

State Notes

TOPICS OF LEGISLATIVE INTEREST

Fall 2010

FY 2010-11 Capital Outlay Appropriation Bill **By Bill Bowerman, Chief Analyst**

Introduction

On September 22, 2010, the Joint Capital Outlay Subcommittee (JCOS) initiated the legislative process for a fiscal year (FY) 2010-11 Capital Outlay appropriation bill. The last appropriation bill that included new planning authorizations for projects financed by the State Building Authority (SBA) was Public Act 278 of 2008. Fiscal Year 2010-11 requests for capital outlay projects from universities and community colleges total approximately \$1.2 billion, with an estimated State share of costs of approximately \$580.4 million. This article provides an overview of the university and community college project requests, the legislative process for new SBA projects, and the cost impact on the State budget.

Table 1 provides a summary of university and community college project requests for FY 2010-11. The listing is based on capital outlay five-year plans submitted to the Legislature, updated based on subsequent revisions by institutions.

Capital Outlay Process

Planning authorizations included in enacted appropriation bills are the first step in the authorization of State-funded capital outlay projects for universities and community colleges. The planning authorizations allow institutions to prepare program development and schematic planning documents. Pursuant to Section 242 of the Management and Budget Act, planning authorizations are not a commitment on the part of the Legislature to appropriate funds for the completion of plans or construction of any project. After receiving planning authorizations in enacted appropriation bills, institutions develop program statements and schematic planning documents and submit those documents to the Department of Technology, Management, and Budget (DTMB) for review. When the review is completed, the DTMB submits the documents to the JCOS as either approved or not approved. Upon review and approval by the JCOS, the JCOS and the Legislature may authorize the project for final design and construction with a line-item appropriation in an appropriation bill.¹

The SBA is the mechanism the State uses to fund its share of capital outlay project costs for universities and community colleges. The SBA also funds the cost of State agency projects. Pursuant to Section 8(15) of the State Building Authority Act (Public Act 183 of 1964), the SBA may not have obligations outstanding at any one time in a principal amount totaling more than \$2.7 billion. Interest and costs of borrowing are not included in this limit. Based on the \$2.7 billion bond cap, the SBA estimates that for FY 2010-11 the remaining available bond capacity is \$611.3 million.

The State share of project costs for universities traditionally is based on a 75/25 State/institution match. Over recent years, however, this match has been limited to a maximum State share of \$40.0 million. Community college projects are based on a 50/50 State/institution match. Cost increases, after the initial project authorization, are funded by the institutions.

¹ Public Acts 27 and 111 of 2010 contain construction authorization for projects that received planning authorization in Public Act 278 of 2008.

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Legislative Action

Table 2 compares House Bill 5858 (H-1) as reported by the House Appropriations Committee on September 23, 2010, to Senate Bill 1150, as recommended by the JCOS. Senate Bill 1150 is currently before the Senate Appropriations Committee. The "Request" column in Table 2 reflects updated information received from institutions through October 14, 2010. Senate Bill 1150 includes 10 university and 13 community college construction projects that would total approximately \$915.7 million with a State share of approximately \$394.4 million. House Bill 5858 includes 13 university projects and 16 community college construction projects with a total cost of \$1.0 billion and a State share of approximately \$462.2 million.

Conclusion

The discussion above and Tables 1 and 2 provide an overview of the capital outlay process, current institution requests, and the legislative process to date on an FY 2010-11 Capital Outlay appropriation bill. It is important to note that neither bill includes projects for State agency facilities. If a Capital Outlay appropriation bill moves during the remaining days of the current session, it will likely include an amount for needed repairs and renovations to State department and agency buildings. Public Act 278 of 2008 included \$55.0 million in authorizations for State building projects.

While the limits regarding the bond cap would allow for a substantial Capital Outlay bill, the costs of the bond issue should be the determining factor regarding the number of projects, if any, that are authorized in the appropriation bill. The annual debt cost to the State from SBA bonding is appropriated annually in the General Government appropriation bill as SBA rent. The FY 2010-11 appropriation is \$241.9 million, funded entirely from the State General Fund. New SBA projects will result in additional costs to the State. If the State were to enact a \$611.3 million Capital Outlay bill (reflecting the current capacity remaining based on the bond cap), annual costs to the State would increase by approximately \$42.8 million to \$55.0 million for 15 to 17 years, depending on the interest rate on the bonds and the true rental value of the buildings. It is also important to repeat that a planning authorization is not a commitment for State funding (since subsequent DTMB, JCOS, and legislative approval is needed after detailed plans are submitted) and some of the requests submitted by institutions might not qualify for funding under current statutory requirements.

Table 1
FY 2010-11 STATE BUILDING AUTHORITY PROJECT REQUESTS

Project	Total Cost	State Share	Institution Share
Universities:			
Central Michigan University - Bio-Sciences Building. The new 126,000-gross-square-foot facility would provide state-of-the-art research and learning spaces to house laboratories, instrumentation, and teaching facilities. The University states that the new facility would have the required infrastructure and technology to promote joint projects involving the basic and medical sciences. The estimated annual operating cost of the new facility is \$1.0 million. This project is separate from the \$24.0 million (university reserves and private donations) addition to the Health Professions Building that will house the new School of Medicine.	\$75,000,000	\$40,000,000	\$35,000,000

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Project	Total Cost	State Share	Institution Share
Eastern Michigan University - Strong Hall Renovation. The project includes the renovation of the entire 87,000-gross-square-foot structure, including faculty offices, classrooms, lecture halls, and student commons areas. Classrooms and lab spaces would be modernized. The fire system would be updated, and the HVAC system, plumbing, and electrical systems would be replaced.	38,000,000	28,500,000	9,500,000
Ferris State University (FSU) - College of Pharmacy. This project would provide for the purchase and build-out of the 7 th floor of the 25 Michigan Building in Grand Rapids for the FSU College of Pharmacy. Third-year students are involved in experiential learning at pharmacy practice sites. The fourth year includes clinical practice experience. The instructional needs of third-year students are currently met by delivery of curriculum at two locations (Grand Rapids and Kalamazoo). The proposal would consolidate the two sites into one location.	8,800,000	6,600,000	2,200,000
Grand Valley State University - Classroom/Office Additions. The project includes construction of a new 100,000-square-foot laboratory and faculty office building on the Allendale campus. The building would provide space for labs, office, and support. The project would include renovation of vacated spaces.	55,000,000	40,000,000	15,000,000
Lake Superior State University - School of Business Building. The new building would consist of approximately 50,000 square feet including general-use smart classrooms, a career and placement center, consultation rooms, faculty offices, and space easily modified to accommodate future needs as they may arise, along with several specialized classrooms. The facility also would house case study rooms and ancillary space for testing and placement services.	20,000,000	15,000,000	5,000,000
Michigan State University - Plant Science Facilities - Bioeconomy - Additions and Renovations. The MSU request consists of several separate projects including Plant Biology addition of 90,000 gross square feet at a cost of \$40.0 million; Greenhouses addition of 30,000 gross square feet at a cost of \$4.1 million; Plant Biology Teaching and Research Facilities renovation at a cost of \$89.6 million; EIW Range Greenhouses renovation at a cost of \$4.0 million; and Engineering addition of 90,500 gross square feet at a cost of \$55.9 million.	193,600,000	40,000,000	153,600,000
Michigan Technological University (MTU) - Next Generation Energy Complex. The project includes the expansion of existing structures and the renovation/repurposing of other facilities. The construction of a bio-mass co-generation facility would be added to MTU's existing heating plant (\$10.0 million). Dillman Hall would be renovated to provide space for the study of energy-efficient buildings, building materials, transportation, and electrification (\$8.0 million). An addition and remodel in Fisher Hall would support graduate student and lab space for basic energy and material research (\$6.5 million). A remodel and repurposing of space	29,500,000	22,125,000	7,375,000

