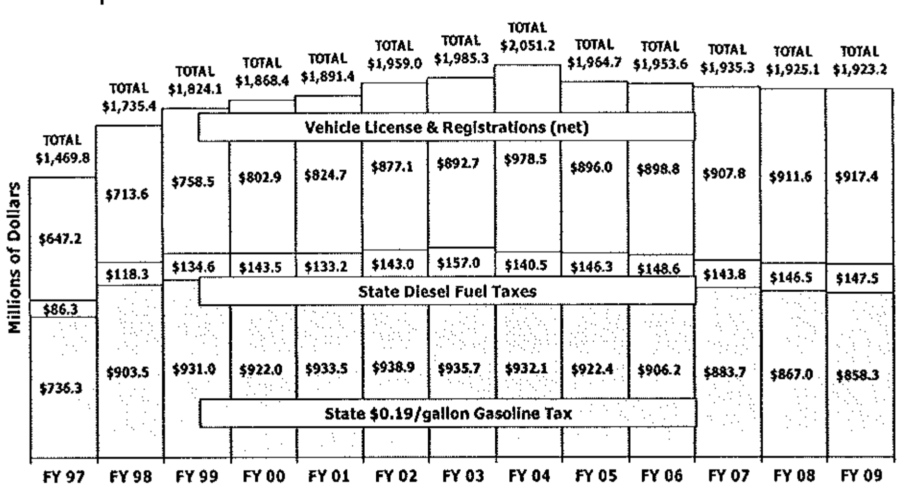
Sales/Use Tax Share Declining



Sales Tax Revenue

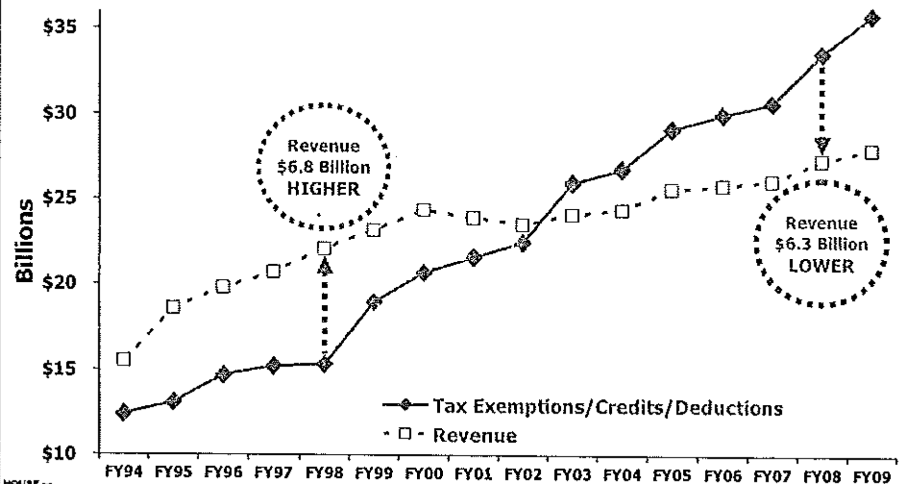


Transportation Revenue



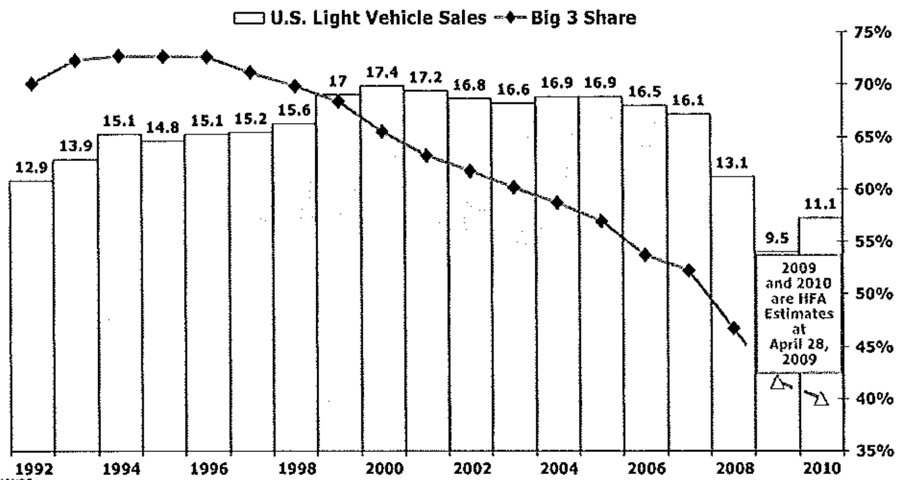
FYs 08 and 09 are estimates

Impact of Tax Exemptions/Credits/Deductions



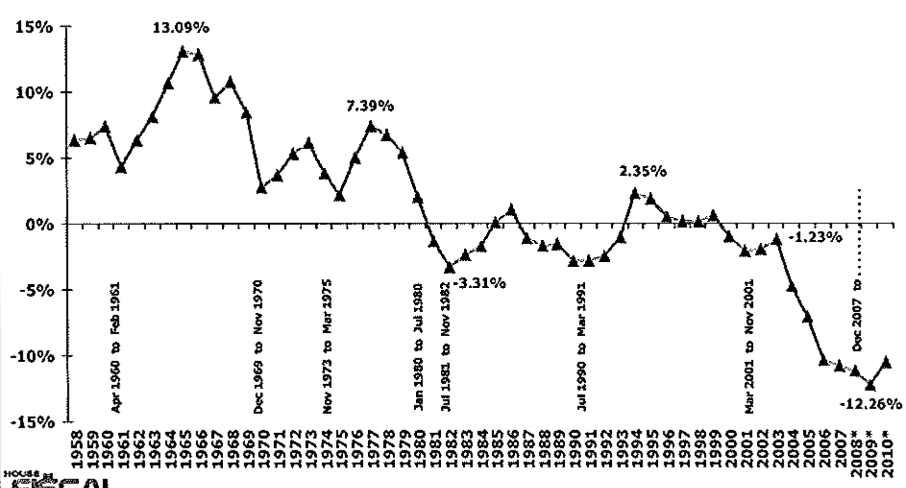
MICHIGAN ECONOMICS

Big 3 Losing Market Share



HOUSE FISCAL AGENCY Source: University of Michigan RSQE and HFA estimates

Michigan Per Capita Income Deviation from National Average



HOUSE FISCAL AGENCY Source: House Fiscal Agency calculations Note: 2008, 2009, and 2010 are estimates

HOUSE FISCAL AGENCY

www.house.mi.gov/hfa

Perspectives on Michigan's Economy and Budget

Presented to:
Long-Term Care Supports & Services Advisory Commission

May 11, 2009

Charles L. Ballard
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East Lansing, MI
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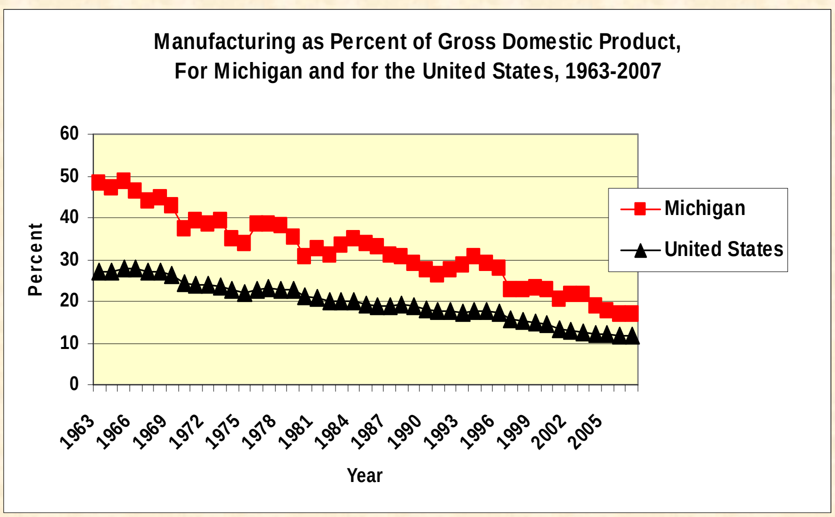
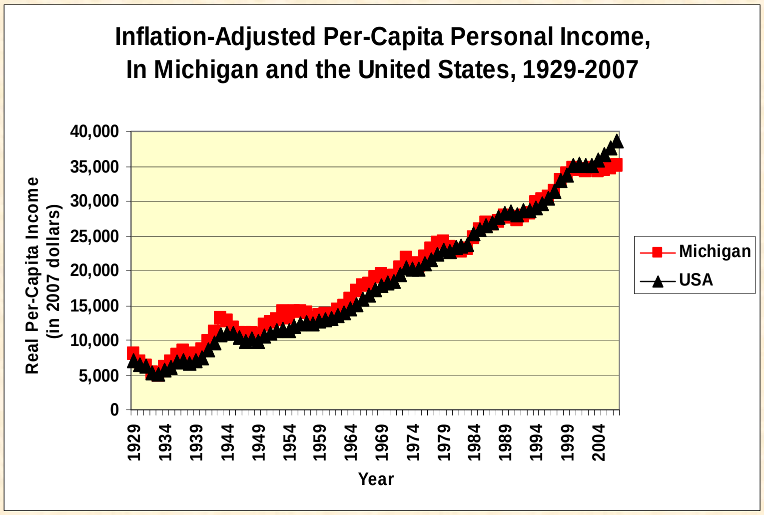
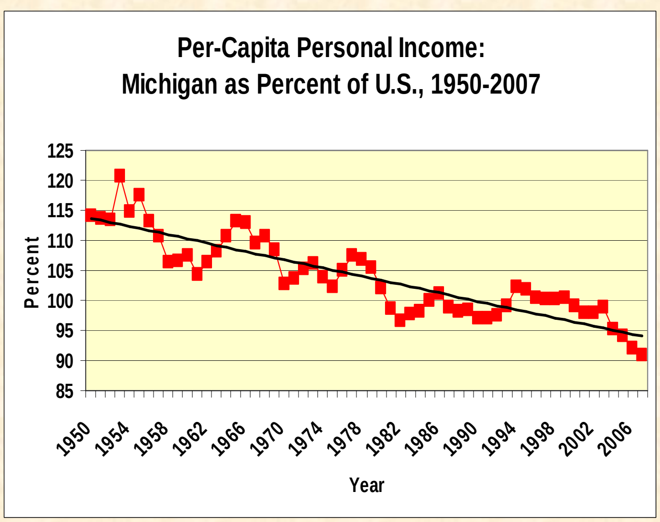
Manufacturing's Share of the Economy Has Shrunk Dramatically

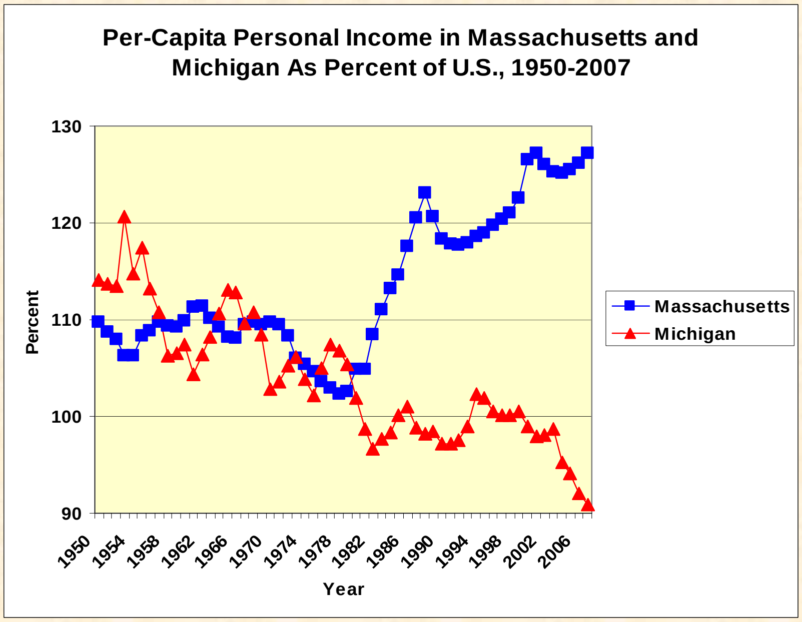


Incomes Really Have Grown, In Michigan and in the Rest of the U.S.

