



FY 2007-08
APPROPRIATIONS REPORT
Part I - Governor's Recommendations

March 2007



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2. To provide written analyses of all Senate bills, House bills, and Administrative Rules considered by the Senate.
3. To review and evaluate proposed and existing State programs and services.
4. To provide economic and revenue analysis and forecasting.
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OVERVIEW

Governor Granholm, on February 8, 2007, transmitted her fiscal year (FY) 2007-08 State Budget Message to the Legislature. The Governor's FY 2007-08 budget contains recommendations for \$42.6 billion of Adjusted Gross appropriations. Included in this appropriation total are \$13.6 billion of Federal funds, \$18.9 billion of State Restricted funds, \$482.7 million of local and private funds, and \$9.6 billion of General Fund/General Purpose (GF/GP) appropriations. Table 1 and Figure A provide summaries of the overall makeup of the FY 2007-08 appropriations recommended by the Governor.

Tables 2-4 and Figures B-D provide department-by-department detail of the Governor's appropriation requests for FY 2007-08 compared with FY 2006-07 year-to-date appropriations. The tables and figures present appropriation data in terms of Adjusted Gross, State Spending From State Resources, and GF/GP appropriations. Adjusted Gross appropriations are defined as total appropriations for each department less funds transferred in from other State departments. State Spending From State Resources appropriations are defined as Adjusted Gross appropriations less appropriations funded with Federal and local and private funds. General Fund/General Purpose appropriations are the residual unrestricted portion of the budget over which the Governor and the Legislature have the most flexibility in establishing appropriation policy. The Governor's budget provides a 2.3% increase in Adjusted Gross appropriations, a 1.8% increase in State Spending From State Resources appropriations, and a 4.2% increase in GF/GP appropriations.

The Governor's Budget Message is based on the consensus revenue estimates agreed to on January 18, 2007. The FY 2007-08 GF/GP consensus revenue estimate is \$7.0 billion. This represents a 14.8% decline from the FY 2006-07 consensus revenue estimate. This 14.8% decline in the GF/GP consensus revenue estimate can be attributed to the statutory elimination of the single business tax (SBT), effective on December 31, 2007. The FY 2007-08 School Aid Fund (SAF) consensus revenue estimate is \$11.5 billion. This represents a 2.7% increase from the FY 2006-07 consensus revenue estimate.

The Governor's budget recommendation also includes GF/GP and SAF revenue above the levels included in the consensus revenue estimates. These proposed revenue adjustments include: increased revenue from a reduction in revenue sharing payments to cities, villages, townships, and counties; the replacement of revenue lost from the elimination of the SBT with a new statewide business tax; the enactment of a 2.0% excise tax on service transactions; an increase in the cigarette excise tax; an increase in the excise tax on other tobacco products; an increase in the liquor markup imposed by the State; and a proposal to enact an estate tax. The Governor's budget also includes a recommended tax reduction by instituting a new sales tax calculation on new automobile purchases that include the trade-in of a used car. These proposed tax policy changes would increase FY 2007-08 revenue above the levels assumed in the consensus revenue estimates by \$2.7 billion. The consensus revenue estimates and the proposed tax policy changes are discussed in more detail in the Economic and Revenue Forecast section of this report.

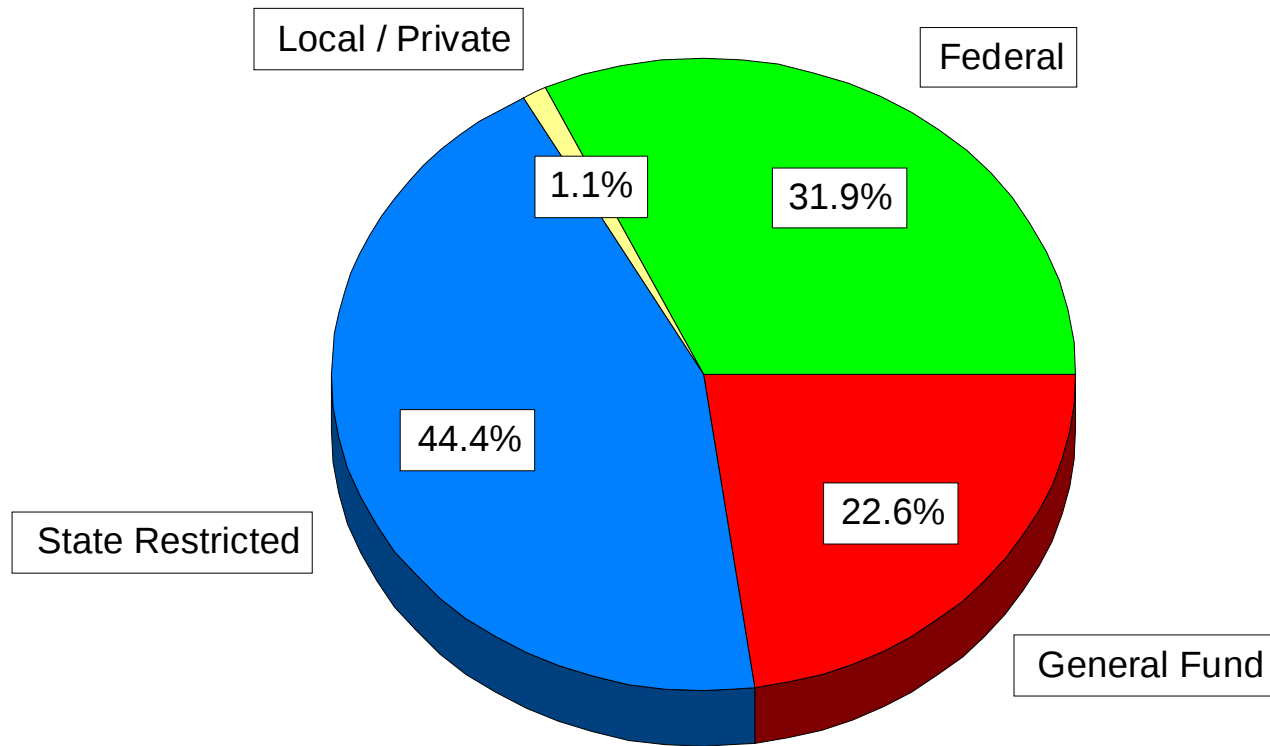
In addition to the detailed revenue and appropriation recommendations for FY 2007-08, the Governor's Budget Message contains a comprehensive set of recommendations to eliminate projected FY 2006-07 deficits in the GF/GP and SAF budgets. These recommendations include revenue increases, accounting changes, appropriation increases to fund projected budget shortfalls, and appropriation reductions. These proposed adjustments to the FY 2006-07 budget are discussed in the FY 2006-07 Budget Balancing Proposal section of this report.

