



Berrien County Manufacturers Council
January 14, 2010



What is Manufacturing?

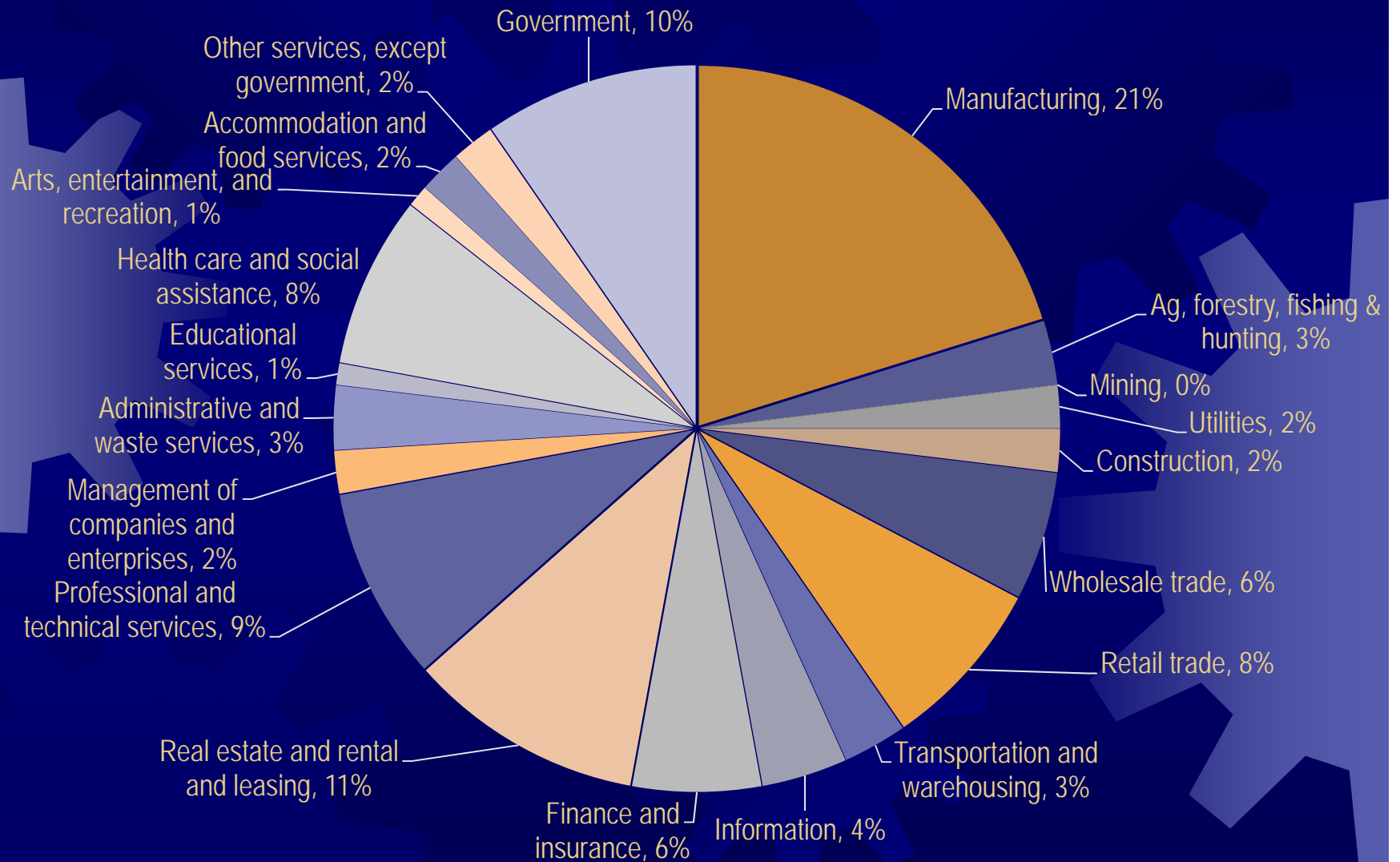
- High Capital Investment (Real & Personal Property)
- High Wage & Good Benefits
- High Economic Multiplier Effect
- Compete on the Basis of Cost in Global Economy



