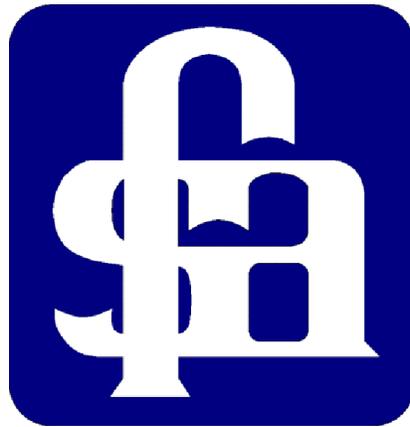


STATE BUDGET OVERVIEW



**Ellen Jeffries, Director
SENATE FISCAL AGENCY**

November 29, 2012

<http://www.senate.michigan.gov/sfa/>

The Economy and State Revenue

The Great Recession

The 2008-09 recession was the most severe economic contraction in 70 years, both in duration and depth.

- Inflation-adjusted GDP fell 4.7% peak-to-trough, the largest decline since the Great Depression.
- U.S. payroll employment declined 6.3% (8.75 million jobs), the largest percentage decline since the end of World War II.
- During the recession retail sales fell 13.5% between November 2007 and March 2009, the largest decline on record back to 1967.
- Light vehicle sales started dropping earlier, and fell from a 17.6 million unit annual rate in January 2006 to a 9.0 million unit rate in February 2009 (a 48.7% decline), the largest decline on record back to 1976.
- Housing starts fell from a high rate of 2.3 million units in January 2006 to 478,000 units in April 2009, a 79.0% decline, the largest decline on record to 1959.

Figure 1

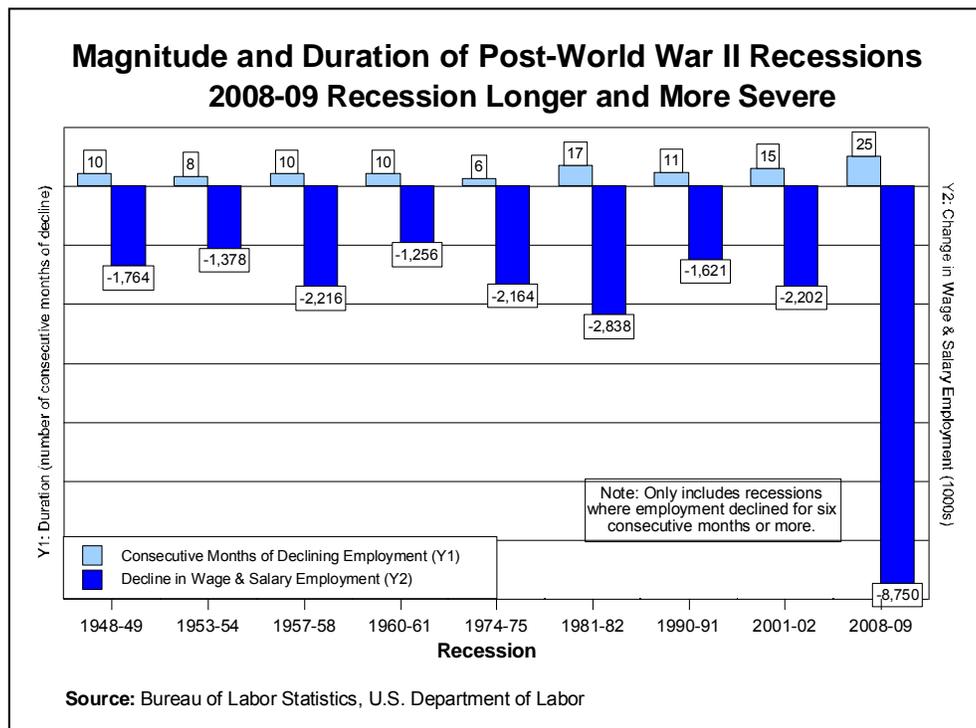


Figure 2

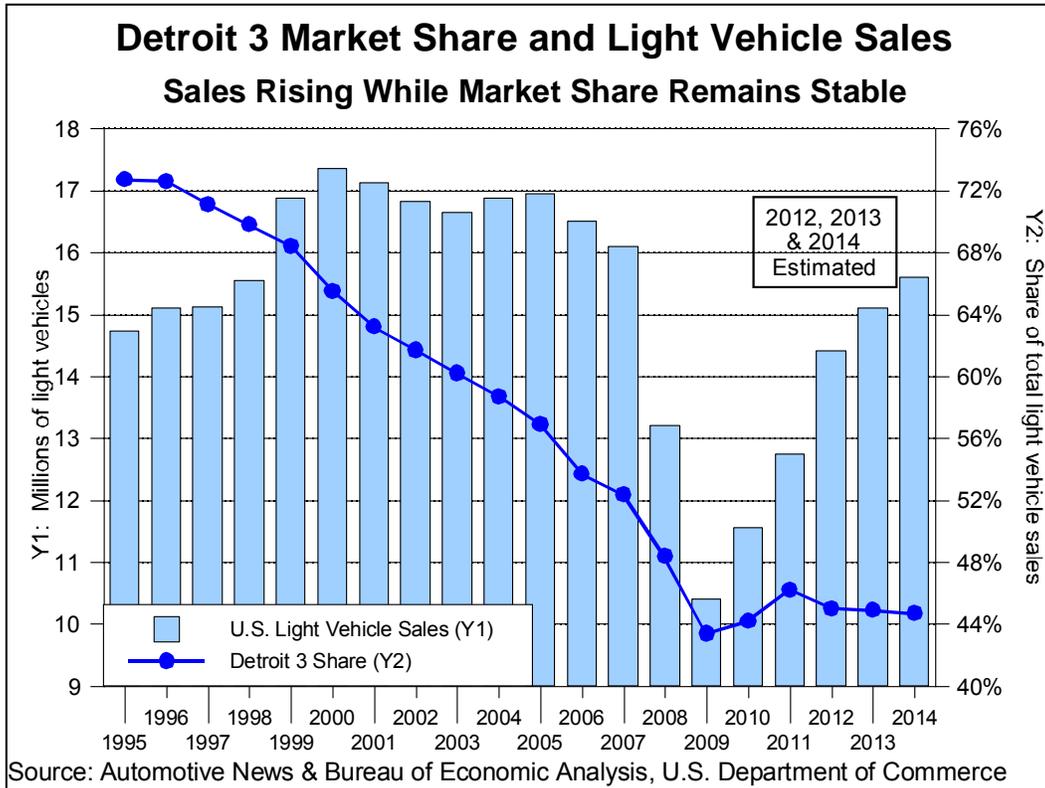
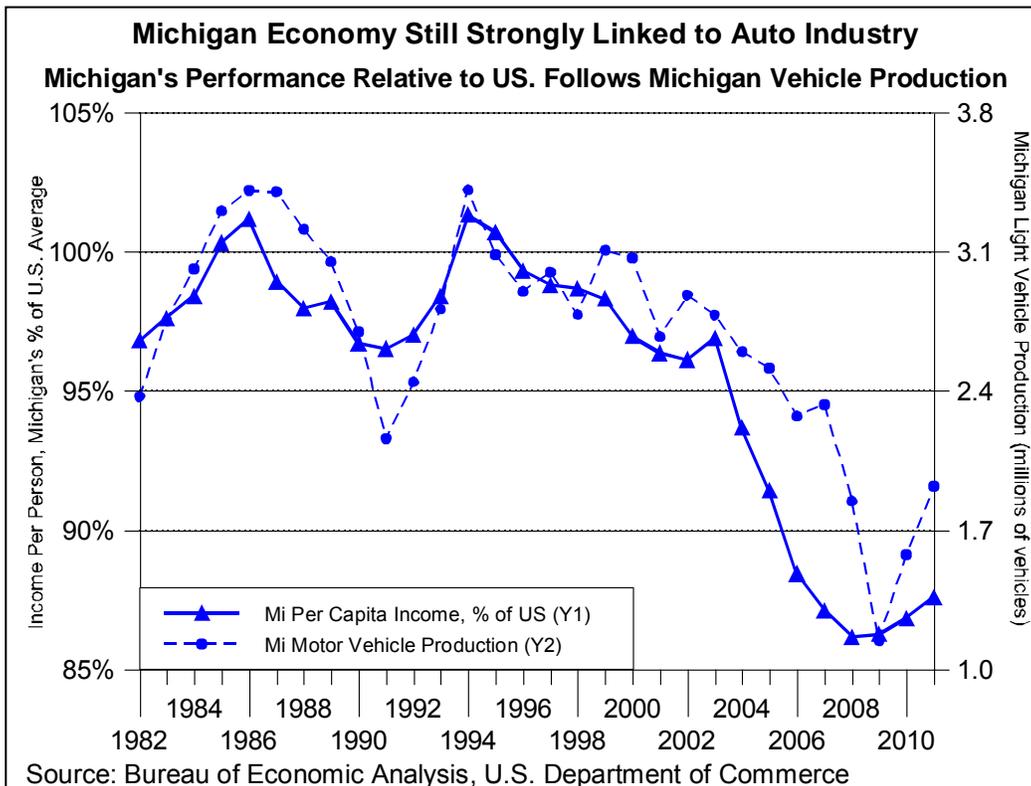


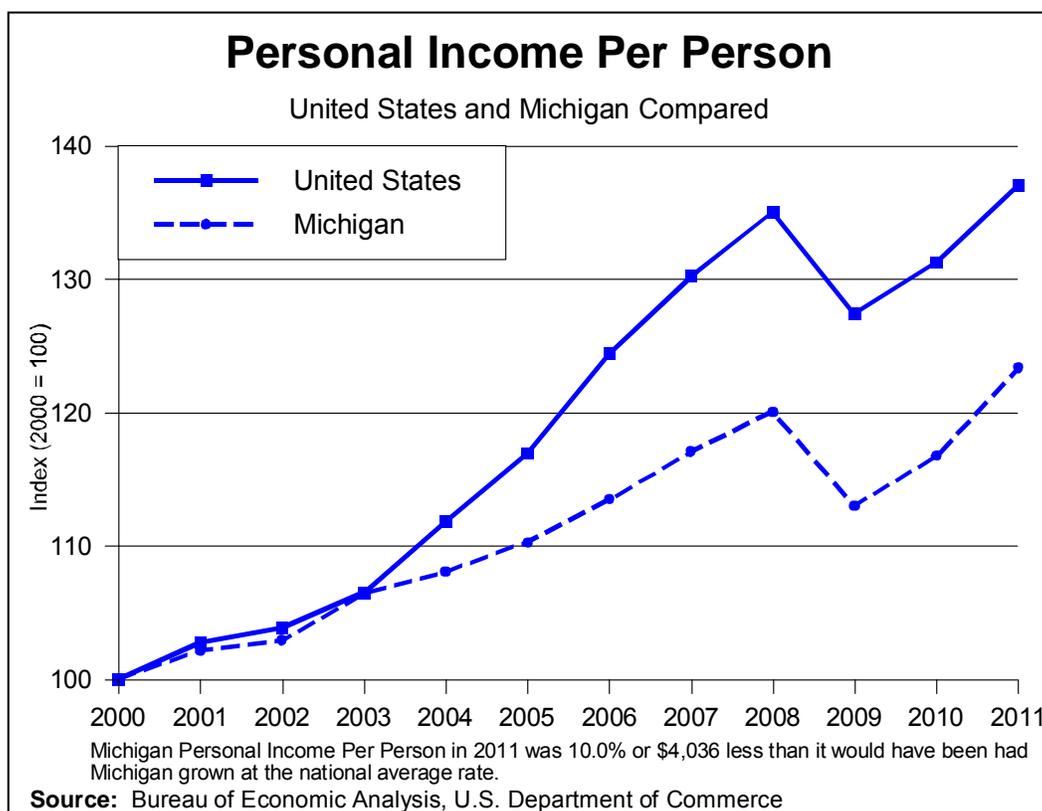
Figure 3



Michigan Personal Income

- Michigan personal income has increased 15.9% between 2000 and 2010, compared to a 43.9% increase for the nation as a whole. Personal income grew by 33.0% in Illinois, 32.0% in Indiana, 27.1% in Ohio, and 38.1% in Wisconsin over the same time period. Michigan's personal income growth was the slowest among 50 states and the District of Columbia.
- During calendar year 2000, personal income in Michigan accounted for 3.42% of the United States total. During calendar year 2010, Michigan personal income accounted for only 2.75% of the United States total.
- During calendar year 2000, Michigan per capita personal income ranked 19th among the states. During calendar year 2005, Michigan's ranking fell to 31st among the states and by calendar year 2010, Michigan's ranking fell to 40th among the states.

Figure 4



Michigan's Decade of Declining Employment

Although Michigan had not yet emerged from the 2001 recession, the 2008-09 recession still had a significant impact.

- Payroll employment bottomed out in December 2009, down 413,300 jobs from December 2007 and down 861,900 jobs from the April 2000 peak.
- Peak-to-trough, payroll employment declined 18.4%, with 48.3% of the job loss occurring after December 2007.
- Between January 2000 and June 2009, Michigan lost 467,500 or 51.5% of the manufacturing jobs. After peaking in July 2000, transportation equipment manufacturing employment had fallen 68.2% by June 2009.

