

# **OVERVIEW OF GOVERNOR GRANHOLM'S FY 2010-11 BUDGET**



**Gary S. Olson, Director  
SENATE FISCAL AGENCY**

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## **Governor Granholm's FY 2010-11 Budget Overview of Recommendations**

The Governor's FY 2010-11 budget recommendation can be best characterized as a budget that is balanced through a combination of revenue and fee increases, the appropriation of one-time Federal funds, and appropriation reductions. The combination of these three factors leads to a balance between revenue and appropriations in the General Fund/ General Purpose (GF/GP) and School Aid Fund (SAF) budgets.

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

The Governor's budget includes additional State revenue from a major tax proposal. The proposal which involves an expansion in the base of the State sales tax, a reduction in the rate of the State sales tax and reductions in the Michigan business tax, provides for \$554.3 million of increased revenue in FY 2010-11. Under the Governor's budget, this increased revenue is earmarked to the SAF budget. The Governor's budget recommendation also includes \$8.6 million of revenue from proposed fee increases.

A key assumption in the Governor's FY 2010-11 budget recommendation involves two major assumptions concerning Federal funds. The budget assumes that Michigan will receive \$514.0 million of additional Federal funds related to a six-month extension of the enhanced Federal Medicaid match rate included in the American Recovery and Reinvestment Act of 2009 (ARRA). This ARRA fund source will otherwise expire on January 1, 2011. The Governor's budget assumes that the United States Congress will pass and the President will sign into law an extension of these enhanced Medicaid benefits for the period January 1, 2011 through June 30, 2011. The budget also assumes that Michigan will be unable to match \$475.0 million of available Federal transportation funding due to an inadequate level of State matching funds.

The major appropriation reductions contained in the Governor's budget include \$129.0 million of GF/GP savings in the Department of Corrections from the proposed closure of five additional State prisons and \$98.0 million of GF/GP savings from proposed changes in State employee retirement benefits, combined with a downsizing of the State employee workforce. Other major proposed reductions include \$31.7 million from the elimination of the Michigan Tuition Grant Program and various other reductions in most State departments and agencies. Operations funding for K-12 school districts, community colleges, and universities are maintained at the FY 2009-10 levels under the budget recommendation.

The Governor's FY 2010-11 budget recommendation contains the following level of appropriations:

Adjusted Gross .....	\$46.6 billion
State Spending from State Resources .....	\$26.1 billion
General Fund/General Purpose .....	\$8.0 billion
Full-Time Equated Positions .....	54,641.5

Adjusted Gross appropriations, adjusted for the assumed savings from the proposed enhanced retirement proposal for State employees, represents a \$1.9 billion or a 4.2% increase over the year-to-date level of FY 2009-10 appropriations. State Spending from State Resources appropriations, adjusted for the assumed savings from the proposed enhanced retirement proposal for State employees, represents a \$773.3 million or a 3.1% increase over the year-to-date level of FY 2009-10 appropriations. General Fund/General Purpose appropriations, adjusted for the assumed savings from the proposed enhanced retirement proposal for State employees, represents a \$142.8 million or a 3.2% decrease from the year-to-date level of FY 2009-10 appropriations. The recommended level of Full-Time Equated positions (FTE) in the budget represents a 711.2 or a 1.3% decline from the year-to-date level of FY 2009-10 appropriated positions. The 54,641.5 of FTE positions included in the budget do not include the assumed 2,236.8 positions that would be reduced due to the assumed employment reductions associated with the enhanced retirement proposal. Including this FTE employment reduction leads to an overall employment decline of 2,948.8 or a 5.3% decline in State FTE employment.

**FY 2009-10  
State Budget Update**

**Table 1**

<b>FY 2009-10 General Fund/General Purpose Revenue, Expenditures, and Year-End Balance (Millions of Dollars)</b>	
	<b>Feb. 2010 Gov's Rec.</b>
Beginning Balance .....	\$176.7
<b>Ongoing Revenue:</b>	
Consensus Revenue Estimate .....	\$6,898.4
Revenue Sharing Savings .....	495.2
Shift of Short-Term Borrowing Costs to School Aid Fund .....	30.0
Use Tax on HMOs (PA 440 of 2008) .....	<u>342.8</u>
Subtotal Ongoing Revenue .....	7,766.4
<b>One-Time Revenue:</b>	
Transportation Economic Development Fund Transfer to General Fund .....	12.0
Railroad Improvement Fund Transfer to General Fund .....	5.8
Liquor Purchase/Corporate Fees Transfer to General Fund .....	1.5
State Services Fee Fund Transfer to General Fund .....	1.6
Merit Award Fund Transfer to General Fund .....	140.0
21st Century Jobs Fund Transfer to General Fund .....	<u>37.5</u>
Subtotal One-Time Revenue .....	198.4
<b>Total Estimated Revenue .....</b>	<b>\$8,141.5</b>
<b>Expenditures:</b>	
Initial Appropriations .....	\$8,128.0
<b>Enacted Supplemental Appropriations:</b>	
Public Act 140 of 2009 .....	0.0
Public Act 145 of 2009 .....	0.0
Public Act 1 of 2010 .....	0.0
Public Act 2 of 2010 .....	0.0
<b>Governor's Proposed Appropriation Adjustments:</b>	
Employee Concessions .....	(27.5)
Corrections Administrative Efficiencies .....	(20.0)
Projected Savings from Employee Benefit Reforms .....	(4.3)
Proposed Supplemental Appropriations .....	<u>31.9</u>
<b>Total Projected Expenditures .....</b>	<b>\$8,108.1</b>
<b>Projected Year-End Balance .....</b>	<b>\$33.4</b>

Source: Governor's Budget Message

**Table 2**  
**FY 2009-10 School Aid Fund**  
**Revenue, Expenditures, and Year-End Balance**  
**(Millions of Dollars)**

	<b>Feb. 2010 Gov's Rec.</b>
<b>Revenue:</b>	
Beginning Balance .....	\$238.2
Consensus Restricted SAF Revenue .....	10,458.1
Assumed SAF Revenue Increase .....	0.0
GF/GP Grant.....	30.2
Federal Aid .....	1,617.6
ARRA-State Fiscal Stabilization Fund .....	450.0
<b>Total Estimated Revenue .....</b>	<b>\$12,794.1</b>
<b>Expenditures:</b>	
Initial Appropriation .....	\$12,823.5
Formula Cost Adjustments.....	(108.0)
Additional CEPI Federal Funding.....	15.9
Lower SAF Borrowing Cost from General Fund.....	(15.0)
Other Adjustments (Savings from Juvenile Facilities).....	(0.7)
<b>Total Appropriations.....</b>	<b>\$12,715.7</b>
<b>Projected Year-End Balance .....</b>	<b>\$78.4</b>

Source: Governor's Budget Message

**Table 3**

**Pending Fiscal Year 2009-10 Supplemental Appropriations  
Recommendations from the Office of the State Budget  
(Actual Dollars)**

<b>Budget Area/Item</b>	<b>Office of the State Budget</b>	
	<b>Gross</b>	<b>GF/GP</b>
<b>Community Health</b>		
Hospital/Nursing Home QAAP Expansion.....	\$101,498,500	\$0
<b>Corrections</b>		
Muskegon Correction Facility for Out-of-State Inmates.....	18,660,000	0
County Jail Reimbursement Program.....	7,514,400	0
<b>Education</b>		
Race to the Top Education Reform.....	25,492,800	492,800
<b>Higher Education</b>		
TANF Scholarship Fund Source Shift.....	0	(47,473,200)
<b>Human Services</b>		
TANF Scholarship Fund Source Shift.....	0	47,473,200
Community Outreach Services.....	2,000,000	0
Food Assistance Caseload.....	237,168,100	0
Food Assistance Caseload (ARRA Funding).....	141,867,500	0
Departmental Caseload/Cost Adjustments.....	4,755,400	43,555,000
Increase Local Office Field Staff by 197 FTEs.....	7,681,600	4,823,000
Electronic Benefit Card Administration.....	4,552,700	3,017,600
Bridges Administrative Cost.....	7,013,500	4,358,200
Departmental Rent Shortfall.....	6,178,600	4,424,500
Other Departmental Fund Source Shifts/Adjustments.....	19,549,200	(16,623,300)
<b>School Aid</b>		
CEPI Funding for Race to the Top Program.....	15,657,400	0
<b>State</b>		
Help America Vote Act Funding.....	5,579,000	293,700
<b>State Police</b>		
Laboratory Funding Backlog.....	2,500,000	0
<b>Transportation</b>		
Comprehensive Transportation Bonding.....	12,800,000	0
<b>Treasury-Debt Service</b>		
General Obligation Bond Payments.....	(12,481,500)	(12,481,500)
All Other Recommendations.....	11,326,700	0
<b>Total OSB Supplemental Recommendations.....</b>	<b>\$619,313,900</b>	<b>\$31,860,000</b>