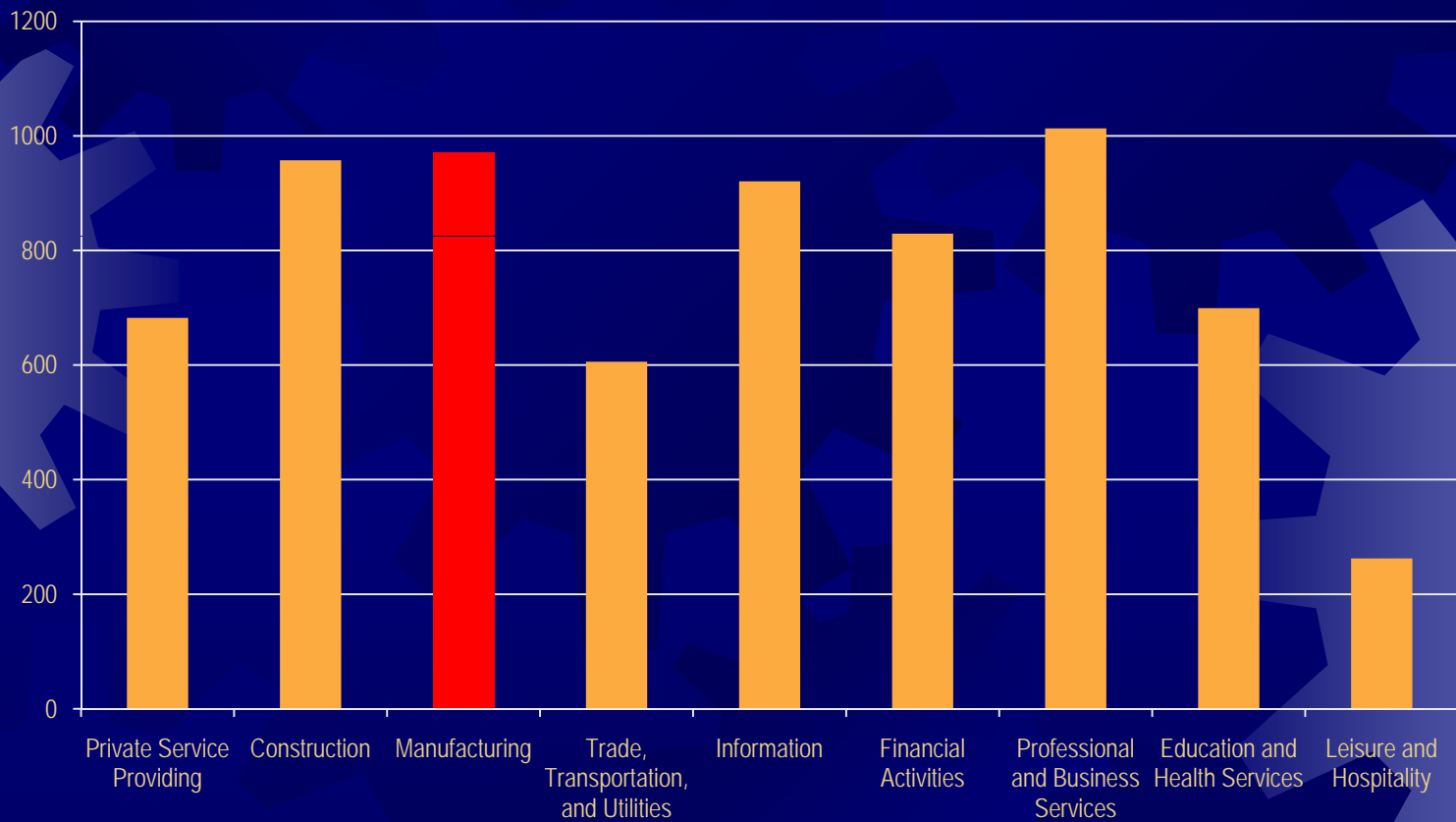
Michigan is a Manufacturing State

- Largest sector the Michigan economy - 21% GSP
- Seventh Largest Manufacturing GSP in the Nation (2008)
- Manufacturing Employs 492,100 (March 2009)
- More T&D shops than any other state (1,099)
- Half of nations \$8.9 billion Office Furniture Production
- 6th Largest Manufacturing Export in the Nation (2009)

GSP by Sector 2008



Average Weekly Wage by Sector March 2009



Employment Multiplier Effect

Automotive Value Chain

- OEM to Suppliers 3.9 Multiplier
- Suppliers to Spin-off 3.7 Multiplier
- Total Automotive 7.6 Multiplier



Manufacturing Investment

- Ford has invested more than **\$12 billion** in capital investments in Michigan since 2000 and employs 36,000 people in Michigan.
- Hemlock Semiconductor Corporation to invest up to **\$1 billion** in Hemlock Michigan
- A123Systems, Inc. will invest over **\$600 million** in initial coating, cell manufacturing, and pack assembly.
- Johnson Controls-Saft Advanced Power Solutions LLC will invest **\$220 million** in a new advanced-battery manufacturing facility
- Fortu PowerCell will invest **\$670 million** in Muskegon Township for battery production.
- Lenawee Stamping Corporation will invest **\$6.6 million** to expand its operations in Tecumseh
- PolyCem LLC plans to invest **\$5.6 million** to relocate to Norton Shores.
- Magna Electronics to invest **\$20 million** for electric and hybrid vehicles

