

FY 2010-11
APPROPRIATIONS REPORT
Part I - Governor's Recommendations



March 2010



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2. To provide written analyses of all Senate bills, House bills, and Administrative Rules considered by the Senate.
3. To review and evaluate proposed and existing State programs and services.
4. To provide economic and revenue analysis and forecasting.
5. To review and evaluate the impact of Federal budget decisions on the State.
6. To review and evaluate State issuance of long-term and short-term debt.
7. To review and evaluate the State's compliance with constitutional and statutory fiscal requirements.
8. To prepare special reports on fiscal issues as they arise and at the request of members of the Senate.

The Agency is located on the 8th floor of the Victor Office Center. The Agency is an equal opportunity employer.



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OVERVIEW

Governor Jennifer Granholm, on February 11, 2010, transmitted her fiscal year (FY) 2010-11 State Budget Message to the Legislature. The Governor's Budget Message contained \$46.6 billion of Adjusted Gross appropriations. Included in this appropriation total are \$20.1 billion of Federal funds, \$18.1 billion of State Restricted funds, \$475.6 million of local and private funds, and \$8.0 billion of General Fund/General Purpose (GF/GP) appropriations. Table 1 and Figure A provide summaries of the overall makeup of the FY 2010-11 appropriations recommended by the Governor.

Tables 2-4 and Figures B-D provide department-by-department detail of the Governor's FY 2010-11 appropriation recommendations compared with FY 2009-10 year-to-date appropriations. The tables and figures present appropriation data in terms of Adjusted Gross, State Spending from State Resources, and GF/GP appropriations. Adjusted Gross appropriations are defined as total appropriations for each department less funds transferred in from other departments. State Spending from State Resources appropriations are defined as Adjusted Gross appropriations less appropriations funded with Federal and local and private funds. General Fund/General Purpose appropriations are the residual unrestricted portion of the budget over which the Governor and the Legislature have the most flexibility in establishing appropriation policy. The Governor's budget provides for a 4.4% increase in Adjusted Gross appropriations, a 3.7% increase in State Spending from State Resources appropriations, and a 1.7% decline in GF/GP appropriations.

The Governor's Budget Message is based on the consensus revenue estimates agreed to on January 11, 2010. The FY 2010-11 GF/GP revenue estimate is \$7.0 billion. This represents a 1.0% increase from the FY 2009-10 consensus revenue estimate. The FY 2010-11 School Aid Fund (SAF) revenue estimate is \$10.5 billion. This represents a 0.5% increase from the FY 2009-10 consensus revenue estimate.

The Governor's budget also includes additional State revenue from a major tax proposal. This proposal involves an expansion in the base of the State sales tax, a reduction in the rate of the State sales and use taxes, and reductions in the Michigan Business Tax. These tax recommendations provide for \$554.3 million of increased FY 2010-11 revenue, which is earmarked to the SAF budget. The Governor's budget also includes \$8.6 million of revenue from proposed fee increases. The consensus revenue estimate and the Governor's proposed revenue increases are discussed in more detail in the Economic and Revenue Forecast section of this report.

Two key assumptions in the Governor's FY 2010-11 budget recommendation involve Federal funds. The budget assumes that Michigan will receive \$514.0 million of additional Federal funds related to a six-month extension of the enhanced Federal Medicaid match rate included in the American Recovery and Reinvestment Act of 2009 (ARRA). This ARRA fund source will otherwise expire on January 1, 2011. The Governor's budget assumes that the United States Congress will pass and the President will sign into law an extension of these enhanced Medicaid benefits for the period January 1, 2011, through June 30, 2011. The budget also assumes that Michigan will be unable to match \$475.0 million of available Federal transportation funding due to an inadequate level of State transportation matching funds. The Governor's budget does not recommend the increases in State transportation taxes that would be necessary to avoid this loss of Federal transportation funding.

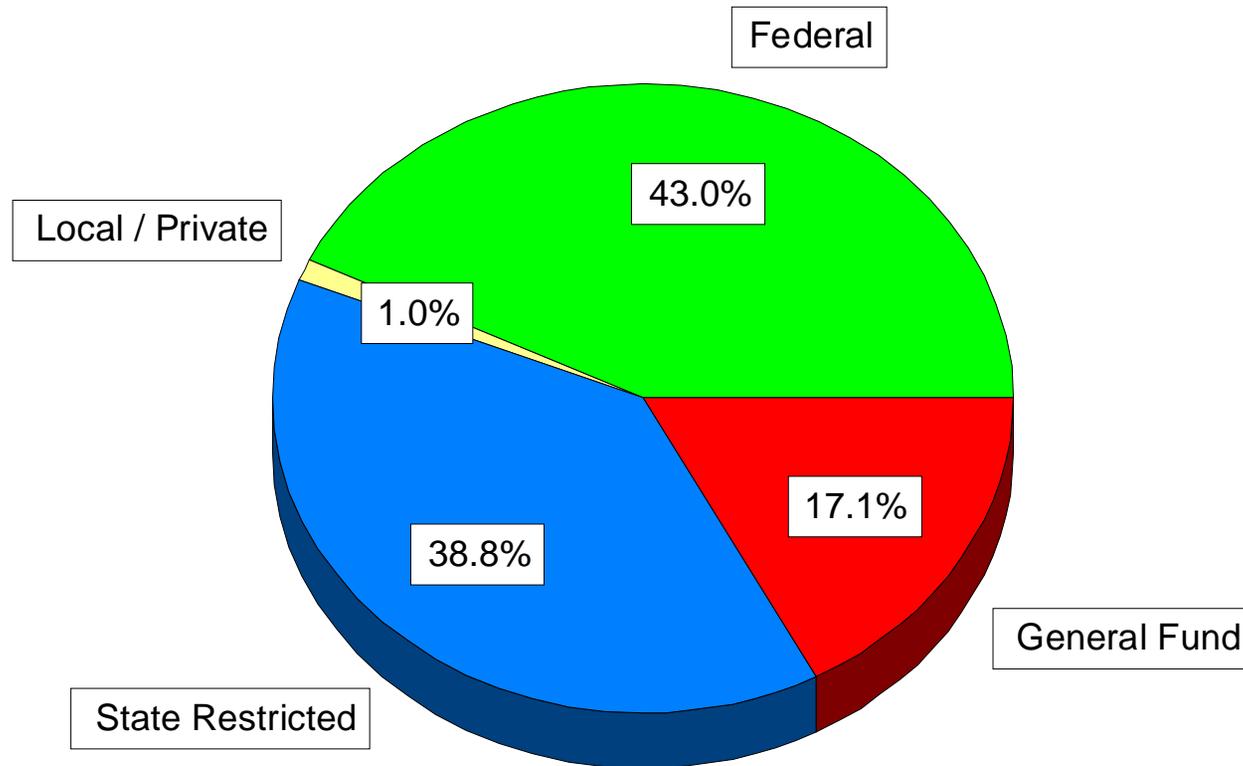
Table 1

FY 2010-11 GOVERNOR'S RECOMMENDATION¹⁾					
BY SOURCE OF FUNDS					
Department/Budget Area	Adjusted Gross	Federal Funds	Local & Private Funds	Other State Restricted	General Funds
Agriculture	\$77,388,700	\$14,769,900	\$260,100	\$33,530,000	\$28,828,700
Attorney General	53,114,800	8,656,000	0	15,290,800	29,168,000
Capital Outlay	0	0	0	0	0
Civil Rights	13,082,100	1,750,000	0	53,000	11,279,100
Community Colleges	299,100,500	0	0	0	299,100,500
Community Health	14,342,706,700	9,833,450,600	312,647,200	2,180,147,100	2,016,461,800
Corrections	1,966,282,400	7,868,500	443,100	82,066,300	1,875,904,500
Education	131,286,000	93,936,700	10,344,500	6,992,900	20,011,900
Energy, Labor, and Economic Growth	1,483,440,300	1,008,535,800	22,105,400	407,372,400	45,426,700
Executive	4,630,800	0	0	0	4,630,800
Higher Education	1,578,278,500	4,500,000	0	30,400,000	1,543,378,500
Human Services	7,003,205,400	5,933,478,000	44,743,300	65,778,800	959,205,300
Judiciary	255,270,300	5,376,500	7,182,900	89,979,800	152,731,100
Legislative Auditor General	12,694,900	0	0	1,539,900	11,155,000
Legislature	102,084,100	0	400,000	1,109,800	100,574,300
Military and Veterans Affairs	149,890,700	82,203,800	2,075,400	28,660,400	36,951,100
Natural Resources and Environment	708,136,200	261,331,500	6,509,100	398,191,300	42,104,300
Natural Resources (Trust Fund)	0	0	0	0	0
School Aid	12,863,312,000	1,864,328,900	0	10,968,776,900	30,206,200
State	192,567,300	1,810,000	100	176,578,000	14,179,200
State Police	509,247,000	104,487,200	7,950,900	137,878,400	258,930,500
Technology, Management, and Budget	393,696,000	2,917,800	1,551,200	84,881,000	304,346,000
Transportation	2,760,051,000	752,480,600	56,496,000	1,951,074,400	0
Treasury (Debt Service)	134,909,200	0	0	15,514,500	119,394,700
Treasury (Operations)	400,846,600	38,061,700	2,066,500	301,071,200	59,647,200
Treasury (Revenue Sharing)	1,032,106,000	0	0	1,032,106,000	0
Treasury (Strategic Fund)	168,938,200	56,414,900	852,200	88,582,900	23,088,200
TOTAL APPROPRIATIONS	\$46,636,265,700	\$20,076,358,400	\$475,627,900	\$18,097,575,800	\$7,986,703,600

¹⁾ Does not include employee pay and pension reforms recommended by the Governor that have not yet been allocated to specific departments.

Figure A

Appropriations by Source of Funds FY 2010-11 Governor's Recommendation



Total = \$ 46,636,265,700

Table 2

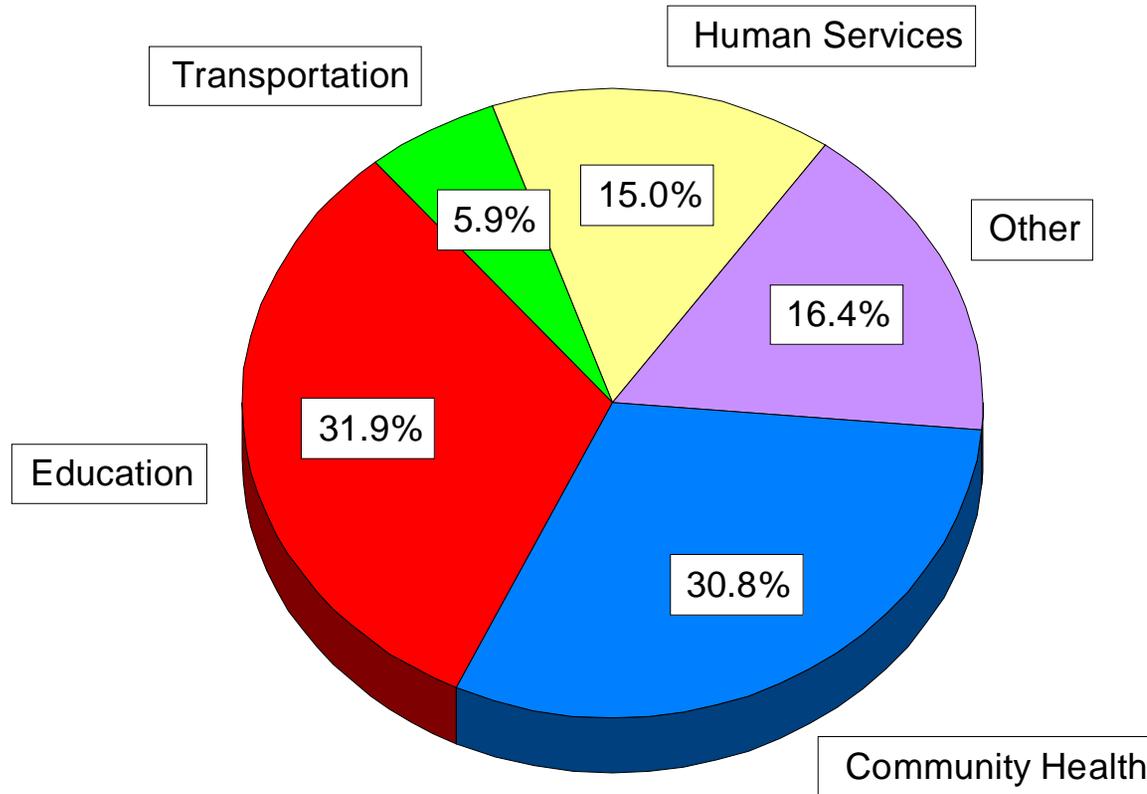
**ADJUSTED GROSS APPROPRIATIONS
FY 2009-10 VERSUS GOVERNOR'S RECOMMENDATION**

Department/Budget Area	FY 2009-10 Year-to-Date Appropriations	FY 2010-11 Governor's Recommendation¹⁾	Dollar Difference	Percent Change
Agriculture	\$79,656,700	\$77,388,700	(\$2,268,000)	(2.8)%
Attorney General	52,883,800	53,114,800	231,000	0.4
Capital Outlay	0	0	0	0.0
Civil Rights	13,763,700	13,082,100	(681,600)	(5.0)
Community Colleges	299,360,500	299,100,500	(260,000)	(0.1)
Community Health	13,044,870,100	14,342,706,700	1,297,836,600	9.9
Corrections	1,955,230,900	1,966,282,400	11,051,500	0.6
Education	112,871,600	131,286,000	18,414,400	16.3
Energy, Labor, and Economic Growth	1,437,184,900	1,483,440,300	46,255,400	3.2
Executive	4,823,700	4,630,800	(192,900)	(4.0)
Higher Education	1,612,243,300	1,578,278,500	(33,964,800)	(2.1)
Human Services	6,091,756,200	7,003,205,400	911,449,200	15.0
Judiciary	255,208,800	255,270,300	61,500	0.0
Legislative Auditor General	13,159,700	12,694,900	(464,800)	(3.5)
Legislature	106,274,700	102,084,100	(4,190,600)	(3.9)
Military and Veterans Affairs	144,463,300	149,890,700	5,427,400	3.8
Natural Resources and Environment	699,605,200	708,136,200	8,531,000	1.2
School Aid	12,823,571,000	12,863,312,000	39,741,000	0.3
State	189,130,200	192,567,300	3,437,100	1.8
State Police	501,204,300	509,247,000	8,042,700	1.6
Technology, Management, and Budget	379,174,100	393,696,000	14,521,900	3.8
Transportation	3,268,472,300	2,760,051,000	(508,421,300)	(15.5)
Treasury (Debt Service)	80,177,500	134,909,200	54,731,700	68.3
Treasury (Operations)	418,074,300	400,846,600	(17,227,700)	(4.1)
Treasury (Revenue Sharing)	972,656,900	1,032,106,000	59,449,100	6.1
Treasury (Strategic Fund)	114,181,200	168,938,200	54,757,000	48.0
TOTAL APPROPRIATIONS	\$44,669,998,900	\$46,636,265,700	\$1,966,266,800	4.4%

¹⁾ Does not include employee pay and pension reforms recommended by the Governor that have not yet been allocated to specific departments.

Figure B

Adjusted Gross FY 2010-11 Governor's Recommendation



Total = \$ 46,636,265,700

Table 3

**STATE SPENDING FROM STATE RESOURCES
FY 2009-10 VERSUS GOVERNOR'S RECOMMENDATION**

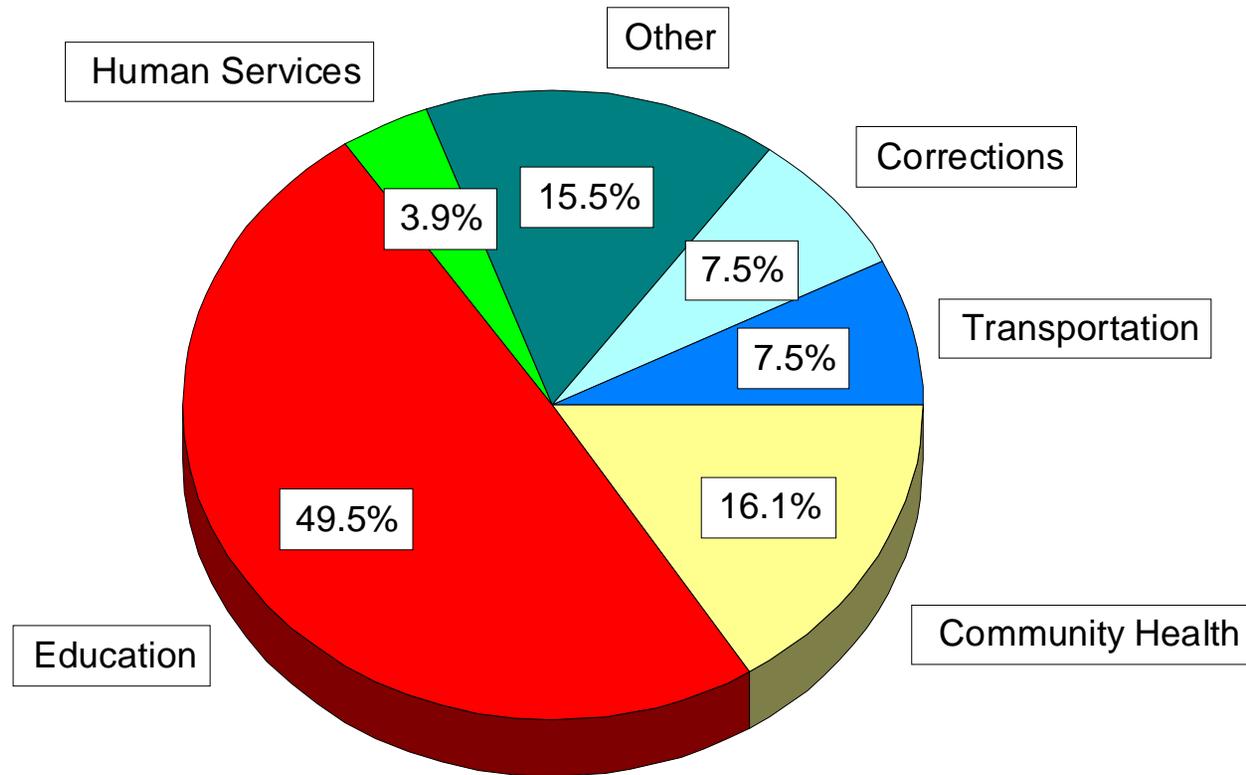
Department/Budget Area	FY 2009-10 Year-to-Date Appropriations	FY 2010-11 Governor's Recommendation¹⁾	Dollar Difference	Percent Change
Agriculture	\$63,860,100	\$62,358,700	(\$1,501,400)	(2.4)%
Attorney General	44,306,000	44,458,800	152,800	0.3
Capital Outlay	0	0	0	0.0
Civil Rights	11,706,400	11,332,100	(374,300)	(3.2)
Community Colleges	299,360,500	299,100,500	(260,000)	(0.1)
Community Health	3,792,763,300	4,196,608,900	403,845,600	10.6
Corrections	1,947,052,100	1,957,970,800	10,918,700	0.6
Education	26,468,500	27,004,800	536,300	2.0
Energy, Labor, and Economic Growth	455,005,600	452,799,100	(2,206,500)	(0.5)
Executive	4,823,700	4,630,800	(192,900)	(4.0)
Higher Education	1,538,105,300	1,573,778,500	35,673,200	2.3
Human Services	909,313,000	1,024,984,100	115,671,100	12.7
Judiciary	243,090,500	242,710,900	(379,600)	(0.2)
Legislative Auditor General	13,159,700	12,694,900	(464,800)	(3.5)
Legislature	105,874,700	101,684,100	(4,190,600)	(4.0)
Military and Veterans Affairs	64,349,700	65,611,500	1,261,800	2.0
Natural Resources and Environment	440,566,500	440,295,600	(270,900)	(0.1)
School Aid	10,771,811,600	10,998,983,100	227,171,500	2.1
State	187,320,100	190,757,200	3,437,100	1.8
State Police	398,546,500	396,808,900	(1,737,600)	(0.4)
Technology, Management, and Budget	365,774,800	389,227,000	23,452,200	6.4
Transportation	1,981,274,400	1,951,074,400	(30,200,000)	(1.5)
Treasury (Debt Service)	80,177,500	134,909,200	54,731,700	68.3
Treasury (Operations)	376,667,400	360,718,400	(15,949,000)	(4.2)
Treasury (Revenue Sharing)	972,656,930	1,032,106,000	59,449,070	6.1
Treasury (Strategic Fund)	57,141,000	111,671,100	54,530,100	95.4
TOTAL APPROPRIATIONS	\$25,151,175,800	\$26,084,279,400	\$933,103,600	3.7%

¹⁾ Does not include employee pay and pension reforms recommended by the Governor that have not yet been allocated to specific departments.