**FY 2010-11  
Budget Recommendation  
Overall Budget Issues**

**Table 4**

<b>FY 2010-11 Budget Recommendation General Fund/General Purpose (Millions of Dollars)</b>	
	<b>Feb. 2010 Gov's Rec.</b>
<b>Revenue:</b>	
Beginning Balance .....	\$33.4
Consensus Revenue Estimate (January 11, 2010).....	6,968.4
Revenue Sharing Savings.....	427.0
Use Tax on Health Maintenance Organizations.....	354.6
Shift Short Term Borrowing Costs to School Aid Fund .....	45.0
<b>Current Law Revenue .....</b>	<b>\$7,828.4</b>
<b>Expenditures:</b>	
FY 2009-10 Current Law Spending.....	\$8,128.0
Corrections Spending Increase.....	26.0
Replace FY 2009-10 Federal ARRA Funding .....	1,057.0
FY 2010-11 Federal ARRA Funding .....	(208.5)
Community Health Baseline Costs.....	(184.0)
Federal Medicaid Match Rate Adjustment .....	(232.0)
Human Services Caseload/Costs .....	118.0
Employee Economic Costs .....	140.0
Other Cost Adjustments.....	71.0
Total Current Services Spending Base .....	8,915.5
<b>Projected State Budget Funding Gap.....</b>	<b>\$(1,087.1)</b>
<b>Administration Proposal to Close Funding Gap:</b>	
Revenue Adjustments and Reforms .....	\$12.0
Physician Quality Assurance Assessment Proposal.....	133.0
Assume Additional Federal Stimulus Funding.....	514.0
Spending Reductions Proposed in Budget .....	433.0
<b>Recommended Proposals to Close Funding Gap.....</b>	<b>\$1,092.0</b>
<b>Projected Year-End Balance .....</b>	<b>\$4.9</b>

**Source:** Governor's Budget Message

**Table 5**

<b>FY 2010-11 Budget Recommendation Major Proposed GF/GP Appropriation Reductions (Millions of Dollars)</b>	
Corrections Reforms (Closure of Five Prisons).....	\$(129.0)
Savings from Proposed Retirement Changes .....	(98.0)
Elimination of 3.0% Salary Increase for NERE .....	(18.4)
Eliminate Michigan Tuition Grant in Higher Education .....	(31.7)
Various Community Health Reductions .....	(39.0)
Various Human Service Reductions .....	(39.0)
All Other Funding Reductions .....	(77.9)
<b>Total Proposed Appropriation Reductions .....</b>	<b>\$(433.0)</b>

**Source:** Governor's Budget Message

**Table 6**

<b>FY 2010-11 Budget Recommendation Proposed GF/GP Revenue Adjustments and Reforms (Millions of Dollars)</b>	
Michigan Promise Income Tax Credit .....	\$(6.8)
College Tuition Tax Credit Elimination .....	8.8
Angel and Venture Capital Investor Tax Credit .....	(5.0)
Enhanced Tax Enforcement.....	15.0
<b>Total Proposed Revenue Adjustments and Reforms .....</b>	<b>\$12.0</b>

**Source:** Governor's Budget Message

**Table 7**

<b>FY 2010-11 Governor's Appropriation Recommendation Major Changes from FY 2009-10 Year-to-Date General Fund/General Purpose Appropriations (Millions of Dollars)</b>	
FY 2009-10 Year-to-Date Appropriations.....	\$8,128.0
FY 2010-11 Governor's Recommendation.....	7,870.1
<b>Net Change in GF/GP Appropriations .....</b>	<b>\$(257.9)</b>
Total Funding Increases .....	\$476.6
Total Funding Reductions .....	(441.7)
Total Fund Shifts.....	(292.8)
<b>Total GF/GP Funding Change .....</b>	<b>\$(257.9)</b>

**Source:** Senate Fiscal Agency analysis of Governor's Budget Message

**Table 8**

**FY 2010-11 Governor's Appropriation Recommendation  
Major GF/GP Funding Increases  
(Millions of Dollars)**

<b><u>Budget Area/Program</u></b>	
<b>Community Health</b>	
Medicaid Base and Caseload Adjustments .....	\$57.9
Medicaid Managed Care Services .....	45.6
Specialty Network Access Fee Payments for Public Clinics .....	1.8
<b>Corrections</b>	
Reinstatement of Community Jail Reimbursement Program .....	4.8
Prison Health and Mental Health Care Costs .....	10.3
Employee Training Costs.....	5.7
Hiring of Additional Parole/Probation Officers.....	3.2
Local Community Corrections Grants .....	1.2
Michigan Reformatory Base Funding Adjustment.....	1.0
Parnall Correction Facility Base Funding Adjustment.....	0.5
Prisoner Reintegration Programming .....	22.7
GPS Tether Monitoring Program .....	27.9
Field Operations Staff Increase .....	7.4
<b>Education</b>	
Race to the Top Program .....	1.7
<b>Human Services</b>	
Assistance Program Caseload and Cost Adjustments .....	68.9
Child Welfare Programs.....	18.0
Electronic Benefit Transfer System .....	3.9
<b>Judiciary</b>	
Supreme Court Satellite Offices .....	0.4
<b>Military and Veterans Affairs</b>	
Military Retirement Costs.....	0.2
<b>Technology, Management and Budget</b>	
Gubernatorial Transition Funding .....	1.5
State Building Authority Debt Service Payments .....	10.0
<b>Treasury-Debt Service</b>	
General Obligation Bond Debt Service Payments .....	54.7
<b>Treasury-Operations</b>	
Business Property Tax Appeals.....	0.9
<b>Statewide Employee Economics</b>	
Wage and Salary Increases.....	33.7
Employee Insurance Costs.....	28.2
Retirement Contributions .....	55.2
Workers' Compensation Costs .....	2.7
All Other Employee Economics .....	1.9
<b>Other Funding Increases in Budget Recommendation .....</b>	<b>4.7</b>
<b>Total GF/GP Funding Increases.....</b>	<b>\$476.6</b>

**Source:** Senate Fiscal Agency analysis of Governor's Budget Message

**Table 9**

**FY 2010-11 Governor's Appropriation Recommendation  
Major GF/GP Funding Eliminations/Reductions  
(Millions of Dollars)**

<b><u>Department/Program</u></b>	
<b>Agriculture</b>	
Right to Farm Program .....	\$(0.2)
Pesticide and Plant Management Program.....	(0.4)
Michigan Agriculture Environmental Assurance Program .....	(0.6)
<b>Attorney General</b>	
Operations Reductions .....	(1.2)
<b>Civil Rights</b>	
Operations Reductions .....	(0.9)
<b>Community Colleges</b>	
Renaissance Zone Reimbursements .....	(0.3)
<b>Community Health</b>	
Expansion of Hospital Quality Assurance Assessment Program .....	(0.8)
Transitional Medical Assistance Plus Population .....	(3.7)
Children's Special Health Care Services.....	(2.0)
State Disability Assistance Substance Abuse Funding .....	(2.2)
Laboratory Services Funding .....	(1.3)
Medicaid Recovery and Revenue Maximization Program.....	(0.6)
Reduce Medicaid Pharmacy Dispensing Fee by 25 Cents .....	(0.3)
Shift Nursing Home Patients to Home & Community-Based Waiver Program	(5.3)
Medicaid Inspector General Assumed Savings.....	(1.0)
Repeal of Drug Manufacturer Immunity Assumed Savings.....	(0.3)
Community Mental Health Non-Medicaid Administrative Funding .....	(3.8)
Freeze Enrollment in Mental Health Programs for Persons with Developmental Disabilities .....	(2.3)
Community Mental Health Multicultural Services .....	(1.4)
Departmental Administrative Reductions .....	(1.2)
Elimination of Various Special Grant Programs .....	(0.7)
Require Adult Foster Care Facilities to Pay for Employee Background Checks .....	(1.7)
Local Public Health .....	(2.7)
Senior Community, Nutrition and Volunteer Services .....	(2.2)
Substance Abuse Funding .....	(1.6)

**FY 2010-11 Governor's Appropriation Recommendation  
Major GF/GP Funding Eliminations/Reductions  
(Millions of Dollars)**

<b>Corrections</b>	
Statutory Reforms to Allow the Closure of Four to Five Prison Facilities .....	(187.4)
Supply Chain Logistics and Management Improvements .....	(4.0)
Pharmacy Savings .....	(4.6)
Administrative and Information Technology .....	(1.9)
<b>Education</b>	
Book Distribution Centers .....	(0.2)
Library of Michigan Operations .....	(1.1)
State Aid to Libraries.....	(0.2)
<b>Energy, Labor, and Economic Growth</b>	
No Worker Left Behind Program .....	(4.5)
Welfare-to-Work Program .....	(2.6)
<b>Executive</b>	
Operational Reductions .....	(0.2)
<b>Higher Education</b>	
Michigan Tuition Grant Program .....	(31.7)
<b>Human Services</b>	
Food Stamp Reinvestment.....	(2.4)
University of Detroit-Mercy Legal Services .....	(0.2)
Michigan State University Kinship Care Services .....	(0.2)
Barry County Domestic Violence Center.....	(0.1)
Assistance Program Caseload and Cost Adjustments.....	(10.8)
Employment and Training Services .....	(7.6)
Various Departmental Program Reductions.....	(10.6)
<b>Judiciary</b>	
Temporary Elimination of Circuit Court Judgeships .....	(0.2)
Operational Funding Reduction of 4.0% .....	(2.6)
<b>Legislative Auditor General</b>	
Operational Funding Reduction of 4.0% .....	(0.5)
<b>Legislature</b>	
State Officers Compensation Commission Salary and Expense Reduction ..	(1.2)
Operational Funding Reduction of 4.0% .....	(2.9)
<b>Military and Veterans Affairs</b>	
Special Maintenance Funding for State Armories.....	(0.7)
Administrative Reductions.....	(0.2)

**FY 2010-11 Governor's Appropriation Recommendation  
Major GF/GP Funding Eliminations/Reductions  
(Millions of Dollars)**

