State Notes
TOPICS OF LEGISLATIVE INTEREST
May/June 2008

Declining Enrollment: A Continuing Issue
By Kathryn Summers-Coty, Chief Analyst

Introduction

Beginning with the implementation of Proposal A in fiscal year (FY) 1994-95, the basis for providing operational funding to schools changed from property taxes to the number of children who are enrolled and counted in membership. For the first nine years after this change, pupil counts grew statewide, and many school districts benefited from increasing enrollment, and thus increased funding. However, beginning in FY 2003-04, statewide enrollments began to decline, continuing their decline today and into the foreseeable future. This article provides a history of recent pupil counts, projects pupil declines into the future, and discusses issues associated with declining enrollment.

Pupil Membership History

Since FY 1994-95, basic operational funding for schools has come from the foundation allowance. This method of funding continues today. For each pupil counted in membership, a district is paid its foundation allowance (currently a minimum of $7,204). Students are counted twice a year, in the fall and spring. To determine a district's total pupil membership on which its foundation allowance funding will be paid, a weighted average is used. The current formula weights the number of pupils counted in the fall at 75%, and adds to that 25% of the pupils counted in the prior school year's February totals. The intent of this formula is to encourage retention of students from one year to the next; if a district is growing, the heavier weight on the fall count will boost that district's total pupil membership and generate additional funding.

Table 1 shows how statewide pupil memberships have changed, beginning with the year Proposal A was implemented through the upcoming fiscal year, based on the consensus estimate for FY 2008-09. The table shows that the peak for pupil counts was in FY 2002-03, and since that time, the State is predicted to see a decline by FY 2008-09 of more than 86,000 memberships, or 5.0%. The average foundation allowance in the State is roughly $7,500 per pupil, and therefore those 86,000 fewer pupils represent nearly $650.0 million in lost foundation allowance funding provided to school districts. As discussed below, this funding actually is returned to the school districts in the form of increases in the foundation allowance that otherwise would not have been possible due to revenue constraints over the last few years. On a net basis, however, districts are not "winning".

Reasons for Declining Enrollment

The primary reason for declining enrollments in the State is a corresponding reduction in births. Table 2 shows how actual births have changed over the last 30 years. Michigan's peak in births occurred in 1990; this number represents the children who, for the most part, would have graduated this spring. Each successive year has seen fewer births, which translate to fewer children entering kindergarten statewide. As shown in this table, recent years are continuing the decline. Therefore, based on this primary factor, the State will continue to see fewer and fewer K-12 students in schools, regardless of other factors such as net out-migration, home schooling, or private school enrollment.

Table 1

Pupil Membership History FY 1994-95 to FY 2008-09				
Blend Calculation	**Fiscal Year**	**Local Districts**	**Charter Schools**	**Total**
50/50	1994-95	1,593,306	0	1,593,306
50/50	1995-96	1,610,130	4,790	1,614,920
50/50	1996-97	1,634,074	11,520	1,645,594
60/40	1997-98	1,651,011	19,202	1,670,213
60/40	1998-99	1,656,186	31,109	1,687,295
75/25	1999-2000	1,651,300	45,290	1,696,590
80/20	2000-01	1,649,085	55,072	1,704,157
80/20	2001-02	1,647,459	62,113	1,709,572
80/20	2002-03	1,647,531	67,336	1,714,867
80/20	2003-04	1,640,929	73,473	1,714,402
75/25	2004-05	1,626,289	81,491	1,707,780
75/25	2005-06	1,607,880	89,654	1,697,534
75/25	2006-07	1,584,435	96,627	1,681,062
75/25	2007-08	1,553,585	98,939	1,652,524
75/25	2008-09 Est.	1,525,600	103,000	1,628,600

Source: State Aid Status Reports

Table 2

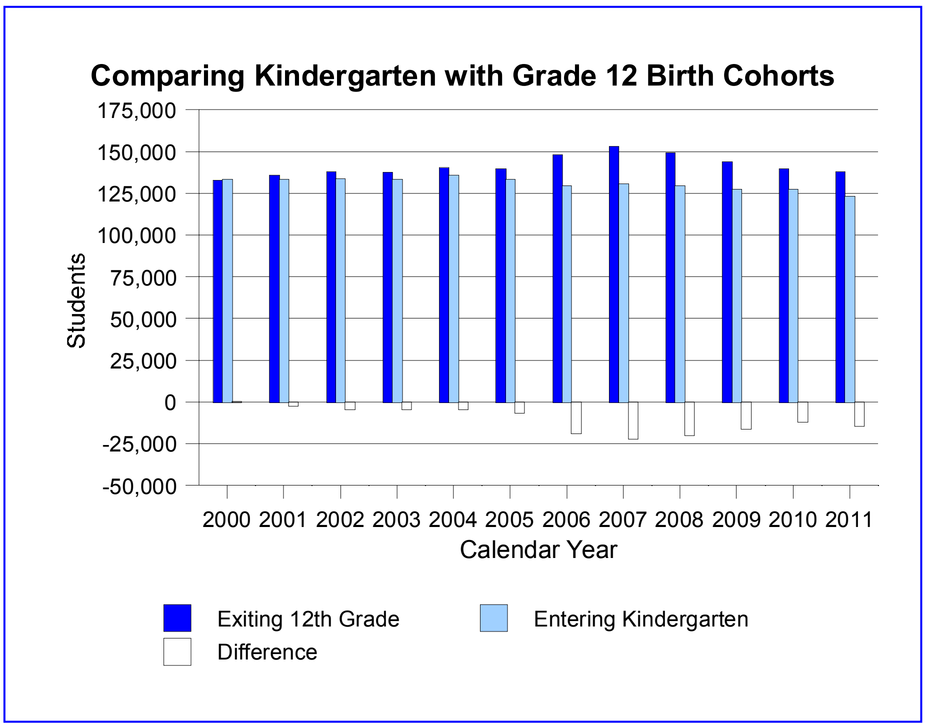
Actual Births in Michigan: 1978 through 2007			
Year	**Births**	**Year**	**Births**
1978	138,802	1993	139,560
1979	144,452	1994	137,844
1980	145,162	1995	134,169
1981	140,579	1996	133,231
1982	137,950	1997	133,549
1983	133,026	1998	133,649
1984	135,782	1999	133,429
1985	138,052	2000	136,048
1986	137,626	2001	133,247
1987	140,466	2002	129,518
1988	139,635	2003	130,850
1989	148,164	2004	129,710
1990	153,080	2005	127,518
1991	149,478	2006	127,537
1992	143,827	2007	123,383

Source: Michigan Department of Community Health

Continuing into the Foreseeable Future

Merely looking at births in Michigan and assuming, simplistically, that children born in a certain calendar year will enter kindergarten five years later and graduate 13 years after that, can reveal a pattern that correlates with the actual changes in pupil memberships shown in Table 1. Further, this exercise provides a look into the future. As each large graduating class is replaced with a much smaller kindergarten class, the total statewide pupils decline. Figure 1 shows the difference, again using births alone, without regard for in- or out-migration or other factors affecting enrollment in public schools, between exiting 12th grade classes and the much smaller entering kindergarten classes. It is estimated that large statewide declines in K-12 public schools will continue into the foreseeable future, but the losses likely will decrease in size over time.