Serious Budget Problem

- 2009 General Fund Revenues Almost \$2 Billion Below 2008 Levels
 - FY 2008 \$ 9.3 Billion
 - FY 2009 \$ 7.4 Billion
 - FY 2010 \$ 6.9 Billion (CREC)
 - FY 2011 \$ 6.9 Billion (CREC)
- 2011 GF About Equal To 1964 Revenue



Serious Budget Problem

- SAF Also Seeing Declines
 - 2007 \$11.1 Billion
 - 2008 \$11.5 Billion
 - 2009 \$10.9 Billion
 - 2010 \$10.5 Billion (CREC)
 - 2011 \$ 10.4 Billion (CREC)



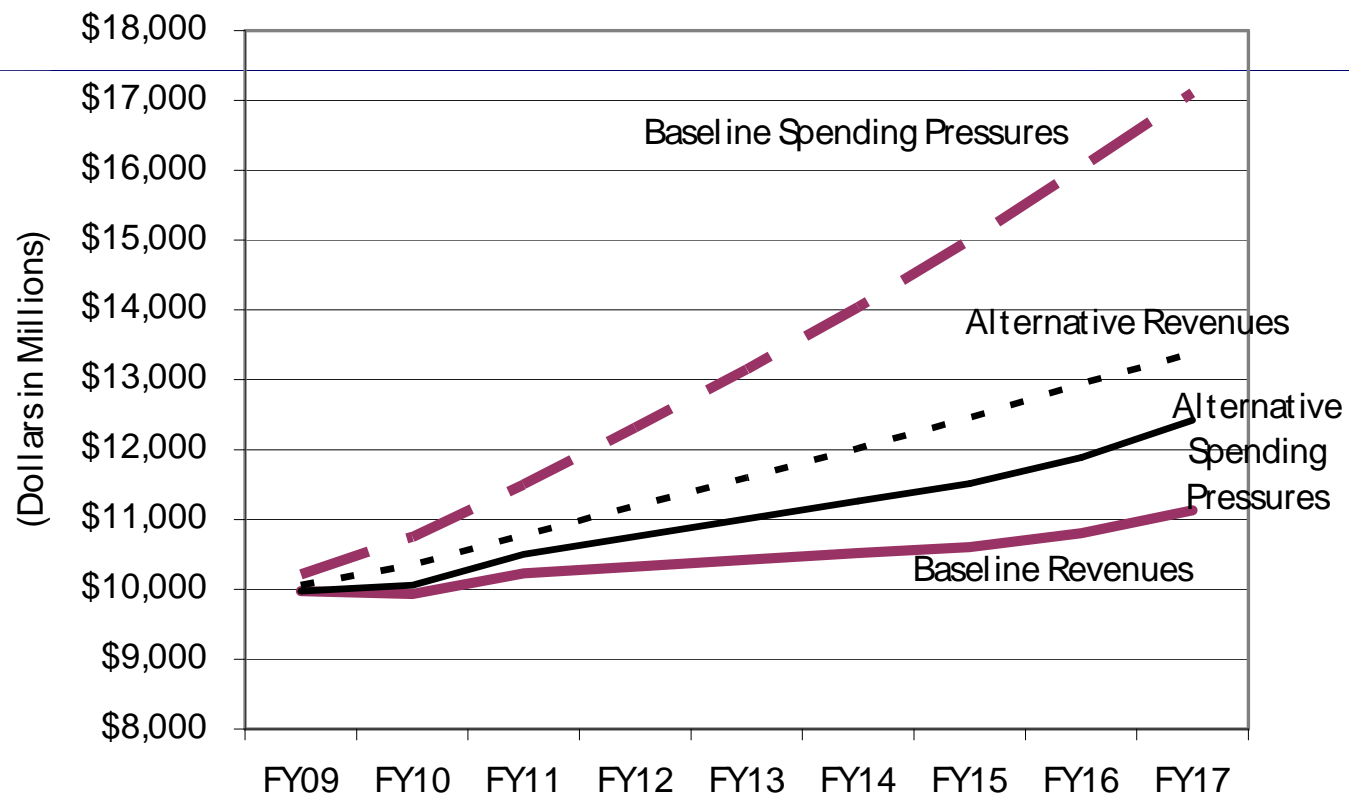
Chronic Structural Deficit

- Spending Revenue Gap Widening
 - \$6 billion GF Deficit by 2017
 - \$3 billion SAF Deficit by 2017

Citizens Research Council
2008

Chronic Structural Deficit

Citizens Research Council - Chart A-1
General Fund Structural Deficit Projections
Current and Alternative Policy Scenarios, FY09 to FY17



The slide features a dark blue background with several large, semi-transparent gear icons of varying shades of blue. On the left side, there is a vertical strip with a colorful, abstract, and textured pattern. The title is centered at the top in a large, bold, yellow font.