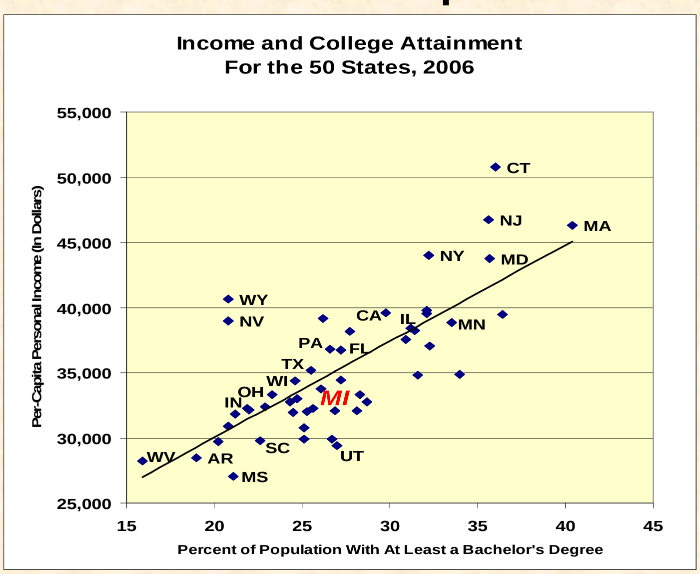


Income Growth Has Been Slower in Michigan Than the U.S. Average





College Attainment Has a Decisive Influence on Per-Capita Income



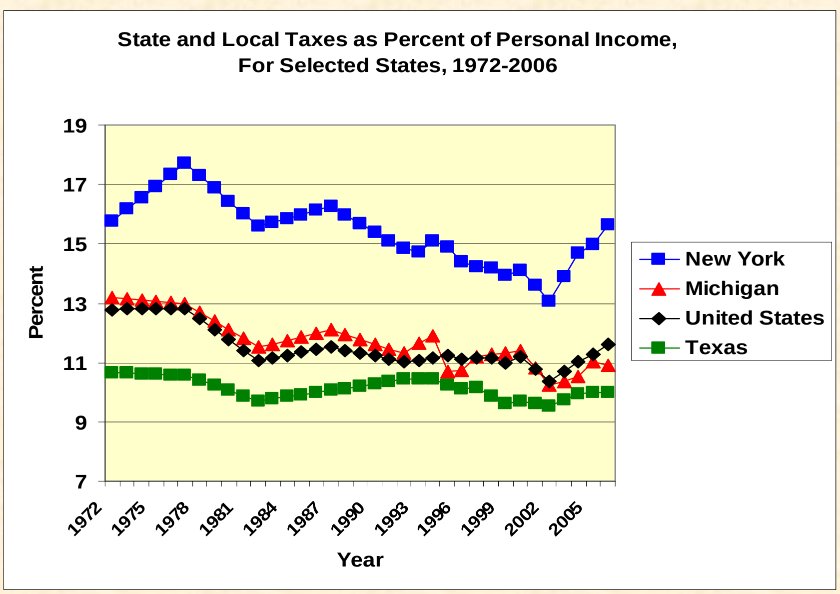
- **Michigan is Underinvested in Education, Training, and Skill, From Pre-School to Ph.D.**

- **In addition to the big premium for a Bachelor's degree, the social returns are very large for**

  (1) early-childhood education, and

  (2) high-school completion.

Tax Effort Has Reduced Substantially



Reasons to Enact a Graduated Income Tax in Michigan

1. Increase in Income Inequality: Ability to Pay Taxes is Increasingly Concentrated

2. Federal Deductibility: We Leave Money on the Table

3. Revenue Responsiveness: A Flat Rate Contributes to the Structural Deficit

4. Public Support

Incomes Have Stagnated for the Bottom Half of the Michigan Income Distribution

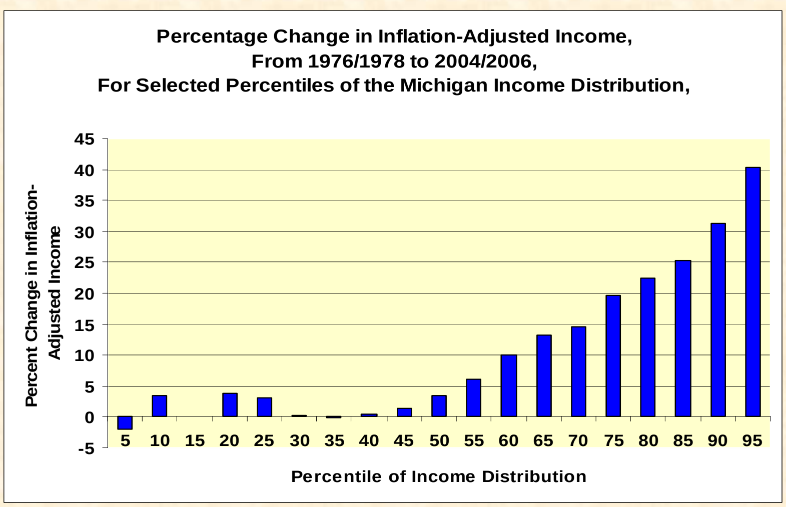
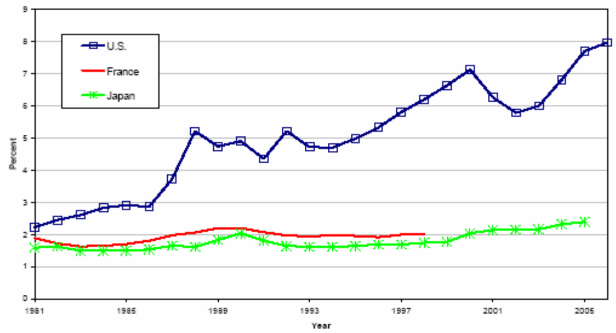


Figure 1 -- Percentage of national income (excluding capital gains) received by top 0.1% of income earners: United States, France, and Japan, 1981 - 2006



Source: Piketty and Saez (2003, updated in 2008 at <http://elsa.berkeley.edu/~saez/TabFig2006.xls>; Moriguchi and Saez (2008); and Piketty (2003).

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- **Michigan is One of Only Seven States With a Flat-Rate Income Tax.**

- **Michigan's Flat Income-Tax Rate of 4.35% Means That The Top Rate Is Among the Lowest in the U.S., and the Rate on the First Dollar of Taxable Income Is Among the Highest.**

Top Marginal Tax Rates in State Individual Income Taxes, January 2008

1. California	10.30%	30. Maryland	5.50%
2. Rhode Island	9.90***	Oklahoma	5.50
3. Vermont	9.50	32. Massachusetts	5.30*
4. Oregon	9.00	New Mexico	5.30
5. Iowa	8.98	34. Alabama	5.00
6. New Jersey	8.97	Connecticut	5.00
7. Dist. Of Columbia	8.50	Mississippi	5.00
Maine	8.50	New Hampshire	5.00**
9. Hawaii	8.25	Utah	5.00*
10. Minnesota	7.85	39. Colorado	4.63*
11. Idaho	7.80	40. Arizona	4.54
12. North Carolina	7.75	**41. Michigan**	**4.35***
13. Arkansas	7.00	42. Indiana	3.40*
South Carolina	7.00	43. Pennsylvania	3.07*
15. Montana	6.90	44. Illinois	3.00*
16. New York	6.85	45. Alaska	0.00
17. Nebraska	6.84	Florida	0.00
18. Wisconsin	6.75	Nevada	0.00
19. West Virginia	6.50	South Dakota	0.00
20. Kansas	6.45	Texas	0.00
21. Ohio	6.24	Washington	0.00
22. Georgia	6.00	Wyoming	0.00
Kentucky	6.00		
Louisiana	6.00		
Missouri	6.00		
Tennessee	6.00**		
27. Delaware	5.95		
28. Virginia	5.75		
29. North Dakota	5.54		

Source: Federation of Tax Administrators

* Flat-rate income tax
** Tax applies only to dividend and interest income
*** State tax is 25% of federal tax liability

Marginal Tax Rates On First Dollar of Taxable Income In State Individual Income Taxes, January 2008

1. North Carolina	6.00%	26. Alabama	2.00%
Tennessee	6.00**	Kentucky	2.00
3. Minnesota	5.35	Louisiana	2.00
4. Massachusetts	5.30*	Maine	2.00
5. New Hampshire	5.00**	Maryland	2.00
Oregon	5.00	Virginia	2.00
Utah	5.00*	32. New Mexico	1.70
8. Colorado	4.63*	33. Idaho	1.60
9. Wisconsin	4.60	34. Missouri	1.50
10. Michigan	**4.35***	35. Hawaii	1.40
11. New York	4.00	New Jersey	1.40
Dist. of Columbia	4.00	37. Arkansas	1.00
13. Vermont	3.60	California	1.00
14. Kansas	3.50	Georgia	1.00
15. Indiana	3.40*	Montana	1.00
16. Pennsylvania	3.07*	41. Ohio	0.618
17. Connecticut	3.00	42. Oklahoma	0.50
Illinois	3.00	43. Iowa	0.36
Mississippi	3.00	44. South Carolina	0.00****
West Virginia	3.00		
21. Arizona	2.59		
22. Nebraska	2.56		
23. Rhode Island	2.50***		
24. Delaware	2.20		
25. North Dakota	2.10		

Source: Federation of Tax Administrators

* Flat-rate income tax
** Tax applies only to dividend and interest income
*** State tax is 25% of federal tax liability
**** First $2700 of "taxable income" has zero rate; next is 3%

With Full Federal Deductibility, Effective Marginal Tax Rate Imposed by Michigan Individual Income Tax is:

- **3.26% for Married Couple with $100,000 Taxable Income.**
- **2.83% for Married Couple with $400,000 Taxable Income.**

Public Support For a Graduated Income Tax in Michigan

State of the State Survey Round 47 (1012 Michigan Adults, Interviewed January – March 2008)

57.2% Favor Graduated Income Tax
37.4% Opposed
5.3% Neutral

Detail of Responses to Question About Graduated Income Tax

Group	Favor	Oppose	Neutral
All	57.2%	37.4%	5.3%
Men	59.5	37.9	2.7
Women	54.8	37.0	8.2
White	57.4	38.4	4.2
Black	60.5	24.5	15.1
<$30,000	78.1	18.0	3.8
$30,000-$50,000	51.5	42.9	5.4
$50,000-$70,000	57.3	33.1	9.7
>$70,000	49.0	49.0	2.0
Democrat	64.9	26.4	8.6
Republican	36.5	60.8	2.7

Potential Changes to Michigan's Revenue Structure

Michigan Long-Term Care Supports & Services Advisory Commission

Scott Darragh, Economist
Office of Revenue and Tax Analysis
Michigan Department of Treasury
May 11, 2009

Disclaimer

- Any opinions expressed today should be viewed as strictly my own, and may not represent the views of the State Treasurer or the Michigan Department of Treasury.