<b>Natural Resources and Environment</b>	
Forest Recreation Programs .....	(0.3)
Consolidation Savings .....	(0.2)
Surface Water Programs.....	(0.4)
Drinking Water Program.....	(0.1)
Water Withdrawal Assessment Program .....	(0.2)
NPDES Nonstormwater Program.....	(0.4)
Groundwater Discharge Program .....	(0.2)
Historical Programs.....	(0.4)
Wildlife Division.....	(0.1)
Departmental Administrative Savings .....	(0.6)
<b>State</b>	
Business Application Modernization Project .....	(2.8)
Operational and Administrative Funding Reductions .....	(1.2)
<b>State Police</b>	
Eliminate Capitol Security Guard Program.....	(0.5)
Reduce Trooper and Laboratory Overtime Payments.....	(1.5)
Eliminate Vacant Positions.....	(0.3)
Departmental Administrative Savings .....	(0.8)
Motor Vehicle Fleet Leasing.....	(0.8)
At-Post Trooper Attrition .....	(6.0)
Information Technology Programs .....	(0.4)
<b>Technology, Management and Budget</b>	
Civil Service Commission Operations Funding .....	(1.9)
Savings from Consolidation of DMB and DIT.....	(0.2)
Information Technology Reductions.....	(0.6)
<b>Treasury-Operations</b>	
Information Technology Programs .....	(0.7)
Staff and Service Reductions.....	(1.1)
<b>Treasury-Strategic Fund Agency</b>	
Economic Development Job Training Grants.....	(4.7)
<b>Employee Costs</b>	
Savings from Proposed Enhanced Retirement Program .....	(98.0)
<b>Total GF/GP Funding Eliminations/Reductions .....</b>	<b>\$(441.7)</b>

**Source:** Senate Fiscal Agency analysis of Governor's Budget Message

**Table 10**

<b>FY 2010-11 Governor's Appropriation Recommendation Major Fund Shifts to Increase/(Reduce) GF/GP (Millions of Dollars)</b>	
<b>Department/Program</b>	
<b>Agriculture</b>	
Migrant Labor Housing Program Fee Increase .....	\$(0.6)
Food and Dairy Program Fee Increase .....	(0.5)
<b>Community Health</b>	
Medicaid Benefits Trust Fund Shift .....	(4.0)
Federal Medicaid Match Rate Base Increase.....	(234.5)
Federal Medicaid Match Rate Adjustment due to General Motors Pension Fund Payments .....	(160.0)
Merit Award Trust Fund Shift.....	(126.3)
Extension of Federal Medicaid Match Rate ARRA Funding .....	245.1
Physician Quality Assurance Assessment Program.....	(98.6)
Remove One-Time Substance Abuse Fee Carry Forward .....	1.0
Revenue from Certified Public Expenditure Special Financing Program.	(2.4)
<b>Energy, Labor, and Economic Growth</b>	
Nursing Corps Program.....	(0.3)
<b>Higher Education</b>	
Replace Federal ARRA Funding with GF/GP Funding.....	68.2
<b>Human Services</b>	
Fund Source Shift in Food Assistance Program.....	(9.4)
Fund Source Shift in TANF to GF/GP Funding .....	193.2
Federal Medicaid Match Rate Base Increase.....	(7.3)
Foster Care Services Fund Source Shift.....	6.1
Emergency TANF Funding Shift.....	(169.6)
Federal ARRA Child Day Care Funding .....	(2.0)
Extension of Federal Medicaid Match Rate ARRA Funding .....	3.8
Child Care Development Block Grant Shift ARRA Funding to GF/GP ....	16.6
<b>State Police</b>	
Multi-Jurisdictional Task Force Fund Shift to ARRA Funding.....	(2.0)
At-Post Trooper Fund Shift to Secondary Road Patrol Funding.....	(2.2)
LEIN Fund Shift from Proposed Fee Increase.....	(1.8)
Forensic Science Fund Shift from Proposed Fee Increase .....	(3.2)
Crime Victims Rights Program Fund Shift from State Restricted to GF/GP Funding .....	1.1
<b>Technology, Management and Budget</b>	
Federal Indirect Funding Increase.....	(2.3)
<b>Treasury-Operations</b>	
Banking and Management Services Fund Shift from GF/GP to Federal .	(0.3)
Supervision of General Property Tax Law Fund Shift from GF/GP to Local Revenue .....	(0.6)
<b>Total GF/GP Funding Shifts .....</b>	<b>\$(292.8)</b>

**Source:** Senate Fiscal Agency analysis of Governor's Budget Message

# Revenue and Fee Proposals

Table 11

Governor's Proposed Tax and Revenue Increases: FY 2010-11				
Proposed Tax/Revenue Increase	State Government Fiscal Impact			
	GF/GP	School Aid Fund	Other	Total
<b>Sales &amp; Use Taxes</b>				
Extend Sales Tax to Services @ 5.5% 12/1/10	\$0.0	\$1,261.8	\$0.0	\$1,261.8
Reduce Sales Tax Rate to 5.5% 12/1/10	\$0.0	(\$422.1)	\$0.0	(\$422.1)
Reduce Use Tax Rate to 5.5% 12/1/10	\$0.0	(\$80.6)	\$0.0	(\$80.6)
Reduce HMO Use Tax Rate to 5.5% 12/1/10	\$0.0	(\$25.3)	\$0.0	(\$25.3)
Collection allowance for Service Tax	\$0.0	(\$5.2)	\$0.0	(\$5.2)
Treasury Administrative Cost	\$0.0	(\$3.6)	\$0.0	(\$3.6)
<b>Subtotal Sales &amp; Use Taxes</b>	<b>\$0.0</b>	<b>\$725.0</b>	<b>\$0.0</b>	<b>\$725.0</b>
<b>Sales Tax</b>	<b>\$0.0</b>	<b>\$839.7</b>	<b>\$0.0</b>	<b>\$830.9</b>
<b>Use Tax</b>	<b>\$0.0</b>	<b>(\$105.9)</b>	<b>\$0.0</b>	<b>(\$105.9)</b>
<b>Michigan Business Tax</b>				
Surcharge Phase Out in 2011 and 2012	\$0.0	(\$170.8)	\$0.0	(\$170.8)
Gross Receipts Tax Rate Cut in 2012 & 2013	\$0.0	\$0.0	\$0.0	\$0.0
<b>Subtotal Michigan Business Tax</b>	<b>\$0.0</b>	<b>(\$170.8)</b>	<b>\$0.0</b>	<b>(\$170.8)</b>
<b>Income Tax</b>				
Create Michigan Promise Income Tax Credit	(\$6.8)	\$0.0	\$0.0	(\$6.8)
Eliminate College Tuition and Fees Tax Credit	\$8.8	\$0.0	\$0.0	\$8.8
Angel and Venture Capital Investor Tax Credit	(\$5.0)	\$0.0	\$0.0	(\$5.0)
<b>Subtotal Income Tax</b>	<b>(\$3.0)</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>(\$3.0)</b>
<b>Other Tax &amp; Revenue Increases</b>				
Create a Car Rental Fee	\$0.0	\$0.0	\$13.0	\$13.0
<b>Subtotal Other Tax and Revenue Increases</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$13.0</b>	<b>\$13.0</b>
<b>Total Proposed Tax Increases</b>	<b>(\$3.0)</b>	<b>\$554.2</b>	<b>\$13.0</b>	<b>\$564.2</b>

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury

## **Details on Taxable and Exempt Activity in Sales Tax on Services (Governor Granholm's Proposal)**

### **Health Care including prescription drugs is exempt**

- Child care is a taxable activity

### **Education services are exempt**

- Sports activities and entertainment facility activities are taxable

### **Construction services are generally exempt**

- New construction and remodeling projects are exempt
- Services for repair and maintenance would be taxable

### **Commission on real estate sales and insurance premiums are exempt**

### **Financial account management and financial trading fees are exempt**

- Investment advice would be taxable, but not the trading fees associated with the purchase or sale of investment products

### **Business-to-business transactions are generally exempt**

- To qualify for exemption, business to business transaction must be service that directly contributes to:
  - Marketing or advertising
  - Cleaning business facilities
  - Management and administration of day to day business operation
  - Transportation related with sales
  - Warehouse and storage activities
  - Design activities related to sales
- For example, landscaping and security systems for a business would be taxable.

### **Legal and Accounting Services provided to business are exempt**

- Legal and accounting services to individuals are taxable

**Source:** Office of Revenue and Tax Analysis, Michigan Department of Treasury

**Table 12**

<b>Estimated Revenue Generated by Category of Service Tax Expansion (Millions of Dollars)</b>	
<b>Sector</b>	<b>FY 2010-11</b>
Utilities (water and sewer).....	\$45.2
Construction (repair and maintenance).....	47.9
Transportation and Warehousing.....	35.0
Information (movies, cable, satellite) .....	150.3
Accommodation & Food Service (parks & camping).....	13.5
Administrative Support & Waste Management (travel agencies, security systems, landscaping, waste).....	165.9
Arts, Entertainment & Recreation (spectator sports, fitness centers, golf, skiing, bowling) .....	170.9
Educational Services (private, for profit services).....	23.4
Health Care & Social Assistance (child care).....	57.3
Real Estate (realtor classes, market studies).....	54.2
Other Services (personal care, death care, dry cleaning).....	324.0
Professional, Scientific & Technical (legal, accounting, consulting, architecture).....	174.2
<b>Total .....</b>	<b>\$1,261.8</b>

