



FY 2006-07
APPROPRIATIONS REPORT
Part I - Governor's Recommendations

February 2006



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2. To provide written analyses of all Senate bills, House bills, and Administrative Rules considered by the Senate.
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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 Granholm on February 9, 2006, transmitted her fiscal year (FY) 2006-07 State Budget Message to the Legislature. The Governor's FY 2006-07 budget contains recommendations for \$41.9 billion of Adjusted Gross appropriations. Included in this appropriation total are \$13.4 billion of Federal funds, \$18.7 billion of State Restricted funds, \$478.6 million of local and private funds, and \$9.3 billion of General Fund/General Purpose (GF/GP) appropriations. Table 1 and Figure A provide summaries of the overall makeup of the FY 2006-07 appropriations recommended by the Governor.

Tables 2-4 and Figures B-D provide department-by-department detail of the Governor's appropriation requests for FY 2006-07 compared with FY 2005-06 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 State departments. State Spending from State Resources appropriations are defined as Adjusted Gross appropriations less appropriations funded with Federal and local and private funds. GF/GP 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 a 2.5% increase in Adjusted Gross appropriations, a 1.8% increase in State Spending from State Resources appropriations, and a 3.0% increase in GF/GP appropriations.

The Governor's Budget Message is based on the consensus revenue estimate agreed to on January 12, 2006. The FY 2006-07 GF/GP consensus revenue estimate is \$8.38 billion. This represents a 2.1% increase from the FY 2005-06 consensus revenue estimate. The FY 2006-07 School Aid Fund (SAF) consensus revenue estimate is \$11.59 billion. This represents a 3.2% increase from the FY 2005-06 consensus revenue estimate.

The Governor's budget recommendation also includes other GF/GP and SAF revenue above the levels included in the consensus revenue estimates. These include increased revenue from a freeze in revenue sharing payments, revenue from the sale of surplus State property, the assumption of projected FY 2005-06 year-end balances carried forward into FY 2006-07, \$111.2 million of increased revenue from tax policy changes, and \$23.0 million of increased revenue from a liquor license fee increase. A combination of the consensus revenue estimates and these other revenue adjustments leads to the total level of revenue included in the Governor's budget that is used to support recommended appropriations. The consensus revenue estimate and the proposed tax policy changes are discussed in more detail in the Economic and Revenue Forecast section of this report.

In addition to the detailed revenue and appropriation recommendations for FY 2006-07, the Governor's Budget Message includes recommendations for FY 2005-06 supplemental appropriations. These supplemental appropriations provide for Federal and State Restricted revenue that has become available since the budget was originally enacted and increased GF/GP appropriations in the Department of Human Services to adjust for shortages in Federal funds.

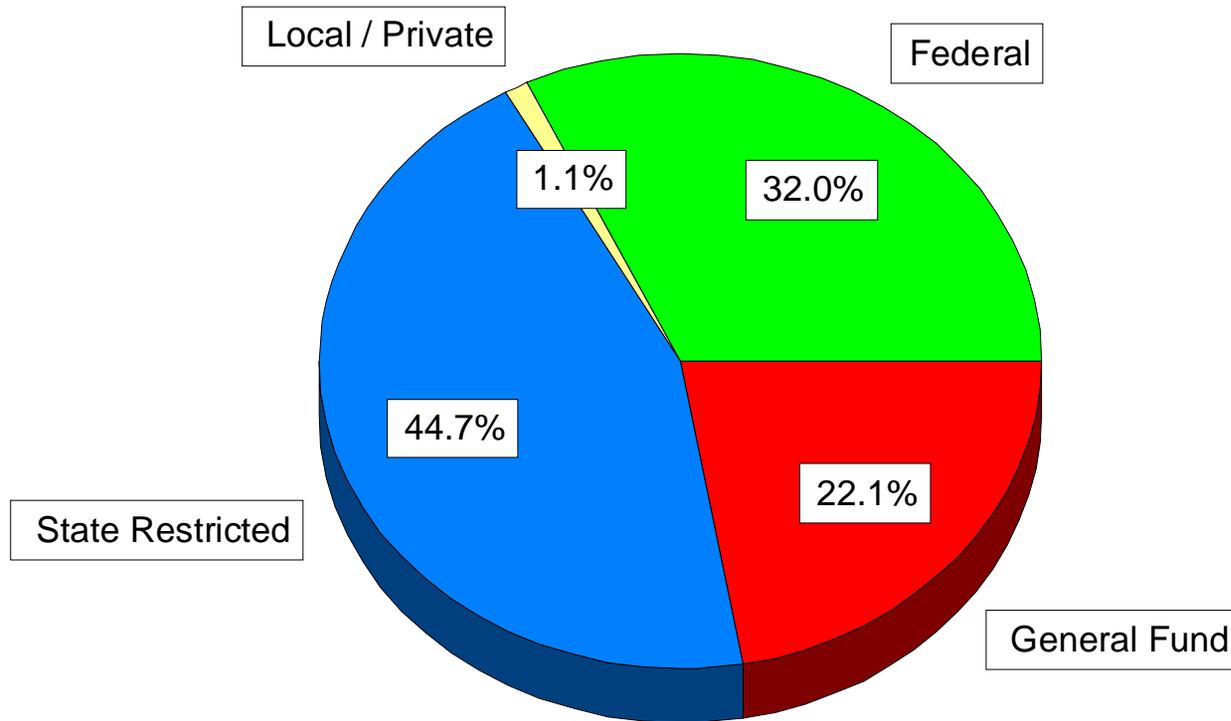
Table 1

FY 2006-07 Governor's Recommendation by Source of Funds					
Department/Budget Area	Adjusted Gross	Federal Funds	Local & Private	State Restricted	General Funds
Agriculture	\$101,402,300	\$22,757,000	\$183,800	\$48,399,000	\$30,062,500
Attorney General	54,392,000	10,236,500	0	11,259,500	32,896,000
Capital Outlay	213,975,100	147,974,300	12,648,300	53,350,300	2,200
Civil Rights	14,020,200	1,566,200	0	0	12,454,000
Civil Service	30,759,000	4,779,100	1,850,000	17,157,500	6,972,400
Community Colleges	287,129,400	0	0	0	287,129,400
Community Health	11,224,970,900	6,103,178,000	302,504,300	1,817,312,800	3,001,975,800
Corrections	1,946,183,100	11,431,500	420,900	68,775,700	1,865,555,000
Education	90,365,100	67,570,600	8,900,000	7,227,000	6,667,500
Environmental Quality	351,994,900	140,338,500	450,000	177,878,000	33,328,400
Executive	5,375,500	0	0	0	5,375,500
Higher Education	1,741,840,700	3,000,000	0	153,800,000	1,585,040,700
History, Arts, and Libraries	54,609,700	8,450,900	577,400	2,781,200	42,800,200
Human Services	4,470,701,800	3,147,082,900	65,853,600	66,868,600	1,190,896,700
Information Technology	0	0	0	0	0
Judiciary	255,685,200	3,926,400	4,454,900	87,178,500	160,125,400
Labor and Economic Growth	1,204,827,800	795,345,800	18,138,600	343,906,700	47,436,700
Legislature	127,430,400	0	400,000	2,356,500	124,673,900
Management and Budget	340,848,500	0	0	67,438,900	273,409,600
Military Affairs	120,653,000	51,190,700	2,619,400	26,202,700	40,640,200
Natural Resources	283,252,300	42,964,300	2,125,100	213,043,300	25,119,600
School Aid	13,119,014,700	1,412,736,900	0	11,671,277,800	35,000,000
State	184,793,500	3,052,100	100	162,608,600	19,132,700
State Police	555,854,400	181,013,300	8,169,200	111,373,200	255,298,700
Transportation	3,442,385,100	1,169,386,000	47,500,000	2,225,499,100	0
Treasury (Debt Service)	100,158,200	0	0	23,914,500	76,243,700
Treasury (Operations)	365,028,500	35,906,300	1,066,200	266,513,300	61,542,700
Treasury (Revenue Sharing)	1,114,471,400	0	0	1,113,400,000	1,071,400
Treasury (Strategic Fund)	80,401,200	47,687,000	700,000	5,000	32,009,200
TOTAL APPROPRIATIONS	\$41,882,523,900	\$13,411,574,300	\$478,561,800	\$18,739,527,700	\$9,252,860,100

Figure A

Appropriations by Source of Funds

FY 2006-07 Governor's Recommendation



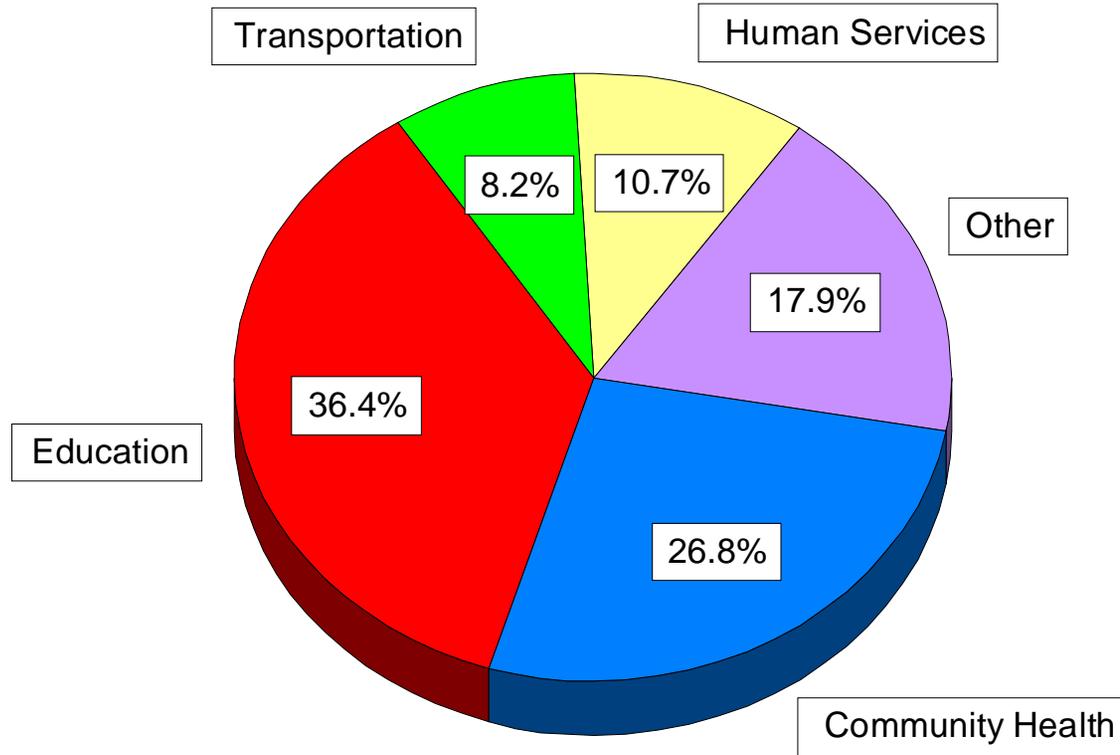
Total = \$ 41,882,523,900

Table 2
Adjusted Gross Appropriations
FY 2005-06 Versus Governor's Recommendation

Department/Budget Area	FY 2005-06 Year-To-Date Appropriations	FY 2006-07 Governor's Recommendation	Dollar Difference	Percent Change
Agriculture	\$108,810,200	\$101,402,300	\$(7,407,900)	(6.8)%
Attorney General	51,312,000	54,392,000	3,080,000	6.0
Capital Outlay	226,304,700	213,975,100	(12,329,600)	(5.4)
Civil Rights	13,158,500	14,020,200	861,700	6.5
Civil Service	30,270,700	30,759,000	488,300	1.6
Community Colleges	281,327,400	287,129,400	5,802,000	2.1
Community Health	10,292,104,000	11,224,970,900	932,866,900	9.1
Corrections	1,859,062,600	1,946,183,100	87,120,500	4.7
Education	117,475,600	90,365,100	(27,110,500)	(23.1)
Environmental Quality	437,164,900	351,994,900	(85,170,000)	(19.5)
Executive	5,375,500	5,375,500	0	0.0
Higher Education	1,734,443,900	1,741,840,700	7,396,800	0.4
History, Arts, and Libraries	52,569,400	54,609,700	2,040,300	3.9
Human Services	4,425,535,800	4,470,701,800	45,166,000	1.0
Information Technology	0	0	0	0.0
Judiciary	252,818,400	255,685,200	2,866,800	1.1
Labor and Economic Growth	1,203,975,200	1,204,827,800	852,600	0.1
Legislature	127,430,400	127,430,400	0	0.0
Management and Budget	359,924,400	340,848,500	(10,075,900)	(2.9)
Military Affairs	116,042,600	120,653,000	4,610,400	4.0
Natural Resources	269,251,900	283,252,300	14,000,400	5.2
School Aid	12,757,151,300	13,119,014,700	361,863,400	2.8
State	177,378,400	184,793,500	7,415,100	4.2
State Police	530,073,800	555,854,400	25,780,600	4.9
Transportation	3,387,807,500	3,442,385,100	54,577,600	1.6
Treasury (Debt Service)	89,001,400	100,158,200	11,156,800	12.5
Treasury (Operations)	380,121,900	365,028,500	(15,093,400)	(4.0)
Treasury (Revenue Sharing)	1,108,919,800	1,114,471,400	5,551,600	0.5
Treasury (Strategic Fund)	475,017,700	80,401,200	(394,616,500)	(83.1)
TOTAL APPROPRIATIONS	\$40,860,829,900	\$41,882,523,900	\$1,021,694,000	2.5%