Figure C

State Spending From State Resources

FY 2010-11 Governor's Recommendation



Total = \$ 26,084,279,400

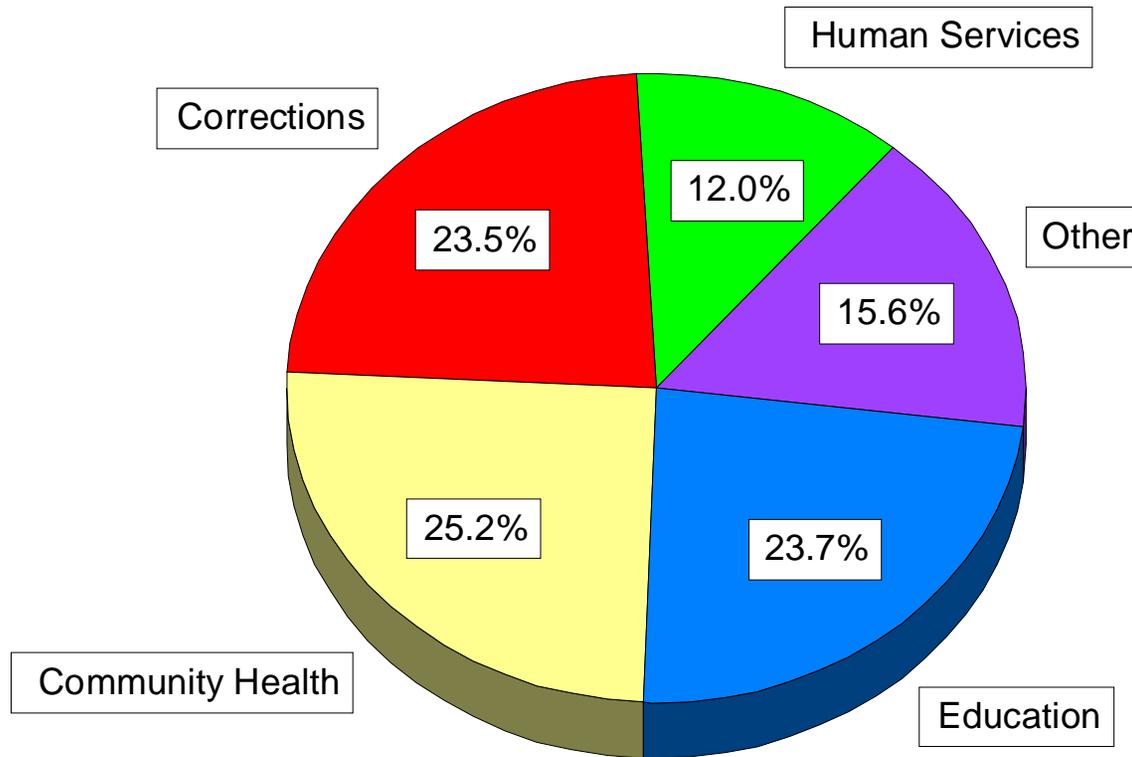
Table 4

GENERAL FUND/GENERAL PURPOSE FY 2009-10 VERSUS GOVERNOR'S RECOMMENDATION				
Department/Budget Area	FY 2009-10 Year-to-Date Appropriations	FY 2010-11 Governor's Recommendation¹⁾	Dollar Difference	Percent Change
Agriculture	\$30,050,500	\$28,828,700	(\$1,221,800)	(4.1)%
Attorney General	28,785,000	29,168,000	383,000	1.3
Capital Outlay	0	0	0	0.0
Civil Rights	11,706,400	11,279,100	(427,300)	(3.7)
Community Colleges	299,360,500	299,100,500	(260,000)	(0.1)
Community Health	2,304,602,500	2,016,461,800	(288,140,700)	(12.5)
Corrections	1,903,641,900	1,875,904,500	(27,737,400)	(1.5)
Education	19,429,600	20,011,900	582,300	3.0
Energy, Labor, and Economic Growth	54,784,100	45,426,700	(9,357,400)	(17.1)
Executive	4,823,700	4,630,800	(192,900)	(4.0)
Higher Education	1,507,705,200	1,543,378,500	35,673,300	2.4
Human Services	852,297,600	959,205,300	106,907,700	12.5
Judiciary	153,132,800	152,731,100	(401,700)	(0.3)
Legislative Auditor General	11,619,800	11,155,000	(464,800)	(4.0)
Legislature	104,764,900	100,574,300	(4,190,600)	(4.0)
Military and Veterans Affairs	36,425,500	36,951,100	525,600	1.4
Natural Resources and Environment	43,949,400	42,104,300	(1,845,100)	(4.2)
School Aid	30,206,200	30,206,200	0	0.0
State	17,955,400	14,179,200	(3,776,200)	(21.0)
State Police	267,259,200	258,930,500	(8,328,700)	(3.1)
Technology, Management, and Budget	293,574,300	304,346,000	10,771,700	3.7
Transportation	0	0	0	0.0
Treasury (Debt Service)	64,663,000	119,394,700	54,731,700	84.6
Treasury (Operations)	60,166,000	59,647,200	(518,800)	(0.9)
Treasury (Revenue Sharing)	0	0	0	0.0
Treasury (Strategic Fund)	27,135,700	23,088,200	(4,047,500)	(14.9)
TOTAL APPROPRIATIONS	\$8,128,039,200	\$7,986,703,600	(\$141,335,600)	(1.7)%

¹⁾ Does not include employee pay and pension reforms recommended by the Governor that have not yet been allocated to specific departments.

Figure D

General Fund/General Purpose FY 2010-11 Governor's Recommendation



Total = \$ 7,986,703,600

SUMMARY OF MAJOR FY 2010-11 GF/GP APPROPRIATION CHANGES

The Governor's FY 2010-11 State Budget Message marks the eighth State budget that Governor Jennifer Granholm has transmitted to the Legislature. The Governor's budget recommendation, pursuant to constitutional requirements, is balanced between estimated revenue and recommended appropriations.

Table 5 provides a summary of the FY 2010-11 GF/GP revenue assumptions in the Governor's budget. The budget recommendation includes \$7.9 billion of total GF/GP revenue. This includes \$7.0 billion of revenue estimated at the January 11, 2010, Consensus Revenue Estimating Conference and \$906.6 million of revenue from sources not estimated as part of the consensus revenue estimating process. The other revenue sources included in the budget are revenue carried forward from the 2009-10 fiscal year, revenue from adjustments in the amount of revenue sharing paid to cities, villages, and townships, revenue from the use tax levied on health maintenance organizations, revenue from a proposed assessment on physicians, and other minor revenue adjustments.

Table 5

FY 2010-11 GENERAL FUND/GENERAL PURPOSE REVENUE SUMMARY CONSENSUS REVENUE AND PROPOSED ADJUSTMENTS (Millions of Dollars)	
Consensus Revenue Estimate (January 11, 2010)	\$6,968.4
<u>Proposed Revenue Adjustments:</u>	
Beginning Balance Carried Forward from FY 2009-10.....	33.4
Revenue Sharing Adjustments	427.3
Shift of Short-Term Borrowing Costs to School Aid Fund	45.0
Use Tax on Health Maintenance Organizations	354.6
Use Tax on Physician Assessments.....	34.3
Michigan Promise Tax Credit.....	(6.8)
College Tuition Tax Credit Elimination.....	8.8
Angel and Venture Capital Investment Tax Credit.....	(5.0)
Enhanced Tax Enforcement	15.0
Subtotal Proposed Revenue Adjustments	906.6
Total GF/GP Revenue in Governor's Budget.....	\$7,875.0

Table 6 provides a comparison of the Governor's recommended level of FY 2010-11 GF/GP appropriations with the year-to-date level of FY 2009-10 appropriations. The Governor's recommendation represents a \$257.9 million decrease in GF/GP appropriations. This net change in GF/GP appropriations can be best characterized by funding increases, funding reductions, and funding shifts. Actual recommended funding increases total \$476.6 million, funding reductions total \$441.7 million, and funding shifts to and from GF/GP appropriations and from GF/GP appropriations to other fund sources, result in a \$292.8 million net decrease in GF/GP appropriations. These funding shifts are defined as changes in the level of overall GF/GP appropriations that do not affect the actual level of a program.

Table 6

FY 2010-11 GOVERNOR'S APPROPRIATION RECOMMENDATION MAJOR CHANGES FROM FY 2009-10 YEAR-TO-DATE GENERAL FUND/GENERAL PURPOSE APPROPRIATIONS (Millions of Dollars)	
FY 2009-10 Year-to-Date Appropriations	\$8,128.0
FY 2010-11 Governor's Recommendation.....	7,870.1
Net Change in GF/GP Appropriations	\$(257.9)
Total Funding Increases.....	\$476.6
Total Funding Reductions	(441.7)
Total Fund Shifts	(292.8)
Total GF/GP Funding Change	\$(257.9)

Table 7 provides the details of the \$476.6 million of GF/GP appropriation increases included in the FY 2010-11 budget. A significant level of the recommended appropriation increases involves caseload and cost adjustments in the Medicaid program in the Department of Community Health and the assistance programs and child welfare programs in the Department of Human Services. Significant funding increases in the Department of Corrections are proposed for prisoner reintegration programs and other programs related to a proposal to provide for the early release of 7,500 prisoners included in the budget. Debt service appropriations, dealing with bonds issued by the State Building Authority and general obligation bonds, also result in significant GF/GP appropriation increases. The final major category of recommended GF/GP appropriation increases involves the cost increases for State employee salaries, insurance costs for State employees, and the level of required contributions in the retirement systems for State employees.

Table 7

FY 2010-11 GOVERNOR'S APPROPRIATION RECOMMENDATION MAJOR GF/GP FUNDING INCREASES (Millions of Dollars)	
<u>Budget Area/Program</u>	
Community Health	
Medicaid Base and Caseload Adjustments.....	\$57.9
Medicaid Managed Care Services	45.6
Specialty Network Access Fee Payments for Public Clinics.....	1.8
Corrections	
Reinstatement of Community Jail Reimbursement Program	4.8
Prison Health and Mental Health Care Costs	10.3
Employee Training Costs	5.7
Hiring of Additional Parole/Probation Officers.....	3.2
Local Community Corrections Grants	1.2
Michigan Reformatory Base Funding Adjustment.....	1.0
Parnall Correction Facility Base Funding Adjustment.....	0.5
Prisoner Reintegration Programming.....	22.7
GPS Tether Monitoring Program.....	27.9
Field Operations Staff Increase.....	7.4
Education	
Race to the Top Program	1.7
Human Services	
Assistance Program Caseload and Cost Adjustments.....	68.9
Child Welfare Programs	18.0
Electronic Benefit Transfer System	3.9
Judiciary	
Supreme Court Satellite Offices	0.4
Military and Veterans Affairs	
Military Retirement Costs	0.2
Technology, Management, and Budget	
Gubernatorial Transition Funding.....	1.5
State Building Authority Debt Service Payments	10.0
Treasury-Debt Service	
General Obligation Bond Debt Service Payments	54.7
Treasury-Operations	
Business Property Tax Appeals	0.9

FY 2010-11 GOVERNOR'S APPROPRIATION RECOMMENDATION MAJOR GF/GP FUNDING INCREASES (Millions of Dollars)	
Statewide Employee Economics	
Wage and Salary Increases	33.7
Employee Insurance Costs	28.2
Retirement Contributions	55.2
Workers' Compensation Costs	2.7
All Other Employee Economics	1.9
Other Funding Increases in Budget Recommendation	4.7
Total GF/GP Funding Increases	\$476.6

Table 8 provides the details of the \$441.7 million of GF/GP appropriation reductions included in the FY 2010-11 budget. The major appropriation reduction involves the recommendation in the Department of Corrections to change prisoner sentencing laws. This change would result in the early release of 7,500 inmates and the closure of four to five unspecified prisons. The GF/GP appropriation reduction associated with this proposed change is \$187.4 million. The other large saving included in the budget is a \$98.0 million GF/GP funding reduction associated with the Governor's proposed changes in the State Employees Retirement System. These proposed changes would result in the downsizing of the State workforce and lead to savings in all State departments and agencies. The other significant specific appropriation reduction involves the recommendation to eliminate the needs-based financial aid for students at independent colleges and universities in the Higher Education budget. The remainder of the recommended appropriation reductions include modest funding reductions in the operation of most State departments, the legislative branch, and the Judiciary.

Table 8

FY 2010-11 GOVERNOR'S APPROPRIATION RECOMMENDATION MAJOR GF/GP FUNDING ELIMINATIONS/REDUCTIONS (Millions of Dollars)	
<u>Department/Program</u>	
Agriculture	
Right to Farm Program	\$(0.2)
Pesticide and Plant Management Program	(0.4)
Michigan Agriculture Environmental Assurance Program	(0.6)
Attorney General	
Operations Reductions	(1.2)
Civil Rights	
Operations Reductions	(0.9)
Community Colleges	
Renaissance Zone Reimbursements	(0.3)

FY 2010-11 GOVERNOR'S APPROPRIATION RECOMMENDATION MAJOR GF/GP FUNDING ELIMINATIONS/REDUCTIONS (Millions of Dollars)	
Community Health	
Expansion of Hospital Quality Assurance Assessment Program	(0.8)
Transitional Medical Assistance Plus Population	(3.7)
Children's Special Health Care Services	(2.0)
State Disability Assistance Substance Abuse Funding	(2.2)
Laboratory Services Funding	(1.3)
Medicaid Recovery and Revenue Maximization Program	(0.6)
Reduction of Medicaid Pharmacy Dispensing Fee by 25 Cents	(0.3)
Shift of Nursing Home Patients to Home & Community-Based Waiver Program	(5.3)
Medicaid Inspector General Assumed Savings	(1.0)
Repeal of Drug Manufacturer Immunity Assumed Savings	(0.3)
Community Mental Health Non-Medicaid Administrative Funding	(3.8)
Mental Health Programs for Persons with Developmental Disabilities Enrollment Freeze	(2.3)
Community Mental Health Multicultural Services	(1.4)
Departmental Administrative Reductions	(1.2)
Elimination of Various Special Grant Programs	(0.7)
Adult Foster Care Facilities' Payment for Employee Background Checks	(1.7)
Local Public Health	(2.7)
Senior Community, Nutrition and Volunteer Services	(2.2)
Substance Abuse Funding	(1.6)
Corrections	
Statutory Reforms to Allow the Closure of Four to Five Prison Facilities	(187.4)
Supply Chain Logistics and Management Improvements	(4.0)
Pharmacy Savings	(4.6)
Administrative and Information Technology	(1.9)
Education	
Book Distribution Centers	(0.2)
Library of Michigan Operations	(1.1)
State Aid to Libraries	(0.2)
Energy, Labor, and Economic Growth	
No Worker Left Behind Program	(4.5)
Welfare-to-Work Program	(2.6)
Executive	
Operational Reductions	(0.2)
Higher Education	
Michigan Tuition Grant Program	(31.7)

FY 2010-11 GOVERNOR'S APPROPRIATION RECOMMENDATION	
MAJOR GF/GP FUNDING ELIMINATIONS/REDUCTIONS	
(Millions of Dollars)	
Human Services	
Food Stamp Reinvestment	(2.4)
University of Detroit-Mercy Legal Services	(0.2)
Michigan State University Kinship Care Services	(0.2)
Barry County Domestic Violence Center	(0.1)
Assistance Program Caseload and Cost Adjustments	(10.8)
Employment and Training Services	(7.6)
Various Departmental Program Reductions	(10.6)
Judiciary	
Temporary Elimination of Circuit Court Judgeships	(0.2)
Operational Funding Reduction of 4.0%	(2.6)
Legislative Auditor General	
Operational Funding Reduction of 4.0%	(0.5)
Legislature	
State Officers Compensation Commission Salary and Expense Reduction	(1.2)
Operational Funding Reduction of 4.0%	(2.9)
Military and Veterans Affairs	
Special Maintenance Funding for State Armories	(0.7)
Administrative Reductions	(0.2)
Natural Resources and Environment	
Forest Recreation Programs	(0.3)
Consolidation Savings	(0.2)
Surface Water Programs	(0.4)
Drinking Water Program	(0.1)
Water Withdrawal Assessment Program	(0.2)
NPDES Nonstormwater Program	(0.4)
Groundwater Discharge Program	(0.2)
Historical Programs	(0.4)
Wildlife Division	(0.1)
Departmental Administrative Savings	(0.6)
State	
Business Application Modernization Project	(2.8)
Operational and Administrative Funding Reductions	(1.2)

FY 2010-11 GOVERNOR'S APPROPRIATION RECOMMENDATION	
MAJOR GF/GP FUNDING ELIMINATIONS/REDUCTIONS	
(Millions of Dollars)	
State Police	
Elimination of Capitol Security Guard Program.....	(0.5)
Reduction of Trooper and Laboratory Overtime Payments.....	(1.5)
Elimination of Vacant Positions	(0.3)
Departmental Administrative Savings.....	(0.8)
Motor Vehicle Fleet Leasing.....	(0.8)
At-Post Trooper Attrition	(6.0)
Information Technology Programs	(0.4)
Technology, Management, and Budget	
Civil Service Commission Operations Funding.....	(1.9)
Savings from Consolidation of DMB and DIT	(0.2)
Information Technology Reductions.....	(0.6)
Treasury-Operations	
Information Technology Programs	(0.7)
Staff and Service Reductions	(1.1)
Treasury-Strategic Fund Agency	
Economic Development Job Training Grants.....	(4.7)
Employee Costs	
Savings from Proposed Enhanced Retirement Program	(98.0)
Total GF/GP Funding Eliminations/Reductions	\$(441.7)

Table 9 provides the details of \$292.8 million of GF/GP appropriation reductions resulting from the shifting of fund sources that have an impact on the level of GF/GP appropriations, but do not have an impact on the overall funding level of a program. The majority of these fund source shifts involve the relationship between Federal- and State-funded appropriations in the Medicaid program in the Department of Community Health and fund source shifts in the Department of Human Services. The Governor's proposal to levy an assessment on physicians also results in a fund source shift in the Medicaid program. The final major fund source shift involves the timing of phased-out temporary Federal-enhanced Medicaid funding related to provisions of the ARRA and assumptions regarding continuing funding of enhanced Medicaid match rates.