**Source:** Office of Revenue and Tax Analysis, Michigan Department of Treasury

**Table 13**

<b>Summary of Governor's Sales, Use, and Michigan Business Tax Proposals (Millions of Dollars)</b>				
	<b>FY 2010-11</b>	<b>FY 2011-12</b>	<b>FY 2012-13</b>	<b>FY 2013-14</b>
<b>MBT Changes</b>				
Surcharge Phase Out n 2011 and 2012	\$(170.8)	\$(455.8)	\$(572.4)	\$(583.9)
Gross Receipts Tax Rate Cut in 2012 & 2013	0.0	(120.6)	(316.2)	(395.0)
<b>Subtotal MBT Cuts</b>	<b>\$(170.8)</b>	<b>\$(576.4)</b>	<b>\$(888.6)</b>	<b>\$(978.9)</b>
<b>Sales and Use Tax Changes</b>				
Reduce Sales Tax Rate to 5.5% 12/1/10	\$(422.1)	\$(521.7)	\$(537.4)	\$(553.5)
Reduce Use Tax Rate to 5.5% 12/1/10	(80.6)	(99.6)	(102.6)	(105.6)
Reduce HMO Use Tax Rate to 5.5% 12/1/10	(25.3)	(31.8)	(33.4)	(35.1)
Extend Sales Tax to Services @ 5.5% 12/1/10	1,261.8	1,567.2	1,622.0	1,695.0
Collection Allowance for Service Tax	(5.2)	(6.4)	(6.6)	(6.9)
<b>Subtotal Sales and Use Tax Changes</b>	<b>\$728.6</b>	<b>\$907.7</b>	<b>\$942.0</b>	<b>\$993.9</b>
<b>Administrative Costs</b>	<b>(3.6)</b>	<b>(3.9)</b>	<b>(4.8)</b>	<b>(4.8)</b>
<b>Net Revenue Change</b>	<b>\$554.2</b>	<b>\$327.4</b>	<b>\$48.6</b>	<b>\$10.2</b>

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury

**Table 14**

<b>Individual Versus Business Impact Governor's Sales, Use, and Michigan Business Tax proposal (Millions of Dollars)</b>				
	<b>FY 2010-11</b>	<b>FY 2011-12</b>	<b>FY 2012-13</b>	<b>FY 2013-14</b>
<b>Individual</b>				
Extend Sales Tax to Services @ 5.5%	\$1,179.8	\$1,465.3	\$1,516.6	\$1,584.8
Reduce Sales Tax Rate to 5.5%	(\$295.5)	(\$365.2)	(\$376.2)	(\$387.5)
Reduce Use Tax Rate to 5.5%	(\$57.6)	(\$71.2)	(\$73.4)	(\$75.5)
<b>Subtotal Individual</b>	<b>\$826.7</b>	<b>\$1,028.9</b>	<b>\$1,067.0</b>	<b>\$1,121.9</b>
<b>Business</b>				
Surcharge Phase Out	(\$170.8)	(\$455.8)	(\$572.4)	(\$583.9)
Gross Receipts Tax Rate Cut	\$0.0	(\$120.6)	(\$316.2)	(\$395.0)
Reduce HMO Use Tax Rate	(\$25.3)	(\$31.8)	(\$33.4)	(\$35.1)
Extend Sales Tax to Services @ 5.5%	\$82.0	\$101.9	\$105.4	\$110.2
Reduce Sales Tax Rate to 5.5%	(\$126.6)	(\$156.5)	(\$161.2)	(\$166.1)
Reduce Use Tax Rate to 5.5%	(\$23.0)	(\$28.4)	(\$29.2)	(\$30.1)
Collection Allowance for Service Tax	(\$5.2)	(\$6.4)	(\$6.6)	(\$6.9)
<b>Subtotal Business</b>	<b>\$(268.9)</b>	<b>\$(697.6)</b>	<b>\$(1,013.6)</b>	<b>\$(1,106.9)</b>
<b>Government</b>				
<b>Treasury Administration</b>	<b>\$(3.6)</b>	<b>\$(3.9)</b>	<b>\$(4.8)</b>	<b>\$(4.8)</b>
<b>Net Revenue Change</b>	<b>\$554.2</b>	<b>\$327.4</b>	<b>\$48.6</b>	<b>\$10.2</b>

Source: Senate Fiscal Agency estimates

## Michigan Promise Tax Credit

Funding in the Higher Education budget for the Michigan Promise Grant Program which provided merit-based grants of up to \$4,000 to students who scored well on the high school Merit Exam and/or who completed two years of postsecondary education with at least a 2.5 grade point average, was eliminated in FY 2009-10. The elimination of the Promise Grant Program resulted in State savings of \$140.0 million.

In her FY 2010-11 budget recommendation, the Governor proposes to convert the Promise Grant Program to an income tax credit beginning with the 2010 tax year. In order to qualify for this new tax credit, a recipient must:

- Be a Michigan high school graduate from the class of 2007 or a subsequent class;
- Attend a Michigan college or university;
- Receive a degree or certificate;
- Work in Michigan for one year after receiving the degree or certificate; and
- Claim themselves as a dependent on their own Michigan tax return.

The Governor recommends a maximum Michigan Promise Tax Credit of \$4,000 and the credit would be refundable. The refundable credit means that a recipient can claim the \$4,000 credit even if the recipient has no tax liability for that year. The Michigan Department of Treasury estimates the credit will cost \$6.8 million in FY 2010-11, rising to a cost of \$161.5 million in FY 2018-19.

In conjunction with the creation of the Promise Tax Credit, the Governor proposes to eliminate the existing College Tuition Tax Credit which provides a \$375 nonrefundable income tax credit for students who attend a college or university that held its tuition percentage increase to no more than the prior tax year's annual average percentage increase in the U.S. Consumer Price Index (CPI). In academic year 2009-10, the average tuition increase for the 15 public universities was 6.4% while the 2008 U.S. CPI increased by 3.8%. The U.S. CPI estimate for 2009 is a negative 0.3%.

**Table 15**

<b>FY 2010-11 State Budget Recommendation Proposed Fee Increases Included in Budget (Millions of Dollars)</b>		
<b>Department</b>	<b>Fee Type</b>	<b>Revenue</b>
Agriculture	Migrant Labor Housing Inspections	\$0.5
Agriculture	Dairy Inspections	0.5
Energy, Labor, & Economic Growth	State Fire Services	2.6
Michigan State Police	Fingerprint Services	3.2
Michigan State Police	Name Based Criminal History Lookup	1.8
<b>Total Proposed Fee Increases.....</b>		<b>\$8.6</b>

# Major Budget Areas Appropriation Summaries

## **Department of Community Health Recommendations**

The FY 2010-11 Department of Community Health (DCH) budget reflects an increase of nearly \$1,312.1 million in Gross funding and a decrease of over \$288.1 million in GF/GP funding from year to date FY 2009-10 appropriations.

The budget is built on fund source shifts, program reductions and eliminations, and the assumed passage of Federal and State legislation, in particular a proposed physician Quality Assurance Assessment Program (QAAP).

### **Gross and GF/GP Cost Increases**

The budget includes \$142.8 million Gross and \$57.9 million GF/GP to reflect continued base, caseload, and utilization growth in Medicaid and related programs. The costs of maintaining actuarially sound rates for Medicaid managed care services are projected to increase by \$133.2 million Gross and \$45.6 million GF/GP. This funding reflects a 3.0% rate increase for both Medicaid health maintenance organizations (HMOs) and Medicaid Prepaid Inpatient Health Plans (PIHPs).

### **Fund Source Adjustments**

The base (nonstimulus) Federal Medicaid (FMAP) and SCHIP match rates will increase in FY 2009-10. The base FMAP rate will increase from 63.19% to 65.79% and the SCHIP rate will increase from 74.23% to 76.05%, producing a total GF/GP savings of \$234.5 million.

Another adjustment relates to a quirk in the way the FMAP rate is calculated. Several years ago General Motors Corporation made a one-time contribution to its pension fund. Even though this contribution did not directly affect individual personal income in Michigan or any other states, under the rules at the time the contribution was counted as part of each state's personal income. Therefore, Michigan's FMAP rate was lower than what would have been the case had the pension contribution not counted as part of the State's personal income. As part of the State Children's Health Insurance Program (SCHIP) reauthorization, states such as Michigan will receive retroactive reimbursement to offset the lost FMAP revenue. The Governor's budget estimates that this one-time adjustment will offset \$160.0 million in GF/GP in FY 2010-11.

There will be a significant increase in available revenue in the Merit Award Trust Fund in FY 2010-11. This revenue will be available to offset GF/GP costs in the Medicaid program, for a savings of \$126.3 million GF/GP.

## **Federal Stimulus Funding**

The enhanced Medicaid match rate under the American Recovery and Reinvestment Act (ARRA) will expire on January 1, 2011, one quarter into FY 2010-11. President Obama has proposed extending the enhanced match rate for another six months, until July 1, 2011. The Granholm Administration estimates that this provision will save about \$514.0 million in GF/GP beyond what would be spent if no Federal adjustment is made. Due to the change from 12 months of an enhanced match rate funding in FY 2009-10 to nine months of an enhanced match rate in FY 2010-11, the actual change from FY 2009-10 to FY 2010-11 will mean a \$245.1 million GF/GP increase in costs.

## **Savings Initiatives and Program Reductions/Eliminations**

The Governor's budget includes significant program reductions and eliminations. Among the eliminations is the termination of medical coverage for individuals no longer eligible for Transitional Medicaid (950 people for a savings of \$3.7 million Gross and GF/GP). Children's Special Health Care Services coverage for human growth hormone for non-Medicaid children would be eliminated, for a savings of \$2.0 million Gross and GF/GP.

Among program reductions and savings initiatives would be freezes on enrollment in the Adult Benefits Waiver program (caseload reduction of 11,100) and the HAB C habilitation waiver for the developmentally disabled (caseload reduction of 300), for total savings of \$49.6 million Gross and \$1.6 million GF/GP.

Numerous other lines would be reduced, including Community Mental Health non-Medicaid services (\$3.8 million Gross and GF/GP), substance abuse (\$1.6 million Gross and GF/GP), Local Public Health (\$2.7 million Gross and GF/GP), and the Office of Services to the Aging (\$2.2 million Gross and GF/GP).

Total savings from these and other reductions would be \$36.6 million GF/GP.

## **Physician Quality Assurance Assessment Program (QAAP) Proposal**

The Granholm Administration, in its FY 2010-11 budget, is proposing the implementation of a physician QAAP. The physician QAAP would tax payments for physician services (with the exception of pass-through pharmaceutical costs) at 3.0%.