Figure 1



Source: Senate Fiscal Agency calculations

Local Impacts of Declining Enrollment

In FY 2007-08, there are 552 local school districts and 223 public school academies (or charter schools). Comparing this year's pupils to last year's, 140 local districts gained a total of 6,056 pupils and 124 charter schools gained 5,215 pupils. Therefore, about one-third of the school districts gained students. On the other hand, two-thirds of the school districts lost students. Specifically, 412 local districts lost 36,119 pupils and 98 charter schools lost 3,767 students in FY 2007-08 compared to FY 2006-07. Combined, then, from FY 2006-07 to FY 2007-08, statewide pupil memberships declined by more than 28,000.

On an individual district basis, the largest loss occurred in the Detroit Public Schools, which saw 11,116 fewer pupils from one year to the next, and the next biggest loss was Flint Schools, with 1,338 fewer students. The losses are not confined to large urban areas, however. Other districts near the top of the list in declines include Comstock, Marquette, River Rouge, and Willow Run.

The biggest "winner" in terms of gaining students was the Inkster School District, adding 425 pupils in membership. Other gainers included Chippewa Valley, Clawson, Grand Blanc, Highland Park, and Kalamazoo.

For each pupil added, a district generates a new foundation allowance, and for each student lost, the opposite occurs. Foundation allowances are minimally $7,204 per pupil in the current year. Statewide, when there are fewer total pupils, the State saves money, and those savings generally are returned to districts in the form of increases in the per-pupil funding. However, with the stagnant status of the revenue funneling into the School Aid Fund, there actually has not been any "new" money available for schools. Rather, the savings accruing to the State from fewer pupils are, for the most part, the only dollars being re-allocated to the schools. Therefore, while the foundation allowance shows some growth over the past few years, it has been funded almost entirely by declining enrollments.

Issues Surrounding Declining Enrollment

One of the issues that districts experiencing declining enrollment are faced with is the fact that losses in pupils generally do not occur in the same class or grade, but are rather spread out throughout grades. Therefore, if a district loses 20 students (and roughly $150,000), it is highly unlikely that a teacher could be laid off, because those 20 students would be distributed among many classes and/or grades. Declining enrollment can be addressed with restructuring, consolidation, or downsizing, but that typically takes time, while the reduced funding occurs immediately.

The School Aid Act does provide two avenues of funding to assist during the period of adjustment to shrinking school populations. Both sources essentially calculate what a district's three-year average pupil count is, and provide foundation allowance funding at that elevated level, rather than at the current year count (which would be lower if the district is experiencing declining enrollment). However, one of the programs is heavily prorated (i.e., underfunded). Approximately $30.0 million is allocated in FY 2007-08 for these programs, though if the programs were fully funded, the budget would need an estimated additional $220.0 million.

State Notes

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State-Funded University and Community College Construction Projects
By Bill Bowerman, Chief Analyst

Introduction

Debate over the fiscal year (FY) 2007-08 Capital Outlay budget has focused on proposed State funding of university and community college construction projects. The following provides an overview of State funding for higher education institution construction projects, including a history of allocations to community colleges and universities.

Capital Outlay Process

Public Act 183 of 1964 created the State Building Authority (SBA) as a means to acquire, construct, furnish, equip, and renovate buildings for the use of the State, including public universities and community colleges. From 1978-79 through 2006-07, universities received over $2.1 billion in SBA funding and community colleges received $270.4 million. Table 1 delineates the allocation of SBA financing during that time period.

Table 1

State Building Authority Projects		
FY 1978-79 thru FY 2006-07	**SBA-Financed Portion**	**Percent of Total**
Universities	$2,111,502,366	46.3%
Community Colleges	270,441,340	5.9
Department of Corrections	1,071,870,868	23.5
Other State Agencies	1,110,674,722	24.3
Total	**$4,564,489,296**	**100.0%**

Source: FY 2006-07 SBA Project Cost Summary, February 2008

The process for initiating capital outlay projects for public higher education institutions is governed by Section 242 of the Management and Budget Act. It provides:

- Community colleges and universities must develop five-year capital outlay requests that are submitted annually to the Department of Management and Budget (DMB) and to the Joint Capital Outlay Subcommittee (JCOS).

- The DMB and the JCOS review capital outlay requests. The DMB prioritizes requests and includes the recommended requests in the annual executive budget recommendations.

- The request for program development and schematic planning must be approved by the JCOS and the Legislature through the appropriation process. The cost of preparing professionally developed program statements and schematic plans is borne entirely by the educational institution.

- Appropriation authorizations for studies and initial plans are not considered a commitment on the part of the Legislature to appropriate funds for the completion of plans or construction of any project.

- Program statements and schematic planning documents are reviewed by the DMB and, when the review is completed, are submitted to the JCOS as either approved or not approved.

- Upon review and approval by the JCOS, the JCOS and the Legislature may authorize the project for final design and construction with a line item appropriation in an appropriation bill.

- Preliminary plans must be submitted to the DMB for review and approval. The DMB reviews and approves final plans to be prepared for bidding. Bid results then are submitted to the JCOS.

- The DMB provides for review and oversight of capital outlay projects financed either in total or in part by the State Building Authority.

Under Section 246 of the Act, the authorized cost of any project may be established or revised only by specific reference in an appropriation act, by concurrent resolution adopted by both houses of the Legislature, or inference from the total amount of any appropriations made to complete plans and construction.

History of Funding for University and Community College Capital Outlay Projects

Tables 2 and 3 provide a history of State funding for university and community college capital outlay projects. Although the State share of project costs has been funded mainly through the SBA, a few of the projects listed were one-time grants from the State General Fund. The projects include authorizations from 1992 to the present. Amounts reflect appropriations, not actual expenditures. Final expenditure amounts, rental payments (debt service), and bond issue details are delineated annually in SBA Project Cost Summary reports.

Table 2

University State-Funded Capital Outlay Projects

University – Project	Construction Authorization	Total Cost	State Share	University Share	Project Status
Central Michigan					
Music Building	PA 19 of 1993	$20,995,000	$20,995,000	$0	Completed
Primary Electrical System	PA 19 of 1993	3,200,000	3,200,000	0	Completed
Park Library Add./Remodeling	PA 480 of 1996	50,000,000	37,500,000	12,500,000	Completed
Health Professions Building	PA 291 of 2000	50,000,000	37,500,000	12,500,000	Completed
Education Building	PA 345 of 2006	50,000,000	37,500,000	12,500,000	Construction
CMU Subtotal		**$174,195,000**	**$136,695,000**	**$37,500,000**	
Eastern Michigan					
Library Rep./Renovation /Office Relocation	PA 19 of 1993	57,668,000	54,668,000	3,000,000	Completed
Health & Human Services Bldg	PA 480 of 1996	20,417,000	15,312,700	5,104,300	Completed
EMU Subtotal		**$78,085,000**	**$69,980,700**	**$8,104,300**	