It's a New World Out There

- In 1933, 44.0% of consumption was on services; in 1986 services comprised 53.1%.
- In 1986, 11.3% of AGI went to the top 1%.
- In 1972, 1.3% of AGI on taxable returns was made up of retirement income (federal)
- In 2008, 60.3% of consumption was on services
- In 2006, 22.1% of AGI went to the top 1%.
- In 2006, 5.8% of AGI on taxable returns was made up of retirement income (federal)
- Michigan residents reported $22.6 billion in taxable pensions and IRAs for 2006, so retirement income may easily represent a $700 million tax exemption

Sources: U.S. Bureau of Economic Analysis and IRS Statistics of Income.

Major Taxes Fail to Keep Up With the Economy

Tax Revenue as a Share of Personal Income
1995 = 100

U.S. Bureau of Economic Analysis and Office of Financial Management, State of Michigan.

Revenue System Does Not Grow with the Economy

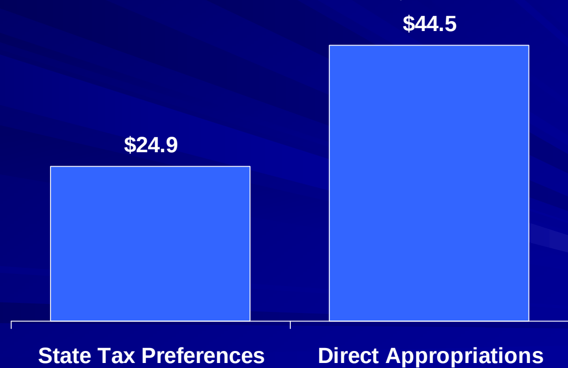
- Michigan's two principal sources of tax revenue fail to keep up with changes in the economy.
- The sales tax is focused on goods which now make up a declining share of consumption while most services are excluded from the tax base.
- The income tax excludes most retirement income and the flat rate limits revenue growth when income gains are concentrated.

Excluded Retirement Income

- Two spouses, each with $36,000 in pension or other retirement benefits
- $25,000 in joint Social Security benefits
- $10,000 in investment earnings
- Total income = $107,000
- Michigan income tax = …
- $0

Tax Preferences Equal to 56% of Direct Appropriation Amount

FY 2009 Billions of $



Source: FY 2009 Executive Budget Appendix on Tax Credits, Deductions, and Exemptions, and FY 2010 Exec. Budget
Tax Expenditure number does not include property tax expenditures or local income tax expenditures.

Tax Preferences by Tax FY 2009

- Michigan Business Tax – tax preferences amount to 73% of revenues
- Income tax – tax preferences amount to 87% of revenues
- Sales and use taxes – tax preferences amount to 178% of revenues

Source: 2009 Executive Budget Appendix on Tax Credits, Deductions, and Exemptions.

"My bill isn't terribly controversial. It would provide modest tax breaks for people who don't really need them."

Largest Tax Expenditures – FY 2009

- Sales tax on services - $10.3 billion
  - Consumer services - $3.6 billion
  - Consumer excluding health/education - $2.6 billion
- Sales tax on food - $1.1 billion
- Income tax personal exemption - $1.2 billion
- Homestead Property Tax Credit - $934 million vs. $470 million in 2000
- Income tax exclusion on retirement income - $700 million
- Sales tax on prescription drugs - $563 million
- MBT small business alternate tax credit - $367 million

Source: 2009 Executive Budget Appendix and Office of Revenue and Tax Analysis.

Extending Sales Tax to Services

- Michigan taxes fewer services than the typical state according to national survey.
- In Midwest, Michigan taxes less than half as many services as MN, OH, PA, and WI, and is similar to IL and IN.
- While survey lists Michigan taxing 26 services, that is dominated by utilities.
- The experiment of 2007 was seriously flawed.

Source: Survey on taxation of services by Federation of Tax Administrators.

What Makes a Good Tax?

- Minimize the impact on economic behavior.
  - Typically achieved using a low tax rate on a broad tax base
  - The sales tax rate is near the national average at 6%
  - The base is narrow
- Avoid taxing intermediate stages of production.
- Make the tax easy to understand.
- The tax should be fair.
  - Equals should pay equal tax
  - Tax burden should consider the ability to pay taxes
  - Burden of sales tax heavier on lower income due to unequal savings and spending on goods vs. services

Troublesome Services

- Health care
- Education
- Professional services like attorneys and accountants, especially for small-business owners
- Death care services (other than the casket which is taxable currently)

Sample List of Potential Services

- Labor services on repairs - $220 million
- Cable/Satellite TV - $49 million
- Landscaping - $66 million
- Entertainment admissions - $95 million
- Dry cleaning - $48 million
- Ground transportation - $32 million

- Total = $510 million

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury. Cable estimate assumes a credit for the local franchise fee (typically 5%).

Michigan's Income Tax

- Michigan currently levies a flat-rate income tax at 4.35% on taxable income.
- Most retirement benefits are excluded.
- The rate of 4.35% is the fourth lowest top rate among the 41 states with a broad income tax.
- For FY 2007, Michigan had one of the lowest income tax burdens in the nation as percent of personal income (37th) or per person (37th).
- Rate reductions scheduled to begin in 2011 make additional changes likely.

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury

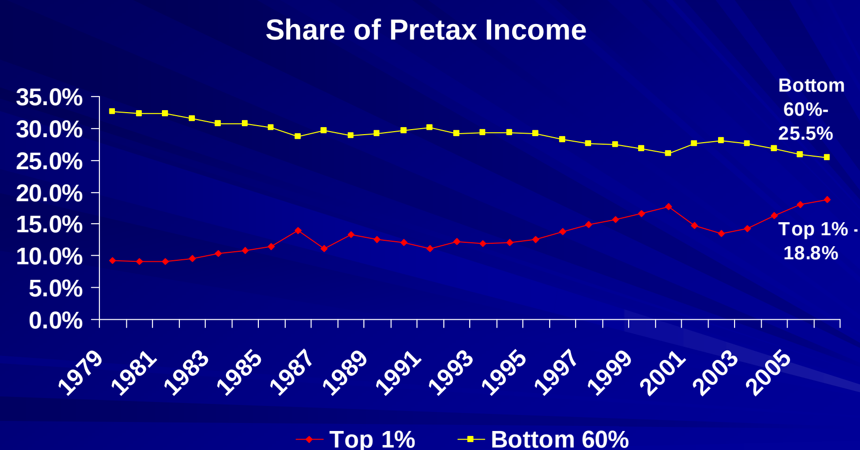
Graduated Tax Rates

- Article IX, Section 7 of the Michigan Constitution prohibits an income tax graduated with respect to either the tax base or rate structure.
- Graduated tax rates make the tax more progressive and responsive to income growth.
- Concentrating the tax among the high income would increase the amount of tax exported due to federal deductibility
- Three previous attempts to allow graduated tax rates have failed.
  - 1968 – Yes 23.3%
  - 1972 – Yes 31.3%
  - 1976 – Yes 27.8%

Source: House Fiscal Agency

"I've been thinking about the flat tax and how it would inflict hardship on the poor, and I can live with that."

U.S. Income Growth Concentrated Among High Earners



Source: Congressional Budget Office.

How Do Graduated Rates Work?

- The tax rate on additional income increases as income increases.
- Compared to a flat-rate structure that raises the same amount of revenue, the tax is concentrated among those with higher incomes.
- Consider a sample structure.
  - Three rates: 2%, 5%, and 8%
  - Income brackets: \$0-\$10,000, \$10,000-\$25,000, and >\$25,000

How Graduated Rates Work (cont.)

- Taxpayer 1 with taxable income of \$20,000.
  - Tax = \$10,000 x 0.02 + (\$20,000 - \$10,000) x 0.05 = \$200 + \$500 = \$700
  - Average tax rate = \$700/\$20,000 = 3.5%
- Taxpayer 2 with taxable income of \$250,000
  - Tax = \$10,000 x 0.02 + (\$25,000 - \$10,000) x 0.05 + (\$250,000 - \$25,000) x 0.08 = \$200 + \$750 + \$18,000 = \$18,950
  - Average tax rate = \$18,950/\$250,000 = 7.58%

Revenue Neutral Option

- Single taxable income
  - $1-$13,000 – 2.9%
  - $13,001-$26,000 – 3.9%
  - $26,001-$39,000 – 4.9%
  - >$39,000 – 5.9%
- Breakeven with current tax = $50,322 in taxable income
- Married taxable income
  - $1-$26,000 – 2.9%
  - $26,001-$52,000 – 3.9%
  - $52,001-$78,000 – 4.9%
  - >$78,000 – 5.9%
- Breakeven with current tax = $100,644 in taxable income

Tax Distribution for Proposal

- The income tax burden would rise for 12% of singles, 19% of married couples, and 21% of filers who are married but filing a separate return.
- Of the remainder, almost all receive a tax cut with a small number facing no change.
- Overall, 85% of filers with positive taxable income would receive a tax cut while 15% would face a tax increase.

Would this Proposal Help Michigan's Fiscal Problems?

- Raise equivalent revenues to the current tax.
- Revenues would grow more rapidly, assuming income growth continues to be concentrated in higher income groups.
- Reduce the overall tax burden in Michigan by concentrating the income tax on taxpayers who are:
  - More likely to itemized their federal deductions; and
  - In higher federal income tax brackets since deductions become more valuable.

Graduated-Rate Taxes in Four States

State	Top Tax Rate	Income Tax Rank	Population Growth '00-'08
Georgia	6.0%	23	4
North Carolina	7.75%	12	9
Utah	5.0%	18	3
Virginia	5.75%	8	14

Sources: Income Tax Rank is tax per capita as computed by Office of Revenue and Tax Analysis, Michigan Department of Treasury. Population growth is from the U.S. Census Bureau.

What is the Impact if Michigan's Income Tax Looked Like:

- Georgia – More than $2.0 billion in additional revenue.
- North Carolina – More than $4.0 billion in additional revenue.
- Utah – More than $1.0 billion in additional revenue.
- Virginia – At least $1.4 billion in additional revenue.

Source: Income tax simulation model, Michigan Department of Treasury.

Summary of Revenue Options

- Michigan is currently a middle of the road state when it comes to raising revenue.
- However, the revenue structure does not allow for growth.
- Reducing tax expenditures (retirement income exclusion or sales tax on consumer services) or enacting an income tax with graduated rates would help revenues grow with the economy.