Figure 5

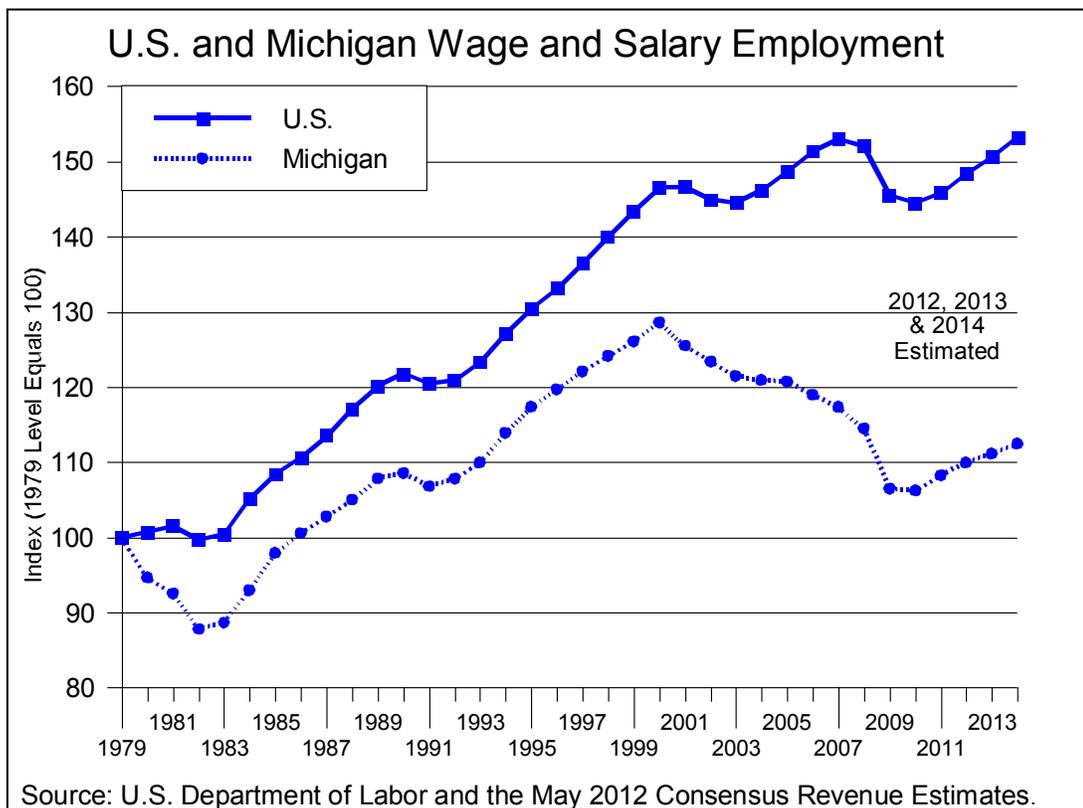


Figure 6

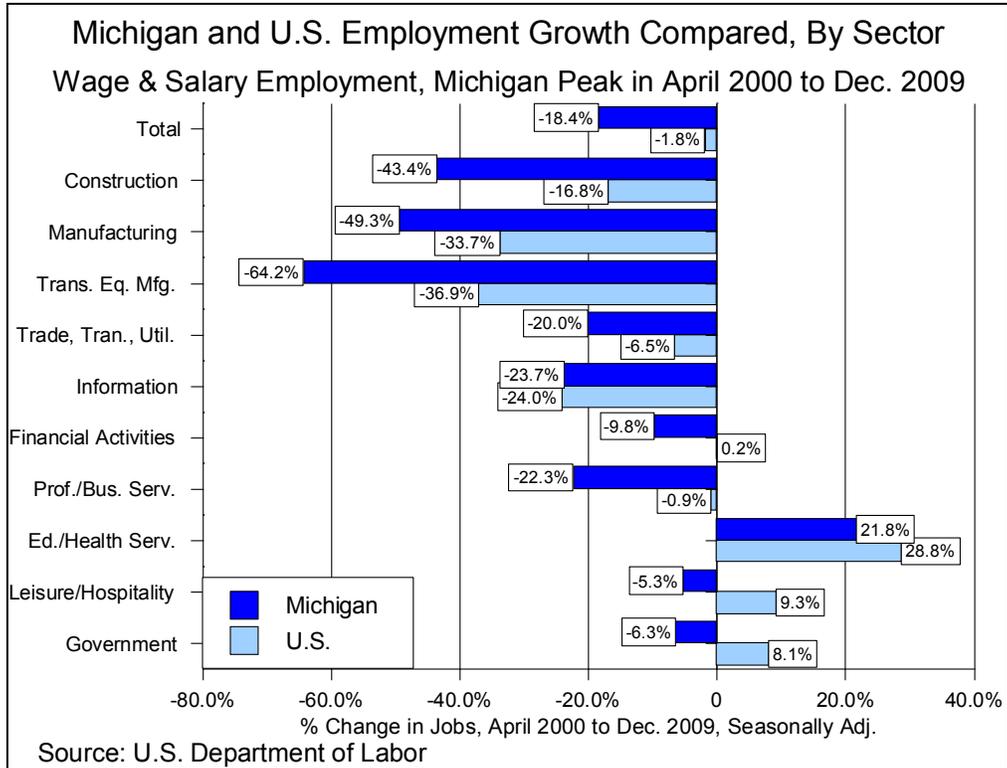
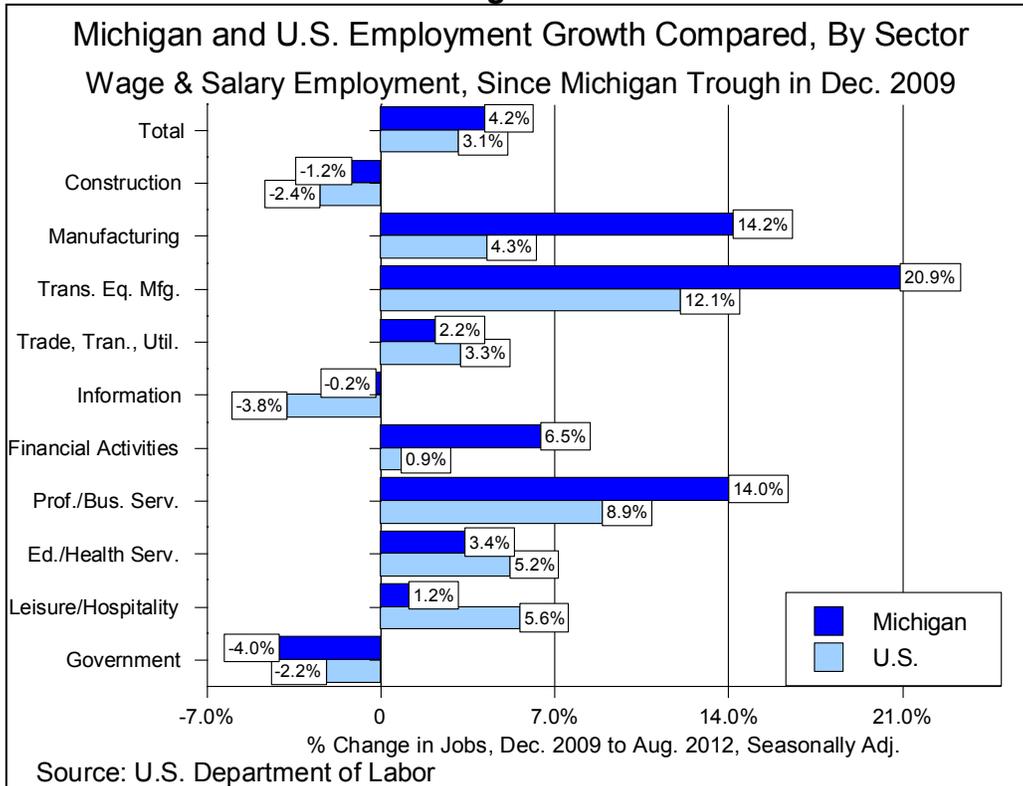


Figure 7



Recent U.S. Economic Highlights

- The economy is growing, but more slowly. After growing 2.4% during 2010, inflation-adjusted GDP grew 1.8% in 2011. Growth in the first half of 2012 averaged 1.6%. Between 1983 and 2007, the economy averaged 3.3% annual growth.
- Despite gains, employment remains well below pre-recession levels. Nationally, payroll employment has risen for 24 consecutive months, and in September 2012 was 3.3% above the February 2010 trough. However, payroll employment is still 4.5 million jobs (3.3%) below the January 2008 peak.
- Employment growth is not keeping up with population growth. Average payroll employment gains have averaged 137,000 jobs per month since the February 2010 trough, compared to about 177,000 per month during 2003-2006, and 251,400 per month over the 1993-1999 period. The economy needs roughly 150,000 additional jobs per month to keep up with population growth.
- The U.S. unemployment rate in September 2012 was 7.8%, down from 9.0% in September 2011 and 9.4% in December 2010.
- In inflation-adjusted terms, average hourly earnings fell 1.0% in 2011 and through August 2012 are down -0.7% from 2011. Average weekly hours have remained essentially unchanged for 30 months.
- Light vehicle sales have improved, but remain below pre-recession levels. Light vehicle sales totaled 12.7 million units in 2011, up 10.2% from 2010; but well below the 16-17 million unit rate experienced between 1998 and 2007. September 2012 sales were at the highest annual rate since February 2008.
- Housing starts remain low. Through August 2012, year-to-date starts are up 25.1% from 2011, although the current rate would still place 2012 as the fourth lowest year on record after 2009, 2010, and 2011.

Recent Michigan Economic Highlights

- Payroll employment declined by 6,800 jobs in August 2012, the third decline in the last four months – although employment was up 45,600 jobs from August 2011. Payroll employment was 160,500 jobs more than the December 2009 trough. Manufacturing employment in August was 84,900 jobs above the June 2009 trough, led by a 39,600 job increase in transportation equipment manufacturing.
- Michigan's unemployment rate was 9.4% in August 2012, down from 10.4% in August 2011, and down from the 14.2% peak in August 2009. However, much of the improvement in the unemployment rate reflects people leaving the labor force. Compared with August 2009, employment is up by 69,920 (1.7%) jobs but 178,660 people (3.7%) have left the labor force. The size of the labor force fell for 22 consecutive months between March 2010 and December 2011, rose in the first five months of 2012, and has declined every month since May.
- Year-to-date Michigan motor vehicle production through July 2012 was up 26.5% from the year-ago level.
- Michigan personal income is now growing faster than the national average. In 2010, total personal income increased 3.1%, compared with the U.S. average of 3.9%, ranking Michigan 34th. However, in 2011, Michigan personal income increased 5.6%, above the national average of 5.2%, and ranking Michigan 15th. Michigan personal income has grown faster than the national in three of the last four quarters.
- On a per-person basis, Michigan ranked 7th with personal income per person growing 5.7% in 2011, compared with the national average of 4.5%. Illinois ranked 41st, Indiana ranked 13th, Ohio ranked 9th, and Wisconsin ranked 38th.

Figure 8

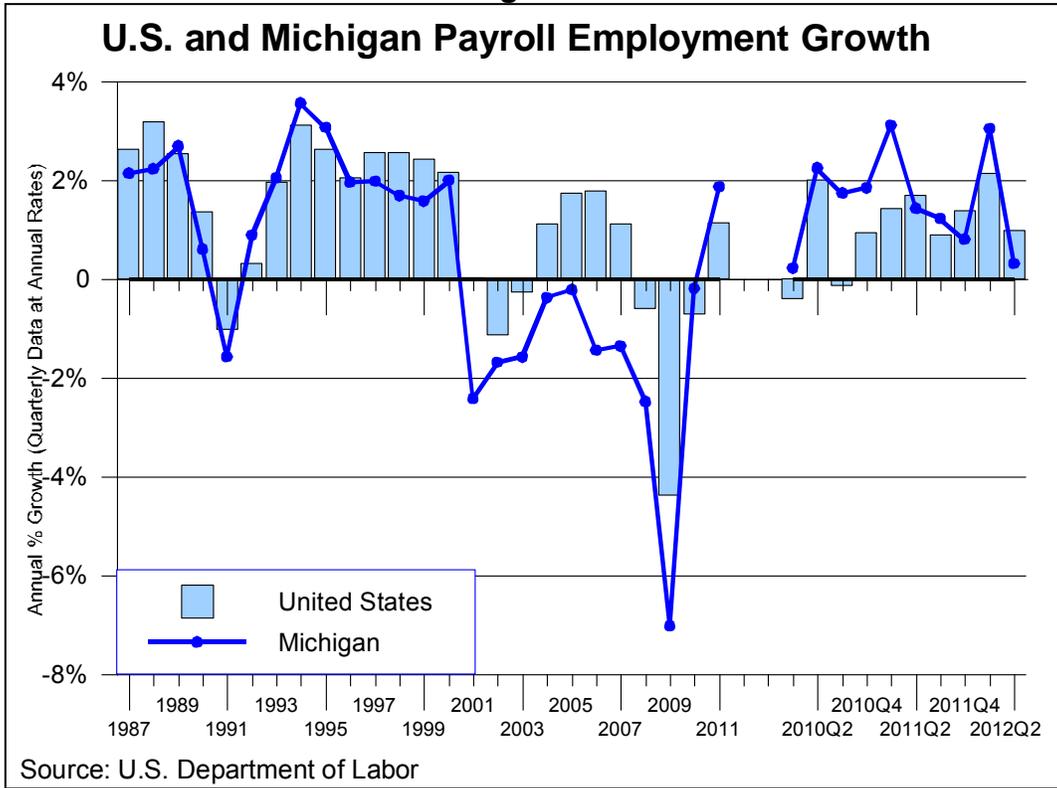
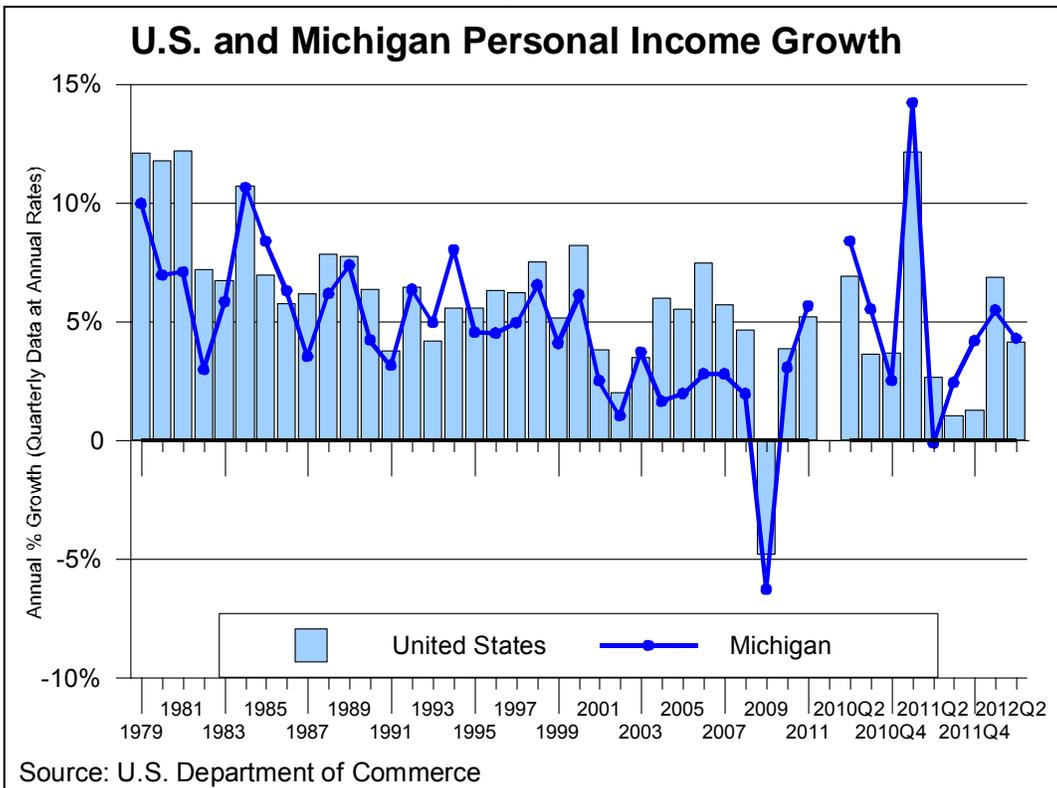