University State-Funded Capital Outlay Projects					
University – Project	**Construction Authorization**	**Total Cost**	**State Share**	**University Share**	**Project Status**
Ferris State					
Arts and Sciences Building	PA 19 of 1993	31,225,000	31,000,000	225,000	Completed
Elastomer Inst.	PA 321 of 1996	6,650,000	4,650,000	2,000,000	Completed
Library Addition & Remodeling	PA 480 of 1996	50,000,000	37,500,000	12,500,000	Completed
Engineering & Tech. Center	PA 506 of 2000	18,000,000	13,500,000	4,500,000	Completed
Instructional Resource Center	PA 297 of 2005	8,500,000	5,625,000	2,875,000	Completed
FSU Subtotal		**$114,375,000**	**$92,275,000**	**$22,100,000**	
Grand Valley State					
Life Sciences Building	PA 19 of 1993	40,790,400	39,900,000	890,400	Completed
School of Business And Graduate Library	PA 480 of 1996	52,650,000	37,525,000	15,125,000	Completed
Fresh Water Research Center	PA 137 of 1999	1,000,000	1,000,000	0	One-time grant
Health Professions Building	PA 291 of 2000	53,000,000	37,100,000	15,900,000	Completed
Padnos College of Engineering	PA 297 of 2005	16,000,000	12,000,000	4,000,000	Completed
GVSU Subtotal		**$163,440,400**	**$127,525,000**	**$35,915,400**	
Lake Superior State					
Library Addition	PA 19 of 1993	10,900,000	10,900,000	0	Completed
Crawford Hall Addition/ Remodeling	PA 480 of 1996	23,000,000	17,250,000	5,750,000	Completed
Arts Classroom Building	PA 291 of 2000 PA 193 of 2003	15,300,000	11,475,000	3,825,000	Completed
Infrastructure/Technology/ Equipment/Maintenance	PA 468 of 2004	192,700	192,700	0	One-time grant
Special Maintenance	PA 10 of 2005	163,100	163,100		Completed
LSSU Subtotal		**$49,555,800**	**$39,980,800**	**$9,575,000**	
Michigan State					
Animal & Agricultural Facilities	PA 19 of 1993	69,651,000	66,651,000	3,000,000	Completed
Crop & Soil Sciences Building	PA 19 of 1993	3,100,000	3,100,000	0	Completed
Biomedical Science Building	PA 480 of 1996	93,000,000	69,750,100	23,249,900	Completed
Animal Health Diagnostic Lab.	PA 291 of 2000	58,000,000	58,000,000	0	Completed
Chemistry Building/Cooling Towers	PA 297 of 2005	28,344,500	20,000,000	8,344,500	Completed
MSU Subtotal		**$252,095,500**	**$217,501,100**	**$34,594,400**	
Michigan Tech					
Environmental Science/ Engineering Center	PA 19 of 1993	43,781,000	30,000,000	13,781,000	Completed
Center for Ecosystem Science	PA 480 of 1996	10,000,000	7,500,000	2,500,000	Completed
Performing Arts and Education Center	PA 480 of 1996	20,000,000	5,000,000	15,000,000	Completed
Integrated Learning/Info. Technology Center	PA 560 of 2002	33,838,700	25,000,000	8,838,700	Completed
General Campus Renovations	PA 297 of 2005	10,000,000	7,500,000	2,500,000	Completed
MTU Subtotal		**$117,619,700**	**$75,000,000**	**$42,619,700**	

University State-Funded Capital Outlay Projects					
University – Project	**Construction Authorization**	**Total Cost**	**State Share**	**University Share**	**Project Status**
Northern Michigan					
Power Plant Addition	PA 19 of 1993	19,530,000	19,530,000	0	Completed
West Science Building Remodeling	PA 480 of 1996	46,935,000	35,201,200	11,733,800	Completed
Fine & Practical Arts Building	PA 161 of 2002	21,230,000	15,922,500	5,307,500	Completed
Student Services	PA 161 of 2002	15,750,000	11,812,500	3,937,500	Completed
NMU Subtotal		**$103,445,000**	**$82,466,200**	**$20,978,800**	
Oakland					
Science & Technology Bldg.	PA 19 of 1993	39,012,000	39,012,000	0	Completed
Classroom/ Business School Building	PA 480 of 1996	17,500,000	13,125,000	4,375,000	Completed
School of Education Building	PA 506 of 2000	31,500,000	23,625,000	7,875,000	Completed
Oakland Subtotal		**$88,012,000**	**$75,762,000**	**$12,250,000**	
Saginaw Valley					
Professional Dev. Center	PA 149 of 1992	33,500,000	33,500,000	0	Completed
Energy Loop	PA 321 of 1996	3,500,000	3,500,000	0	Completed
Classroom Facility	PA 480 of 1996	28,500,000	18,750,000	9,750,000	Completed
Instructional Facility Number 4	PA 45 of 2001	40,000,000	30,000,000	10,000,000	Completed
Pioneer Hall Renovations/ Addition	PA 297 of 2005	16,000,000	12,000,000	4,000,000	Completed
SVSU Subtotal		**$121,500,000**	**$97,750,000**	**$23,750,000**	
U of M Ann Arbor					
Central Campus Renovations I	PA 19 of 1993	32,500,000	32,500,000	0	Completed
Integrated Technology Center	PA 19 of 1993	58,350,000	57,000,000	1,350,000	Completed
Central Campus Renovations II	PA 480 of 1996 PA 137 of 1999 PA 193 of 2003	88,000,000	59,250,000	28,750,000	Completed
Dana Building Renovations	PA 265 of 1999	17,700,000	11,250,000	6,450,000	Completed
Student Activities Building	PA 153 of 2006	8,500,000	5,751,700	2,748,300	Construction
Observatory Lodge	PA 297 of 2005	11,500,000	7,820,000	3,680,000	Completed
Phoenix Lab. Renovations	PA 345 of 2006	9,500,000	6,428,300	3,071,700	Construction
U of M Ann Arbor Subtotal		**$226,050,000**	**$180,000,000**	**$46,050,000**	
U of M-Dearborn					
Campus Renovations II	PA 19 of 1993	16,200,000	14,000,000	2,200,000	Completed
Campus Renovations III	PA 480 of 1996	46,900,000	35,175,000	11,725,000	Completed
Science Building Renovations	PA 530 of 2002	9,600,000	7,200,000	2,400,000	Completed
Engineering Building	PA 530 of 2002	12,600,000	9,450,000	3,150,000	Completed
Ford Fairlane Bldg. Acquisition	PA 530 of 2002	32,800,000	24,600,000	8,200,000	Completed
U of M Dearborn Subtotal		**$118,100,000**	**$90,425,000**	**$27,675,000**	