Michigan League for Human Services

Putting Michigan's Budget Crisis in Perspective: Unsustainable Trends and Options for Restoring Fiscal Sanity

Presentation to the Michigan Long Term Care Supports and Services Advisory Commission

May 11, 2009

Dale Fickle
Senior Budget and Tax Policy Analyst

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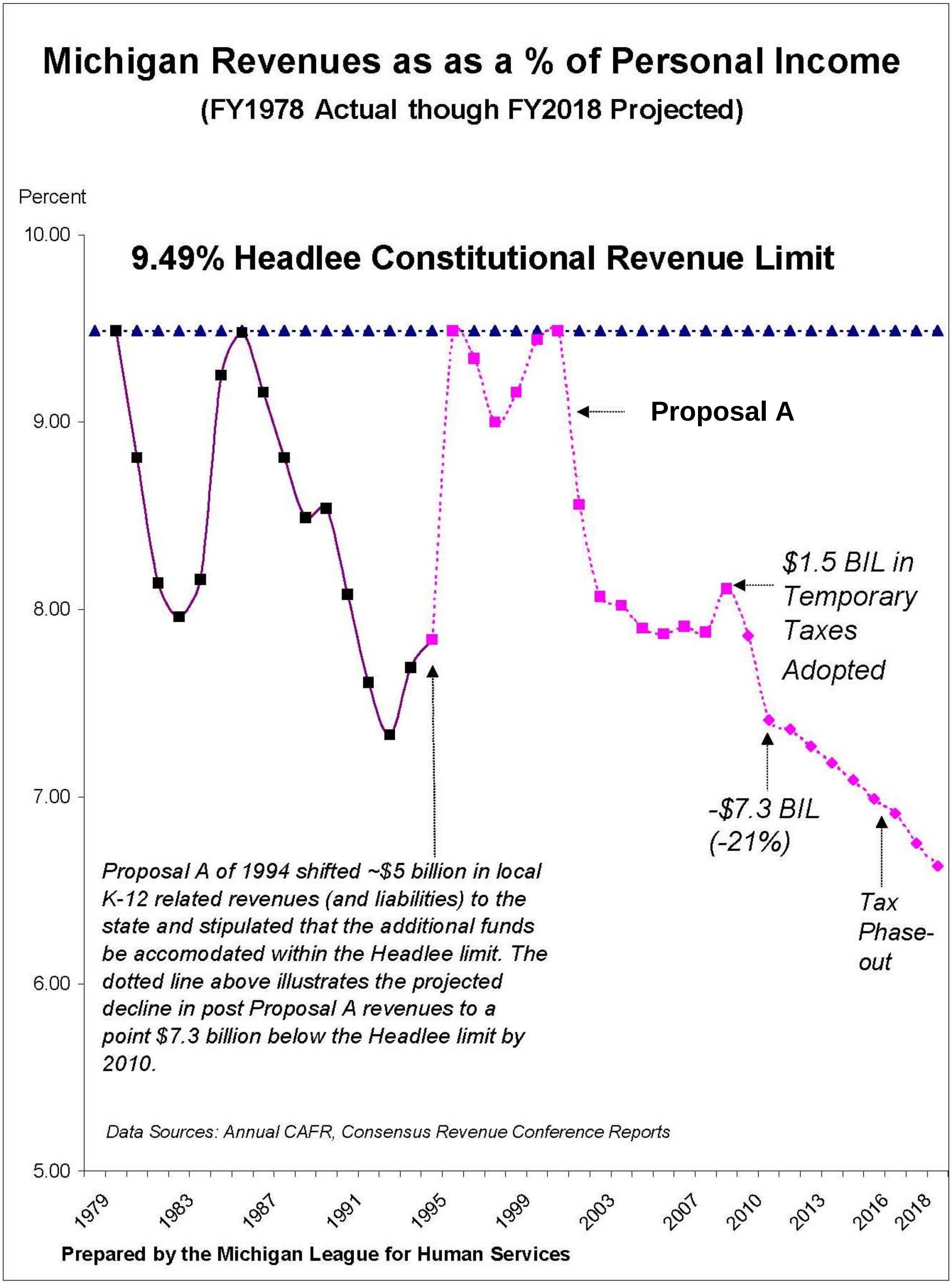
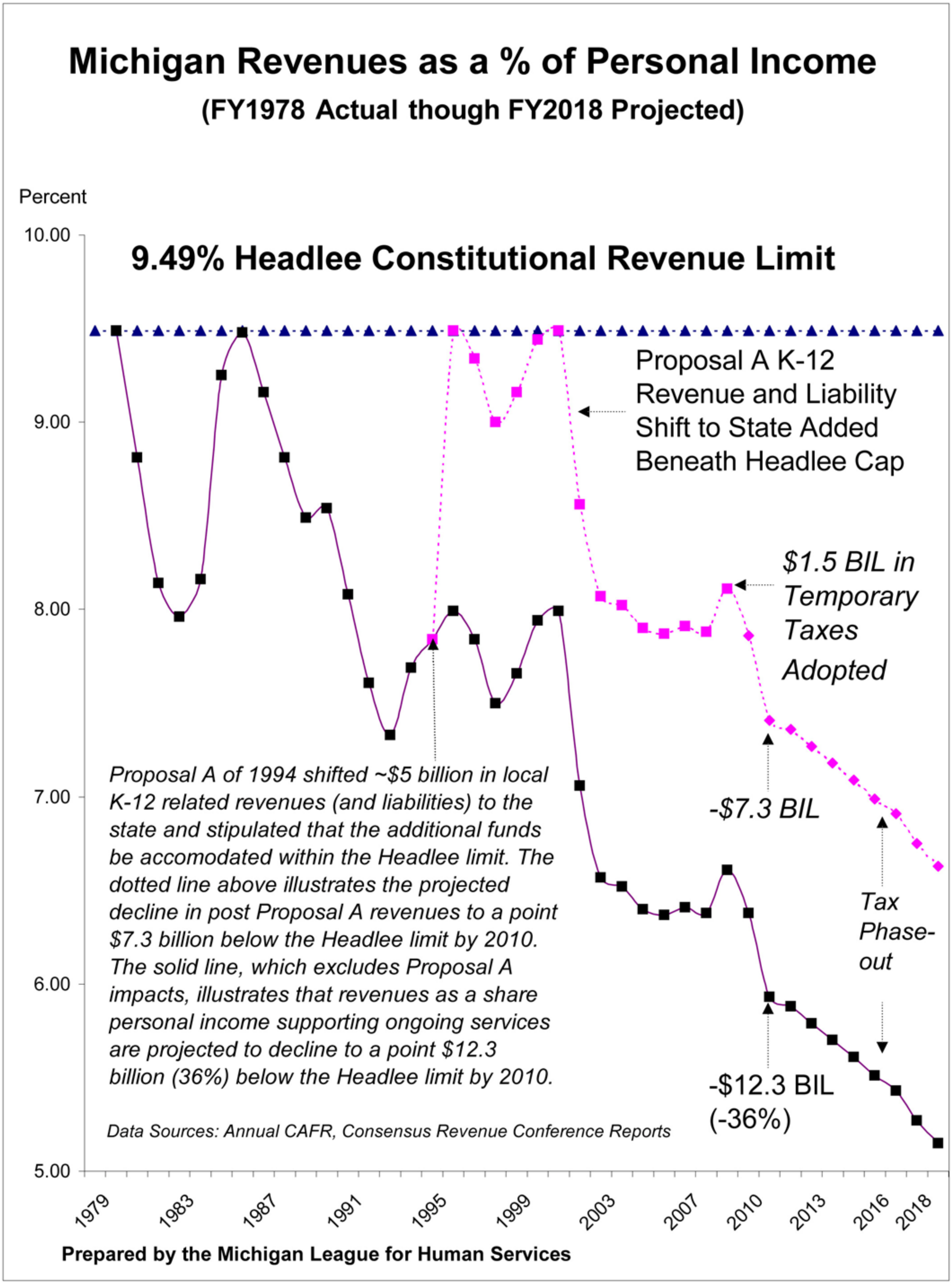
The Price of Government: Getting the Results We Need in the Age of Permanent Fiscal Crisis
David Osborne and Peter Hutchinson

"We believe that citizens should know and debate their *price of government*. They should consciously decide what level is acceptable, affordable and competitive. When they feel the need to limit taxes or spending, however, they would be much wiser to tie these limits to the *price of government* – capping all taxes, fees and other charges at a set percentage of personal income."

Twenty-five years before *The Price of Government* offered this advice, the Headlee amendment specified that Michigan revenues could not exceed 9.49 percent of personal income. While this upper limit on revenues was not a mandate to spend, it was presumably the perspective of Dick Headlee, a vocal fiscal conservative of the period, that this *price of government* was not unreasonable.

So what has happened to state revenues as a share of personal income over the 30 years since Michigan adopted the Headlee amendment as its official limit on the *price of government*?


Michigan Revenues as as a % of Personal Income
(FY1978 Actual though FY2018 Projected)
Percent
10.00
9.00
8.00
7.00
6.00
5.00
9.49% Headlee Constitutional Revenue Limit
Proposal A
$1.5 BIL in Temporary Taxes Adopted
-$7.3 BIL (-21%)
Tax Phase-out
Proposal A of 1994 shifted ~$5 billion in local K-12 related revenues (and liabilities) to the state and stipulated that the additional funds be accomodated within the Headlee limit. The dotted line above illustrates the projected decline in post Proposal A revenues to a point $7.3 billion below the Headlee limit by 2010.
Data Sources: Annual CAFR, Consensus Revenue Conference Reports
1979
1983
1987
1991
1995
1999
2003
2007
2010
2013
2016
2018
Prepared by the Michigan League for Human Services

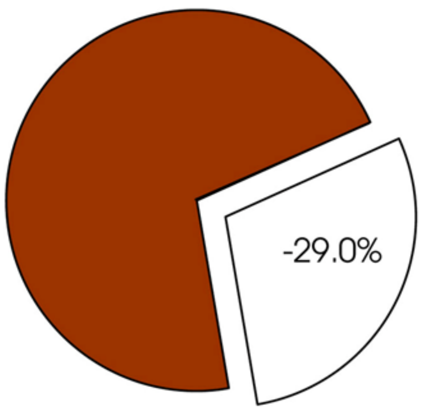


Michigan Revenues as a % of Personal Income
(FY1978 Actual though FY2018 Projected)
Percent
10.00
9.00
8.00
7.00
6.00
5.00
9.49% Headlee Constitutional Revenue Limit
Proposal A K-12 Revenue and Liability Shift to State Added Beneath Headlee Cap
$1.5 BIL in Temporary Taxes Adopted
-$7.3 BIL
Tax Phase-out
-$12.3 BIL (-36%)
Proposal A of 1994 shifted ~$5 billion in local K-12 related revenues (and liabilities) to the state and stipulated that the additional funds be accomodated within the Headlee limit. The dotted line above illustrates the projected decline in post Proposal A revenues to a point $7.3 billion below the Headlee limit by 2010. The solid line, which excludes Proposal A impacts, illustrates that revenues as a share personal income supporting ongoing services are projected to decline to a point $12.3 billion (36%) below the Headlee limit by 2010.
Data Sources: Annual CAFR, Consensus Revenue Conference Reports
1979
1983
1987
1991
1995
1999
2003
2007
2010
2013
2016
2018
Prepared by the Michigan League for Human Services