Table 1

FY 2007-08 GOVERNOR'S RECOMMENDATION BY SOURCE OF FUNDS					
Department/Budget Area	Adjusted Gross	Federal Funds	Local & Private Funds	Other State Restricted	General Funds
Agriculture	\$96,940,200	\$21,990,600	\$188,500	\$45,423,700	\$29,337,400
Attorney General	50,392,500	7,913,900	0	9,613,100	32,865,500
Capital Outlay	0	0	0	0	0
Civil Rights	14,490,700	2,054,100	0	0	12,436,600
Civil Service	31,109,500	4,779,100	1,850,000	17,671,800	6,808,600
Community Colleges	297,369,000	0	0	0	297,369,000
Community Health	11,500,087,700	6,440,613,100	311,374,300	1,749,609,600	2,998,490,700
Corrections	2,000,416,600	10,340,700	429,700	57,479,500	1,932,166,700
Education	93,144,700	69,181,000	9,582,700	7,800,500	6,580,500
Environmental Quality	352,552,600	132,274,300	455,100	187,026,800	32,796,400
Executive	5,509,900	0	0	0	5,509,900
Higher Education	1,812,912,700	6,000,000	0	125,800,000	1,681,112,700
History, Arts, and Libraries	47,314,200	7,307,400	112,400	2,645,600	37,248,800
Human Services	4,543,398,900	3,116,678,300	74,295,000	67,528,600	1,284,897,000
Information Technology	0	0	0	0	0
Judiciary	260,708,700	4,626,400	6,252,200	87,892,800	161,937,300
Labor and Economic Growth	1,310,674,600	837,855,300	18,199,000	355,515,200	99,105,100
Legislative Auditor General	14,546,000	0	0	1,539,900	13,006,100
Legislature	116,576,400	0	400,000	1,109,800	115,066,600
Management and Budget	318,010,800	0	0	50,152,200	267,858,600
Military and Veterans Affairs	126,180,800	54,187,500	2,747,200	28,428,600	40,817,500
Natural Resources	283,415,700	44,334,700	3,166,500	211,123,100	24,791,400
School Aid	13,431,028,400	1,410,111,700	0	11,985,916,700	35,000,000
State	187,871,200	1,561,200	100	156,972,900	29,337,000
State Police	537,791,200	146,240,200	9,001,600	113,916,300	268,633,100
Transportation	3,365,255,600	1,200,740,600	42,850,000	2,121,665,000	0
Treasury (Debt Service)	119,986,400	0	0	23,914,500	96,071,900
Treasury (Operations)	390,115,700	36,405,700	1,100,700	298,308,400	54,300,900
Treasury (Revenue Sharing)	1,113,837,600	0	0	1,113,512,000	325,600
Treasury (Strategic Fund)	178,570,900	55,430,700	712,800	75,005,200	47,422,200
Total Appropriations	\$42,600,209,200	\$13,610,626,500	\$482,717,800	\$18,895,571,800	\$9,611,293,100

Figure A

Appropriations by Source of Funds FY 2007-08 Governor's Recommendation



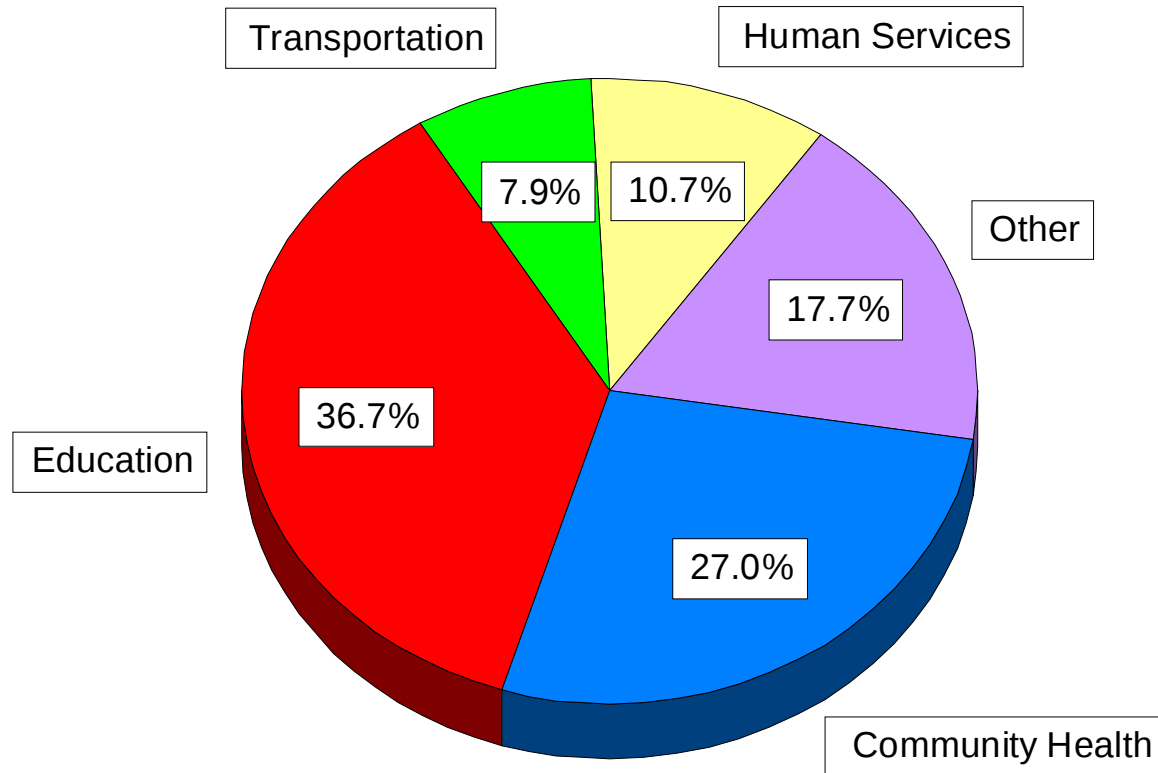
Total = \$ 42,600,209,200

Table 2

Adjusted Gross Appropriations FY 2006-07 Versus Governor's Recommendation				
Department/Budget Area	FY 2006-07 Year-to-Date Appropriations	FY 2007-08 Governor's Recommendation	Dollar Difference	Percent Change
Agriculture	\$103,246,100	\$96,940,200	\$(6,305,900)	(6.1)%
Attorney General	54,618,000	50,392,500	(4,225,500)	(7.7)
Capital Outlay	0	0	0	0.0
Civil Rights	14,020,200	14,490,700	470,500	3.4
Civil Service	30,759,000	31,109,500	350,500	1.1
Community Colleges	289,879,400	297,369,000	7,489,600	2.6
Community Health	11,158,871,300	11,500,087,700	341,216,400	3.1
Corrections	1,939,183,100	2,000,416,600	61,233,500	3.2
Education	90,590,100	93,144,700	2,554,600	2.8
Environmental Quality (Operations)	411,099,900	352,552,600	(58,547,300)	(14.2)
Environmental Quality (CMI Bond)	0	0	0	0.0
Executive	5,509,900	5,509,900	0	0.0
Higher Education	1,787,491,300	1,812,912,700	25,421,400	1.4
History, Arts, and Libraries	54,784,700	47,314,200	(7,470,500)	(13.6)
Human Services	4,465,032,600	4,543,398,900	78,366,300	1.8
Information Technology	0	0	0	0.0
Judiciary	256,864,600	260,708,700	3,844,100	1.5
Labor and Economic Growth	1,207,990,400	1,310,674,600	102,684,200	8.5
Legislative Auditor General	14,546,000	14,546,000	0	0.0
Legislature	116,576,400	116,576,400	0	0.0
Management and Budget	320,848,500	318,010,800	(2,837,700)	(0.9)
Military and Veterans Affairs	121,238,000	126,180,800	4,942,800	4.1
Natural Resources	284,547,300	283,415,700	(1,131,600)	(0.4)
School Aid	13,093,745,100	13,431,028,400	337,283,300	2.6
State	184,793,500	187,871,200	3,077,700	1.7
State Police	546,646,100	537,791,200	(8,854,900)	(1.6)
Transportation	3,441,865,300	3,365,255,600	(76,609,700)	(2.2)
Treasury (Debt Service)	100,158,200	119,986,400	19,828,200	19.8
Treasury (Operations)	375,065,500	390,115,700	15,050,200	4.0
Treasury (Revenue Sharing)	1,085,885,800	1,113,837,600	27,951,800	2.6
Treasury (Strategic Fund)	80,401,200	178,570,900	98,169,700	122.1
Total Appropriations	\$41,636,257,500	\$42,600,209,200	\$963,951,700	2.3%