University State-Funded Capital Outlay Projects					
University – Project	**Construction Authorization**	**Total Cost**	**State Share**	**University Share**	**Project Status**
U of M Flint					
Professional Studies and Classroom Bldg.	PA 480 of 1996	35,623,000	25,942,200	9,680,800	Completed
Northbank Center Renovations	PA 515 of 1998	3,000,000	3,000,000	0	One-time grant
French Hall/Murchie Hall	PA 345 of 2006	9,350,000	7,000,000	2,350,000	Construction
U of M Flint Subtotal		**$47,973,000**	**$35,942,200**	**$12,030,800**	
Wayne State					
Old Main Renovations	PA 19 of 1993	45,845,000	42,845,000	3,000,000	Completed
Undergraduate Library	PA 19 of 1993	32,000,000	26,000,000	6,000,000	Completed
Pharmacy Bldg. Replacement	PA 480 of 1996	66,600,000	48,225,000	18,375,000	Completed
Welcome Center	PA 291 of 2000	18,500,000	13,875,000	4,625,000	Completed
Engineering Dev. Center	PA 345 of 2006	27,350,000	15,000,000	12,350,000	Construction
WSU Subtotal		**$190,295,000**	**$145,945,000**	**$44,350,000**	
Western Michigan					
Power Plant	PA 149 of 1992	25,282,000	22,668,000	2,614,000	Completed
Science Facility	PA 19 of 1993	42,400,000	38,000,000	4,400,000	Completed
Engineering Building	PA 480 of 1996	72,500,000	37,500,000	35,000,000	Completed
Health & Human Services Bldg	PA 45 of 2001	48,170,800	36,128,100	12,042,700	Completed
Lake Michigan Southwest Cntr	PA 45 of 2001	8,486,000	6,364,500	2,121,500	Completed
Brown Hall Renovations/ Addition	PA 297 of 2005	14,800,000	9,500,000	5,300,000	Completed
WMU Subtotal		**$211,638,800**	**$150,160,600**	**$61,478,200**	
Total		**$2,056,380,200**	**$1,617,408,600**	**$438,971,600**	

Source: Appropriation acts. Several recent projects listed above had not been included in bond issues as of the reporting date for the FY 2006-07 SBA Project Cost Summary, and therefore are not included in amounts contained in Table 1.

Table 3

Community College State-Funded Capital Outlay Projects					
Community College – Project	**Construction Authorization**	**Total Cost**	**State Share**	**College Share**	**Project Status**
Alpena					
Student Comm. Busi. Center	PA 149 of 1992	8,200,000	4,100,000	4,100,000	Completed
Concrete Tech. Center	PA 321 of 1996	7,127,700	3,767,700	3,360,000	Completed
Instructional Addition/Renovations	PA 297 of 2005	4,105,500	1,667,500	2,438,000	Completed
Alpena Subtotal		**19,433,200**	**9,535,200**	**9,898,000**	
Bay de Noc					
Business/Advanced Technology Center	PA 19 of 1993	6,390,000	2,500,000	3,890,000	Completed
General Campus Renovations	PA 116 of 1997	3,715,000	1,857,500	1,857,500	Completed
New West Campus Facility	PA 297 of 2005	12,048,000	5,874,300	6,173,700	Completed
Bay de Noc Subtotal		**22,153,000**	**10,231,800**	**11,921,200**	

Community College State-Funded Capital Outlay Projects					
Community College – Project	**Construction Authorization**	**Total Cost**	**State Share**	**College Share**	**Project Status**
C.S. Mott					
Campus Renovation	PA 149 of 1992	9,185,600	4,050,000	5,135,600	Completed
Regional Tech. Center Bldg.	PA 265 of 1999	33,439,000	16,719,500	16,719,500	Completed
C.S. Mott Subtotal		**42,624,600**	**20,769,500**	**21,855,100**	
Delta					
Science and Learning Technology Facility	PA 19 of 1993	26,000,000	12,500,000	13,500,000	Completed
Campus Renovations II	PA 81 of 2001	18,000,000	17,820,000	180,000	Completed
Delta Subtotal		**44,000,000**	**30,320,000**	**13,680,000**	
Glen Oaks					
Main Building Remodeling	PA 149 of 1992	4,603,000	2,301,500	2,301,500	Completed
Applied Science/Tech. Center	PA 11 of 2005	3,200,000	1,600,000	1,600,000	Completed
Glen Oaks Subtotal		**7,803,000**	**3,901,500**	**3,901,500**	
Gogebic					
Building Renovations	PA 291 of 2000	1,400,000	1,400,000	0	Completed
Special Maintenance Projects	PA 10 of 2005	1,000,000	1,000,000	0	Completed
Gogebic Subtotal		**2,400,000**	**2,400,000**	**0**	
Grand Rapids					
Science Facility	PA 19 of 1993	30,080,800	15,040,400	15,040,400	Completed
Building Renovations	PA 506 of 2000	6,000,000	3,000,000	3,000,000	Completed
Grand Rapids Subtotal		**36,080,800**	**18,040,400**	**18,040,400**	
Henry Ford					
Patterson Technology Center	PA 149 of 1992	15,985,000	6,150,000	9,835,000	Completed
Learning Resource Ctr/Health Care Ed Ctr	PA 19 of 1993	25,144,800	10,448,400	14,696,400	Completed
Building Renovations	PA 506 of 2000	9,856,000	4,928,000	4,928,000	Completed
Henry Ford Subtotal		**50,985,800**	**21,526,400**	**29,459,400**	
Jackson					
Lenawee Extension Center	PA 480 of 1996	4,400,000	1,500,000	2,900,000	Completed
Health Program Expansion	PA 297 of 2005	18,100,000	7,500,000	10,600,000	Completed
Jackson Subtotal		**22,500,000**	**9,000,000**	**13,500,000**	
Kalamazoo Valley					
Technological Center/Downtown Center	PA 149 of 1992	14,350,000	6,500,000	7,850,000	Completed
Arcadia Commons Campus Phase II	PA 480 of 1996	22,400,000	11,200,000	11,200,000	Completed
Kalamazoo Valley Subtotal		**36,750,000**	**17,700,000**	**19,050,000**	