Figure B

Adjusted Gross FY 2006-07 Governor's Recommendation



Total = \$ 41,882,523,900

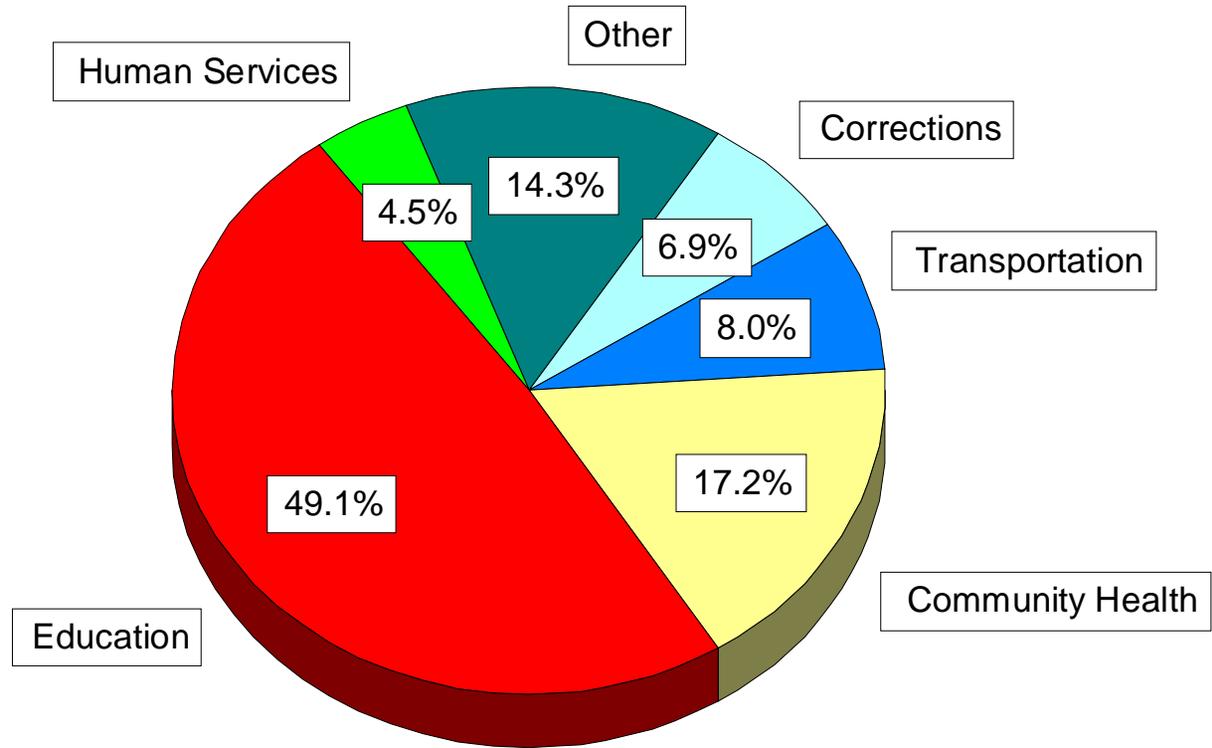
Table 3

**State Spending From State Resources Appropriations
FY 2005-06 Versus Governor's Recommendation**

Department/Budget Area	FY 2005-06 Year-To-Date Appropriations	FY 2006-07 Governor's Recommendation	Dollar Difference	Percent Change
Agriculture	\$76,089,800	\$78,461,500	\$2,371,700	3.1%
Attorney General	42,512,600	44,155,500	1,642,900	3.9
Capital Outlay	50,137,900	53,352,500	3,214,600	6.4
Civil Rights	12,108,700	12,454,000	345,300	2.9
Civil Service	23,641,600	24,129,900	488,300	2.1
Community Colleges	281,327,400	287,129,400	5,802,000	2.1
Community Health	4,467,908,400	4,819,288,600	351,380,200	7.9
Corrections	1,847,240,700	1,934,330,700	87,090,000	4.7
Education	39,613,600	13,894,500	(25,719,100)	(64.9)
Environmental Quality	292,652,200	211,206,400	(81,445,800)	(27.8)
Executive	5,375,500	5,375,500	0	0.0
Higher Education	1,730,943,900	1,738,840,700	7,896,800	0.5
History, Arts, and Libraries	43,773,700	45,581,400	1,807,700	4.1
Human Services	1,152,388,000	1,257,765,300	105,377,300	9.1
Information Technology	0	0	0	0.0
Judiciary	244,630,400	247,303,900	2,673,500	1.1
Labor and Economic Growth	390,440,600	391,343,400	902,800	0.2
Legislature	127,030,400	127,030,400	0	0.0
Management and Budget	350,924,400	340,848,500	(10,075,900)	(2.9)
Military Affairs	65,149,600	66,842,900	1,693,300	2.6
Natural Resources	228,171,600	238,162,900	9,991,300	4.4
School Aid	11,364,564,000	11,706,277,800	341,713,800	3.0
State	174,435,000	181,741,300	7,306,300	4.2
State Police	341,643,700	366,671,900	25,028,200	7.3
Transportation	2,184,113,400	2,225,499,100	41,385,700	1.9
Treasury (Debt Service)	89,001,400	100,158,200	11,156,800	12.5
Treasury (Operations)	343,691,100	328,056,000	(15,635,100)	(4.5)
Treasury (Revenue Sharing)	1,108,919,800	1,114,471,400	5,551,600	0.5
Treasury (Strategic Fund)	426,295,900	32,014,200	(394,281,700)	(92.5)
TOTAL APPROPRIATIONS	\$27,501,725,300	\$27,992,387,800	\$487,662,500	1.8%

Figure C

State Spending From State Resources FY 2006-07 Governor's Recommendation



Total = \$ 27,992,387,800

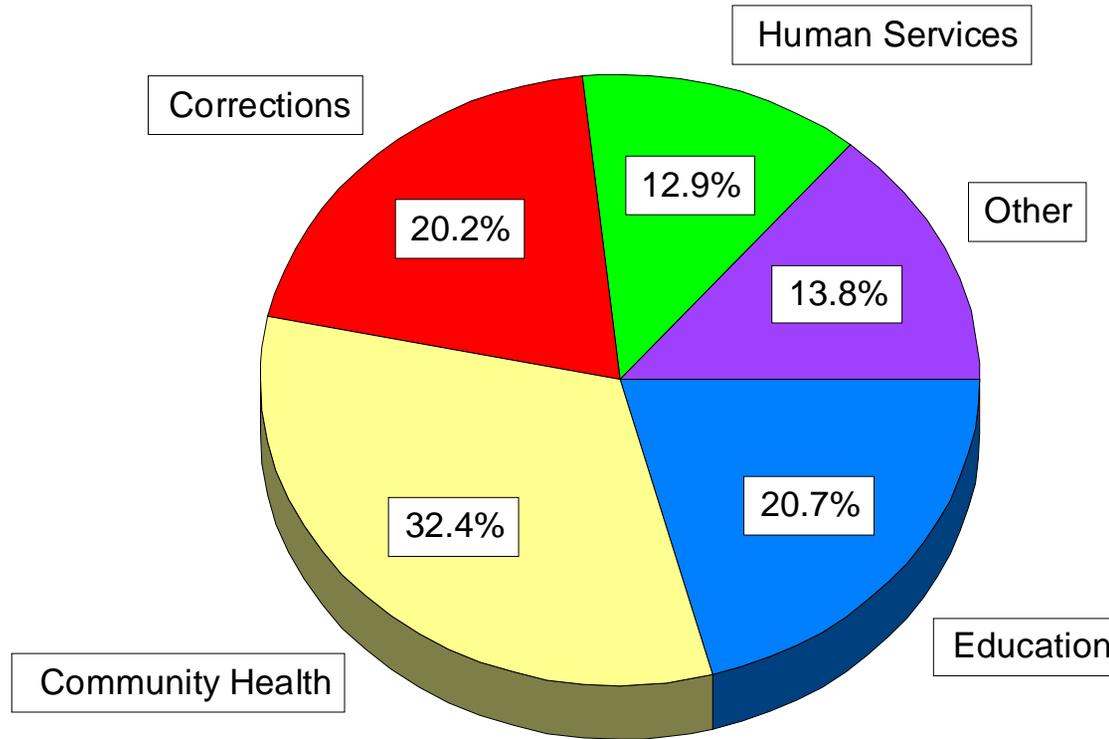
Table 4

**General Fund/General Purpose Appropriations
FY 2005-06 Versus Governor's Recommendation**

Department/Budget Area	FY 2005-06 Year-To-Date Appropriations	FY 2006-07 Governor's Recommendation	Dollar Difference	Percent Change
Agriculture	\$28,362,700	\$30,062,500	\$1,699,800	6.0%
Attorney General	31,501,200	32,896,000	1,394,800	4.4
Capital Outlay	4,401,900	2,200	(4,399,700)	(99.9)
Civil Rights	12,108,700	12,454,000	345,300	2.9
Civil Service	7,102,400	6,972,400	(130,000)	(1.8)
Community Colleges	281,327,400	287,129,400	5,802,000	2.1
Community Health	2,951,899,400	3,001,975,800	50,076,400	1.7
Corrections	1,780,650,700	1,865,555,000	84,904,300	4.8
Education	16,100,400	6,667,500	(9,432,900)	(58.6)
Environmental Quality	31,809,600	33,328,400	1,518,800	4.8
Executive	5,375,500	5,375,500	0	0.0
Higher Education	1,577,443,900	1,585,040,700	7,596,800	0.5
History, Arts, and Libraries	41,190,100	42,800,200	1,610,100	3.9
Human Services	1,081,211,900	1,190,896,700	109,684,800	10.1
Information Technology	0	0	0	0.0
Judiciary	157,614,500	160,125,400	2,510,900	1.6
Labor and Economic Growth	39,063,400	47,436,700	8,373,300	21.4
Legislature	124,673,900	124,673,900	0	0.0
Management and Budget	291,220,000	273,409,600	(17,810,400)	(6.1)
Military Affairs	37,789,100	40,640,200	2,851,100	7.5
Natural Resources	25,593,200	25,119,600	(473,600)	(1.9)
School Aid	62,714,000	35,000,000	(27,714,000)	(44.2)
State	13,497,800	19,132,700	5,634,900	41.7
State Police	235,361,600	255,298,700	19,937,100	8.5
Transportation	0	0	0	0.0
Treasury (Debt Service)	52,886,900	76,243,700	23,356,800	44.2
Treasury (Operations)	57,684,500	61,542,700	3,858,200	6.7
Treasury (Revenue Sharing)	712,000	1,071,400	359,400	50.5
Treasury (Strategic Fund)	32,290,900	32,009,200	(281,700)	(0.9)
TOTAL APPROPRIATIONS	\$8,981,587,600	\$9,252,860,100	\$271,272,500	3.0%

Figure D

General Fund/General Purpose FY 2006-07 Governor's Recommendation



Total = \$ 9,252,860,100

Summary of Major GF/GP Appropriation Changes for FY 2006-07

The Governor's FY 2006-07 GF/GP budget recommendation marks the fourth State budget that Governor Granholm has transmitted to the Legislature. The Governor's budget contains revenue from proposed tax policy changes, a liquor license fee increase, appropriation increases, appropriation reductions, and assumptions concerning the level of Federal funds available to support appropriations in the budget.

As previously stated, the Governor's FY 2006-07 GF/GP budget recommendation is built on assumptions as to the level of revenue available to support appropriations. Table 5 provides a summary of the total GF/GP revenue that will be available to support FY 2006-07 GF/GP appropriations. Total FY 2006-07 GF/GP revenue assumed in the Governor's budget equals \$9.26 billion. This revenue total includes \$8.38 billion of consensus revenue and \$878.0 million of revenue adjustments not included in the consensus revenue estimate. These revenue adjustments include \$600.2 million from a recommended freeze in State revenue sharing payments to cities, villages, townships, and counties, the use of a projected \$79.8 million year-end balance carried forward from FY 2005-06, \$88.4 million from tax policy changes, \$23.0 million from a fee increase, \$28.0 million from the sale of surplus State property, \$22.8 million from a proposal to shift cash flow borrowing costs from the General Fund to the SAF, \$15.0 million of interest earnings from tobacco securitization funds, and \$20.8 million from a variety of other proposals to shift State Restricted funds to the GF/GP budget.

Table 5

Governor's FY 2006-07 Budget Recommendation General Fund/General Purpose Revenue Recommendations (Millions of Dollars)	
Consensus Revenue Estimate (January 2006).....	\$8,377.2
Revenue Adjustments not Included in Consensus Estimate:	
Revenue Sharing Freeze.....	600.2
Use of FY 2005-06 Year-End Balance.....	79.8
Tax Policy Changes	88.4
Fee Increases (Liquor License Fee)	23.0
Land Sales	28.0
Shift of Short-Term Borrowing Costs to School Aid Fund	22.8
Interest Earnings from Tobacco Securitization.....	15.0
Fund Shifts/Other	20.8
Subtotal Revenue Adjustments not Included in Consensus Estimate	\$878.0
Governor's GF/GP Revenue Recommendation.....	\$9,255.2

Table 6 provides a comparison of the Governor's recommended level of FY 2006-07 GF/GP appropriations with the year-to-date level of FY 2005-06 GF/GP appropriations. The Governor's recommendation represents a \$271.3 million increase in GF/GP appropriations. Table 6 provides a high level summary of the three approaches recommended by the Governor that led to this overall increase in GF/GP appropriations. The \$271.3 million of appropriation changes consists of \$478.8 million of GF/GP appropriation increases, \$204.9 million of GF/GP appropriation reductions, and \$2.6 million of GF/GP funding reductions from fund shifts that do not affect the overall level of State programs.

Table 6

Governor's FY 2006-07 Appropriation Recommendations Major Proposed Changes From FY 2005-06 Year-To-Date General Fund/General Purpose Appropriations (Millions of Dollars)	
FY 2005-06 Year-To-Date Appropriations.....	\$8,981.6
FY 2006-07 Governor's Appropriation Recommendations	<u>9,252.9</u>
Net Increase in Appropriations.....	<u>\$271.3</u>
Total Funding Increases	\$478.8
Total Funding Reductions.....	(204.9)
Total Fund Shifts	<u>(2.6)</u>
Total GF/GP Funding Change.....	<u>\$271.3</u>

Table 7 provides a summary of the \$478.8 million of GF/GP appropriation increases included in the FY 2006-07 budget recommendation. These appropriation increases can be grouped into four broad categories. First are increases dealing with caseload and general cost adjustments. Included in this group are funding increases in the Medicaid program and the Human Services Department. The second broad category of funding increases is debt service on State general obligation bonds. The third broad category is funding increases for university and community college operations, and the fourth broad category involves the costs associated with the funding of State employees. This funding includes the costs associated with negotiated salary increases, insurance increases, and pension contribution increases.

Table 8 provides a summary of the \$204.9 million of GF/GP appropriation reductions contained in the Governor's budget. The largest reductions include the elimination of the Tuition Grant Program in the Higher Education budget resulting in \$54.8 million GF/GP savings. This program provides need-based financial aid to students attending independent colleges. Other large proposed GF/GP spending reductions include \$43.0 million from proposed pharmaceutical savings in the Medicaid program, \$27.7 million from a reduction in the GF/GP grant to the SAF, and \$18.0 million from reduced debt service needs on State Building Authority bonds.

Table 7
FY 2006-07 Governor's Recommendation
GF/GP Major Funding Increases
(Millions of Dollars)

<u>Department/Program</u>	
Community Colleges	
Operations Funding Increase.....	\$5.5
Renaissance Zone Tax Reimbursements.....	0.3
Community Health	
Medicaid Caseload/Utilization/Inflation	133.6
Actuarially Sound Rates for HMOs and Community Mental Health.....	38.4
Mount Pleasant Center Staffing Increase	1.6
Adult Home Help Workers Wage Increase	8.7
Corrections	
Correctional Officer Training Costs	8.8
Prison Health Care Costs.....	2.3
Information Technology Upgrades.....	1.8
Enhancement of Electronic Tether System.....	1.7
Various Other Operational Increases.....	2.0
Higher Education	
Operations Funding Increase.....	28.4
Competitive Scholarships.....	29.5
Human Services	
Caseload/Utilization/Inflation.....	14.9
Local Office Worker Relief Effort (Bridge Program)	2.8
Child Support Automation	1.6
Child Protective Services Staff Increase	1.5
Various Other Operational Increases.....	6.6
State	
Business Applications Modernization Project	1.1
State Police	
Uniform Services Restoration	1.1
Fire Investigation Restoration	1.2

Table 7 (continued)

FY 2006-07 Governor's Recommendation GF/GP Major Funding Increases (Millions of Dollars)	
Treasury (Debt Service)	
General Obligation Bond Debt Service	23.4
Treasury (Operations)	
Senior Citizen Cooperative Housing Tax Payments	0.9
Telephone/Telegraph Tax Appraisals	2.0
Departmentwide Economic Adjustments	
Wage and Salary Increases	63.2
Health Care and Other Insurance Increases	23.8
Employee Retirement Increases	58.5
Building Occupancy Charges	1.6
All Other Economic Adjustments.....	4.3
All Other Funding Increases.....	7.7
Total Major Funding Increases	\$478.8

Table 8

FY 2006-07 Governor's Recommendation GF/GP Major Funding Reductions (Millions of Dollars)	
<u>Department/Issue</u>	
Capital Outlay	
Elimination of FY 2005-06 One-Time Grant to Detroit Zoo/Museums	\$(4.4)
Civil Service	
Various Administrative Efficiencies	(0.4)
Community Health	
Pharmaceutical Rebates	(43.0)
Various Cost Reduction Initiatives	(20.4)
Corrections	
Corrections Security Inspectors	(1.5)
Elimination of Jail Capacity Grants	(4.0)
Efficiency Adjustments in Facilities	(3.0)
Various Technical Adjustments.....	(1.1)

Table 8 (continued)

FY 2006-07 Governor's Recommendation GF/GP Major Funding Reductions (Millions of Dollars)	
Environmental Quality	
State Revolving Fund for Sewer Projects	(1.1)
Higher Education	
Tuition Grant Program	(54.8)
Human Services	
Front End Eligibility Initiative Savings	(3.7)
Jobs, Education, and Training Pilot Savings.....	(11.0)
Day Care Services Half-Day Program Savings	(5.0)
Management and Budget	
State Building Authority Debt Service Payments	(18.3)
Various Administrative Reductions	(0.5)
School Aid Fund	
Reduced GF/GP Grant to School Aid Fund.....	(27.7)
State Police	
Employee Staffing Level Adjustments	(1.7)
Treasury (Operations)	
Adjustment for One-Time Supplemental Appropriation	(1.0)
Various Administrative Reductions	(1.3)
Treasury (Strategic Fund)	
Elimination of 21st Century GF/GP Grant.....	(1.0)
Major Funding Reductions.....	\$(204.9)

Table 9 provides a summary of the net \$2.6 million of appropriation reductions resulting from funding shifts that are included in the GF/GP budget recommendations. These funding shifts do not increase or decrease the overall level of any specific State program, but simply substitute GF/GP appropriations to offset the loss of Federal or State Restricted funds or reduce GF/GP funding to offset increases in Federal or State Restricted funds. The primary department affected by these fund shifts is the Department of Community Health. The State Medicaid program has numerous instances in which Federal or State Restricted revenue has either increased or decreased from the prior-year funding level, forcing adjustments in GF/GP appropriations. The net effect of these fund shifts is a \$2.6 million reduction in GF/GP appropriations.