Michigan's Shifting Spending Priorities

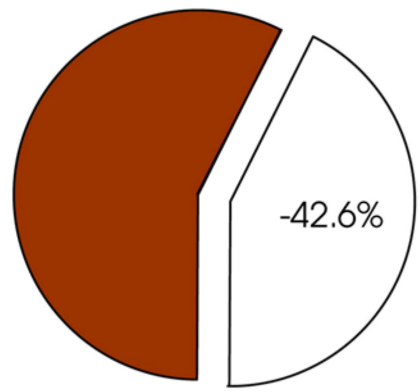
Percentage Changes In General Fund Spending as a Share of Michigan's Economy (FY1985 vs. FY2009)

Higher Education



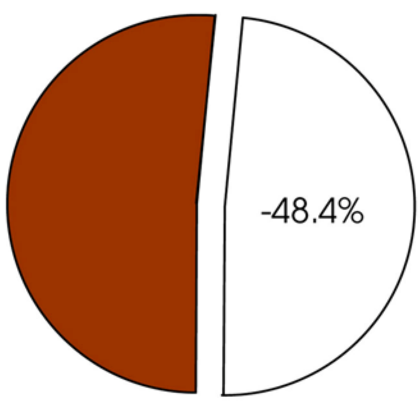
Represents $.79 BIL in reduced spending

Health & Human Services



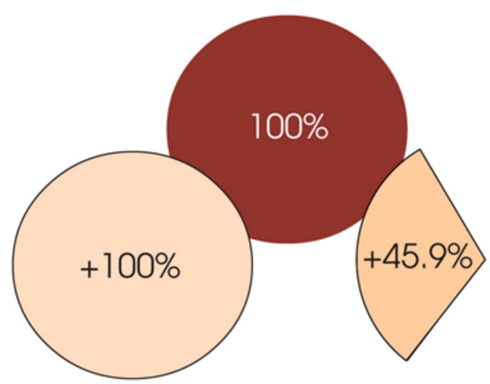
Represents $3.25 BIL in reduced spending

Local Revenue Sharing



Represents $1 BIL in reduced spending

Corrections

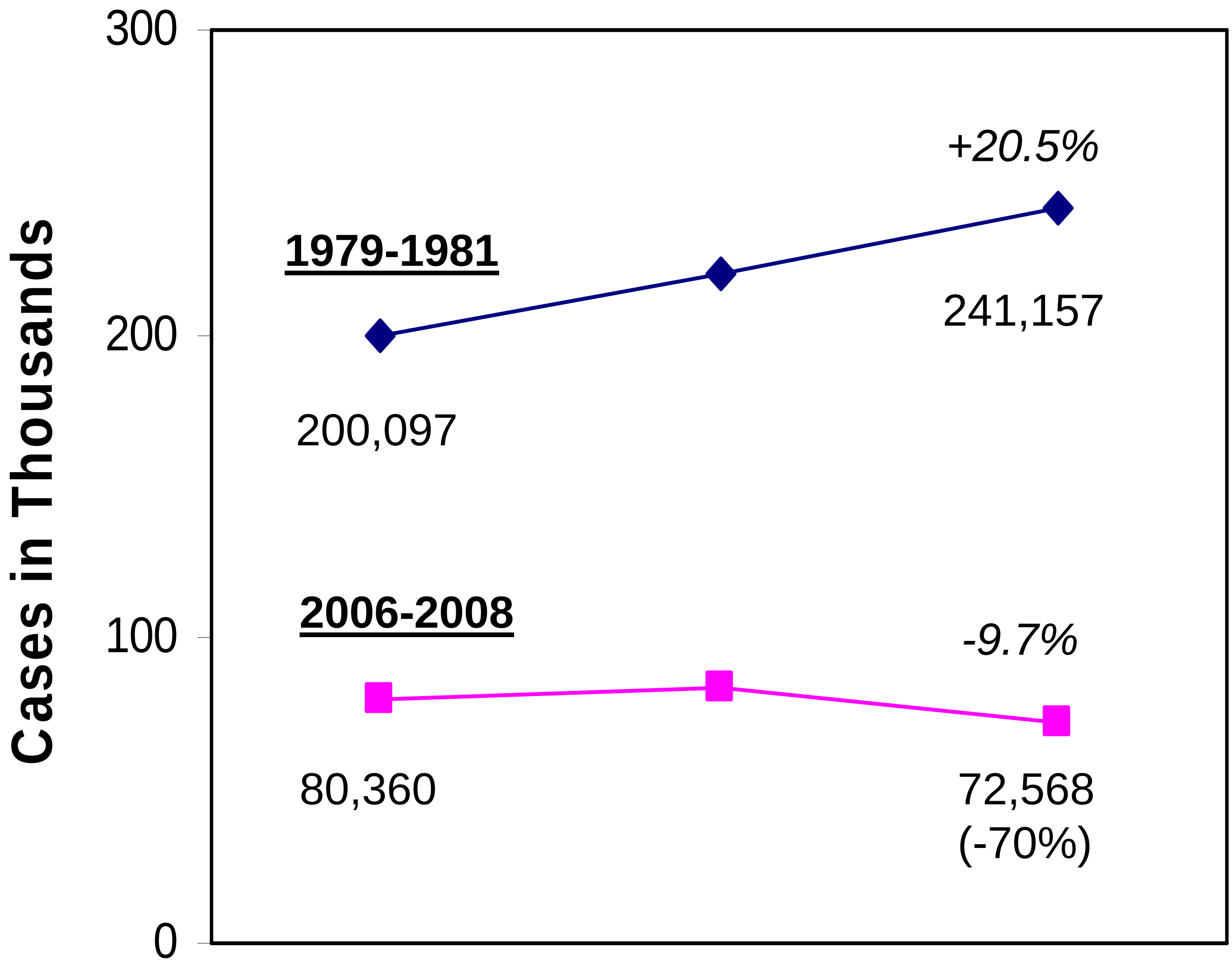


Represents $1.17 BIL in increased spending

Note: The total personal income value used to represent the size of Michigan's economy in 1985 ($134.08 billion) was taken from the revised state by state personal income report prepared by the U.S. Department of Labor, Bureau of Economic Analysis. The 2009 estimate of total personal income in Michigan ($365.13 billion) was taken from the May 2008 Consensus Revenue Estimating Conference report.

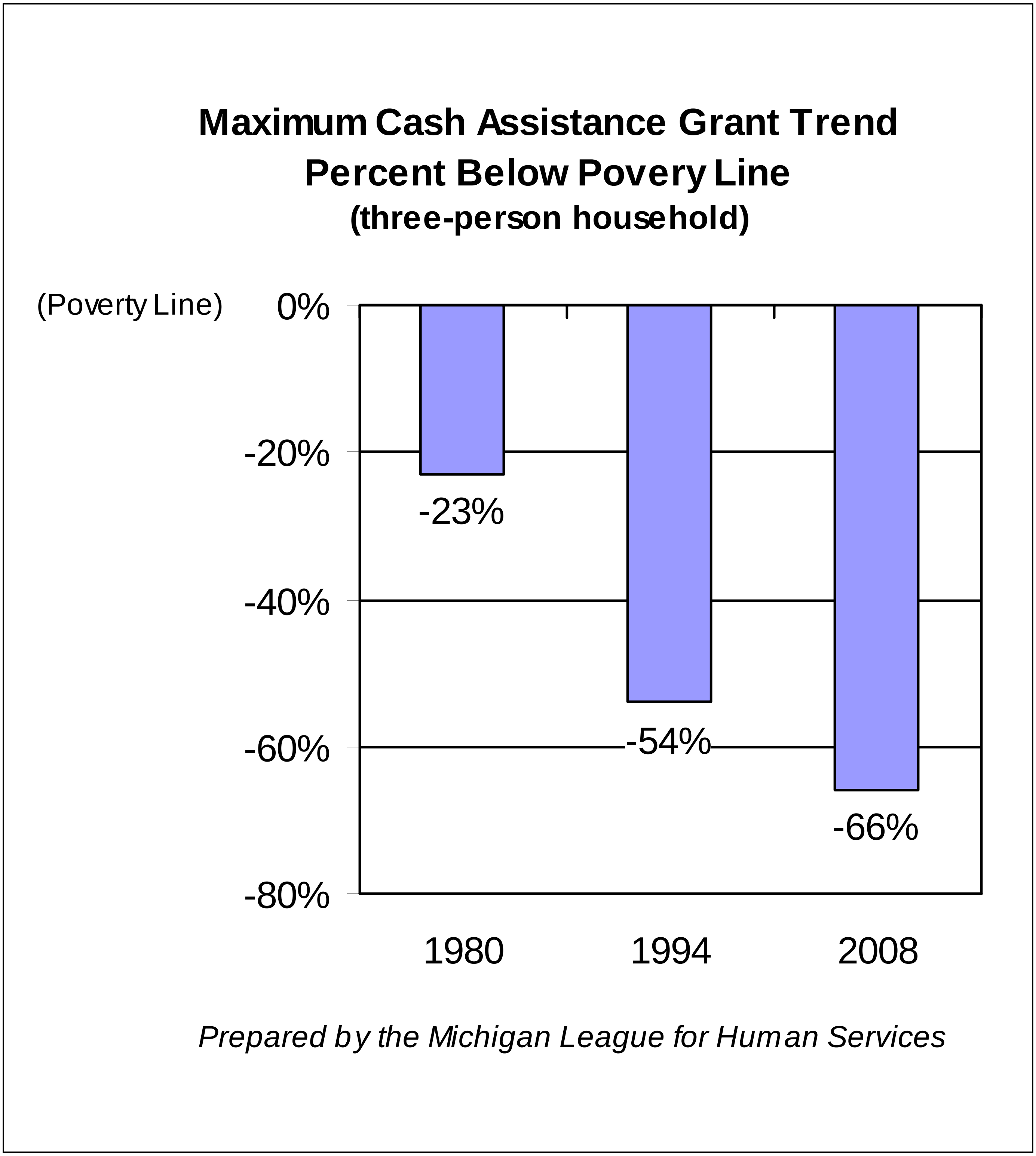
Prepared by Michigan League for Human Services

AFDC/FIP Caseloads
(1979-81 vs. 2006-08)



Note: The Michigan League for Human Services estimates that fewer than one-third of Michigan households with children living in poverty are currently receiving cash assistance benefits.