Figure B

Adjusted Gross FY 2007-08 Governor's Recommendation



Total = \$ 42,600,209,200

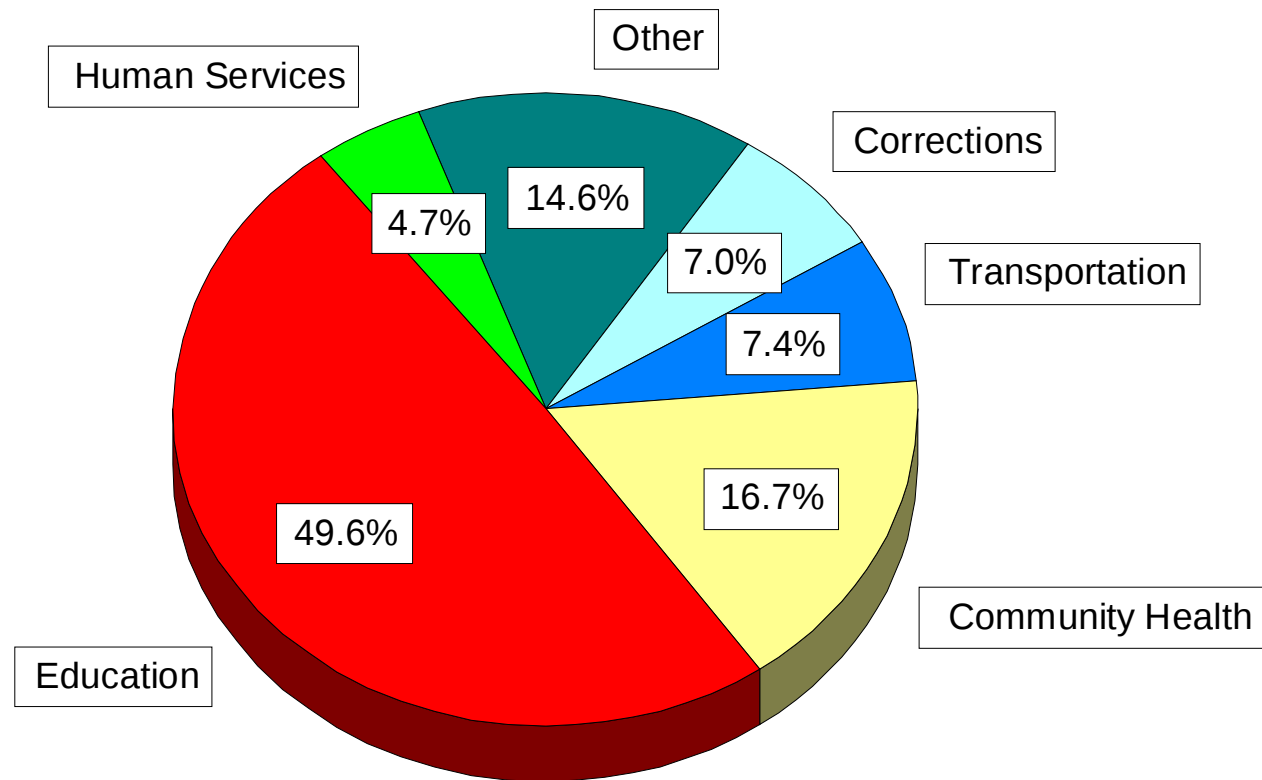
Table 3

State Spending From State Resources FY 2006-07 Versus Governor's Recommendation				
Department/Budget Area	FY 2006-07 Year-to-Date Appropriations	FY 2007-08 Governor's Recommendation	Dollar Difference	Percent Change
Agriculture	\$79,362,300	\$74,761,100	\$(4,601,200)	(5.8)%
Attorney General	44,381,500	42,478,600	(1,902,900)	(4.3)
Capital Outlay	0	0	0	0.0
Civil Rights	12,454,000	12,436,600	(17,400)	(0.1)
Civil Service	24,129,900	24,480,400	350,500	1.5
Community Colleges	289,879,400	297,369,000	7,489,600	2.6
Community Health	4,811,282,300	4,748,100,300	(63,182,000)	(1.3)
Corrections	1,927,330,700	1,989,646,200	62,315,500	3.2
Education	14,119,500	14,381,000	261,500	1.9
Environmental Quality (Operations)	270,361,400	219,823,200	(50,538,200)	(18.7)
Environmental Quality (CMI Bond)	14,411,000	0	(14,411,000)	(100.0)
Executive	5,509,900	5,509,900	0	0.0
Higher Education	1,784,491,300	1,806,912,700	22,421,400	1.3
History, Arts, and Libraries	45,756,400	39,894,400	(5,862,000)	(12.8)
Human Services	1,265,149,900	1,352,425,600	87,275,700	6.9
Information Technology	0	0	0	0.0
Judiciary	247,783,300	249,830,100	2,046,800	0.8
Labor and Economic Growth	394,506,000	454,620,300	60,114,300	15.2
Legislative Auditor General	14,546,000	14,546,000	0	0.0
Legislature	116,176,400	116,176,400	0	0.0
Management and Budget	320,848,500	318,010,800	(2,837,700)	(0.9)
Military and Veterans Affairs	67,092,900	69,246,100	2,153,200	3.2
Natural Resources	238,457,900	235,914,500	(2,543,400)	(1.1)
School Aid	11,682,508,200	12,020,916,700	338,408,500	2.9
State	181,741,300	186,309,900	4,568,600	2.5
State Police	369,171,900	382,549,400	13,377,500	3.6
Transportation	2,225,029,000	2,121,665,000	(103,364,000)	(4.6)
Treasury (Debt Service)	100,158,200	119,986,400	19,828,200	19.8
Treasury (Operations)	338,093,000	352,609,300	14,516,300	4.3
Treasury (Revenue Sharing)	1,085,885,800	1,113,837,600	27,951,800	2.6
Treasury (Strategic Fund)	32,014,200	122,427,400	90,413,200	282.4
Total Appropriations	\$28,002,632,100	\$28,506,864,900	\$504,232,800	1.8%