Table 9
FY 2006-07 Governor's Recommendation
GF/GP Major Funding Shifts to Increase/(Reduce) GF/GP
(Millions of Dollars)

<u>Department/Issue</u>	
Agriculture	
Fund Shift in Food Safety Program from Restricted to GF/GP	\$0.5
Community Health	
Shift of Health and Vision Screening to School Aid Fund	(2.6)
Fund Shift for Certain Pharmaceutical Services and Graduate Medical Education	(11.7)
Fund Shift in Medicaid Program due to Decreased Federal Medicaid Match Rate	17.2
Fund Shift in Medicaid Program from GF/GP to Medicaid Benefits Trust Fund.....	(30.0)
Fund Shift in Medicaid Program from Higher Provider Taxes	(29.8)
Fund Shift in Medicaid Program from GF/GP to Tobacco Settlement Revenue	(18.9)
Fund Shift in Senior Drug Program from GF/GP to Federal Funds.....	(3.9)
Corrections	
Fund Shift in Special Maintenance from GF/GP to State Building Authority Funding.....	(2.0)
Education	
Shift of School Breakfast Program to School Aid Fund	(9.6)
Higher Education	
Fund Shift in Children of Veterans Tuition Grants from GF/GP to Income Tax Checkoff	(0.5)
Human Services	
Increase in GF/GP for TANF Program to Replace Federal Funds	78.0
Increase in GF/GP for Social Services Block Grant to Replace Federal Funds	15.3
Shift of Juvenile Justice Education Funding to School Aid Fund	(3.0)
Various Other Federal Funding Increases to Reduce GF/GP	(8.1)
Labor and Economic Growth	
Fund Shift in Job Training Programs from Federal to GF/GP	4.4
Fund Shift in Welfare to Work Program from Federal to GF/GP	1.3
Fund Shift in Pre-College Engineering from GF/GP to School Aid Fund	(0.7)
Military and Veterans Affairs	
Fund Shift in Challenge Program from GF/GP to School Aid Fund	(0.8)
Fund Shift in Grand Rapids Veterans Home from Restricted to GF/GP	1.2
Natural Resources	
Fund Shift in Forest Fire Protection from GF/GP to Restricted	(1.5)
State Police	
Fund Shift in At-Post Troopers from Restricted to GF/GP	2.0
Fund Shift in School Bus Inspections from GF/GP to School Aid Fund	(1.3)
Fund Shift in MCOLES Administration from Restricted to GF/GP	1.9
Total Major Funding Shifts	\$(2.6)

Summary of Major School Aid Fund Appropriation Changes for FY 2006-07

The Governor's FY 2006-07 SAF budget recommendation is built on assumptions as to the level of revenue available to support appropriations. Table 10 provides a summary of the total SAF revenue that will be available to support SAF appropriations. Total FY 2006-07 SAF revenue assumed in the Governor's budget equals \$13.12 billion. This revenue total includes \$11.59 billion of consensus revenue and \$1.53 billion of revenue adjustments not included in the consensus revenue estimate. These revenue adjustments include the use of a projected \$8.02 million year-end balance carried forward from FY 2005-06, \$22.8 million from tax policy changes, a \$22.8 million revenue reduction from a proposed change in the accounting of short-term borrowing costs, a \$35.0 million GF/GP grant to the SAF, and \$1.41 billion of Federal aid. The revenue reduction from the change in short-term borrowing cost is a recommendation to begin having the SAF bear a portion of the cost of cash flow borrowing that is necessary because of the difference in the timing of revenue collections and actual expenditures of appropriations. Under current policy, the GF/GP budget bears the cost of short-term borrowing that is needed for cash flow purposes in both the GF/GP and SAF budgets.

Table 10

Governor's FY 2006-07 Budget Recommendation School Aid Fund Revenue Recommendations (Millions of Dollars)	
Consensus Revenue Estimate (January 2006).....	\$11,591.1
<u>Revenue Adjustments not Included in Consensus Estimate:</u>	
Use of FY 2005-06 Year-End Balance.....	80.2
Tax Policy Changes	22.8
Short-Term Borrowing Costs	(22.8)
GF/GP Grant to School Aid Fund	35.0
Federal Aid.....	<u>1,412.7</u>
Subtotal Revenue Adjustments	1,527.9
Governor's School Aid Fund Revenue Recommendation.....	<u>\$13,119.0</u>

The \$13.12 billion of FY 2006-07 SAF revenue represents a \$371.8 million increase over the Governor's recommended level of FY 2005-06 SAF appropriations. Table 11 provides a summary of the appropriation changes from the current fiscal year that are contained in the Governor's FY 2006-07 SAF recommendation. The table breaks the appropriation changes into four categories. These four categories are increases to existing programs, new categorical programs, funding shifts to the SAF budget, and program reductions.

Table 11

**Governor's FY 2006-07 Budget Recommendations
K-12 School Aid Appropriation Increases
(Millions of Dollars)**

FY 2005-06 Governor's Recommended Appropriations ¹⁾	\$12,747.2
FY 2006-07 Governor's Appropriation Recommendation.....	<u>13,119.0</u>
Net Increase in Appropriations	\$371.8
Recommended Appropriation Increases in Existing Programs:	
Basic Foundation Allowance Increase by \$175 Per Pupil	124.5
Special Education State Cost Increases	55.6
School Readiness Preschool Program for At-Risk Four-Year-Olds	28.8
Net Federal Grant Adjustments	20.2
ISD Early Childhood	6.7
Adult Education.....	4.0
Renaissance Zone.....	5.2
School Bond Loan Fund Debt Service	3.5
ISD Operational Increases.....	2.8
All Other Program Increases	<u>6.8</u>
Subtotal Appropriation Increases.....	246.1
Recommended New Categorical Programs:	
Declining Enrollment Additional Payments.....	50.0
Health/Science Middle College Program	5.0
Elementary Math/Reading Literacy Programs.....	10.0
Middle School Math/Science/Technology After-School Programs	15.0
Payments to Districts with Deficit Mills Prior to Proposal A.....	12.0
Other New Programs	<u>4.0</u>
Subtotal New Categorical Programs	96.0
Program Shifts to School Aid Fund Budget:	
MEAP Test Contract Costs (Education)	19.5
School Breakfast (Education)	9.6
Hearing and Vision Screening (Community Health).....	5.2
Juvenile Facilities Education Expenses (Human Services).....	3.0
School Bus Inspections (State Police).....	1.3
Youth Challenge Program (Military Affairs)	1.3
Pre-College Engineering Program (Labor and Economic Growth)	<u>0.7</u>
Subtotal Program Shifts to School Aid Fund Budget.....	40.6
Recommended Appropriation Reductions:	
Detroit Reform Board Supplemental Payment	(7.0)
Middle School Math Initiative	<u>(3.9)</u>
Subtotal Appropriation Reductions	(10.9)
Total Recommended Appropriation Changes	\$371.8

1) Assumes enactment of Governor's recommended \$25 supplemental increase in the Basic Foundation Allowance.

Several existing SAF appropriations will see funding increases in the Governor's budget recommendation. These increases to existing programs total \$246.1 million. The largest increase is a recommendation to increase the basic foundation allowance by \$175 to a level of \$7,075. This proposed increase results in a \$124.5 million appropriation increase. Other major increases to existing programs include a \$28.8 million or 39.0% increase in funding for the school readiness program for four-year-olds, a \$4.0 million or 19.0% increase for adult education funding, a \$55.6 million increase in the State costs of the special education program, and \$20.2 million of program increases supported by increased Federal revenue.

The SAF appropriation recommendation includes a total of \$96.0 million to be spent on new categorical programs not funded in the current budget. The largest of these new programs is \$50.0 million for a new categorical payment to districts that have had declining pupil enrollments over the past two years. These districts would have their pupil counts based on the average of the past three years of pupil counts. Other new categorical programs include \$5.0 million for a health/science middle school program designed to encourage middle school students to consider careers in health-related fields, \$10.0 million for elementary mathematics and science literacy programs, \$15.0 million for middle school mathematics/science/technology after-school programs, and \$12.0 million for special payments to seven local school districts that were levying deficit operating property taxes before the school funding reforms in 1994.

The SAF appropriation recommendation includes a total of \$40.6 million of programs that were funded from GF/GP revenue or other State Restricted revenue in FY 2005-06 and will be funded from SAF revenue in FY 2006-07. These programs include \$19.5 million for Michigan Educational Assessment Program test administrative costs, \$9.6 million for school breakfast programs, \$5.2 million for hearing and vision screening of schoolchildren, \$3.0 million for educational programming at State-operated juvenile justice facilities, \$1.3 million for school bus inspections, \$1.3 million for the Challenge program run by the Department of Military and Veterans Affairs, and \$0.7 million for pre-college engineering programs.

The final category of SAF appropriation adjustments is reductions in existing programs. The budget eliminates \$7.0 million of funding for the Detroit Public Schools transition to a newly elected board and eliminates \$3.9 million of funding for the middle school mathematics program.

FY 2005-06 Supplemental Appropriations

The Governor's FY 2006-07 budget recommendation includes FY 2005-06 supplemental appropriation recommendations. These recommendations, which are outlined in Table 12, include \$189.3 million of Gross appropriations and \$33.2 million of GF/GP appropriations. The majority of these supplemental appropriations are recommendations to appropriate additional Federal and State Restricted funds that have become available subsequent to the enactment of the initial FY 2005-06 appropriation bills. Other issues addressed in the supplemental include increased GF/GP funding of \$32.6 million in the Department of Human Services to offset Federal funding shortfalls in the Temporary Assistance for Needy Families (TANF) and the Social Services Block Grant programs, and the proposal for a \$25 increase in the basic foundation allowance used to fund K-12 school districts.

Table 12

**FY 2005-06 Supplemental Appropriation Recommendations
Included in Governor's FY 2006-07 Budget Message
(Thousands of Dollars)**

Department/Item	Gross	GF/GP
Agriculture		
Americorps	\$250.0	\$0.0
Greenhouse/Nursery Emergency Response	11.0	0.0
Migrant Labor Housing	145.0	0.0
Food Security Assessment Activities	150.0	0.0
Civil Penalty Revenue	25.0	0.0
Mad Cow Disease Inspections/Testing	250.0	0.0
Laboratory Testing: Heavy Metals	293.0	0.0
Subtotal Agriculture	1,124.0	0.0
Attorney General		
Operations Funding	1,027.7	0.0
Subtotal Attorney General	1,027.7	0.0
Capital Outlay		
Natural Resources - Dredging at Boat Sites	1,470.0	0.0
Natural Resources Trust Fund Projects	37,339.5	0.0
Subtotal Capital Outlay	38,809.5	0.0
Civil Rights		
Operations Funding	516.4	0.0
Subtotal Civil Rights	516.4	0.0
Community Health		
Pandemic Flu	2,951.8	0.0
Children With Serious Emotional Disturbance	570.0	0.0
AIDS Prevention	1,000.0	0.0
Laboratory Services	300.0	0.0
Epidemiology	47.0	0.0
Lead Abatement Program	300.0	0.0
WIC Program	2,059.0	0.0
MSU and U of M Contracts	3,000.0	0.0
Pharmaceutical Services	36,217.6	0.0
Medical Adult Benefits Waiver	4,394.7	0.0
Subtotal Community Health	50,840.1	0.0
Education		
Hurricane Educational Expenses	3,286.0	0.0
Subtotal Education	3,286.0	0.0

Table 12 (continued)

FY 2005-06 Supplemental Appropriation Recommendations Included in Governor's FY 2006-07 Budget Message (Thousands of Dollars)		
Department/Item	Gross	GF/GP
Environmental Quality		
Office of the Great Lakes	45.0	0.0
Multi-State Hazardous Waste Tracking Tool	741.2	0.0
Multi-State Homeland Security System.....	691.6	0.0
Waste Reduction Revenue Fund	3,000.0	0.0
Environmental Protection Fund.....	19,000.0	0.0
Subtotal Environmental Quality.....	23,477.8	0.0
History, Arts, and Libraries		
Library Funding	315.9	315.9
Arts Grants	315.9	315.9
Subtotal History, Arts, and Libraries.....	631.8	631.8
Human Services		
Child Support Bench Warrant Fees	600.0	0.0
Children's Trust Fund	297.7	0.0
Daycare Funding Shift.....	1,937.0	0.0
TANF Funding Shortfall.....	0.0	20,000.0
Title XX Funding Shortfall	0.0	15,300.0
Day Care Fund Shift.....	0.0	(6,600.0)
Child Support Automation Fund Shift.....	0.0	3,397.4
Children's Protective Services Staff	614.3	500.0
Subtotal Human Services.....	3,449.0	32,597.4
Information Technology		
Appropriation Adjustment to Match Spending.....	17,512.3	0.0
Subtotal Information Technology.....	17,512.3	0.0
Judiciary		
Court of Appeals.....	150.0	0.0
Subtotal Judiciary	150.0	0.0
Labor and Economic Growth		
Public Service Commission: Wastewater/Energy	132.5	0.0
Office of Financial and Insurance Services: Pay Day Lending	550.0	0.0
Unemployment Agency: IT System.....	32,600.0	0.0
Subtotal Labor and Economic Growth.....	33,282.5	0.0

Table 12 (continued)

FY 2005-06 Supplemental Appropriation Recommendations Included in Governor's FY 2006-07 Budget Message (Thousands of Dollars)		
Department/Item	Gross	GF/GP
Legislature		
Redistricting Project	500.0	500.0
Subtotal Legislature	500.0	500.0
Management and Budget		
State Fair	966.7	0.0
Information Technology.....	2,000.0	0.0
Subtotal Management and Budget	2,966.7	0.0
Military and Veterans Affairs		
Veterans Homes.....	219.0	0.0
Starbase Program	206.6	0.0
Military Training Sites/Facilities	4,600.0	0.0
Subtotal Military and Veterans Affairs	5,025.6	0.0
Natural Resources		
Education and Outreach	250.0	0.0
State Parks.....	3,325.0	0.0
Law Enforcement Equipment	1,470.0	0.0
State Shooting Ranges Repair.....	83.0	0.0
Marine Safety Grants to Locals	1,470.0	0.0
Subtotal Natural Resources	6,598.0	0.0
School Aid		
Basic Foundation Allowance (\$25 Increase).....	41,500.0	0.0
Cost Adjustments	(51,500.0)	0.0
Subtotal School Aid	(10,000.0)	0.0
State Police		
Criminal Justice Information Center	3,080.0	0.0
DNA Analysis and Laboratory Operations	1,110.9	0.0
Michigan Amber Alert Plan.....	31.8	0.0
Michigan Youth Leadership Academy	32.0	0.0
Highway Safety Public Information	160.0	0.0
Auto Theft Prevention Grants to Locals	2,150.4	0.0
Public Safety Communications System	1,000.0	0.0
Subtotal State Police	7,565.1	0.0

Table 12 (continued)

FY 2005-06 Supplemental Appropriation Recommendations Included in Governor's FY 2006-07 Budget Message (Thousands of Dollars)		
Department/Item	Gross	GF/GP
Transportation		
Safe Routes to School Program.....	3,040.2	0.0
Subtotal Transportation.....	3,040.2	0.0
Treasury		
Agricultural Loan Program	750.0	750.0
Telephone/Telegraph Auditors.....	2,700.0	2,700.0
401(k) Expert Assistance	100.0	100.0
SBA Rent Lapse.....	(4,100.0)	(4,100.0)
Subtotal Treasury.....	(550.0)	(550.0)
Total Supplemental Recommendations.....	\$189,252.7	\$33,179.2

Federal Funds Assumptions

The recommended appropriation of \$13.4 billion of Federal funds in the overall State budget is based on Federal budget policy currently in place, assumed changes in Federal laws, and the approval by the Federal government of proposed State changes in the Medicaid program. These proposed Medicaid changes, referred to as Medicaid waivers, would allow the State to receive increased Federal funding for the Medicaid program and receive new Federal funding for a proposed low-income health insurance plan for Michigan residents. These Federal assumptions are critical in the development of the overall State budget and adjustments will have to be made in the budget if the Federal funding assumptions included in the final State budget are not realized.