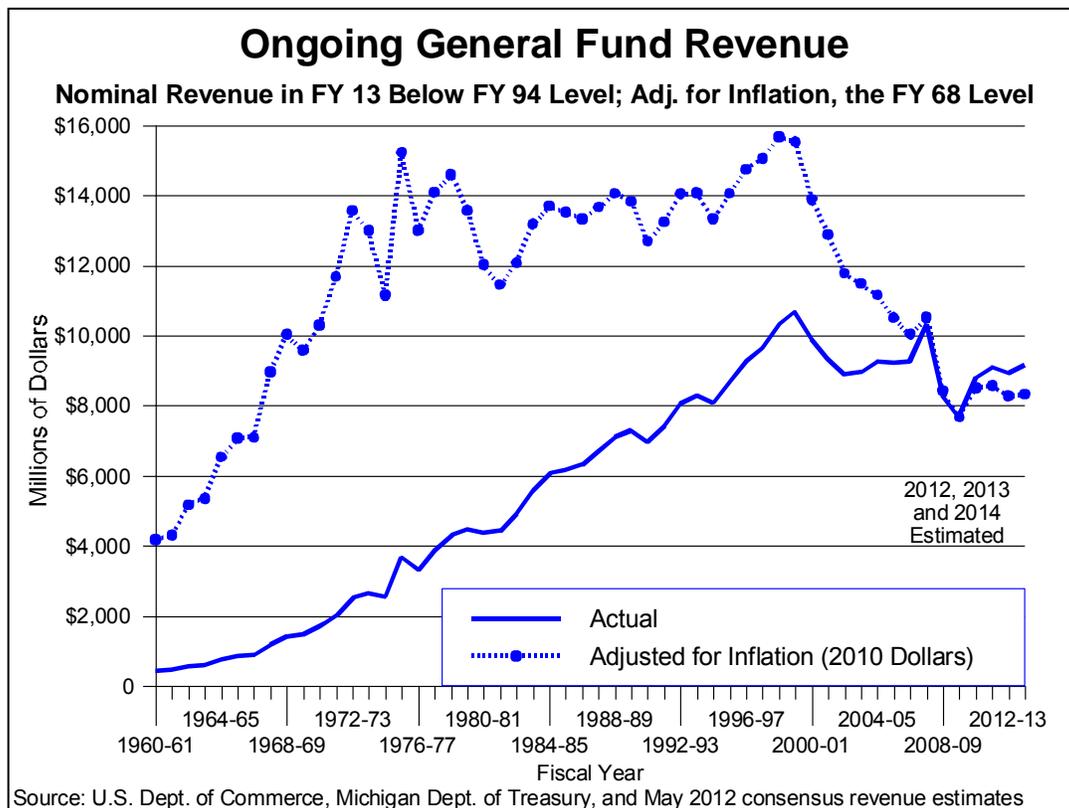
Figure 9



State Revenue

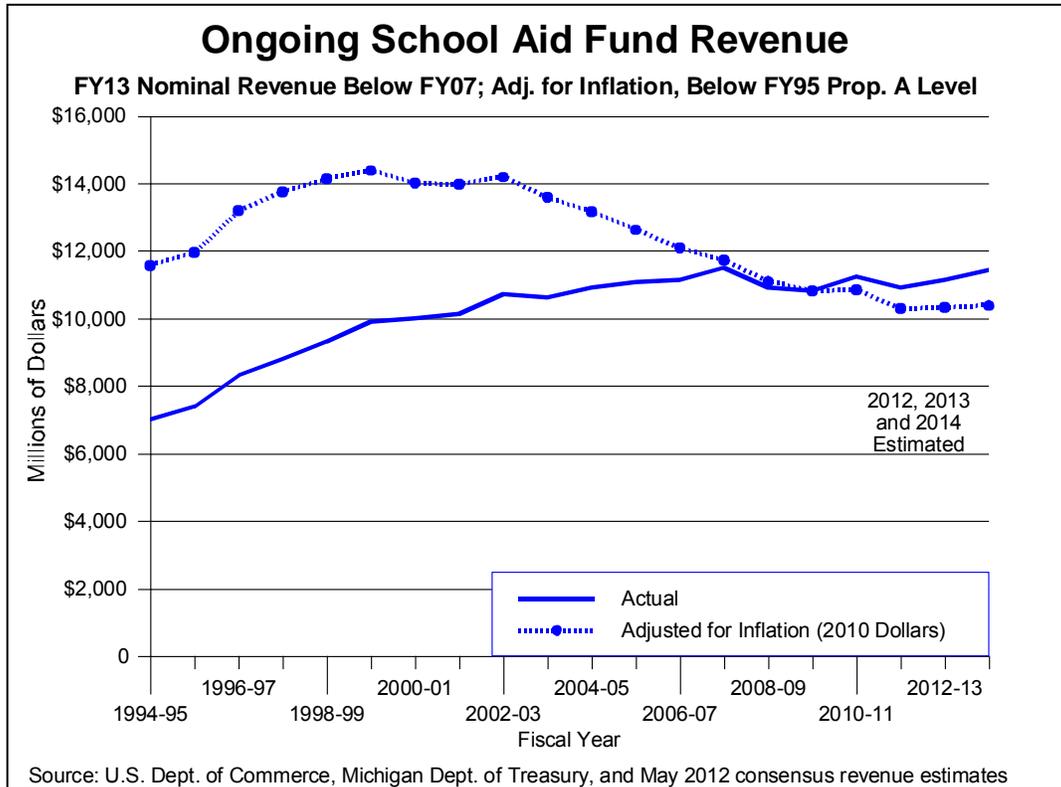
- The majority of State taxes and fees are deposited in the State's General Fund, School Aid Fund, or various transportation funds. Ongoing General Fund revenue has fallen as the economy has declined. Between FY 2007-08 and FY 2009-10, ongoing General Fund revenue fell 25.7% (\$2.7 billion) and ongoing School Aid (SAF) revenue fell 6.0% (\$696.0 million).
- On an inflation-adjusted basis, ongoing General Fund revenue in FY 2010-11 was 5.1% (\$456.8 million, in 2010 dollars) lower than the level in FY 1967-68, when the State adopted the new personal and corporate income taxes, as shown in Figure 10.

Figure 10



On an inflation-adjusted basis, ongoing SAF revenue in FY 2010-11 was 6.2% lower than the level in FY 1994-95, when Proposal A took effect, as shown in Figure 11.

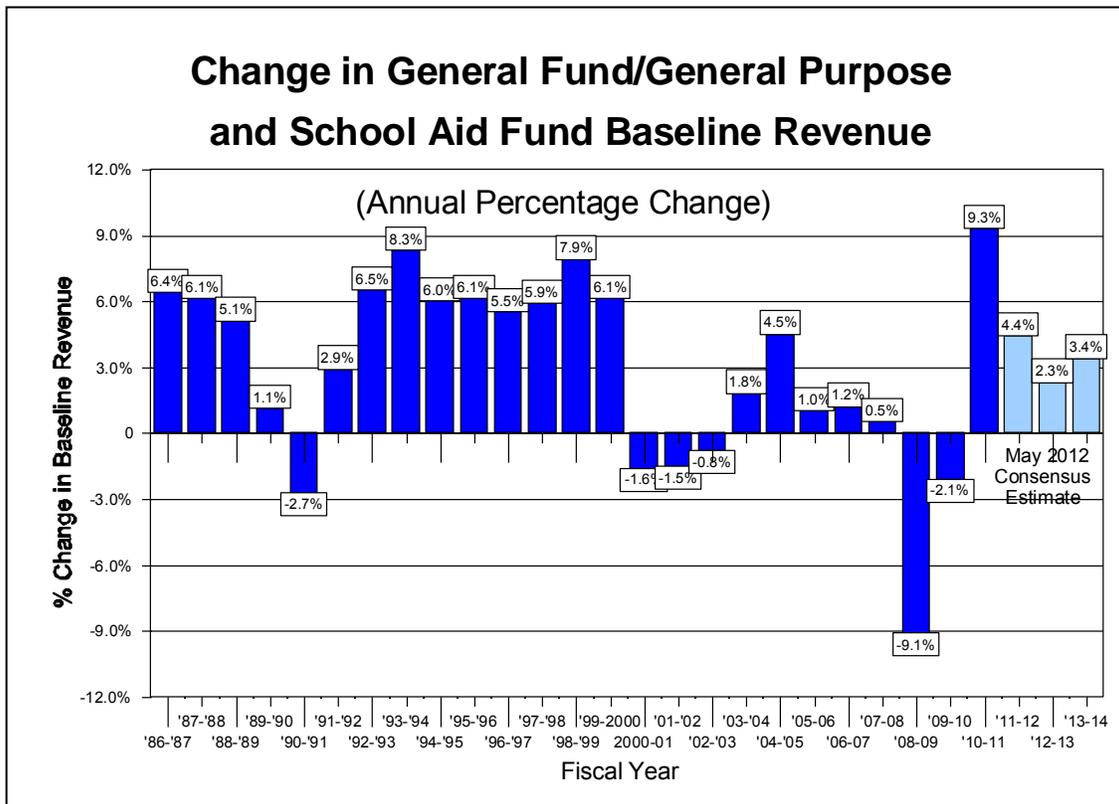
Figure 11



Forecast for State Revenue

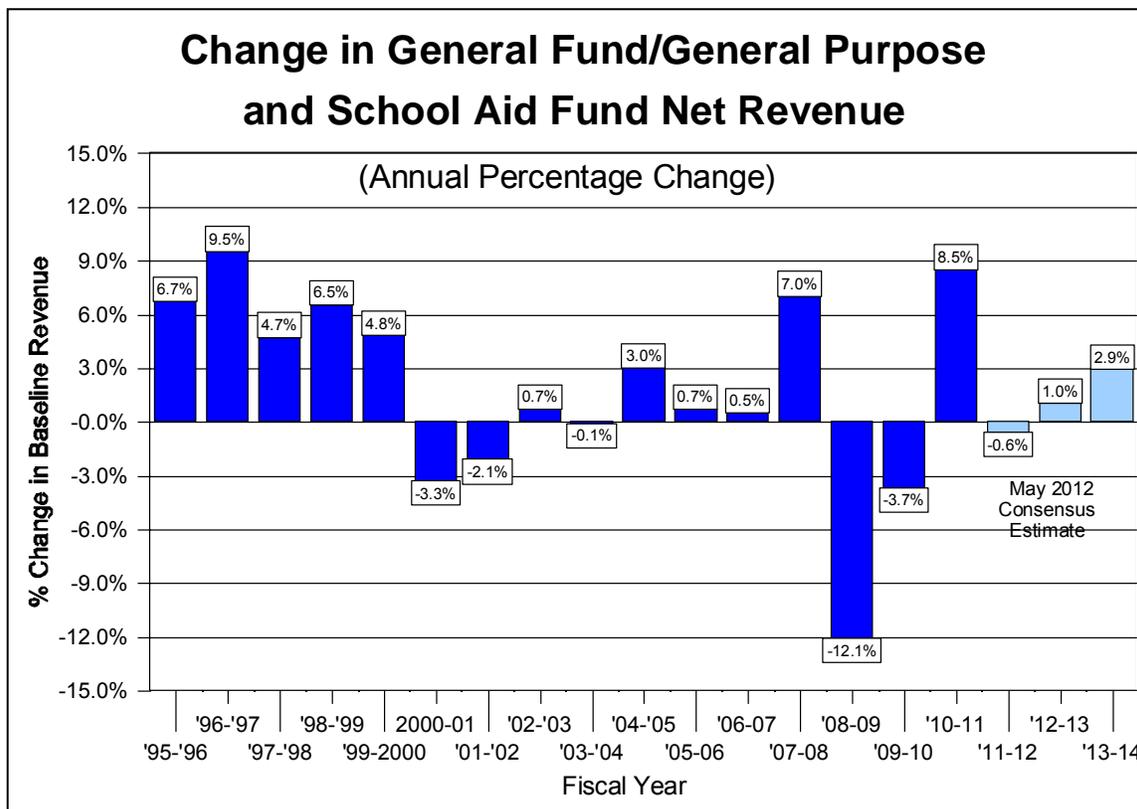
- Pursuant to State statute, there are Consensus Revenue Estimating Conferences held in January and May of each year in which the State Treasurer, and the Directors of the House and Senate Fiscal Agencies, meet to agree on the amount of State revenue available for the State budget.
- The Governor and the Legislature used the revenue estimates from the May 16, 2012, Conference to finalize the FY 2012-13 budget. The Governor's budget recommendation for FY 2012-13 was based on the January 2012 Conference.
- The percentage changes in baseline General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue forecasted for FY 2011-12 through FY 2013-14 are compared with the actual growth rates during the preceding 25 years in Figure 12.

Figure 12



- Underlying economic fundamentals for FY 2011-12 and FY 2012-13 will be offset by tax policy changes that will reduce GF/GP and School Aid Fund revenue.
- The revised estimates for FY 2011-12, after accounting for tax changes, predict GF/GP revenue will increase by 2.9% while SAF revenue will decrease by 3.3%. GF/GP revenue in FY 2012-13 is estimated to decline 1.0% while SAF revenue will grow 2.7%.
- The percentage changes in net (after tax changes) General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue forecasted for FY 2011-12 through FY 2013-14 are compared with the actual growth rates during the preceding 16 years in Figure 13.

Figure 13



- Figures 14 and 15 display the estimated FY 2011-12 revenue sources for the State General Fund and School Aid Fund, respectively.