The budget assumes that the State would collect \$300.0 million in revenue from this tax, based on an estimated tax base of \$10.0 billion. The State would retain a portion of this revenue, estimated at \$107.8 million, and would use the remaining portion, \$192.2 million, combined with Federal Medicaid match, to increase Medicaid physician reimbursement rates, both fee for service and managed care, by \$715.4 million.

The administration states that this would increase Medicaid physician payment rates up to the rates paid by the Federal Medicare program. The administration argues that the rate increase provided would represent an 80.0% increase in Medicaid rates, which would take Medicaid rates from roughly 55.6% of Medicare up to 100.0% of Medicare.

As about \$537.2 million of this increased funding would flow through the Medicaid HMOs, the Medicaid HMO 6.0% Use Tax base would increase and that would generate an additional \$25.1 million in net revenue for the State.

Therefore, the Administration argues that its proposal would lead to a net benefit of \$132.9 million for the State's budget (the \$107.8 million gainshare plus the \$25.1 million net revenue increase).

The estimated net benefit to the physician community, that is, Medicaid rate increase less tax paid, would be \$415.4 million.

The Administration further argues that physician practices that receive more than 4.0% of their revenue from Medicaid would see a net benefit. In other words, a physician practice that received 4.0% of its revenue from Medicaid would receive a Medicaid increase equivalent to the amount of tax paid.

Leaving aside the merits of the proposal, the Senate Fiscal Agency believes that the technical estimates used by the Administration are within reason. The SFA believes that the tax base and revenue estimates are reasonable, that the rate increase needed to raise Medicaid rates to Medicare appears to be accurate, and that the break-even point of 4.0% is accurate. Further detail on the calculations used in a similar previous physician QAAP proposal may be found in the Senate Fiscal Agency's November 2009 issue paper, "Issues Related to a Physician QAAP", which is available on the SFA website.

## **Department of Corrections Recommendations**

The FY 2009-10 Department of Corrections (DOC) budget represents a 0.6% increase in Gross appropriations and a 1.5% decrease in GF/GP funding from FY2009-10 year-to-date appropriations. In absolute terms, the Executive recommendation is \$11.1 million Gross above and \$27.7 million GF/GP below current year appropriations.

The bulk of the reductions assumed in the budget are driven by the assumed passage of policy changes related to Michigan's truth-in-sentencing laws. Under current law, offenders subject to a prison term must serve at least the minimum sentence. House Bills 4497-4499 propose to amend the relevant statutes to reinstate the use of "good time" – a credit system which would allow inmates to reduce their respective prison terms through good conduct and discipline while incarcerated. According to their estimates, such a policy would allow the DOC to release approximately 7,500 inmates during the first full year of implementation. This reduction in the prison population would consequently allow the DOC to close an additional 4-5 correctional facilities. In total, the Governor's budget associates \$187.4 million in Gross and GF/GP savings with the implementation of the "good time" credit system.

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

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

The Governor's budget also reauthorizes the Community Jail Reimbursement Program (CJRP) -- a program that was removed from the final FY2009-10 budget. The proposed budget funds the program at the FY 2008-09 level (\$12.3 million Gross, \$4.8 million GF/GP).

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

## Department of Human Services Recommendations

The recommended FY 2010-11 Department of Human Services (DHS) appropriation would increase expenditures by \$1.1 billion Gross / \$106.9 million GF/GP over the FY 2009-10 enacted DHS appropriation. Increases in the Executive Recommendation are primarily associated with caseload growth in assistance programs and further efforts to increase administrative capacity to meet the requirements of the Children's Rights lawsuit settlement agreement.

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

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

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

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

The FY 2010-11 recommendation does not utilize program eliminations and reductions as aggressively as the prior year recommendation. Cost increases in the program are largely attributed to base adjustments to meet caseload need and additional costs that are associated with the Children's Rights lawsuit settlement. Additional spending for new programs like JET Plus and restoration of prior year staff reductions was largely funded through one-time funding provided through Federal ARRA legislation.

## Community Colleges and Higher Education Recommendations

The FY 2010-11 recommendation maintains the FY 2009-10 levels of operations funding for both community colleges and universities. Operations and at-risk appropriations for community colleges are frozen at \$295.9 million but renaissance zone tax reimbursement funding is reduced from \$3.5 million to \$3.2 million based on projected FY 2010-11 payments. Operations appropriations for universities, the Agricultural Experiment Station (AES), and the Cooperative Extension Service (CES) are frozen at \$1.525 billion. The one-time \$68.2 million ARRA funding for university operations, AES, and CES is replaced with State GF/GP partially to fulfill maintenance of effort requirements under the Federal ARRA legislation. Tables 16 and 17 outline the FY 2010-11 amounts proposed for universities and community colleges, respectively.

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

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

Table 16

## FY 2010-11 Higher Education Appropriations: Governor's Recommendation

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

\* FY 2008-09 Fiscal-Year-Equated Students (FYES)

**Table 17**

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

## Revenue Sharing Payments

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

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

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

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

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

**Table 18**

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

**Source:** Senate Fiscal Agency

## State Employee Compensation Changes

Article XI, Section 5 of the Michigan Constitution provides that increases in the rates of compensation authorized by the Civil Service Commission require prior notice to the Governor, who then transmits the increases to the Legislature as part of the overall budget recommendation. Within 60 calendar days following such transmission, the Legislature, by a two-thirds vote of the members elected and serving in each house, may reject or reduce increases in the rate of compensation authorized by the Civil Service Commission. Reductions made by the Legislature must apply uniformly to all classes of employees and cannot adjust pay differentials already established by the Civil Service Commission. Rates of compensation also cannot be reduced below those in effect at the time the increases are transmitted to the Legislature.

The State's civil service employees represented by employee unions (AFSCME, MCO, MSEA, SEIU and UAW) are scheduled to receive a 3.0% increase in their base compensation effective on October 1, 2010. The Civil Service Commission on February 10, 2010, did not approve a 3.0% compensation increase, effective on October 1, 2010, for nonexclusively represented State civil service employees. The estimated FY 2010-11 costs of the 3.0% salary increase for the State civil service employees represented by employee unions is \$63.1 million of Gross and \$33.7 million of GF/GP appropriations.

The attached table provides a summary of the incremental State employee cost increases included in the Governor's budget recommendation. In addition to employee salary increases, the cost of employee health insurance is estimated to increase by 9.1%. This employee insurance cost increase is \$57.5 million of Gross and \$28.2 million of GF/GP appropriations. The amount that needs to be contributed to the State employee retirement systems will also result in significant cost increases in the FY 2010-11 budget. Retirement contribution increases will total \$106.6 million of Gross and \$55.2 million of GF/GP appropriations.

**Table 19**

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

**Table 20**

<b>Retirement Contribution Rates as a Percentage of Payroll</b>				
	<b>FY 2008-09</b>	<b>FY 2009-10</b>	<b>FY 2010-11</b>	<b>FY 2010-11 Change</b>
<b><u>State Employees Retirement System</u></b>				
Defined Benefit Pension	18.84%	21.36%	23.98%	2.62%
Defined Benefit Health Care	11.80%	11.90%	13.40%	1.50%
Total Defined Benefit Costs	<u>30.64%</u>	<u>33.26%</u>	<u>37.38%</u>	<u>4.12%</u>
Defined Contribution Pension	5.91%	5.91%	6.00%	0.09%
Defined Contribution Health Care	11.80%	11.90%	13.40%	1.50%
Total Defined Contribution Costs	<u>17.71%</u>	<u>17.81%</u>	<u>19.40%</u>	<u>1.59%</u>
<b><u>Public School Employees Retirement System</u></b>				
Defined Benefit Pension	9.73%	10.13%	12.16%	2.03%
Defined Benefit Health Care	6.81%	6.81%	7.25%	0.44%
Total Defined Benefit Costs	<u>16.54%</u>	<u>16.94%</u>	<u>19.41%</u>	<u>2.47%</u>

**Source:** Office of the State Budget

**Table 21**

<b>FY 2010-11 Estimated Contributions to Two Largest Retirement Systems</b>	
	<b>Millions of Dollars</b>
<b><u>State Employee Retirement System</u></b>	
Defined Benefit Pension .....	\$440.1
Defined Contribution State Share .....	68.3
Health Care.....	<u>398.5</u>
Subtotal State Employees Retirement System .....	<u>\$906.9</u>
<b><u>Public School Employees Retirement System</u></b>	
Defined Benefit Pension .....	\$1,247.6
Health Care.....	<u>743.8</u>
Subtotal Public School Employees Retirement System.....	<u>\$1,991.4</u>

**Source:** Senate Fiscal Agency estimates

## Debt Service Adjustments

The Governor's recommendation reflects an increase of \$66.1 million in debt service costs, from \$724.3 million in FY 2009-10 to \$790.4 million in FY 2010-11. The major increase in debt service payments involves general obligation bonds in the Department of Treasury. Debt service payments on Quality of Life general obligation bonds increase by \$32.5 million and debt service payments on Clean Michigan Initiative general obligation bonds increase by \$33.2 million. These large increases in debt service payments result from previous refinancing of existing bonds, which provides cost savings in prior fiscal years but lead to significant cost increases beginning in FY 2010-11.