State Revenue Sharing

The Governor's FY 2006-07 budget recommendation contains a continuation of State revenue sharing appropriations to cities, villages, and townships (CVTs) from the levels appropriated in FY 2005-06, which were frozen at the appropriated FY 2004-05 levels. Counties will continue to make withdrawals from special reserved funds in lieu of receiving revenue sharing payments. The reserve funds were created and withdrawals authorized as part of a phased-in shift in the collections date for county property tax collections. The recommendation also provides \$859,400 for special census revenue sharing payments to cities, villages, and townships having certified population growth of 10.0% or more since the 2000 census.

Under the Governor's recommendation, the freeze will result in an estimated 1,013 CVTs not receiving any payments in FY 2006-07 under statutory revenue sharing provisions, although these local units will continue to receive constitutional revenue sharing payments. Statutory revenue sharing payments will not be made to these local units because 816 are not expected to receive a statutory payment in FY 2005-06 and another 197 CVTs are expected to receive so little in statutory funds in FY 2005-06 that

eliminating the statutory payment will be insufficient to offset the growth the CVTs will receive in constitutional payments. Under the recommendation, given current revenue estimates, the City of Detroit is expected to receive approximately 53.0% of the statutory appropriation for revenue sharing. Enacting the freeze will require additional legislation to alter the current distribution formula. The recommendation also includes \$212,000 of General Fund revenue to hold units, under the control of a State-appointed financial manager (currently, only Highland Park), harmless from revenue sharing reductions.

Proposed Fee Increase

The budget recommendation includes only one proposed fee increase. The proposed fee increase is a 300% increase in the cost of license fees paid by establishments that sell liquor. This proposed fee increase will generate \$23.0 million that will be counted as GF/GP revenue.

Unclassified Salaries

The budget recommendation includes no funding increases for unclassified salaries above the amounts appropriated in the current fiscal year.

Employee Retirement Contribution Rates

The budget recommendation includes the estimated contribution rates that the State of Michigan, local school districts, community colleges, and several public universities have to make on behalf of their employees to the State Employees Retirement System and the Public School Employees Retirement System. These contribution rates include a component for pension costs for future retirees and the actual cash cost of retired State or local school employees. Table 13 provides a summary of the FY 2006-07 contribution rates compared with the contribution rates during FY 2005-06. State employees in the defined benefit retirement program will see their FY 2006-07 contribution rates increase to 30.30% of payroll and State employees in the defined contribution retirement program will see their contribution rates decline to 17.50% of payroll. The FY 2006-07 contribution rate for all public school employees in the defined benefit program will be 17.74% of payroll or an increase of 1.40% of payroll from the current fiscal year.

Table 13**Retirement Contribution Rates
as a Percentage of Payroll**

	FY 2005-06	FY 2006-07	FY 2006-07 Change
<u>State Employees Retirement System</u>			
Defined Benefit Pension	14.30%	18.10%	3.80%
Defined Benefit Health Care	<u>13.75%</u>	<u>12.20%</u>	<u>(1.55)%</u>
Total Defined Benefit Costs	28.05%	30.30%	2.25%
Defined Contribution Pension	6.00%	5.30%	(0.70)%
Defined Contribution Health Care	<u>13.75%</u>	<u>12.20%</u>	<u>(1.55)%</u>
Total Defined Contribution Costs	19.75%	17.50%	(2.25)%
<u>Public School Employees Retirement System</u>			
Defined Benefit Pension	9.79%	11.19%	1.40%
Defined Benefit Health Care	<u>6.55%</u>	<u>6.55%</u>	<u>0.00%</u>
Total Defined Benefit Costs	16.34%	17.74%	1.40%
Estimated FY 2006-07 Payroll: State Employees Retirement System, \$2.3 billion; Public School Employees Retirement System, \$9.3 billion			

State Classified Employee Funding Increases

On December 15, 2004, the Civil Service Commission approved a multiyear collective bargaining agreement with State civil service employees. The agreement includes salary adjustments for FY 2005-06, FY 2006-07, and FY 2007-08. The budget recommendation includes the funding for the salary adjustments for FY 2006-07, health care cost increases for State employees, and the increased cost of State contributions on behalf of State employees to the various State retirement systems. Under the terms of the collective bargaining agreement, State civil service employees will receive a 2.0% pay increase on October 1, 2006, and a 2.0% pay increase effective on April 1, 2007. [Table 14](#) provides a summary of the FY 2006-07 appropriation impacts of these employee compensation increases along with increased costs associated with the occupancy of State office space, worker's compensation costs, and other economic adjustments. Economic adjustments funded in the Governor's FY 2006-07 budget recommendation total \$243.7 million of Gross appropriations and \$151.4 million of GF/GP appropriations.

Table 14

Economic Costs Included in Governor's FY 2006-07 Budget Recommendation (Millions of Dollars)		
Economic Adjustment	Gross Appropriation	GF/GP Appropriation
Salary Increases.....	\$107.3	\$63.2
Employee Insurance Increases.....	39.4	23.8
Retirement Contribution Increases.....	91.4	58.5
Building Occupancy Charges.....	1.7	1.6
Worker's Compensation Increases.....	0.2	0.7
All Other Economic Increases.....	3.7	3.6
Total Economic Adjustments.....	\$243.7	\$151.4

Tobacco Settlement Appropriations

The budget recommendation includes the appropriation of \$292.8 million of tobacco settlement funds from the Merit Award Trust Fund. These tobacco settlement appropriations are summarized in [Table 15](#). The major change in tobacco settlement appropriations from the current year is a \$22.8 million increase in Medicaid appropriations and a \$16.4 million reduction in funding of the Michigan Educational Assessment Program. The funding of the Michigan Educational Assessment Program during FY 2006-07 will be from State Restricted SAF revenue. Over 88.0% of tobacco settlement funds are appropriated between the Medicaid program and the Merit Award Scholarship program.

Table 15

Tobacco Settlement Appropriations Merit Award Trust Fund (Actual Dollars)			
Department/Program	FY 2005-06 Year-to-Date	FY 2006-07 Gov's Rec.	Dollar Change
Attorney General			
Legal Services	\$386,800	\$406,700	\$19,900
Community Health			
Medicaid Base Funding	108,400,000	131,200,000	22,800,000
Senior Prescription Drug Program	3,900,000	0	(3,900,000)
Nursing Home Personal Needs Allowance	5,000,000	5,000,000	0
Senior Respite Care Services	5,000,000	5,000,000	0
Education			

Table 15 (continued)

Tobacco Settlement Appropriations Merit Award Trust Fund (Actual Dollars)			
Department/Program	FY 2005-06 Year-to-Date	FY 2006-07 Gov's Rec.	Dollar Change
Michigan Education Assessment Program	16,359,300	0	(16,359,300)
Higher Education			
Merit Award Scholarships	126,400,000	127,700,000	1,300,000
Tuition Incentive Program.....	6,600,000	6,600,000	0
Nursing Scholarship Program.....	4,000,000	4,000,000	0
Operations Funding	9,500,000	9,500,000	0
Treasury			
Merit Award Board.....	1,636,800	1,544,200	(92,600)
Tuition Incentive Program Administration.....	399,700	409,900	10,200
Michigan Education Savings Program	1,000,000	1,000,000	0
Information Technology	400,400	407,500	7,100
Total Merit Award Trust Fund Appropriations	\$288,983,000	\$292,768,300	\$3,785,300

Program Transfers

The budget recommendation includes transfers of funding of several programs from a department in which the funding for the program was appropriated in FY 2005-06 to a new department in FY 2006-07. Table 16 provides a summary of these program transfers. The largest program transfers are the movement of the Michigan Strategic Fund from the Department of Labor and Economic Growth to the Department of Treasury and the movement of State Building Authority debt service payments from the Department of Treasury to the Department of Management and Budget. This program shift results from a statutory provision included in the tobacco securitization legislation approved by the Legislature in November 2005. The Michigan Strategic Fund is responsible for the coordination of economic development efforts on behalf of the State.

Table 16

**FY 2006-07 Governor's Budget Recommendation
Summary of Program Transfers
(Actual Dollars)**

From:	FY 2005-06		To:	FY 2006-07	
	Fund Source	Transferred Out		Fund Source	Gov's Rec.
Community Health					
Hearing and Vision Screening.....	Gross	\$2,575,000	K-12 School Aid	Gross	\$5,150,000
	GF/GP	2,575,000		GF/GP	0
Education					
MEAP Testing Contracts.....	Gross	24,784,500	K-12 School Aid	Gross	27,925,200
	GF/GP	0		GF/GP	0
School Breakfast Program	Gross	9,625,000	K-12 School Aid	Gross	9,625,000
	GF/GP	0		GF/GP	0
Labor and Economic Growth					
Michigan Strategic Fund	Gross	475,096,300	Treasury	Gross	80,479,800
	GF/GP	32,290,900		GF/GP	32,009,200
Michigan Community Service Commission.....	Gross	9,096,200	Human Services	Gross	9,430,800
	GF/GP	984,500		GF/GP	1,005,900
Pre-College Engineering Program	Gross	680,100	K-12 School Aid	Gross	680,100
	GF/GP	680,100		GF/GP	0
Human Services					
Juvenile Detention Facilities Education Programs	Gross	3,000,000	K-12 School Aid	Gross	3,000,000
	GF/GP	3,000,000		GF/GP	0
Military and Veterans Affairs					
Challenge Program	Gross	753,100	K-12 School Aid	Gross	1,253,100
	GF/GP	753,100		GF/GP	0
K-12 School Aid					
Educator on Loan Grants	Gross	400,000	Education	Gross	400,000
	GF/GP	0		GF/GP	0
State Police					
School Bus Inspections.....	Gross	1,284,800	K-12 School Aid	Gross	1,340,000
	GF/GP	1,284,800		GF/GP	0
Treasury					
Horse Racing Audits	Gross	240,000	Agriculture	Gross	240,000
	GF/GP	0		GF/GP	0
MEAP Test Administration	Gross	115,000	Education	Gross	119,300
	GF/GP	0		GF/GP	0
State Building Authority Debt Service	Gross	272,797,100	Management and Budget	Gross	257,797,100
	GF/GP	256,002,100		GF/GP	237,702,100

Department/Budget Areas

Agriculture: The recommendation includes a \$10.0 million reduction in Federal funding for the emerald ash borer control program to reflect a refocusing of Federal resources to other areas of infestation. The budget includes GF/GP funding increases in the food and dairy program to offset Restricted State funds and GF/GP funding increases in the conservation reserve enhancement program.

Attorney General: The recommendation is primarily a continuation budget. Funding changes include adjustments in the charges to other State agencies for services provided by the Department.

Capital Outlay: The recommendation is highlighted by a variety of new capital projects at State agencies, State parks, five universities and 14 community colleges, and for the first time, State and local partnerships on yet-to-be-specified economic development projects, all financed through the sale of State Building Authority bonds. The total State commitments for these projects is recommended at \$364.3 million, which would leave approximately \$100.0 million available under the statutorily authorized bond cap of \$2.7 billion. Table 17 provides a summary of these recommendations. While the FY 2006-07 State budget impact of these projects is only \$2,200 (\$100 for each project authorized), the anticipated annual debt service obligation once all projects are financed will be in the order of \$35.0 million annually.

Civil Rights: The recommendation is primarily a continuation budget that reflects adjustments in the available level of Federal funds.

Civil Service: The recommendation includes a \$355,100 or 5.0% GF/GP funding reduction based on assumed administrative savings across the Department.

Community Colleges: The recommendation is highlighted by a 2.0% across-the-board funding increase for college operations. The funding for the renaissance zone property tax reimbursement program is increased to reflect expected payment levels. Table 18 provides a summary of the Community College recommendations.

Community Health: The recommendation is based on several key assumptions that are critical in the development of the budget. These assumptions include:

Medicaid Base and Caseload Issues. The Executive budget assumes an average Medicaid caseload for FY 2006-07 of 1,539,000, up from the assumed FY 2005-06 caseload of 1,500,000. The budget also assumes that the FY 2005-06 Medicaid base is sufficient to cover anticipated expenditures. If the FY 2005-06 base is underfunded, a supplemental will be needed and it will likely mean that the Executive's FY 2006-07 base is underfunded.

Michigan First Healthcare Plan. The Executive's proposal for a health insurance plan for uninsured individuals under 200% of poverty will depend on the Federal government's approving a waiver and providing about \$1.0 billion in new funding. The FY 2006-07 budget includes half-year placeholder funding of \$200.0 million.

GF/GP Savings Dependent on Further State or Federal Action. The Governor's FY 2006-07 budget recommendation includes GF/GP savings of \$93.1 million from a series of policy changes that will require statutory changes on the State and Federal levels or Federal waivers. These policy changes include:

Actuarially Sound Rates for Medicaid HMOs and CMHs. The budget includes a 5.0% rate increase for health maintenance organizations (HMOs) and a 2.0% rate increase for community mental health programs (CMHs) in order to meet a Federal requirement that managed care rates be actuarially sound. The Federal government will decide whether the rates and the funding included for them are sufficient to meet the requirement. While this item is not a savings per se, any Federal action to mandate more funding for rate increases would increase GF/GP costs.

Hospital Quality Assurance Assessment Program (QAAP). The budget includes a proposal to increase the hospital QAAP tax by 1.0%. This additional revenue would be used to increase payments to HMOs while, at the same time, Medicaid hospital reimbursement rates would be increased. The net effect would be to increase fee-for-service and managed care hospital payments by almost \$320.0 million, leading to a net gain for hospitals of about \$150.0 million. The Federal government would have to approve this change and the Legislature would have to change the QAAP statute. As the budget reflects almost \$30.0 million in GF/GP savings from gainsharing, failure to obtain Federal or legislative approval would create a hole in the budget.

Third Party Liability Collections. The Executive budget assumes savings of \$11.7 million GF/GP from increased third party liability collections. The savings depend on the passage of State legislation requiring insurance companies to provide information on enrollees to enable matches with the Medicaid clientele base.

Pharmaceutical Rebates. The Executive budget assumes that Congress will pass a provision allowing states to claim pharmaceutical rebates on pharmaceuticals paid for by Medicaid HMOs. This change, if enacted, is estimated to save \$43.0 million GF/GP. It should be noted that a similar provision did not make it into S-1932, the budget reduction act signed by President Bush on February 8, 2006.

In addition, \$8.4 million in further GF/GP savings could be obtained by transferring the costs for certain mental health drugs to HMOs and CMHs, which would increase the QAAP base. Without the ability to collect rebates on pharmaceuticals paid for by managed care organizations, the transfer of payment responsibility would increase costs and would not be feasible, so the \$8.4 million in savings also depends on Federal action.