Figure 14

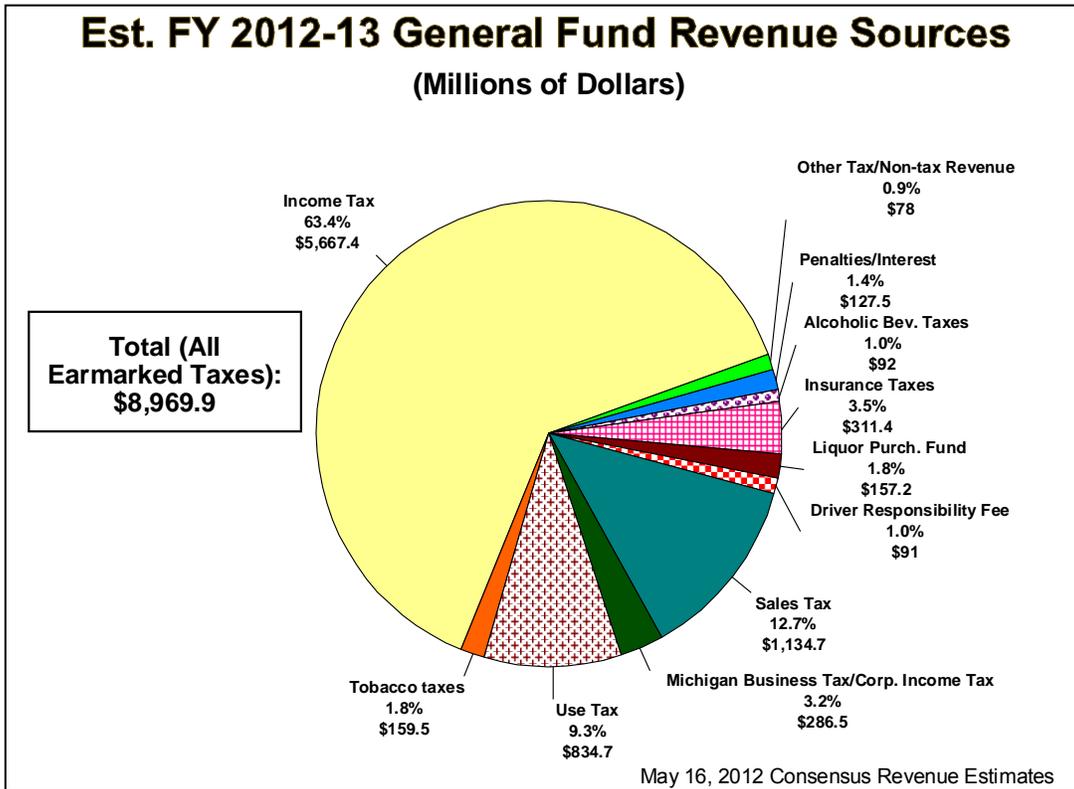
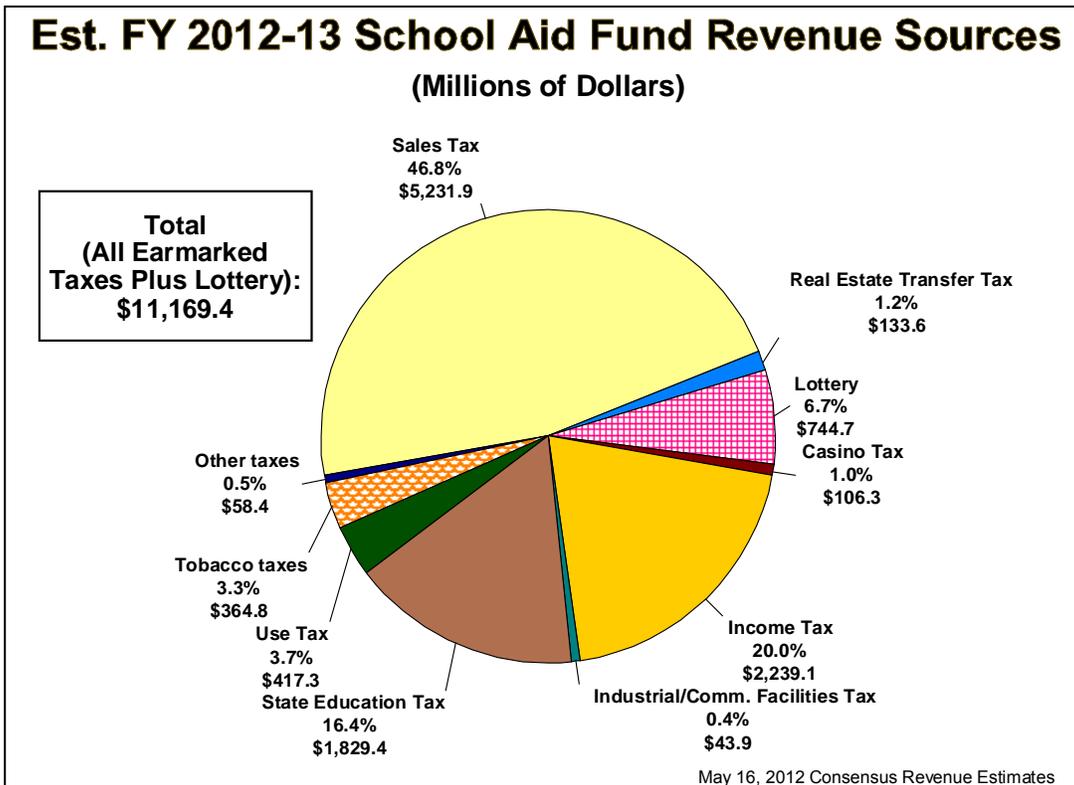


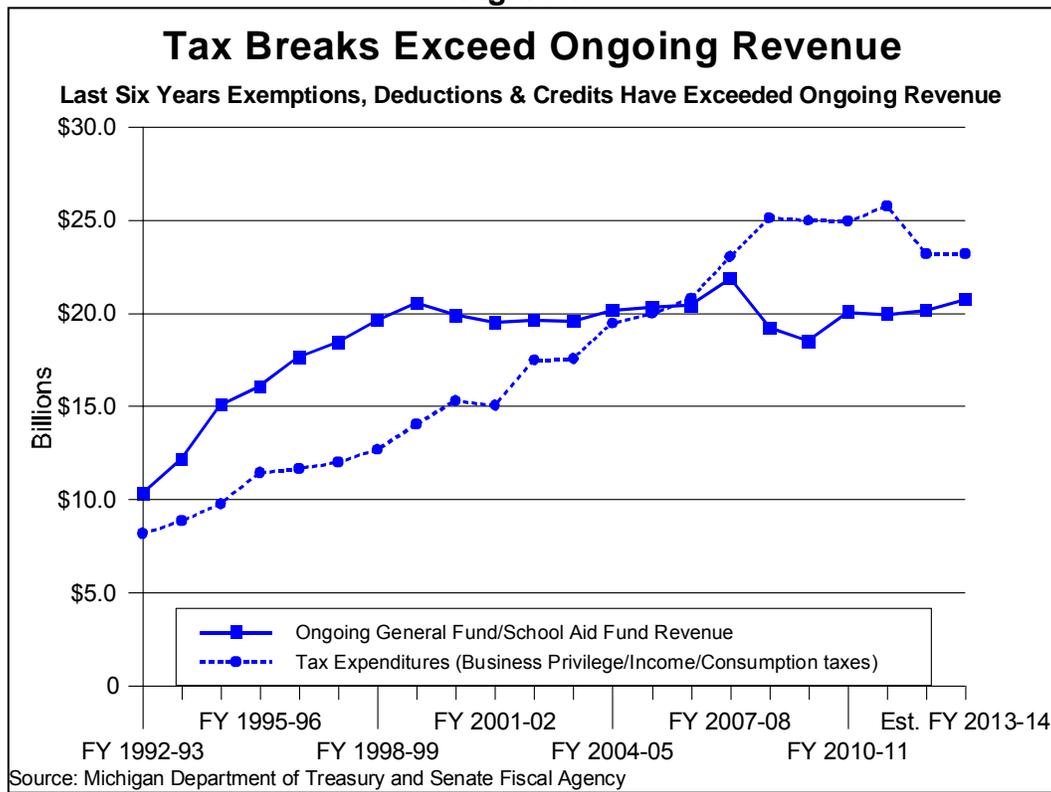
Figure 15



State Tax Expenditures

- Based on estimates of the Michigan Department of Treasury, the level of State tax expenditures under the State's business privilege, income, and consumption taxes increased from \$14.1 billion in FY 1999-2000 to \$25.0 billion in FY 2009-10. The estimate for FY 2011-12 is \$25.7 billion.
- During FY 1999-2000 tax expenditures equaled 68.2% of ongoing GF/GP and SAF revenue. During FY 2010-11 tax expenditures equaled 124.4% of total ongoing GF/GP and SAF revenue.

Figure 16



- The growth in tax expenditures has primarily focused on consumption taxes and individual income taxes. The most recently enacted major tax expenditures include the earned income tax credit and credits to subsidize certain battery manufacturers.

- Table 1 provides details on major changes in tax expenditures from FY 1999-2000 to FY 2013-14.

Table 1

**DETAIL ON MAJOR CHANGES IN TAX EXPENDITURES
(Millions of Dollars)**

	FY 1999-2000	FY 2011-12	\$ Change FY 1999-2000 to FY 2011-12	FY 2013-14	\$ Change FY 2011-12 to FY 2013-14
Consumption Taxes					
Food	\$860.0	\$1,220.2	\$360.2	\$1,280.5	\$60.3
Industrial Processing	660.0	920.0	260.0	1,108.0	188.0
Prescription Drugs	242.0	536.3	294.3	928.5	392.2
Services	4,392.0	10,357.2	5,965.2	10,709.1	351.9
Individual Income Taxes					
Adjustments to Income	1,600.0	3,351.7	1,751.7	3,3248.3	(103.4)
Homestead Prop. Tax Credit	471.0	831.1	360.1	523.6	(307.5)
Personal Exemption ¹⁾	987.0	1,173.7	186.7	1,142.2	(31.5)
Earned Income Tax Credit	0.0	360.0	360.0	115.5	(244.5)
All Other Tax Expenditures	4,859.4	6,995.6	2,136.2	5,007.0	1,988.6
Total Tax Expenditures	\$14,071.4	\$25,745.8	\$11,674.4	\$24,062.7	(\$1,683.1)

1) Does not include impact of increasing the personal exemption under PA 224 of 2012.

Source: Michigan Department of Treasury

- Changes in the tax structure enacted in May 2011 are forecasted to reduce the level of tax expenditures by \$2.8 billion in FY 2012-13 and \$2.5 billion in FY 2013-14 compared to the FY 2011-12 level. These new tax expenditure estimates do not include the cost of exempting pass-through entities such as sole proprietorships, partnerships, S-corporations, and limited liability corporations (LLCs) from the new corporation income tax. However, tax expenditures are still expected to exceed ongoing revenue.

Tax Code Restructuring

- Public Acts 38, 39, and 40 of 2011 restructured Michigan's business and personal income taxes.
- The existing Michigan Business Tax (MBT) was repealed and replaced with a new 6.0% Corporate Income Tax (CIT).
- Changes to the Michigan personal income tax include: freezing the personal income tax rate at 4.35% until January 1, 2013 (later modified to October 1, 2012, by PA 223 of 2012), modifying pension deductions and the homestead property tax credit, reducing the earned income tax credit (EITC), and eliminating most of the other credits, deductions, and exemptions.
- Table 2 outlines estimates of the fiscal impact for the State GF/GP and the School Aid Fund of the tax restructuring. The first year of the full impact of the changes will be FY 2012-13 when it is estimated that GF/GP revenue will increase by \$385.5 million and School Aid Fund revenue will decrease by \$669.9 million.

Table 2

**ENACTED TAX RESTRUCTURING LEGISLATION
(Dollars in Millions)**

Tax Provision	FY 2011-12			FY 2012-13			FY 2013-14		
	GF/GP	SAF	Total	GF/GP	SAF	Total	GF/GP	SAF	Total
<u>Prior Law:</u>									
Michigan Business Tax	\$1,449.8	\$759.1	\$2,208.9	\$1,144.4	\$778.8	\$1,923.2	\$1,259.8	\$793.6	\$2,053.4
<u>Business Tax Changes:</u>									
Repeal MBT (12/31/11)	(\$454.2)	(\$759.1)	(\$1,213.3)	(\$1,259.5)	(\$778.8)	(\$2,038.3)	(\$1,304.8)	(\$793.6)	(\$2,098.4)
Corporate Income Tax (1/1/12)	457.9	0.0	457.9	795.1	0.0	795.1	866.8	0.0	866.8
Financial Institutions Tax	27.7	0.0	27.7	43.9	0.0	43.9	45.6	0.0	45.6
Certified Credits/Options Tax	<u>(282.0)</u>	<u>0.0</u>	<u>(282.0)</u>	<u>(437.4)</u>	<u>0.0</u>	<u>(437.4)</u>	<u>(568.9)</u>	<u>0.0</u>	<u>(568.9)</u>
Total Changes to Business Taxes	<u>(250.6)</u>	<u>(759.1)</u>	<u>(1,009.7)</u>	<u>(857.9)</u>	<u>(778.8)</u>	<u>(1,636.7)</u>	<u>(961.3)</u>	<u>(793.6)</u>	<u>(1,754.9)</u>
Net Business Tax Rev. After Credits	\$1,199.2	\$0.0	\$1,199.2	\$286.5	\$0.0	\$286.5	\$298.5	\$0.0	\$298.5
<u>Individual Income Tax Changes¹⁾:</u>									
Delay/Eliminate Tax Rate Changes	\$172.0	\$0.0	\$172.0	\$225.0	\$0.0	\$225.0	\$415.4	\$0.0	\$415.4
Repeal Senior/Unemp. Ins. Exempt.	6.7	2.1	8.8	34.3	6.7	41.0	32.2	10.0	42.2
Repeal Child Deduction	0.0	0.0	0.0	52.9	4.2	57.1	48.0	10.8	58.8
Pension Tax Changes	182.5	38.4	220.9	255.7	80.5	336.2	260.2	86.8	347.0
Repeal Nonrefundable Credits	73.9	0.0	73.9	103.5	0.0	103.5	107.0	0.0	107.0
Homestead Credit Changes	0.0	0.0	0.0	257.0	0.0	257.0	265.0	0.0	265.0
Modify Earned Income Tax Credit	0.0	0.0	0.0	261.6	0.0	261.6	269.4	0.0	269.4
Eliminate Subtract./Exemp./Other	37.9	9.5	47.5	53.5	17.5	71.1	54.2	18.1	72.3
Total Chngs. to Individ. Income Tax	\$473.0	\$50.0	\$523.1	\$1,243.5	\$108.9	\$1,352.5	\$1,451.4	\$125.7	\$1,577.1
Net Impact of Proposed Reforms	\$222.4	(\$709.1)	(\$486.6)	\$385.6	(\$669.9)	(\$284.2)	\$490.1	(\$667.9)	(\$177.8)
<u>Addendum: Impact by Taxpayer Type</u>									
Businesses			(\$1,009.7)			(\$1,636.7)			(\$1,754.9)
Individuals			\$523.1			\$1,352.5			\$1,577.1

1) Does not include impact of increasing the personal exemption under PA 224 of 2012.