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Project	Total Cost	State Share	Institution Share
in the Academic Office Building would provide space for education in property and environmental laws, social and economic impacts, and energy policy (\$5.0 million).			
Northern Michigan University - Jamrich Hall Modernization. The renovation of Jamrich Hall would provide a modern, high-quality classroom facility to support active learning and provide academic department office space within the facility close to classrooms and other departments. The project ties into the University's master plan which includes the demolition of Gries Hall. New offices would be designed following the University's current space design guidelines and Gries Hall laboratories would be relocated to existing, repurposed laboratory space in the Seaborg Science complex. This would improve space utilization, reduce total campus square footage by over 21,700 square feet, reduce energy costs, and eliminate over \$900,000 in deferred maintenance.	33,900,000	25,425,000	8,475,000
Oakland University - Engineering Center. The project would add approximately 42,225 square feet of assignable space to the School of Engineering and Computer Science, and 34,201 square feet of assignable general purpose classroom space. The proposed facility would provide instructional and research facilities for programs that support automotive, defense, and other industries.	74,551,739	40,000,000	34,551,739
Saginaw Valley State University - Wickes Hall Renovations. The project includes renovation of the University's main student service and administration facility. The facility contains approximately 100,000 square feet of gross floor area. Improvements would include replacement of inefficient mechanical systems and worn portions of the building.	8,000,000	6,000,000	2,000,000
University of Michigan-Ann Arbor - G. G. Brown (GGB) Memorial Laboratories Renovation. The project includes renovation of 45,000 gross square feet of the Department of Mechanical Engineering's space in GGB to substantially reconfigure and upgrade instructional facilities, offices, and support service facilities. The project also includes replacing and upgrading building infrastructure, including HVAC, laboratory and mechanical systems, electrical services, plumbing, fire alarm and suppressions systems, exterior wall repairs, and window repairs, encompassing approximately 120,000 gross square feet.	64,000,000	40,000,000	24,000,000
University of Michigan-Dearborn - Science and Computer Information Science Building Renovations. The project includes renovation of the Science building and the Computer Information Science building. These two buildings share mechanical and electrical infrastructure and therefore are submitted as one project. Improvements include a network system that would allow faculty and students to conduct research on viruses and other security issues in a safe environment, isolated from other networks and servers on campus. The addition of a digital forensics lab and an	51,000,000	38,250,000	12,750,000

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expanded agile software engineering lab would give undergraduate students hands-on experience with various software engineering techniques.			
University of Michigan-Flint - Murchie Science Laboratory Building (MSB) Renovation. The project includes reconfiguration of space to add several instructional labs for chemistry and biology plus attendant equipment storage space. The Biology Department, which recently added a Master of Science program, requires an additional 24-student lab to accommodate student demand at the undergraduate and graduate levels. Existing labs require extensive renovation, such as replacement of fume hoods and hood controls, and the addition of internet connectivity. Deferred maintenance items that require attention include replacing the roof, disabling operable windows, renovating for disability accessibility, and upgrading the MSB elevators.	22,170,000	16,627,500	5,542,500
Wayne State University - Multidisciplinary Biomedical Research Building. The facility would encompass approximately 360,000 square feet, consisting of six floors, five above ground, and a penthouse on the top level. The building would provide basic science research infrastructure, including small animal facilities, an appropriate environment for sensitive major scientific instruments, and advanced imaging technology, as well as "one stop shopping" for clinician scientists and research participants, including a clinical trials office.	200,000,000	40,000,000	160,000,000
Western Michigan University (WMU) - Sangren Hall Building, Phase II. The purpose of this Phase II proposal is to change the State match that was allocated to the Sangren Hall project in Public Act 278 of 2008 and Public Act 111 of 2010. The Sangren Hall replacement project has a current total cost authorization of \$60.0 million, with a State share of \$11.7 million and the University share at \$48.3 million. The new building will consist of 214,800 gross square feet (141,585-square-foot net assignable area) and include classrooms, clinics, conference rooms, dining services, file rooms, laboratories, library, offices, and storage rooms. If the Phase II adjustment is included as proposed by WMU, the total State share for this project will increase to \$44.7 million, exceeding the \$40.0 million cap for the State share and shifting the burden of the cost increase authorized in Public Act 111 to the State. The amounts included in this document reflect no net increase in total cost authorization, and a State share increase of \$28.3 million, reducing the University share by the same amount. This would result in the State share of \$40.0 million and a University share of \$20.0 million.	No change	28,300,000	(28,300,000)
Subtotal – Universities:	\$873,521,739	\$426,827,500	\$446,694,239
Alpena Community College - Electrical Power Technology Education and Training Center. The project would include the renovation of 8,800 square feet and new construction of 9,700 square feet. The facility would include four classrooms, three equipment labs, faculty offices, and bays for four bucket trucks	\$4,997,500	\$2,498,750	\$2,498,750

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Project	Total Cost	State Share	Institution Share
or other pieces of heavy equipment. Programs that would be provided in the new facility include technician training for occupations in wind turbine, solar power, biomass fuel, hydroelectric, geothermal, fiber optic, clean coal combustion, and power plant industries.			
Bay de Noc College - Nursing Lab/Lecture Hall Remodeling. The project encompasses 3,950 square feet. A lecture hall would be remodeled and space would be created for simulation labs. New equipment is also included in the cost. The renovation would enhance teaching and learning opportunities for nursing and the allied health program.	1,500,000	750,000	750,000
Delta College - Health and Wellness Program - F Wing Renovation. The renovation would address the College's facility needs to support Allied Health and Nursing programs. The project consists of 91,484 square feet of renovated space and an approximate 950-square-foot addition for a hospital-size elevator to service the building and programs. The project also addresses several facility inadequacies that cross programs. Other facility upgrades are also included (accessibility, signage, site lighting, and upgrades to the emergency/essential power and lighting systems).	19,984,000	9,992,000	9,992,000
Glen Oaks Community College - Library Renovation. The project would provide improved ingress and egress from the library, address issues along the east wall of glass windows, and improve the lighting and energy challenges of existing glass in the east wall, and protect library collections. The square footage involved is approximately 10,000. The project would lower energy loss through outdated glazing, decrease lighting costs, and decrease outside contracts for repairs.	1,400,000	700,000	700,000
Gogebic - Building Renovation. The renovation would add a second floor (8,000 square feet) to create four new multi-purpose classrooms to handle increased student needs across disciplines. The addition of the classrooms would help alleviate space constraints that the College has been facing for a number of years and provide a large lecture room for increased class sizes, which the College currently does not possess.	1,500,000	750,000	750,000
Grand Rapids Community College - Cook Academic Hall Renovation. The 83,000-square-foot renovation project would house the Nursing and Allied Health programs and consist of the complete transformation of floors two through five.	10,000,000	5,000,000	5,000,000
Henry Ford Community College - No FY 2010-11 request submitted.	N/A	N/A	N/A
Jackson Community College - Student Services and Instructional Classrooms. The proposal includes renovations and expansion for two College buildings. Bert Walker Hall would be renovated and expanded to house a growing Foundation Studies program, as well as serve as the College's new Center for Student Support Services which will provide a one-stop location for admissions, student services, developmental education, counseling, disabilities support, and advising. Improvements	19,500,000	9,750,000	9,750,000

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would include energy conservation measures, heating and cooling system replacements, new roofing systems, an additional elevator, additional classroom and office space, and adjustments to permit smart classrooms and wireless access elements for instructional use. The JCC@LISD TECH facility, constructed in 2001, would be renovated to provide additional space in all academic areas, especially computers, business, English, and math, as well as industrial training spaces, larger lecture spaces, faculty offices, student learning spaces, and computer labs.			
Kalamazoo Valley Community College - Culinary Institute at Arcadia Commons Campus. The new facility would include commercial kitchens, demonstration classrooms, standard classrooms, baker/pastry shops, a teaching restaurant, a teaching retail café/bakery, and a demonstration theater. The facility would be approximately 50,000 square feet: 40,000 for the culinary program and an additional 10,000 square feet of general classroom/office space.	13,000,000	6,500,000	6,500,000
Kellogg Community College - Student Center. The project would allow for redesigning and reallocation of space as part of the College's new six-step process to better serve students by providing a "one-stop" concept of processing services to students. The renovation involves 37,955 square feet of the first and mezzanine levels of the building, including the lobby, kitchen/cafeteria, and student quiet dining area. Improvements also would include the HVAC, roofing, lighting, electrical system, plumbing, security systems, technology system infrastructure, the loading dock, and fire suppression and protection. The exterior brick and stone would be cleaned and repaired.	4,500,000	2,250,000	2,250,000
Kirtland Community College - Student Center Renovation and Addition. The Student Center addition would be located on the front side of the existing building. The remainder of the building, including the bookstore, cafeteria, reception area, and student lounges, would be completely renovated. This new Center would relocate all student services into a single new facility, including developmental, tutoring, and testing services; counseling and testing space; space for student research and an enhanced study area; bookstore, cafeteria, and student lounges; and general storage and work space for classroom equipment. Improvements also would include HVAC and ADA compliance.	8,000,000	4,000,000	4,000,000
Lake Michigan College - Energy Saving Renovation of the Napier Avenue Academic Building. The project would replace aging mechanical infrastructure and support systems with new sustainable, energy-efficient mechanical and support systems, including heating, cooling, air distribution, building control systems, supporting electrical and ceiling systems, fire alarm system, and security systems. The College would convert the Napier Avenue campus to a learning laboratory, where the structure, spaces, academics and building environmental systems would be interconnected and support student curricula	15,019,000	7,509,500	7,509,500