Corrections: The recommendation includes a Gross increase of 4.7% and a GF/GP increase of 4.8%. The recommendation includes no new beds, although it closes Camp Brighton in order for a new women's camp to open at the Huron Valley Complex. Economics account for more than \$84.0 million of the \$87.3 million overall increase. Major program increases in the Department's budget recommendation include \$8.8 million in additional training costs for new corrections officers, \$2.3 million in health care and consent decree-related costs, and \$1.7 million for information technology in order to move from the Corrections Management Information System (CMIS) to the new Offender Management Network Information (OMNI) system and to purchase new servers for the OMNI system. Also, \$1.7 million is included for global positioning system (GPS) tether units for parolees who commit serious criminal violations and have high rates of recidivism. Contract and other administrative increases total approximately \$2.1 million.

Decreases in the recommendation include a \$1.5 million reduction to reduce the number of Correctional Security Inspectors to one per facility, and \$4.0 million in savings from County Jail Capacity Grants, which will not be used because expected statutory changes were not made in the sentencing guidelines. Other decreases include a \$2.0 million reduction in equipment and special maintenance that is included in the Capital Outlay appropriation recommendation, and other departmentwide efficiencies and adjustments totaling more than \$5.8 million.

Education: The recommendation includes a gross reduction in funding for FY 2006-07 of slightly more than \$27.1 million, of which roughly \$9.4 million is GF/GP. The largest GF/GP change is the transfer of the School Breakfast program (\$9.6 million) to the School Aid/K-12 budget, where it is proposed to be funded with SAF revenue, thereby relieving the General Fund of that cost. The Governor is proposing two GF/GP increases for the Department: \$107,000 to upgrade the State Aid Management System (a two-year project) and \$64,000 to hire a State Aid analyst to monitor district budgets and spending plans. Also, the Executive budget includes GF/GP administrative reductions of \$25,000 in State Board/Superintendent Operations and \$95,000 in Central Support.

The budget proposes to transfer Michigan Educational Assessment Program (MEAP) contract funding to the K-12 budget, and uses the SAF to support those costs, freeing up nearly \$16.4 million in Merit Award Trust Fund money. Various items of note include a new \$3.0 million Federal and Private Grant fund line item in anticipation of competitive grants awarded in the future, nearly \$1.7 million of additional Federal funds for testing, increased Federal administrative dollars in the Early Childhood unit, economic adjustments of nearly \$1.3 million Gross, and other adjustments.

Environmental Quality: The recommendation represents a 19.5% decrease in Adjusted Gross appropriations and a 4.8% increase in GF/GP appropriations. The decrease in the recommended Adjusted Gross amount reflects the removal of a one-time appropriation in FY 2005-06 of \$80.0 million from the Refined Petroleum Fund for cleanup of refined petroleum-related sites and a reduction of \$5.0 million in Federal funding for the State Water Pollution Control Revolving Fund. The General Fund increase is a response to declining revenue in restricted funds, especially funds supporting the cleanup of contaminated sites and administration of that program. The budget includes a \$2.0 million shift from restricted funds to the General Fund to support the cleanup program. In addition, language is proposed for a supplemental appropriation in FY 2005-06 to shift a total of \$22.0 million from balances in the Cleanup and Redevelopment Trust Fund and the Community Pollution Prevention Fund to the Environmental Protection Fund and the Waste Reduction Fee Revenue Fund in order to cover projected shortfalls in cleanup funds and other restricted fund sources.

Executive: The recommendation maintains current-year funding.

Higher Education: The recommendation includes an average increase of 2.0% or \$28.4 million for State universities while reducing State need-based scholarships by \$29.8 million. The funding levels for the Agricultural Experiment Station and the Cooperative Extension Service remain unchanged at \$33.2 million and \$28.6 million, respectively.

The recommendation provides a 2.0% increase for Michigan State University (\$5.7 million), the University of Michigan - Ann Arbor (\$6.3 million), and Wayne State University (\$4.3 million). The other 12 universities each receive an across-the-board increase of 1.0% (\$6.1 million total), and an additional \$6.1 million is allocated based on four elements: tuition revenue, financial aid expenditures, Pell Grant awards, and degree completions. The percentage increases for these 12 universities range from 1.6% to 3.9%. Table 19 provides a summary of the recommendation.

For the fourth time, the Governor recommends the elimination of the Michigan Tuition Grant Program (\$58.8 million). The FY 2006-07 iteration phases out Tuition Grants by allowing current freshmen to continue to receive their grants as sophomores, juniors, and seniors but at the State Competitive Scholarship grant maximum of \$1,300, instead of the Tuition Grant maximum of \$2,000. The Governor also eliminates all Tuition Grants for graduate students. In FY 2005-06, there is a combined appropriation of \$93.4 million for State Competitive Scholarships and Tuition Grants; the recommendation for FY 2006-07 provides only \$63.6 million, a reduction of 31.9%.

The recommendation includes \$5.0 million from the Civilian Conservation Corps Fund in the Department of Natural Resources for a new program: Michigan Leadership, Education and Development (MiLEAD). The new program would link academic learning at postsecondary institutions with conservation-related community service needs.

History, Arts, and Libraries: The recommendation contains a \$631,800 GF/GP funding increase that is evenly divided between the State aid to libraries grant program and arts and cultural grants. The budget also includes \$200,000 of new Federal grant revenue for the Mackinac Island State Park. Funding for the Michigan Film Office is eliminated and this program will be funded from 21st Century Jobs Initiative revenue appropriated in FY 2005-06.

Human Services: The recommendation includes funding shifts, caseload adjustments, and the continuation of pilot projects to achieve program savings. Major funding shifts from Federal to State funds include: \$78.0 million in TANF funds in the Family Independence Program (FIP); \$15.3 million in Title XX funding (Social Services Block Grant) throughout the budget; and \$3.4 million in Child Support Incentive Payments in Department of Human Services information technology. Fund shifts from GF/GP to other revenue sources include \$6.6 million in Child Care and Development funds, \$3.0 million in School Aid funds (designated as Local funds), and potential new Federal funding to replace \$1.2 million in TANF funds for Fatherhood Initiative, Marriage Initiative, Earned Income Tax Credit outreach services, and the Effective Family Formation Program. The caseload adjustments include FIP and Child Care reductions, but increases in Child Care Fund, Adoption Subsidy, and State Disability Assistance Programs. Major program reductions to achieve savings include a Day Care preschool initiative to reduce the program to half-days, the Front-end Eligibility pilot that began in FY 2005-06, and the Jobs, Education and Training (JET) Program in partnership with the Department of Labor and

Economic Growth (DLEG) to assist families with employment, education, and training opportunities to achieve self-sufficiency and meet the workforce and skill needs of State businesses. A volunteer services program that costs \$9.4 million Gross, \$984,500 GF/GP is transferred into the new Michigan Community Service Commission line in the Executive Operations Unit. The recommendation eliminates the Pontiac School-based Crisis Intervention Project, \$78,500 in TANF funds, and the Smoking Cessation Pilot, \$20,000 GF/GP. Program enhancement through new funding and transfers of savings to include 51.2 FTEs (full-time equated positions) in Child Protective Services at a cost of \$1.8 million Gross, \$1.5 million GF/GP.

Information Technology: The recommendation increases the Gross appropriation by \$13,227,600, or 3.62%. The recommendation includes adjustments to align the interdepartmental grants (IDGs) with agency enacted line items, as does the supplemental for FY 2005-06. For each year, this is a total of \$14,512,300 across departments. The supplemental also contains \$1.0 million for the Michigan State Police Public Safety Communications System, which is again included for FY 2006-07.

The budget removes \$17.8 million for the Child Support Arrearage Program. These funds were from a one-time revenue collection, which has been completed. Funding for the Department of Human Services includes \$5.5 million for an Integrated Service Delivery Project. The budget also includes a \$3.2 million increase in the IDG from the Department of Management and Budget for costs associated with the retirement system. The increase carries 13.0 FTEs. Projects for the Department of Corrections will add 2.0 FTEs and \$1,764,300. These projects include converting CMIS modules to OMNI, server replacements, and desktop maintenance.

Judiciary: The recommendation represents a Gross increase of \$2,866,800 or 1.12% and a GF/GP increase of \$2,510,900 or 1.59%. Pursuant to statute, seven part-time probate judges will be converted to full-time status as of January 2, 2007, resulting in an increase in judges' compensation and retirement costs. The Court of Appeals increased its projected collections for FY 2005-06 and FY 2006-07 by \$150,000 each year. The difference for FY 2005-06 is included in the supplemental. Funding economic adjustments makes up the bulk of the increase.

Labor and Economic Growth: The recommendation transfers the Michigan Strategic Fund from the DLEG budget to the Department of Treasury, consistent with the program transfer in Public Act 225 of 2005 (part of the economic development legislation that securitizes tobacco settlement revenue).

The Governor recommends the creation of a Bureau of Fire Services by moving the Fire Fighter Training Council and the Office of Fire Safety from the Code Enforcement line to a new Bureau with its own line item. This would move 57.0 FTEs and \$6,183,800 of restricted funds into a separate line item.

The Governor recommends increases in the number of employees and restricted funding for several regulatory programs. The Office of Financial and Insurance Services would receive 4.0 FTEs for regulation of payday lending, 3.0 FTEs for financial evaluation, and 4.0 FTEs for insurance company examinations at a total cost of \$1,159,500 in restricted funding. The Governor also proposes to increase the Public Service Commission by 2.0 FTEs for regulation of private wastewater facilities and 6.0 FTEs to process rate case filings.

The Governor recommends reducing the classified employees of the Broadband Authority by 11.0 FTEs from 13.0 to 2.0. An additional two staff members would remain on contract. This would reduce expenditures from restricted funds by \$1,093,400.

Legislature: The recommendation maintains current-year funding.

Management and Budget: The recommendation reflects the proposed transfer of State Building Authority rental payments from the Department of Treasury. Restricted funding increases are provided to the Office of Retirement Services for ongoing system maintenance costs, a customer call center, and a Social Security privacy initiative. The budget also includes funding increases for utility costs and a variety of administrative reductions.

Military and Veterans Affairs: The recommendation reflects a continuation of existing appropriation policy. Major features of the budget include the shifting of \$1.2 million for the Grand Rapids Veterans Home from State Restricted funding to GF/GP funding due to a depletion of restricted reserves.

Natural Resources: The recommendation represents a 5.2% increase in Adjusted Gross appropriations and a 1.9% decrease in GF/GP appropriations. The GF/GP decrease is largely attributable to a proposed shift of \$1.5 million from GF/GP funding to the Forest Development Fund for forest fire protection activities. There would not be a change to the overall budget for this program or a change in program operations. The increase in Adjusted Gross appropriations is due to two issues. Effective January 1, 2006, camping fees were increased and \$3.5 million in additional expenditures from the Park Improvement Fund is recommended for FY 2006-07 to reflect the increased fee collections. Also, \$2,940,000 in additional Federal funding from the U.S. Coast Guard is anticipated for use in law enforcement and for marine safety grants.

School Aid: The recommendation for the SAF increases total appropriations by \$361.9 million Gross, or 2.8% compared with enacted FY 2005-06 appropriations. Each school district would see an increase of \$200 per pupil in its FY 2006-07 foundation allowance (a 2.9% increase in the basic foundation allowance above the current level of \$6,875), increasing the discretionary payment line item by \$379.3 million. Funding for School Readiness programs for at-risk four-year-olds is increased by \$28.8 million, or more than 39%. Adult education funding is increased by \$4.0 million, or 19%. Other State funding increases include Special Education (\$36.4 million), intermediate school district (ISD) general operation funding (\$2.8 million), Center for Educational Performance and Information (CEPI) (\$2.5 million), Michigan Virtual High School (\$1.5 million), and various obligation payments totaling \$18.4 million. The payment to the Detroit Public Schools to aid in the transition back to an elected school board is eliminated along with the Middle School Math Initiative (replaced, however, by the Governor's proposed new Middle School After-School Program). One source of savings in the budget is the Proposal A Obligation Payment, which is reduced by \$245.0 million, or 3.8%, due to higher taxable value and lower pupil estimates.

While the Governor proposes to reduce the GF/GP grant to the K-12 budget by \$27.7 million from the FY 2005-06 year-to-date level, SAF revenue is increased by \$334.7 million and \$79.2 million is used from the School Aid Stabilization Fund. Capitalization proceeds of \$44.5 million from the School Bond Loan Fund reorganization that were realized in FY 2005-06 are not included in this budget. Federal funds are increased by \$20.1 million for FY 2006-07.

The Executive recommendation for FY 2006-07 proposes several new programs, including: 1) \$50.0 million for schools experiencing two consecutive years of declining enrollments; 2) \$1.0 million for ISDs to develop the Great Start Collaborative System, coordinated by the Early Childhood Investment Corporation; 3) \$10.0 million for the Elementary Math and Reading Program to improve these skills for pupils in grades K to 3; 4) \$15.0 million for the Middle School After-School Program to improve math, science, and technology skills for middle school pupils outside of the regular school day; 5) \$5.0 million for the Middle College Program to create partnerships between K-12 school districts, community colleges, and hospitals to provide high school students with the opportunity to earn college credits and on-the-job training in the health sciences field; 6) \$1.0 million for Vocational Education Curriculum Development for ISDs to identify and develop a career and technical education curriculum that aligns with the recommended Michigan Merit core curriculum and credit requirements; and 7) \$2.0 million to provide competitive grants for teams of high school students who participate in FIRST (For Inspiration and Recognition of Science and Technology) Robotics competitions.

Several programs are transferred from other departments into the School Aid budget under this proposed Executive recommendation. These programs include: 1) \$3.0 million for the educational component of the Juvenile Detention Facility Program (from the Department of Human Services) to educate pupils housed in juvenile detention facilities; 2) \$1.3 million for the Youth Challenge Program (from the Department of Military and Veterans Affairs) to run a youth "boot camp" program; 3) \$5.2 million for Vision and Hearing screenings for school-aged children (from the Department of Community Health); 4) \$9.6 million for the School Breakfast Program (from the Department of Education); 5) \$680,000 for the Pre-College Engineering Program (from the Department of Labor and Economic Growth) to provide two grants for districts or ISDs that provide these programs; 6) \$1.3 million for school bus safety inspections (from the Department of State Police); and 7) \$19.5 million in State funds and \$8.4 million in Federal funds for MEAP tests.

Finally, there are five other items of note: The retirement rate for FY 2006-07 is increased by 1.4 percentage points to 17.74% of payroll, up from 16.43% in FY 2005-06; the language requiring developmental kindergarten pupils *not* to be counted in membership is removed; the language requiring the foundation allowance to increase each year by the index determined at the Consensus Revenue Estimating Conference is removed; \$12.0 million is set aside to revise the foundation allowances of seven districts that did not have included in their initial base calculation in 1994 the portion of local millage revenue that was levied in 1993 to finance prior-year operating deficits (the Clintondale, Detroit, Garden City, Highland Park, Huron, Madison, and Pontiac school districts); and Section 166, which imposes a 5.0% financial penalty on districts that dispense prescriptions for family planning drugs or devices or make referrals for abortions, is repealed.

State: The budget includes a \$1.1 million GF/GP increase for the Department's Business Application Modernization Project. This would restore the annual appropriation for this project to the \$4.5 million level it received before budget reductions in previous years. The Motorcycle Safety Grants are increased by \$200,000 based on available Restricted funding. The Governor's budget recommendation includes General Fund reductions to various line items.

Due to revenue shortfalls in the Transportation Administration Collection Fund (TACF), no economic adjustments are funded from this source. General Fund support is used to support costs that otherwise would be charged to the TACF. The budget also assumes

that legislation will be enacted to continue the deposit of the Expeditious Service Fee and Registration Transfer Fee in the TACF instead of the Michigan Transportation Fund. Without that adjustment, there will be an additional shortfall of approximately \$10.4 million in the TACF.