Source: May 2012 Consensus Revenue estimates

Constitutional Revenue Limit

- Section 26 of Article IX of the State Constitution limits total State revenue to a maximum of 9.49% of Michigan personal income.
- Based on the revised revenue estimates, revenue subject to the Constitutional revenue limit is estimated to be approximately \$6.0 billion below the limit for FY 2011-12, \$7.3 billion below the limit in FY 2012-13, and \$7.5 billion below the limit in FY 2013-14.

Figure 17

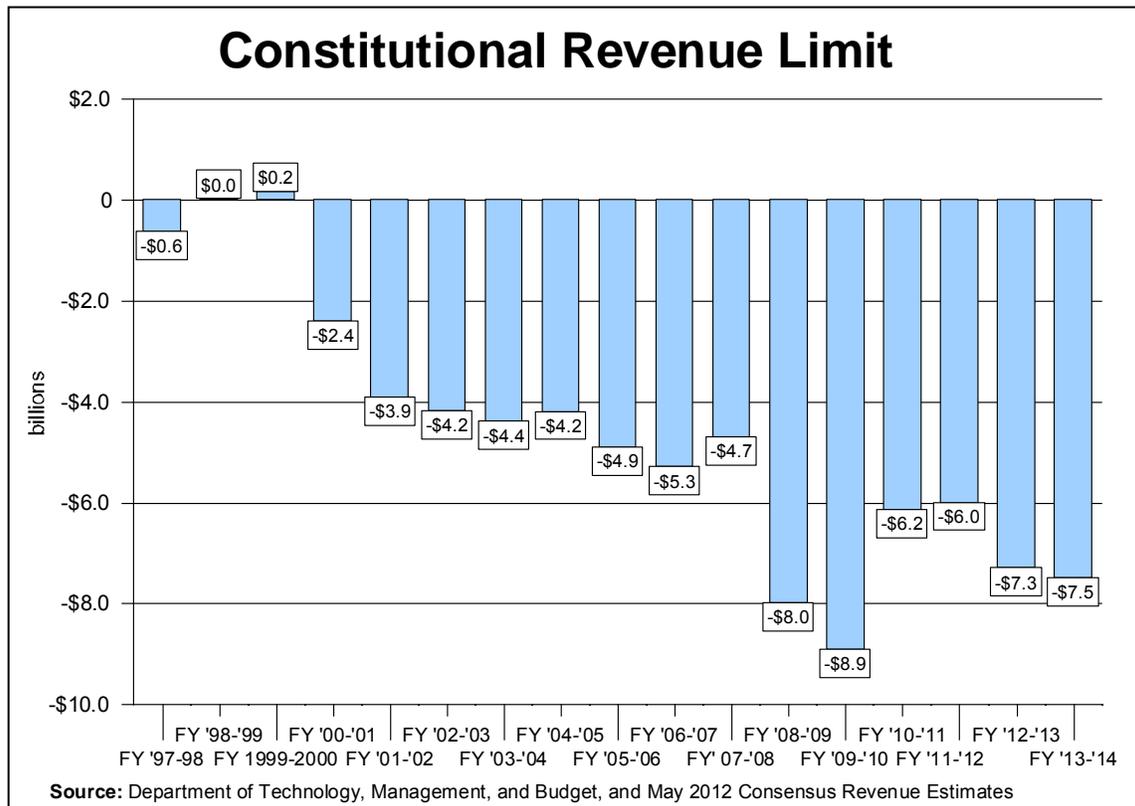


Figure 18

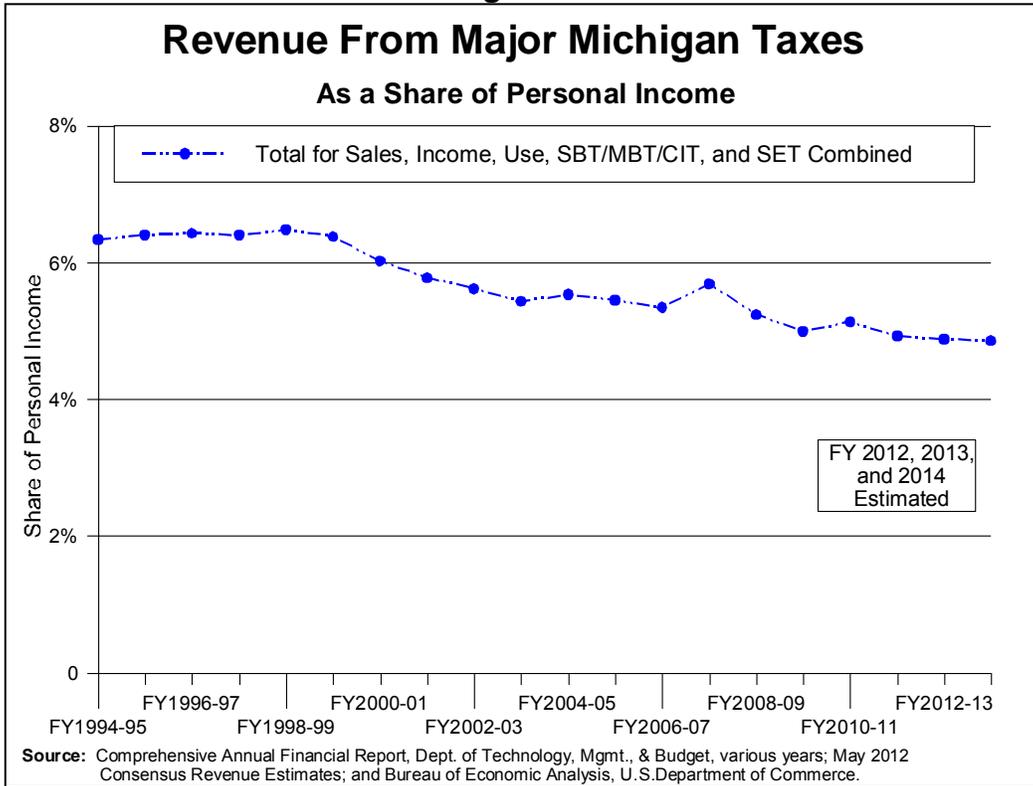


Figure 19

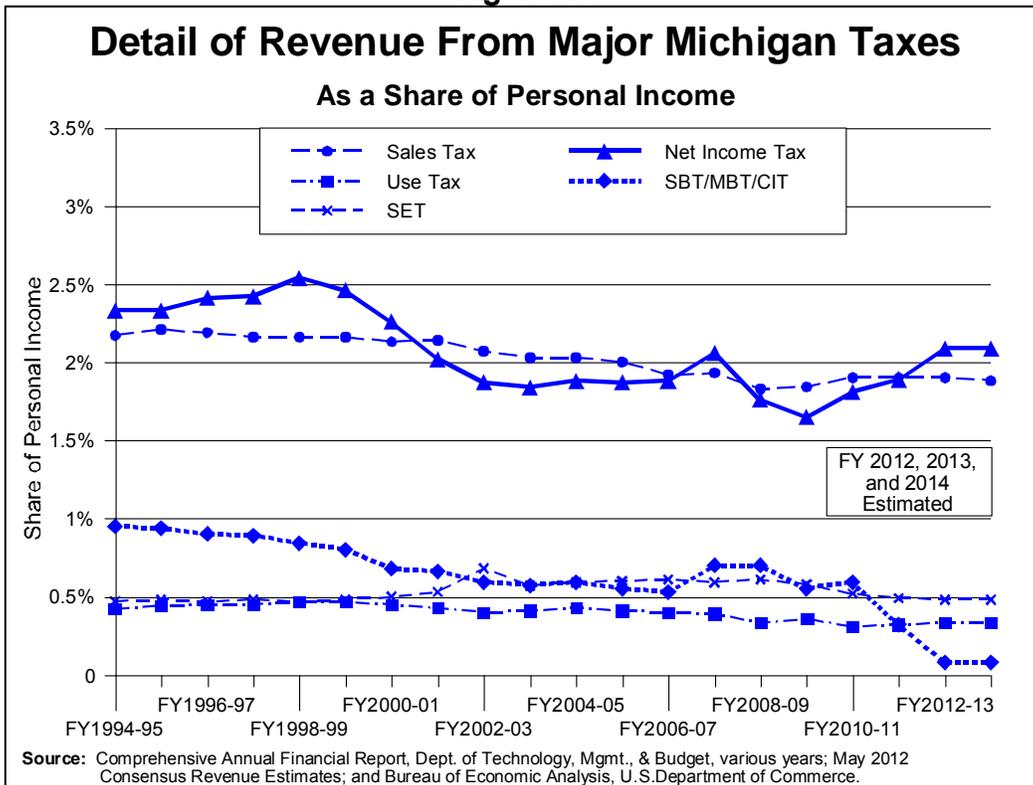


Table 3

**MICHIGAN'S MAJOR TAXES: REVENUE ESTIMATES, TAX RATES, AND YIELDS FOR FY 2011-12 AND FY 2012-13
(Dollars in Millions)**

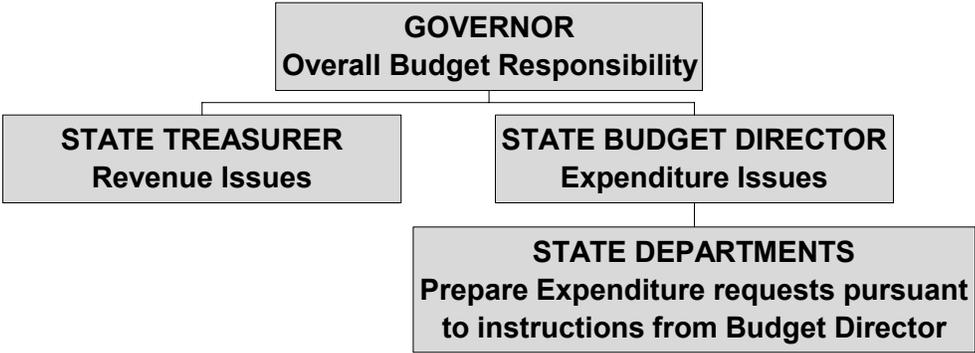
Tax	Revenue Estimates ¹⁾		Current Tax Rate	Examples of Rev. Impact Due to Change in Rate ²⁾			History of Tax Rate Changes
	FY 2011-12 Net Revenue	FY 2012-13 Net Revenue		Rate Change	FY '12 Rev. Change Eff. 1/1/12	FY '13 Rev. Change Eff. 1/1/11	
Individual Income Tax:							
Gross Collections	\$9,069.0	\$9,459.5	4.25%				1967: 2.6% 1971: 3.9% 2004:3.9% 7/1
Refunds	(2,103.1)	(1,552.0)					1975: 4.6% 1982: 5.6% 4/1
Net Income Tax	\$6,965.9	\$7,907.5		0.1%	\$130.3	\$199.0	1982: 4.6% 10/1 1983: 6.35% 2007:4.35% 10/1 1984: 5.35% 9/1 1986: 4.6% 2012:4.25% 10/1 1994: 4.4% 5/1 2000: 4.2% 2002: 4.1% 2003: 4.0%
Sales Tax³⁾	\$7,023.9	\$7,194.1	6.0%	1% of: ³⁾ first 4% of 6% last 2% of 6%	\$898.4 837.2	\$1,226.4 1,144.4	1933: 3.0% 1960: 4.0% 1994: 6.0% 5/1
Use Tax	\$1,182.1	\$1,252.0	6.0%	1.0%	\$147.8	\$208.7	1937: 3.0% 1960: 4.0% 1994: 6.0% 5/1
Tobacco Tax							
Cigarettes	\$961.7	\$941.6	\$2.00/pack	\$0.10/pack	\$33.4	\$43.4	1947: 3 cents/pk 1959: 4 cents/pk 1961: 5 cents/pk 1962: 7 cents/pk
Other Tobacco Products	\$899.7	\$876.6	32% whole-sale price	2.0%	\$2.9	\$4.1	1970: 11 cents/pk 1982: 21 cents/pk 1987: 25 cents/pk 1993: 75 cents/pk 2002: \$1.25/pk 8/1 2004: \$2/pk 7/1
	\$62.0	\$65.0					
Liquor Tax⁴⁾	\$40.3	\$41.2	4.0%	1.0%	\$7.5	\$10.2	1959: Liquor excise tax established - 4.0% 1962: Liquor specific tax established - 4.0% 1972: Liquor specific tax established - 1.85% 1985: Liquor specific tax established - 4.0%
Beer Tax⁵⁾	\$40.0	\$40.6	\$6.30/barrel ⁵⁾	\$1/barrel ⁵⁾	\$4.7	\$6.4	1933: \$1.25/barrel 1959: \$2.50/barrel 1962: \$6.61/barrel 1966: \$6.30/barrel
Wine Tax⁶⁾	\$10.0	\$10.2	⁶⁾	\$0.01/liter	\$0.6	\$0.8	1937: \$0.50/gallon 1981: w/ 16% alcohol 13.5 cents/liter 1981: w/ >16% alcohol 20 cents/liter 1981: w/ >16% alcohol 20 cents/liter 1989: mixed-spirit drinks 48 cents/liter
Casino Gaming Tax	\$114.7	\$106.3	8.1%	1.0%	\$10.2	\$13.1	1999: 8.1% of adj. gross receipts 2004: 12.1% of adj. gross receipts 9/1 FY07: 8.1%-12.1% FY09: 8.1% 2/09
Real Estate Transfer Tax	\$124.9	\$133.6	0.75% ⁷⁾	0.25%	\$20.8	\$44.5	Rate has not changed.
State Education Property Tax	\$1,807.1	\$1,829.4	6 mills	1 mill	\$301.2	\$304.9	1994: 6 mills 2003: 5 mills (one-year reduction only) 2004: 6 mills
Gasoline Tax	\$825.5	\$822.0	0.19/gal.	0.01/gal.	\$32.6	\$43.3	1983: 13 cents/gal. 1984: 15 cents/gal. 1997: 19 cents/gal.

1) Consensus Revenue Estimates, May 16, 2012. Figures do not reflect the impact of the tax changes from HB 5699 and HB 5700, as enacted. 2) Senate Fiscal Agency estimate. 3) The first four percentage points of the 6% sales tax rate are assessed on the entire sales tax base (including residential utilities), whereas the last two percentage points are assessed on the entire sales tax base except residential utilities. 4) There are four taxes on liquor: three have rates of 4.0% and they are earmarked to the General Fund, School Aid Fund, and the Convention Facility Fund, and one is assessed at 1.85% and is earmarked to the Liquor Purchase Revolving Fund. 5) The beer tax of \$6.30/barrel is equivalent to 1.9 cents per 12-ounce can of beer. Increasing the rate by \$1/barrel would increase the tax/can to 2.2 cents. 6) Tax on wine is as follows: Wine containing 16% or less of alcohol: 13.5 cents/liter; and wine containing more than 16% alcohol: 20 cents/liter. 7) The real estate transfer tax is assessed when real property changes ownership and it is assessed on the transaction price.