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and the learning environment. The College estimates that improvements would save \$259,000 in energy costs on an annual basis.			
Lansing Community College - Arts and Sciences Building Renovation. The project would provide for the renovation of 151,000 square feet of the Arts and Sciences Building to increase the number of science classrooms, laboratories, and general classrooms to meet increasing enrollment in science and general education programs in the Liberal Studies Division of the College.	19,950,000	9,975,000	9,975,000
Macomb Community College - Health Science and Technology Building, Phase II. The first phase of the Health Science and Technology Classroom Building was included in Public Act 10 of 2005 and completed in June 2008. The project was split into two phases due to the availability of State funding. Phase II would be a 30,000-square-foot state-of-the-art facility, which would provide specialized laboratories for the emerging health information technology field, classrooms to support health and information technology occupations, and additional laboratories for basic science.	14,500,000	7,250,000	7,250,000
Mid Michigan Community College - Mt. Pleasant Campus Unification. The project consists of the construction of a 76,760-square-foot Liberal Arts and Business facility, adjacent to the Phase I student services building currently under development. The Phase II building would finalize the unification of the southern Mt. Pleasant campus. The construction would facilitate the relocation of arts and sciences instruction, student and academic support services, library and media services, and specific occupational instruction.	17,704,500	8,852,250	8,852,250
Monroe County Community College - No FY 2010-11 request submitted.	N/A	N/A	N/A
Montcalm Community College - Sustainability Education Initiative. The project would consist of several renovations that include a hands-on experience for students in the areas of alternative energy and related fields. The components of the project include a green roof on a portion of the Doser building, a green wall as an extension of the Ash building, renovation of the HVAC system in the Instructional West building to include a geo-thermal component, showcasing alternative energy sources in a lab/learning space, and renovation of the College sewage lagoons.	4,000,000	2,000,000	2,000,000
Mott Community College - Southern Lakes Branch Center: Rehabilitation. The project includes updating deficiencies, not including parking lot, sidewalk and landscaping deficiencies, at a cost of \$3.6 million. The renovations would facilitate restructuring operations and programs. The current Occupational Therapy and Physical Therapy programs housed at the Center would remain. Additionally, the branch site would become the center for the College's Continuing Education programs, including Corporate Training Services, Police and Law Enforcement, and EMT training, as well as Fire Safety training. The Institute for Medical	6,545,950	3,272,975	3,272,975

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Simulation also would be expanded. The set of components for the facility is budgeted at \$2,945,950.			
Muskegon Community College - Art/Media Education Center. The new Art Education/Media Center would consist of approximately 35,000 square feet and be constructed on college property in the northeast section of the campus, adjacent to the current performing arts building, or in downtown Muskegon. The new facility would provide "new" space for a gallery/exhibition area, traditional arts classes (painting, ceramics, and fiber), multi-media technology labs, and storage areas, as well as traditional classrooms.	7,500,000	3,750,000	3,750,000
North Central College - Health Education and Science Center Project. The proposal includes a new 23,260-square-foot Science Center at a cost of \$8,046,800 and renovations to the existing Science and Chemistry Building at a cost of \$2,381,600. The new facility would house laboratories and related support spaces to replace inadequate and unsafe existing facilities; science classrooms; offices and storage for the Institute for Business and Industry Training and the Information Technology Department; server farm for the entire College, consolidating the current servers into one central, climate-controlled environment, computer lab; and reception/lobby/student commons/connector space.	10,428,400	5,214,200	5,214,200
Northwestern Michigan College - Student Learning Center. The proposal includes construction of a new 35,000 gross-square-foot Student Learning Center that would include learning spaces designed to promote interactive learning experiences and dynamic teaching. Flexible capacity multipurpose classrooms and student learning and interaction areas would enable students and faculty to use a range of technologies for presentation, communication, and collaboration, and are designed to be quickly and easily reconfigured to support different types of learning experiences. The facility would integrate all student services and learning support functions, space for student organizations, café and food service facilities, ground-floor retail area for the College bookstore, and a multipurpose fitness area. The project would involve the demolition of the existing housing component of West Hall and the re-use of existing site infrastructure.	14,000,000	7,000,000	7,000,000
Oakland Community College - Interior Renovation/ Building Addition - Building A, Auburn Hills Campus. This project consists of a 40,000-square-foot building addition, extensive demolition of the current space, mechanical, electrical and window replacements, architectural and construction management/general condition fees, permits, and construction-related relocation and moving costs. The existing 105,000-square-foot two-story structure accommodates the Vocational Technology program. Built in 1970, the College states that the current square footage and layout no longer adequately serve today's academic programs and student needs.	32,065,000	16,032,500	16,032,500

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St. Clair County Community College - Center for Health and Human Services. The proposal consists of repurposing an existing facility. The 70,000-gross-square-foot Health Education Facility would be designed to meet health and physical care needs of the students and the community.	7,000,000	3,500,000	3,500,000
Schoolcraft College - Simulation Technology Center. The proposed 35,000-square-foot Simulation Technology Center would house four quadrants of simulation technology to be used as instructional tools in Nursing and Health Care, Computer Graphic Design and Gaming, Materials Science and Nano-tech, and Public Safety education and training.	20,000,000	10,000,000	10,000,000
Southwestern Michigan College - Campus Renovation. Southwestern Michigan College has two campuses. The Dowagiac campus is in excess of 250 acres with nine academic buildings, several maintenance buildings and 370,300 square feet of parking lots. The Niles-area campus is 17 acres and includes a large instructional building, the College's M-TEC, a maintenance building, and 143,812 square feet of parking lots. The proposed project includes complete replacement of the College's parking lots, replacement of many HVAC units and roofs, selective expansion of undersized facilities, collegewide upgrades in technology, and renovations required for ADA compliance issues.	32,000,000	16,000,000	16,000,000
Washtenaw Community College - Campus Renovation Projects. This request was submitted after JCOS acted on FY 2010-11 projects. It includes major renovations and building systems upgrades for two of the College's existing instructional buildings in order to provide classroom, lab space, storage, and a new entrance to the Morris Lawrence building to better use the Towsley Auditorium. Renovations to the Morris Lawrence building are estimated at \$3.2 million and the Student Center building cost would be \$2.8 million.	6,000,000	3,000,000	3,000,000
Wayne County Community College - Eastern Campus Facility Upgrade and Site Redevelopment Project. The project includes the redesign, retrofitting, and renovation of existing facilities (50,000 gross square feet of current 192,635 square feet); a 20,000-gross-square-foot building addition for a new welcome center, library, classrooms and laboratories, and small auditorium/lecture hall; landscaping; and design and reconfiguration of walkways, drop-off area, and building entrance.	16,000,000	8,000,000	8,000,000
West Shore Community College - no FY 2010-11 request submitted.	N/A	N/A	N/A
Subtotal - Community Colleges:	\$307,094,350	\$153,547,175	\$153,547,175
Total University/Community College Project Requests:	\$1,180,616,089	\$580,374,675	\$600,241,414