State Police: The budget reflects a continuation of existing appropriation policy. Included in the budget are the proposed consolidation of the Gaylord and Bridgeport Regional Dispatch Centers and the shifting of school bus inspection programs from GF/GP funding to Restricted SAF dollars. The recommendation does not include any funding for a trooper school to train at-post troopers to compensate for any retirements or other separations that occur during the year.

Transportation: The recommendation totals \$3.4 billion Gross, all restricted revenue. The recommendation reflects an increase of 1.6% over current year-to-date appropriations; however, this increase includes the restoration of nearly \$23.7 million in vetoed funding from the FY 2005-06 budget. Factoring out these restorations and accounting for this funding in the FY 2005-06 base results in an increase of 0.9% over current year-to-date appropriations. The budget includes a reduction of \$33.1 million in debt service payments primarily as a result of short-term debt refinancing. The Governor proposes an increase of \$7.1 million or 0.7% in State funding to local road agencies pursuant to the Public Act 51 formula.

One significant change included in the budget deals with funding for public and freight transportation programs. Since FY 2003-04, a portion of the auto-related sales tax traditionally deposited in the Comprehensive Transportation Fund (CTF) has been directed to the General Fund to help balance the overall budget. The Governor's proposal eliminates this diversion, adding \$11.1 million to the CTF in FY 2006-07. Overall funding from the CTF for public and freight transportation programs is increased by \$20.1 million, with over half of this funding dedicated to bus capital projects (\$10.9 million). Also, the budget includes a 2.0% increase to bus operating grants, providing a total of \$166.6 million for this program in FY 2006-07.

Treasury (Debt Service): The recommendation includes the funding for three new general obligation bond issues during the fiscal year. These include Quality of Life bonds, Clean Michigan Initiative bonds, and Great Lakes Water Quality bonds. These bond issues will increase GF/GP debt service requirements by \$23.5 million.

Treasury (Operations): The recommendation represents a decrease of \$14.7 million, or 3.74%, from FY 2005-06. The recommendation includes a \$23.5 million reduction for the Commercial Mobile Radio Service Program, scheduled to sunset on December 31, 2006. There is an increase of \$375,000 for costs associated with additional investment staff. The budget includes \$2.0 million for telephone/telegraph appraisals. Economic adjustments total \$8.2 million. The budget also includes various reductions for different programs.

Treasury (Strategic Fund): The recommendation reflects the transferring of the Strategic Fund program from the Department of Labor and Economic Growth. The funding adjustments included in the budget reflect the elimination of one-time funding from the 21st Century Jobs Trust Fund.

Table 17

Recommended State Building Authority Projects				
Universities	Project	Total Cost	State Share	% State Share
Eastern	Pray-Harrold Building Renovations	\$52,695,000	\$39,521,300	75%
Lake Superior State	South Hall Reconstruction	10,000,000	7,500,000	75
Northern	Cohodas Building Renovations	15,584,000	11,688,000	75
Oakland	Engineering Center	64,357,700	40,000,000	62
U of M - Dearborn	Preparation Childhood Development Center	6,000,000	4,500,000	75
Subtotal Universities		\$148,636,700	\$103,209,300	69%
Colleges	Project	Total Cost	State Share	% Total
Delta	Health and Wellness Programs – F Wing	\$11,299,000	\$5,649,500	50%
Grand Rapids	Lifelong Learning Center	21,900,000	10,950,000	50
Henry Ford	Instructional Technology & Infrastr. Improvements	12,160,000	6,080,000	50
Kalamazoo Valley	Texas Township Campus Expansion	7,065,000	3,532,500	50
Kellogg	C Classroom Building Renovations	4,000,000	2,000,000	50
Kirtland	Campus-Wide Water Well System	1,005,000	502,500	50
Lake Michigan	Emerging Technologies Initiative	7,000,000	3,500,000	50
Monroe County	Classroom Technology & Environmental Upgrades	2,200,000	\$1,100,000	50
C.S. Mott	Mott Library Renovations	8,200,000	4,100,000	50
Muskegon	Museum/Art Project	10,000,000	5,000,000	50
North Central	University and Science Center	16,323,700	8,161,800	50
Oakland	Building A Addition/Renovations	32,065,000	16,032,500	50
St. Clair County	Health and Human Services Center	7,000,000	3,500,000	50
Wayne County	Northwest Campus Replacement	42,000,000	21,000,000	50
Subtotal Colleges		\$182,217,700	\$91,108,800	50%
Other Programs	Project	Total Cost	State Share	% Total
Regional Economic Development Initiative	To be determined through a call for projects from local gov'ts and econ. development organizations	Unknown	\$100,000,000	Unknown
State Parks & Recreation Areas	Variety of unidentified maintenance projects	\$20,000,000	\$20,000,000	100%
State Facility Preservations Projects – Phase III	Variety of unidentified maintenance projects	\$50,000,000	\$50,000,000	100%
Total Recommendation		Unknown	\$364,318,100	Unknown

Table 18

FY 2006-07 Community College Appropriations				
	FY 2005-06	FY 2006-07		
College	Enacted PA 154 2005	Recommended Appropriation	Dollar Change	Percent Change
Alpena	\$4,777,100	\$4,872,600	\$95,500	2.0%
Bay de Noc	4,618,500	4,710,900	92,400	2.0%
Delta	12,917,100	13,175,400	258,300	2.0%
Glen Oaks	2,167,100	2,210,400	43,300	2.0%
Gogebic	3,951,500	4,030,500	79,000	2.0%
Grand Rapids	16,247,500	16,572,500	325,000	2.0%
Henry Ford	19,800,700	20,196,700	396,000	2.0%
Jackson	10,960,800	11,180,000	219,200	2.0%
Kalamazoo Valley	11,183,600	11,407,300	223,700	2.0%
Kellogg	8,786,700	8,962,400	175,700	2.0%
Kirtland	2,666,800	2,720,100	53,300	2.0%
Lake Michigan	4,728,900	4,823,500	94,600	2.0%
Lansing	28,097,100	28,659,000	561,900	2.0%
Macomb	29,978,600	30,578,200	599,600	2.0%
Mid Michigan	3,999,100	4,079,100	80,000	2.0%
Monroe County	3,890,800	3,968,600	77,800	2.0%
Montcalm	2,814,300	2,870,600	56,300	2.0%
Mott	14,205,400	14,489,500	284,100	2.0%
Muskegon	8,083,900	8,245,600	161,700	2.0%
North Central	2,738,100	2,792,900	54,800	2.0%
Northwestern	8,248,900	8,413,900	165,000	2.0%
Oakland	18,910,900	19,289,100	378,200	2.0%
St. Clair County	6,334,300	6,461,000	126,700	2.0%
Schoolcraft	11,098,900	11,320,900	222,000	2.0%
Southwestern	5,958,000	6,077,200	119,200	2.0%
Washtenaw	11,280,600	11,506,200	225,600	2.0%
Wayne County	14,582,200	14,873,800	291,600	2.0%
West Shore	2,077,300	2,118,800	41,500	2.0%
Subtotal Operations	\$275,104,700	\$280,606,700	\$5,502,000	2.0%
At Risk	3,322,700	3,322,700	0	0.0%
Renaissance Zone	2,900,000	3,200,000	300,000	10.3%
Total Gross Approp. GF/GP	\$281,327,400	\$287,129,400	\$5,802,000	2.1%
	\$281,327,400	\$287,129,400	\$5,802,000	2.1%

Table 19

FY 2006-07 Governor's Recommendation for Higher Education										
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
UNIVERSITIES	FY 2005-06 Year-to-Date Appropriation	FY 2005-06 Approp. Per Student*	Across Bd. Increase for MSU, UM - AA, WSU: 2.0%	Across Bd. Increase for 12 Universities: 1.0%	Formula Increase for 12 Universities: \$6,050,800	Phase Out Tuition Grants; Increase Merit, TIP Vets; Add MILEAD	FY 2006-07 Governor's Rec.	\$ Change from FY 2005-06	% Change from FY 2005-06	FY 2006-07 Approp. Per Student*
Central	\$80,061,900	\$3,736		\$800,600	\$873,700		\$81,736,200	\$1,674,300	2.1%	\$3,814
Eastern	76,140,600	4,019		761,400	726,100		77,628,100	1,487,500	2.0%	4,097
Ferris	48,634,700	4,611		486,300	357,600		49,478,600	843,900	1.7%	4,691
Grand Valley	61,129,900	3,151		611,300	708,000		62,449,200	1,319,300	2.2%	3,219
Lake Superior	12,506,300	4,827		125,100	357,200		12,988,600	482,300	3.9%	5,013
Michigan State	283,730,300	8,258	\$5,674,600				289,404,900	5,674,600	2.0%	8,394
Michigan Tech	48,018,800	8,095		480,200	381,400		48,880,400	861,600	1.8%	8,240
Northern	45,051,600	5,348		450,500	376,900		45,879,000	827,400	1.8%	5,446
Oakland	50,685,700	3,664		506,900	527,100		51,719,700	1,034,000	2.0%	3,739
Saginaw Valley	27,499,800	3,595		275,000	527,900		28,302,700	802,900	2.9%	3,700
UM - Ann Arbor	316,368,500	8,048	6,327,400				322,695,900	6,327,400	2.0%	8,209
UM - Dearborn	24,739,200	3,973		247,400	300,300		25,286,900	547,700	2.2%	4,061
UM - Flint	20,903,100	4,231		209,000	308,000		21,420,100	517,000	2.5%	4,335
Wayne State	214,666,300	8,603	4,293,300				218,959,600	4,293,300	2.0%	8,775
Western	109,695,200	4,569		1,097,000	606,600		111,398,800	1,703,600	1.6%	4,640
Ag. Experiment Station (AES)	33,163,800						33,163,800	0	0.0%	
Cooperative Extension (CES)	28,604,300						28,604,300	0	0.0%	
Higher Education Database	200,000						200,000	0	0.0%	
Midwest Higher Ed. Compact	90,000						90,000	0	0.0%	
King-Chavez-Parks	2,691,500						2,691,500	0	0.0%	
TOTAL UNIVERSITIES	\$1,484,581,500	\$5,926	\$16,295,300	\$6,050,700	\$6,050,800	\$0	\$1,512,978,300	\$28,396,800	1.9%	\$6,039
Merit Award Trust Fund	9,500,000		0	0	0	0	9,500,000	0	0.0%	
State GF/GP	1,475,081,500		16,295,300	6,050,700	6,050,800	0	1,503,478,300	28,396,800	1.9%	
GRANTS & FINANCIAL AID										
Competitive Scholarships	34,630,500					28,968,100	63,598,600	28,968,100	83.6%	
Tuition Grants	58,768,100					(58,768,100)	0	(58,768,100)	(100.0)%	
Work Study	7,326,300						7,326,300	0	0.0%	
Part-time Independent	2,653,300						2,653,300	0	0.0%	
Ed. Opportunity Grants (MEOG)	2,084,200						2,084,200	0	0.0%	
Byrd Scholarship Program	1,500,000						1,500,000	0	0.0%	
Nursing Scholarship Program	4,000,000						4,000,000	0	0.0%	
Michigan Merit Award Program	126,400,000					1,300,000	127,700,000	1,300,000	1.0%	
Tuition Incentive Program (TIP)	12,000,000					2,000,000	14,000,000	2,000,000	16.7%	
Children of Veterans Tuition	500,000					500,000	1,000,000	500,000	100.0%	
Mi. Leadership, Ed, Development	0					5,000,000	5,000,000	5,000,000	na	
TOTAL FINANCIAL AID	\$249,862,400		\$0	\$0	\$0	\$(21,000,000)	\$228,862,400	\$(21,000,000)	(8.4)%	
Federal	3,500,000		0	0	0	(500,000)	3,000,000	(500,000)	(14.3)%	
Merit Award Trust Fund	137,000,000		0	0	0	1,300,000	138,300,000	1,300,000	0.9%	
MHEAA/Carry-Forward	7,000,000		0	0	0	(7,000,000)	0	(7,000,000)	(100.0)%	
Veterans Tax Checkoff	0		0	0	0	1,000,000	1,000,000	1,000,000	na	
Civilian Conservation Corp	0		0	0	0	5,000,000	5,000,000	5,000,000	na	
State GF/GP	102,362,400		0	0	0	(20,800,000)	81,562,400	(20,800,000)	(20.3)%	
TOTAL HIGHER ED	\$1,734,443,900		\$16,295,300	\$6,050,700	\$6,050,800	\$(21,000,000)	\$1,741,840,700	\$7,396,800	0.4%	
TOTAL FEDERAL	\$3,500,000		\$0	\$0	\$0	\$(500,000)	\$3,000,000	\$(500,000)	(14.3)%	
TOTAL STATE RESTRICTED	\$153,500,000		\$0	\$0	\$0	\$300,000	\$153,800,000	\$300,000	0.2%	
TOTAL STATE GF/GP	\$1,577,443,900		\$16,295,300	\$6,050,700	\$6,050,800	\$(20,800,000)	\$1,585,040,700	\$7,596,800	0.5%	

* FY 2004-05 Fiscal-Year-Equated Students (FYES); MSU calculation includes funding for AES and CES.

Payments to Local Units of Government

The budget recommendation includes \$16.0 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 of 1963 by \$2.34 billion. Table 20 provides a summary of this FY 2006-07 estimate.

Table 20

State Payments to Local Units of Government Article IX, Section 30 Requirement (Millions of Dollars)	
	FY 2006-07 Estimate
State Spending from State Resources.....	\$27,957.4 ¹⁾
Required Payments to Local Units of Government (48.97%).....	13,690.7
Actual or Estimated Payments to Locals.....	16,029.1
Actual Percentage of Total State Spending	57.33%
Surplus of Section 30 Payments.....	2,338.4
¹⁾ Does not include \$35.0 million of Federal aid counted as GF/GP revenue.	

State Employment

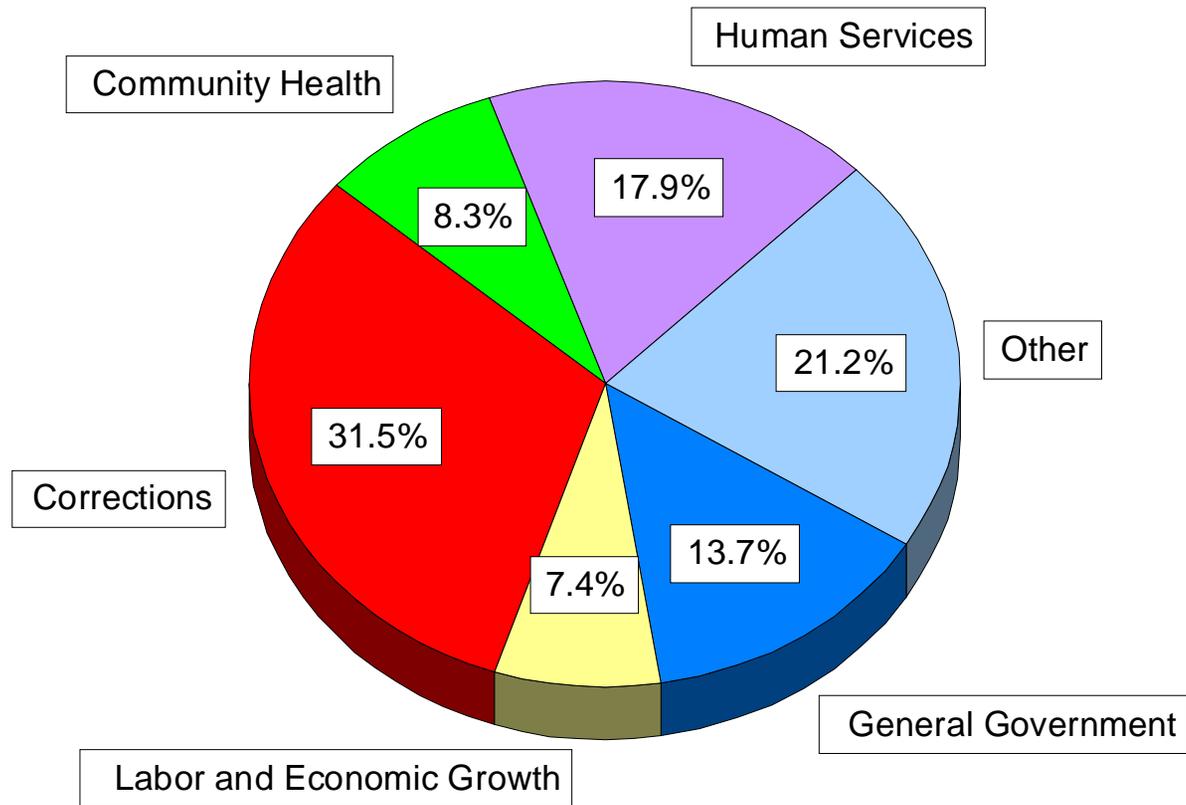
Table 21 and Figure E provide a comparison of classified and full-time equated positions (FTE) recommended by the Governor for FY 2006-07 with the appropriated level of FTEs during FY 2005-06. The budget includes funding for 56,492.1 FTEs during FY 2006-07. This represents an increase of 187.9 FTEs or 0.3% from the current fiscal year.