Community College State-Funded Capital Outlay Projects					
Community College – Project	**Construction Authorization**	**Total Cost**	**State Share**	**College Share**	**Project Status**
Kellogg					
Computer Technology and Academic Center	PA 321 of 1996	16,517,000	6,000,000	10,517,000	Completed
Career Dev. Center/Science Building Renovations	PA 530 of 2002	3,750,000	1,875,000	1,875,000	Completed
Roll Building Renovations	PA 237 of 2003	5,000,000	1,625,000	3,375,000	Completed
Kellogg Subtotal		**25,267,000**	**9,500,000**	**15,767,000**	
Kirtland					
Academic Building, Art/Maintenance & Admin	PA 128 of 1995	7,234,000	3,617,000	3,617,000	Completed
Kirtland Subtotal		**7,234,000**	**3,617,000**	**3,617,000**	
Lake Michigan					
South Campus Facility/ Student Services	PA 19 of 1993	8,761,200	4,380,600	4,380,600	Completed
Van Buren Center	PA 560 of 2002	7,800,000	3,900,000	3,900,000	Completed
Lake Michigan Subtotal		**16,561,200**	**8,280,600**	**8,280,600**	
Lansing					
Academic Service Facility	PA 19 of 1993	25,570,000	12,785,000	12,785,000	Completed
University Center	PA 297 of 2005	11,000,000	5,000,000	6,000,000	Completed
Lansing Subtotal		**36,570,000**	**17,785,000**	**18,785,000**	
Macomb					
General Classroom Building	PA 19 of 1993	8,900,000	4,450,000	4,450,000	Completed
University Center at Central Campus	PA 480 of 1996	13,000,000	6,500,000	6,500,000	Completed
Emergency Services Training Facility	PA 45 of 2001	8,683,000	3,272,500	5,410,500	Completed
Health Science/Tech. Bldg.	PA 297 of 2005	12,000,000	6,000,000	6,000,000	Completed
Macomb Subtotal		**42,583,000**	**20,222,500**	**22,360,500**	
Mid-Michigan					
Mount Pleasant Campus	PA 165 of 1993	3,350,000	1,675,000	1,675,000	Completed
Student Community Center	PA 165 of 1993	3,500,000	1,750,000	1,750,000	Completed
Student Assessment Center	PA 530 of 2002	3,165,000	1,582,500	1,582,500	Completed
Science and Tech. Center	PA 297 of 2005	16,475,000	8,237,500	8,237,500	Completed
Mid-Michigan Subtotal		**26,490,000**	**13,245,000**	**13,245,000**	
Monroe					
Health Education Building	PA 19 of 1993	6,900,000	3,450,000	3,450,000	Completed
Bus/Tech Center, Library & Welding Project	PA 69 of 1999	2,500,000	1,250,000	1,250,000	Completed
Performing Arts and Education Building	PA 530 of 2002	12,000,000	6,000,000	6,000,000	Completed
Monroe Subtotal		**21,400,000**	**10,700,000**	**10,700,000**	

Community College State-Funded Capital Outlay Projects					
Community College – Project	**Construction Authorization**	**Total Cost**	**State Share**	**College Share**	**Project Status**
Montcalm					
Vocational Technology Facility	PA 128 of 1995	11,400,000	5,700,000	5,700,000	Completed
Greenville Technology and Learning Center	Replaced by M-TEC				
Life Science Training Facility	PA 297 of 2005	7,500,000	3,000,000	4,500,000	Completed
Montcalm Subtotal		**18,900,000**	**8,700,000**	**10,200,000**	
Muskegon					
(Consortium) - Higher Education Center	PA 149 of 1992	11,033,000	9,654,000	1,379,000	Completed
Muskegon Subtotal		**11,033,000**	**9,654,000**	**1,379,000**	
North Central Michigan		8,200,000	4,100,000		
Multipurpose Educational Facility, Etc.	PA 321 of 1996	11,474,500	3,967,500	7,507,000	Completed
North Central Michigan Subtotal		**11,474,500**	**3,967,500**	**7,507,000**	
Northwestern Michigan					
University Center	PA 19 of 1993	5,900,000	2,400,000	3,500,000	Completed
Integrated Science and Technology Learning Center	PA 116 of 1997	14,100,000	7,050,000	7,050,000	Completed
West Bay Campus Reconstruction	PA 161 of 2002	16,249,200	8,124,200	8,125,000	Completed
Oleson Center Renovations	PA 297 of 2005	1,300,000	650,000	650,000	Completed
Northwestern Michigan Subtotal		**37,549,200**	**18,224,200**	**19,325,000**	
Oakland					
Renovation of Building "F"	PA 19 of 1993	10,500,000	5,250,000	5,250,000	Completed
Oakland Subtotal		**10,500,000**	**5,250,000**	**5,250,000**	
St. Clair					
University Center/Learning Resource Center	PA 128 1995	0	0	0	Terminated
General Campus Renovations	PA 530 of 2002	13,000,000	4,500,000	8,500,000	Completed
St. Clair Subtotal		**13,000,000**	**4,500,000**	**8,500,000**	
Schoolcraft					
Student Services Facility	PA 149 of 1992	7,846,000	3,923,000	3,923,000	Completed
Business Information Center	PA 506 of 2000	27,916,500	13,369,000	14,547,500	Completed
Technical Services Facility	PA 153 of 2006	12,700,000	5,019,900	7,680,100	Completed
Schoolcraft Subtotal		**48,462,500**	**22,311,900**	**26,150,600**	
Southwestern Michigan					
Business Development and Student Support Center	PA 19 of 1993	5,000,000	2,500,000	2,500,000	Completed
South County Extension Center	PA 480 of 1996	3,100,000	1,370,000	1,730,000	Completed

Community College State-Funded Capital Outlay Projects					
Community College – Project	**Construction Authorization**	**Total Cost**	**State Share**	**College Share**	**Project Status**
Instructional Resources Center	PA 161 of 2002	2,500,000	1,250,000	1,250,000	Completed
Information Technology Center Renovations	PA 297 of 2005	5,047,700	2,250,000	2,797,700	Completed
Southwestern Michigan Subtotal		**15,647,700**	**7,370,000**	**8,277,700**	
Washtenaw					
Business Education Center	PA 19 of 1993	6,000,000	3,000,000	3,000,000	Completed
Tech. & Education Building	PA 480 of 1996	21,121,600	10,500,000	10,621,600	Completed
Plumbers/Pipefitters Facility	PA 530 of 2002	4,741,000	2,000,000	2,741,000	Completed
Technical Industrial Building Renovations	PA 297 of 2005	13,985,000	3,000,000	10,985,000	Construction
Washtenaw Subtotal		**45,847,600**	**18,500,000**	**27,347,600**	
Wayne County					
General Campus Renovations	PA 116 of 1997	0	0	0	Terminated
Wayne County Subtotal		**0**	**0**	**0**	
West Shore					
Industrial Skills Center	PA 149 of 1992	3,986,000	1,068,000	2,918,000	Completed
New Student Learning Center	PA 153 of 2006	7,899,400	3,949,700	3,949,700	Completed
West Shore Subtotal		**11,885,400**	**5,017,700**	**6,867,700**	
Total		**$685,135,500**	**$330,270,200**	**$354,865,300**	

Source: Appropriation acts. Several recent projects listed above had not been included in bond issues as of the reporting date for the FY 2006-07 SBA Project Cost Summary, and therefore are not included in amounts contained in Table 1.

Conclusion

State funding, primarily from the SBA, provides a major source of funding for higher education capital outlay projects. From FY 1978-79 through FY 2006-07, the SBA provided approximately $2.4 billion in funding for capital outlay projects at public higher education institutions. Community college and university requests for SBA support increase each year, and this issue continues to be the focus of Capital Outlay appropriation bills. Fiscal Year 2008-09 Five-Year Plans submitted by universities list priority requests totaling $1.1 billion. The State share of that request would be $494.8 million (based on 75/25 State/institution match and capping the maximum State contribution for any one project at $40 million). Community college requests total $391.7 million. The State share would be $195.8 million (based on the traditional 50/50 State/college match for community colleges). When the FY 2007-08 process for selecting SBA projects for educational institutions has been resolved, the above tables will be updated and made available on the Senate Fiscal Agency website at the following address: http://www.senate.michigan.gov/sfa/Departments/DPcap_web.html

State Notes

TOPICS OF LEGISLATIVE INTEREST

May/June 2008

The Dispute between the Detroit Medical Center and Wayne State University
By Steve Angelotti, Fiscal Analyst

The Detroit Medical Center (DMC) and Wayne State University's medical school have had several disputes regarding medical services and reimbursement over the past few years. The latest flare-up began earlier this year when the Detroit Medical Center, acting on the advice of its legal counsel, began to withhold Medicaid revenue from Wayne State.