Table 2

FY 2010-11 STATE BUILDING AUTHORITY PROJECTS						
Project	<u>Request with \$40 Million Cap</u>		<u>S.B. 1150 (JCOS)</u>		<u>HAC H.B. 5858 (H-1)</u>	
	Total Cost	State Share	Total Cost	State Share	Total Cost	State Share
UNIVERSITIES						
Central - Bio-Sciences Building	\$75,000,000	40,000,000	\$75,000,000	40,000,000	\$75,000,000	40,000,000
Eastern - Strong Hall Renovation	38,000,000	28,500,000	38,000,000	28,500,000	38,000,000	28,500,000
Ferris - College of Pharmacy - Grand Rapids	8,800,000	6,600,000	8,800,000	6,600,000	8,800,000	6,600,000
Grand Valley - Classroom/Office Additions	55,000,000	40,000,000	55,000,000	40,000,000	55,000,000	40,000,000
Lake Superior - School of Business Building	20,000,000	15,000,000	0	0	20,000,000	15,000,000
Michigan State - Plant Science Facilities-Bioeconomy-- Additions & Renovations	193,600,000	40,000,000	193,600,000	40,000,000	193,600,000	40,000,000
Michigan Tech. - Next Generation Energy Complex	29,500,000	22,125,000	0	0	29,500,000	22,125,000
Northern - Jamrich Hall Modernization	33,900,000	25,425,000	0	0	33,900,000	25,425,000
Oakland - Engineering Center	74,551,739	40,000,000	0	0	0	0
Saginaw Valley - Wickes Hall Renovations	8,000,000	6,000,000	8,000,000	6,000,000	8,000,000	6,000,000
U of M-Ann Arbor - G.G. Brown Memorial Lab. Renovation	64,000,000	40,000,000	64,000,000	40,000,000	64,000,000	40,000,000
U of M-Dearborn - Science & Computer Information Science Building Renovations	51,000,000	38,250,000	0	0	0	0
U of M-Flint Murchie Science Laboratory Bldg Renovation	22,170,000	16,627,500	22,170,000	16,627,500	22,170,000	16,627,500
Wayne State - Multidisciplinary Biomedical Research Bldg.	200,000,000	40,000,000	200,000,000	40,000,000	200,000,000	40,000,000
Western - Sangren Hall Building Renovation, Phase II ¹⁾	0	28,300,000	44,400,000	33,300,000	44,400,000	33,300,000
SUBTOTAL UNIVERSITIES	\$873,521,739	\$426,827,500	\$708,970,000	\$291,027,500	\$792,370,000	\$353,577,500
COMMUNITY COLLEGES						
Alpena - Electrical Power Tech. Educ. & Training Center	\$4,997,500	\$2,498,750	\$0	\$0	\$0	\$0
Bay de Noc - Nursing Lab/Lecture Hall Remodeling	1,500,000	750,000	0	0	1,500,000	750,000
Delta - Health & Wellness Program-F Wing Renovation	19,984,000	9,992,000	19,984,000	9,992,000	19,984,000	9,992,000
Glen Oaks - Library Renovation	1,400,000	700,000	0	0	0	0
Gogebic - Building Renovation	1,500,000	750,000	0	0	1,500,000	750,000
Grand Rapids - Cook Academic Hall Renovation	10,000,000	5,000,000	10,000,000	5,000,000	10,000,000	5,000,000
Henry Ford - No new request submitted	N/A	0	N/A	0	N/A	0
Jackson - Student Services & Instructional Classrooms	19,500,000	9,750,000	0	0	0	0
Kalamazoo Valley - Culinary Institute at Arcadia Commons Campus	13,000,000	6,500,000	0	0	0	0
Kellogg - Student Center	4,500,000	2,250,000	4,500,000	2,250,000	4,500,000	2,250,000
Kirtland - Student Center Renovation & Addition	8,000,000	4,000,000	8,000,000	4,000,000	8,000,000	4,000,000
Lake Michigan - Energy-Saving Renovation of the Napier Avenue Academic Building	15,019,000	7,509,500	15,019,000	7,509,500	15,019,000	7,509,500
Lansing - Arts & Sciences Building Renovation	19,950,000	9,975,000	19,950,000	9,975,000	19,950,000	9,975,000
Macomb - Health Science & Technology Bldg, Phase II	14,500,000	7,250,000	14,500,000	7,250,000	14,500,000	7,250,000
Mid Michigan - Mt. Pleasant Campus Unification	17,704,500	8,852,250	17,704,500	8,852,250	17,704,500	8,852,250

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FY 2010-11 STATE BUILDING AUTHORITY PROJECTS						
Project	Request with \$40 Million Cap		S.B. 1150 (JCOS)		HAC H.B. 5858 (H-1)	
	Total Cost	State Share	Total Cost	State Share	Total Cost	State Share
Monroe - No request submitted	N/A	0	N/A	0	N/A	0
Montcalm - Sustainability Education Initiative	4,000,000	2,000,000	0	0	0	0
Mott - Southern Lakes Branch Center: Rehabilitation	6,545,950	3,272,975	6,545,950	3,272,975	6,545,950	3,272,975
Muskegon - Art/Media Education Center	7,500,000	3,750,000	0	0	7,500,000	3,750,000
North Central - Health Ed. & Science Center Project	10,428,400	5,214,200	10,428,400	5,214,200	10,428,400	5,214,200
Northwestern - Student Learning Center	14,000,000	7,000,000	0	0	0	0
Oakland - Interior Renovation/Building Addition - Building A, Auburn Hills Campus	32,065,000	16,032,500	32,065,000	16,032,500	32,065,000	16,032,500
St. Clair - Center for Health & Human Services	7,000,000	3,500,000	0	0	0	0
Schoolcraft - Simulation Technology Center	20,000,000	10,000,000	0	0	0	0
Southwestern - Campus Renovation	32,000,000	16,000,000	32,000,000	16,000,000	32,000,000	16,000,000
Washtenaw - No request submitted	6,000,000	3,000,000	0	0	0	0
Wayne - Eastern Campus Facility Upgrade & Site Redevelopment Project	16,000,000	8,000,000	16,000,000	8,000,000	16,000,000	8,000,000
West Shore - No request submitted	N/A	0	N/A	0	N/A	0
SUBTOTAL COMMUNITY COLLEGES:	\$307,094,350	\$153,547,175	\$206,696,850	\$103,348,425	\$217,196,850	\$108,598,425
TOTAL SBA PROJECTS:	\$1,180,616,089	\$580,374,675	\$915,666,850	\$394,375,925	\$1,009,566,850	\$462,175,925
<u>ALSO INCLUDED IN S.B. 1150 and H.B. 5858</u>						
\$9.0 million General Fund Grant to the Oscoda-Wurtsmith Airport Authority: Sec. 104						
Construction authorization for the Henry Ford Community College Project: Sec. 103						
Cost increase for the Oakland University Human Health Building: Sec. 605						
¹⁾ While WMU submitted this request as Phase II, authorizations for the entire Sangren Hall Project were included in Public Acts 278 of 2008 and 111 of 2010. The total authorized cost for the project is \$60.0 million. WMU's request as a separate Phase II for the purpose of increasing the State share would result in the State exceeding the \$40.0 million cap and shift the burden of the cost increase authorized in PA 111 to the State. Therefore, the request is adjusted to reflect no net project increase and the \$40.0 million cap on the State share.						

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Federal Expenditures in Michigan

By Gary S. Olson, Director, and Sara E. Wycoff, Intern

Each fiscal year, the Federal government allocates a significant portion of the overall Federal budget to expenditures that have a direct impact on the states. The United States Bureau of the Census annually reports on these Federal expenditures to the states in its report entitled, "Consolidated Federal Funds Report". The most recent Consolidated Federal Funds Report is for fiscal year (FY) 2009.

The Census Bureau report covers five broad categories of Federal expenditures received by states. These categories are: retirement and disability payments to individuals, other direct payments to individuals, Federal salaries and wages, procurement, and grants to state and local governments. Retirement and disability payments include such large Federal programs as Social Security payments and pension payments to retired Federal employees. Other direct payments to individuals include the Medicare program, food stamps, and unemployment compensation payments. Federal salaries and wages measure the amount spent in each state on the base salary and overtime costs of Federal employees located within the state. Procurement is the amount spent in each state for direct purchases by the Federal government of either goods or services. Grants to state and local governments are direct Federal aid programs and include such programs as Federal transportation aid, job training aid, education spending, and the Medicaid program.

Historically, Michigan's share of Federal expenditures has lagged behind the amount of most other states. As measured on a per-capita basis, in FY 2009 total Federal expenditures in Michigan equaled \$9,228. The national average for all states on a per-capita basis was \$10,396. Table 1 provides a summary of Federal expenditures in Michigan during FY 2009. Michigan's total per-capita expenditures ranked 39th among the states. The only two broad categories of Federal expenditures in which Michigan exceeded the national average were the categories of retirement and disability payments to individuals and other direct payments to individuals. Michigan ranked 20th and 18th, respectively, on a per-capita basis for these types of Federal expenditures. Michigan's rank was 50th among the states in Federal salaries and wages, 30th among the states in procurement, and 36th among the states in grants to state and local governments.