Table 9

FY 2010-11 GOVERNOR'S APPROPRIATION RECOMMENDATION MAJOR FUND SHIFTS TO INCREASE/(REDUCE) GF/GP (Millions of Dollars)	
<u>Department/Program</u>	
Agriculture	
Migrant Labor Housing Program Fee Increase.....	\$ (0.6)
Food and Dairy Program Fee Increase	(0.5)
Community Health	
Medicaid Benefits Trust Fund Shift.....	(4.0)
Federal Medicaid Match Rate Base Increase.....	(234.5)
Federal Medicaid Match Rate Adjustment due to General Motors Pension Fund Payments.....	(160.0)
Merit Award Trust Fund Shift	(126.3)
Extension of Federal Medicaid Match Rate ARRA Funding.....	245.1
Physician Quality Assurance Assessment Program.....	(98.6)
Removal of One-Time Substance Abuse Fee Carry Forward.....	1.0
Revenue from Certified Public Expenditure Special Financing Program	(2.4)
Energy, Labor, and Economic Growth	
Nursing Corps Program	(0.3)
Higher Education	
Replacement of Federal ARRA Funding with GF/GP Funding.....	68.2
Human Services	
Fund Source Shift in Food Assistance Program.....	(9.4)
Fund Source Shift in TANF to GF/GP Funding.....	193.2
Federal Medicaid Match Rate Base Increase.....	(7.3)
Foster Care Services Fund Source Shift	6.1
Emergency TANF Funding Shift	(169.6)
Federal ARRA Child Day Care Funding	(2.0)
Extension of Federal Medicaid Match Rate ARRA Funding.....	3.8
Child Care Development Block Grant Shift of ARRA Funding to GF/GP	16.6
State Police	
Multi-Jurisdictional Task Force Fund Shift to ARRA Funding.....	(2.0)
At-Post Trooper Fund Shift to Secondary Road Patrol Funding.....	(2.2)
LEIN Fund Shift from Proposed Fee Increase.....	(1.8)
Forensic Science Fund Shift from Proposed Fee Increase	(3.2)
Crime Victims Rights Program Fund Shift from State Restricted to GF/GP Funding.....	1.1

FY 2010-11 GOVERNOR'S APPROPRIATION RECOMMENDATION MAJOR FUND SHIFTS TO INCREASE/(REDUCE) GF/GP (Millions of Dollars)	
Technology, Management, and Budget	
Federal Indirect Funding Increase	(2.3)
Treasury-Operations	
Banking and Management Services Fund Shift from GF/GP to Federal.....	(0.3)
Supervision of General Property Tax Law Fund Shift from GF/GP to Local Revenue	(0.6)
Total GF/GP Funding Shifts.....	\$(292.8)

SUMMARY OF K-12 SCHOOL AID FUND APPROPRIATIONS

The Governor's FY 2010-11 School Aid Fund (SAF) appropriation recommendation is based on significant tax policy changes included in the budget. The proposed tax policy changes result in \$554.3 million of new funding for the SAF budget. On the spending side of the budget, the appropriation recommendation reflects a continuation of SAF appropriation policies in place during FY 2009-10, adjusted for revised pupil and cost estimates.

Table 10 provides a summary of the FY 2010-11 SAF revenue assumptions included in the Governor's budget. The budget recommendation includes \$13.0 billion of total SAF revenue. This includes \$10.5 billion of revenue estimated at the January 11, 2010, Consensus Revenue Estimating Conference and \$2.5 billion of revenue from sources not estimated as part of the consensus revenue estimating process. The other revenue sources included in the budget are revenue carried forward from the prior fiscal year, a GF/GP grant to the SAF budget, ongoing Federal aid, temporary Federal aid related to provisions of ARRA, and the \$554.3 million of increased SAF revenue from the Governor's proposed expansion of the base of the sales tax, the reduction in the rate of the sales and use taxes, and the proposed changes in the Michigan Business Tax.

For the most part, the FY 2010-11 SAF expenditure recommendation can be characterized as a continuation budget. Table 11 provides a summary of the overall recommended changes in FY 2010-11 SAF appropriations. The budget recommendation continues current-year funding into the next fiscal year. Specifically, the \$165-per-pupil reduction in operational funding that occurred in FY 2009-10 is continued into FY 2010-11, along with other changes such as the 20.0% reduction in intermediate school district operations, the elimination of funding for 20j school districts, and the 50.0% reduction to nonschool providers of early childhood programs. Funding adjustments are also included to adjust for anticipated Federal funding levels. The retirement contribution rate charged to schools increases from 16.94% to 19.41% of payroll, costing local school districts and intermediate school districts approximately \$235.0 million more in FY 2010-11, or roughly \$150 per pupil.

The Governor also is proposing a requirement that intermediate school districts and local schools develop consolidation plans to implement the most cost-effective method of providing purchasing services, payroll services, financial accounting services, facilities management services, pupil transportation services, technology services, and food services. If the most cost-effective manner available were not used, the local district's foundation allowance would be reduced by 1.0% beginning in FY 2011-12. Also, the Governor proposes that if an intermediate school district is not providing any of the above listed services, in a cost-effective method, it would forfeit 10.0% of its operational funding.

Table 10
FY 2010-11 SCHOOL AID FUND REVENUE SUMMARY
CONSENSUS REVENUE AND PROPOSED ADJUSTMENTS
(Millions of Dollars)

Consensus Revenue Estimate (January 11, 2010)	\$10,480.5
<u>Proposed Revenue Adjustments:</u>	
Beginning Balance Carried Forward from FY 2009-10	78.5
GF/GP Grant to the School Aid Fund	30.2
Federal Aid	1,680.1
American Recovery and Reinvestment Act of 2009 Funding	184.3
Proposed Tax Reform and Restructuring	554.3
Treasury Administrative Reforms.....	2.3
Lottery Reforms.....	<u>5.0</u>
Subtotal Proposed Revenue Adjustments	2,534.7
Total School Aid Fund Revenue in Governor's Budget	\$13,015.2

Table 11

GOVERNOR'S FY 2010-11 BUDGET RECOMMENDATIONS K-12 SCHOOL AID APPROPRIATION CHANGES (Millions of Dollars)	
FY 2009-10 Enacted Year-to-Date Appropriations	\$12,823.6
FY 2010-11 Governor's Recommended Appropriations	12,863.3
Net Increase in Appropriations	\$39.7
Recommended Appropriation Decreases in Existing Programs:	
Technical Foundation Allowance Cost Adjustments	\$(42.7)
Juvenile Detention Facilities-Educational Costs	(1.0)
Technical Special Education Cost Adjustments.....	(0.6)
Elimination of Expired Federal Refugee Children Impact Funds	(0.2)
Subtotal Appropriation Decreases in Existing Programs	\$(44.5)
Recommended Appropriation Increases:	
Federal Special Education Grants	\$35.0
Federal School Lunch Grants	30.0
Other Federal Grants (Drug-Free Schools, Rural, Migrant, 21 st Century)	9.0
School Bond Loan Fund Debt Service	5.1
Center for Educational Performance and Information.....	4.6
State Police Bus Inspections.....	0.5
Subtotal Appropriation Increases	\$84.2
Total Recommended Appropriation Changes	\$39.7

FEDERAL STIMULUS FUNDING ASSUMED IN THE BUDGET

The Michigan State budget during FY 2008-09 and FY 2009-10 was balanced using temporary Federal funds that were available to Michigan under ARRA. The Governor's FY 2010-11 budget recommendation appropriates remaining ARRA funding in the Medicaid and K-12 School Aid budgets. The Governor's budget also assumes that the United States Congress will extend and the President will sign into law, a six-month extension of the enhanced Federal Medicaid match rate that was a major component of State funding under ARRA. Under current provisions of ARRA, this enhanced Federal Medicaid match rate funding will expire on December 30, 2010. The Governor's budget assumes this funding is continued for six additional months, through June 30, 2011. This assumption leads to \$514.0 million of additional Federal Medicaid funding during FY 2010-11 and is a critical assumption as to how the GF/GP budget submitted by the Governor is balanced.

FEDERAL FUNDS ASSUMPTIONS

The overall FY 2010-11 State budget recommendation includes the appropriation of \$20.1 billion of Federal funds. Outside of the previously mentioned assumption concerning the potential extension of enhanced Medicaid match rate funding, the Federal funds assumed in the budget are primarily based on the continuation of Federal appropriation policy currently in place. To the extent that the United States Congress adjusts the level of Federal aid to states, the appropriation of these Federal funds in the Michigan State budget will have to be adjusted. One important Federal funding assumption in the Governor's budget recommendation involves Federal transportation funding. The budget assumes that Michigan will be unable to match all of the Federal transportation funds allocated to Michigan due to insufficient State of Michigan matching funds. This means that approximately \$450.0 million of available Federal transportation funds will not be drawn down during FY 2010-11.

FY 2009-10 SUPPLEMENTAL APPROPRIATIONS

The FY 2010-11 budget includes recommendations from the Office of the State Budget (OSB) for the enactment of numerous FY 2009-10 supplemental appropriations. The FY 2009-10 supplemental appropriation recommendations total \$619.3 million of Gross appropriations and \$31.9 million of GF/GP appropriations. Table 12 provides a summary of these supplemental appropriation recommendations. The supplemental appropriations fall into four broad categories. The first category is cost and caseload adjustments in the Department of Community Health. The second category is the appropriation of additional Federal funds in the Department of Community Health from an expansion in the hospital and nursing home assessment used to help finance the Medicaid budget. The third category is the appropriation of a variety of Federal and State Restricted funding that has become available since the beginning of the fiscal year. This includes \$40.7 million of Federal funds associated with the Race to the Top legislation. The final category is a \$12.5 million saving in the level of GF/GP appropriations needed for debt service payments on general obligation bonds.

Table 12
PENDING FY 2009-10 SUPPLEMENTAL APPROPRIATION
RECOMMENDATIONS FROM THE OFFICE OF THE STATE BUDGET
(Actual Dollars)

Department/Program	Gross	GF/GP
Agriculture		
Emerald Ash Borer (ARRA Funding)	\$1,150,000	\$0
Subtotal Agriculture	1,150,000	0
Community Health		
Adult Benefit Waiver Fund Source Shift	0	0
Hospital/Nursing Home QAAP Expansion	101,498,500	0
Subtotal Community Health	101,498,500	0

**PENDING FY 2009-10 SUPPLEMENTAL APPROPRIATION
RECOMMENDATIONS FROM THE OFFICE OF THE STATE BUDGET
(Actual Dollars)**

Department/Program	Gross	GF/GP
Corrections		
Muskegon Correction Facility for Out-of-State Inmates	18,660,000	0
County Jail Reimbursement.....	7,514,400	0
Subtotal Corrections	26,174,400	0
Education		
Race to the Top Education Reform Implementation	492,800	492,800
Race to the Top Education Reform	25,000,000	0
Subtotal Education	25,492,800	492,800
Energy, Labor, and Economic Growth		
Fire Safety Training Fund	40,000	0
Public Service Commission Telecommunications	440,000	0
Labor Market (ARRA Funding)	1,325,400	0
Green Jobs Training (ARRA Funding).....	6,000,000	0
Subtotal Energy, Labor, and Economic Growth	7,805,400	0
Higher Education		
TANF Scholarship Fund Source Shift.....	0	(47,473,200)
Subtotal Higher Education.....	0	(47,473,200)
Human Services		
TANF Scholarship Fund Source Shift.....	0	47,473,200
Emergency Contingency TANF Funding (ARRA Funding)	2,000,000	0
Food Assistance Caseload	237,168,100	0
Food Assistance Caseload (ARRA Funding)	141,867,600	0
Family Independence Program Caseload	30,838,100	30,838,100
Day Care Caseload	(2,975,400)	5,044,800
State Disability Assistance Caseload	755,900	755,900
Supplemental Security Income Caseload.....	(1,486,800)	(1,486,800)
Adoption Subsidy Caseload.....	(8,774,700)	(495,500)
Foster Care Caseload.....	(15,918,300)	469,500
Child Care Fund Caseload	2,316,600	2,316,600
Local Office Staff Operations.....	0	6,112,400
Clothing Supplements Fund Source Shift.....	0	0
Increase in Local Office Staff by 197 FTEs	7,681,600	4,823,000
Offset of GF/GP for Staff Restoration with TANF Contingency Funds.....	0	(4,823,000)
Departmental Rent Shortfall	1,853,100	1,327,000

**PENDING FY 2009-10 SUPPLEMENTAL APPROPRIATION
RECOMMENDATIONS FROM THE OFFICE OF THE STATE BUDGET
(Actual Dollars)**

Department/Program	Gross	GF/GP
Human Services (continued)		
Offset of Rent Shortfall with TANF Contingency Funds	0	(1,327,000)
Field Staff Fund Source Shift to TANF Contingency Funds	0	(9,604,400)
Central Support Fund Source Shift to TANF Contingency Funds	0	(4,795,000)
Electronic Benefit Card Administration	4,552,700	3,017,600
Juvenile Justice Facilities Fund Source Shift	0	771,900
Funding for Wayne County Child Care Cases.....	1,164,100	1,164,100
Medical/Psychiatric Evaluations	531,900	475,700
Departmental Rent Shortfall	6,178,600	4,424,500
Bridges Administrative Costs.....	7,013,500	4,358,200
DDS GF/GP Funding Shortfall.....	0	187,400
Expansion of Strong Families/Safe Children	3,000,000	0
Jet Plus Program	13,000,000	0
Subtotal Human Services.....	430,766,600	91,028,200
Judiciary		
State Appellate Defender Office Operations	250,000	0
Drug Court Services	200,000	0
Subtotal Judiciary	450,000	0
Military and Veterans Affairs		
Grand Rapids Veterans Home (ARRA Funding).....	626,300	0
Subtotal Military and Veterans Affairs	626,300	0
Natural Resources and Environment		
Emerald Ash Borer Grant (ARRA Funding).....	295,000	0
History Museum Appropriation	300,000	0
Subtotal Natural Resources and Environment.....	595,000	0
School Aid		
CEPI Funding for Race to the Top Program.....	15,864,200	0
Subtotal School Aid	15,864,200	0
State		
Help America Vote Act Funding	5,579,000	293,700
Subtotal State	5,579,000	293,700
State Police		
Laboratory Funding Backlog.....	2,500,000	0
Subtotal State Police	2,500,000	0

PENDING FY 2009-10 SUPPLEMENTAL APPROPRIATION RECOMMENDATIONS FROM THE OFFICE OF THE STATE BUDGET (Actual Dollars)		
Department/Program	Gross	GF/GP
Transportation		
Comprehensive Transportation Bond Restructuring	12,800,000	0
Subtotal Transportation	12,800,000	0
Treasury-Operations		
Accelerated Return Processing Staff.....	200,000	0
Michigan Business Tax Auditing Staff	500,000	0
Subtotal Treasury-Operations	700,000	0
Treasury-Debt Service		
General Obligation Bond Payments	(12,481,500)	(12,481,500)
Subtotal Treasury-Debt Service	(12,481,500)	(12,481,500)
Total OSB Supplemental Recommendations	\$619,520,700	\$31,860,000

STATE REVENUE SHARING

The budget recommends revenue sharing payments of \$1.03 billion to cities, villages, townships, and counties, an increase of \$59.4 million (6.1%) above the current year-to-date appropriation for FY 2009-10. An increase in payments to counties accounts for all of the increase in revenue sharing payments. These payments are made to counties that have exhausted their revenue sharing reserve funds created by the acceleration of county property tax collections under the FY 2004-05 budget. In FY 2008-09, seven counties received these payments, while in FY 2009-10, 20 counties, including Calhoun, Jackson, and Wayne Counties, are expected to receive payments. Another 18 counties, including Ingham, Kalamazoo, and Kent Counties, are expected to receive payments in FY 2010-11.

Other local units (cities, villages, and townships) are recommended to receive in FY 2010-11 the same combined total of constitutional and statutory revenue sharing payments each received during FY 2009-10. Because constitutional payments are expected to decline 0.6% in FY 2010-11, the statutory appropriation to keep them at the FY 2009-10 level will need to increase by \$3.5 million.

As in FY 2009-10, the "freeze" does not include a guarantee to hold local units harmless if sales tax collections are below expectations. Instead, the recommendation proposes to use an adjustment factor if collections are below the forecast.

The recommendation does not address issues that will arise when the new population figures from the 2010 Census are implemented, which will likely occur sometime near March-April 2011. Historically, when new Census figures have been implemented, remaining payments have been adjusted to yield totals as if the population figures were in effect for the entire fiscal year. If the "freeze" is to be maintained, the new Census figures will likely require a supplemental.

The estimates of the constitutional and statutory portions of revenue sharing payments reflect the January 2010 consensus revenue estimates of sales tax revenue and do not reflect the proposal to expand the tax base and lower the rate. If retained as part of the sales tax, the proposal would reduce constitutional payments. Any earmarking to offset declines in constitutional payments would effectively convert what is currently constitutional revenue sharing into statutory revenue sharing.

Table 13

REVENUE SHARING APPROPRIATION SUMMARY			
	FY 2009-10 Year-to-Date	FY 2010-11 Gov's Rec.	Change
Constitutional	\$606,540,453	\$603,043,586	\$(3,496,867)
<u>Statutory</u>			
Base (FY 2009-10)	\$310,824,777	\$310,824,777	\$0
Hold Harmless for Constitutional Declines.	N/A	3,496,867	3,496,867
Payments to Counties	55,291,700	114,740,700	59,449,000
Subtotal Statutory.....	366,116,477	429,062,344	62,945,867
Total	\$972,656,930	\$1,032,105,930	\$59,449,000
Cities	\$613,198,667	\$613,198,667	\$0
Detroit	234,726,323	234,726,323	0
Other	378,472,344	378,472,344	0
Townships	281,966,514	281,966,514	0
Villages	22,200,049	22,200,049	0
Counties.....	55,291,700	114,740,700	59,449,000

PROPOSED FEE INCREASES

The FY 2010-11 budget recommendation includes \$8.6 million of increased revenue from new fees and the proposed increase of existing fees. Table 14 provides a summary of the proposed fee increases. These proposed fee increases provide funding for programs in the Departments of Agriculture, Energy, Labor, and Economic Growth, and State Police.

Table 14

FY 2010-11 STATE BUDGET RECOMMENDATION PROPOSED FEE INCREASES (Millions of Dollars)		
Department	Fee Type	Revenue
Agriculture	Migrant Labor Housing Inspections	\$0.5
Agriculture	Dairy Inspections	0.5
Energy, Labor, & Economic Growth	State Fire Services	2.6
Michigan State Police	Fingerprint Services	3.2
Michigan State Police	Name-Based Criminal History Lookup	1.8
Total Proposed Fee Increases		\$8.6

STATE EMPLOYEE RETIREMENT CONTRIBUTION RATES

A financial aspect of the State budget that is significant to the State, as well as local school districts and community colleges, involves the level of payments to be made by employers into the major retirement accounts for State employees, employees of local school districts, and employees of community colleges. The Governor's budget recommendation contains the required employer contribution rates to the State Employees' Retirement System (SERS) and the Public School Employees' Retirement System (PSERS). Table 15 provides a summary of these contribution rates for FY 2010-11 along with the contribution rates paid in FY 2008-09 and FY 2009-10. The FY 2010-11 contribution rates to both SERS and PSERS represent a significant increase on behalf of employees in defined benefit retirement plans. Table 16 provides a summary of the estimated employer contributions into SERS and PSERS during FY 2010-11. The total combined cost of the estimated employer contributions is \$2.9 billion.

Table 15

RETIREMENT CONTRIBUTION RATES AS A PERCENTAGE OF PAYROLL				
	FY 2008-09	FY 2009-10	FY 2010-11	FY 2010-11 Change
<u>State Employees' Retirement System</u>				
Defined Benefit Pension	18.84%	21.36%	23.98%	2.62%
Defined Benefit Health Care	11.80%	11.90%	13.40%	1.50%
Total Defined Benefit Costs	30.64%	33.26%	37.38%	4.12%
Defined Contribution Pension	5.91%	5.91%	6.00%	0.09%
Defined Contribution Health Care	11.80%	11.90%	13.40%	1.50%
Total Defined Contribution Costs	17.71%	17.81%	19.40%	1.59%
<u>Public School Employees' Retirement System</u>				
Defined Benefit Pension	9.73%	10.13%	12.16%	2.03%
Defined Benefit Health Care	6.81%	6.81%	7.25%	0.44%
Total Defined Benefit Costs	16.54%	16.94%	19.41%	2.47%

Table 16

FY 2010-11 ESTIMATED CONTRIBUTIONS TO TWO LARGEST RETIREMENT SYSTEMS	
	Millions of Dollars
<u>State Employees' Retirement System</u>	
Defined Benefit Pension	\$440.1
Defined Contribution State Share	68.3
Health Care	<u>398.5</u>
Subtotal State Employees' Retirement System	\$906.9
<u>Public School Employees' Retirement System</u>	
Defined Benefit Pension	\$1,247.6
Health Care	<u>743.8</u>
Subtotal Public School Employees' Retirement System	\$1,991.4

STATE AND PUBLIC SCHOOL EMPLOYEES PROPOSED RETIREMENT CHANGES

The Governor's FY 2010-11 budget recommendation contains proposed changes in both SERS and PSERS. These proposed statutory changes in retirement accounts have an impact on the level of appropriations recommended by the Governor.