**Table 22**  
**Debt Service Appropriations**  
**FY 2010-11 Compared with FY 2009-10**

Department/Program	FY 2009-10 Gross Appropriation	FY 2010-11 Gross Appropriation	Dollar Change	Percent Change
<b>Management and Budget</b>				
State Building Authority Rent	\$235,370,600	\$245,370,600	\$10,000,000	4.2%
<b>School Aid</b>				
<i>Durant</i> Bonds	39,000,000	39,000,000	0	0.0
School Bond Loan Fund	40,000,000	45,134,000	5,134,000	12.8
<b>Transportation</b>				
State Trunkline	203,625,200	198,853,000	(4,772,200)	-2.3
Comprehensive Transportation	29,843,200	29,852,700	9,500	0.0
Economic Development	9,228,200	9,173,400	(54,800)	-0.6
Airport Safety & Protection Plan	3,472,400	3,456,000	(16,400)	-0.5
Local Bridge Fund	3,318,700	3,261,500	(57,200)	-1.7
Blue Water Bridge Fund	2,149,600	2,216,400	66,800	3.1
<b>Treasury</b>				
Quality of Life Bond	38,355,100	70,826,000	32,470,900	84.7
Clean Michigan Initiative	24,418,000	57,603,500	33,185,500	135.9
Great Lakes Water Quality Bond	15,146,900	4,284,600	(10,862,300)	-71.7
Water Pollution Control Bond	2,257,500	2,195,100	(62,400)	-2.8
<b>Tobacco Securitization</b>				
<b>Bonds</b>				
Capitalize 21 <sup>st</sup> Century Jobs Fund Debt Service	43,221,600	43,821,900	600,300	1.4
FY 2006-07 Balancing State Budget Debt Service	34,894,800	35,379,450	484,650	1.4
<b>Total</b>	<b>\$724,301,800</b>	<b>\$790,428,150</b>	<b>\$66,126,350</b>	<b>9.1%</b>

**Table 23**

<b>Tobacco Settlement Appropriations and Revenue (Actual Dollars)</b>			
<b>Budget Area/Program</b>	<b>FY 2009-10 Year-to-Date</b>	<b>FY 2010-11 Gov's Rec.</b>	<b>Dollar Change</b>
<b>Attorney General</b>			
Administration .....	\$408,600	\$408,600	\$0
<b>Community Health</b>			
Medicaid Base .....	18,431,200	144,751,800	126,320,600
Aging: Respite Care .....	4,468,700	4,468,700	0
<b>Higher Education</b>			
Merit Award Scholarships .....	100	0	(100)
Tuition Incentive Program .....	30,100,000	30,100,000	0
<b>State Police</b>			
Tobacco Tax Enforcement.....	610,000	630,900	20,900
<b>Department of Treasury</b>			
Merit Award Administration .....	2,330,800	900,000	(1,430,800)
Transfer to General Fund.....	177,500,000	0	(177,500,000)
<b>Total Merit Award Trust Fund Approps.</b>	<b>\$233,849,400</b>	<b>\$181,260,000</b>	<b>\$(52,589,400)</b>
<b><u>Tobacco Settlement Revenue Estimates</u></b>			
Balance From Prior Fiscal Year .....	\$30,617,280	\$6,051,480	\$(24,565,800)
Annual Payments.....	324,000,000	328,500,000	4,500,000
Interest Earnings.....	900,000	909,900	9,900
<b>Total Tobacco Settlement Revenue.....</b>	<b>355,517,280</b>	<b>335,461,380</b>	<b>(20,055,900)</b>
Transfer to 21st Century Jobs Fund.....	(37,500,000)	(75,000,000)	(37,500,000)
Payment on Bond Securitization (13.34% of Revenue) .....	(43,221,600)	(43,821,900)	(600,300)
Payment on Bond Securitization (10.77% of Revenue) .....	(34,894,800)	(35,379,450)	(484,650)
<b>Net Revenue Merit Award Trust Fund ...</b>	<b>239,900,880</b>	<b>181,260,030</b>	<b>(58,640,850)</b>
<b>Projected Year-End Balance .....</b>	<b>\$6,051,480</b>	<b>\$30</b>	<b>\$(6,051,450)</b>

Source: Governor's Budget Message

**FY 2010-11  
School Aid Fund  
Budget Recommendation**

**Table 24**

<b>FY 2010-11 Budget Recommendation School Aid Fund (Millions of Dollars)</b>	
	<b>Feb. 2010 Gov's Rec.</b>
<b>Revenue:</b>	
Beginning Balance .....	\$78.5
Consensus Revenue Estimate (January 11, 2010).....	10,480.5
General Fund/General Purpose Grant.....	30.2
Federal Ongoing Aid.....	1,680.1
Federal ARRA Funding.....	184.3
<b>Current Law Revenue .....</b>	<b>\$12,453.6</b>
<b>Expenditures:</b>	
FY 2009-10 Current Law Spending .....	12,824.0
Base Spending Adjustments.....	39.3
<b>Current Services Base Expenditures .....</b>	<b>12,863.3</b>
<b>Projected State Budget Funding Gap .....</b>	<b>\$(409.7)</b>
<b>Administration Proposal to Close Funding Gap:</b>	
Extend Base of Sales Tax to Services (Effective 12/1/10).....	\$1,261.8
Reduce Sales Tax Rate to 5.5% (Effective 12/1/10).....	(422.1)
Reduce Use Tax Rate to 5.5% (Effective 12/1/10) .....	(80.6)
Reduce HMO Use Tax Rate to 5.5% (Effective 12/1/10) .....	(25.3)
Collection Allowance for Service Tax.....	(5.2)
Administrative Costs .....	(3.6)
Reduce MBT Surcharge by 50% (Effective 1/1/11) .....	(170.8)
Treasury Reform.....	2.3
Lottery Reform .....	5.0
<b>Subtotal Proposed Tax Policy Changes to School Aid Fund .....</b>	<b>\$561.5</b>
<b>Projected Year-End Balance .....</b>	<b>\$151.8</b>

**Source:** Governor's Budget Message

## **School Aid Major Highlights**

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

For the most part, the FY 2010-11 K-12 budget can be characterized as a continuation budget. In other words, it continues current-year funding into the next year. Specifically, the \$165-per-pupil reduction in operational funding that occurred in FY 2009-10 is continued into FY 2010-11, along with the other changes such as the 20.0% reduction to intermediate school district operations, the elimination of "20j" funding, and the 50.0% reduction to nonschool providers of early childhood programs. Adjustments also are made in anticipated Federal grants. The retirement rate charged to schools increases from 16.94% to 19.41%, costing local schools and intermediate school districts (ISDs) approximately \$235.0 million more next year, or roughly \$150 per pupil. Many retirement reforms (discussed separately) are proposed for schools and for State employees.

The Governor also is proposing a requirement that ISDs and schools develop service consolidation plans to implement the most cost-effective method of providing purchasing services, payroll services, financial accounting services, facilities maintenance services, pupil transportation services, human resources services, technology services, and food services. If the most cost-effective manner were available but not used, districts' foundation allowances would be reduced 1.0% beginning in 2011-12. Also, the Governor proposes that if an ISD is not providing any of the services listed above in the most cost-effective method, it would forfeit 10.0% of its operational funding.

**Table 25**

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

**Source:** Senate Fiscal Agency

# Public Employee Retirement Change

## **State Employees Pension Reforms and Retirement Incentives**

In addition to the reforms proposed in the various departmental budget bills, the Governor has proposed a collection of changes to the State Employee Retirement System (SERS). While the full impact of these potential reforms is somewhat unclear, estimates provided by the Office of the State Budget indicate that General Fund savings of \$98.2 million would accrue in FY 2010-11 with the expectation of additional savings in subsequent years.

Most notably, the Governor has proposed the reinstatement of a 3.0% employee salary contribution for SERS participants, effective October 1, 2010. An equivalent contribution requirement was in place prior to 1974, but this recommendation is the first of its kind to emerge in many years. In addition, the Governor has recommended that SERS plan service credit be capped at 30 years. Individuals would be transferred to the defined contribution plan for any additional years of service earned after September 30, 2010. Employees who have already accrued more than 30 years of service would not be required to forfeit earned service time, but would be required to transfer to the defined contribution plan on this date.

In lieu of full retirement, the Governor has also proposed the establishment of a phased retirement option. Employees who elect to pursue this option would be allowed to draw down their SERS pension while still maintaining part-time employment. Employees would be required to reduce their hours worked by at least 50.0%, to a maximum of 1,040 annual hours. This option would be offered at the discretion of the employer, and available to employees age 60 and older. While this option is to be offered for a single year, it can be renewed annually for up to three years.

In an effort to further control costs, the Governor has proposed the elimination of the State subsidy for retiree dental and vision coverage under SERS. Future retirees would still have the option to purchase this coverage in the absence of State subsidies.

Finally, the Governor has recommended that employees eligible for retirement under current rules be given an additional incentive to retire during the current fiscal year. For currently eligible employees who retire between July 1, 2010, and September 30, 2010, the traditional multiplier of 1.5% would be increased to 1.6%. Eligibility for this enhanced multiplier would be contingent upon employees deferring their annual leave, sick leave, and other deferred leave payouts over five years.

The tables that follow provide additional details on these proposals.