Table 1

Distribution of Federal Funds Fiscal Year 2009 (Millions of Dollars)						
	National Amount	Michigan Amount	Mich. as % of Nat'l Total	National Per Capita	Michigan Per Capita	Mich. Rank
Retirement & Disability Payments to Individuals	\$881,105	\$30,851	3.5%	\$2,843	\$3,095	20
Other Direct Payments to Individuals	762,924	26,237	3.4	2,469	2,632	18
Federal Salaries and Wages	299,413	4,478	1.5	963	449	50
Procurement	550,803	9,316	1.7	1,727	934	30
Grants to State & Local Governments	744,115	21,120	2.8	2,394	2,118	36
Total	3,238,360	92,002	2.8%	10,396	9,228	39
Resident Population	307,006,550	9,969,727	3.2%			

Source: United States Bureau of Census, Federal Expenditures by State for Fiscal Year



An analysis of the Census Bureau data leads to the conclusion that the residents of Michigan are receiving much less than their fair share of Federal expenditures if the expenditures are considered simply on the basis of a per-capita distribution. Table 2 provides a summary of the actual amount of Federal expenditures received in Michigan for the period FY 1985 through FY 2009 versus the amount that Michigan would have received if Federal expenditures had equaled Michigan's percentage of the total United States population. In FY 2009, this Federal funding shortfall equaled \$13.2 billion.

Table 2

Michigan's Federal Funding Shortfall (Millions of Dollars)			
Fiscal Year	Actual Federal Expenditures in Michigan	Federal Expenditures in Michigan on a Per-Capita Basis	Michigan's Expenditure Shortfall
1985	\$22,384	\$29,844	\$(7,460.8)
1986	23,342	31,398	(8,055.5)
1987	23,283	31,814	(8,530.4)
1988	23,887	33,207	(9,320.3)
1989	26,109	34,735	(8,625.3)
1990	29,433	37,438	(8,005.6)
1991	31,968	41,292	(9,323.4)
1992	36,137	44,998	(8,860.3)
1993	37,238	46,845	(9,607.2)
1994	39,485	49,021	(9,536.4)
1995	39,569	49,055	(9,486.5)
1996	39,633	50,062	(10,429.2)
1997	40,651	51,441	(10,789.7)
1998	41,917	53,905	(11,988.6)
1999	44,128	55,355	(11,227.5)
2000	46,851	58,242	(11,390.9)
2001	51,722	62,986	(11,264.3)
2002	55,910	67,566	(11,656.2)
2003	57,870	71,455	(13,584.8)
2004	60,488	74,460	(13,971.8)
2005	64,786	77,833	(13,046.8)
2006	67,332	82,677	(15,344.7)
2007	71,652	85,192	(13,539.8)
2008	82,933	91,772	(8,838.9)
2009	92,003	105,162	(13,159.5)

Source: United States Bureau of the Census, Senate Fiscal Agency calculations

The \$13.2 billion shortfall in FY 2009 represents a decrease from Michigan's record Federal funding shortfall in FY 2006 of \$15.4 billion. However, Michigan moved from a per-capita Federal expenditure ranking of 33rd among the states in FY 2008 to 39th in FY 2009. In FY 2000, Michigan was ranked 45th in the country for total Federal expenditures but climbed to 33rd toward the end of the decade. This was due to poor economic conditions within the State, exacerbated by a national recession, which raised Federal expenditures in the State for programs such as unemployment compensation and Medicaid. The decline to 39th in 2009



occurred in spite of an increase in Federal funding of \$13.4 billion to the State. The State rose in the rankings for retirement and disability payments from 22nd to 20th, for direct payments from 20th to 18th, and for procurement from 33rd to 30th. Meanwhile, the State experienced a decline in the rankings for grants from 20th to 36th and Federal salaries and wages from 49th to 50th. As economic conditions throughout the country continue to deteriorate, other states also will be receiving increased funding from the Federal government, thus eroding this State's percentage gain over time and lowering Michigan's overall ranking compared with other states.

Table 3 summarizes the history of Michigan's Federal funding shortfall. Michigan's funding as a percentage of the United States total has declined from 2.97% in FY 2008 to 2.84% in FY 2009. Michigan now receives the same share of Federal funding as it did in 2005. The Federal funding shortfall in Michigan can be attributed to two major factors. First is that Michigan has a smaller proportion of Federal employees compared with other states, resulting in a ranking of 50th in Federal salaries and wages. The second factor is a decline in Federal grants awarded to Michigan for health and human services programs. This accounts for Michigan's ranking of 36th among the states in grants.

Table 3

Michigan's Federal Funding Shortfall (Millions of Dollars)			
Fiscal Year	Expenditures in Michigan	Expenditures to All State	Michigan as % of United States Total
1985	\$22,384	\$788,793	2.84%
1986	23,342	829,844	2.81
1987	23,283	849,877	2.74
1988	23,887	887,094	2.69
1989	26,109	937,409	2.79
1990	29,433	1,010,376	2.91
1991	31,968	1,107,741	2.89
1992	36,137	1,207,161	2.99
1993	37,238	1,272,798	2.93
1994	39,485	1,331,933	2.96
1995	39,569	1,368,571	2.89
1996	39,633	1,396,673	2.84
1997	40,651	1,428,819	2.85
1998	41,917	1,484,177	2.82
1999	44,128	1,555,651	2.84
2000	46,851	1,650,788	2.84
2001	51,722	1,794,907	2.88
2002	55,910	1,937,278	2.89
2003	57,870	2,061,486	2.81
2004	60,488	2,162,203	2.80
2005	64,786	2,284,760	2.84
2006	67,332	2,448,484	2.75
2007	71,652	2,556,217	2.80
2008	82,933	2,792,611	2.97
2009	92,003	3,238,360	2.84

Source: United States Bureau of the Census, Senate Fiscal Agency calculations

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FY 2011-12 State Budget Outlook **By Gary S. Olson, Director**

On January 1, 2011, a newly elected Michigan Governor will begin the task of developing a State budget recommendation for the fiscal year (FY) beginning on October 1, 2011. Pursuant to statutory requirements, the new Governor will have to submit a detailed FY 2011-12 State budget recommendation to the Legislature by March 13, 2011. This recommendation will begin legislative debate on the FY 2011-12 State budget.

The parameters of the Governor's FY 2011-12 State budget recommendation are not known today. What is known is that due to a variety of factors related to the enacted FY 2010-11 State budget, the new Governor and the newly elected members of the Legislature will face difficult decisions in developing and enacting the FY 2011-12 State budget. This is especially true in light of the issues surrounding the FY 2011-12 General Fund/General Purpose (GF/GP) budget.

The following information provides the Senate Fiscal Agency (SFA) outlook for both the FY 2011-12 GF/GP and School Aid Fund budgets.

Fiscal Year 2011-12 General Fund/General Purpose Budget Outlook

The enacted FY 2010-11 GF/GP budget is balanced with a combination of temporary Federal funds, nonrecurring revenue from several statutory changes, and appropriation reductions. It is now the belief of the SFA that the temporary Federal funds that were such an important part of balancing the FY 2008-09, FY 2009-10, and FY 2010-11 GF/GP budgets will not be available in FY 2011-12. This assumption is based on the belief that the United States Congress is unlikely to continue the temporary emergency Federal aid to states that has occurred over the past three fiscal years.

On the revenue side of the FY 2011-12 GF/GP budget, two factors will have an impact on the level of revenue available to support expenditures. The first is that several nonrecurring revenue sources were used to balance the FY 2010-11 GF/GP budget. The second is that under current law, the rate of the State income tax will decline from 4.35% to 4.25% on October 1, 2011.

The combination of the assumed elimination of the temporary Federal aid and these revenue changes will lead to a significant challenge in ensuring a balance between FY 2011-12 GF/GP revenue and appropriations. Table 1 provides a summary of the FY 2011-12 GF/GP budget outlook. The SFA is estimating a \$1.4 billion imbalance between potential GF/GP revenue and appropriations. This imbalance equals 16.9% of the level of FY 2010-11 GF/GP appropriations.

The SFA's FY 2011-12 GF/GP budget outlook assumes total GF/GP revenue of \$8.2 billion. The SFA developed this estimate using the current estimate of FY 2010-11 GF/GP revenue as a base and adjusting for nonrecurring revenue items and the change in the income tax rate. These nonrecurring revenue items include revenue from changes in the State accounting of unclaimed property, revenue from a tax amnesty program, State restricted revenue transfers to the GF/GP budget, and the GF/GP revenue impact of increased revenue sharing payments to counties. The final assumption regarding the FY 2011-12 GF/GP revenue base is an assumed 4.0% growth in GF/GP revenue. The actual level of FY 2011-12 GF/GP revenue growth will be

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determined when the Consensus Revenue Estimating Conference establishes the initial estimate of FY 2011-12 GF/GP revenue in January 2011.