Table 21

Full-Time Equated Positions FY 2005-06 Versus Governor's Recommendation				
Department/Budget Area	FY 2005-06 Year-To-Date Appropriations	FY 2006-07 Governor's Recommendation	Position Change	Percent Change
Agriculture	691.0	690.0	(1.0)	(0.1)%
Attorney General	560.0	557.0	(3.0)	(0.5)
Civil Rights	136.0	136.0	0.0	0.0
Civil Service	240.5	240.5	0.0	0.0
Community Health	4,668.6	4,665.1	(3.5)	(0.1)
Corrections	17,509.2	17,812.5	303.3	1.7
Education	423.5	435.5	12.0	2.8
Environmental Quality	1,567.2	1,561.7	(5.5)	(0.4)
Executive	74.2	74.2	0.0	0.0
Higher Education	1.0	1.0	0.0	0.0
History, Arts, and Libraries	232.0	232.0	0.0	0.0
Human Services	10,281.0	10,107.7	(173.3)	(1.7)
Information Technology	1,760.4	1,775.4	15.0	0.9
Judiciary	509.0	509.0	0.0	0.0
Labor and Economic Growth	4,161.5	4,206.5	45.0	1.1
Management and Budget (Operations)	745.0	752.0	7.0	0.9
Military Affairs	1,016.0	1,015.0	(1.0)	(0.1)
Natural Resources	2,073.5	2,087.4	13.9	0.7
State	1,853.8	1,853.8	0.0	0.0
State Police	2,897.0	2,900.0	3.0	0.1
Transportation	3,022.3	3,030.3	8.0	0.3
Treasury (Operations)	1,691.5	1,697.5	6.0	0.4
Treasury (Strategic Fund)	190.0	152.0	(38.0)	(20.0)
TOTAL POSITIONS	56,304.2	56,492.1	187.9	0.3%

Figure E

Full-Time Equated Positions FY 2006-07 Governor's Recommendation



Total = 56,492.1

Projected Year-End Balances

Combining the Governor's FY 2006-07 appropriation recommendations with the consensus revenue estimate and recommended revenue policy changes leads to updated estimates of the FY 2006-07 GF/GP and SAF year-end balances. Assuming that all of the Governor's appropriation and revenue recommendations are enacted, the FY 2006-07 GF/GP budget will close the fiscal year with a \$2.3 million balance. The FY 2006-07 School Aid Fund budget will close the fiscal year with a zero year-end balance. Tables 22 and 23 provide a summary of these estimates.

Table 22
FY 2006-07 Budget
General Fund/General Purpose
Revenue, Expenditures, and Year-End Balance
(Millions of Dollars)

	Gov.'s Rec.
Projected Revenue:	
Beginning Balance.....	\$79.8
Consensus Revenue Estimate.....	8,491.8
<u>Other Revenue Adjustments:</u>	
Single Business Tax Reductions.....	(114.6)
Pharmaceutical Tax Credit Adjustment.....	10.0
Revenue Sharing Freeze Continuation	<u>600.2</u>
Subtotal Current Law Revenue.....	8,987.4
<u>Governor's Recommended Revenue Adjustments:</u>	
Land Sales	28.0
Financial Institutions Fund Transfer to GF/GP	2.8
Agriculture Equine Fund Transfer to GF/GP	2.0
State Services Fee Fund Transfer to GF/GP	6.0
Interest Earnings on Tobacco Securitization.....	15.0
Tax Policy Changes.....	88.4
Liquor License Fee Increase.....	23.0
Shift of Short-Term Borrowing Costs to School Aid Fund.....	<u>22.8</u>
Subtotal Governor's Recommended Revenue Adjustments.....	188.0
Total Estimated Revenue	<u>\$9,255.2</u>
Expenditures:	
Governor's Appropriation Recommendations.....	<u>\$9,252.9</u>
Projected Year-End Balance	\$2.3

Table 23
FY 2006-07 Budget
School Aid Fund
Revenue, Expenditures, and Year-End Balance
(Millions of Dollars)

	Gov.'s Rec.
Projected Revenue:	
Beginning Balance.....	\$80.2
Consensus Revenue Estimate.....	11,591.1
Other Revenue Adjustments:	
Tax Policy Changes.....	22.8
Short-Term Borrowing Costs	(22.8)
GF/GP Grant	35.0
Federal Aid.....	1,412.7
Total Estimated Revenue	\$13,119.0
Expenditures	
Governor's Appropriation Recommendations.....	\$13,119.0
Projected Year-End Balance	\$0.0

ECONOMIC AND REVENUE FORECAST

Economic Forecast

The Governor's proposed budget for FY 2006-07 is based on a forecast that Michigan's economy will continue to experience a decline in employment in 2006, but then will experience modest job gains by the last part of 2007. This outlook is the economic forecast adopted at the January 12, 2006, Consensus Revenue Estimating Conference by the Treasury Department, Senate Fiscal Agency, and House Fiscal Agency. The U.S. economy, which has experienced employment growth since 2003, is expected to continue to generate an increase in employment in both 2006 and 2007, which will help boost total output. Both consumers and business will contribute to the increase in economic activity through increases in consumer spending and investment in new plants and equipment. In sharp contrast, Michigan has not experienced an annual increase in employment since 2000 and another modest decline is expected in 2006. In 2007, modest job losses during the first part of the year are expected to be offset by modest gains in employment during the last part of the year. Key components of this consensus economic forecast are presented in [Table 24](#), and the forecast highlights for both the U.S. and Michigan economies are summarized below.

Table 24**Consensus Economic Forecast: 2006 and 2007
January 12, 2006**

	Calendar 2005	% Change From Prior Year	Calendar 2006 Forecast	% Change From Prior Year	Calendar 2007 Forecast	% Change From Prior Year
United States:						
Real Gross Domestic Product (billions of chained 2000 dollars)	\$11,143	3.6%	\$11,500	3.2%	\$11,845	3.0%
Consumer Price Index (1982-84=100)	195.3	3.4%	200.6	2.7%	204.6	2.0%
3-Month Treasury Bills (Interest Rate, %)	3.2%		4.6%		4.8%	
Unemployment Rate (%)	5.1%		4.9%		4.9%	
Light Vehicle Sales (millions of units)	16.8	-0.6%	16.7	-0.6%	16.8	0.6%
Michigan:						
Wage and Salary Employment (thousands)	4,360	-0.7%	4,334	-0.6%	4,334	0.0%
Unemployment Rate (%)	6.8%		7.1%		7.1%	
Personal Income (billions of dollars)	\$335,155	3.4%	\$349,231	4.2%	\$364,597	4.4%
Real Personal Income (billions of 1982-84 \$s)	\$175,842	0.6%	\$178,543	1.5%	\$182,939	2.5%
Detroit Consumer Price Index (1982-84=100)	190.6	2.8%	195.6	2.6%	199.3	1.9%

U.S. Economy. Nationally, economic activity has been growing in a very sustainable range of 3.0% to 4.0% real growth and is expected to continue to expand in this range through 2007. Employment will continue to rise and businesses will continue to invest, both of which will help boost overall output. Some of the key highlights of the U.S. economic forecast are summarized below.

Real Gross Domestic Product (GDP) increased 3.6% in 2005, which was down slightly from the 4.2% growth experienced in 2004, but higher than the growth rates realized in 2001 through 2003. The forecast is that real GDP will continue to grow at a moderate, sustainable level; however, the rate of growth is expected to slow slightly to an estimated 3.2% in 2006 and 3.0% in 2007.

Inflation, as measured by the U.S. Consumer Price Index (CPI), is expected to ease down slightly after increasing for three consecutive years. After falling to a historically low level of 1.6% in 2002, inflation rose to 2.3% in 2003, 2.7% in 2004, and 3.4% in 2005, due primarily to increases in energy prices. In 2006, inflation is expected to slow to 2.7% and then ease further to 2.0% in 2007. Much of this downward movement in the forecasted inflation rate is based on the estimate that while oil prices will remain high, they will come down slightly from their current levels.

Employment will continue to improve, but the growing economy also will attract new entrants to the labor force, so the unemployment rate is not expected to show much improvement over the next two years. The jobless rate averaged 5.1% in 2005, and is expected to fall to 4.9% in 2006 and then remain steady in 2007.

Light vehicle sales are not expected to change much over the next two years. In 2005, 16.8 million cars, SUVs, and light trucks were sold. In 2006, light vehicle sales will dip to an estimated 16.7 million units and then edge back up to an estimated 16.8 million units in 2007. However, the share of sales comprised of sales by domestic manufacturers is expected to decline in both years.

Michigan Economy. While the recession ended nationally in November 2001, Michigan's economy still has not made a clear and distinct break from the prolonged weakness in economic activity that began in the second half of 2000. This ongoing weakness is due primarily to a shrinking manufacturing sector, which is concentrated in the motor vehicle industry. While increases in productivity, coupled with a falling market share for the domestic auto manufacturer, are negatively affecting manufacturing employment throughout the U.S., the problem is much more severe in Michigan due to the fact that manufacturing activity accounts for a much larger share of overall economic activity in Michigan compared with the U.S. Some of the highlights of the Michigan economic forecast are presented below.

Wage and salary employment fell 0.7% in 2005 to 4.36 million jobs. This marked the fifth consecutive year that payroll employment declined in Michigan. Since the issues facing the motor vehicle industry are long-term in nature, it is estimated that manufacturing employment will continue to edge down through the forecast horizon. However, it is also estimated that there will be some job growth in other sectors of the economy. As a result, total wage and salary employment is expected to decline again in 2006, by 0.6% to 4.33 million jobs, but then in 2007, overall wage and salary employment is expected finally to level off and even experience some modest gains in the latter half of the year.

The unemployment rate was 6.8% in 2005. In 2006 and 2007, the number of people in the labor force is expected to increase and, given the employment forecast, this will push the unemployment rate up slightly to an estimated 7.1% in both years.

Real personal income, which provides the broadest measure of overall economic activity in Michigan, will increase an estimated 1.5% in 2006, after increasing 0.6% in 2005. In 2007, the rate of increase will edge up to an estimated 2.5%. Personal income measures the total income received by individuals from all sources, including wages and salaries, interest, dividends, proprietors income, and transfer payments.

Inflation, as measured by the Detroit CPI, is expected to slow in both 2006 and 2007. In 2005, the Detroit CPI increased 2.8%, and in 2006 the rate of inflation will slow to an estimated rate of 2.6%. In 2007, with continued modest easing in oil prices, the average rate of inflation in Michigan will fall to a rate of 1.8%.

Revenue Estimates

Based on the economic forecast summarized above, it is estimated that revenue totaling \$42.6 billion will be available in FY 2006-07 to support Governor Granholm's proposed budget. This represents a 2.3% increase from the revised revenue estimate for FY 2005-06. This total State government revenue includes revenue from taxes, fees, interest, licenses and permits, penalties, fines, Federal aid,

carryover balances, and the Governor's proposed tax policy changes. Table 25 presents the overall State budget revenue estimates for FY 2005-06 and FY 2006-07, broken down by major fund.

Table 25

**Governor's Projected Total State Revenue: FY 2005-06 and FY 2006-07
(Millions of Dollars)**

	FY 2004-05 Final	FY 2005-06 Estimate	% Change FY 06/FY 05	FY 2006-07 Estimate	% Change FY 07/FY 06
General Fund/General Purpose					
Beginning Balance.....	\$0.0	\$220.5	---	\$79.8	---
Revenue From Ongoing Sources ¹⁾	8,289.1	8,207.8	(1.0)%	8,377.2	2.1%
Proposed Tax/Revenue Changes	0.0	0.0	---	88.4	---
One-Time Revenue Adjustments and Other	<u>582.6</u>	<u>666.3</u>	14.4	<u>709.8</u>	6.5
Total GF/GP Revenue	<u>\$8,871.7</u>	<u>\$9,094.6</u>	2.5	<u>\$9,255.2</u>	1.8
School Aid Fund					
Beginning Balance	\$72.4	\$93.7	29.4	\$80.2	(14.4)
Ongoing Earmarked Tax and Lottery Revenue ¹⁾	10,909.8	11,230.9	2.9	11,591.1	3.2
Proposed Tax/Revenue Changes	0.0	0.0	---	22.8	---
Other Revenue (General Fund Grant, Federal aid . . .)	<u>1,548.4</u>	<u>1,502.8</u>	(2.9)	<u>1,424.9</u>	(5.2)
Total SAF Revenue	<u>\$12,530.6</u>	<u>\$12,827.4</u>	2.4	<u>\$13,119.0</u>	2.3
Other Funds					
General Fund/Special Purpose and Special					
Revenue Funds	\$15,367.8	\$15,639.9	1.8	\$16,072.2	2.8
Transportation Funds	4,229.3	4,503.7	6.5	4,584.3	1.8
Fund Balances:					
Restricted GF Subfunds Unreserved Balances	426.9	468.8	9.8	468.8	0.0
Special Revenue Fund Balances	<u>106.7</u>	<u>174.5</u>	63.5	<u>174.5</u>	0.0
Total Fund Balances.....	<u>\$533.6</u>	<u>\$643.3</u>	20.6	<u>\$643.3</u>	0.0
Total Other Funds with Beginning Balance.....	<u>20,130.7</u>	<u>20,786.9</u>	3.3	<u>21,299.8</u>	2.5
Gross Revenue	<u>\$41,533.0</u>	<u>\$42,708.9</u>	2.8	<u>\$43,674.0</u>	2.3
Less Interfund Transfers.....	<u>(1,373.3)</u>	<u>(1,053.6)</u>	(23.3)	<u>(1,051.2)</u>	(0.2)
Net Total Revenue	<u>\$40,159.7</u>	<u>\$41,655.3</u>	3.7	<u>\$42,622.8</u>	2.3

¹⁾ Estimates adopted at the January 12, 2006, Consensus Revenue Estimating Conference.

Source: Governor's Executive Budget for FY 2006-07, Appendix E, and Senate Fiscal Agency.

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 an estimated \$22.3 billion, or 52.0% of the total revenue estimated for FY 2006-07. A breakdown of the GF/GP and SAF revenue estimates for FY 2005-06 and FY 2006-07 is presented in Tables 26 and 27. 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 12, 2006, 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 increases and revenue adjustments.

General Fund/General Purpose Revenue. As shown in Table 26, GF/GP revenue is expected to total \$9.26 billion in FY 2006-07, which represents a 1.8% increase from the FY 2005-06 revised estimate. Revenue from ongoing revenue sources is expected to total \$8.38 billion, which represents an increase of 2.1% from FY 2005-06. The Governor's proposed tax increases and revenue adjustments would generate another \$798.2 million in GF/GP revenue. The major components of these proposed changes include maintaining a freeze in revenue sharing payments, which would generate an estimated \$600.2 million, and the Governor's proposed tax increases, which would generate \$88.4 million in GF/GP revenue. These tax increase proposals are summarized in Table 28. The other proposed revenue adjustments include \$28.0 million from land sales, \$10.8 million in transfers from other funds, \$15.0 million from interest earnings from the tobacco securitization funds, \$22.8 million from the SAF to cover its short-term borrowing costs, and \$23.0 million from a proposed increase in liquor retailer license fees. The final revenue item is the beginning balance. An estimated \$79.8 million is expected to be carried over from FY 2005-06, which will be down from the \$220.5 million that was carried over into FY 2005-06.