Figure C

State Spending From State Resources

FY 2007-08 Governor's Recommendation



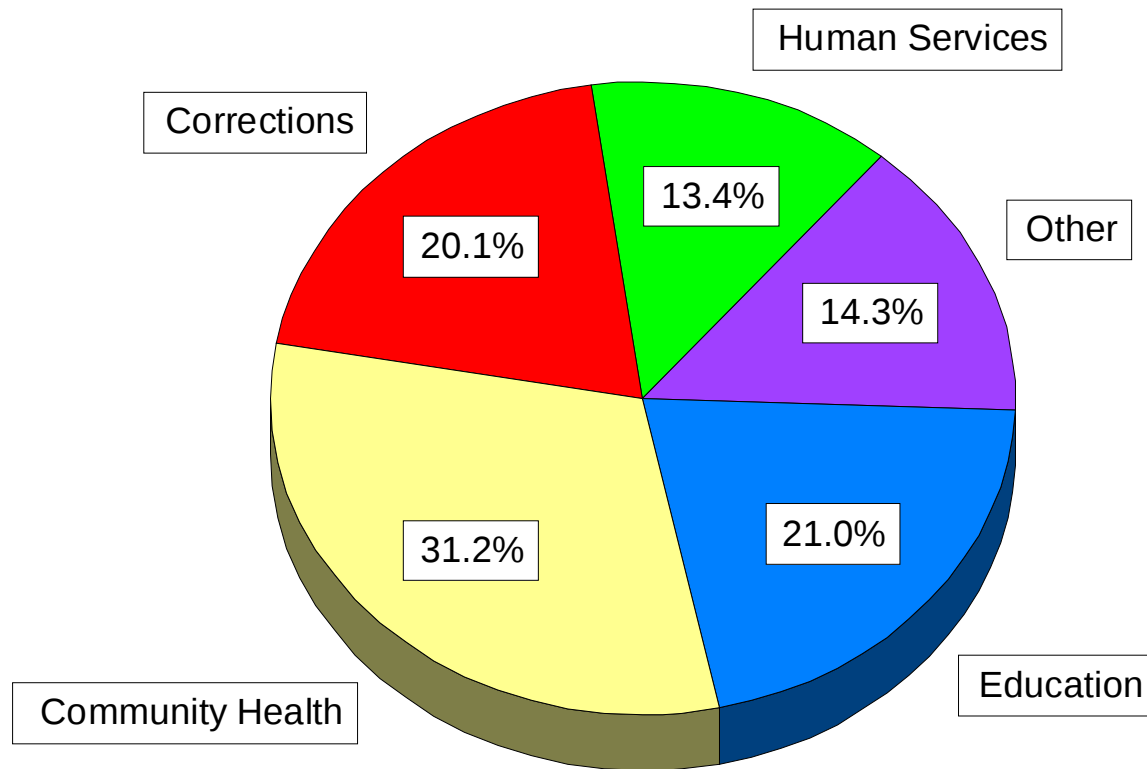
Total = \$ 28,506,864,900

Table 4

General Fund/General Purpose FY 2006-07 Versus Governor's Recommendation				
Department/Budget Area	FY 2006-07 Year-to-Date Appropriations	FY 2007-08 Governor's Recommendation	Dollar Difference	Percent Change
Agriculture	\$30,913,300	\$29,337,400	\$(1,575,900)	(5.1)%
Attorney General	32,896,000	32,865,500	(30,500)	(0.1)
Capital Outlay	0	0	0	0.0
Civil Rights	12,454,000	12,436,600	(17,400)	(0.1)
Civil Service	6,972,400	6,808,600	(163,800)	(2.3)
Community Colleges	289,879,400	297,369,000	7,489,600	2.6
Community Health	2,940,082,700	2,998,490,700	58,408,000	2.0
Corrections	1,858,555,000	1,932,166,700	73,611,700	4.0
Education	6,592,500	6,580,500	(12,000)	(0.2)
Environmental Quality (Operations)	33,828,400	32,796,400	(1,032,000)	(3.1)
Environmental Quality (CMI Bond)	0	0	0	0.0
Executive	5,509,900	5,509,900	0	0.0
Higher Education	1,624,791,300	1,681,112,700	56,321,400	3.5
History, Arts, and Libraries	43,175,200	37,248,800	(5,926,400)	(13.7)
Human Services	1,197,447,900	1,284,897,000	87,449,100	7.3
Information Technology	0	0	0	0.0
Judiciary	160,604,800	161,937,300	1,332,500	0.8
Labor and Economic Growth	47,436,700	99,105,100	51,668,400	108.9
Legislative Auditor General	13,006,100	13,006,100	0	0.0
Legislature	115,066,600	115,066,600	0	0.0
Management and Budget	268,409,600	267,858,600	(551,000)	(0.2)
Military and Veterans Affairs	40,640,200	40,817,500	177,300	0.4
Natural Resources	25,269,600	24,791,400	(478,200)	(1.9)
School Aid	35,000,000	35,000,000	0	0.0
State	19,132,700	29,337,000	10,204,300	53.3
State Police	249,298,700	268,633,100	19,334,400	7.8
Transportation	0	0	0	0.0
Treasury (Debt Service)	76,243,700	96,071,900	19,828,200	26.0
Treasury (Operations)	56,509,700	54,300,900	(2,208,800)	(3.9)
Treasury (Revenue Sharing)	1,104,400	325,600	(778,800)	(70.5)
Treasury (Strategic Fund)	32,009,200	47,422,200	15,413,000	48.2
Total Appropriations	\$9,222,830,000	\$9,611,293,100	\$388,463,100	4.2%

Figure D

General Fund/General Purpose FY 2007-08 Governor's Recommendation



Total = \$ 9,611,293,100

Summary of Major GF/GP Appropriation Changes for FY 2007-08

The Governor's FY 2007-08 GF/GP budget recommendation marks the fifth State budget that Governor Granholm has transmitted to the Legislature. The Governor's budget includes revenue from proposed tax policy changes, fee increases, assumptions concerning the level of Federal funds appropriated, and appropriation increases and decreases.

As previously stated, the Governor's FY 2007-08 GF/GP budget recommendation is built on assumptions as to the level of revenue available to support appropriations. Table 5 provides a summary of the total GF/GP revenue that will be available to support FY 2007-08 GF/GP appropriations. Total GF/GP revenue assumed in the Governor's budget equals \$9.7 billion. This revenue estimate includes \$7.0 billion from the consensus revenue estimate; \$545.3 million from changes in the statutory level of revenue sharing payments to cities, villages, townships, and counties; \$1.2 billion from a proposed Michigan business tax; \$40.0 million from insurance company premium tax changes; \$750.2 million from a 2.0% excise tax on services; \$2.0 million from a transfer of financial institution funds to the General Fund; \$22.8 million from shifting short-term borrowing costs to the School Aid Fund; \$13.0 million from the transfer of transportation economic development revenue to the General Fund; and a \$15.0 million revenue reduction from changes in the treatment of sales tax on new automobile purchases.