The Governor is recommending several major changes in SERS. First, all State employees who are members of the defined benefit retirement plan would be required to contribute 3.0% of their salary into SERS. State employees who are currently in the defined benefit retirement plan of SERS do not currently contribute to their future retirement benefits. This proposed change would take effect on October 1, 2010. Second, the proposal would cap the number of years of service to be earned in SERS at a maximum of 30 years or the amount an employee has accrued as of September 30, 2010. Any State employee with more than 30 years of credited service who continues to work after October 1, 2010, would then become a member of a defined contribution retirement system. The proposal also would eliminate dental and vision health coverage for State employees upon their retirement if they retire after October 1, 2010. These State employees would have the option of purchasing dental and vision coverage through the State health plan. Finally, the Governor's proposal would offer State employees who retire between July 1, 2010, and September 30, 2010, an increase in the traditional multiplier from 1.5 to 1.6 times years of credited service.

The Governor's budget recommendation assumes \$253.0 million of Gross appropriation reductions and \$98.2 million of GF/GP appropriation reductions during FY 2010-11 from these proposed SERS changes. The savings assumed in the budget come primarily from the assumed number of State employees who accept the proposed enhanced retirement and the assumption that only two out of three of the eligible State employees who retire will be replaced. The amount of assumed savings is based on downsizing the State workforce by 2,235 employees during FY 2010-11. The budget does not assume a direct reduction in the level of the FY 2010-11 employer contribution rates into SERS as a result of these proposed changes.

The Governor is recommending similar changes to PSERS. Most members of PSERS would see their contribution to PSERS increase by 3.0% of their salaries. Currently, PSERS members contribute between 0.0% and 6.4% of their salaries to PSERS. The range of existing employee contributions depends on the timing of the member's initial employment. The PSERS members also would be capped at 30 years' credited service or the amount an employee has accrued as of October 1, 2010. Any PSERS employee with more than 30 years of credited service who continues to work after October 1, 2010, then would become a member of a defined contribution retirement system. The Governor is also proposing that new employees hired after October 1, 2010, participate in a new defined benefit/defined contribution retirement plan. Employees under this plan would not be eligible for a pension payment until the age of 65 and would not receive cost-of-living adjustments. The employer would provide a 1.0% of salary match to the defined contribution system for these employees who contribute 2.0% of salary into the system. The proposal also would eliminate dental and vision health coverage for PSERS employees upon their retirement, if they retire after October 1, 2010. These PSERS employees would have the option of purchasing dental and vision coverage through the State health plan. The Governor's proposal would offer PSERS employees who are eligible to retire between July 1, 2010, and September 30, 2010, an increase in the traditional multiplier from 1.5 to 1.6 times years of credited service. The budget does not assume a direct reduction in the level of the FY 2010-11 employer contribution rates into PSERS as a result of these proposed changes.

STATE CLASSIFIED EMPLOYEE FUNDING INCREASES

The Governor's budget recommendation includes funding for the FY 2010-11 increases for the cost of State employees. These funding increases are related to changes in wages, insurance costs, retirement contributions, workers' compensation, and other employee-related costs, including the rental and lease cost for buildings that house State employees. Table 17 provides a summary of these cost increases that have been built into the FY 2010-11 budget. The budget recommendation includes \$230.7 million of Gross appropriation increases and \$121.7 million of GF/GP appropriation increases to reflect these employee costs. In terms of wage and salary increases, the Governor's budget funds the 3.0% salary increase that represented State employees will receive on October 1, 2010 (unless it is rejected by the Legislature). This salary increase, which affects approximately 35,000 State employees, occurs in the third year of a multiyear negotiated contract. In addition to this wage and salary increase, the cost of health insurance provided to State employees will increase by 9.1% during FY 2010-11.

Table 17

FY 2010-11 STATE BUDGET RECOMMENDATION ECONOMIC INCREASES INCLUDED IN BUDGET (Millions of Dollars)		
	Gross	GF/GP
Wages and Salaries	\$63.1	\$33.7
Employee Insurance Costs.....	57.5	28.2
Retirement Contributions.....	106.6	55.2
Workers' Compensation	3.0	2.7
All Other Economics.....	0.5	1.9
Total Economics.....	\$230.7	\$121.7
Note: The economic numbers in the table reflect the action by the Civil Service Commission on February 10, 2010, to reject the 3.0% salary increase for State Civil Service employees not represented by a bargaining unit. This Civil Service action reduced employee economic costs by \$43.7 million Gross and \$18.4 million GF/GP.		

TOBACCO SETTLEMENT APPROPRIATIONS AND REVENUE

The Governor's budget recommendation provides for \$181.3 million of appropriations supported by tobacco settlement revenue deposited into the Merit Award Trust Fund. In addition to these appropriations from the Merit Award Trust Fund, the budget recommends the statutory authorization of \$75.0 million of tobacco settlement revenue to the 21st Century Jobs Trust Fund and the diversion of tobacco settlement revenue to pay debt service requirements on outstanding tobacco securitization bonds. Table 18 provides a summary of tobacco settlement appropriations and revenue included in the Governor's FY 2010-11 budget.

Table 18

TOBACCO SETTLEMENT APPROPRIATIONS AND REVENUE (Actual Dollars)	
Budget Area/Program	FY 2010-11 Gov's Rec.
Attorney General	
Administration.....	\$408,600
Community Health	
Medicaid Base.....	144,751,800
Aging: Respite Care	4,468,700
Higher Education	
Tuition Incentive Program	30,100,000
State Police	
Tobacco Tax Enforcement	630,900
Treasury	
Merit Award Administration	900,000
Total Merit Award Trust Fund Appropriations	\$181,260,000
<u>Tobacco Settlement Revenue Estimates</u>	
Balance From Prior Fiscal Year	6,051,480
Annual Payments	328,500,000
Interest Earnings	909,900
Total Tobacco Settlement Revenue	335,461,380
Transfer to 21 st Century Jobs Trust Fund	(75,000,000)
Payment on Bond Securitization (13.34% of Revenue).....	(43,821,900)
Payment on Bond Securitization (10.77% of Revenue).....	(35,379,450)
Net Revenue Merit Award Trust Fund	\$181,260,030

DEPARTMENT/BUDGET AREAS

Agriculture: The recommendation contains continued cost saving efforts with administrative reductions, GF/GP cuts to various programs including Pesticide and Plant Pest Management, the elimination of the Animal Control Officers and Shelter Program, the shift out of the Department of the Michigan Agriculture Environmental Assistance Program and the Office of Racing Commissioner, and a proposed increase to dairy and migrant housing inspection fees to offset planned GF/GP reductions to those programs.

Attorney General: The recommendation would result in a reduction of a total of 23.0 full-time equated positions (FTEs), from 543.0 FTEs to 520.0 FTEs. The largest portion of these staffing reductions would be through layoffs resulting from the recommended targeted reductions applied to most departments. For the Attorney General the recommended reduction is \$1.1 million and the loss of 15.0 FTEs. An additional 8.0 unfilled FTEs would be eliminated to reflect the reduction in workload due to termination of the insolvent Construction Lien Recovery Fund and the elimination of the Auto Theft Grant from the Department of State Police. Statutory changes are required to prevent eligible claims from being made against the Construction Lien Recovery Fund.

Civil Rights: The recommendation reduces operations funding by 3.7% or \$427,300 GF/GP. The authorized level of FTEs would be reduced by 10.0 to reflect the reduced level of staffing after layoffs in FY 2008-09. In addition, the consolidation of accounting services under the Department of Technology, Management, and Budget will transfer 1.0 FTE to that Department, and eliminate another position. This brings staffing levels for the Department of Civil Rights to 113.0 FTEs. The combination of State funding reductions and reductions at the Federal level will result in a total loss of \$681,600 for this Department, a 5.0% reduction from FY 2009-10.

Community Colleges: The recommendation maintains the FY 2009-10 level of funding for community college operations and at-risk funding. Renaissance zone tax reimbursement funding is reduced by \$260,000, from \$3,480,000 to \$3,220,000, based on projected FY 2010-11 payments.

Community Health: The recommendation includes a \$1.3 billion increase in Gross funding and a decrease of \$288.1 million in GF/GP funding over the current fiscal year. There are a number of major Gross and GF/GP appropriation adjustments that lead to the funding changes. The budget includes \$142.8 million Gross and \$57.9 million GF/GP to reflect continued base, caseload, and utilization growth in the Medicaid and related programs. The average Medicaid caseload is projected to grow to over 1.75 million in FY 2010-11. This represents 70.0% growth in the Medicaid caseload over the past 10 years.

The cost of maintaining actuarially sound rates for Medicaid-managed care services is projected to increase by \$133.2 million Gross and \$45.6 million GF/GP. The budget also calls for significant uses of non-GF/GP funding sources to draw down additional Federal Medicaid funding. These changes apply to existing assessments on hospitals and nursing homes. The base Federal Medicaid match rate will increase during FY 2010-11 from 63.19% to 65.79%, producing GF/GP savings of \$234.5 million. Michigan will also realize \$160.0 million of GF/GP savings in the Medicaid program due to a Federal decision to recalculate Michigan's personal income related to a one-time contribution by General Motors to its pension fund. The budget also reflects a \$126.3 million GF/GP funding reduction in the Medicaid program related to increases in Merit Award Trust Fund revenue available.

The enhanced Medicaid match rate under the American Recovery and Reinvestment Act of 2009 will expire on January 1, 2011. The Governor's budget assumes this enhanced Medicaid match rate will be extended for six additional months, resulting in a \$514.0 million GF/GP reduction in the Medicaid program.

Program eliminations recommended by the Governor include the termination of medical coverage for individuals no longer eligible for transitional Medicaid, the elimination of the State disability assistance substance abuse program, and the elimination of human growth hormone coverage for non-Medicaid children. Program reductions recommended include a freeze in enrollments in the Adult Benefit Waiver program, a reduction in community mental health non-Medicaid funding, and reductions in public health and aging programs.

The final major initiative in the budget is a proposal to implement a physician Quality Assurance Assessment Program (QAAP). This assessment would be 3.0% on physicians and the estimated \$300.0 million of revenue raised would be used to capture additional Federal Medicaid match rate funding. The State would retain \$132.9 million of the funding and the remainder would be used to increase Medicaid physician rates by \$715.4 million. This would take physician Medicaid reimbursement rates from 55.6% of the Medicare reimbursement levels to 100.0% of Medicare reimbursement rates. This would mean a net increase in the proposal for physicians of \$415.4 million or the difference between the \$300.0 million raised from the assessment and the \$715.4 million increase in Medicaid reimbursement rates.

Corrections: The recommendation represents a 0.6% increase in Gross appropriations and a 1.5% decrease in GF/GP funding from FY 2009-10 year-to-date appropriations. In absolute terms, the executive recommendation is \$11.1 million Gross above and \$27.7 million GF/GP below current year appropriations.

The bulk of the reductions assumed in the budget are driven by the assumed passage of policy changes related to Michigan's truth-in-sentencing laws. Under current law, offenders subject to a prison term must serve at least the minimum sentence. House Bills 4497-4499 propose to amend the relevant statutes to reinstate the use of "good time" – a credit system that would allow inmates to reduce their respective prison terms through good conduct and discipline while incarcerated. According to the Department of Corrections (DOC) estimates, such a policy would allow the Department to release approximately 7,500 inmates during the first full year of implementation. This reduction in the prison population would consequently allow the DOC to close an additional four or five correctional facilities. In total, the Governor's budget associates \$187.4 million in Gross and GF/GP savings with the implementation of the "good time" credit system.

Because such a policy change would dramatically increase the number of parolees under the supervision of the DOC, the budget proposes the reinvestment of \$57.9 million in reintegration and supervision initiatives. The budget dedicates \$22.7 million to the Michigan Prisoner Re-Entry Initiative and related reintegration programming; \$27.9 million for GPS tethers and electronic monitoring capabilities; and \$7.4 million for field operations staff and services. Accounting for these reinvestments, the net savings of the proposed "good time" sentencing reforms are \$129.5 million Gross and GF/GP.

The executive recommendation also proposes the continued operation of the Muskegon Correctional Facility through an agreement with the State of Pennsylvania. Muskegon, a level II facility that had been slated for closure, is expected to be the recipient of approximately 1,200-1,300 low- to medium-security inmates currently under the supervision of the Pennsylvania Department of Corrections. The budget includes \$29.9 million in State restricted funds for the operation of the Muskegon Correctional Facility, with the assumption that the State of Pennsylvania will pay these costs.

The Governor's budget also reauthorizes the Community Jail Reimbursement Program (CJRP) – a program that was removed from the final FY 2009-10 budget. The proposed budget funds the program at the FY 2008-09 level (\$12.3 million Gross, \$4.8 million GF/GP).

Finally, the budget includes significant increases to account for rising prisoner health care costs and staffing costs. A total increase of \$10.3 million is included to cover anticipated health and mental health care costs. Most notably, DOC employee economics drive an increase of \$86.8 million over FY 2009-10 year-to-date appropriations.

Education: The recommendation allocates \$18.7 million Gross (\$1.7 million GF) for Race to the Top (RTTT) reforms. The General Fund portion of this funding pertains to those activities under the RTTT statute that were deemed not directly required by the Federal government, and therefore need State funding. The budget also decreases Library of Michigan operations funding by slightly more than \$1.0 million, to implement Executive Orders 2009-36 and 2009-43. These Executive Orders directed the elimination of maintenance and oversight of various library collections and elimination of circulation of other materials, the end of participation in interlibrary loans, and the reduction of purchases of collections. State aid to libraries also was reduced 2.5%.

Energy, Labor, and Economic Growth: The recommendation includes an increase of 2% or \$30.4 million Gross and a decrease of 17.0% or \$9.4 million GF/GP from FY 2009-10. Most of the increase is the result of additional Federal funds, including Trade Adjustment Assistance job training, Federal housing vouchers, and administrative funding for the Unemployment Insurance Agency. The proposal also eliminates GF/GP support for previous workforce training initiatives such as the Nursing Corps and No Worker Left Behind. Both programs would be funded entirely with Federal funding. Job training and readiness programs for welfare recipients would be reduced by \$10.2 million as a way to save Federal Temporary Assistance for Needy Families funding; the \$15.6 million interdepartmental grant from the Department of Human Services (DHS) for the Jobs, Education and Training (JET) program would be eliminated and services provided by Michigan Rehabilitation Services to JET would cease in FY 2010-11. A new fee is proposed to provide alternative funding for the Bureau of Fire Services. Fees for inspection and plan reviews would be set by the Fire Marshal to replace \$2.6 million in GP/GP support for these programs. An additional \$700,000 is proposed for the State Historic Preservation Office to fully support that program, as the amount transferred after the elimination of the Department of History, Arts, and Libraries was insufficient. A private donation provided to the Michigan Commission for the Blind for the Kalamazoo Training Center will support a Capital Outlay project to upgrade dormitories at that facility.

Executive: The recommendation is based on State Officers Compensation Commission (SOCC) decisions made in March 2009. A 10.0% reduction in the Governor's and Lt. Governor's salaries is to begin in the legislative session following the November 2010 general election. Thus, the SOCC reductions included in the budget are based on seven pay periods of the 2010 salaries and 19 pay periods of the 2011 salaries. In addition, expense allowances for the Governor and Lt. Governor are reduced by 10.0%. Non-SOCC reductions in the Executive Office also are proposed to save additional GF/GP funds. The total savings of \$192,900 Gross (\$192,900 GF/GP) comprised of the SOCC and non-SOCC reductions equate to an overall 4.0% reduction in the Executive Office budget.

Higher Education: The recommendation maintains the FY 2009-10 levels of operations funding for both community colleges and universities. Operations and at-risk appropriations for community colleges are frozen at \$295.9 million but renaissance zone tax reimbursement funding is reduced from \$3.5 million to \$3.2 million based on projected FY 2010-11 payments. Operations appropriations for universities, the Agricultural Experiment Station (AES), and the Cooperative Extension Service (CES) are frozen at \$1.525 billion. The one-time \$68.2 million ARRA funding for university operations, AES, and CES is replaced with State GF/GP support. Tables 19 and 20 outline the FY 2010-11 amounts proposed for universities and community colleges, respectively.

In the financial aid portion of the proposed Higher Education budget, the Governor eliminates the \$31.7 million Tuition Grant Program, which provides need-based grants to students at independent colleges and universities. In order to control rising costs, the Governor reduces the Tuition Incentive Program (TIP) by \$1.1 million to a total of \$30.1 million, by limiting tuition reimbursement to associate degrees or certificates only and capping the level of reimbursement at the average in-district rate for community colleges. The Governor also proposes to create a new \$4,000 Michigan Promise refundable income tax credit to replace the Michigan Promise Grant Program for which funding was eliminated in FY 2009-10.

On an overall basis, the FY 2010-11 State GF/GP appropriations for the Community College budget in the Governor's recommendation are down \$260,000 or 0.1%, and Higher Education GF/GP appropriations are down \$32.6 million or 2.2%, if the replacement of ARRA funding is netted out. This continues the downward trend of State appropriations for Community Colleges and Higher Education since FY 2001-02, when Total State Spending appropriations for both budgets were \$388.2 million more than the amounts recommended for FY 2010-11.

Human Services: The recommendation would increase expenditures by \$1.1 billion Gross/\$106.9 million GF/GP over the FY 2009-10 enacted DHS appropriation. Increases in the executive recommendation are primarily associated with caseload growth in assistance programs and further efforts to increase administrative capacity to meet the requirements of the Children's Rights lawsuit settlement agreement.

The recommendation provides \$35.2 million Gross/\$18.0 million GF/GP to increase child welfare staff, information technology capacity, and program services. These funds are intended to meet the requirements of the Children's Rights lawsuit settlement agreement reached in FY 2008-09. Major increases are proposed to fund 495.0 new FTEs to meet case-to-worker ratios (\$15.5 million Gross/\$11.8 million GF/GP). The budget funds the development of a child welfare information system compliant with Federal Statewide Automated Child Welfare Information System (SACWIS) requirements.

The budget also recognizes additional caseload cost in a number of assistance programs. A base adjustment of \$896.3 million Gross/\$0.0 GF/GP is provided to meet anticipated Food Assistance Program need in FY 2010-11. The budget also assumes significant growth in the Family Independence Program (FIP) caseload for FY 2010-11, resulting in anticipated GF/GP need for FIP of \$56.5 million.

The State of Michigan successfully obtained Emergency Temporary Assistance for Needy Families (TANF) Contingency funds for use in FY 2010-11. The Governor's recommendation uses these funds to reduce GF/GP expenditure in the FIP program by \$167.0 million, to restore 197.0 FTEs eliminated in the enacted FY 2009-10 DHS appropriation (\$9.6 million Gross), to create the JET Plus job training effort (\$20.0 million Gross), and to support additional administrative costs within the Department.

The Governor's recommendation assumes savings through several program reductions and policy changes. Assumed savings of \$10.8 million Gross/\$19.8 million GF/GP can be attributed to policy changes associated with Social Security Income (SSI) advocacy services, disability determination, reimbursement for independent living foster care, mental health care for foster children, Zero to Three secondary prevention program, and information technology structure.