The two entities have had a long-standing relationship that has been close in both geographic and financial terms. Wayne State University staff, particularly the private University Physicians Group (UPG), provide clinical services on behalf of the DMC and the DMC provides residency opportunities for Wayne State University medical students.

The relationship has been complicated by the location of both the DMC and Wayne State in Detroit, a city with large numbers of people either on Medicaid or without health insurance altogether. Thus, each faces issues with undercompensated and uncompensated care, which has led to financial pressures. This has been a factor in their disputes in recent years, disputes that have often played out in the media and have received attention from the Legislature.

The most recent issue, regarding reimbursement for Medicaid services, came to public and legislative attention earlier this year. The Senate Health Policy Committee held a hearing on the dispute on June 4, 2008, taking testimony from representatives of both entities. The House of Representatives considered possible boilerplate language in the Higher Education budget that would have forced Wayne State to end its relationship with the University Physicians Group or face loss of its appropriations. In the end, the House adopted a much less stringent piece of boilerplate language regarding potential conflicts of interest.

Among the key issues in dispute over the years are finances and clinical service contracts, although the present issue is much more focused on the former, the financial end of things.

During a dispute over payment two years ago, Governor Granholm appointed a mediator who negotiated an agreement that was signed by all parties on November 22, 2006. This agreement, which took effect on January 1, 2007, specified which joint clinical services and residency contracts would be continued.

The agreement also effectively freed up both entities to seek other partners for certain services. For instance, Wayne State was allowed to provide clinical services such as dermatology, ear, nose, and throat (ENT) services, and urology through agreements with other non-DMC hospitals.

The November 2006 agreement also specified amounts to be paid by the DMC for services provided by Wayne State physicians. These included $19.2 million to be paid annually for "indigent care". Roughly $10.0 million was intended to help cover the costs of treating Medicaid managed care clients and roughly $9.0 million was intended to help cover the costs of treating the uninsured. The apparent intent on the Medicaid side was to raise total reimbursement for Medicaid managed care outpatient services to roughly that paid by major insurers such as Medicare and Blue Cross.

Beginning in late 2007, the State created a new program entitled, "Specialty Network Access Fees" or SNAF. Payments were and are being made through Medicaid health maintenance organizations (HMOs) to publicly affiliated providers (associated with Wayne State, Michigan State University, the University of Michigan, and Hurley Hospital in Flint). Thus, on top of the ongoing $10.0 million from the DMC for Medicaid managed care clients, Wayne State clinics are now receiving an additional $17.0 million from this new State program.

The DMC has raised concerns that these new payments may leave it vulnerable to the provisions of two Federal laws, the Stark Act and the Anti-Kickback Statute. The DMC argues that there is a risk of a violation of these laws if there exists a referral relationship between an entity and a provider. The classic example of a questionable referral relationship is a physician who refers a patient for magnetic resonance imaging (MRI) services at a facility that is owned in whole or in part by that physician.

There are "safe harbor" provisions that allow referrals in certain situations, as long as the compensation does not exceed "fair market value". It appears that the DMC concedes that its referral relationship with Wayne State physicians fits under the "safe harbor" provisions, but that still leaves the issue of whether the compensation exceeds "fair market value". Wayne State, on the other hand, argues that the reimbursement does not exceed "fair market value" and that the payments are not payments in exchange for referrals and thus do not violate Federal law.

The present dispute began after the DMC sought an opinion from the law firm Foley & Lardner LLP on the new SNAF payments and the possible issues related to the Federal laws. Foley contended that it was "logical to infer" that the total payments being made, including the SNAF payments, exceeded fair market value and further claimed that this could put the DMC at risk of violating Federal law. The firm advised the DMC to withhold some of its payments in order to reduce reimbursement to "fair market value". The projected reduction was in the range of $10.0 million per year, in other words the entire DMC payment assumed to be allocated for Medicaid services. The DMC then took action to reduce the payments to Wayne State.

Reducing the agreed-upon payment puts the DMC in clear violation of the November 2006 agreement. On the other hand, the DMC argues that it had to reduce the payment to keep total payments within "fair market value" and avoid legal liability under the Stark Act and the Anti-Kickback Statute.

Wayne State then sought an opinion from the law firm Hall Render on the issues at hand. According to Hall Render, the payments were not in excess of "fair market value". The firm also questioned whether payments made under the November 2006 agreement can be construed as payments made in exchange for referrals.

Due to the reduced payments, Wayne State has moved ahead with layoffs and there are now disputes over whether this has led to reduced access to health care for the indigent and the uninsured.

Each side has made arguments over the definition of the term "fair market value" and this definition could well be the crux of the issue. If one accepts the DMC's contention that Federal law requires reimbursement for DMC clients referred to Wayne State physicians to be at "fair market value", then "fair market value" is the central issue.

Hospitals report to the State each year data on their finances, including Medicaid payments and costs. (The Senate Fiscal Agency has the hospital cost reports from 2006 and will receive the reports for 2007 later this summer.) When one examines fee-for-service hospital reimbursement for outpatient services, one sees that Michigan hospitals, in 2006, received about $115.0 million in Medicaid reimbursement and faced costs of $250.0 million. That is about 46 cents of reimbursement per dollar of cost (excluding $17.0 million in outpatient graduate medical education payments). It is also known that Medicaid rates for physician and outpatient services are at or less than 60.0% of Medicare rates. This implies that Medicare payment rates are still less than costs on the outpatient side, at perhaps 75.0% to 80.0% of cost. Thus, any effort to raise total outpatient reimbursement to Medicare levels still would leave reimbursement short of cost by 20.0% to 25.0%.

With this information in hand, the question becomes, "What is fair market value?"

Is "fair market value" the rate paid by the largest insurers, such as Medicare or Blue Cross, whether or not that is less than cost, as is apparently the case with Medicare reimbursement for outpatient services?

Is "fair market value" an amount sufficient to cover costs, or 100 cents on the dollar? Is it an amount slightly in excess of 100 cents on the dollar, in order to assure a small profit on services?

Given that Medicaid is a relatively marginal payer in the general outpatient services market, is "fair market value" an amount sufficient to cover marginal costs rather than average costs? In other words, the total cost of seeing 100 patients in one week may be $10,000, meaning an average cost of $100 per patient seen. However, the marginal cost of seeing one additional patient, the 101st patient, almost certainly would be lower. For a marginal payer, the marginal cost may be the best measure of costs incurred.

On the other hand, since Medicaid is much more than a marginal payer in the City of Detroit, is average cost a better measure than marginal cost?

These questions cannot be expertly addressed in an article of this nature. There is little chance of resolution until neutral outside parties, with expertise on "fair market value" and Federal law, move this process along.