**Table 26**

<b>Office of the State Budget Estimates of Savings From State Employees Retirement System - Proposed Reforms/Changes (Millions of Dollars)</b>				
	<b>FY 2010-11</b>	<b>FY 2013-14</b>	<b>FY 2016-17</b>	<b>10-Year Cumulative</b>
Salary 3.0% contribution savings	\$23.6	\$35.1	\$26.8	\$289.6
Cap SERS enrollment at 30 years	\$2.2	\$1.6	\$1.1	\$14.8
Eliminate dental/vision coverage	\$0.5	\$3.4	\$6.4	\$49.6
Retiree health overlap	(\$85.0)	\$0.0	\$0.0	(\$255.0)
Terminal leave deferral	(\$28.4)	(\$28.4)	\$0.0	(\$142.0)
Retirement incentive - pension cost	\$0.0	(\$114.8)	(\$114.8)	(\$574.0)
Overall retirement/replacement svgs.	\$340.1	\$247.9	\$247.9	\$2,571.2
<b>Gross Savings</b>	<b>\$253.0</b>	<b>\$144.8</b>	<b>\$167.4</b>	<b>\$1,954.2</b>
<b>GF/GP Savings</b>	<b>\$98.2</b>	<b>\$56.2</b>	<b>\$65.7</b>	<b>\$758.2</b>
<b>Key Assumptions</b>				
<ul style="list-style-type: none"> <li>• FY 2010-11 employee costs - no inflationary factors applied.</li> <li>• Retiree health overlap costs eliminated in FY 2013-14.</li> <li>• Five-year terminal leave costs spread eliminated in FY 2015-16.</li> <li>• Pension amortization (five-year) cost eliminated in FY 2017-18.</li> <li>• GF/GP = 38.80%.</li> <li>• 85.0% of eligible employees retire.</li> <li>• Assumes replacement of two of three workers who have retired reducing State work force by 2,235 employees.</li> </ul>				

**Source:** Office of the State Budget

Table 27

Summary of State Employees Eligible to Retire Under Enhanced Retirement Proposal					
Department/Agency	Number of Employees	Eligible Employees	% of Total Employees	No. of Retirees @ 85% Participation <sup>1)</sup>	GF/GP Savings <sup>2)</sup>
Civil Rights	125	35	28.00%	30	\$438,981
Senate Fiscal Agency	30	8	26.67%	7	\$102,429
Civil Service Commission	532	139	26.13%	118	\$1,726,658
State	1,309	338	25.82%	287	\$4,199,583
History, Arts, and Libraries	175	43	24.57%	37	\$541,410
Education	348	85	24.43%	72	\$1,053,554
Management and Budget	1,109	238	23.36%	202	\$2,955,804
Attorney General	529	112	21.17%	95	\$1,390,106
Human Services	10,848	2,269	20.92%	1929	\$28,226,464
Environmental Quality	1,351	275	20.36%	234	\$3,424,050
Energy, Labor, and Economic Growth	4,387	868	19.79%	738	\$10,798,927
Strategic Fund	193	38	19.69%	32	\$468,246
Agriculture	478	91	19.04%	77	\$1,126,717
Natural Resources	1,265	240	18.97%	204	\$2,985,069
Community Health	4,435	839	18.92%	713	\$10,433,109
Treasury	1,594	277	17.38%	235	\$3,438,683
Information Technology	1,811	305	16.84%	259	\$3,789,867
Transportation	2,931	474	16.17%	403	\$5,896,975
Legislative Service Bureau	131	21	16.03%	18	\$263,388
Military Affairs	896	131	14.62%	111	\$1,624,229
State Police	897	129	14.38%	110	\$1,609,596
Judiciary	489	58	11.86%	49	\$717,002
Auditor General	132	11	8.33%	9	\$131,694
Senate	434	24	5.53%	20	\$292,654
Corrections	16,504	831	5.04%	706	\$10,330,681
Executive Office	57	2	3.51%	2	\$29,265
House of Representatives	667	16	2.40%	14	\$204,858
<b>Total</b>	<b>53,657</b>	<b>7,897</b>	<b>NA</b>	<b>6,711</b>	<b>\$98,199,999</b>

<sup>1)</sup> Assumes 100% of employees eligible for retirement through the purchase of service credit would purchase that credit; OSB assumed 40% would purchase service credit. <sup>2)</sup> GF/GP savings based on a 2:3 replacement ratio.

Source: Office of the State Budget and Senate Fiscal Agency calculations

## **Retirement/Pension Proposals**

### **Michigan Public School Employees' Retirement System**

The Governor has proposed numerous changes to the Michigan Public School Employees' Retirement System (MPERS), including an incentive to encourage retirement for eligible employees and long-term reforms to the system. While the full impact of these potential reforms is somewhat unclear, estimates provided by the Office of the State Budget indicate that savings of \$701.1 million would accrue to schools in FY 2010-11 with the expectation of additional savings in subsequent years.

Two of the most prominent reforms include the increasing of employee contributions toward their retirement, and the implementation of a new hybrid plan for employees hired after October 1, 2010. Currently, employees in the "Basic" plan (hired before 1990) do not pay anything toward retirement, those in the "MIP" plan hired before July 1, 2008, pay \$510 plus 4.3% of salary, and those in the "MIP Plus" (hired after July 1, 2008) pay \$510 plus 6.4% of salary. The proposal by the Governor would mandate new contributions of 3.0% for Basic members, would increase MIP members' contributions by 3.0%, and would increase MIP Plus contributions by 0.9%, such that MIP and MIP Plus members would both pay 7.3% of salary into MPERS.

A new hybrid defined benefit/defined contribution plan would be implemented for school employees hired after October 1, 2010, under the Governor's proposal. Employees under this plan would not be eligible for a pension payment until age 65 and would not receive cost-of-living adjustments (as are currently provided to MIP members' pensions). In addition, the employee could receive a maximum 1.0% of pay deposited into a 401k account, if the employee contributed 2.0% or more toward the account. This 2.0% payment to a 401k is in addition to the 7.3% of salary that the employee would be required to contribute to fund the defined benefit portion of the plan. The actuary estimates these changes would reduce the pension cost to local schools from 4.2% of salary to 2.8% of salary for these new employees.

Similar to the reforms proposed for State employees, the Governor is proposing the elimination of the State payment for retiree dental and vision coverage under MPERS, for persons retiring after September 30, 2010. Future retirees still would have the option to purchase this coverage, but at their own cost. Also, future retirees would be capped at 30 years of earned service credit. Any years worked after 30 would not count toward the employee's pension, and the employee would be part of the Defined Contribution system during those years (with the State contributing 4.0% and matching up to another 3.0% of the employee's contributions to a 401k). Important to note, however, is that the purchase of service credit is not subject to the 30-year cap.

The Governor also has proposed the establishment of a phased retirement option for persons retiring on or after September 30, 2010. Employees who elect to pursue this option would be allowed to draw down their MPERS pension while still maintaining part-time employment. Employees would be required to reduce their hours worked by at least 50.0%. This option would be offered at the discretion of the employer, and available to employees age 60 and older. While this option may be offered for a single year, it can be renewed annually for up to three years.

Finally, the Governor has recommended that employees eligible for retirement under current rules be given an additional incentive to retire during the current fiscal year. For currently eligible employees who retire between July 1, 2010, and September 1, 2010, the traditional multiplier of 1.5% would be increased to 1.6%. The proposal is not an "early out", which refers to lessening the number of years of service and/or age in order to be eligible for full retirement. Employees eligible to retire with the incentive include those in the "Basic" plan who have 30 years of service and are at least age 55, or who have 10 years of service and are at least age 60, and those in the "MIP" plan who have 30 years of service, regardless of age.

**Table 28**

<b>Office of the State Budget Estimates of Savings From Public School Employees Retirement System - Proposed Reforms/Changes (Millions of Dollars)</b>				
	<b>FY 2010-11</b>	<b>FY 2013-14</b>	<b>FY 2016-17</b>	<b>10-Year Cumulative</b>
Salary contribution savings	\$207.0	\$229.5	\$254.4	\$2,428.5
Implement hybrid for new employees	\$3.9	\$28.1	\$52.2	\$410.6
Eliminate dental/vision coverage	\$1.0	\$13.1	\$26.9	\$206.4
Cap DB enrollment at 30 years	\$41.0	\$45.0	\$50.0	\$479.0
Retiree health overlap	(\$292.5)	\$0.0	\$0.0	(\$877.5)
Retirement incentive - pension cost	\$0.0	(\$285.0)	(\$285.0)	(\$1,425.0)
Replacement/Wage Savings	\$740.7	\$646.2	\$434.6	\$5,137.9
<b>Gross Savings</b>	<b>\$701.0</b>	<b>\$676.9</b>	<b>\$818.1</b>	<b>\$6,359.8</b>
<b>Key Assumptions</b>				
<ul style="list-style-type: none"> <li>• Wage savings of \$20,000 per employee; step increases of 5.0% per year.</li> <li>• Retiree health overlap costs eliminated in FY 2013-14.</li> <li>• Replacement ratio of 90.0%.</li> <li>• Pension amortization (five-year) cost eliminated in FY 2016-17.</li> <li>• 75.0% participation rate; 29,000 out of 39,000 eligible will retire.</li> </ul>				

**Source:** Office of the State Budget

# Recent State Appropriation History

**Table 29**

<b>Adjusted Gross Appropriation History (Millions of Dollars)</b>			
<b>Fiscal Year</b>	<b>Appropriations</b>	<b>Dollar Change</b>	<b>Percent Change</b>
1997-98	\$31,472.8	\$1,816.3	6.1%
1998-99	33,160.3	1,687.5	5.4
1999-2000	35,417.7	2,257.4	6.8
2000-01	36,953.3	1,535.6	4.3
2001-02	38,751.3	1,798.0	4.9
2002-03	39,553.1	801.8	2.1
2003-04	39,115.3	(437.8)	(1.1)
2004-05	39,909.5	794.2	2.0
2005-06	41,322.7	1,413.2	3.5
2006-07	41,851.8	529.1	1.3
2007-08	43,616.5	1,764.7	4.2
2008-09	47,942.1	4,325.6	9.9
2009-10	44,474.1	(3,468.0)	(7.2)
2010-11 Gov's Rec.	46,636.3	2,162.2	4.9
Change FY 2000-01 to FY 2010-11		\$9,683.0	26.2%