The FY 2010-11 recommendation does not use program eliminations and reductions as aggressively as the FY 2009-10 recommendation did. Cost increases in the program are largely attributed to base adjustments to meet caseload need and additional costs that are associated with the Children's Rights lawsuit settlement. Additional spending for new programs like JET Plus and restoration of previously reduced staff positions was largely supported by one-time funding provided through ARRA.

Judiciary: The recommendation makes a \$2.6 million (4.0%) reduction to the Judiciary budget, excluding justices' and judges' compensation. The budget also reflects a reduction of \$240,700 based on the temporary elimination of one circuit judgeship each in Macomb and Oakland Counties pursuant to Public Act 228 of 2009. The Oakland County judgeship will remain vacant from January 1, 2011, to January 1, 2015, and the Macomb County judgeship will remain vacant from January 1, 2011, to January 1, 2017. An additional \$250,000 Federal is included for the Appellate Public Defender Program based on available Federal grants.

Legislative Auditor General: The recommendation results in total savings of \$464,800 Gross (\$464,800 GF/GP) and achieves an overall 4.0% reduction in the Legislative Auditor General budget, consistent with the 4.0% overall reductions in the Executive Office and Legislature budgets.

Legislature: The recommendation is based on SOCC decisions made in March 2009. A 10.0% reduction in legislators' salaries is to begin in the legislative session following the November 2010 general election. Thus, the SOCC reductions included in the budget are based on seven pay periods of the 2010 salaries and 19 pay periods of the 2011 salaries. In addition, legislators' expense allowances are reduced by 10.0%. Non-SOCC legislative reductions also are proposed to save additional GF/GP funds. The savings are achieved by a negative line item, thus leaving it up to the Legislature to decide how to achieve those savings. The total savings of \$4,190,600 Gross (\$4,190,600 GF/GP) consisting of the SOCC and non-SOCC reductions equate to an overall 4.0% reduction in the Legislature budget.

Military and Veterans Affairs: The recommendation is primarily a continuation budget, with adjustments for some increases in available Federal and restricted revenue – such as for land acquisition at Camp Grayling, other cost adjustments and reductions, including the elimination of the maintenance program for armories, and the maintenance of the existing level (and format) of grant support for Veterans Service Organizations.

Natural Resources and Environment: The recommendation contains no new programs or program expansions. It reflects the merger of the Department of Natural Resources and the Department of Environmental Quality into a new entity, the Department of Natural Resources and Environment. Preliminary savings from this merger are estimated at \$356,000 from the elimination of 5.0 unclassified positions and rent savings from office consolidations. Further savings will likely be identified as the administrative structure of the two former departments is evaluated and redundant positions are eliminated.

The Governor also recommends reducing several regulatory and environmental programs including the Water Withdrawal program, Wastewater Facility Construction permit program, Soil Erosion and Sedimentation Control program, NPDES Nonstormwater permit program, and Groundwater Discharge permit program. In addition, the Governor proposes to reduce the Forest Recreation program by maintaining the closures through FY 2010-11 of 12 State forest campgrounds that had been closed to save money in FY 2008-09 and the current year. These campgrounds were selected based on average attendance and the availability of other camping facilities in their vicinities. This reduction also would result in reduced grooming on approximately 190 miles of cross-country ski trails and reduced maintenance on approximately 880 miles of forest pathways. The Historical program also would be reduced, resulting in fewer museum programs for visitors, and a reduction in the Wildlife Division would continue the reduction in the number of deer check stations available during deer season. These programmatic reductions would result in savings of \$2,144,400, all of which would be General Fund. Aside from programmatic reductions, various administrative reductions were recommended, including contracts, services, supplies and materials reductions, unfilled position vacancies, information technology (IT) efficiency savings, and savings from the consolidation of the Department of Information and Technology and the Department of Management and Budget. These administrative savings amount to \$672,700, of which \$620,700 would be General Fund.

The recommendation also calls for a statewide availability of expedited construction permits, which allow municipal and other constructors of water treatment and other related facilities to pay a voluntary fee to have their permit applications turned around more quickly. The program is currently available only in Macomb, Monroe, Oakland, and Wayne Counties.

School Aid: The recommendation proposes lowering the rate and broadening the base of the sales tax, with the additional tax revenue generated by this proposal to be deposited exclusively into the School Aid Fund. The additional revenue from a 5.5% sales tax levied on goods and services is estimated by the administration to total \$554.3 million. The FY 2010-11 School Aid budget proposed by the Governor uses \$409.8 million of this expanded sales tax revenue in order to fill the projected deficit in the SAF, with the remainder left on the balance sheet to offset the loss of ARRA funds in FY 2011-12.

For the most part, the FY 2010-11 K-12 budget can be characterized as a continuation budget. In other words, it continues current-year funding into the next year. Specifically, the \$165-per-pupil reduction in operations funding that occurred in FY 2009-10 is continued into FY 2010-11, along with the other changes such as the 20.0% reduction to intermediate school district (ISD) operations, the elimination of "20j" funding, and the 50.0% reduction to nonschool providers of early childhood programs. Adjustments also are made in anticipated Federal grants. The retirement rate charged to schools increases from 16.94% to 19.41%, costing local schools and ISDs approximately

\$235.0 million more in FY 2010-11. The Governor also proposes a requirement that ISDs and schools adopt service consolidation plans to implement the most cost-effective method of providing purchasing services, payroll services, financial accounting services, facilities maintenance services, pupil transportation services, human resources services, technology services, and food services.

State: The recommendation increases overall funding for the Department by \$3.4 million Gross and decreases GF/GP funding by \$3.8 million. While economic increases account for the majority of the overall funding increase, reductions to the Department due to efficiencies in operations total \$1.23 million Gross, \$1.20 million GF/GP. Additional reductions of \$3.6 million Gross (\$2.8 million GF/GP) are made to the current-year baseline.

State Police: The recommendation continues cost saving efforts with administrative reductions, cuts to fleet leasing, trooper and lab personnel overtime, the elimination of the Capitol Security Program, and a 75% reduction in the School Bus Inspection Program. Though no trooper school is planned, \$2.2 million from the Sheriffs' Secondary Road Patrol Grant Program is shifted to supplant a GF/GP reduction to At-post Troopers to help avoid trooper layoffs in FY 2010-11. The budget also includes two fee increases to supplant GF/GP funding: raising the ICHAT lookup fee from \$10 to \$15 and the fingerprint analysis fee from \$30 to \$40. The budget proposes the use of ARRA funds totaling \$2.0 million as a one-time solution to offset a GF/GP reduction in support for multijurisdictional task forces.

Technology, Management, and Budget: The recommendation provides for an increase of \$19.3 million Gross (\$10.8 million GF/GP) for the new combined Department of Technology, Management, and Budget. Increases accounted for in IT changes total \$2.3 million Gross (\$0 GF/GP) while increases accounted for in Management and Budget changes total \$17.0 million Gross (\$10.8 million GF/GP). The increase of \$10.0 million in State Building Authority rent accounts for most of the GF/GP increase in the budget. The consolidation of IT and Management and Budget saves nearly \$1.0 million Gross (\$200,000 GF/GP) while miscellaneous IT reductions total \$7.1 million Gross (\$0 GF/GP) and miscellaneous Management and Budget reductions total \$4.2 million Gross (\$5.0 million GF/GP). Additionally, a fund shift of GF/GP to restricted funds saves \$2.3 million in GF/GP spending. Finally, \$1.5 million in GF/GP funding is included for gubernatorial transition costs while economic increases total \$17.4 million Gross (\$4.3 million GF/GP).

Transportation: The recommendation for FY 2010-11 is a decrease of \$498.7 million (15.3%) from the current year-to-date level. The decline is largely attributable to adjustments made to align expenditures with anticipated State and Federal revenue, including \$475.0 million in Federal aid the State will not receive due to providing insufficient matching funds.

Treasury-Debt Service: The recommendation includes the estimate for new debt service issues for the Great Lakes Water Quality program, which has been revised due to Federal allocations to the Department of Natural Resources and Environment. This allocation eliminates the need for a \$12.5 million bond issuance. For FY 2010-11, the proposed budget reduces this program by an additional \$10,862,300.

Previous restructuring that allowed for debt service savings in past fiscal years in the Quality of Life Bond and the Clean Michigan Initiative will result in increased costs of \$65.5 million in FY 2010-11. The Water Pollution Control Bond debt service is estimated to have a minimal reduction of \$62,400.

Treasury-Operations: The recommendation reflects a reduction of \$1.4 million or 3.2% Gross and \$518,800 or 0.8% General Fund from FY 2009-10. The recommendation includes revenue enhancement proposals in Lottery, Income Tax Processing, and Michigan Business Tax Administration, which are estimated to generate \$5.0 million for the School Aid Fund and \$14.0 million for the General Fund. The Lottery proposal includes selling advertising space on Club Keno games, adding self-service machines in the Wayne County Metropolitan Airport, and shortening the time frame for claiming prizes. The appropriation for Lottery advertising would be moved to boilerplate and would be increased from the current 0.8% or \$18.6 million to 1.0% or \$25.6 million. The other revenue proposals include addressing a backlog in paid-error income tax returns and the implementation of audits of companies filing as unitary business groups. A new unit also is created to assist local governments in defending property tax assessments against appeals by businesses. Revenue generated from this activity will benefit the School Aid Fund. The recommendation makes various reductions to administrative lines as well as fund shifts to reduce GF/GP spending. Program eliminations or reductions include the Merit Award Administration, Reverse Vending Machine Implementation Program, and one-time funding for Cobo Hall from the 21st Century Trust Fund. Casino Gaming is increased by \$183,500 to support audits for additional Indian casinos around the State.

Treasury-Strategic Fund: The recommendation increases the budget for the Michigan Strategic Fund by 48% or \$54,838,200. The proposal increases funding for the 21st Century Jobs Trust Fund programs by \$46.5 million to \$75.0 million, the level required in the Trust Fund Act. Funding for the Michigan Promotion Program would be increased by \$13.0 million to \$18,402,800 in FY 2010-11, with additional revenue from a proposed new fee on car rentals included in House Bill 5017. General Fund savings of \$4,705,800 would be achieved by eliminating Economic Development Job Training Grants. The Business Incubator program also would be eliminated, for a reduction of \$950,000 from Investment Fund - Returns to Fund. Expenditure authority of \$100,000 would be added to the Arts and Cultural Program to permit use of revenue from the new income tax checkoff for the Michigan Council for the Arts Fund included on forms for 2009 Michigan income tax returns.

Table 21 provides details of the recommended FY 2010-11 Gross and GF/GP appropriation changes from the year-to-date level of FY 2009-10 appropriations.

Table 19

FY 2010-11 COMMUNITY COLLEGE APPROPRIATIONS: GOVERNOR'S RECOMMENDATION				
College	FY 2009-10 Year-To-Date	Adjustments	Governor's Rec.	Percent Change
Alpena	\$5,126,100	\$0	\$5,126,100	0.0%
Bay de Noc	5,178,400	0	5,178,400	0.0
Delta	13,751,600	0	13,751,600	0.0
Glen Oaks	2,304,800	0	2,304,800	0.0
Gogebic	4,275,200	0	4,275,200	0.0
Grand Rapids	17,219,800	0	17,219,800	0.0
Henry Ford	20,898,900	0	20,898,900	0.0
Jackson	11,542,300	0	11,542,300	0.0
Kalamazoo Valley	11,888,600	0	11,888,600	0.0
Kellogg	9,311,800	0	9,311,800	0.0
Kirtland	2,842,800	0	2,842,800	0.0
Lake Michigan	5,012,100	0	5,012,100	0.0
Lansing	29,762,500	0	29,762,500	0.0
Macomb	31,773,900	0	31,773,900	0.0
Mid Michigan	4,289,200	0	4,289,200	0.0
Monroe	4,142,800	0	4,142,800	0.0
Montcalm	2,981,600	0	2,981,600	0.0
Mott	15,016,400	0	15,016,400	0.0
Muskegon	8,518,600	0	8,518,600	0.0
North Central	2,893,600	0	2,893,600	0.0
Northwestern	8,682,000	0	8,682,000	0.0
Oakland	20,133,700	0	20,133,700	0.0
St. Clair	6,729,800	0	6,729,800	0.0
Schoolcraft	11,767,000	0	11,767,000	0.0
Southwestern	6,276,900	0	6,276,900	0.0
Washtenaw	12,149,000	0	12,149,000	0.0
Wayne County	15,889,900	0	15,889,900	0.0
West Shore	2,198,500	0	2,198,500	0.0
Subtotal Operations:	\$292,557,800	\$0	\$292,557,800	0.0%
At Risk	3,322,700	0	3,322,700	0.0
Renaissance Zone	3,480,000	(260,000)	3,220,000	(7.5)
Total Appropriation:	\$299,360,500	(\$260,000)	\$299,100,500	(0.1)%
GF/GP	\$299,360,500	(\$260,000)	\$299,100,500	(0.1)%

Table 20

FY 2010-11 HIGHER EDUCATION APPROPRIATIONS: GOVERNOR'S RECOMMENDATION

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Universities	FY 2009-10 Year-To-Date Appropriation	Replace Federal ARRA with GF; Adjust Other Federal Funds	Eliminate Tuition Grants; Modify TIP; Add St. Police Tuition	FY 2010-11 Governor's Recommend.	Dollar Change From 2009-10	Percent Change From 2009-10	2010-11 Appropriation Per Student*
Central	\$82,436,000			\$82,436,000	\$0	0.0%	\$3,829
Eastern	78,212,100			78,212,100	0	0.0%	4,447
Ferris	50,017,100			50,017,100	0	0.0%	4,287
Grand Valley	63,758,300			63,758,300	0	0.0%	2,949
Lake Superior	13,059,200			13,059,200	0	0.0%	5,469
Michigan State	291,841,700			291,841,700	0	0.0%	6,609
Michigan Tech	49,302,100			49,302,100	0	0.0%	7,487
Northern	46,438,200			46,438,200	0	0.0%	5,517
Oakland	52,220,800			52,220,800	0	0.0%	3,465
Saginaw Valley	28,517,700			28,517,700	0	0.0%	3,462
UM-Ann Arbor	325,347,400			325,347,400	0	0.0%	7,874
UM-Dearborn	25,437,100			25,437,100	0	0.0%	4,036
UM-Flint	21,498,900			21,498,900	0	0.0%	3,644
Wayne State	220,329,200			220,329,200	0	0.0%	9,104
Western	112,766,800			112,766,800	0	0.0%	5,069
Ag Experiment Station (AES)	34,198,900			34,198,900	0	0.0%	
Cooperative Extension (CES)	29,497,000			29,497,000	0	0.0%	
Higher Education Database	105,000			105,000	0	0.0%	
Midwest Higher Ed Compact	95,000			95,000	0	0.0%	
King-Chavez-Parks	2,691,500			2,691,500	0	0.0%	
Total Universities	\$1,527,770,000	\$0	\$0	\$1,527,770,000	\$0	0.0%	\$5,680
Federal Stimulus	\$68,238,000	(\$68,238,000)	\$0	\$0	(\$68,238,000)	-100.0%	
State GF/GP	\$1,459,532,000	\$68,238,000	\$0	\$1,527,770,000	\$68,238,000	4.7%	
Grants and Financial Aid							
Competitive Scholarships	\$17,608,500	(1,400,000)		\$16,208,500	(\$1,400,000)	-8.0%	
Tuition Grants	31,664,700		(31,664,700)	0	(31,664,700)	-100.0%	
Byrd Scholarship Program	1,500,000			1,500,000	0	0.0%	
Michigan Merit Award Program	100		(100)	0	(100)	-100.0%	
Tuition Incentive Program (TIP)	31,200,000		(1,100,000)	30,100,000	(1,100,000)	-3.5%	
Children of Veterans Tuition	1,000,000		200,000	1,200,000	200,000	20.0%	
Project Gear-Up	1,500,000			1,500,000	0	0.0%	
Total Grants/Financial Aid	\$84,473,300	(\$1,400,000)	(\$32,564,800)	\$50,508,500	(\$33,964,800)	-40.2%	
Federal	5,900,000	(1,400,000)	0	4,500,000	(1,400,000)	-23.7%	
Merit Award Trust Fund	30,100,100	0	(100)	30,100,000	(100)	-0.0%	
Veterans Tax Checkoff	300,000	0	0	300,000	0	0.0%	
State GF/GP	\$48,173,200	\$0	(\$32,564,700)	\$15,608,500	(\$32,564,700)	-67.6%	
TOTAL HIGHER ED	\$1,612,243,300	(\$1,400,000)	(\$32,564,800)	\$1,578,278,500	(\$33,964,800)	-2.1%	
TOTAL FEDERAL	74,138,000	(69,638,000)	0	4,500,000	(69,638,000)	-93.9%	
TOTAL STATE RESTRICTED	30,400,100	0	(100)	30,400,000	(100)	-0.0%	
TOTAL STATE GF/GP	\$1,507,705,200	\$68,238,000	(\$32,564,700)	\$1,543,378,500	\$35,673,300	2.4%	

* FY 2008-09 Fiscal-Year-Equated Students (most recent data available).