The Budget Process

KEY ACTORS IN BUDGET DECISION MAKING PROCESS

Executive Branch



KEY ACTORS IN BUDGET DECISION MAKING PROCESS

Legislative Branch



KEY ACTORS IN BUDGET DECISION MAKING PROCESS

State Departments and Outside Interest Groups

- ▶ Education Institutions
- ▶ Units of Local Government
- ▶ Nonprofit Associations
- ▶ Multi-client Lobbyists
- ▶ Single Issue Lobbyists
- ▶ General Public

PREPARATION OF THE EXECUTIVE BUDGET

STATE TREASURER (Incoming \$\$\$)

Revenue Estimates

Tax Policy

Cash Management

Debt Management

PREPARATION OF THE EXECUTIVE BUDGET (Continued)

BUDGET DIRECTOR (Outgoing \$\$\$)

Issues Budget Directions

Reviews & Analyzes Agency Requests

Filters Requests from Outside Groups

Prepares Final Budget Documents

Oversees Legislative Budget Process for Governor

Management of Current Year Budget

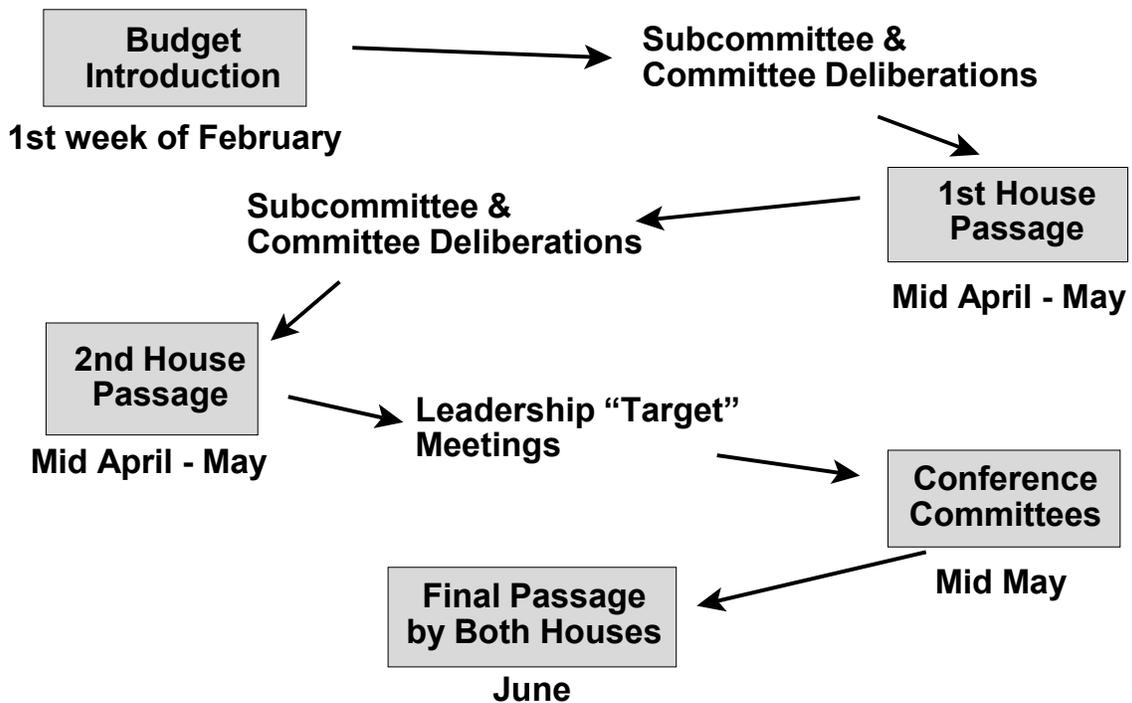
PRESENTATION OF THE EXECUTIVE BUDGET TO THE LEGISLATURE

- ▶ Prescribed by Statute
- ▶ Executive Press Releases
- ▶ Joint Meeting of the House and Senate
Appropriations Committees
 - Budget Director Presentation
- ▶ Documentation
 - Summaries
 - Executive Budget Bills
 - Line Item Detail

LEGISLATIVE BUDGET RESPONSIBILITIES

- ▶ Consideration of Executive Budget
- ▶ Adoption of Annual Appropriation Bills
- ▶ Review of Governor's Line Item Vetoes
- ▶ Monitoring and Oversight of Current Year Budget

TRADITIONAL BUDGET TIME FRAME



MANDATED BUDGET REQUIREMENTS & RESTRICTIONS

State Budget Process Constitutional Requirements

- ▶ Budget Submission Date (Sec. 18 of Article V)
- ▶ Balanced Budget Requirement (Sec. 31 of Article IV)
- ▶ Revenue Limit (Sec. 26 of Article IX)
- ▶ State & Local Spending Split (Sec. 30 of Article IX)
- ▶ Expenditure Limit (Sec. 28 of Article IX)
- ▶ Appropriation Reductions (Sec. 20 of Article V)
- ▶ Line-Item Veto (Sec. 19 of Article V)
- ▶ Limits on State General Obligation Debt (Sec. 15 of Article IX)

MANDATED BUDGET REQUIREMENTS & RESTRICTIONS

State Budget Process Statutory Requirements

- ▶ Public Act 431 of 1984 provides the basic statutory framework for the State budget process. Some of the major provisions include:
 - Role of State Budget Director
 - Fiscal Year period
 - Budget submission date
 - Consensus Revenue Estimating Conference
 - Counter-cyclical Budget & Economic Stabilization Fund
 - Operating funds
 - Implementation of Constitutional requirements

MANDATED BUDGET REQUIREMENTS & RESTRICTIONS

Boilerplate Requirements

- ▶ Intent language contained in appropriation bills is referred to as boilerplate. Boilerplate language is used to accomplish the following objectives:
 - Imposes conditions on appropriations
 - Reporting requirements
 - Imposes specific spending criteria

SPECIFIC MICHIGAN BUDGET PRACTICES

- ▶ Several features of Michigan's budget process that result from historical practices impact on final budget decisions. These include:
 - Strong Executive Branch influence
 - Strong Legislative Appropriations committees
 - Numerous appropriations bills
 - Incremental changes in budget
 - Strong threat of line-item veto

STATE BUDGET TERMS

- ▶ Gross Appropriations: Total level of State appropriations from all fund sources
- ▶ State Spending from State Resources Appropriations: Total level of State appropriations excluding Federal and local and private funding sources
- ▶ General Fund/General Purpose Appropriations: Unrestricted portion of State budget fund sources
- ▶ Earmarking: State taxes or fees that are designated for a specific purpose in the budget by either constitutional or statutory requirements
- ▶ FTE: Full-time equated employee
- ▶ Boilerplate: Intent language in appropriation bills

Adjusted Gross, State Spending from State Resources and GF/GP Appropriations FY 2012-13 (billions of dollars)

Department/Budget Area	Adj. Gross	State Spending	GF/GP
K-12 Education	\$12.9	\$11.2	\$0.3
Community Health	15.0	5.0	2.8
Human Services	6.5	1.1	1.0
Transportation	3.5	2.2	0.0
Corrections	2.0	2.0	1.9
Higher Ed. & Comm. Coll.	1.7	1.6	1.2
Subtotal	\$41.6	\$23.1	\$7.3
All Other	6.6	4.7	1.7
Total	\$48.2	\$27.8	\$9.0

**The State Budget
FY 2012-13**

Table 4

SUMMARY OF FY 2012-13 APPROPRIATION CHANGES (Millions of Dollars)		
	Adj. Gross	GF/GP
FY 2011-12 Year-To-Date Appropriation (as of 7-1-12)	\$47,481.3	\$8,491.8
<u>Changes for FY 2012-13:</u>		
New Programs	\$371.8	\$109.3
Program Increases	1,647.6	461.7
Program Eliminations	(267.6)	(86.5)
Program Reductions	(629.4)	(185.2)
Major Fund Shifts Affecting GF/GP	18.4	291.0
Economic Increases	167.8	73.7
State Employee Lump Sum Payments	53.2	25.3
Unclassified Salaries	3.5	2.5
Expiration of HMO/PIHP Use Tax	(201.1)	(167.3)
Adjustments for FY 2011-12 Transfers/Supplementals	(138.3)	(16.4)
Other Technical Adjustments	<u>(314.6)</u>	<u>(5.7)</u>
Total Changes	\$711.3	\$502.4
FY 2012-13 INITIAL APPROPRIATION	\$48,192.7	\$8,994.2
<u>Other Budget Adjustments:</u>		
FY 2012-13 Enacted Supplementals	\$36.1	\$15.0
CREC Changes	0.0	0.0
Contingency Fund Transfers	0.0	0.0
FY 2012-13 YEAR-TO-DATE APPROPRIATION	\$48,228.8	\$9,009.2