American Recovery and Reinvestment Act

- FY 2009 \$ 4,999,424,600
- FY 2010 \$ 2,073,058,900
- FY 2011 \$ 701,825,600

Cut Based Budget 2009

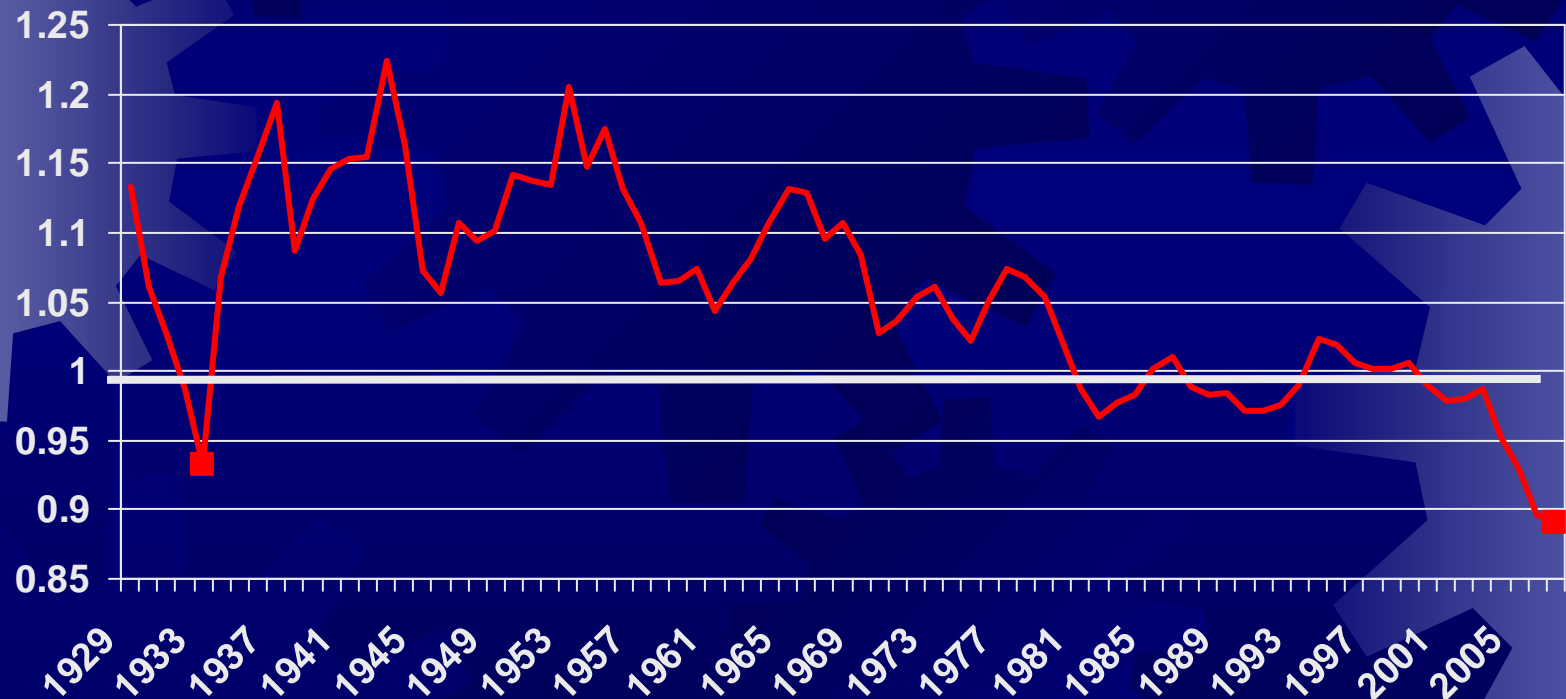
- GF Budget spent \$491,130,2100 less
 - 6% GF reduction
- SAF Budget spent \$436,235,800 less
 - 3.3% SAF reduction
- Corrections spending dropped \$ 98,492,400
 - 4.9% reduction