**Table 30**

<b>State Spending from State Resources Appropriation History (Millions of Dollars)</b>			
<b>Fiscal Year</b>	<b>Appropriations</b>	<b>Dollar Change</b>	<b>Percent Change</b>
1997-98	\$22,493.6	\$941.3	4.4%
1998-99	23,276.8	783.2	3.5
1999-2000	24,579.0	1,302.2	5.6
2000-01	25,761.6	1,182.6	4.8
2001-02	26,086.8	325.2	1.3
2002-03	26,020.5	(66.3)	(0.3)
2003-04	25,802.5	(218.0)	(0.8)
2004-05	26,285.3	482.8	1.9
2005-06	27,704.0	1,418.7	5.4
2006-07	27,928.6	224.6	0.8
2007-08	28,441.7	513.1	1.8
2008-09	26,310.0	(2,131.7)	(7.5)
2009-10	25,143.1	(1,166.9)	(4.4)
2010-11 Gov's Rec.	26,084.3	941.2	3.7
Change FY 2000-01 to FY 2010-11		\$322.7	1.3%

**Table 31**

<b>General Fund/General Purpose Appropriation History (Millions of Dollars)</b>			
<b>Fiscal Year</b>	<b>Appropriations</b>	<b>Dollar Change</b>	<b>Percent Change</b>
1997-98	\$8,735.1	\$366.0	4.4%
1998-99	9,415.0	679.9	7.8
1999-2000	9,607.7	192.7	2.0
2000-01	9,744.4	136.7	1.4
2001-02	9,189.3	(555.1)	(5.7)
2002-03	8,830.9	(358.4)	(3.9)
2003-04	8,770.1	(60.8)	(0.7)
2004-05	8,690.8	(79.3)	(0.9)
2005-06	9,106.3	415.5	4.8
2006-07	9,118.7	12.4	0.1
2007-08	9,980.7	862.0	9.5
2008-09	8,568.7	(1,412.0)	(14.1)
2009-10	8,128.0	(440.7)	(5.1)
2010-11 Gov's Rec.	7,986.7	(141.3)	(1.7)
Change FY 2000-01 to FY 2010-11		\$(1,757.7)	(18.0)

**Table 32**

<b>School Aid Fund Appropriation History (Millions of Dollars)</b>			
<b>Fiscal Year</b>	<b>State-Funded Appropriations</b>	<b>Dollar Change</b>	<b>Percent Change</b>
1997-98	\$9,307.4	\$749.1	8.8%
1998-99	9,495.1	187.7	2.0
1999-2000	9,957.6	462.5	4.9
2000-01	10,732.3	774.7	7.8
2001-02	11,220.6	488.3	4.5
2002-03	11,334.6	114.0	1.0
2003-04	11,059.3	(275.3)	(2.4)
2004-05	11,113.5	54.2	0.5
2005-06	11,308.1	194.6	1.8
2006-07	11,597.0	288.9	2.6%
2007-08	11,421.8	(175.2)	-1.5%
2008-09	11,097.8	(324.0)	-2.8%
2009-10	10,771.7	(326.1)	-2.9%
2010-11 Gov's Rec.	10,999.0	227.3	2.1%
Change FY 2000-01 to FY 2010-11		\$266.7	2.5%

**Table 33**

<b>Pupil Membership History FY 1994-95 to FY 2010-11</b>				
<b>Blend Calculation</b>	<b>Fiscal Year</b>	<b>Local Districts</b>	<b>Charter Schools</b>	<b>Total</b>
50/50	1994-95	1,593,306	0	1,593,306
50/50	1995-96	1,610,130	4,790	1,614,920
50/50	1996-97	1,634,074	11,520	1,645,594
60/40	1997-98	1,651,011	19,202	1,670,213
60/40	1998-99	1,656,186	31,109	1,687,295
75/25	1999-2000	1,651,300	45,290	1,696,590
80/20	2000-01	1,649,085	55,072	1,704,157
80/20	2001-02	1,647,459	62,113	1,709,572
80/20	2002-03	1,647,531	67,336	1,714,867
80/20	2003-04	1,640,929	73,473	1,714,402
75/25	2004-05	1,626,289	81,491	1,707,780
75/25	2005-06	1,607,880	89,654	1,697,534
75/25	2006-07	1,584,435	96,627	1,681,062
75/25	2007-08	1,553,568	98,987	1,652,555
75/25	2008-09	1,517,714	102,030	1,619,744
75/25	2009-10	1,488,800	108,650	1,597,450
75/25	2010-11	1,463,300	116,800	1,580,100

**Table 34**

<b>School Aid Fund Appropriation History (Millions of Dollars)</b>			
<b>Fiscal Year</b>	<b>State-Funded Appropriations</b>	<b>Pupils (Millions)</b>	<b>Appropriations Per Pupil</b>
1997-98	\$9,307.4	1.6702	\$5,572.6
1998-99	9,495.1	1.6873	5,627.4
1999-2000	9,957.6	1.6966	5,869.2
2000-01	10,732.3	1.7042	6,297.7
2001-02	11,220.6	1.7096	6,563.4
2002-03	11,334.6	1.7149	6,609.6
2003-04	11,059.3	1.7144	6,450.8
2004-05	11,113.5	1.7078	6,507.6
2005-06	11,308.1	1.6975	6,661.5
2006-07	11,597.0	1.6811	6,898.6
2007-08	11,421.8	1.6526	6,911.6
2008-09	11,097.8	1.6197	6,851.6
2009-10	10,771.7	1.5975	6,743.1
2010-11 Gov's Rec.	10,999.0	1.5801	6,961.0

**Table 35**

<b>K-12 Schools Minimum Foundation Allowance</b>			
<b>Fiscal Year</b>	<b>Enacted Per Pupil</b>	<b>After Reductions</b>	<b>Percent Change</b>
1999-2000	\$5,700	\$5,700	N/A
2000-01	6,000	6,000	5.3%
2001-02	6,500	6,500	8.3%
2002-03	6,700	6,626	1.9%
2003-04	6,700	6,626	0.0%
2004-05	6,700	6,700	1.1%
2005-06	6,875	6,875	2.6%
2006-07	7,108	7,085	3.4%
2007-08	7,204	7,204	1.4%
2008-09	7,316	7,316	1.6%
2009-10	7,316	7,151	-2.3%
2010-11 Gov's Rec.	7,316	7,151	0.0%
10-Year Change	1,316	1,151	
10-Year % Change	21.9%	20.2%	
10-Year Detroit CPI % Change	23.1%	23.1%	

**Table 36**

<b>Appropriated Full-Time Equated Positions (FTEs) In Michigan State Budget</b>			
<b>Fiscal Year</b>	<b>FTEs</b>	<b>Change</b>	<b>Percent Change</b>
1997-98	64,119.8	(1,500.2)	-2.3%
1998-99	62,082.6	(2,037.2)	-3.2%
1999-2000	63,630.9	1,548.3	2.5%
2000-01	64,601.5	970.6	1.5%
2001-02	64,190.1	(411.4)	-0.6%
2002-03	62,760.2	(1,429.9)	-2.2%
2003-04	57,817.1	(4,943.1)	-7.9%
2004-05	57,034.3	(782.8)	-1.4%
2005-06	56,442.4	(591.9)	-1.0%
2006-07	56,766.3	323.9	0.6%
2007-08	57,041.7	275.4	0.5%
2008-09	56,491.1	(550.6)	-1.0%
2009-10	55,352.7	(1,138.4)	-2.0%
2010-11 Gov's Rec.	54,641.5	(711.2)	-1.3%
Change FY 2000-01 to FY 2010-11		\$(9,960.0)	-15.4%

**Table 37**

<b>Federal Funds Appropriated in Michigan Budget (Millions of Dollars)</b>			
<b>Fiscal Year</b>	<b>Federal Funds</b>	<b>Adjusted Gross Appropriations</b>	<b>Federal as Percent of Total Adjusted Gross</b>
1997-98	\$7,931.5	\$31,472.8	25.20%
1998-99	8,623.4	33,160.3	26.01
1999-2000	9,765.6	35,417.7	27.57
2000-01	10,002.2	36,953.3	27.07
2001-02	11,242.9	38,751.3	29.01
2002-03	12,226.7	39,553.1	30.91
2003-04	12,361.6	39,115.3	31.60
2004-05	12,855.5	39,909.5	32.21
2005-06	12,885.4	41,322.7	31.18
2006-07	13,436.1	41,851.8	32.10
2007-08	14,669.5	43,616.5	33.63
2008-09	21,124.7	47,942.1	44.06
2009-10	18,866.6	44,474.1	42.42
2010-11 Gov's Rec.	20,076.4	46,636.3	43.05
Percentage Change FY 2010-11/FY 2000-01	100.7%	26.2%	

**Table 38**

<b>State Spending from State Resources Appropriations Total Compared with Selected Budget Areas (Millions of Dollars)</b>				
<b>Department/Budget Area</b>	<b>FY 2002-03 Appropriations</b>	<b>FY 2010-11 Gov's Rec.</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Community Health .....	\$3,259.4	\$4,196.6	\$937.2	28.8%
Corrections .....	1,655.6	1,958.0	302.4	18.3%
Human Services .....	1,199.6	1,025.0	(174.6)	-14.6%
K-12 School Aid.....	11,334.6	10,999.0	(335.6)	-3.0%
Community Colleges .....	310.9	299.1	(11.8)	-3.8%
Higher Education.....	1,839.4	1,573.8	(265.6)	-14.4%
Revenue Sharing.....	1,451.4	1,032.1	(419.3)	-28.9%
All Other Programs.....	4,969.6	5,000.7	31.1	0.6%
<b>Total State Spending.....</b>	<b>\$26,020.5</b>	<b>\$26,084.3</b>	<b>\$63.8</b>	<b>0.2%</b>
<b>ADDENDUM:</b>				
Federal Gov't Outlays (millions).....	2,160,117	3,833,861		77.5%
Michigan Personal Income (millions)...	314,192	349,416		11.2%
Detroit Consumer Price Index .....	182.5	212.9		16.7%