Table 5

Governor's FY 2007-08 Budget Recommendation General Fund/General Purpose Revenue Recommendations (Millions of Dollars)	
Consensus Revenue Estimate (January 2007)	\$7,010.0
<u>Revenue Adjustments not Included in the Consensus Estimate:</u>	
Revenue Sharing Adjustments	\$545.3
Michigan Business Tax.....	1,249.4
Insurance Company Premiums Tax.....	40.0
Consumer Services Tax (2.0%).....	226.7
Business Services Tax (2.0%).....	523.5
Sales Tax on the Difference (Auto Purchases)	(15.0)
Financial Institutions Fund Transfer to General Fund	2.0
Shift of Short-Term Borrowing Costs to School Aid Fund.....	22.8
Transportation Economic Development Revenue to General Fund	13.0
Other Tax Policy Changes.....	39.4
Subtotal Revenue Adjustments	\$2,647.1
Governor's GF/GP Revenue Recommendation.....	\$9,657.1

Table 6 provides a comparison of the Governor's recommended level of FY 2007-08 GF/GP appropriations with the year-to-date level of FY 2006-07 GF/GP appropriations. The Governor's recommendation represents a \$388.5 million increase in GF/GP appropriations. This net change in GF/GP appropriations can be best characterized by funding increases, funding reductions, and funding shifts. Actual funding increases in State programs total \$695.8 million in the Governor's budget recommendation. Program reductions in the Governor's budget recommendation total \$335.6 million. Funding shifts, defined as changes in the level of overall GF/GP appropriations that do not affect the actual level of a program, total \$28.3 million.

Table 6 FY 2007-08 Governor's Appropriation Recommendation Major Proposed Changes from FY 2006-07 Year-to-Date General Fund/General Purpose Appropriations (Millions of Dollars)	
FY 2006-07 Year-to-Date Appropriations	\$9,222.8
FY 2007-08 Governor's Appropriation Recommendations.....	<u>9,611.3</u>
Net Increase in Appropriations	\$388.5
 Total Funding Increases.....	 \$695.8
Total Funding Reductions	(335.6)
Total Fund Shifts.....	<u>28.3</u>
Total GF/GP Funding Change	\$388.5

Table 7 provides a summary of the \$695.8 million of GF/GP appropriation increases included in the FY 2007-08 budget recommendation. These appropriation increases can be grouped into four broad categories. First are increases dealing with caseload and general cost increases. Included in this group are funding increases in the Medicaid program in the Department of Community Health, program expansions in the Department of Corrections, and caseload increases in the Family Independence Program in the Department of Human Services. The second broad category is debt service obligations on State-issued general obligation bonds. The third type of increase involves recommended 2.5% funding increases for community college and university operations. The fourth broad category is Civil Service pay and fringe benefit adjustments for State employees.

Table 8 provides a summary of the \$335.6 million of GF/GP appropriation reductions contained in the Governor's budget. The largest reduction, \$92.0 million, is savings in the Department of Corrections from the reduction in prison population resulting from reductions in intake and the early release of certain prisoners. Other major funding reductions include savings in the Department of Human Services from proposed changes in day care funding and cost savings from the implementation of Family Independence Program policy changes designed to move clients into the workforce. The Governor also has recommended the elimination of the tuition grant program in the Higher Education budget. This program provides for needs-based scholarships for Michigan students attending independent colleges.

Table 7
FY 2007-08 Governor's Appropriation Recommendation
General Fund/General Purpose Major Funding Increases
(Millions of Dollars)

<u>Department/Program</u>	
Agriculture	
Buy Michigan Promotion.....	\$0.5
Community Colleges	
Operations Funding Increase (2.5%)	7.1
Wayne County Community College Adjustment	0.2
Renaissance Zone Reimbursements	0.2
Community Health	
Medicaid Caseload/Utilization/Inflation.....	98.1
Medicaid Rates for HMOs and Community Mental Health	52.0
Medicaid Long-Term Care Expansion.....	14.2
Corrections	
Funding of Additional Beds.....	28.1
Prisoner Re-entry Program Expansion.....	20.6
Pharmaceutical Costs.....	10.4
Correctional Officer Training School	2.7
Correctional Facilities Staffing and Adjustments.....	7.0
Field Operations	1.3
Various Other Funding Adjustments	12.4
Higher Education	
Operations Funding Increase (2.5%)	36.6
Tuition Incentive Program	7.1
Human Services	
Family Independence Program Caseload.....	82.4
State Disability Assistance Caseload	3.6
Adoption Subsidy Caseload	11.0
Jobs Education and Training Program	16.1
Information Technology - Bridges Project	9.3
Child Welfare Program Expansions	35.0

<u>Department/Program</u>	
Labor and Economic Growth	
No Worker Left Behind Program	40.0
Michigan Nursing Corps	15.0
Strategic Fund Agency	
Michigan Promotion Program.....	10.0
Alternative Energy Initiative.....	7.0
Treasury	
General Obligation Bond Debt Service	19.9
Neighborhood Enterprise Zones	0.2
Renaissance Zone Reimbursements.....	0.5
Revenue Enhancement Program.....	0.4
Departmentwide Economic Adjustments	
Wage and Salary Increases	76.1
Employee Insurance Costs	30.1
Retirement Contributions.....	39.7
All Other Economic Adjustments.....	1.0
Total Major Funding Increases	\$695.8

Table 8
FY 2007-08 Governor's Appropriation Recommendation
General Fund/General Purpose Major Funding Reductions
(Millions of Dollars)

<u>Department/Program</u>	
Agriculture	
Elimination of Local Soil Conservation District Grants	\$(1.5)
Community Health	
Disproportionate Share Hospital Payments	(2.1)
Medicaid Long-Term Care Reductions.....	(14.4)
Healthy Michigan Fund Reductions.....	(9.9)
Corrections	
Reduction in Population and Intake of Nonviolent Offenders	(92.0)
Environmental Quality	
Drinking Water Revolving Loan Fund.....	(1.7)
Higher Education	
Elimination of Tuition Grant Program	(58.8)
Reduction of Cooperative Extension Service (9.1% Reduction)	(2.7)
History, Arts, and Libraries	
State Aid to Libraries (50.0% Reduction)	(6.1)
Book Distribution Center Funding	(0.4)
Human Services	
Foster Care Program	(8.1)
Day Care Funding Reductions	(28.6)
Family Independence Program Policy Changes	(60.4)
Legal Support Contracts.....	(0.7)
Food Stamp Reinvestment	(4.0)
Indigent Burial Rate (25.0% Reduction)	(1.5)
Child Support Payments to Friend of the Court	(2.0)
Teenage Parent Counseling Program.....	(3.5)

<u>Department/Program</u>	
Human Services (continued)	
Community Action Agency Funding	(2.3)
Before- and After- School Programs	(5.0)
Early Retirement Sick Leave Payouts	(1.5)
Elimination of Various Location-Specific Earmarks ...	(3.6)
Management and Budget	
State Building Authority Debt Service	(1.0)
Natural Resources	
Payments in Lieu of Property Taxes	(0.4)
Strategic Fund Agency	
Economic Development Job Training Grants	(1.6)
Treasury	
Qualified Agricultural Loan Payments	(2.5)
Revenue Enhancement Program.....	(1.2)
Statewide Operational Reductions.....	(18.1)
Total Major Funding Reductions	\$(335.6)

Table 9 provides a summary of the \$28.3 million of net GF/GP appropriation increases resulting from the shifting of fund sources that affect the level of GF/GP appropriations, but do not have an impact on the overall size of a program. The largest of these fund source shifts is a \$155.1 million GF/GP appropriation reduction in the Medicaid program resulting from an increase in the Federal Medicaid match rate received by Michigan. This increase in the Medicaid match rate results from the poor performance of the Michigan economy in the past few years compared with other states.