Table 21

GOVERNOR'S FY 2010-11 GROSS AND GF/GP CHANGES TO FY 2009-10		
Budget Area/Lines Items	Governor's Changes	
	Gross	GF/GP
Agriculture		
Eliminate funding for environmental stewardship (MAEAP)	(\$586,400)	(\$586,400)
Dairy inspections: supplant GF/GP with fee increase	0	(500,000)
Migrant housing inspections - supplant GF/GP with fee increase	0	(537,900)
Transfer office of racing commissioner to Treasury	(1,905,000)	0
Reduce pesticide and plant pest management	(379,400)	(379,400)
Right-to-farm savings	(150,000)	(150,000)
Shift animal control officers and shelter program to locals	(150,000)	(150,000)
Merge migrant worker programs	43,000	0
Adjustments for Federal and Restricted funds received	(2,748,100)	0
Accounting shift for consolidation with MDOT	0	0
Administrative reductions	(139,400)	(138,900)
Economic adjustments	3,324,100	1,220,800
Total Agriculture	(\$2,691,200)	(\$1,221,800)
Attorney General		
State officers compensation commission salary reduction	(9,100)	(9,100)
Insolvency of homeowner construction lien recovery fund	(566,100)	0
Expired auto theft prevention grant from State Police	(420,000)	0
Eliminate special assistant attorney general	(150,000)	0
Targeted layoff of 15.0 FTEs	(1,137,800)	(1,137,800)
DIT reduction	(4,500)	(4,500)
Dept. of Technology, Management, and Budget consolidation savings	(2,300)	(2,300)
Adjust for FY 2009-10 contingency fund transfers	(300,000)	0
Economic adjustments	3,293,300	1,536,700
Total Attorney General	\$703,500	\$383,000
Civil Rights		
Accounting consolidation	(88,600)	(88,600)
Statewide cost allocation plan adjustment	(307,300)	(53,000)
Administrative reductions	(876,300)	(876,300)
DIT reduction	(60,900)	(60,900)
Economic adjustments	651,500	651,500
Total Civil Rights	(\$681,600)	(\$427,300)

GOVERNOR'S FY 2010-11 GROSS AND GF/GP CHANGES TO FY 2009-10		
Budget Area/Lines Items	Governor's Changes	
	Gross	GF/GP
Community Colleges		
Adjust renaissance zone reimbursements to projected level	(260,000)	(260,000)
Total Community Colleges	(\$260,000)	(\$260,000)
Community Health		
Increase in base Medicaid match rate	0	(223,504,100)
Increase in title XXI children's health insurance (SCHIP) match rate	0	(1,005,500)
Change in ARRA Medicaid match rate	0	243,960,300
Impact of match rate change on special payments	0	(8,870,800)
Changes in Federal grants	(9,817,000)	(100,000)
Healthy Michigan Fund changes	(39,900)	251,100
Administrative reductions.....	(1,471,500)	(1,471,500)
Transfer rules funding from DELEG	78,400	44,700
Transfer drug control policy funding to DOE, DSP	(11,747,000)	0
Family support subsidy caseload.....	871,300	0
Eliminate child day care expulsion program	(1,000,000)	0
Expand mental health hospital rate adjustment.....	15,957,400	(2,002,500)
Medicaid mental health/substance abuse base and caseload	(357,500)	(122,200)
Actuarial soundness for Medicaid mental health/substance abuse.....	59,456,000	20,339,800
Remove one-time substance abuse fine revenue	0	950,000
Freeze enrollment in habitation developmental disability waiver	(8,634,600)	(2,320,100)
Reduce community substance abuse line	(1,636,100)	(1,636,100)
Reduce CMH Multicultural by 20.0%	(1,364,800)	(1,364,800)
Administrative reduction to CMH non-Medicaid	(3,797,900)	(3,797,900)
Eliminate State disability assistance substance abuse line.....	(2,243,100)	(2,243,100)
Mental health facility fund source, census adjustments	1,395,100	0
Annualize FY 2009-10 Corrections mental health increase	2,735,000	0
State facility pharmacy costs	630,700	335,900
Remove remaining Mt. Pleasant developmental disability facility funding	(2,465,000)	0
Eliminate closed site line-Item	(2,050,100)	(2,050,100)
Terminate private Kellogg foundation fitness grant	(1,700,000)	0
Recognize new health professions licensing legislation.....	415,200	0
Adjust Michigan essential health provider revenue	(452,400)	(150,500)
Adjust restricted health systems revenue to actual	(1,500,000)	0

GOVERNOR'S FY 2010-11 GROSS AND GF/GP CHANGES TO FY 2009-10

Budget Area/Lines Items	Governor's Changes	
	Gross	GF/GP
Community Health (continued)		
Eliminate funding for Drummond/Beaver/Mackinac clinics	(100,000)	(100,000)
Adult foster care/homes for aged: pay for background checks	(2,133,800)	(1,707,000)
Recognize increased AIDS pharmaceutical rebate revenue	3,834,100	0
Adjust newborn screening fee revenue to actual.....	(1,600,000)	0
Reduce lab testing and eliminate Houghton lab	(1,311,800)	(1,311,800)
Increase lead enforcement revenue	212,400	0
Reduce local public health by 6.7%.....	(2,703,100)	(2,703,100)
Terminate private American Legacy Foundation grant.....	(85,000)	0
Eliminate donated dental program.....	(125,000)	(125,000)
Eliminate Henry Ford Hospital colon project	(125,000)	(125,000)
Eliminate Saginaw special needs vision clinic.....	(50,000)	(50,000)
Adjust WIC funding to available Federal/private.....	21,318,800	0
Children's special health care base/caseload/fund sources.....	7,698,200	14,331,600
Eliminate genetic counseling for title V children	(40,000)	(40,000)
Eliminate human growth hormone therapy for title V children	(2,006,400)	(2,006,400)
Eliminate crime victims IDG to DHS and DSP.....	(2,353,300)	0
Increase project FRESH funding	73,000	0
Decrease in available senior respite funding.....	(400,000)	0
Reduce aging community services by 3.1%.....	(1,073,200)	(1,073,200)
Reduce aging nutrition services by 2.1%	(763,200)	(763,200)
Reduce senior volunteer services by 8.0%	(387,900)	(387,900)
Eliminate tribal elders program funding	(120,000)	(120,000)
Recognize local match for school-based services administration	102,000	0
Recognize private funding for health disparities.....	100,000	0
Restore hospital/nursing home rates with QAAPs.....	101,498,500	0
Adjust State psychiatric disproportionate share/graduate medical.....	(840,000)	1,502,000
Convert adult benefits waiver to title XIX; enrollment freeze.....	(40,970,900)	658,000
MI-child dental rate increase.....	1,648,000	394,700
Medicaid benefits trust fund shortfall	0	4,000,000
One-time General Motors FMAP adjustment	0	(160,000,000)
Merit award trust fund revenue	0	(126,320,600)
FY 2010-11 Medicaid base, caseload, utilization, inflation.....	133,816,600	43,277,400
HMO actuarial soundness adjustment.....	73,714,300	25,217,700
Medicaid special financing adjustments	(635,000)	0

GOVERNOR'S FY 2010-11 GROSS AND GF/GP CHANGES TO FY 2009-10

Budget Area/Lines Items	Governor's Changes	
	Gross	GF/GP
Community Health (continued)		
Expand certified public expenditures	0	(2,375,100)
Increase physician adjustor payments.....	94,630,100	0
Expand hospital rate adjustment payments.....	58,118,300	1,192,900
Expand special network access fees payments	89,692,700	1,841,000
Eliminate increase in pharmacy dispensing fee	(1,258,400)	(338,100)
Remove funding for Arthur Hill and Mumford clinics	(611,800)	(164,400)
Eliminate coverage for transitional Medicaid plus population.....	(3,735,200)	(3,735,200)
Assume savings from repeal of drug manufacturer immunity	(1,273,200)	(342,100)
Savings due to Medicaid recovery/revenue maximization staff.....	(2,729,000)	(616,900)
Savings due to Medicaid inspector general staff.....	574,600	(1,000,000)
Savings from reduced utilization of nursing homes.....	(19,710,000)	(5,296,100)
Implementation of physician QAAP	749,676,900	(98,561,800)
Dept. of Technology, Management, and Budget consolidation savings.....	(131,500)	(30,200)
Adjust for FY 2009-10 contingency fund transfers	(8,979,800)	0
Economic adjustments.....	31,396,700	13,494,500
Total Community Health	\$1,303,114,900	(\$288,140,700)
Corrections		
Managed care contract inflationary adjustment.....	4,854,000	4,854,000
Funding for outpatient mental health teams	4,520,300	4,520,300
Funding for residential mental health program	926,000	926,000
New employee training school funding	5,691,800	5,691,800
Reauthorize community jail reimbursement program	12,272,100	4,757,700
Add 40 parole/probation officers.....	3,210,600	3,210,600
Increase local community corrections grants	1,200,000	1,200,000
Correct funding for Michigan reformatory	1,045,300	1,045,300
Correct funding for Parnall facility.....	500,000	500,000
Add parole violator hearings position.....	94,800	94,800
Out-of-state inmates at Muskegon facility	29,871,600	0
Prisoner reintegration reinvestments	22,650,000	22,650,000
GPS tether and electronic monitoring reinvestments	27,867,800	27,867,800
Field operations reinvestments.....	7,421,600	7,421,600
Reinstatement of good time credits and related closures	(187,409,700)	(187,409,700)
Supply chain logistics savings	(4,000,000)	(4,000,000)

GOVERNOR'S FY 2010-11 GROSS AND GF/GP CHANGES TO FY 2009-10		
Budget Area/Lines Items	Governor's Changes	
	Gross	GF/GP
Corrections (continued)		
Pharmacy and formulary savings	(4,600,000)	(4,600,000)
DIT savings	(421,300)	(421,300)
Miscellaneous contract savings	(1,000,000)	(1,000,000)
Remove FY 2009-10 one-time adjustments	(469,000)	(469,000)
Economic adjustments.....	86,849,100	85,422,700
Total Corrections	\$11,075,000	(\$27,737,400)
Education		
Federal ARRA Race to the Top funds	17,000,000	0
State Race to the Top funds	1,715,900	1,715,900
Transfer from DCH: office of drug control policy Federal	483,100	0
Reduce Library of Michigan	(1,070,300)	(1,070,300)
Reduce state aid to libraries by 2.5%	(150,000)	(150,000)
Eliminate book distribution centers	(200,000)	(200,000)
Administrative reduction in superintendent's office	(105,500)	(105,500)
Remove excess Federal and state restricted funding authorization.....	(1,700,000)	0
Eliminate unnecessary SOAHR hearing backlog funding	(21,500)	(21,500)
Dept. of Technology, Management, and Budget consolidation savings.....	(69,700)	(17,800)
Economic adjustments.....	2,532,400	431,500
Total Education	\$18,414,400	\$582,300
Energy, Labor, and Economic Growth		
Federal funds adjustment	43,050,000	0
No worker left behind	(4,500,000)	(4,500,000)
Michigan nursing corps	4,700,000	(300,000)
Workforce training programs subgrantees	(5,000,000)	0
Welfare-to-work.....	(10,209,800)	(2,609,800)
Office of financial and insurance regulation.....	1,646,500	0
Increase in Michigan State housing development authority funds	8,339,500	0
Fire service fee proposal fund shift.....	0	(2,600,000)
Eliminate jobs, education and training (JET) IDG in DELEG	(15,553,900)	0
Reflect homeowner construction lien recovery fund insolvency	(1,846,500)	0
PSC implementation of telecom restructuring statute	440,000	0
Fire services implementation of cigarette safety legislation	40,000	0

GOVERNOR'S FY 2010-11 GROSS AND GF/GP CHANGES TO FY 2009-10		
Budget Area/Lines Items	Governor's Changes	
	Gross	GF/GP
Energy, Labor, and Economic Growth (continued)		
Capital outlay: commission for blind Kalamazoo training center	770,000	0
Administrative reduction	(378,600)	0
Fund source adjustment	(15,698,200)	0
Dept. of Technology, Management, and Budget consolidation savings.....	(48,400)	0
Adjust for FY 2009-10 contingency fund transfers	(146,200)	0
Economic adjustments.....	24,689,400	652,400
Total Energy, Labor, and Economic Growth.....	\$30,293,800	(\$9,357,400)
Executive		
State officers compensation commission salary reductions	(18,600)	(18,600)
Non-SOCC adjustments	(174,300)	(174,300)
Total Executive.....	(\$192,900)	(\$192,900)
Higher Education		
Fund shift from Federal ARRA to GF/GP for universities/AES/CES	0	68,238,000
Reduce Federal funds for State competitive scholarships	(1,400,000)	0
Eliminate need-based tuition grants at independent colleges	(31,664,700)	(31,664,700)
Complete phase-out of Michigan merit awards	(100)	0
Revise TIP-limit to two-year degrees and cap reimbursement.....	(1,100,000)	(1,100,000)
Add funding for children of veterans tuition grant program	151,500	151,500
Transfer officer's survivor tuition program from State Police	48,500	48,500
Total Higher Education	(\$33,964,800)	\$35,673,300
Human Services		
Child welfare improvements-new staff.....	15,530,900	11,803,400
Child welfare improvements-foster care IT upgrade.....	10,454,000	5,227,000
Child welfare improvements-extend foster care eligibility to 20	6,146,000	3,319,700
Child welfare improvements-extend adoption eligibility to 20.....	831,700	274,500
Child welfare improvements-extend guardianship eligibility to 20.....	198,000	128,600
Child welfare improvements-expand strong families grant.....	5,912,400	0
Child welfare improvements-children's rights legal expenses	300,000	300,000
Child welfare improvements-adoption subsidy base adjustment	(4,193,100)	(3,035,600)
Caseload adjustment-food assistance program	896,322,100	0
Caseload adjustment-family independence program	56,470,100	56,470,100

GOVERNOR'S FY 2010-11 GROSS AND GF/GP CHANGES TO FY 2009-10

Budget Area/Lines Items	Governor's Changes	
	Gross	GF/GP
Human Services (continued)		
Caseload adjustment-foster care.....	(20,050,500)	(962,900)
Caseload adjustment-child care fund	9,094,400	9,094,400
Caseload adjustment-child development and care.....	(15,736,800)	(7,716,300)
Caseload adjustment-supplemental security income	(455,800)	(455,800)
Caseload adjustment-adoption subsidy.....	(5,749,700)	987,000
Caseload adjustment-State disability assistance	3,359,800	3,359,800
Fund source adjustment-back out TANF contingency fund	0	197,064,900
Fund source adjustment-replace TANF with GF/GP	0	1,878,900
Fund source adjustment-replace GF/GP with TANF	0	(16,604,000)
Fund source adjustment-replace GF/GP with emergency TANF	0	(190,249,400)
Fund source adjustment-base adjustment public per-diem.....	0	6,112,400
DIT savings: child support enforcement system contract.....	(1,000,000)	(340,000)
Rate reduction-independent living foster care	(201,000)	(81,000)
Rape prevention-crime victims fund source adjustment.....	(300,000)	0
Eliminate specialized independent living foster care	(1,755,200)	(351,000)
Eliminate food stamp reinvestment line.....	(2,200,000)	(2,350,000)
Eliminate incentive payments for relative licensure.....	(2,500,000)	(1,200,000)
Assume savings for foster care residential care.....	(3,600,000)	(1,800,000)
Recognize restricted funds for sexual assault treatment fund.....	1,000,000	0
Juvenile justice base adjustment-FY 2009-10 facility closures	(1,933,200)	(805,000)
Juvenile justice-school aid fund source adjustment	0	771,900
Disability determination reconsideration staff adjustment	21,904,600	91,300
Medical/psychiatric evaluations base adjustment.....	531,900	475,700
Fund 7.0 additional SSI advocates	633,500	633,500
Eliminate disability determination services contract	(1,275,000)	(1,275,000)
Recognize additional costs for rent/facility maintenance.....	5,681,300	4,068,400
Recognize additional costs for Dept. of Technology, Management & Budget analyst..	34,100	24,400
Wayne County title IV-E reimbursement change.....	1,164,100	1,164,100
Retain 200.0 limited term eligibility staff for FY 2010-11	0	4,156,600
State disability assistance (SDA) savings-SSI advocates	0	(2,261,000)
SDA savings-disability determination reconsiderations.....	(2,000,000)	(3,050,000)
Recognize restricted funds for child advocacy centers	1,000,000	0
Eliminate Barry County domestic violence grant.....	(75,000)	(75,000)
Additional administrative costs-bridges eligibility system	4,425,500	2,750,000

GOVERNOR'S FY 2010-11 GROSS AND GF/GP CHANGES TO FY 2009-10

Budget Area/Lines Items	Governor's Changes	
	Gross	GF/GP
Human Services (continued)		
Hire additional 175.0 field staff	15,363,200	9,646,000
Assume Medicaid match adjustment	0	(3,461,500)
Child caring institutions-\$7.00 adjustment in per diem	(3,914,200)	(2,560,600)
Increase Federal food assistance administration grant	9,400,000	(9,400,000)
Create new jobs, education and training (JET) plus program	20,000,000	0
Eliminate university of Detroit legal services contract	(200,000)	(200,000)
Reduce volunteer services by 20.0%	(258,800)	(101,500)
Increase Federal award for community services block grant	1,432,000	0
Increase Federal award for weatherization assistance	8,981,300	0
Increase community action/economic opportunity program staff	287,000	0
Electronic benefit transfer base adjustment	6,575,500	3,942,700
Eliminate Michigan state kinship care center	(200,000)	0
Back out ARRA child care development fund savings	0	16,656,700
Information technology-administrative efficiencies	(263,800)	(87,100)
Increase Federal award for refugee assistance	6,482,500	0
Dept. of Technology, Management, and Budget consolidation savings.....	(136,800)	(45,300)
Adjust for FY 2009-10 contingency fund transfers	(177,261,800)	0
Economic adjustments.....	45,897,700	14,973,700
Total Human Services	\$910,152,900	\$106,907,700
Judiciary		
Reduce Oakland/Macomb circuit court judges per 2009 PA 228.....	(240,700)	(240,700)
State appellate defender-other Federal grants	250,000	0
Across-the-board reduction (excluding judges' compensation)	(2,587,500)	(2,587,500)
Supreme Court satellite offices	374,500	374,500
Economic adjustments.....	2,265,200	2,052,000
Total Judiciary.....	\$61,500	(\$401,700)
Legislative Auditor General		
Field operations	(464,800)	(464,800)
Total Legislative Auditor General	(\$464,800)	(\$464,800)

GOVERNOR'S FY 2010-11 GROSS AND GF/GP CHANGES TO FY 2009-10		
Budget Area/Lines Items	Governor's Changes	
	Gross	GF/GP
Legislature		
State officers compensation commission (SOCC) adjustment.....	(1,249,500)	(1,249,500)
Non-SOCC adjustment	(2,941,100)	(2,941,100)
Total Legislature	(\$4,190,600)	(\$4,190,600)
Military and Veterans Affairs		
Military retirement cost increase	176,300	176,300
Increase capital outlay for land acquisition at Camp Grayling.....	500,000	0
Downsize youth challenge program to 1/1/10 level	(665,800)	0
Adjust income/assessments for D.J. Jacobetti home	(750,000)	0
Adjust Federal funds for D.J. Jacobetti home.....	1,050,000	0
Adjust Federal funds for Grand Rapids home	1,000,000	0
Eliminate special maintenance for armories	(651,200)	(651,200)
Administrative savings	(198,200)	(197,400)
Economic adjustments.....	4,434,500	1,197,900
Total Military and Veterans Affairs.....	\$4,895,600	\$525,600
Natural Resources and Environment		
Increase Federal funds for communications/law enforcement	561,600	0
Move boilerplate appropriations to part 1	798,800	0
Increase capital outlay program.....	1,987,400	0
Reduce Restricted fund appropriations to match revenue	(3,536,800)	0
Reduce unclassified salaries from consolidation.....	(200,000)	(200,000)
Private rent savings from consolidation.....	(156,000)	(156,000)
Hazardous waste management fund shift	0	(400,000)
Reduction to water withdrawal assessment program	(269,000)	(269,000)
Surface water-reduce wastewater program.....	(214,400)	(214,400)
Surface water-reduce soil erosion and sedimentation control.....	(210,000)	(210,000)
Reduce NPDES nonstormwater program.....	(400,000)	(400,000)
Reduce groundwater discharge program	(206,000)	(206,000)
Forest recreation-12 campgrounds closed; reduce trail maintenance	(323,900)	(323,900)
Reduce historical administration and services	(377,900)	(377,900)
Wildlife management-reduce deer check stations.....	(140,700)	(140,700)
Delay equipment purchases for conservation officers.....	(116,800)	(116,800)
Reduce programming for freedom trail commission.....	(2,500)	(2,500)

GOVERNOR'S FY 2010-11 GROSS AND GF/GP CHANGES TO FY 2009-10		
Budget Area/Lines Items	Governor's Changes	
	Gross	GF/GP
Natural Resources and Environment (continued)		
Mackinac Island park operations-reduce maintenance/services	(118,400)	(118,400)
Remove one-time supplemental for Brownfield grants and loans	(5,500,000)	0
Reduce payroll and CSS&M for various administration lines	(175,800)	(175,800)
Reduce/consolidate information technology services/projects	(261,700)	(209,700)
Economic adjustments.....	17,587,900	1,676,000
Total Natural Resources and Environment.....	\$8,725,800	(\$1,845,100)
School Aid		
Technical foundation allowance adjustments	(43,343,400)	0
Juvenile justice facilities-educational cost savings	(1,083,200)	0
Federal grants-special education, school lunch	73,836,100	0
School bond loan fund debt service.....	5,134,000	0
Center for educational performance and information	4,476,800	0
School bus inspections	433,800	0
Economic adjustments.....	286,900	0
Total School Aid.....	\$39,741,000	\$0
State		
Credit card service assessment fee revenue	1,000,000	0
Business application modernization (BAM) project	(4,550,000)	(2,750,000)
SOCC adjustment for Secretary of State salary	(9,100)	(9,100)
Regulatory services operations-reduce administration.....	(287,600)	(287,600)
Branch operations-reduce administration	(277,900)	(277,900)
Central operations-reduce administration.....	(277,500)	(277,500)
Department services-reduce administration	(272,300)	(272,300)
Executive direction-reduce administration	(7,000)	(7,000)
Organ donor program-reduce administration	(25,000)	(25,000)
Reduce information technology statewide.....	(60,000)	(60,000)
Dept. of Technology, Management, and Budget consolidation savings.....	(22,500)	(1,800)
Economic adjustments.....	8,226,000	192,000
Total State.....	\$3,437,100	(\$3,776,200)