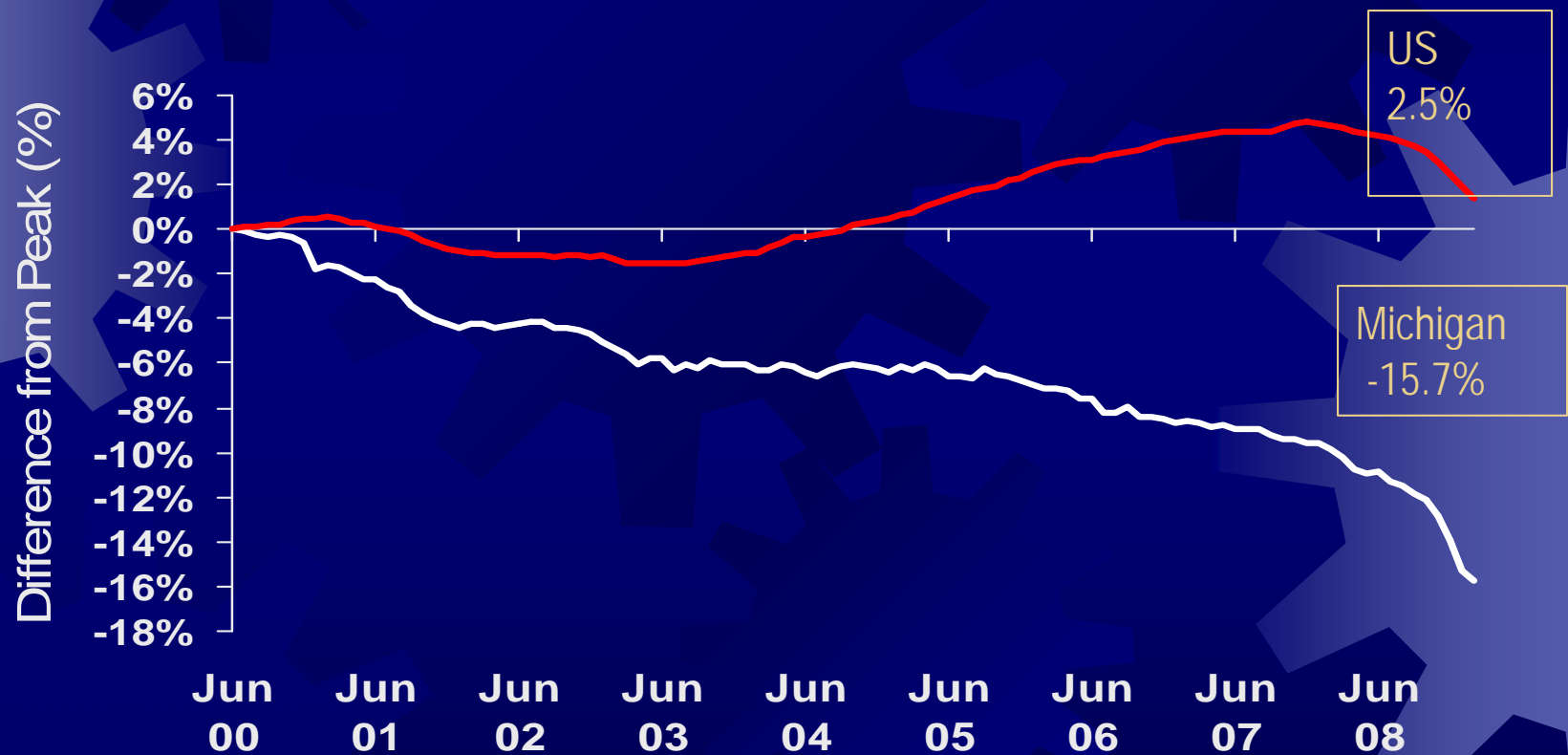
Budget Deficit Projected for 2011

- \$ 1.725 Billion deficit for 2011 (CREC)
- “We used to be a wealthy state. We are not a wealthy state anymore” – Gary Olson SFA Director