Table 9

FY 2007-08 Governor's Appropriation Recommendation GF/GP Major Funding Shifts to Increase/(Reduce) GF/GP (Millions of Dollars)	
<u>Department/Program</u>	
Community Health	
Medicaid Benefits Trust Fund Revenue Adjustment.....	\$45.4
Limitations on Medicaid QAAP Revenue.....	21.4
Increase in Federal Medicaid Match Rate	(155.1)
Higher Education	
Funding Delay Repayment.....	69.4
Human Services	
Shift of Various Federal Funds to GF/GP	45.5
State Police	
Fire Investigation Fund Shift to Liquor License Revenue.....	(1.6)
At-Post Trooper Fund Shift to Liquor License Revenue.....	(1.0)
At-Post Trooper Fund Shift to GF/GP from Restricted.....	6.0
Executive Direction Fund Shift to Restricted	(0.5)
Support Service Fund Shift to Restricted.....	(0.2)
Criminal Justice Information Center Fund Shift	(1.0)
Total Major Funding Shifts	\$28.3

Summary of Major School Aid Fund Appropriation Changes for FY 2007-08

The Governor's FY 2007-08 SAF budget recommendation is built on assumptions as to the level of revenue available to support appropriations. Table 10 provides a summary of the total SAF revenue that will be available to support appropriations. Total FY 2007-08 SAF revenue assumed in the Governor's budget equals \$13.4 billion. This revenue total includes \$11.5 billion of consensus revenue, \$453.9 million of revenue from various proposed tax policy changes, a \$35.0 million recommended GF/GP grant to the SAF, \$1.4 billion of appropriated Federal aid, and an assumed \$11.3 million surplus of SAF revenue carried forward from FY 2006-07.

Table 10

Governor's FY 2007-08 Budget Recommendations School Aid Fund Revenue Recommendations (Millions of Dollars)	
Consensus Revenue Estimate (January 2007)	\$11,532.9
<u>Recommended Revenue Adjustments Not Included in Consensus Estimate:</u>	
Excise Tax on Services (2.0%).....	580.7
Michigan Estate Tax.....	119.2
Liquor Markup Increase.....	28.9
Industrial and Commercial Property Exemption from Personal Property Tax.....	(203.4)
Expanded Club Keno Lottery Game	15.0
Other Tax Policy Changes	41.8
Sales Tax on the Difference (Auto Purchases)	<u>(128.3)</u>
Subtotal Recommended Revenue Adjustments	\$453.9
<u>Other School Aid Fund Revenue Sources:</u>	
GF/GP Grant to School Aid Fund	35.0
Federal Aid.....	1,410.1
Balance from Prior Fiscal Year	<u>11.3</u>
Subtotal Other Revenue Sources	\$1,456.4
Governor's School Aid Fund Revenue Recommendation.....	<u>\$13,443.2</u>

The Governor's FY 2007-08 appropriation recommendation for the SAF totals \$13.4 billion. This recommended appropriation level represents a \$382.5 million increase from the FY 2006-07 recommended SAF appropriations. Table 11 provides a summary of the details behind this recommended appropriation increase. The basic foundation allowance would increase by \$178 per pupil to \$7,286. The budget recommendation includes \$194.6 million of new funding for a full-day preschool program for educationally at-risk children. The recommendation also eliminates two categorical grant programs that were first funded in FY 2006-07. These categorical grant

programs are the middle school math program and equity payments to certain districts. The equity payments are rolled into the eligible districts' basic foundation allowance. The overall level of FY 2007-08 SAF recommended appropriations represents a 2.9% increase from the FY 2006-07 level.

Table 11

Governor's FY 2007-08 Budget Recommendations K-12 School Aid Appropriation Increases (Millions of Dollars)	
FY 2006-07 Governor's Recommended Appropriations ¹⁾	\$13,048.5
FY 2007-08 Governor's Recommended Appropriations.....	13,431.0
Net Increase in Appropriations	\$382.5
Recommended Appropriation Increases in Existing Programs:	
Basic Foundation Allowance Increase \$178 Per Pupil (2.5%)	\$125.3
Special Education State Cost Increases.....	51.2
Declining Enrollment Payments.....	16.0
MEAP Testing	10.7
Michigan School Readiness Program: Per-Pupil increase	5.4
School Bond Loan Fund Debt Service.....	3.8
Renaissance Zone Reimbursement	3.0
ISD Operational Increase 2.5%	2.0
Health/Science Middle College Grants	2.0
Economics	0.3
Subtotal Appropriation Increases in Existing Programs	\$219.7
Recommended New Categorical Programs:	
Full-Day Preschool for Educationally At-Risk Children	\$194.6
Services Consolidation Incentives	10.0
Subtotal New Categorical Programs.....	\$204.6
Recommended Appropriation Reductions:	
Middle School Math Initiative.....	\$(20.0)
Equity Payment (Rolled into Eligible Districts' Base Funding).....	(20.0)
Conductive Learning Center Study.....	(0.3)
Freedom to Learn: Program Ended	(1.5)
Subtotal Appropriation Reductions	\$(41.8)
Total Recommended Appropriation Changes	\$382.5
1) Assumes enactment of Governor's recommended supplemental changes for FY 2006-07.	

FY 2006-07 Budget Balancing Proposal

In addition to recommending the FY 2007-08 budget, the Governor's FY 2007-08 Budget Message includes a comprehensive proposal to eliminate projected deficits in the FY 2006-07 GF/GP and SAF budgets. This budget deficit elimination proposal includes tax increases, accounting changes, appropriation reductions, and fund shifts.

The Governor is estimating that the FY 2006-07 GF/GP budget is in deficit by \$565.0 million. This projected budget deficit is summarized in Table 12. The projected budget deficit is based on a comparison of current law revenue, enacted appropriations, and the recommendation of supplemental appropriations of \$224.4 million. These recommended supplemental appropriations provide for funding in the Departments of Community Health, Corrections, and Human Services to address funding shortfalls due to cost increases, caseload increases, and Federal funding assumptions. The supplemental appropriation recommendations also include a \$10.0 million GF/GP appropriation in the Department of Treasury to implement a new business tax.

Table 12 FY 2006-07 General Fund/General Purpose Revenue, Expenditures, and Year-End Balance (Millions of Dollars)	
	February 2007 Gov.'s Rec.
Revenue:	
Beginning Balance	\$5.7
Consensus Revenue Estimate	8,230.0
Revenue Sharing Freeze	558.0
Land Sales	46.9
Shift of Short-Term Borrowing Costs to School Aid Fund	22.8
Forensic Center Settlement Revenue.....	7.8
Liquor Purchase Revolving Fund Transfer to General Fund.....	4.0
Consumer Finance Fees Transfer to General Fund.....	7.0
Total Revenue.....	\$8,882.2
Expenditures:	
Enacted Appropriations.....	\$9,222.8
Proposed Supplemental Appropriations	224.4
Total Expenditures.....	\$9,447.2
Projected Year-End Balance	\$(565.0)

The Governor is estimating that the FY 2006-07 SAF budget is in deficit by \$377.4 million. This projected budget deficit is summarized in Table 13. The projected budget deficit is based on a comparison of current law revenue and projected expenditures.