The SFA's FY 2011-12 GF/GP budget outlook assumes total GF/GP appropriations of \$9.6 billion. This estimate uses the FY 2010-11 enacted appropriations as the starting point. Adjustments then are made for temporary Federal funds in the Community Health and Human Services budgets that will not be available in FY 2011-12. These adjustments total \$919.0 million. Assumptions also are made concerning caseload and cost growth in the Medicaid program, offset partially by an increase in Michigan's ongoing Federal Medicaid match rate. Additional expenditures in the Human Services budget are a result of caseload, full-year staffing, and cost increases. Funding adjustments also are included for the additional costs of debt service on General Obligation bonds resulting from restructuring changes made during FY 2010-11. The final expenditure adjustments include the elimination of one-time funding sources in the State Police budget and projected increases in State employee costs. These projected increases include health insurance costs, retirement costs, and changes in the level of savings from the recently enacted policy changes in the State Employees Retirement System.

Table 1
FY 2011-12 State Budget Outlook
General Fund/General Purpose Budget
(Millions of Dollars)

Revenue	
FY 2010-11 GF/GP Revenue Base	\$8,252.8
Revenue Adjustments:	
Unclaimed Property Changes	(91.0)
Tax Amnesty	(91.7)
Convention Facility Fund Transfer	(5.0)
Secretary of State Work Project Transfer	(6.0)
Increased County Revenue Sharing Payments	(37.3)
Income Tax Rate Reduction (October 1, 2011)	(150.0)
Subtotal One-Time Revenue Adjustments	(381.0)
Adjusted FY 2010-11 GF/GP Revenue Base	\$7,871.8
4.0% Revenue Growth Assumption	314.9
Net FY 2011-12 GF/GP Revenue	\$8,186.7
Appropriations	
FY 2010-11 Enacted GF/GP Appropriations	\$8,230.0
FY 2011-12 Appropriation Adjustments:	
Enhanced Medicaid Match Rate	520.0
Human Services Emergency TANF Funds	239.0
Medicaid One-Time VEBA Payment	160.0
Medicaid Caseload/Costs	210.0
Federal Medicaid Match Rate	(35.0)
Human Services Caseload/Costs/Full-Year Staffing Levels	91.0
General Obligation Bond Debt Restructuring	83.3
State Police One-Time Revenue Adjustments	5.8
State Employee Economic Costs	103.7
Subtotal Funding Adjustments	1,377.8
Adjusted FY 2011-12 GF/GP Appropriation Base	\$9,607.8
Potential Funding Imbalance	\$(1,421.1)



This SFA outlook on the FY 2011-12 GF/GP budget is built on freezing the funding in FY 2011-12 at the FY 2010-11 levels for such programs as revenue sharing payments to cities, villages, and townships, aid to universities and community colleges, and other grant programs. The assumptions also assume no changes in State tax laws outside of the already-enacted reduction in the rate of the State income tax.

In summary, the newly elected Governor and the members of the Legislature will face significant challenges in enacting a balanced FY 2011-12 GF/GP budget. In many respects, these challenges would have occurred in FY 2008-09, FY 2009-10, and FY 2010-11 if the United States Congress had not provided Michigan with approximately \$3.1 billion of temporary Federal funds that helped eliminate many of the difficult budget decisions. The anticipated elimination of these temporary Federal funds means that the fundamental decisions regarding the future of the GF/GP budget will be made during FY 2011-12.

Fiscal Year 2011-12 School Aid Fund Budget Outlook

While the newly elected Governor and the Legislature will face significant challenges in developing a FY 2011-12 GF/GP budget, the outlook regarding the FY 2011-12 School Aid Fund budget is much better. This difference is based on a smaller reliance on temporary Federal funds in the School Aid budget and the fact that the enacted income tax rate reduction will affect only the GF/GP budget and not the School Aid Fund budget.

The factors influencing the outlook for the FY 2011-12 School Aid Fund budget include projected revenue growth, the loss of temporary Federal funds, debt service funding increases, and continued projections for a decline in the number of students. [Table 2](#) provides a summary of the FY 2011-12 School Aid Fund budget outlook. The SFA is estimating a \$103.7 million imbalance between potential School Aid Fund revenue and appropriations.

The SFA's FY 2011-12 School Aid Fund budget outlook assumes total School Aid Fund revenue of \$13.1 billion. The SFA developed this estimate using the current consensus estimate of FY 2010-11 School Aid Fund revenue and adjusting for nonrecurring revenue items. These nonrecurring revenue items include \$184.3 million of temporary Federal funding related to the American Recovery and Reinvestment Act of 2009 and \$316.3 million of temporary Federal funding related to the Education Jobs Act of 2010. Additional nonrecurring revenue items include revenue related to tax amnesty and the spend-down of projected balances from the prior fiscal year. The final assumptions regarding the FY 2011-12 School Aid Fund revenue base are an assumed 4.0% growth in ongoing School Aid Fund revenue and a freeze in the ongoing level of Federal revenue. The actual level of FY 2011-12 School Aid Fund revenue will be determined when the Consensus Revenue Estimating Conference establishes the initial estimate of FY 2011-12 School Aid Fund revenue in January 2011.

The SFA's FY 2011-12 School Aid Fund budget outlook assumes total School Aid Fund appropriations of \$13.2 billion. This estimate uses the enacted level of FY 2010-11 appropriations as the starting point. Adjustments then are made for a projected decline in the number of students to be funded and funding increases related to debt service payments and special education costs. These appropriation assumptions mean that local school districts will continue to receive the level of



per-pupil funding that they will be receiving in the current fiscal year, after the Legislature completes action on the appropriation of new Federal funds related to the Education Jobs Act of 2010.

Table 2
FY 2011-12 State Budget Outlook
School Aid Fund
(Millions of Dollars)

Revenue	
FY 2010-11 School Aid Fund Revenue Base	\$11,549.7
Ongoing Federal Funds.....	1,677.8
Revenue Adjustments:	
Federal ARRA Funding	(184.3)
Federal Education Jobs Funding	(316.3)
Tax Amnesty	(26.1)
Drawdown of Beginning Balance	<u>(70.0)</u>
Subtotal One-Time Revenue Items	(596.7)
Adjusted FY 2010-11 SAF Revenue Base	\$12,630.8
4.0% Revenue Growth Assumption	438.1
FY 2011-12 SAF Revenue Base	\$13,068.9
Appropriations	
Enacted FY 2010-11 Appropriations	\$13,134.2
FY 2011-12 Appropriation Adjustments:	
Reduction in Spending Related to Pupil Counts	(90.0)
School Bond Loan Fund Debt Service Adjustment.....	88.4
Special Education Cost Increase	<u>40.0</u>
Subtotal Appropriation Adjustments	38.4
Adjusted FY 2011-12 SAF Appropriation Base	\$13,172.6
Potential Funding Imbalance	\$(103.7)

The projected \$103.7 million funding imbalance in the FY 2011-12 School Aid Fund budget equals 0.2% of FY 2010-11 School Aid Fund appropriations. In summary, the newly elected Governor and the members of the Legislature will likely be able to provide some sort of continuation funding for local school districts in FY 2011-12 based on the assumptions outlined in this analysis.

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An Analysis of Emergency Financial Conditions in Local Units of Government **By Eric Scorsone, Senior Economist**

As a follow-up to the Senate Fiscal Agency Issue Paper entitled, "Local Government Financial Emergencies and Municipal Bankruptcy", this State Notes article is devoted to an analysis of a part of the local financial emergency process entailing the Michigan Department of Treasury review of a local unit before the appointment of an Emergency Financial Manager (EFM) or the negotiation of a consent agreement. This is a crucial part of the process whereby the underlying financial difficulties that must be addressed via a consent agreement or EFM are established. An analysis of these reports may assist policy makers in understanding the common type of problems that emerge in emergency financial situations across local units of government.

Emergency Financial Conditions

The process leading up to the appointment of an Emergency Financial Manager or a consent agreement is governed by the Local Government Fiscal Responsibility Act. The Act describes several mechanisms through which the Michigan Department of Treasury may be made aware and notified of a pending financial emergency concerning a local unit of government. These mechanisms include notification by a creditor of a government, the governing body or chief administrative officer of a local government, a petition from registered voters of the jurisdiction, pension trustees or beneficiaries, employees, or bondholders, or from a resolution from the Senate or House of Representatives.