Michigan per Capita Income as a Percent of U.S. Per Capita Income

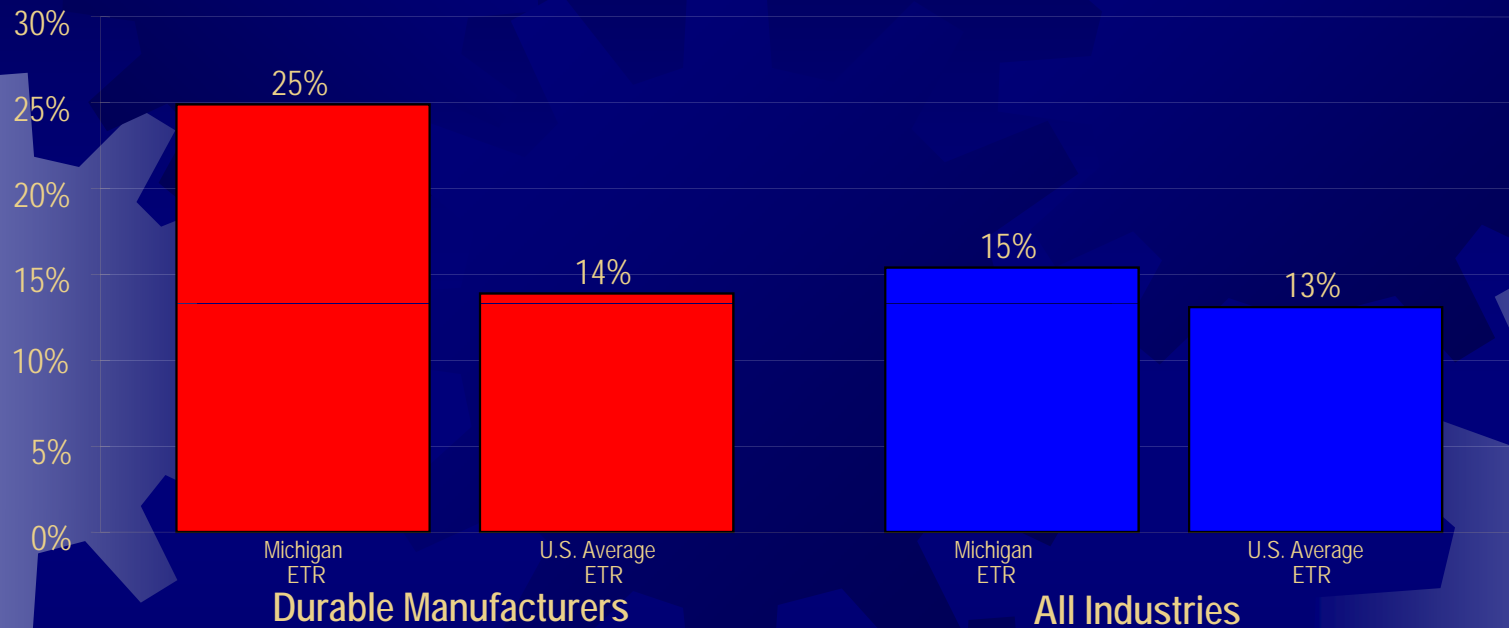


Michigan Employment Never Recovered in Past Expansion



Note: Peak is calculated from Michigan's June 2000 Peak. Data through December 2008. Bureau of Labor Statistics

Effective Tax Rates on Manufacturers Higher in Michigan Relative to Other States



- Durable goods manufacturers have the highest effective tax rate in Michigan of any industry (25%) and a rate that is two thirds higher than the industry average (15%).
- This disparity is caused by a combination of high personal property taxes (which many industries don't pay) and a high SBT burden (resulting from the fact that the SBT is largely a tax on capital and labor).
- On average, other states tax manufacturers at a rate that is similar to the taxes paid by other industries. The U.S. average effective tax rate for durable goods manufacturers is 14%, which is close to the U.S. average rate of 13% for all industries.
- Many people have said that Michigan is a high tax state. *The truth is that Michigan is a high tax state for manufacturers.*