School Aid Fund. School Aid Fund revenue available for spending in FY 2006-07 will total an estimated \$13.12 billion, and this estimate is summarized in Table 27. The SAF revenue estimate for FY 2006-07 includes ongoing earmarked tax and lottery revenue totaling an estimated \$11.6 billion, a grant from the GF/GP budget proposed at \$35.0 million, and Federal aid of \$1.41 billion. In addition, the Governor's proposed tax increases would generate an estimated \$22.8 million in new SAF revenue in FY 2006-07, as presented in Table 28. The Governor also is proposing that the SAF pay its share of short-term cash-flow borrowing costs, which will total an estimated \$22.8 million in interest costs (negative revenue).

Table 26

**General Fund/General Purpose Revenue Estimates
FY 2005-06 and FY 2006-07
(Millions of Dollars)**

	FY 2005-06	FY 2006-07	Percent Change
Beginning Balance	\$220.5	\$79.8	(63.8)%
Consensus Estimates for Ongoing Revenue Sources: ¹⁾			
Taxes:			
Net Income Tax	4,127.8	4,220.9	2.3
Single Business Tax	1,817.9	1,848.4	1.7
Sales	105.3	113.8	8.1
Use.....	961.5	1,002.3	4.2
Cigarette	231.3	227.3	(1.7)
Insurance Company Premiums	255.0	266.0	4.3
Telephone and Telegraph	83.0	80.0	(3.6)
Estate.....	5.0	0.0	(100.0)
Casino.....	43.2	43.4	0.5
All Other Taxes	223.7	214.9	(3.9)
Subtotal Taxes.....	7,853.7	8,017.0	2.1
Nontax Revenue.....	354.1	360.2	1.7
Total GF/GP Consensus Revenue Estimates.....	\$8,207.8	\$8,377.2	2.1%
Enacted Revenue Adjustments ²⁾	560.5	610.2	8.9
Proposed Tax Increases ³⁾	0.0	88.4	---
Proposed Budget Adjustments ⁴⁾	105.8	99.6	---
Total GF/GP Revenue Current Fiscal Year	\$8,874.1	\$9,175.4	3.4%
Total GF/GP Revenue with Beginning Balance.....	\$9,094.6	\$9,255.2	1.8%
¹⁾ Estimates adopted at the January 12, 2006, Consensus Revenue Estimating Conference.			
²⁾ Includes the following: FY 2005-06 - \$550.5 million in increased sales tax revenue due to a freeze in revenue sharing payments and \$10.0 million from an unused pharmaceutical SBT credit. FY 2006-07 - \$600.2 million in reduced revenue sharing payments and \$10.0 million from an unused pharmaceutical SBT credit.			
³⁾ Includes the Governor's proposed tax increases for FY 2006-07, which are summarized in Table 24 .			
⁴⁾ Includes the following: FY 2005-06 - \$47.0 million in land sales, \$48.8 million in transfers from other funds, and \$10.0 million in interest earnings from tobacco securitization funds. FY 2006-07 - \$28.0 million in land sales, \$10.8 million in transfers from other funds, \$15.0 million in interest earnings from tobacco securitization funds, \$23.0 million from a proposed liquor license fee increase, and \$22.8 million from the SAF to cover its short-term borrowing costs.			

Table 27

**School Aid Fund Revenue Estimates
FY 2005-06 and FY 2006-07
(Millions of Dollars)**

	FY 2005-06	FY 2006-07	Percent Change
Beginning Balance	\$93.7	\$80.2	(14.4)%
Consensus Estimates for Earmarked Tax and Lottery Revenue:¹⁾			
Sales Tax and Use Tax	5,430.6	5,634.9	3.8
Income Tax	2,041.4	2,101.5	2.9
State Education Property Tax.....	2,010.0	2,108.0	4.9
Real Estate Transfer Tax.....	310.0	308.0	(0.6)
Tobacco Taxes	469.8	460.7	(1.9)
Casino Gaming Tax.....	100.0	100.4	0.4
Other Tax Revenue	184.1	187.6	1.9
Subtotal Taxes.....	10,545.9	10,901.1	3.4
Lottery	685.0	690.0	0.7
Subtotal Earmarked Tax and Lottery Consensus Estimate.....	\$11,230.9	\$11,591.1	3.2%
GF/GP Grant.....	62.7	35.0	(44.2)
Federal Aid and Other	1,440.1	1,412.7	(1.9)
Proposed Tax Increases ²⁾	0.0	22.8	---
Proposed Revenue Changes ³⁾	0.0	(22.8)	---
Total SAF Revenue Current Fiscal Year	\$12,733.7	\$13,038.8	2.4%
Total SAF Revenue with Beginning Balance.....	\$12,827.4	\$13,119.0	2.3%
¹⁾ Estimates adopted at the January 12, 2006, Consensus Revenue Estimating Conference.			
²⁾ Governor's proposed tax increases are summarized in <u>Table 28</u> .			
³⁾ Includes the following: \$22.8 million in interest costs (negative revenue) for short-term borrowing.			

Proposed Tax Increases

The Governor's budget proposes to eliminate or reduce certain tax provisions that currently allow special tax reductions for certain taxpayers. Eliminating these provisions would result in additional tax revenue beginning in FY 2006-07. These proposed tax increases would affect the sales, use, income, single business, and property taxes. In total, these proposed tax increases would generate an estimated \$111.2 million in FY 2006-07. Of this amount, an estimated \$88.2 million would go into the GF/GP budget, and \$22.8 million would go to the SAF. These proposed tax increases are summarized below and their estimated fiscal impacts for FY 2006-07 are presented in Table 28.

Table 28

Governor's Proposed Tax Increases: FY 2006-07

Proposed Tax Increase	State Government Fiscal Impact		
	GF/GP	School Aid Fund	Total
Sales and Use Taxes			
Eliminate exemptions for internat'l calls, WATS, 800 call centers, & interstate private networks. (Use tax)	\$14.8	\$7.4	\$22.2
Reduce exemption for interstate truck and trailer purchases. (Primarily use tax)	11.0	5.5	16.5
Eliminate exemption for school purchases of driver ed. vehicles. (Use tax)*	0.2	0.4	0.6
Eliminate exemption for prisoner purchases from prison store. (Sales tax)*	0.2	0.4	0.6
Eliminate insurance co. use tax exemption on out-of-state purchases (SBT bill but use tax fiscal impact).*	2.0	1.0	3.0
Ensure collection of tax from affiliates of businesses with nexus in Michigan. (Use tax, see below for SBT impact)	6.0	3.0	9.0
Subtotal Sales and Use Taxes			
Sales Tax	\$0.3	\$0.9	\$1.2
Use Tax.....	\$33.8	\$16.8	\$50.7
Single Business Tax			
Ensure collection of tax from affiliates of businesses with nexus in Michigan. (See above for use tax impact)	\$6.0	\$0.0	\$6.0
Limit professional employer organization credits and deductions.	15.0	0.0	15.0
Apply current small business credit eligibility requirements to limited liability companies.*	0.8	0.0	0.8
Apply current small business credit eligibility requirements to out-of-state affiliates.*	3.0	0.0	3.0
Eliminate deduction for gains realized by or passed through affiliate not located or taxed in Michigan.*	8.3	0.0	8.3
Credit/loss carryforward deduction restriction.*	3.8	0.0	3.8
Subtotal Single Business Tax			
	\$36.9	\$0.0	\$36.9
Income Tax			
Eliminate oil and gas expense (double) deduction.	\$2.8	\$1.0	\$3.8
Base tax on gains from inherited assets on decedent's initial value instead of value at time of death.	4.6	1.6	6.2
Subtotal Income Tax			
	\$7.4	\$2.6	\$10.0
Property Tax and Other			
Commercial rental property: property tax exemption and new specific tax.*	\$0.0	\$2.5	\$2.5
Increase penalties for certain delinquent taxes.*	4.9	0.0	4.9
Publicize names of major delinquent taxpayers.	5.0	0.0	5.0
Subtotal Property Tax and Other			
	\$9.9	\$2.5	\$12.4
Total Proposed Tax Increases			
	\$88.4	\$22.8	\$111.2

* Item passed by the Legislature in November 2005 and vetoed by the Governor.

Sales and Use Taxes

Inmate Purchases. Items purchased by inmates from prison stores are not subject to the sales tax. The Governor is proposing to eliminate this exemption and make such purchases subject to the sales tax. This change would increase sales tax revenue an estimated \$0.6 million, of which \$0.2 million would go to the General Fund and \$0.4 million would go to the SAF.

International Telecommunications. International telephone calls and certain interstate calls (including toll-free number call centers, WATS services, and private networks) are exempt from the use tax, whereas all other long-distance calls are subject to the use tax. The Governor is proposing to end these exemptions and make the calls subject to the use tax, which would generate an estimated \$22.2 million. Of this amount, \$14.8 million would go to the General Fund and \$7.4 million would go to the SAF.

Interstate Trucks and Trailers. Generally, heavy trucks, trailers, and parts for them purchased or used in Michigan are subject to the sales or use taxes; however, these vehicles are totally exempt from the sales and use taxes if 10% or more of their travel occurs outside of Michigan. The Governor wants to eliminate this current total exemption and replace it with a partial exemption equal to the percentage of their total miles that are traveled outside of Michigan. This proposed partial exemption would produce an estimated \$16.5 million in new revenue and it would be distributed as follows: \$11.0 million to GF/GP revenue and \$5.5 million to the SAF.

Driver Education Vehicles. Vehicles purchased or leased by public or parochial schools to be used for driver education classes are currently exempt from the sales and use taxes, whereas vehicles purchased or leased by private driver education schools are subject to the sales and use taxes. The Governor's proposal is to eliminate the exemptions currently provided public and parochial schools. This change would generate \$0.6 million, of which \$0.2 million would go to the General Fund and \$0.4 million would go to the SAF.

Out-of-State Purchases by Insurance Companies. Currently, the Single Business Tax Act provides that the single business tax is levied on insurance in lieu of all other direct taxes except taxes on property. As a result, purchases insurers make from outside of Michigan are exempt from the use tax. The Governor is proposing that this exemption from the use tax be eliminated. It is estimated that this change would generate \$3.0 million, of which \$2.0 million would go to the General Fund and \$1.0 million would go to the SAF.

Single Business Tax

Affiliate Nexus. Large multistate Michigan-based businesses can reduce their tax liability by creating a separate legal entity for one or more of their divisions that are located outside of Michigan. For example, a retail business could make its Internet sales division a separate company, locate it in another state, and avoid paying taxes in Michigan under current law. Under the Governor's proposal, an out-of-State business would be subject to Michigan's taxes if it has certain business relationships or interactions with a related Michigan business. This change would generate both single business and use tax revenue totaling \$15.0 million. Of this amount, \$12.0 million would go to the General Fund and \$3.0 million would go to the SAF.

Professional Employer Organizations. Professional employer organizations (PEOs) provide human resource-type services for companies, which may include leasing a client's employees back to the client. When employees are leased from a PEO, instead of paying the workers directly, the employer pays the PEO an amount to cover the pay of the workers and the PEO pays the workers. Under this business arrangement, the employer no longer technically makes compensation payments to its employees and the PEO can count the payments it receives from the employer as gross receipts. These financial transactions result in substantial single business tax reductions and help make some businesses eligible for the small business credit when they otherwise would not be eligible. The Governor is proposing to eliminate these unintended tax benefits, which would generate an estimated \$15.0 million in single business tax revenue for the General Fund.

Limited Liability Companies. Under current law, small businesses are eligible for the small business credit and the alternative tax rate, but in order to be eligible they are subject to several limits, including limits on how much a small business can pay its officers and shareholders. However, these officer compensation limits do not apply to limited liability companies (LLCs), primarily because the single business tax statute has not been updated to reflect this relatively new form of business. The Governor is proposing to eliminate this special tax treatment of LLCs, which would generate an estimated \$0.8 million in General Fund revenue.

Out-of-State Affiliates. Members of a group of companies are required to file a combined return in order to qualify for the small business credit. Therefore, a small business owned by a larger business located in Michigan is not eligible for the small business credit. However, if a small business is owned by an out-of-State business, it qualifies for the small business credit. Eliminating this treatment of small businesses that are affiliates of out-of-State businesses, as being proposed by the Governor, would generate \$3.0 million in General Fund revenue.

Gains from Out-of-State Affiliates. Gains a taxpayer receives from another business that is subject to the single business tax may be deducted by the taxpayer to avoid double taxation; however, this deduction also may be claimed if the gain is from an out-of-State business that is not subject to the single business tax but would be if it were located in Michigan. The Governor is proposing to eliminate the deduction for gains from an out-of-State affiliate, which would generate an estimated \$8.3 million in General Fund revenue.

Flow-Through Credit/Loss Carry-forwards. Under current law, some taxpayers with an unused single business tax loss or credit obtained while filing a separate return in past years, file a joint return with an affiliate and thus reduce the affiliate's tax liability. The Governor is proposing to stop a loss or credit carried forward by one business from being used to reduce an affiliate's tax burden. This proposal to eliminate the flow-through of carry-forward losses and credits would generate an estimated \$3.8 million in General Fund revenue.

Income Tax

Oil and Gas Deduction. Oil and natural gas production is subject to the oil and gas severance tax and, as a result, the income generated from oil and gas production is exempt from the income tax. Under current law, however, oil and gas producers still may deduct certain indirect costs, such as depreciation expenses, from their adjusted gross income (AGI) even though the income from oil and gas production is not included in AGI. The Governor is proposing that this deduction for indirect costs be repealed. This would increase income tax revenue an estimated \$3.8 million, which would provide \$2.8 million to the General Fund and \$1 million to the SAF.

Tax on Gains from Inherited Assets. Currently, when an inherited asset is sold, the financial gain realized is calculated by subtracting from the sale price the asset's value at the time of the decedent's death and this gain is subject to the income tax. The Governor is proposing to alter the gain calculation by using as the initial value the value of the asset when it was originally acquired by the decedent, instead of the value at the time of the decedent's death. This change would generate an estimated \$6.2 million in income tax revenue, of which \$4.6 million would go to the General Fund and \$1.6 million would go to the SAF.

Property Taxes and Other

Commercial Rental Property. The value of commercial property is related to occupancy rates – values increase when occupancy is high and decrease when occupancy is low. While under current law decreasing values due to falling occupancy rates are reflected in reductions in taxable values, the courts have ruled that commercial property values may not be increased by more than the constitutional limit on taxable value, which is the lesser of inflation or 5.0% in any given year, whether the increased value is due to increased occupancy rates or any other reason. In order to be able to reflect both decreases and increases in the value of commercial property as occupancy rates change, the Governor is proposing that commercial property be exempt from the general property tax and instead be subject to a new specific tax that would be applied at the same tax rate as the current property tax, and the revenue would be distributed in the same way as the current property tax; however, this new specific tax would not be subject to the constitutional cap on the annual increase in taxable value. It is estimated that this proposed change would generate an additional \$2.5 million in State education property tax revenue in FY 2006-07. In addition, in subsequent fiscal years, SAF expenditures to local school districts would be decreased.

Tax Collection Penalties. Penalties on late tax payments would be increased for certain tax collections, which would generate an estimated \$4.9 million in General Fund revenue.

Cyber List of Delinquent Taxpayers. The Governor is proposing that names of taxpayers owing more than \$25,000 in delinquent taxes be posted on the Internet as a way to encourage them to pay their tax liability. Based on the experience of about 18 other states that currently do this, the Administration estimates that this so called "cybershame" program would generate \$5.0 million in new General Fund revenue.



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