At present, there is some hope that the process will move toward a resolution. Wayne State has reported the concerns about a potential violation of Federal statute to the Federal Office of Inspector General (OIG). Both Wayne State and the DMC have provided data to the OIG and it is hoped that the OIG will rule one way or another and resolve the situation. If the OIG rules that the total payments to Wayne State are in compliance with "fair market value" or that "fair market value" is not an issue in the first place, the payments should resume.

Wayne State has asked the DMC to escrow the disputed funding, but the DMC has refused to do so. The DMC has argued that if false information has been reported to the OIG, then the

DMC could be liable. It claims that even if Wayne State provided incorrect information to the OIG, the DMC could be liable. The DMC has demanded that Wayne State give the DMC copies of all information that Wayne State provided to the OIG; Wayne State contends that some of that information is proprietary. In response, the DMC is refusing to escrow the funding. It is not clear, however, why a dispute over the sharing of information has any relationship to the issue of putting the disputed funding into escrow.

If the OIG were to rule that the total payments are not in compliance with "fair market value", then there would be further issues to resolve. The first issue would be how far in excess of fair market value are the payments. The next issue would be the process by which Wayne State would make restitution – and to whom. The final issue would be which payments would be ruled to be excessive and would have to be reduced in the future – the payments made by the DMC under contract to Wayne State, or the payments made by the State of Michigan under the SNAF program.

Even if this particular dispute is resolved to the satisfaction of the two parties, it appears that there will continue to be further disputes. As already noted, each entity faces financial stresses and each will have to continue to deal with the other.

While there will continue to be an expansion of relationships between the DMC and other medical schools and geographic areas outside of Detroit, its primary focus will remain the City of Detroit. Its largest partner will almost certainly still be the Wayne State University Medical School. Similarly, Wayne State will likely expand its relationships with other hospital systems, but its primary focus will remain the City of Detroit and its largest partner almost certainly will still be the Detroit Medical Center. As each entity reaches out to develop outside relationships, it can safely be predicted that new disputes about payments and such relationships will arise.

For better or worse, the two entities' fates are intertwined. It does appear, however, that the rockiness of the relationship will continue into the foreseeable future. Such difficulties will negatively affect not only the Detroit Medical Center and Wayne State University but, more significantly, Medicaid clients and uninsured individuals in the City of Detroit and surrounding communities.

State Notes

TOPICS OF LEGISLATIVE INTEREST

May/June 2008

Lights, Camera, Action: Will Michigan Become the Hollywood of the Midwest?
By Patrick Affholter, Legislative Analyst

A recently enacted package of legislation provides incentives to filmmakers to make movies, television shows, and other film and digital media productions here in the Great Lakes State. The comprehensive measure offers tax credits for a portion of a film project's expenditures in Michigan, a portion of certain job training costs until September 30, 2015, and a portion of a base investment in a film and digital media production facility until that date; includes a film and digital media production business among those eligible for a tax credit for high-technology businesses; establishes public loan programs for certain production companies and private equity funds; provides for free use of public property; and restructures the Michigan Film Office.

While advocates of the legislation tout its likelihood to diversify Michigan's economy by drawing film and digital media projects to the State, some have suggested that the credits are simply taxpayer-funded subsidies to private industry that will never garner a positive return on investment.

This article reviews the bills enacted earlier this year, discusses some of the fiscal implications of the tax credits, and examines some of the views expressed in favor of and in opposition to the film incentive program.

The Legislation

The broad package of legislation widely referred to as the film incentive program includes Public Acts 74 through 87 of 2008.[1]

Public Act 74 (Senate Bill 1176) amended the Michigan Business Tax Act (MBT) to allow the Michigan Film Office, with the State Treasurer's concurrence, until September 30, 2015, to give an eligible production company an MBT credit equal to 50.0% of qualified job training expenditures (i.e., salary and other expenditures to give production crew personnel on-the-job training that is intended to upgrade or enhance their skills and address deficiencies in skills among Michigan residents). If this credit exceeds a filmmaker's tax liability, the excess is not refundable but may be carried forward to offset future tax liabilities for up to 10 years.

Public Acts 75 and 85 (Senate Bills 1177 and 1183) restructured the Michigan Film Office and its operations, transferring the Film Office from the Department of History, Arts, and Libraries (HAL) to the Michigan Strategic Fund (MSF) and expanding the Film Office's functions. Public Act 75 also created the Michigan Film Promotion Fund, into which certain fees and earnings from loans must be deposited. Money in the Fund may be spent, upon appropriation, to support the functions of the Film Office. Public Act 85 deleted provisions of the HAL Act dealing with the Film Office and Film Commission.

1 For a more detailed description of the legislation, see the Senate Fiscal Agency Summaries as Enacted of Senate Bills 1173, 1174, 1176-1178, and 1183 and House Bills 5852-5854, and the Floor Summaries of House Bills 5841-5844, 5848, and 5855 (which reflect the enacted versions of the bills). These documents may be located through the bill analysis links on the SFA website (www.senate.michigan.gov/sfa).

Public Acts 76, 81, 82, and 83 (Senate Bill 1178 and House Bills 5852, 5853, and 5854) amended various statutes to allow certain State officials to authorize the use of State property without charge for the purpose of producing a film. Similarly, Public Act 84 (House Bill 5855) created the Local Government Filming Location Access Act to allow a local unit of government to authorize the use of local property without charge for the purpose of producing a film.

Public Acts 77 and 79 (House Bills 5841 and 5844) amended the MBT Act and the Income Tax Act, respectively, to permit an eligible production company to claim a credit against the tax imposed under either Act. Public Act 77 allows an MBT credit for 42.0% of direct production expenditures for a State-certified qualified production in certain core communities; 40.0% of those expenditures elsewhere; and 30.0% of qualified personnel expenditures, excluding expenditures for which the taxpayer claimed an MBT credit for job training expenditures. If a credit exceeds the taxpayer's tax liability, Public Act 77 requires the excess to be refunded. Public Act 79 allows an eligible production company to claim an income tax credit equal to the amount of the MBT credit the company is eligible to claim under Public Act 77, unless the company claimed that MBT credit. The credit under either Act must be reduced by an application and redemption fee equal to 0.5% of the credit.

Public Act 78 amended the General Sales Tax Act to limit sales tax credits previously available for production expenditures by a motion picture production company to agreements entered into before February 29, 2008. The Act had allowed a credit of up to 12.0% of production spending of $200,000 to $1,000,000; up to 16.0% of production spending of $1,000,000.01 to $5,000,000; and up to 20.0% for production spending of $5,000,000.01 to $10,000,000.