Table 13

FY 2006-07 School Aid Fund Revenue, Expenditures, and Year-End Balance (Millions of Dollars)	
	February 2007 Gov.'s Rec.
Revenue:	
Beginning Balance	\$0.0
Consensus Revenue Estimate	11,230.0
GF/GP Grant	35.0
Federal Aid	1,411.2
Total Revenue.....	\$12,676.2
Expenditures:	
Enacted Appropriations.....	\$13,093.8
Midland Property Tax Case	24.8
Appropriation Lapses	(65.0)
Total Expenditures.....	\$13,053.6
Projected Year-End Balance.....	\$(377.4)

Table 14 provides a summary of the Governor's recommendation to eliminate the \$565.0 million FY 2006-07 GF/GP budget deficit. The projected budget deficit would be eliminated by \$327.4 million of tax increases and the enactment of an Executive Order and a negative supplemental appropriation to reduce appropriations. The appropriation recommendations include savings from a change in the accounting of assets in the State Employees' Retirement System and the delay of a portion of the final State payment to universities. The Governor's budget includes funding to make up this delayed university payment in FY 2007-08.

Table 15 provides a summary of the Governor's recommendation to eliminate the \$377.4 million FY 2006-07 SAF budget deficit. The projected budget deficit would be eliminated by \$191.2 million of tax increases, \$185.0 million from a change in the accounting of assets in the Michigan Public School Employees Retirement System, \$7.5 million in expanded Keno revenue, and a \$5.0 million reduction in appropriations.

Table 14

Proposal to Balance FY 2006-07 General Fund/General Purpose Budget (Millions of Dollars)	
	Feb. 2007 Gov.'s Rec.
Projected Year-End Balance	\$(565.0)
Revenue Increases:	
Consumer Services Tax (2.0%)	\$92.7
Business Services Tax (2.0%)	214.0
Other Tax Policy Changes	14.0
<u>Executive Order 2007-1:</u>	
Transportation Economic Development Revenue to GF/GP	6.0
Corporate Fee Revenue to GF/GP	0.7
Subtotal Revenue Increases	\$327.4
Appropriation Reductions:	
Supplemental Appropriation Reductions	\$72.8
Executive Order 2007-1	166.9
Subtotal Appropriation Reductions	\$239.7
Total Recommended Adjustments to Budget.....	\$567.1
Adjusted Year-End Balance	\$2.1

Table 15

Proposal to Balance FY 2006-07 School Aid Fund Budget (Millions of Dollars)	
	Feb. 2007 Gov.'s Rec.
Projected Year-End Balance	\$(377.4)
Revenue Increases:	
Consumer Services Tax (2.0%)	\$51.5
Business Services Tax (2.0%)	118.8
Liquor Markup Increase	9.4
Other Tax Policy Changes	11.5
Public School Employees Retirement Assets Re-valuation	185.0
Expanded Club Keno Lottery Game	7.5
Subtotal Revenue Increases	\$383.7
Appropriation Reductions:	
Elimination of Various Categorical Grants	\$5.0
Subtotal Appropriation Reductions	\$5.0
Total Recommended Adjustments to Budget.....	\$388.7
Adjusted Year-End Balance	\$11.3

Federal Funds Assumptions

The Governor's FY 2007-08 budget recommendation includes the appropriation of \$13.6 billion of Federal funds. This appropriation level is primarily based on the continuation of Federal appropriation policy currently in place during FY 2007-08. To the extent that the United States Congress adjusts the funding level of Federal aid to the states, this appropriation level will have to be adjusted. The budget recommendation for the Department of Community Health includes the appropriation of \$100.0 million of new Federal funds for the Governor's Michigan First Healthcare proposal, which was originally recommended by the Governor in the FY 2006-07 Budget Message. This program, which is designed to provide expanded health care coverage for low-income families, is contingent on Federal approval.

State Revenue Sharing

The Governor's FY 2007-08 budget recommendation includes the appropriation of \$1.1 billion for revenue sharing payments to cities, villages, and townships. The recommendation for revenue sharing payments to cities, villages, and townships includes a 2.5% increase from the FY 2006-07 level. This 2.5% increase would be used to fund grants to cities, villages, and townships that develop collaborative efforts that achieve greater efficiency in the delivery of essential public services. The details of the types of collaborative efforts that would lead to the increased funding will be determined by the Department of Treasury. Revenue sharing payments to counties would continue to be replaced by special reserve funds. The budget recommendation does contain \$113,600 for payments to Tuscola County, which is expected to exhaust its reserve fund during FY 2007-08. The recommendation eliminates the funding for eligible local units for special census revenue sharing payments.

Proposed Fee Increases

The Governor's budget includes recommendations for \$115.0 million of increased revenue from proposed fee increases. Table 16 summarizes the fee increases. The proposed fee increases include \$4.7 million of revenue from new fees, \$58.3 million from proposed increases in existing fees, and \$52.0 million from the removal of statutory sunsets on existing fees. The majority of the proposed fee increases would have an impact on the Department of Environmental Quality and the Department of Natural Resources.

Unclassified Salaries

The Governor's FY 2007-08 budget recommendation includes no general proposed increases for unclassified employees of the Executive Branch. The only exception is 2.2% salary increases for unclassified employees in the Department of Military and Veterans Affairs due to Federal requirements.

Table 16

Fee Increases Included in Governor's FY 2007-08 Budget		
Department/Budget Area	Type of Fee	Estimate of New FY 2007-08 Revenue
Agriculture	Pesticide Applicator Fees	\$112,000
	Pet Shop License Fees	25,200
	Livestock Operations License Fees	20,500
	Horse Riding Stable License Fees	3,000
	Nursery Stock Fees	381,500
Education	Teacher Certification Fees (various)	\$1,504,400
	Teacher College Review Fees	54,000
Environmental Quality	Air Emissions Fees	\$16,576,000
	Groundwater Discharge Permit Fees	3,084,500
	Hazardous Waste User Fees	2,500,000
	Land and Water Permit Fees	6,200,000
	Mineral Well Regulatory Fees	75,000
	On-Site Wastewater Treatment Fees	598,000
	Pollution Prevention Program Fees	2,400,000
	Solid Waste Surcharge Fees	6,000,000
Human Services	Adult Foster Care/Child Day Care/Child Placing License Fees	\$606,800
Judiciary	Court of Appeals Motion Fees	\$87,500
	Judiciary Local User Fees	1,693,000
Labor and Economic Growth	Corporation Fees	\$6,461,800
	Electrical, Mechanical, Plumbers, Inspectors License Fees	708,600
	Liquor License Fees	5,021,500
	Securities Fees	4,257,700
	License and Regulation Fees	2,611,100
Natural Resources	Hunting and Fishing License Fees	\$16,900,000
State Police	Fingerprint Fees	\$1,500,000
	Commercial Mobile Radio System Fees	700,000
	Liquor License Fees	2,597,500
Treasury	Commercial Mobile Radio System Fees	\$17,982,000
	Liquor License Fees	14,381,000
Total		\$115,042,600
	New Fees	\$4,745,000
	Increases of Existing Fees	58,294,800
	Extensions of Sunsets	52,002,800
	Total	\$115,042,600