If such a proper notification is made, the Michigan Department of Treasury initiates a preliminary review. In statute, there are nine emergency financial conditions that are to be reported upon during the preliminary review. In essence, these conditions serve as the type of events that have occurred or are likely to occur, indicating that a serious financial problem exists. These conditions include:

- Default in the payment of principal or interest of bonded obligation;
- Failure to transfer to appropriate authorities any of the following:
 - Employee taxes,
 - Taxes collected for another government,
 - Pension or retirement contribution;
- Failure for 30 days or more to pay wages or compensation;
- Accounts payable exceeding 10% of total expenditures;
- Failure to eliminate any fund deficit within two years;
- 10% or greater operating general fund deficit.

If the preliminary review finds that one or more of these adverse financial conditions exist, the State Treasurer is to notify the Governor, who then must initiate a formal financial review team process. The financial review team report must indicate whether any of the nine situations discussed above could occur or has occurred. The financial review team has 60 days in which to report their findings.



Once the financial review team process is completed, the report is provided to the Governor with the three following options:

- A serious financial emergency exists and a consent agreement is possible.
- A serious financial emergency exists and an emergency financial manager should be appointed.
- No serious financial emergency exists.

Thus, one will find in each financial review team report a discussion of these issues as well as the findings from the preliminary review. These reports provide a wealth of information regarding local financial conditions.

Emergency Financial Manager in Action

The law states several important conditions surrounding the appointment and activities of the EFM. The Governor assigns the responsibility for hiring and overseeing the EFM to the Local Emergency Financial Assistance Loan Board (LEFAB). There are several conditions related to the hiring of the EFM which include:

- Must not be an elected or appointed official of the local government in question for at least five years before appointment.
- Does not have to be a resident of the local government jurisdiction.
- Serves at the pleasure of the LEFAB.
- Is entitled to expenses from the local government as approved by the LEFAB.
- With approval of the LEFAB, may secure other professionals and appoint staff to assist with activities and analysis.

Following his or her appointment, the EFM may engage in certain activities to address the financial emergency. Among other things, the EMF may do the following:

- Implement a written financial plan.
- Analyze and assess the financial condition of the local unit of government.
- Require, amend, and approve or disapprove a plan for paying obligations of the local unit.
- Amend, revise, and approve or disapprove the budget of the local unit.
- Require special reports from the finance officer of the local unit.
- Examine all books and records as specified under the Uniform Budgeting and Accounting Act.
- Make, approve, or disapprove any contract, appropriation, expenditure, or loan by the local unit.
- Review all payroll claims and other financial claims before payment.
- Exercise all appropriate authority regarding union contract negotiations.
- Within limits of a governmental charter, consolidate departments, remove appointed officials, and transfer functions.
- Seek court action to require compliance with orders.
- Within charter limits, sell assets to meet current or past obligations.
- Apply for a State loan on behalf of the local unit.



- Enter into intergovernmental agreements.
- Exercise adoption and implementation authority regarding financially based resolutions and ordinances.

These activities are designed to allow the EFM to correct the deficiencies noted in the financial review team report as well as any financial problems uncovered by the EFM. The philosophy underlying this approach is that local government officials have been unable to address the problem via the normal mechanisms and channels and that a different set of actions is required to ameliorate a financial emergency.

Review of Select Financial Review Team Reports

This article reviews two financial review team reports to provide legislators with a sense of what is contained and what actions follow the release of a report. A sample of reports for two local units is reviewed here:

- Village of Three Oaks, MI
- City of Ecorse, MI

Village of Three Oaks, MI

The Village of Three Oaks was under the purview of an EFM from December 2008 through 2009. Three Oaks is located in southwestern Michigan and is very close to the Indiana border. It has a population of 1,829 people. It has a median household income of \$34,000, which is significantly below the U.S. average of \$41,000. However, its poverty rate is actually lower than the U.S. average.

In June 2008, the Michigan Department of Treasury initiated a preliminary financial review. The review found several significant issues:

- A new accounting system was not properly functioning and the prior system was not being maintained; this led to a loss of reliable financial records.
- Major and local street fund expenditures consistently exceeded available revenue and both had accumulated deficits.
- The Village failed to file deficit elimination plans.
- The Village had significant cash flow shortages as well as significant and at times improper interfund borrowing.
- Restricted revenue from extra voted millages and special assessments was improperly deposited into the General Fund.
- The Department of Transportation had been withholding road funding due to the Village's failure to reimburse the Department for a required reimbursement.

Based on a preliminary analysis, the State Treasurer instituted a financial review team that met in September and October 2008. The financial review team reported the following:



- Village department heads indicated that they played no role in the budget process and were seldom given information after the budget was passed.
- There were wide variances in the budgetary and actual expenditures across a wide range of departments and service areas.
- Summer property taxes, intended for the following fiscal year, were being used for expenses in the current fiscal year.
- The Village had a significant cash flow problem; lack of records made it difficult to assess the existence of an operating deficit.

Based on these findings, the State Treasurer recommended the appointment of an EFM on July 25, 2008. In fiscal year (FY) 2008-09, the Village had \$1.3 million in government revenue and \$980,000 in expenses, leading to a nearly \$400,000 operating surplus. This was a significant improvement from the previous fiscal year which had seen a \$100,000 operating deficit.

City of Ecorse, MI

The City of Ecorse is another local unit of government in Michigan that has been placed under an EFM. Ecorse is located in Wayne County and has a population of 11,299. The mean household income is \$27,000, which is much lower than the U.S. average, and the poverty rate is 17.3% almost double the U.S. average.

A preliminary review of Ecorse's finances was started by the Michigan Department of Treasury on March 17, 2009. The preliminary review found the following factors:

- The City had borrowed \$2.6 million in property taxes from other units that were owed.
- There was significant cash flow shortage including unauthorized borrowing from the street funds to the general fund.
- Six financial audits were late since FY 2002-03.
- The general fund had an accumulated deficit.
- Internal control problems existed.

These types of problem are indicative of the types of serious financial conditions that lead to a consent agreement or the appointment of an EFM. One can see specifically the problem of an accumulated deficit and accounting control problems.

On June 29, 2009, the Governor appointed a financial review team. The team met throughout July and August. The review team found the following conditions:

- The accumulated deficit had increased from \$5.2 million in FY 2006-07 to \$9.2 million in FY 2007-08.
- \$6.8 million in property taxes were owed to other government units.
- A judgment levy of \$1.1 million for pension funds was transferred to the general fund and not to the Municipal Employees Retirement System.
- Financial audit contained adverse or negative opinion from auditors.
- 13 material weaknesses were found in financial audits.



- General fund expenditures consistently exceeded general fund revenue, creating an operating deficit.

The review team concurred with the findings of the preliminary review. These findings amounted to a series of serious accounting and financial errors and missteps. Serious material weaknesses in a financial audit often means the government is unable to properly track and account for funds. An inability to track funds is then very likely to lead to financial mistakes. An accumulated deficit and the failure to properly remit taxes owed to other governments is often a consequence of these problems. This led to a recommendation for the appointment of an Emergency Financial Manager.

Summary

Since 2001, Michigan local governments have faced a series of significant financial difficulties. Revenue sharing reductions, declines in property taxes and fees, and increasing health care costs have all placed a major squeeze on local finances. In some units, these problems have led to the need for State intervention in the form of consent agreements or EFMs. This article reviewed some of the financial review reports before the appointment of an EFM.

A sample of preliminary reviews and reports from financial review teams reveals a number of common factors across financially troubled local units of government. Often, part of the problem can be traced to a lack of internal controls and proper accounting procedures. Without adequate financial information, local officials cannot make sound financial decisions and analysis. This type of situation often leads to serious mistakes and financial difficulties. These problems often show up as inadequate cash flow, significant fund deficits, and inability or unwillingness to transfer funds owed to other units of government or other delayed payments.

The statutory process is focused on financial challenges such as internal control problems, cash flow shortage, or fund deficits. It should also be clear that long run economic problems that may be present in these communities are not easily or readily addressed through a consent agreement or EMF process. In fact, the financial review team is explicitly focused on the issue of addressing short- and medium-term adverse financial problems and not necessarily the long-term economic and fiscal health of the community.