Prepared by the Michigan League for Human Services


Maximum Cash Assistance Grant Trend
Percent Below Povery Line
(three-person household)
(Poverty Line)
0%
-20%
-40%
-60%
-80%
-23%
-54%
-66%
1980
1994
2008
Prepared by the Michigan League for Human Services

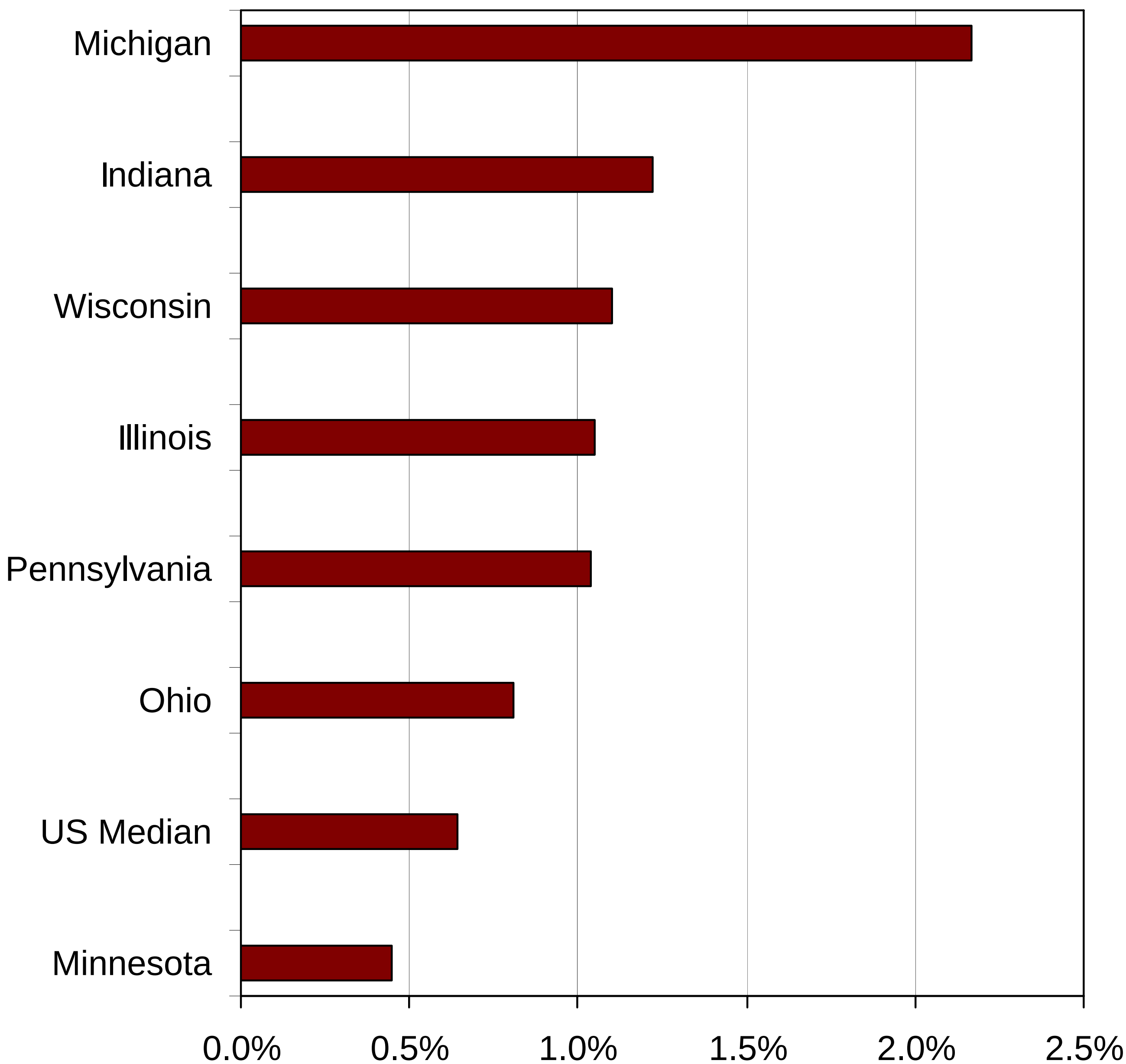
<u>Great Lakes Corrections Data Comparisons</u>

	Prison Incarceration Rate/100,000 (2005)	Cost Per Inmate (2005)
Michigan	**489**	**$28,743**
Illinois	351	$21,622
Ohio	400	$23,011
Wisconsin	380	$28,932
Indiana	388	$21,531
Pennsylvania	340	$31,029
Minnesota	180	$29,260
Great Lakes Average	361	$28,552
Great Lakes w/o Michigan	**340**	**$25,898**
Michigan Rates Above Other States Average	**+43.9%**	**+11%**

Data Sources: American Correctional Association
U.S. Department of Justice
State Government websites
JFA Institute: Public Safety, Public Spending: Forecasting America's Prison Population 2007-2001

Prepared by Michigan League for Human Services

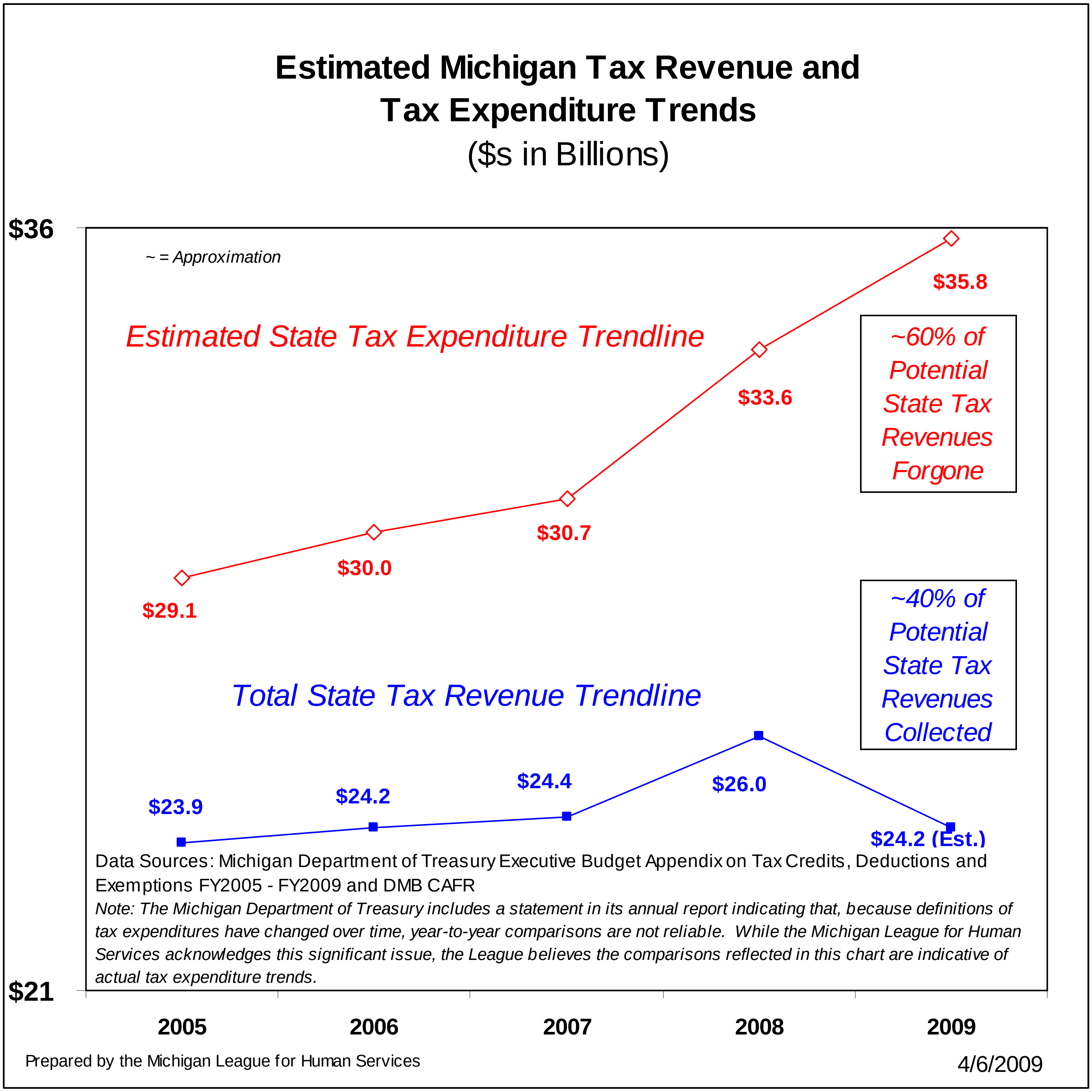
Senior Citizen Income Tax Preferences in the Great Lakes Region



A series of significant income exclusions, including social security and public pension income as well as doubling of the standard income exemption, result in a Michigan senior tax preference that is over 3 times the national average.

Source: How Much Preference: Effective Personal Income Tax Rates for the Elderly, April 2002

Prepared by Michigan League for Human Services


Estimated Michigan Tax Revenue and
Tax Expenditure Trends
($s in Billions)
$36
$21
~ = Approximation
Estimated State Tax Expenditure Trendline
$29.1
$30.0
$30.7
$33.6
$35.8
~60% of Potential State Tax Revenues Forgone
Total State Tax Revenue Trendline
$23.9
$24.2
$24.4
$26.0
$24.2 (Est.)
~40% of Potential State Tax Revenues Collected
Data Sources: Michigan Department of Treasury Executive Budget Appendix on Tax Credits, Deductions and Exemptions FY2005 - FY2009 and DMB CAFR
Note: The Michigan Department of Treasury includes a statement in its annual report indicating that, because definitions of tax expenditures have changed over time, year-to-year comparisons are not reliable. While the Michigan League for Human Services acknowledges this significant issue, the League believes the comparisons reflected in this chart are indicative of actual tax expenditure trends.
2005
2006
2007
2008
2009
Prepared by the Michigan League for Human Services
4/6/2009

Michigan's Defining Moment: Report of the Emergency Financial Advisory Panel

Prepared for the Office of the Governor -- February 2, 2007

Executive Summary Excerpts:

"A persistently weak economy, tax cuts, spending pressures, and inattention to essential government reform have triggered this crisis."

"The state must restructure taxes in a manner that would immediately increase revenues."

"After careful study and considerable discussion, this bipartisan panel believes that Michigan

- -- needs fundamental reform of both spending and taxes;
- -- must create a modern tax structure...;
- -- must end disinvestment in education...;
- -- must develop a fiscal plan that includes a combination of revenue increases, spending cuts, and reform of how public services are delivered."

Excerpt from Conclusion:

"Members of this panel have advocated tax increases from time to time, and we have opposed them at other times. ... One thing upon which we agree today is that somewhere between today's state revenues and the state constitution's limitation lays the appropriate level of taxes and public spending."