Figure 20

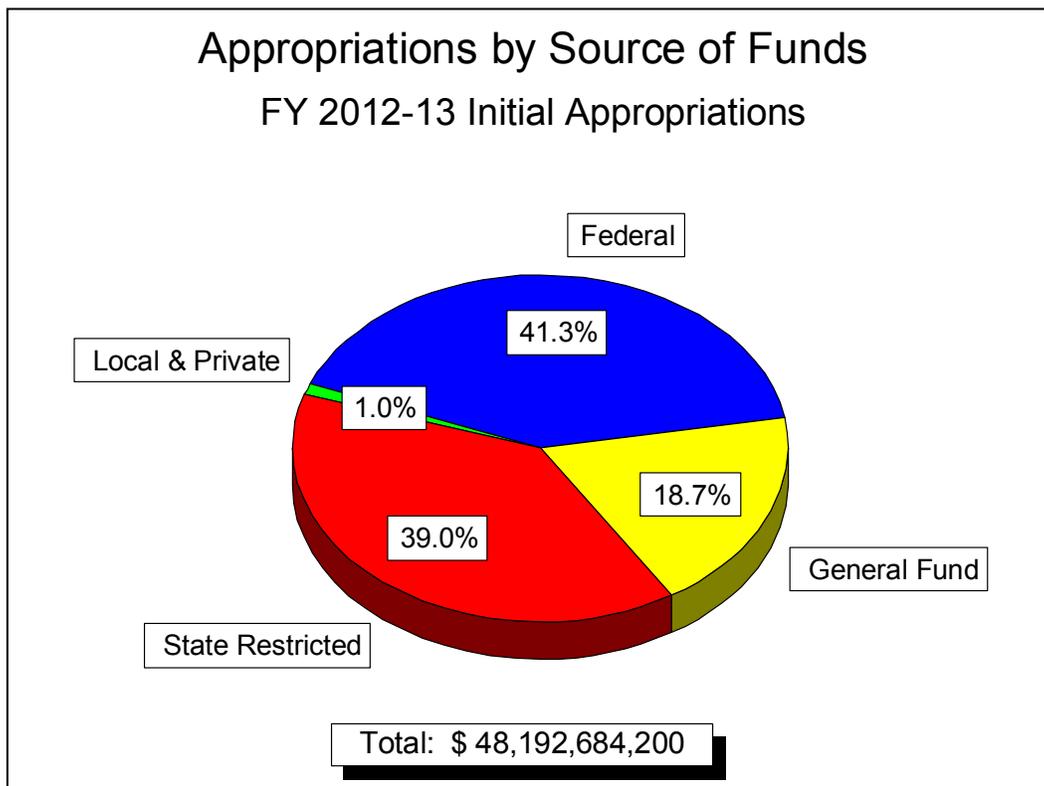


Figure 21

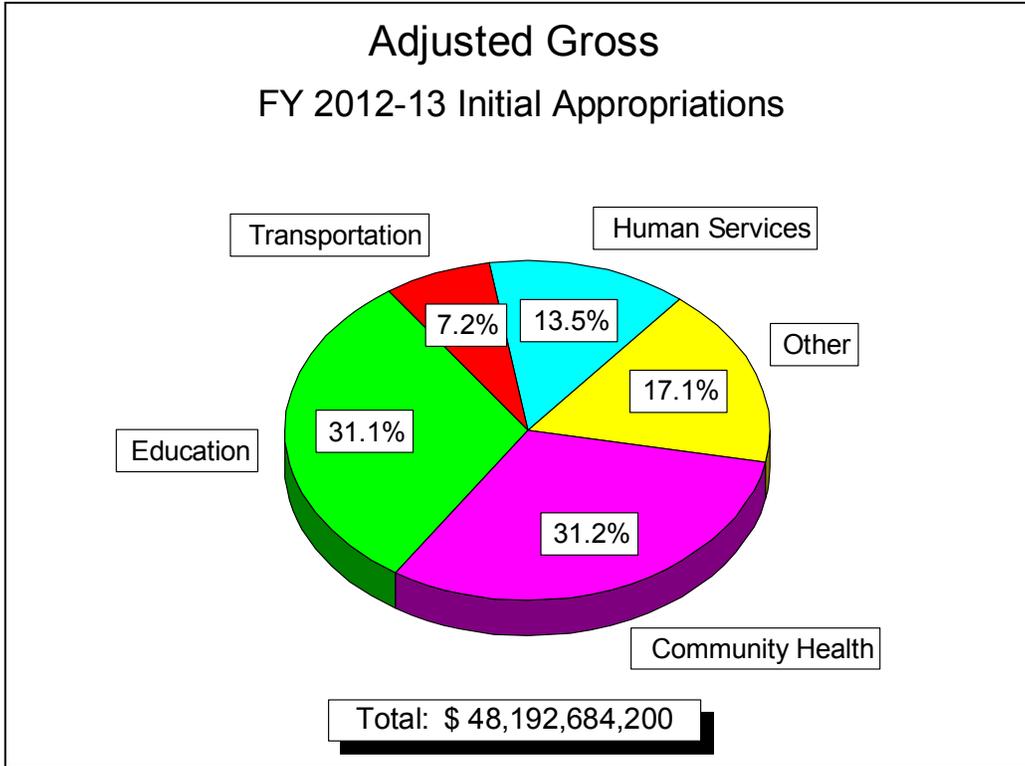


Figure 22

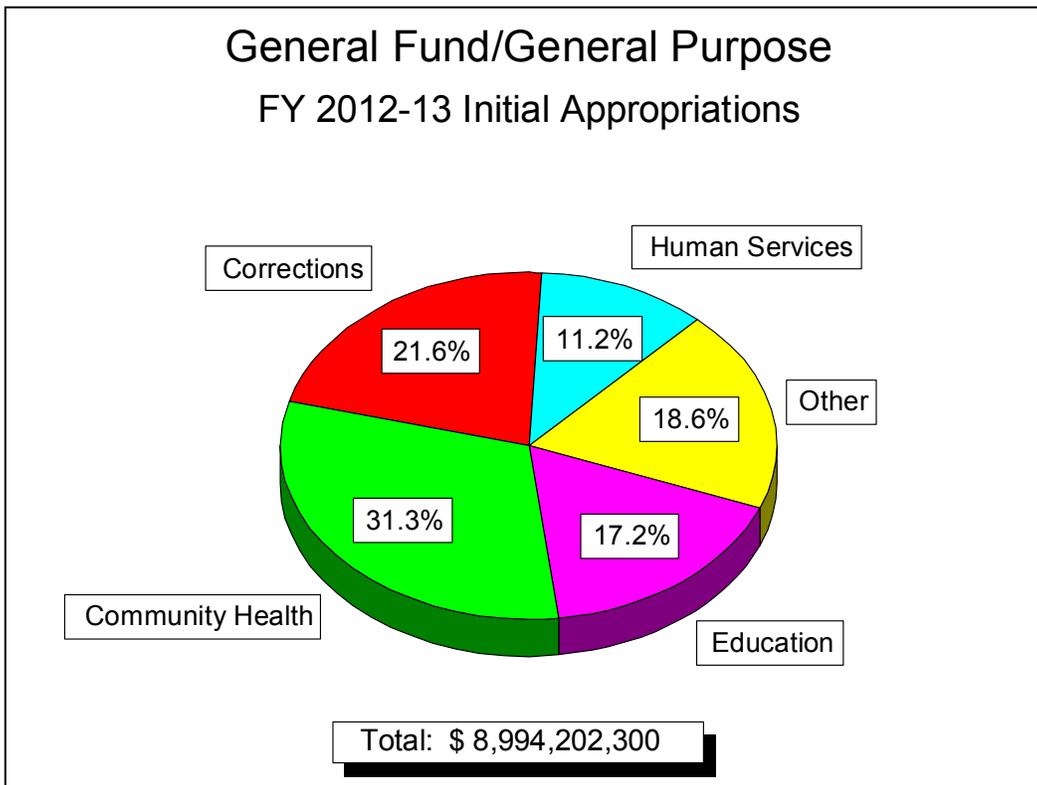


Table 5

FULL-TIME EQUATED POSITIONS FY 2011-12 VERSUS FY 2012-13				
Department/Budget Area	FY 2011-12 Year-to-Date Positions	FY 2012-13 Initial Positions	Position Change	Percent Change
Agriculture and Rural Development	441.0	425.0	(16.0)	(3.6%)
Attorney General	514.0	508.0	(6.0)	(1.2)
Civil Rights	121.0	121.0	0.0	0.0
Community Health	3,634.2	3,538.6	(95.6)	(2.6)
Corrections	15,568.8	14,695.2	(873.6)	(5.6)
Education	598.0	590.5	(7.5)	(1.3)
Environmental Quality	1,334.5	1,321.5	(13.0)	(1.0)
Executive	74.2	74.2	0.0	0.0
Higher Education	0.0	0.0	0.0	0.0
Human Services	11,540.5	11,758.0	217.5	1.9
Judiciary	491.0	472.0	(19.0)	(3.9)
Licensing and Regulatory Affairs	4,328.8	4,259.8	(69.0)	(1.6)
Military and Veterans Affairs	989.0	834.0	(155.0)	(15.7)
Natural Resources	2,173.4	2,093.8	(79.6)	(3.7)
State	1,809.0	1,689.0	(120.0)	(6.6)
State Police	2,861.0	2,881.0	20.0	0.7
Technology, Management, and Budget	3,032.5	2,808.0	(224.5)	(7.4)
Transportation	3,043.3	2,912.3	(131.0)	(4.3)
Treasury - Operations	1,770.5	1,774.5	4.0	0.2
Treasury - Strategic Fund Agency	820.0	748.0	(72.0)	(8.8)
TOTAL POSITIONS	55,144.7	53,504.4	(1,640.3)	(3.0%)

Figure 23

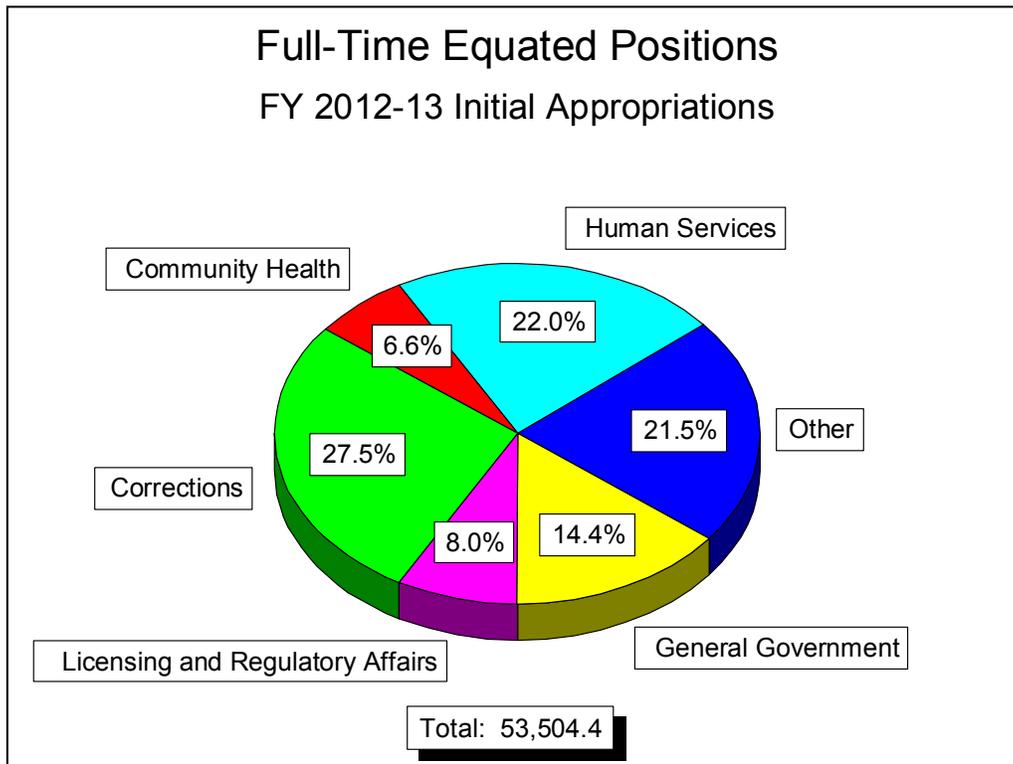
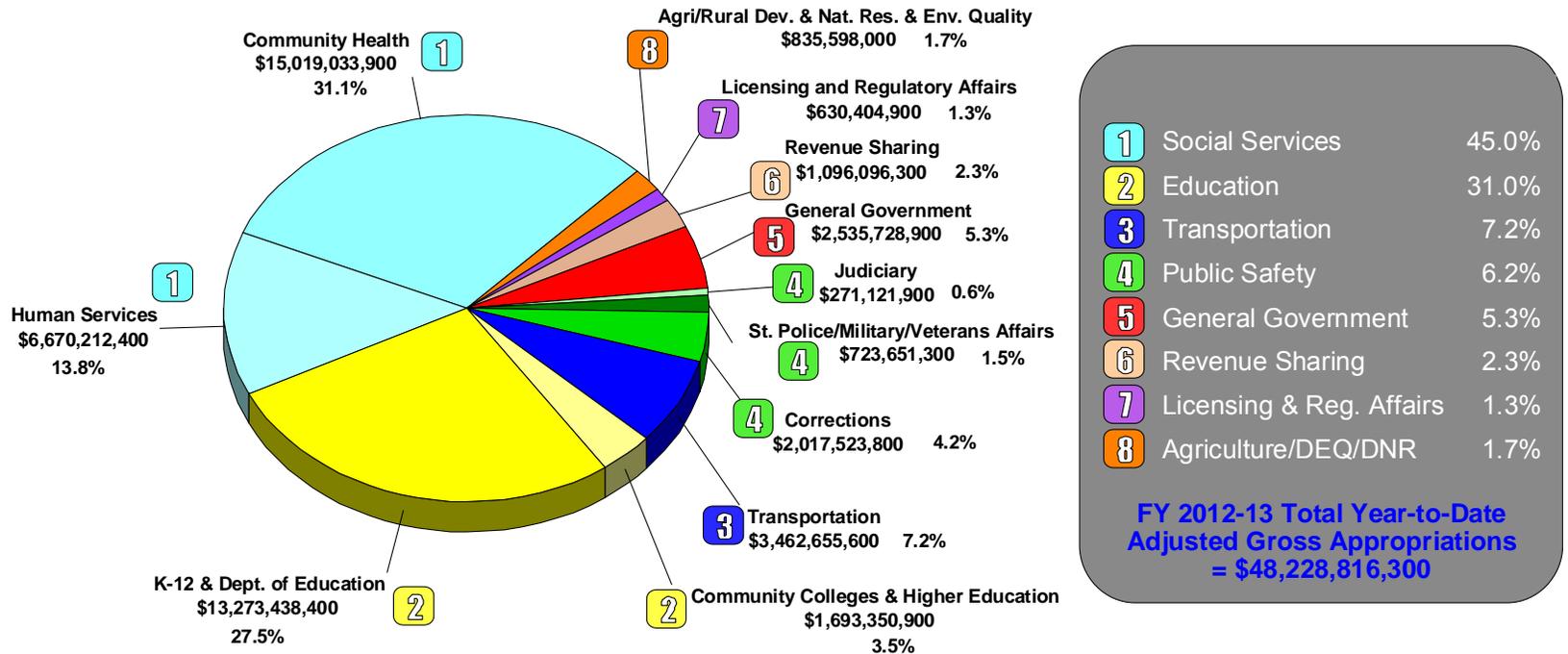


Figure 24

Where State of Michigan Tax Dollars Are Spent Fiscal Year 2012-13 Year-to-Date Adjusted Gross Appropriations



**FY 2012-13 Total Year-to-Date
Adjusted Gross Appropriations
= \$48,228,816,300**

Source: Senate Fiscal Agency - 10/25/2012

Table 6
FY 2011-12, FY 2012-13, AND FY 2013-14
GENERAL FUND/GENERAL PURPOSE (GF/GP)
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	FY 2011-12	FY 2012-13	FY 2013-14
Revenue:			
Beginning Balance.....	\$553.7	\$743.2	\$5.4
Ongoing Revenue:			
Consensus Revenue Estimate (May 2012)	\$9,064.4	\$8,969.9	\$9,259.0
Revenue Sharing Payments	(300.0)	(350.6)	(350.6)
One-Time Appropriation for Revenue Sharing	(40.0)	(20.0)	0.0
Income Tax Policy Changes	0.0	(91.0)	(27.0)
Shift Short Term Borrowing Costs to School Aid Fund.....	2.1	3.2	3.6
Other Restricted Revenue Transfers To/From Gen'l Fund.....	0.9	(4.3)	(7.0)
Subtotal Ongoing Revenue	\$8,727.4	\$8,507.2	\$8,878.0
Non-Ongoing Revenue:			
FY12-Use Tax HMOs;FY13-Sales Tax to STF/LPRF Lapse...	\$192.6	(\$112.0)	\$0.0
Total Estimated GF/GP Revenue	\$9,473.7	\$9,138.4	\$8,883.4
Expenditures:			
Initial Ongoing Appropriations	\$8,275.5	\$8,628.5	\$8,881.9
Initial One-Time Appropriations	171.6	365.7	13.6
Enacted Supplementals	265.1	0.0	0.0
Savings From One-Time OPEB Appropriation.....	(17.1)	0.0	0.0
Employee Concessions/Contingency Plans.....	(87.8)	0.0	0.0
Caseload and Cost Adjustments (May 2012).....	(179.5)	0.0	(37.5)
Reduce GF Grant to School Aid	(40.0)	0.0	0.0
Enacted Supplemental (PA 305 of 2012)	0.0	15.0	0.0
Subtotal Ongoing and One-Time Appropriations	\$8,387.8	\$9,009.2	\$8,858.0
Estimate of Year-End Lapses.....	(\$20.0)	(\$16.2)	\$0.0
Total Estimated GF/GP Expenditures.....	\$8,367.8	\$8,993.0	\$8,858.0
One-Time Appropriations to Budget Stabilization Fund	\$362.7	\$140.0	\$0.0
PROJECTED YEAR-END GF/GP BALANCE.....	\$743.2	\$5.4	\$25.4
Note: FY 2013-14 ongoing and one-time appropriation amounts are from the Governor's February 9, 2012 recommendation.			

Table 7
FY 2011-12, FY 2012-13, AND FY 2013-14
SCHOOL AID FUND (SAF)
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	FY 2011-12	FY 2012-13	FY 2013-14
Revenue:			
Beginning Balance.....	\$724.7	\$194.6	\$0.0
Consensus Revenue Estimate (May 2012).....	\$10,876.1	\$11,169.5	\$11,471.5
Other Revenue Adjustments:			
General Fund/General Purpose Grant	78.6	282.4	101.0
Federal Ongoing Aid	1,658.0	1,701.0	1,701.0
Income Tax Policy Changes.....	0.0	(13.0)	(8.0)
Subtotal Ongoing Revenue	\$12,612.7	\$13,139.9	\$13,265.5
Total Estimated School Aid Fund Revenue	\$13,337.4	\$13,334.5	\$13,265.5
Expenditures:			
Initial Ongoing K-12 Appropriations.....	\$12,203.6	\$12,537.0	\$12,750.2
Initial One-Time K-12 Appropriations	472.0	374.3	63.3
Public Act 29 of 2012 Adjustments/Other Adjustments.....	68.4	(4.7)	0.0
Cost Adjustments (Consensus Estimate May 2012).....	2.9	37.9	48.6
Partially Fund Community Colleges with School Aid Fund	195.9	197.6	197.6
Partially Fund Higher Education with School Aid Fund.....	200.0	200.5	200.5
Total Estimated School Aid Fund Expenditures	\$13,142.8	\$13,342.6	\$13,260.2
PROJECTED YEAR-END SAF BALANCE.....	\$194.6	(\$8.1)	\$5.3
Note: FY 2013-14 ongoing and one-time appropriation amounts are SFA estimates.			