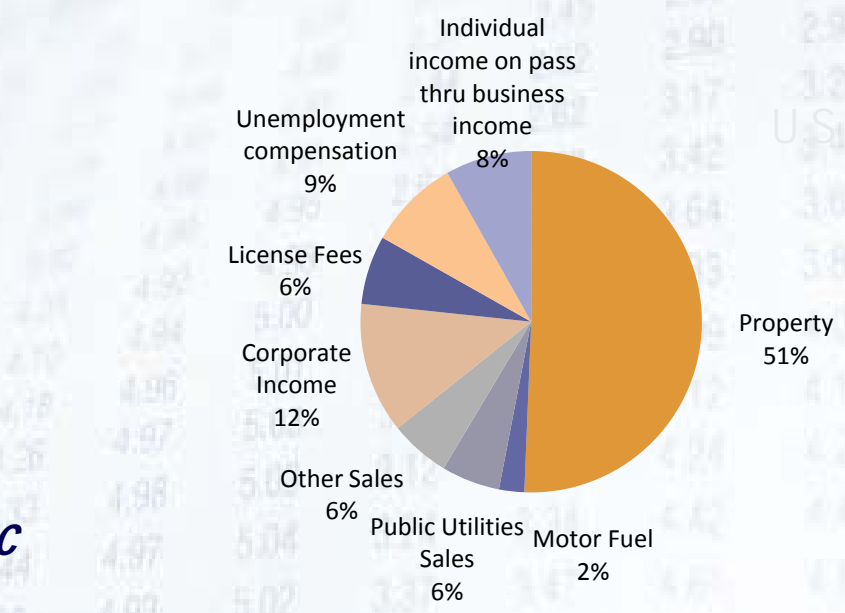
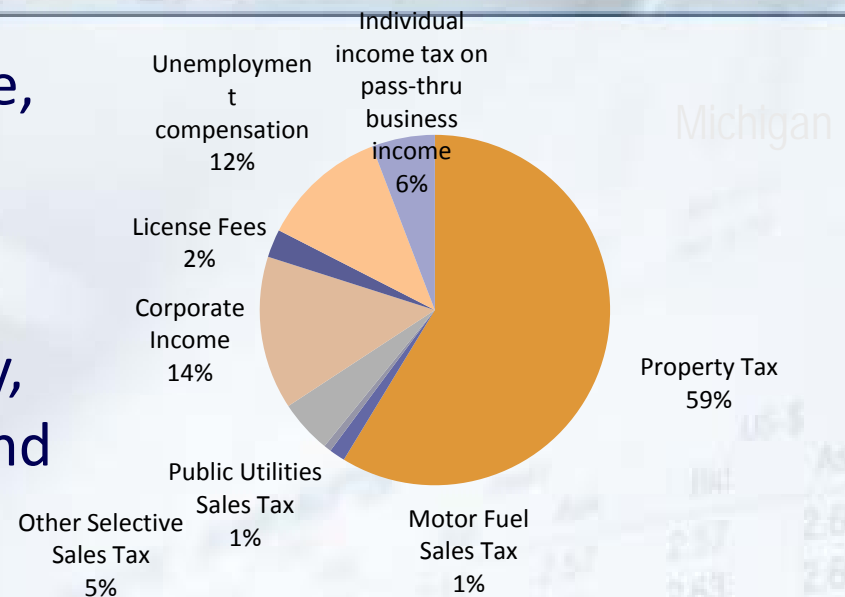
Source: Effective tax rates for 2004 calculated by Ernst & Young, Quantitative Economics and Statistics Practice.

Comparison With U.S. Averages

Compared to U.S. average, Michigan receives:

- A greater share of tax revenue from property, “corporate income,” and unemployment compensation.
- A smaller share of tax revenue from license fees and individual income taxes.

Source: Anderson Economic Group, LLC





MMA's 2010 Structural and Economic Reform Agenda

Michigan Needs Dramatic Reform Now

- Structural Spending Reform
- Economic Policy Reform
- Government Reform
- Competitive Regulatory Reform
- Environmental and Energy Policy Reform
- Transportation and Infrastructure Reform
- Health Care Cost Reform
- Employment and Workforce Policy

Structural Spending Reform

- Pool all health care plans for public employees
- Reform Public Act 312 to change arbitration standards for police and fire
- Reform Urban Cooperation Act and two other similar acts to eliminate requirement that when a service merger occurs, the higher wage and benefits must be paid
- Require all new teachers hired by a date certain in the future to have defined contribution, rather than defined benefit, retirement plans
- Move all administrative functions of local schools to the ISD, leaving local school boards with only academic and athletic functions
- Increase state employee and retiree health care premium co-pays
- Eliminate road patrol function of Michigan State Police and let county sheriffs take over that function
- Require that school districts competitively bid all non-core functions, including transportation, food service, and custodial work.
- Reduce the number of school districts
- Reduce mandatory minimum sentences and increase parole rates for all crimes
- School Employees Pay 25% of Health Insurance Costs
- Reduce State Worker Benefits to Nat'l Average Establish an Office of Medicaid Inspector General to specifically investigate Medicaid fraud



Economic Policy Reform

- Eliminate the personal property tax
- Eliminate the MBT Surcharge
- Reduce or Eliminate the Gross Receipts Tax Portion of MBT
- Support Economic Development Programs



Eliminate Personal Property Tax

- Most States Have Eliminated This Tax
- Barrier to Investment – Taxes the thing you want the most – capital investment.
 - Investor uncertainty
 - Sometimes allowed, sometimes not.
 - Credits delayed benefit
- Will require addressing local funding



Eliminate MBT Surcharge

- \$700 Million Barrier to Competitiveness
- Investment and R&D Incentives Do Not Apply
- History –
 - Personal Income Tax – Return to 4.6 stopped at 4.3
 - Ill-conceived Service Tax – Cost Approx. \$2 Billion
 - MMA supported immediate elimination with Temporary Surcharge of \$700 million
 - Additional \$100 million imposed on Manufacturers through MBT Credit Reductions



Reduce or Eliminate Gross Receipts Tax

- Disproportionally taxes manufacturers
- One-of-Its-Kind tax base
- That part of the MBT that makes company pay tax even when they are not making a profit. – Stabilizes state revenue.
- Complicates the tax code.



Support Economic Development Programs

- Other states want to attract our industrial base
- Manufacturing jobs bring high economic multiplier effects
- Too often viewed as “tax expenditures”
- We cannot unilaterally disarm in the battle against other states.