<u>Emergency Financial Advisory Panel Members</u>

Former governor's William G. Milliken and James J. Blanchard, former Senate majority leader Dan L. DeGrow, former budge director Don Gilmer, former co-speaker of the House of Representatives Paul Hillegonds, former Michigan attorney general Frank J. Kelly, Michigan Catholic Conference president and CEO Sr. Monica Kostielney, former state superintendent of public instruction Dr. John W. Porter, former state treasurer Douglas B. Roberts, former U.S. Congressman John Schwarz, M.D., Michigan State University president Dr. Lou Anna K. Simon and former state department director S. Martin Taylor

Seven Alternatives Projected to Close 50 Percent ($3.65 BIL) of the Recognized Gap Between the Headlee Limit and Current State Revenues

Alternatives	Revenue Increases/ Cost Savings
1. Extend 6% sales tax to a limited number of services (excludes medical, nonprofit and business-to-business services valued at over 80% of total)	$1.8 BIL
2. Institute a graduated income tax that would marginally increase the state tax burden for fewer than 10 percent of filers.	$.6 BIL
3. Reduce senior tax preferences to a level equal to Virginia, the second most generous state. (Michigan is #1 in this category by over 27%.)	$.2 BIL
4. Restore two-thirds of the loss in purchasing power of state beer tax revenue since that tax was last adjusted (reduced) in 1966. This would effectively increase the tax from 2 cents to 6 cents per 12 ounces.	$.1 BIL
5. Decouple from the Federal Estate Tax which currently precludes MI from receiving a share of revenues collected from approximately 1/2 percent of Michigan estates (non-farm estates with a value in excess of $5 MIL).	$.25 BIL
6. Reduce tax expenditures not considered in recommendations above (~$20 BIL) by 2 percent and establish pay-go rules to limit future growth.	$.4 BIL
7. Reduce the incarceration rate and average cost per prisoner differential between Michigan and the other Great Lakes states by 50%. (While this action is not a revenue enhancement, it would free up revenues to offset anticipated out-year deficits.	$.3 BIL
Total Potential Revenues and Expenditure Savings	**$3.65 BIL**

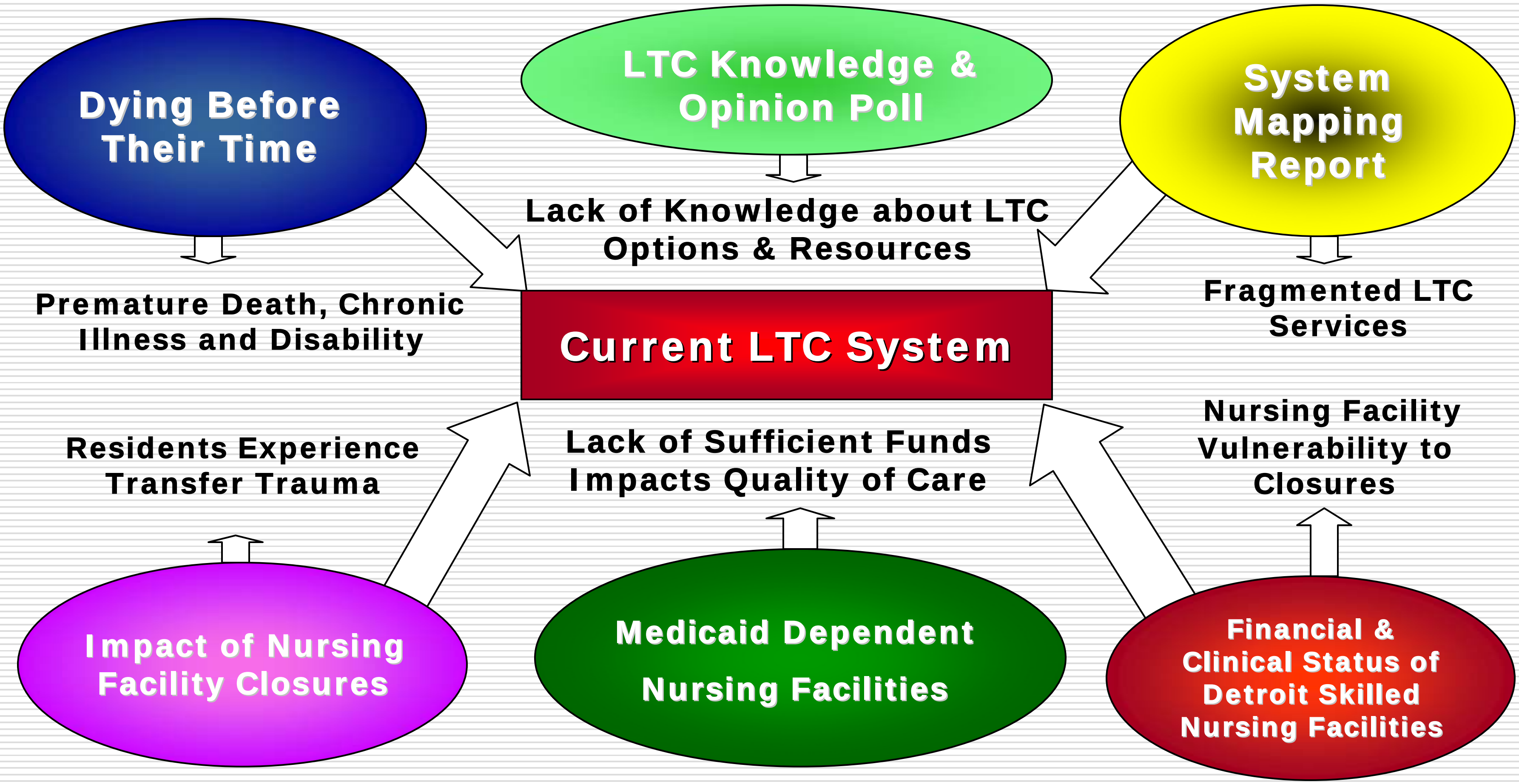
Notes: While the alternatives outlined above would close ~50% of the gap between the Headlee limit and actual revenues that have materialized since the passage of Proposal A in 1994, they would close only ~30% of the estimated $12.3 billion state revenue gap that has materialized since the passage of the Headlee constitutional revenue limit in 1978. Restoring 50% of the decline in pre-Proposal A revenues used to support state funded services would require an additional $2.5 billion in revenue enhancements. (Excludes highway and transportation related revenue trendline issues.)

Detroit Long Term Care System Change Task Force

Moving Toward Enhancing the Quality of Care

2009 Public Policy Agenda

A Look at our Current Long Term Care System



A Vision for the Future

Individuals
Aged / Disabled

Supported By

Family
Friends

Guardians

Can Seek

Information
and Guidance

To Access Quality Services

Home & Community Options

Independent Living

Assisted Living

Nursing Facility

Finding the Way
Task Force Policy Recommendations

Direct Care Workers

Facilities

Consumer Access

Goal 1: Create Environments that Promote Quality of Life

Policy Recommendations:

- Right size the number of Skilled Nursing Facilities to match population trends by providing financial relief for low occupancy buildings as they transition.
- Stimulate capital investment in the physical plant of Skilled Nursing Facilities to achieve current design standards through enhanced Medicaid reimbursement and increasing the access to capital for owners.

Goal 1: Create Environments that Promote Quality of Life

Policy Recommendations:

- Enhance Medicaid reimbursement related to special population groups and Medicaid bad debts to increase the financial viability of the facilities.

- Develop Residential Care Options with Supportive Services and expedite the development of Affordable Assisted Living in Detroit.

Goal 1: Create Environments that Promote Quality of Life

Policy Recommendations:

- Provide financial and case management assistance to those not clinically eligible for nursing facility care.
- Waive fees paid by nursing facilities for background checks.
- Modify Medicaid reimbursement to accelerate the payment for expenses incurred by Skilled Nursing Facilities and to remove penalties associated with low occupancy.

Goal 2: Improve Access and Level of Service for Consumers

Policy Recommendations:

- Expand MI CHOICE and PACE to enhance access to healthcare services and improve mortality rates.
- Implement oversight and monitoring of non-family guardians.

Goal 2: Improve Access and Level of Service for Consumers

Policy Recommendations:

- Streamline the process for annual re-determinations of Medicaid eligibility.
- Improve the coordination of care between traditional Medicaid and Medicaid HMOs.
- Increase Medicaid Asset and Personal Spending Limit to be consistent with National Standards.

Goal 3: Improve Direct Care Competencies and Staffing Levels

Policy Recommendations:

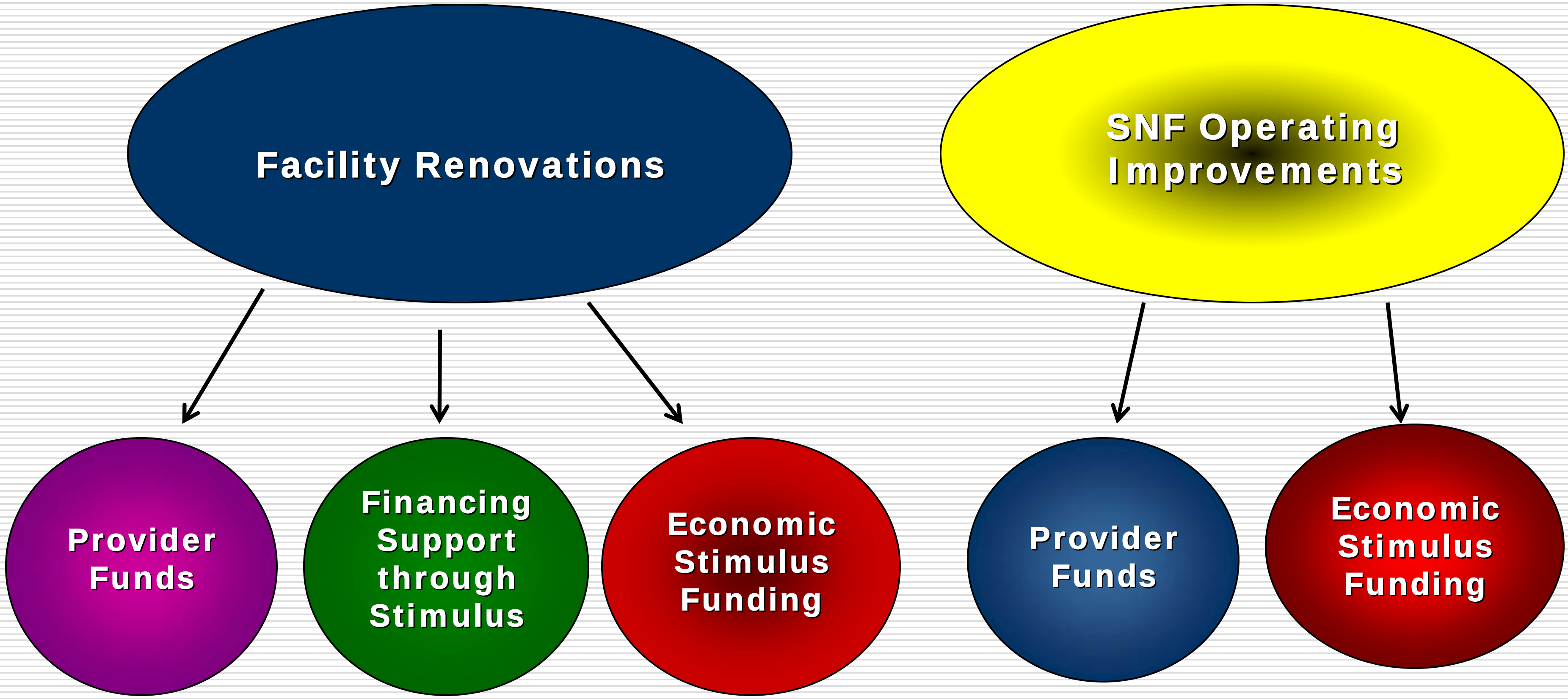
- Expand and enhance the curriculum and core competencies for individuals seeking certification as nursing assistants (Certified Nursing Assistants and Hospice Aides).
- Increase the annual required in-service education time for Certified Nursing Assistants (CNAs).

Goal 3: Improve Direct Care Competencies and Staffing Levels

Policy Recommendations:

- Improve and enhance the capacity of Michigan Works! Agencies to support long term care providers.
- Develop peer monitoring programs that will improve the quality of the long term care workforce.