GOVERNOR'S FY 2010-11 GROSS AND GF/GP CHANGES TO FY 2009-10		
Budget Area/Lines Items	Governor's Changes	
	Gross	GF/GP
State Police		
Attrition savings-troopers	(6,000,000)	(6,000,000)
Reduce trooper overtime	(1,175,800)	(1,175,800)
Reduce crime lab overtime	(298,400)	(298,400)
Reduce secondary road patrol grants	(2,200,000)	0
Reduce troopers	(2,200,000)	(2,200,000)
Increase troopers with secondary road patrol funds.....	2,200,000	0
Reduce fleet leasing	(856,800)	(856,800)
Eliminate capitol security guard program	(543,000)	(543,000)
Reduce school bus inspection to spot check function.....	(1,047,400)	0
Transfer in office of drug control policy from DCH.....	8,488,900	0
Supplant GF/GP for LEIN with ICHAT database fee increase	0	(1,763,000)
Supplant GF/GP for forensics with fingerprint fee	0	(3,150,000)
Fund shift from GF/GP to ARRA funds.....	0	(2,000,000)
Fund shift from victims rights fund to GF/GP.....	0	1,053,300
Adjust Federal and restricted revenue received.....	(2,370,800)	0
Transfer officers survivor tuition program to higher education	(48,500)	(48,500)
Reduce funds for law enforcement (MCOLES) administration.....	(208,600)	(208,600)
Administrative savings	(943,700)	(1,258,500)
Economic adjustments.....	13,581,900	10,120,600
Total State Police	\$6,377,800	(\$8,328,700)
Technology, Management, and Budget		
Align IDG funding with enacted departmental appropriations	(8,810,500)	0
Transfer non-IT funding to DCH, Corrections, and Treasury	(771,200)	0
Administrative savings due to efficiencies in IT operations	(6,403,900)	0
IT positive adjustments, includes DHS \$14.2 million children's rights.....	14,534,800	0
IT negative adjustments, includes elimination of BAM project	(4,950,000)	0
New funding for public school audits	180,500	0
New funding for gubernatorial transition costs	1,500,000	1,500,000
Building operations-increase utility costs.....	785,200	0
Federal funds placeholder	100	0
State building authority rent adjustments	10,000,000	10,000,000
Accounting consolidation related to E.O. 2007-32	859,600	0
Fund Shift-replace GF with restricted funds	0	(2,328,600)

GOVERNOR'S FY 2010-11 GROSS AND GF/GP CHANGES TO FY 2009-10		
Budget Area/Lines Items	Governor's Changes	
	Gross	GF/GP
Technology, Management, and Budget (continued)		
Civil service commission administrative savings/layoff 20.0 FTEs.....	(1,853,800)	(1,853,800)
Private rent adjustments	76,400	0
Eliminate professional development funds for nonexclusively represented	(200,000)	0
DIT reduction	(37,600)	(37,600)
Miscellaneous adjustments for MAIN, CEPI, and SWCAP	(1,967,500)	(624,500)
Dept. of Technology, Management, and Budget consolidation savings.....	(997,100)	(186,100)
Economic adjustments.....	17,435,700	4,302,300
Total Technology, Management, and Budget	\$19,380,700	\$10,771,700
Transportation		
Shift \$1.0 million TEDF to provide match for nonprofit street railways	0	0
Interdepartmental grants.....	1,509,900	0
Restore two vetoes (give 'em a brake, intercity bus marketing)	600,000	0
Eliminate transfer of TEDF monies.....	12,000,000	0
Increase capital outlay	13,052,500	0
Revenue from Federal debt service savings	12,331,400	0
Annualize Amtrak funding.....	3,000,000	0
PA 51 revenue adjustments.....	3,059,500	0
Eliminate additional truck inspection stations on forest roads	(40,000)	0
Reduce debt service payments	(4,824,300)	0
Net unmatched Federal funds	(475,000,000)	0
Non-continuation of ARRA bus capital revenue	(2,590,000)	0
Cost reallocations	(1,117,800)	0
Increase accounting service center services to Dept. of Agriculture.....	878,300	0
Federal revenue adjustments	(4,291,900)	0
State restricted revenue adjustments	(74,092,700)	0
Adjust for FY 2009-10 contingency fund transfers	(8,834,300)	0
DIT economic adjustments	559,800	0
Economic adjustments.....	16,256,600	0
Total Transportation	(\$507,543,000)	\$0

GOVERNOR'S FY 2010-11 GROSS AND GF/GP CHANGES TO FY 2009-10		
Budget Area/Lines Items	Governor's Changes	
	Gross	GF/GP
Treasury-Debt Service		
Water pollution control bond and interest redemption	(62,400)	(62,400)
Quality of life bond	32,470,900	32,470,900
Clean Michigan initiative	33,185,500	33,185,500
Great lakes water quality bond	(10,862,300)	(10,862,300)
Total Treasury-Debt Service	\$54,731,700	\$54,731,700
Treasury-Operations		
Transfer racing commission from Department of Agriculture	1,905,000	0
Business property tax appeal	900,000	900,000
Eliminate reverse vendor bottle bill.....	(1,500,000)	0
Eliminate Federal funds for college access grant.....	(2,202,400)	0
Eliminate Cobo Hall renovation one-time funding	(9,000,000)	0
Move departmental contractual services appropriations from boilerplate	3,684,200	0
Eliminate backlog in paid error returns	400,000	0
MBT audits for filings under unitary business group	1,000,000	0
Lottery advertising moved to boilerplate appropriation.....	(18,622,000)	0
Casino gaming boilerplate appropriation moved to part 1	1,600,000	0
Casino gaming additional auditors for new Indian casinos	183,500	0
Eliminate administration for promise grant	(1,430,800)	0
Emergency 911 administration increase.....	150,000	0
Targeted reduction.....	(1,787,700)	(2,422,700)
Other fund source adjustments.....	1,047,200	(258,500)
Dept. of Technology, Management, and Budget consolidation savings.....	(32,700)	(5,000)
Adjust for FY 2009-10 contingency fund transfers	(415,000)	0
Economic adjustments.....	9,832,200	1,267,400
Total Treasury	(\$14,288,500)	(\$518,800)
Treasury-Revenue Sharing		
Continued phase-in of county funding	59,449,100	0
Total Treasury-Revenue Sharing	\$59,449,100	\$0

GOVERNOR'S FY 2010-11 GROSS AND GF/GP CHANGES TO FY 2009-10		
Budget Area/Lines Items	Governor's Changes	
	Gross	GF/GP
Treasury-Strategic Fund		
21st century jobs trust fund program	46,500,000	0
Michigan promotion fund/tax on car rentals-HB 5017	13,000,000	0
Arts and cultural grant program/income tax checkoff revenue	100,000	0
Eliminate economic development job training grants	(4,705,800)	(4,705,800)
Business incubator program-eliminate one-time funding	(950,000)	0
Economic adjustments.....	812,800	658,300
Total Treasury-Strategic Fund.....	\$54,757,000	(\$4,047,500)
Total All Budget Areas	\$1,961,034,400	(\$141,335,600)

PAYMENTS TO LOCAL UNITS OF GOVERNMENT

The FY 2010-11 appropriation recommendation includes \$15.2 billion of estimated payments to local units of government. This exceeds the required level of payments to local units of government pursuant to Article IX, Section 30 of the State Constitution by \$2.4 billion. Table 22 provides a summary of this estimate.

Table 22

STATE PAYMENTS TO LOCAL UNITS OF GOVERNMENT ARTICLE IX, SECTION 30 REQUIREMENT (Millions of Dollars)	
	FY 2010-11 Estimate
State Spending from State Resources.....	\$26,055.3 ^{a)}
Required Payments to Local Units of Government (48.97%).....	12,759.3
Actual or Estimated Payments to Locals	15,170.7
Actual Percentage of Total State Spending.....	58.23%
Surplus of Section 30 Payments	\$2,411.4
^{a)} Does not include \$29.0 million of Federal aid counted as GF/GP revenue.	

STATE EMPLOYMENT

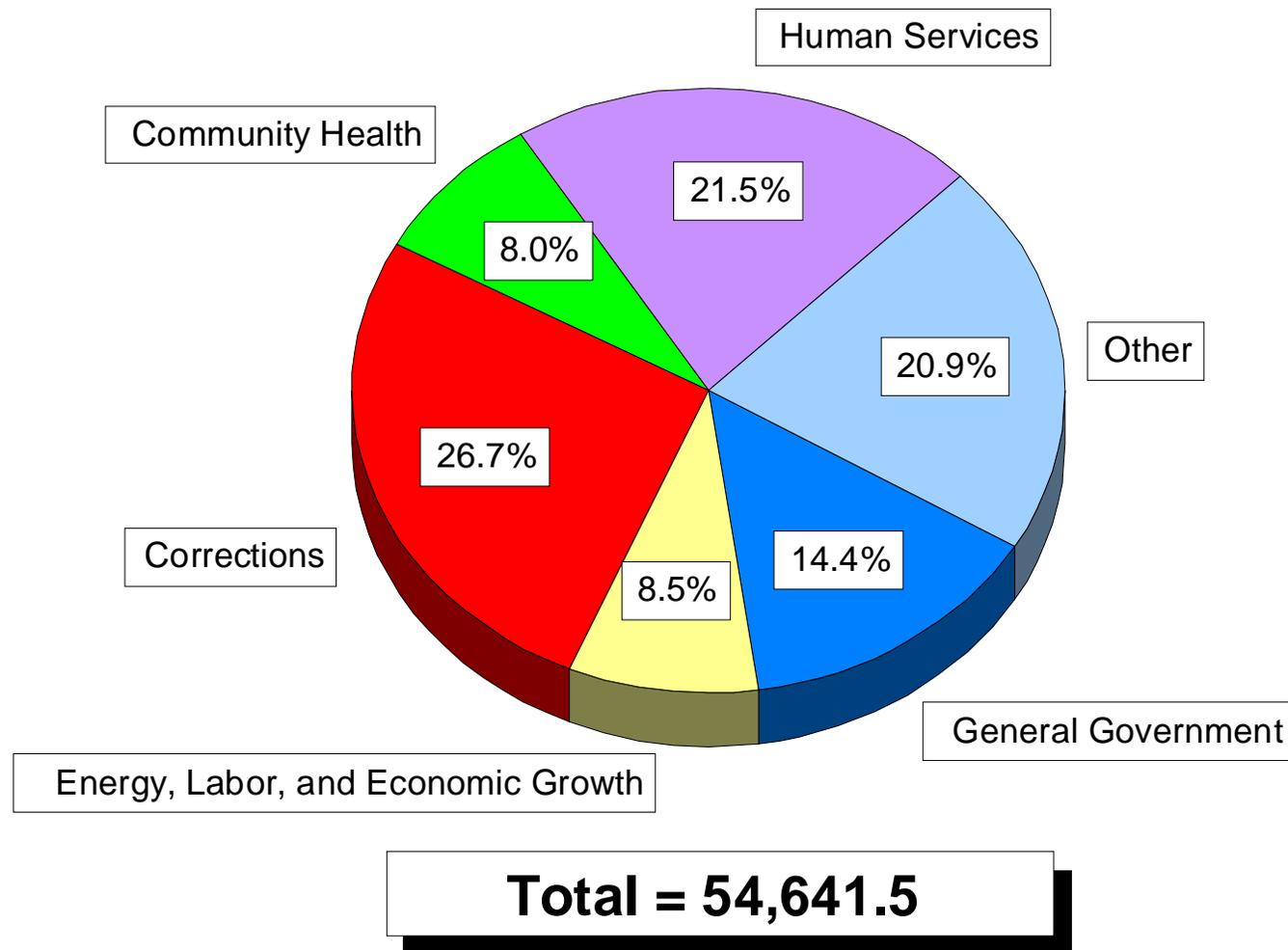
Table 23 and Figure E provide a comparison of the classified full-time equated positions (FTEs) recommended by the Governor for FY 2010-11 with the appropriated level of FTEs during FY 2009-10. The recommendation includes the funding of 54,641.5 FTEs during FY 2010-11. This represents a decrease of 711.2 FTEs from the current fiscal year. The Governor is recommending a reduction of 1,136.8 FTEs in the Department of Corrections due to the overall recommendation to release 7,500 prisoners early from prison and the closure of four to five prisons. The 856.0 FTE-recommended increase in the Department of Human Services is primarily related to additional hiring in the areas of children's protective services due to a recent lawsuit settlement.

Table 23
FULL-TIME EQUATED POSITIONS
FY 2009-10 VERSUS GOVERNOR'S RECOMMENDATION

Department/Budget Area	FY 2009-10 Year-to-Date Appropriations	FY 2010-11 Governor's Recommendation	Position Change	Percent Change
Agriculture	610.5	457.9	(152.6)	(25.0)%
Attorney General	537.0	514.0	(23.0)	(4.3)
Civil Rights	125.0	113.0	(12.0)	(9.6)
Community Health	4,374.6	4,356.8	(17.8)	(0.4)
Corrections	15,746.1	14,609.3	(1,136.8)	(7.2)
Education	544.5	552.5	8.0	1.5
Energy, Labor, and Economic Growth	4,680.5	4,642.5	(38.0)	(0.8)
Executive	74.2	74.2	0.0	0.0
Higher Education	1.0	1.0	0.0	0.0
Human Services	10,911.5	11,767.5	856.0	7.8
Judiciary	491.0	491.0	0.0	0.0
Military and Veterans Affairs	985.0	970.0	(15.0)	(1.5)
Natural Resources and Environment	3,701.0	3,668.5	(32.5)	(0.9)
State	1,809.0	1,809.0	0.0	0.0
State Police	2,866.0	2,757.0	(109.0)	(3.8)
Technology, Management, and Budget	3,029.0	2,965.5	(63.5)	(2.1)
Transportation	3,008.3	3,016.3	8.0	0.3
Treasury (Operations)	1,703.5	1,720.5	17.0	1.0
Treasury (Strategic Fund)	155.0	155.0	0.0	0.0
TOTAL POSITIONS	55,352.7	54,641.5	(711.2)	(1.3)%

Figure E

Full-Time Equated Positions FY 2010-11 Governor's Recommendation



PROJECTED YEAR-END BALANCES

Combining the Governor's FY 2010-11 appropriation recommendations with the consensus revenue estimates and the recommended revenue policy changes included in the budget leads to updated estimates of the FY 2010-11 GF/GP and SAF year-end balances. Assuming all of the Governor's revenue and appropriations are enacted, the FY 2010-11 GF/GP budget will close the fiscal year with a \$4.9 million balance. The FY 2010-11 SAF budget, as recommended by the Governor, will lead to a \$151.9 million year-end balance. [Tables 24](#) and [25](#) provide a summary of these estimates.

Table 24

FY 2010-11 GENERAL FUND/GENERAL PURPOSE REVENUE, EXPENDITURES, AND YEAR-END BALANCE (Millions of Dollars)	
Projected Year-End Balance from FY 2009-10.....	\$33.4
Consensus Revenue Estimate (January 11, 2010).....	\$6,968.4
<u>Existing Revenue Adjustments:</u>	
Shift of Short-Term Borrowing Costs to School Aid Fund.....	45.0
Proposed Revenue Sharing Freeze.....	486.7
County Revenue Sharing-Payment Restoration.....	(59.4)
Use Tax on Health Maintenance Organizations.....	354.6
Enhanced Tax Enforcement Revenue.....	<u>15.0</u>
Subtotal Existing Revenue Adjustments.....	841.9
<u>Proposed Tax Adjustments:</u>	
Use Tax on Physician Assessments.....	34.3
Michigan Promise Grant Tax Credit.....	(6.8)
College Tuition Tax Credit Elimination.....	8.8
Angel and Venture Capital Investor Tax Credit.....	<u>(5.0)</u>
Subtotal Proposed Tax Adjustments.....	31.3
Total Estimated Revenue.....	\$7,875.0
<u>Expenditures:</u>	
Governor's Appropriation Recommendations.....	\$7,986.7
Savings from Proposed Retirement Changes.....	(98.0)
Savings from Elimination of 3.0% Salary Increase for NEREs.....	<u>(18.6)</u>
Total Recommended Expenditures.....	\$7,870.1
Projected Year-End Balance.....	\$4.9

Table 25
FY 2010-11 SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

Projected Year-End Balance from FY 2009-10	\$78.5
Consensus Revenue Estimate (January 11, 2010)	\$10,480.5
<u>Revenue Adjustments:</u>	
GF/GP Grant to School Aid Fund.....	30.2
Federal Aid	1,680.1
American Recovery and Reinvestment Act Funding	184.3
Subtotal Existing Revenue Adjustments.....	1,894.6
<u>Proposed Tax Policy Changes:</u>	
Tax Restructuring Reform	554.3
Treasury Reform	2.3
Lottery Reform.....	5.0
Subtotal Tax Policy Proposals	561.6
Total Estimated School Aid Fund Revenue	\$13,015.2
<u>Expenditures:</u>	
Governor's Appropriation Recommendations.....	\$12,863.3
Total Recommended Expenditures	\$12,863.3
Projected Year-End Balance	\$151.9

ECONOMIC AND REVENUE FORECAST

ECONOMIC FORECAST

The Governor's proposed budget for FY 2010-11 is based on the consensus economic forecast adopted at the January 11, 2010, Consensus Revenue Estimating Conference. This economic forecast is summarized in [Table 26](#).

U.S. Economy. In December 2007, the U.S. economy entered into a recession that, by the end of 2009, appeared by many measures to be the most severe recession since the Great Depression. Housing prices, sales of new and existing homes, and construction of new houses all have fallen to historically low levels, with housing starts down nearly 80.0% at one point during 2009 from the 2006 peak. Payroll employment declined for 23 consecutive months between December 2007 and November 2009, and 8.4 million jobs had been lost by December 2009. Light vehicle sales fell from a 16.0 million unit rate in December 2007 to 9.1 million units in February 2009, February, April, and September ranked as three of the four lowest months for vehicle sales in modern records, which start in 1976, and 2009 ranked as the worst year of light vehicle sales in modern records.

The combination of falling home values and declining employment, together with the sub-prime mortgage crisis, resulted in sharp decreases in the availability of credit. Financial market worries and declining sales have further slowed economic activity. Inflation-adjusted Gross Domestic Product (GDP) declined in five of the six quarters between the first quarter of 2008 and the second quarter of 2009, including a 6.4% drop in the first quarter of 2009, the sharpest quarterly contraction since the first quarter of 1982.

In 2010, overall economic activity is expected to increase at a rate of 2.2%, as measured by inflation-adjusted GDP, and then grow at a 2.7% rate in 2011. However, based on this forecast, inflation-adjusted GDP will remain below the 2008 peak level until sometime in mid-2011. The unemployment rate is estimated to increase to 10.2% in 2010, from 9.3% in 2009, and then fall slightly in 2011 to 9.7%. Light vehicle sales are expected to remain at historically low levels in 2010 and 2011. After falling from 16.1 million units in 2007 to 10.3 million units in 2009 (declining 22.0% between 2008 and 2009), light vehicle sales are expected to rise to 11.2 million units in 2010 before increasing to 12.5 million units in 2011. Even with those increases, light vehicle sales in 2011 will remain below the 2007 level by nearly 22.4%.

Michigan Economy. Michigan's economic activity also was very weak in 2009. Wage and salary employment declined 6.8% from the 2008 level to 3.9 million workers, marking the ninth consecutive year that wage and salary employment declined from the previous year's level. During these nine years, Michigan lost 800,900 jobs, a decline of 17.1%. As a result of this weakness in the labor market, the unemployment rate increased to 14.1% in 2009 from 8.4% in 2008. Personal income, the total income received by individuals from all sources, fell 2.7% in 2009; after adjusting for inflation, it was down 2.1%.