Table 8

TOTAL ACCUMULATED PENSION UNFUNDED LIABILITIES										
Fiscal Year	MPSERS*		STATE EMPLOYEES		STATE POLICE		JUDGES		LEGISLATIVE	
	Unfunded Liability	Funded Ratio								
1999-2000	\$246,000,000	99.3%	(\$863,000,000)	109.1%	(\$72,400,000)	107.0%	(\$70,600,000)	134.6%	(\$31,782,000)	125.0%
2000-01	\$1,375,000,000	96.5%	(\$755,000,000)	107.6%	(\$75,000,000)	107.0%	(\$66,300,000)	129.5%	(\$29,778,000)	121.0%
2001-02	\$3,575,000,000	91.5%	\$137,000,000	98.7%	(\$5,600,000)	100.5%	(\$62,500,000)	127.3%	(\$23,300,000)	116.0%
2002-03	\$6,043,000,000	86.5%	\$1,320,000,000	88.8%	\$47,300,000	96.0%	(\$57,100,000)	124.3%	(\$17,519,000)	112.0%
2003-04	\$7,533,000,000	83.7%	\$1,855,000,000	84.5%	\$138,100,000	89.0%	(\$50,500,000)	121.3%	(\$9,967,000)	107.0%
2004-05	\$9,995,000,000	79.3%	\$2,503,000,000	79.8%	\$210,000,000	83.8%	(\$35,000,000)	114.4%	(\$2,806,000)	102.0%
2005-06	\$6,141,000,000	87.5%	\$1,909,000,000	85.1%	\$181,700,000	86.9%	(\$39,100,000)	116.0%	(\$940,000)	101.0%
2006-07	\$5,771,000,000	88.7%	\$1,818,000,000	86.2%	\$192,700,000	86.7%	(\$53,900,000)	121.8%	(\$4,437,000)	103.0%
2007-08	\$8,931,000,000	83.6%	\$2,363,000,000	82.8%	\$230,600,000	84.6%	(\$56,700,000)	123.0%	(\$590,000)	100.0%
2008-09	\$11,982,000,000	78.9%	\$3,127,000,000	78.0%	\$295,900,000	80.7%	(\$50,70,000)	120.7%	\$5,631,000	97.0%
2009-10	\$17,633,400,000	71.1%	\$4,078,100,000	72.6%	\$392,300,000	75.4%	(\$32,700,000)	113.0%	\$13,741,000	92.0%
2010-11	\$22,389,000,000	64.7%	\$5,385,000,000	65.5%	\$489,800,000	69.9%	(\$15,100,000)	106.0%	n/a	n/a

Notes: FY 2010-11 Total Accrued Unfunded Liability for the four retirement systems (other than LRS) equals \$28,248,700,000. Negative numbers in the unfunded liability column represent surplus assets in a retirement system.

Table 9

TOTAL ACCUMULATED HEALTH UNFUNDED LIABILITIES										
Fiscal Year	MPSERS*		STATE EMPLOYEES		STATE POLICE		JUDGES		LEGISLATIVE	
	Unfunded Liability	Funded Ratio								
2005-06	\$24,757,000,000	2.5%	\$13,499,000,000	0.0%	\$944,400,000	0.0%	\$6,400,000	0.0%		
2006-07	\$24,957,000,000	3.0%	\$12,966,000,000	0.0%	\$918,100,000	0.0%	\$6,600,000	0.0%		
2007-08	\$25,979,000,000	3.1%	\$13,542,000,000	0.0%	\$963,000,000	0.0%	\$6,700,000	0.0%	\$118,309,000	11.0%
2008-09	\$27,582,000,000	2.5%	\$12,618,000,000	0.0%	\$882,300,000	0.0%	\$6,600,000	0.0%	\$122,282,000	11.0%
2009-10	\$27,627,200,000	3.5%	\$14,666,400,000	0.0%	\$1,055,900,000	0.0%	\$7,400,000	0.0%	\$139,373,000	10.2%
2010-11	\$25,890,000,000	4.3%	\$14,251,000,000	0.0%	\$994,700,000	0.0%	\$7,900,000	0.0%	n/a	n/a

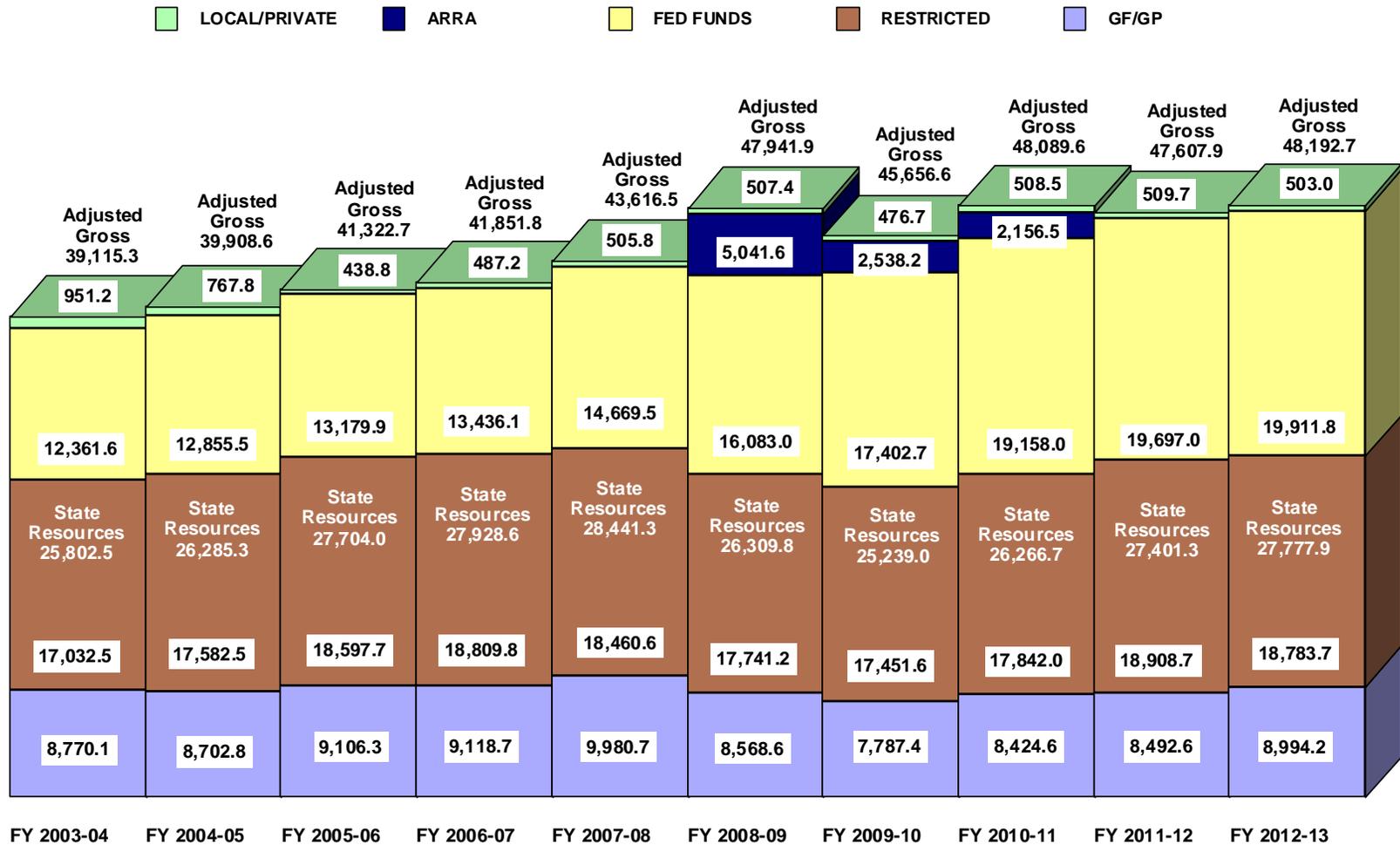
Notes: FY 2010-11 Total Accrued Unfunded Liability for the four retirement systems (other than LRS) equals \$41,143,600,000. The State Employees Retirement System began prefunding retiree health care in FY 2011-12, which will reduce the stated unfunded liability.

* Michigan Public School Employees Retirement System

Recent State Appropriation History

Figure 25

State Of Michigan Appropriations by Fund Source Year-To-Date (Millions of Dollars)



Notes: Adjusted Gross = Total appropriations for all departments. State Resources = State restricted + GF/GP appropriations. Does not include BSF appropriations of \$362.7 million and \$140 million for FYs 2011-12 and 2012-13, respectively.

Senate Fiscal Agency, September 5, 2012

Table 10

ADJUSTED GROSS APPROPRIATION HISTORY (Millions of Dollars)			
Fiscal Year	Appropriations	Dollar Change	Percent Change
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	39,908.5	793.2	2.0
2005-06	41,322.7	1,414.2	3.5
2006-07	41,851.8	529.1	1.3
2007-08	43,616.5	1,764.7	4.2
2008-09	47,941.9	4,325.4	9.9
2009-10	45,656.6	(2,285.3)	(4.8)
2010-11	48,089.6	2,433.0	5.3
2011-12	47,642.3	(447.3)	(0.9)
2012-13	48,228.8	586.5	1.2
Change FY 2002-03 to FY 2012-13		\$8,675.7	21.9%

Table 11

STATE SPENDING FROM STATE RESOURCES APPROPRIATION HISTORY (Millions of Dollars)			
Fiscal Year	Appropriations	Dollar Change	Percent Change
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	28,441.3	512.7	1.8
2008-09	26,309.8	(2,131.5)	(7.5)
2009-10	25,239.0	(1,070.8)	(4.1)
2010-11	26,266.7	1,027.7	4.1
2011-12	27,417.8	1,151.2	4.4
2012-13	27,811.8	393.9	1.4
Change FY 2002-03 to FY 2012-13		\$1,791.3	6.9%

Table 12

GENERAL FUND/GENERAL PURPOSE APPROPRIATION HISTORY (millions of dollars)			
Fiscal Year	Appropriations	Dollar Change	Percent Change
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	8,702.8	(67.3)	(0.8)
2005-06	9,106.3	403.5	4.6
2006-07	9,118.7	12.4	0.1
2007-08	9,980.7	862.0	9.5
2008-09	8,568.6	(1,412.1)	(14.1)
2009-10	7,787.4	(781.2)	(9.1)
2010-11	8,424.6	637.2	8.2
2011-12	8,492.6	68.0	0.8
2012-13	9,009.2	516.6	6.1
Change FY 2002-03 to FY 2012-13		\$178.3	2.0%

Table 13

SCHOOL AID FUND APPROPRIATION HISTORY (Millions of Dollars)			
Fiscal Year	State-Funded Appropriations	Dollar Change	Percent Change
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	10,675.1	(422.7)	(3.8)
2010-11	10,803.4	128.3	1.2
2011-12	11,088.9	285.5	2.6
2012-13	11,243.5	154.6	1.4
Change FY 2002-03 to FY 2012-13		(\$91.1)	(0.8%)

Table 14

FEDERAL FUNDS APPROPRIATED IN MICHIGAN BUDGET (Millions of Dollars)			
Fiscal Year	Federal Funds	Adjusted Gross Appropriations	Federal as Percent of Total Adjusted Gross
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	39,908.5	32.21
2005-06	13,179.9	41,322.7	31.89
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	47,941.9	44.06
2009-10	19,940.9	45,656.6	43.68
2010-11	21,314.5	48,089.6	44.32
2011-12	19,709.8	47,642.3	41.37
2012-13	19,913.9	48,228.8	41.29
Percentage Change FY 2002-03 to FY 2012-13	62.9%	21.9%	

Table 15

APPROPRIATED FULL-TIME EQUATED POSITIONS (FTEs) IN MICHIGAN STATE BUDGET			
Fiscal Year	FTEs	Change	Percent Change
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	55,603.2	(887.9)	(1.6)
2010-11	56,095.3	492.1	0.9
2011-12	55,153.7	(941.6)	(1.7)
2012-13	53,512.4	(1,641.3)	(3.0)
Change FY 2002-03 to FY 2012-13		(9,247.8)	(14.7%)

Table 16

STATE SPENDING FROM STATE RESOURCES APPROPRIATIONS TOTAL COMPARED IN SELECTED BUDGET AREAS (Millions of Dollars)				
Department/Budget Area	FY 2002-03	FY 2012-13		Percent Change
	Appropriations	Year-to-Date	Dollar	
		Approps.	Change	
Community Health	\$3,259.4	\$4,975.5	\$1,716.1	52.7%
Corrections	1,655.6	2,008.5	352.9	21.3%
Human Services	1,199.6	1,114.2	(85.4)	(7.1%)
K-12 School Aid	11,334.6	11,243.5	(91.1)	(0.8%)
Community Colleges	310.9	294.1	(16.8)	(5.4%)
Higher Education	1,839.4	1,302.2	(537.2)	(29.2%)
Revenue Sharing	1,451.4	1,096.1	(355.3)	(24.5%)
All Other Programs	4,969.6	5,777.7	808.1	16.3%
Total State Spending	\$26,020.5	\$27,811.8	\$1,791.3	6.9%
Addendum:				
Medicaid Caseload	1,296,000	1,900,000	604,000	46.6%
Prison Population	51,551	43,953	(7,598)	(14.7%)
K-12 Pupil Count	1,714,867	1,541,500	(173,367)	(10.1%)
University Students	246,205	264,903	18,698	7.6%
Community College Students	125,719	176,356	50,637	40.3%
Michigan Personal Income (CY, millions)	\$314,285.1	\$381,293.0	\$67,007.9	21.3%
Detroit Consumer Price Index	182.0	219.6	37.6	20.7%
Note on Prison Population: These "average populations" are taken from the appropriation bill for the respective fiscal year; they do not represent the exact count on any particular date, but demonstrate how many beds are associated with a given appropriation.				
Note on Community College and University Students: Numbers in FY 2012-13 column reflect FY 2010-11 Fiscal Year Equated Students as reported in the Activities Classification Structure (ACS) and Higher Education Institutional Data Inventory (HEIDI).				
Note on K-12 Pupils: FY 2012-13 pupil count is from the May 2012 CREC.				

Table 17

STATE SPENDING: HOW MUCH IS DISCRETIONARY? (Actual Dollars)	
FY 2012-13 Adjusted Gross Appropriation.....	\$48,228,816,300
<u>Constitutional/Statutory Earmarking Requirements:</u>	
School Aid Fund.....	(\$11,243,487,100)
Revenue Sharing	(1,096,096,300)
Transportation.....	(2,188,645,300)
Regulatory Restricted Revenue.....	(797,709,000)
Federal Funding Requirement.....	(19,913,946,100)
Debt Service Payments.....	(397,425,500)
Caseload/Inmate Driven.....	(8,098,196,100)
Balance for Discretionary Spending.....	\$4,493,310,900