Funding Recommendations Public/Private Partnership



Economic Stimulus Proposal

Strategy	FTEs	Cost (millions)
Fund cost of Increased Staffing to Statewide Averages for Nurses, Social Workers, Activities Staff.	279	$14.5
Fund cost of Increased Staffing to Statewide Averages for Support Staff.	45	$ 1.5
Provide Training to Displaced Workers in other sectors for careers in long term care, with emphasis on licensed nursing.	200	$ 2.3
Stimulate Renovation and Replacement of Skilled Nursing Facilities through direct grants, credit enhancement and funding of costs not reimbursed by Medicaid. Provide financial assistance and relief from occupancy limitations to facilities that transition to current design standards.		$22.8
Total Estimated Cost		$41.1

Funding for Other Proposed Policy Recommendations

- Medicare
- Medicaid
- Civil Monetary Penalty Funds
- Section 8 / Housing Choice Vouchers
- Tax Credits
- Other Sources

#2 Money Follows the Person and #9 Finance Process Action Teams (PATs)

OLTCSS Commission

Presentation

May 11, 2009

Presentation Outline

- Combine MFP and Finance PAT's
- Status of PATs and Finance Work Group
- Brief Review of LTC Task Force Recommendations on MFP and Finance

Combine Finance and MFP PATs

- All MFP Recommendations are eligibility and financial in nature
- The LTC Commission currently does not have a MFP Workgroup.
- The MFP recommendations coordinate with the Finance recommendations
- Avoid duplication of effort.

Status of Finance and MFP PATs & Finance Work Group

- Draft Logic Models for both Finance and MFP (They will need to be combined)
- Progress on Recommendations include; FMAP Letter, Education Forum on Dual Eligibles, LTC Insurance Partnership Education, CHCS Proposal Review
- Finance Work Group is working on issues related to programming for people who are dually eligible for Medicare and Medicaid.
- MFP PAT is developing documents to clarify current financial eligibility and income deduction rules.

#2 MFP LTC Task Force Recommendations

1. Establish consistent spend down provisions across all long-term care settings.
2. Establish funding mechanisms that abide by the "Money Follows the Person" principles.
3. Amend and fund the MI Choice waiver to serve all eligible clients.
4. Establish reimbursement levels that realistically and appropriately reflect the acuity level and need for services and supports the client needs, consistent with federal limitations.

#9 Topics in Finance Recommendations

- Case-Mix reimbursement system to fund LTC services and supports
- Estate tax study & recommendations
- local match to capture additional federal Medicaid dollars
- LTC Insurance expansion
- State Income Tax credits, exemptions & deductions for LTC expenses

#9 Topics in Finance Recommendations

- National Advocacy with CMS
- Estate Preservation Program
- Focus on trusts and annuities consumer protection, policy changes & data base.
- Discover and combat Medicaid fraud, and recover funds paid for inadequate care.
- Study and pursue aggressive Medicare recovery efforts.

#9 Topics in Finance Recommendations

- Permit use of patient pay amounts for past medical bills, including past nursing facility bills
- Require full certification of all Medicaid nursing facilities. Require dual certification of all nursing facilities
- Bring funding for the State Long-Term Care Ombudsman program into compliance with national recommendations

FINANCE REFORM AND MONEY FOLLOWS THE PERSON INITIATIVE
Charge to Workgroup

- Review and monitor the implementation of recommendation # 2 and # 9 of the Medicaid Long-Term Care Task Force.
- Engage their members, volunteers, and constituencies in advocacy for the successful implementation of the Task Force recommendations.
- Assist the Commission in being an effective and visible consumer advocate for improving the access to quality long-term care and supports through efficient long-term care finance reform.
- Present findings and recommendations regularly to the Commission for next steps and potential changes in policy that would adapt financing structures that maximize resources, promote consumer incentives and decrease fraud.
- Ensure all recommendations:
  - Involve consumers and broad public participation in planning.
  - Promote an array of long-term care services and supports.
  - Promote the concept of money (funding) following the person to wherever that person chooses to live.
  - Assure evaluation is addressed.
  - Assure consistency with the overall commission process for statewide impact.

Background

<u>Task Force Recommendation # 2: Improve Access by Adopting "Money Follows the Person".</u>

Strategies / Action Steps
1. Establish consistent spend down provisions across all long-term care settings.
2. Establish funding mechanisms that abide by the "Money Follows the Person" principle.
3. Amend and fund the MI Choice waiver to serve all eligible clients.
4. Establish reimbursement levels that realistically and appropriately reflect the acuity level and need for services and supports the client needs, consistent with federal limitations. (An immediate step would be to remove the current reimbursement cap on the MI Choice waiver.)

Benchmarks
1. Medicaid state plan is amended to establish spend down provisions for community-based LTC settings.
2. Medicaid-funded LTC services and supports are reimbursed based on a case mix basis.
3. Mechanisms are in place to allow consumers to port benefits across the multitude of LTC services and environments of their choice to the extent permitted under federal regulations.

4. Effective October 1, 2005 and quarterly thereafter, MI Choice waiver program enrollment and funding are incrementally increased to meet demand for MI Choice services to eliminate the need for waiting lists.

Task Force Recommendation # 9: Adapt Financing Structures that Maximize Resources, Promote Consumer Incentives, and Decrease Fraud.

Strategies / Action Steps

As an initial step, Michigan should adopt a Case-Mix reimbursement system to fund LTC services and supports. This approach sets provider rates according to the acuity mix of the consumers served. The higher the acuity, the higher the rate paid to the provider due to the resources needed to care for the consumers. As the long-term care system evolves, other appropriate funding mechanisms should also be considered and adopted.

1. Michigan should decouple its estate tax from the federal estate tax to make more revenue available.

2. Michigan should identify sources of non-federal tax revenue that are utilized to provide LTC and support services for Medicaid consumers, and create policies and procedures that will allow these funds to be used as local match to capture additional federal Medicaid dollars for long-term care and supports.

3. The Michigan Congressional Delegation should:

    a. Advocate for the removal of the congressional barrier imposed on the development of Partnership program by states between Medicaid and long-term care insurance.

    b. Strongly advocate that the federal government assume full responsibility for the health care needs of individuals who are dually eligible for Medicare and Medicaid.

    c. Urge the Congress to revise the current Federal Medical Assistance Percentage (FMAP) formula to a more just methodology using Total Taxable Resources or a similarly broader measure and to shorten the time frame from the data reporting period to the year of application.

4. Subject to appropriate reviews for actuarial soundness, overall state budget neutrality, and federal approvals, Michigan should establish a mandatory estate preservation program instead of establishing a traditional Medicaid Estate Recovery Program.

5. Legislation that promotes the purchase and retention of long-term care insurance policies and that addresses ratemaking requirements, insurance standards, consumer protections, and incentives for individuals and employers should be drafted, reviewed, introduced, and enacted after review by a representative group of consumers, advocates, and providers.

6. Three specific strategies aimed at increasing the number of people in Michigan who have long-term care insurance should be implemented: a) gain federal approval for the use of the Long-Term Care Insurance Partnership Programs.; b) expand the state

employees’ self-funded, long-term care insurance program; and c) examine the possibility of a state income tax credit for purchase and retention of long-term care insurance.

7. Tax credits and tax deductions for the purchase of long-term care insurance policies and for “out of pocket costs” for LTC should be considered.

8. A “special tax exemption” for taxpayers who provide primary care for an eligible parent or grandparent (and possibly others) should be explored. Based upon a $1,800 exemption proposed in legislation introduced in 2005, the Senate Fiscal Agency estimates cost to the state in reduced revenue at less than $1 million.

9. Michigan should encourage and strengthen local and regional programs that support caregivers in their care giving efforts.

10. An ongoing and centralized data collection process by DHS of trusts and annuities information should continue to be used to guide the need for state regulation.

11. There should be ongoing review and strengthening, along with strict and consistent enforcement, of laws and regulations governing the inappropriate use of trusts and annuities for Medicaid eligibility.

12. There must be more frequent, vigorous, and publicized prosecution of those who financially exploit vulnerable individuals.

13. State agencies should cooperate in discovering and combating Medicaid fraud, and recovering funds paid for inadequate care.

14. New legislation for the regulation by the state of “trust mills” and annuity companies should be enacted. This legislation should address the prevention of abusive sales tactics through the implementation of insurance industry regulations, registration of out-of-state companies, and prescreening of sales materials.

15. Appropriate state agencies should analyze and quantify the relationship between public and private resources, including both time and money, spent on LTC. This analysis should be used as a way to obtain a match for federal Medicaid dollars.

16. The state should study and pursue aggressive Medicare recovery efforts.

17. Medicaid eligibility policies should be amended to:

    a. Permit use of patient pay amounts for past medical bills, including past nursing facility bills.

    b. Require full certification of all Medicaid nursing facilities.

    c. Require dual certification of all nursing facilities.

18. The task force recommends full funding for an external advocacy agency on behalf of consumers accessing the array of supports and services overseen by the SPE system. Based on a conservative figure, the total budget line for this item would be $4.3 million. Of the increase, $2 million would be to bring the State Long-Term Care Ombudsman program into compliance with national recommendations; $2.3 million would go to the external advocacy organization outlined in Section 8 of the Model Act.

Benchmarks

1. Increased state and federal support will be available to implement Person-Centered Plans and consumer choice options.
2. A reduction of inappropriate asset and income sheltering will be achieved.
3. Improved federal-state funding partnership will be achieved.
4. An increase in the number of Michigan citizens with LTC insurance will be achieved.
5. An adequate allocation of finances and resources across the array of supports and services will reflect informed consumer choices in the delivery of LTC services and supports.

System transformation for Long Term Care Reform in Michigan begins with the Single Point of Entry Program. The cornerstone of this program is providing ***advocacy, unbiased information and assistance and informed choice*** about long term care (LTC) options for persons who are elderly and/or disabled.

Benefits of the Single Point of Entry or Long Term Care Connection project are:

- Cost reduction to individuals and the Medicaid system for long term care services.
  - Consumers have chosen services/programs beyond nursing facilities and MI Choice Waiver to meet their LTC needs once they were informed of their options.
  - Persons found ineligible for Medicaid funded services were supported in finding alternative options for LTC needs.
- Consumer survey results show an overwhelmingly high percentage of consumers and their families believe they have more control over their long term care needs, they are better able to navigate through the LTC system, they have more understanding about their insurance/benefits, and they experience increased knowledge and choice about LTC.
- Consumers have greater knowledge about their rights within LTC programs and services.
- Greater numbers of nursing facility residents are able to receive assistance to transition out of institutional care back to their community, creating a potential cost savings in the millions of dollars to the state.
- Michigan receives federal matching funds for the LTCC program.
- SPE staffs are able to work with consumers over the continuum of their care ensuring a reduction of duplication of services and seamless on-going support of the consumer.
- LTCC acts as a gatekeeper to the MI Choice Waiver program and nursing facilities through the Level of Care assessment process. This process leads to transition case finding, awareness of LTC options other than nursing facilities and Waiver for consumers to consider, and informed awareness of Medicaid rights to consumer.
- Management of the Waiver wait list has lead to unbiased assessment for MI Choice Waiver program eligibility, has reduced the time consumers wait for services and provided consistency of MSA policy implementation for those who are eligible for Waiver services.
- The SPE is the link for all LTC system transformation in Michigan including nursing facility diversions, non-Medicaid transition activity, expansion of the Waiver program and affordable housing initiatives.

Michigan's effort to improve long term care and save essential Medicaid funds **has been successful** through the SPE project. Without the continuation of effort by the Long Term Care Connection Michigan will experience immediate cost increases and revert to a LTC system that was fragmented and in disrepair. The Long Term Care Connection is the only agency capable through its design to **provide unbiased information and assistance and advocacy** across the continuum of long term care.