In 2010 and 2011, Michigan's economy is expected to remain in a recession. Wage and salary employment will decline 2.2% in 2010 to an estimated 3.8 million workers, and then decline an estimated 0.9% in 2011. As a result, the unemployment rate is expected to rise to 15.7% in 2010 before declining to 15.3% in 2011. Personal income adjusted for inflation will decline an estimated 1.4% in 2010 and then fall an additional 0.2% in 2011. Inflation, as measured by the Detroit Consumer Price Index, will measure 2.4% in 2010 and 1.9% in 2011.

Table 26

**CONSENSUS ECONOMIC FORECAST: 2010 AND 2011
JANUARY 11, 2010**

	Calendar 2008	Calendar 2009	% Change From Prior Year	Calendar 2010 Forecast	% Change From Prior Year	Calendar 2011 Forecast	% Change From Prior Year
United States:							
Real Gross Domestic Product (billions of chained 2000 dollars)	\$13,312	\$12,966	(2.6)%	\$13,251	2.2%	\$13,609	2.7%
Consumer Price Index (1982-84=100)	215.3	214.7	(0.3)	220.5	2.7	225.6	2.3
3-Month Treasury Bills (Interest Rate, %)	1.4	0.2		0.2		0.9	
Unemployment Rate (%)	5.8	9.3		10.2		9.7	
Light Vehicle Sales (millions of units)	13.2	10.3	(22.0)	11.2	8.7	12.5	11.6
Michigan:							
Wage and Salary Employment (thousands)	4,159	3,876	(6.8)	3,791	(2.2)	3,757	(0.9)
Unemployment Rate (%)	8.4	14.1		15.7		15.3	
Personal Income (billions of dollars)	\$349,612	\$340,173	(2.7)	\$343,575	1.0	\$349,416	1.7
Real Personal Income (billions of 1982-84 \$s)	\$170,752	\$167,145	(2.1)	\$164,863	(1.4)	\$164,508	(0.2)
Detroit Consumer Price Index (1982-84=100)	204.7	203.5	(0.6)	208.4	2.4	212.4	1.9

Source: Consensus Revenue Agreement, Executive Summary, January 11, 2010

REVENUE ESTIMATES

Based on the economic forecast summarized above, combined with the current tax structure and the Governor's proposed tax policy changes and other proposed revenue adjustments, it is estimated that revenue totaling \$47.0 billion will be available in FY 2010-11 to support Governor Granholm's proposed budget. This represents a 4.5% increase from the revised estimate of the total revenue that the Governor expects will be available for FY 2009-10. Estimates of the total revenue on which the Governor's proposed budget is based are summarized in Table 27.

Table 27

**GOVERNOR'S PROJECTED TOTAL STATE REVENUE: FY 2009-10 AND FY 2010-11
(Millions of Dollars)**

	FY 2008-09 Final	FY 2009-10 Estimate	% Change FY '10/FY '09	FY 2010-11 Estimate	% Change FY '11/FY '10
General Fund/General Purpose					
Beginning Balance	\$457.9	\$176.7	---	\$33.1	---
Revenue From Ongoing Sources ¹⁾	7,365.7	6,898.4	(6.3)%	6,968.4	1.0%
Proposed Tax/Revenue Changes	0.0	145.8	---	31.3	---
One-Time Revenue Adjustments and Other	807.7	921.1	14.0	841.9	(8.6)
Total GF/GP Revenue	\$8,631.3	\$8,142.0	(5.7)%	\$7,874.7	(3.3)%
School Aid Fund:					
Beginning Balance	\$247.1	\$238.2	---	\$78.5	(67.0)%
Ongoing Earmarked Tax & Lottery Revenue ¹⁾	10,922.1	10,458.1	(4.2)%	10,480.5	0.2
Proposed Tax/Revenue Changes	0.0	0.0	---	561.5	---
Federal Aid (including ARRA)	2,101.1	2,067.6	(1.6)	1,864.4	(9.8)
Other Revenue (General Fund Grant, etc.)	109.1	30.2	(72.3)	30.2	0.0
Total SAF Revenue	\$13,379.4	\$12,794.1	(4.4)%	\$13,015.1	1.7%
Other Funds:					
General Fund/Special Purpose & Special Revenue Funds	\$5,988.3	\$4,774.5	(20.3)%	\$5,444.9	14.0%
Federal Aid (not included elsewhere)	14,026.4	15,614.8	11.3	17,470.5	11.9
Transportation Funds	4,336.2	4,033.6	(7.0)	3,564.2	(11.6)
Fund Balances:					
Restricted General Fund Subfunds Unreserved Balances	366.2	381.0	4.0	381.0	0.0
Special Revenue Fund Balances	174.9	188.1	7.6	188.1	0.0
Total Fund Balances	541.1	569.1	5.2	569.1	0.0
Total Other Funds with Beginning Balance	24,892.0	24,992.1	0.4	27,048.8	8.2
Gross Revenue	\$46,902.6	\$45,928.2	(2.1)%	\$47,938.6	4.4%
Less Interfund Transfers	(1,151.2)	(901.2)	(21.7)	(905.2)	0.4
Net Total Revenue	\$45,751.4	\$45,027.0	(1.6)%	\$47,033.4	4.5%

¹⁾ Estimates adopted at the January 11, 2010, Consensus Revenue Estimating Conference.

Source: Governor's Executive Budget for FY 2010-11, Appendix C, State Budget Office Balance Sheets (February 11, 2010), and Senate Fiscal Agency

Following are summaries of the Governor's proposed tax policy changes, and the revenue estimates on which the Governor's proposed General Fund/General Purpose and School Aid Fund budgets are based.

PROPOSED TAX POLICY CHANGES

The Governor's proposed budget includes a number of tax policy and tax enforcement changes that would generate an estimated \$633.8 million in new revenue beginning in FY 2010-11. The General Fund would receive \$46.3 million of this proposed new revenue, \$561.5 million would go to the School Aid Fund, and the remaining \$13.0 million would be directed to tourism promotion. Unless otherwise noted, these proposed changes would require legislative action. These proposed tax policy changes are summarized below and their respective fiscal impacts are presented in Table 28.

Table 28

GOVERNOR'S PROPOSED TAX AND REVENUE INCREASES: FY 2010-11				
Proposed Tax/Revenue Increase	State Government Fiscal Impact			
	GF/GP	School Aid Fund	Other	Total
Sales & Use Taxes				
Extend Sales Tax to Services @ 5.5% 12/1/10	\$0.0	\$1,261.8	\$0.0	\$1,261.8
Reduce Sales Tax Rate to 5.5% 12/1/10	\$0.0	(\$422.1)	\$0.0	(\$422.1)
Reduce Use Tax Rate to 5.5% 12/1/10.....	\$0.0	(\$80.6)	\$0.0	(\$80.6)
Reduce HMO Use Tax Rate to 5.5% 12/1/10 ..	\$0.0	(\$25.3)	\$0.0	(\$25.3)
Collection Allowance for Service Tax.....	\$0.0	(\$5.2)	\$0.0	(\$5.2)
Treasury Administrative Cost	\$0.0	(\$3.6)	\$0.0	(\$3.6)
Subtotal Sales & Use Taxes.....	\$0.0	\$725.0	\$0.0	\$725.0
Sales Tax	\$0.0	\$839.7	\$0.0	\$839.7
Use Tax	\$0.0	(\$105.9)	\$0.0	(\$105.9)
Michigan Business Tax				
Surcharge Phase-Out in 2011 & 2012	\$0.0	(\$170.8)	\$0.0	(\$170.8)
Gross Receipts Tax Rate Cut in 2012 & 2013 ..	\$0.0	\$0.0	\$0.0	\$0.0
Subtotal Michigan Business Tax.....	\$0.0	(\$170.8)	\$0.0	(\$170.8)
Income Tax				
Create Michigan Promise Income Tax Credit ..	(\$6.8)	\$0.0	\$0.0	(\$6.8)
Eliminate College Tuition and Fees Tax Credit	\$8.8	\$0.0	\$0.0	\$8.8
Angel and Venture Capital Investor Tax Credit	(\$5.0)	\$0.0	\$0.0	(\$5.0)
Subtotal Income Tax.....	(\$3.0)	\$0.0	\$0.0	(\$3.0)
Other Tax & Revenue Increases				
Create a Car Rental Fee	\$0.0	\$0.0	\$13.0	\$13.0
Lottery Changes ¹⁾	0.0	5.0	0.0	5.0
Tax Enforcement Changes ¹⁾	15.0	2.3	0.0	17.3
Physician Assessment (Use Tax)	34.3	0.0	0.0	34.3
Subtotal Other Tax & Revenue Increases	\$49.3	\$7.3	\$13.0	\$69.6
Total Proposed Tax Increases.....	\$46.3	\$561.5	\$13.0	\$633.8

¹⁾ No legislation needed.

Source: Governor's Executive Budget for FY 2010-11 and Senate Fiscal Agency

Sales and Use Taxes

Rate Reduction. The Governor is proposing to lower the tax rate applied to goods and services taxed under Michigan's sales and use taxes. The current rate is 6.0% and the Governor proposes lowering the rate to 5.5%.

Extension of Sales Tax to Services. The Governor is proposing to expand the sales tax to include most services. Certain educational and medical services would be exempt, as would many business-to-business transactions. Unlike the 2007 legislation to extend the use tax to certain services, the current proposal would expand the sales tax.

Collections Allowance. To help cover costs incurred in collecting the sales tax, retailers are allowed to keep 0.75% of the sales and use tax they collect in any given month, not to exceed \$20,000, if they remit the tax by the 12th of the following month; or, if they remit the tax from the 13th to the 20th of the following month, they are allowed to retain 0.5%. These provisions would be retained under the Governor's proposal to expand the sales tax to most services.

Administrative Costs. The Department of Treasury is expected to incur additional costs to administer the expanded sales tax provisions.

Michigan Business Tax

Surcharge Phase-Out. Currently, taxpayers subject to the Michigan Business Tax (MBT) add a 21.99% surcharge onto their tax liability before credits are applied. The Governor proposes phasing the surcharge out over a two-year period.

Tax Rate on Gross Receipts Tax Base. Under the MBT Act, a portion of the tax is computed on the total gross receipts received by the taxpayer. Beginning in tax year 2012, the Governor is proposing reducing the tax rate from 0.8% to 0.6% over a two-year period.

Income Tax

Higher Education-Related Credits. The Governor proposes eliminating the College Tuition and Fees Tax Credit, which provides a special credit to taxpayers when a dependent attends an institution of higher education that has kept prior-year tuition increases below the rate of inflation. To offset the impact of the elimination of the credit, as well as the elimination of the Michigan Promise Scholarship (in FY 2009-10), the Governor proposes adopting a Michigan Promise Income Tax Credit.

Angel and Venture Capital Investor Tax Credit. The Governor recommends adopting a new individual income tax credit to spur additional investment in new companies.

Other Tax and Revenue Increases

Car Rental Fees. The Governor is proposing a fee of \$2.50 per vehicle rental, with the proceeds directed to the Michigan Promotion Fund to support tourism promotion.

Tax Enforcement and Administration. The Governor is proposing several changes to Treasury tax enforcement policy, including involving the Department of Treasury in certain business property tax appeals, revising audit procedures for unitary business groups affected by the MBT, and making changes to accelerate the processing of certain individual income tax returns that exhibit errors.

Lottery Revenue Increase. The Governor wants to increase lottery advertising spending to an amount equal to 1.0% of the previous year's ticket sales.

Physician Assessments. The Governor is proposing to implement a 3.0% assessment on gross revenue from physician services. A portion of the increased revenue would be used to match additional Federal funding and allow Medicaid physician payments to be increased. Another portion of the revenue would be directed to the General Fund.

GENERAL FUND/GENERAL PURPOSE AND SCHOOL AID FUND

Two of the major funds in the overall State budget are the General Purpose portion of the General Fund (GF/GP) and the School Aid Fund (SAF). These two funds account for \$20.9 billion, or 44.4% of the total State government revenue estimated for FY 2010-11. A breakdown of the GF/GP and SAF revenue estimates for FY 2009-10 and FY 2010-11 is presented in Tables 29 and 30, respectively. The estimates for GF/GP and SAF revenue derived from ongoing revenue sources and enacted tax policy changes are the consensus estimates adopted by the Granholm Administration, Senate Fiscal Agency, and House Fiscal Agency at the January 11, 2010, Consensus Revenue Estimating Conference. In addition to the consensus estimates, the total GF/GP and SAF revenue estimates include the Administration's estimates of one-time revenue adjustments, grants and transfers, Federal aid, beginning carry-over balances, and the impact of the Governor's proposed tax, revenue, and fee increases.

General Fund/General Purpose Revenue

As shown in Table 29, GF/GP revenue is expected to total \$7.87 billion in FY 2010-11, which represents a 3.3% decrease from the FY 2009-10 revised estimate. This decline in total GF/GP revenue is attributable to three major factors: 1) a projected carry-over balance from FY 2009-10 of only \$33.1 million, compared with the carry-over balance of \$176.7 million from FY 2008-09; 2) the use of one-time revenue sources in FY 2009-10, such as elimination of the Michigan Promise Scholarships, and 3) higher projected payments for county revenue sharing. Revenue from ongoing sources is actually forecast to increase 1.0% in FY 2010-11, from \$6.89 billion in FY 2009-10 to \$6.97 billion, as the national economy begins to improve. In addition to the revenue from ongoing sources, the Governor's proposed GF/GP budget for FY 2009-10 includes the following revenue:

- **Revenue Sharing Savings.** The Governor is proposing to freeze revenue sharing payments to local governments at their FY 2009-10 levels. This freeze will provide an additional \$486.7 million in sales tax revenue to the General Fund. However, additional revenue sharing payments to counties are expected to reduce the savings by \$59.4 million.
- **Medicaid Provider Tax.** The Medicaid provider tax, which extends the 6.0% use tax to Medicaid managed care organizations, went into effect on April 1, 2009, and is expected to generate \$354.6 million during FY 2010-11.
- **Proposed Tax Policy/Enforcement Changes.** The Governor is proposing a number of tax increases, tax enforcement enhancements, and other revenue increases that would generate an estimated \$46.3 million in FY 2010-11, as shown in Table 28.

Table 29

GENERAL FUND/GENERAL PURPOSE REVENUE ESTIMATES: FY 2009-10 AND FY 2010-11 (Millions of Dollars)			
	FY 2009-10	FY 2010-11	Percent Change
Beginning Balance	\$176.7	\$33.1	(81.3)%
Consensus Estimates for Ongoing Revenue Sources¹⁾			
Taxes:			
Net Income Tax	3,494.4	3,545.4	1.5
Single Business Tax.....	(20.0)	0.0	---
Michigan Business Tax	1,501.7	1,490.4	(0.8)
Sales	58.9	79.3	34.6
Use	762.0	773.3	1.5
Cigarette	197.0	189.5	(3.8)
Insurance Company Premiums.....	271.0	284.6	5.0
Telephone & Telegraph.....	62.0	63.0	1.6
All Other Taxes.....	<u>178.2</u>	<u>180.6</u>	<u>1.3</u>
Subtotal Taxes	6,505.2	6,606.1	1.6
Nontax Revenue	393.3	362.3	(7.9)
Total GF/GP Consensus Revenue Estimates	\$6,898.5	\$6,968.4	1.0%
Revenue Sharing Savings	495.2	427.3	(13.7)
Use Tax Medicaid Provider Tax.....	342.5	354.6	3.5
Other Revenue Adjustments ²⁾	88.6	45.0	(49.2)
Proposed Tax Policy/Enforcement Changes ³⁾	0.0	46.3	---
Elimination of Michigan Promise Scholarships.....	140.0	0.0	---
Total GF/GP Revenue Current Fiscal Year	\$7,964.8	\$7,841.6	(1.5)%
Total GF/GP Revenue with Beginning Balance	\$8,141.5	\$7,874.7	(3.3)%
¹⁾ Estimates adopted at the January 11, 2010, Consensus Revenue Estimating Conference. ²⁾ Includes the following in FY 2009-10: \$30.0 million for SAF payment of short-term borrowing, \$37.5 million transfer from 21st Century Jobs Trust Fund, and other revenue adjustments totaling \$21.1 million. In FY 2010-11, includes \$45.0 million for SAF payment of short-term borrowing costs. ³⁾ Includes proposed tax changes that would increase revenue from the following taxes: use tax from physician assessment \$34.3 million, various changes to higher education-related income tax credits of \$2.0 million, a \$5.0 million loss from a venture capital credit, and \$15.0 million from enhanced enforcement revenue.			

School Aid Fund

School Aid Fund revenue available for spending in FY 2010-11 will total an estimated \$12.86 billion, representing a 1.7% increase from the revised estimate for FY 2009-10. Much of this projected increase in SAF revenue is due to the proposed restructuring of the Michigan Business Tax coupled with a proposed expansion of the sales tax to most services. The tax changes are expected to generate \$554.3 million in additional SAF revenue during FY 2010-11. The estimate of SAF revenue in FY 2010-11 is summarized in [Table 30](#). The SAF revenue estimate for FY 2010-11 includes ongoing earmarked tax and lottery revenue totaling an estimated \$10.48 billion. This

estimate of ongoing earmarked revenue is up 0.2% from the estimate for FY 2009-10, primarily due to the expectation that economic activity will improve slightly. In addition, the SAF revenue estimate for FY 2010-11 includes a grant from the GF/GP budget proposed at \$30.2 million, Federal aid of \$1.68 billion, and \$184.3 million in Federal stimulus funds from the American Recovery and Reinvestment Act of 2009. As indicated, the Governor's FY 2010-11 School Aid Fund proposed budget also includes some new revenue from the following sources:

- **Proposed Tax Policy/Enforcement Changes.** The proposal to lower the sales tax rate to 5.5%, expand the tax base to include most services, revise the structure of the MBT, and earmark portions of the revenue to the SAF would generate \$554.3 million in FY 2010-11, as outlined in [Table 28](#).
- **Revenue from Administrative Changes.** Involvement in certain local property tax appeal cases, together with a proposed increase in lottery advertising spending, will generate an estimated \$7.3 million in additional SAF revenue in FY 2010-11.

Table 30
SCHOOL AID FUND REVENUE ESTIMATES: FY 2009-10 AND FY 2010-11
(Millions of Dollars)

	FY 2009-10	FY 2010-11	Percent Change
Beginning Balance.....	\$238.2	\$78.5	(67.0)%
Consensus Estimates for Earmarked Tax & Lottery Revenue¹⁾			
Sales Tax & Use Tax	4,662.8	4,707.6	1.0
Income Tax	1,777.4	1,802.8	1.4
State Education Property Tax.....	1,875.0	1,800.0	(4.0)
Real Estate Transfer Tax.....	127.0	135.0	6.3
Michigan Business Tax.....	726.7	746.3	2.7
Tobacco Taxes	384.2	367.0	(4.5)
Casino Gaming Tax	109.6	112.0	2.2
Other Tax Revenue.....	87.2	87.6	0.5
Subtotal Taxes	9,750.0	9,758.3	0.1
Lottery	708.1	722.2	2.0
Subtotal Earmarked Tax & Lottery Consensus Estimate	10,458.1	10,480.5	0.2
GF/GP Grant.....	30.2	30.2	0.0
Federal Aid.....	1,617.6	1,680.1	3.9
Proposed Tax Policy/Enforcement Changes ²⁾	0.0	561.5	---
Federal ARRA.....	450.0	184.3	(59.0)
Total SAF Revenue Current Fiscal Year	\$12,555.9	\$12,936.6	3.0
Total SAF Revenue with Beginning Balance	\$12,794.1	\$13,015.1	1.7

¹⁾ Estimates adopted at the January 11, 2008, Consensus Revenue Estimating Conference. ²⁾ Includes proposed tax changes that would change revenue from the following taxes: sales and use taxes from lowering the rate to 5.5% (-\$528.0 million), sales and use taxes from expanding base to include most services (\$1,261.8 million), MBT revenue (-\$170.8 million) and other minor changes (-\$1.5 million).



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