Support Economic Development Programs

Incentive	Relative Effectiveness Encouraging Jobs
PA 198 – Industrial Property Abatement	High
PA 328 – New Personal Property	High
PA 376 – Renaissance Zone Act	Medium
PA 376 – MEGA	Medium
PA 381 – Brownfield Redevelopment	Medium
PA 79 and Sec. 455 MBT Act – Film Incentive	Low
PA 210 – Commercial Rehabilitation Abatement	Low
PA 146 – Obsolete Property Rehabilitation	Low



Government Reform

- Run government more like a business
- Benchmark performance based data – In statute
 - Effective tax rate for manufacturers
 - Business climate factors – Energy costs, real estate costs, access to capital, R&D talent base, transportation infrastructure
 - Regulatory Environment
 - Amount of regulation, timing and certainty
 - Cost of state employees compensation

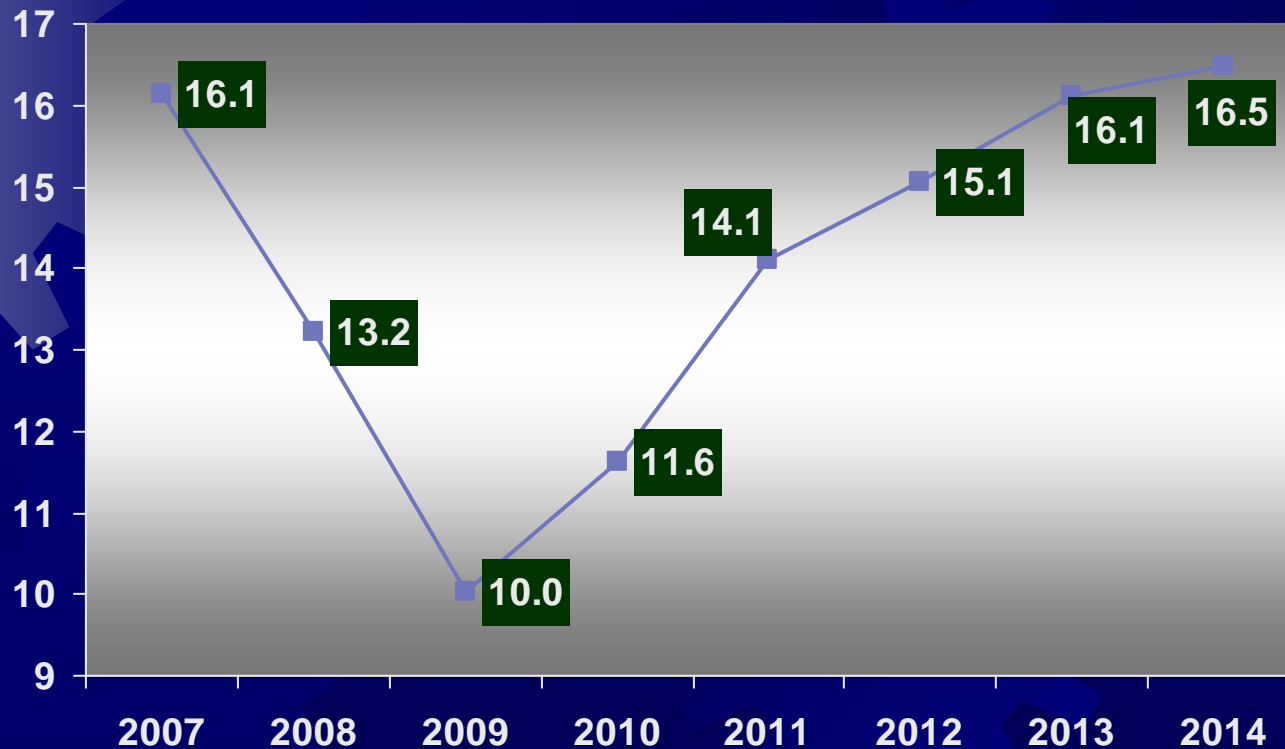


Competitive Regulatory Environment

- No Regulations Beyond Federal Standards
 - Mercury Rule – Over a billion in electric bills
 - Brownfield Clean-up Standards
 - Climate Change – State or Regional
 - Block Administrative Rule Development
- Mandate Efficiency Programs
 - Air Program reduce permits 66% - 367 days to 147 days.
- Require new rules to meet cost benefit analysis

Reason for Optimism

U.S. Light Vehicle Sales History and Forecast
Combined J.D. Power and CSM Worldwide Forecast
2007 - 2014



Source: CSM Worldwide, JD Power, Inc and Center for Automotive Research



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Thank you