A Timeline of EFMs, Consent Agreements and Financial Review Teams

City of Pontiac, MI

Financial Review Team (April and May 2008)

Fred Leeb (March 2009 - June 2010)

Michael Stampfler (July 2010 - ongoing)

City of Benton Harbor, MI

Financial Review Team (October and November 2009)

Joseph L. Harris (April 2010 - ongoing)



City of Ecorse, MI

Financial Review Team (August and September 2009)
Joyce A. Parker (October 2009 - ongoing)

City of Hamtramck, MI

Financial Review Team (May and June 2000)
Louis Schimmel (November 2000 - February 2007)
Financial Emergency declared over

City of Highland Park, MI

Financial Review Team (September and October 2000)
Ramona H. Pearson (June 2001 - February 2005)
Arthur Blackwell (March 2005 - April 2009)
Robert Mason (April 2009 - July 2009)
Financial Emergency still in place

City of River Rouge, MI

Financial Review Team (October and November 2009)
Consent Agreement (December 2009)

City of Flint, MI

Financial Review Team (March and April 2002)
Ed Kurtz (July 2002 - June 2005)
Financial Emergency declared over

Village of Three Oaks, MI

Financial Review Team (October and November 2008)
Pamela Amato (December 2008- December 2009)
Financial Emergency still in place

State Notes

TOPICS OF LEGISLATIVE INTEREST

Fall 2010



Controlling Synthetic Marijuana **By Patrick Affholter, Legislative Analyst**

Michigan recently enacted legislation to outlaw the possession and use of certain compounds that resemble marijuana but have a different chemical structure. Smoking or otherwise ingesting synthetic cannabinoids is said to produce effects similar to those of marijuana use, but the health risks of "fake weed" can be greater. As synthetic marijuana has grown in popularity and availability across the country, other states also have acted to combat the phenomenon.

This article discusses the development of synthetic marijuana and the effects of its use, the response by states, and the effectiveness of banning the substance.

Development of Synthetic Cannabinoids

Dr. John W. Huffman, a professor of organic chemistry at Clemson University, and his research team, began developing cannabinoid compounds in 1984 to research their effects on the brain and other organs. According to the Clemson website, the long-term goals of the research "include the potential development of new pharmaceutical products and an exploration of the geometry" of cannabinoid receptors. Huffman and his team reportedly have developed hundreds of synthetic cannabinoid compounds in an effort to provide a better understanding of diseases and information for the development of medication.

The research team developed these synthetic cannabinoids for laboratory research purposes, and not for marketing to the public or human consumption. In recent years, however, some of Huffman's cannabinoid compounds (which are identified by the researcher's initials, "JWH" and a numbering system) began to be sold as marijuana alternatives under product names such as "K2" and "Spice". While it is unclear how the compounds migrated from the research lab to the consumer market, Huffman has indicated that it is quite easy to make them from commercially available materials.

The JWH chemical compounds, and other synthetic cannabinoids, can be sprayed on dried herbs and leaves which then are sold as a type of potpourri or incense, though most users reportedly smoke the product as they would marijuana or ingest it in a mix with edible items. Synthetic cannabinoid products may be quite easily obtained from internet sales websites or at so-called "head shops". There also have been reports of the products' being sold at gas stations and convenience stores.

Effects of Synthetic Cannabinoids

While marketers of K2, Spice, and similar products contend that they should be used as potpourri or incense and are not for human consumption, published reports and legislative testimony suggest that most users smoke the products to achieve an effect similar to that of smoking marijuana. Synthetic cannabinoids, however, can be much more potent than marijuana and using the substances can lead to more serious side effects. According to the website of the U.S. Department of Justice Drug Enforcement Administration's Office of Diversion Control, behavioral studies have shown that synthetic cannabinoids decrease overall



activity, produce analgesia, decrease body temperature, and produce catalepsy. Some studies have found the subjective effects of certain synthetic cannabinoids to be as much as 66 to 80 times more active than those of THC (the main active chemical in marijuana) in some animals.

An article posted on the "live Science" website in March 2010, reported on a St. Louis toxicology professor who had seen nearly 30 cases of the adverse effects of smoking synthetic marijuana in the previous month ("Fake Weed, Real Drug: K2 Causing Hallucinations in Teens"). While the synthetic cannabinoid compounds apparently work on the brain in the same manner as THC, some patients had symptoms that do not match up with marijuana use, such as increased agitation and elevated blood pressure and heart rates. Another article, posted on "The Medical News" website in March 2010, said that those symptoms suggest that K2 affects the cardiovascular system and "also is believe to affect the central nervous system, causing severe, potentially life-threatening hallucinations and, in some cases, seizures" ("Toxins in K2: Saint Louis University professor warns parents to look out for warning signs").

A recent article in a National Conference of State Legislatures (NCSL) publication said that through September 27, there had been more than 1,503 calls in 2010 to poison control centers for symptoms such as racing heartbeat, elevated blood pressure, and nausea, compared with just 14 such calls in 2009, according to the American Association of Prison Control Centers (*State Legislatures* magazine, October/November 2010). The NCSL article also cited reports linking use of synthetic cannabinoid compounds to hallucinations, seizures, and death.

State Reactions to Synthetic Cannabinoid Use

According to the NCSL, 10 states (including Michigan) have banned at least some synthetic cannabinoids by statute, and legislation was pending in at least four more states at the end of September. Four other states have taken administrative actions to ban synthetic cannabinoids, and one state has formed an advisory committee to review and recommend whether synthetic cannabinoids should be added to the controlled substances list.

In Michigan, Public Act 171 of 2010 amended the Public Health Code to include various synthetic cannabinoids, including JWH-018, JWH-073, JWH-015, JWH-200, and JWH-250, in the Code's list of Schedule 1 controlled substances. A Schedule 1 controlled substance is a substance that has high potential for abuse and has no accepted medical use in treatment in the United States or lacks accepted safety for use in treatment under medical supervision. Public Act 169 of 2010 amended the Public Health Code to extend the penalties for possession and use of marijuana to the possession and use of the synthetic cannabinoids listed in Public Act 171.

Under the Public Health Code, a person may not knowingly or intentionally possess or use a controlled substance unless it was obtained directly from, or pursuant to, a valid prescription or order of a practitioner while acting in the course of his or her professional practice. A possession violation involving marijuana is a misdemeanor punishable by up to one year's imprisonment, a maximum fine of \$2,000, or both. A violation involving the use of marijuana is a misdemeanor punishable by up to 90 days' imprisonment, a maximum fine of \$100, or



both. Public Act 169 extended those penalties to the possession and use of the synthetic cannabinoids added to Schedule 1 by Public Act 171.

Public Acts 169 and 171 both took effect on October 1, 2010. (In addition to including synthetic cannabinoids in Schedule 1, Public Act 171 added other substances to Schedule 1 and Schedule 4, and Public Act 169 prescribed penalties for possession and use of those substances.)

The Effectiveness of Banning Synthetic Cannabinoids

As discussed above, synthetic cannabinoid compounds were developed in laboratories in order to study the effects of cannabis on the brain, and were never intended for human consumption. Unlike marijuana, these compounds evidently cannot be detected in the body through drug tests. Given their pharmacological similarities to marijuana, the results of lab research on animals, and the severe cardiovascular and neurological symptoms observed in users of synthetic cannabinoids, Michigan joined several other states in banning the use and possession of the substances. The legislation acknowledges the danger of the products known variously as K2, Spice, and other names, and should protect the health of potential users. It also may help law enforcement to respond to the growing trafficking of those fake marijuana products, as well as reduce their availability.

Including synthetic cannabinoids on controlled substances lists is a recent development, with states just beginning to do so this year and Michigan's law taking effect recently, on October 1. As a result, the full effect of a legal ban on those substances remains to be seen. Those who did a brisk business in synthetic cannabinoids in other states, however, reportedly moved quickly to avoid the new laws by making slight changes to the chemical structure of the now-banned substances. In Kansas, the first state to pass legislation banning synthetic cannabinoids, "even police acknowledge that the laws are all but meaningless because merchants can so easily offer legal alternatives" according to an Associated Press (AP) article that appeared on the website of the *Battle Creek Enquirer* ("Fake marijuana bans do little to deter business", 9-16-10).

Michigan's law is said to be broader than those passed in other states. An article on the website of the *Livingston Daily Press & Argus*, however, cited the owner of a Brighton store who claimed, "Outlawing the substances found in K2 incense will only result in chemists finding legal combinations for similar products" ("State law snuffs out K2 synthetic high", 10-6-10). Indeed, the shop owner was reported to say that other states that have outlawed the substances have been "flooded" with new, legal products to replace K2 and he soon would reintroduce a synthetic cannabinoid product with legal substances.

Dr. Huffman, the original developer of many of the synthetic cannabinoid chemical compounds, evidently "has little faith that the bans will deter manufacturers or consumers". According to the AP article cited above, "'It's not going to be effective,' he said. 'Is the ban on marijuana effective?'"