Public Act 80 (House Bill 5848) amended the Michigan Strategic Fund Act to allow a loan under the Small Business Capital Access Program to be issued to an eligible production company or film and digital media private equity fund; require the MSF to establish a Michigan Film and Digital Media Investment Loan Program to invest in loans from the Jobs for Michigan Investment Fund to eligible production companies or film and digital media private equity funds; establish conditions for loans under the Investment Loan Program, including a limitation of $15.0 million on the amount that may be loaned to any one eligible production company or private equity fund for one qualified production; require the MSF to establish the Choose Michigan Film and Digital Media Loan Fund to invest in loans from the Jobs for Michigan Investment Fund to eligible production companies or film and digital media private equity funds eligible for a tax credit under the Michigan Economic Growth Authority (MEGA) Act or the MBT Act; establish conditions for loans issued under the Loan Fund, including a minimum interest rate of 1.0%, a minimum loan amount of $500,000, and a maximum term of 10 years including up to three years of deferred principal payments; and require that, under both the Loan Program and the Loan Fund, 100% of principal repaid be deposited in the Jobs for Michigan Investment Fund and half of any earnings on a loan or investment be deposited in that Fund and the remainder in the Michigan Film Promotion Fund.

Public Act 86 (Senate Bill 1173) amended the MBT Act to allow the Michigan Film Office, with the State Treasurer's concurrence, until September 30, 2015, to give an MBT credit of 25.0% of a base investment to a taxpayer who invests at least $100,000 before 2009, or $250,000 after 2008, in a qualified film and digital media infrastructure project (i.e., a film, video, television, or digital media production and postproduction facility located in Michigan, movable and immovable property and equipment related to the facility, and any other facility that supports and is a necessary component of the primary facility, but not a movie theater or other commercial exhibition facility). The total amount of credits authorized in a year is limited to $20.0 million. The credit must be reduced by 0.5% for a credit application and redemption fee. If the credit exceeds a filmmaker's tax liability, the excess is not refundable but may be carried forward to offset future tax liabilities for up to 10 years.

Public Act 87 (Senate Bill 1174) amended the MEGA Act to include a film and digital media production business among the businesses eligible for a business tax credit under the Act, and include technology used in the design and development of film and digital media production in the Act's definition of "high-technology activity". (Under the Act, the Authority may enter into an agreement with a qualified high-technology business that meets certain job creation and wage criteria to provide a tax credit to the business.)

Fiscal Implications

As the film incentive bills quickly advanced through the legislative process, fiscal analyses suggested that the cost of providing the tax credits could be great. As the fiscal impact statement of the Senate Fiscal Agency (SFA) committee summary of House Bill 5841 and 5844 indicated, "The bills would decrease State revenue, mostly to the General Fund, by an unknown and potentially significant amount, depending on the expenses affected and the number of agreements the State entered into."

While the SFA also projected that, when combined with other related bills, the legislation "would likely provide a significant incentive for films to increase the amount of activity within Michigan", it also warned that "the fiscal impact of the bills is such that the tax revenue generated from the additional activity would be unlikely to offset completely, or in some cases, even offset significantly, the cost of the proposed credits and deductions, even in the long run".

The SFA also forecast that the legislation providing an MBT credit for film production job training and allowing film and digital media production businesses to claim a business tax credit under the MEGA Act (Senate Bills 1176 and 1174, respectively) would decrease State General Fund revenue by a potentially significant amount.

According to the revenue estimates for fiscal year (FY) 2008-09 adopted in May 2008 at the Consensus Revenue Estimating Conference (CREC), the film tax credits will cost the State far more in business tax credits than it is expected to gain in income and sales tax revenue. The CREC said that the effect of the credits on State revenue is expected to be $99.1 million. According to the projections, if a film production company spends $10.0 million in Michigan, the State will gain less than $700,000 in income and sales tax revenue but will pay out about $4.0 million to the production company in the form of MBT credits. The cost to the State is likely to be even greater in FY 2009-10.

Diverging Views

Boon to Economy. Proponents of the film incentives have touted their likelihood to draw film industry investment to Michigan, not only in the form of location filming for feature motion pictures but also for the development of film and digital media infrastructure such as film and sound studios. Indeed, the economic impact of the new laws has been sudden and dramatic.

According to a Michigan Economic Development Corporation official who testified before the House Commerce Committee on June 17, in just the first nine weeks after the film incentive program was enacted, 30 films representing more than $233.0 million in in-State production had entered into agreements with the State. Film crews are working, or soon will be, in many areas of Michigan including Brooklyn, Holland, Jackson, Saginaw, Traverse City, and the Detroit metropolitan area. Actor-director Clint Eastwood is scheduled to shoot a film in Detroit soon; Sigourney Weaver was in Royal Oak recently to shoot a movie for Lifetime cable television; and there have been reports of Drew Barrymore scouting locations in the Detroit area for an upcoming film project.

Location filming means jobs for Michigan workers involved in all technical aspects of film-making as well as new business for support services such as caterers, hotels, restaurants, and retail outlets. Reportedly, these new Michigan-based productions are filling some empty office and warehouse space, and a mobile office company that makes construction site trailers is making a major investment to transform unused trailer inventory into film-set wagons for bathrooms, wardrobes, hair and makeup trailers, and dressing rooms for actors.

There also have been recent announcements about possible new developments to build film production studios in the Ann Arbor, Kalamazoo, and Lansing areas.

Cost to Taxpayers. Critics of the film incentive legislation claim that its tax credits amount to a giveaway of taxpayer revenue to an industry that has had little or no history or presence in Michigan. Businesses struggling to survive in Michigan's sluggish economy will continue to pay their taxes, but that money will go toward enticing Hollywood filmmakers to do business here.

The main incentive consists of an MBT credit of up to 42.0% of film production costs (not of tax liability) and makes the credit refundable, meaning that the filmmaker receives the production-cost rebate even if its amount exceeds the business's tax liability. Indeed, under the legislation, the State will refund the amount of the tax credit for film production expenditures to a filmmaker even if the filmmaker has no tax liability. Essentially, the State's taxpayers will be paying private industry to choose to do business in the Great Lakes State.

As discussed above, the CREC estimated that the film industry tax credits will cost the State $99.1 million in FY 2008-09 and that amount is likely to increase in the following fiscal year.

Future Outlook

The film incentive legislation has been characterized as an economic developer's dream and a budget officer's nightmare. As evidenced by its early success in drawing film projects to

Michigan, there is little doubt that the legislation will result in increased economic activity in the State. The question is, "at what cost to taxpayers?".

Already, there have been reports of some interest in scaling back the incentives, perhaps by setting an annual cap on the amount of credits awarded, making all of the credits nonrefundable, or placing a sunset on awarding the production cost credits and State-funded loans. (The job training and infrastructure credits already include a sunset and the infrastructure credits have a $20.0 million annual cap.)

Advocates of Michigan's generous film incentive tax credits urge the State to stay the course. Rather than suggesting that these new policies would bolster the State budget directly or in the short-run, supporters claimed during the legislative process that the incentives would have an immediate and sustainable impact on economic activity. One Michigan-bred filmmaker who pushed for the legislation has suggested that the film incentives are a long-term plan and will need three to five years to get the film industry rooted in Michigan (Mike Binder, "Don't Go Wobbly on State Film Credit", *Detroit Free Press*, 6-16-08). He and others point to economic successes in the States of Louisiana and New Mexico and the Cities of New Orleans, New York, Toronto, and Vancouver, all of which have drawn film industry business and enjoyed job growth after enacting generous tax credits for the film industry. They believe that Michigan may need to make an early investment but the recently enacted film incentive package should be a successful, long-running feature.