Employee Retirement Contribution Rates

The Governor's FY 2007-08 budget recommendation includes several changes to the assumptions used to determine the rates of employer contributions to the State Employees' Retirement System (SERS) and the Public School Employees' Retirement System (PSERS). The FY 2006-07 and FY 2007-08 contribution rates for SERS would be affected by two recommended changes. The first is to value the assets of the system at a market value, instead of the historical method of a five-year average of the value of the assets. The second recommended change to SERS is to pay only interest on the unfunded accrued liability of the system. These changes would reduce the contribution rate for employers, on behalf of defined benefit employees, from 30.3% to 22.46% in FY 2006-07. The projected savings for this change in FY 2006-07 would be recovered from State departments and used to help eliminate a portion of the projected FY 2006-07 GF/GP budget deficit. The contribution rate in FY 2007-08 would go from 33.67% to 30.12% because of these recommended changes. The FY 2006-07 and FY 2007-08 contribution rate for PSERS would be affected by the recommendation to value the assets of the system on a market value. This change would result in a \$185.0 million PSERS payment to the SAF budget in FY 2006-07. This payment would be used to eliminate a portion of the projected FY 2006-07 SAF budget deficit.

State Classified Employee Funding Increases

The Governor's FY 2007-08 budget recommendation includes funding for the FY 2007-08 increases in State Civil Service employee salaries. State Civil Service employees will receive a 2.0% salary increase on October 1, 2007, and a 2.0% salary increase on April 6, 2008. The estimated total cost of this negotiated salary increase is \$109.9 million. Pursuant to Article XI, Section 5 of the State Constitution, these salary increases will take effect unless they are rejected by a two-thirds vote of the Senate and the House of Representatives by April 9, 2007. Table 17 provides a summary of the FY 2007-08 appropriation impacts of these employee compensation costs along with other economic adjustments included in the budget. Funding increases for all economic adjustments total \$227.2 million of Gross appropriations and \$146.9 million of GF/GP appropriations.

Table 17

FY 2007-08 State Budget Recommendation Economic Increases Included in Budget (Millions of Dollars)		
	Gross	GF/GP
Wages and Salaries.....	\$123.5	\$76.1
Employee Insurance Costs	48.0	30.1
Retirement Contributions	54.5	39.7
Worker's Compensation.....	(2.7)	(1.8)
All Other Economics	3.9	2.8
Total Economics	\$227.2	\$146.9
Addendum: The cost of the Civil Service 2.0% salary increase on October 1, 2007, and 2.0% salary increase on April 6, 2008, is \$109.9 million in Gross appropriations. Pursuant to Article XI, Section 5 of the Michigan Constitution, the Legislature within 60 days of the budget submission may reject or reduce increases in the proposed salary increases. The rejection or reduction of the salary increases takes effect only if approved by two-thirds votes of the Senate and the House of Representatives.		

Tobacco Settlement Appropriations

The Governor's FY 2007-08 budget recommendation includes the appropriation of \$289.1 million of tobacco settlement funds from the Merit Award Trust Fund. Table 18 provides a summary of these appropriations. In addition, beginning in FY 2007-08, \$42.9 million of tobacco settlement revenue will be taken off the top of the payment to the State to begin the first year of debt service payments on the \$400.0 million of tobacco securitization bonds used to finance the 21st Century Jobs Fund. The Governor's budget also earmarks an additional \$75.0 million of tobacco settlement revenue to the 21st Century Jobs Fund pursuant to statutory requirements.

Table 18

FY 2007-08 Tobacco Settlement Revenue	
	FY 2007-08 Gov.'s Rec.
<u>Merit Award Trust Fund</u>	
<u>Department/Program</u>	
Attorney General	\$400,000
Legal Services	
Community Health	
Medicaid Base Funding	151,900,000
Nursing Home Personal Needs Allowance	5,000,000
Senior Respite Care Services	5,000,000
Higher Education	
Merit Award Scholarships	60,000,000
Michigan Promise Scholarship	43,500,000
Tuition Incentive Program	6,400,000
Nursing Scholarship Program	4,300,000
Operations Funding	9,500,000
Treasury	
Merit Award/TIP Administration	1,893,000
Michigan Education Savings Program	800,000
Information Technology	415,300
Total Merit Award Trust Fund Appropriations	\$289,108,600
<u>FY 2006-07 Revenue Estimate</u>	
Beginning Balance	\$0
Current Year Revenue	321,400,000
Payment on Securitization Bonds	(42,900,000)
Deposit to 21st Century Jobs Fund	(75,000,000)
Settlement of FY 2005-06 Disputed Revenue	34,600,000
Settlement of FY 2006-07 Disputed Revenue	50,000,000
Net Revenue to Merit Award Trust Fund	288,100,000
Interest Earnings	1,008,600
Total Revenue	\$289,108,600
Projected Year-End Balance	\$0

Department/Budget Areas

Agriculture: The recommendation eliminates funding for the following programs: soil conservation district grants, agricultural statistics program, inter-county drain programs, and the aquaculture and cervid culture program. The overall recommendation is for a 7.3% reduction in Gross appropriations and a 6.5% reduction in GF/GP appropriations.

Attorney General: The recommendation includes \$1.3 million of administrative reductions to be left to the discretion of the Department.

Capital Outlay: The recommendation includes no funding for a Capital Outlay appropriation bill. As a result, approximately \$148.1 million of Federal funds and \$40.6 million of State Restricted funds available to fund capital construction projects are not authorized.

Civil Rights: The recommendation is primarily a continuation budget and includes adjustments in available Federal funds.

Civil Service: The recommendation is primarily a continuation budget, but does include an administrative reduction of \$348,600 to be left to the discretion of the Department.

Community Colleges: The recommendation includes a 2.5% funding increase to all community colleges. A special \$225,000 funding increase is recommended for Wayne County Community College to fully restore a \$450,000 reduction implemented in FY 2003-04. Table 19 summarizes the FY 2007-08 funding recommendation for each community college.

Community Health: The Governor's proposed FY 2007-08 Department of Community Health (DCH) appropriation increases GF/GP expenditures by \$58.4 million. This relatively modest change illustrates the nature of this recommendation, which includes little in the way of significant policy changes or program expansions or reductions.

GF/GP Cost Increases

Medicaid Base Funding. The recommendations include a \$188.4 million Gross, \$98.1 million GF/GP increase in the overall Medicaid base. This figure includes an adjustment in the base allocation for mental health and substance abuse services, Children's Special Health Care Services and the Adult Benefits Waiver. This adjustment in the Medicaid base is built upon an assumed average Medicaid caseload of 1,581,000 individuals in FY 2007-08.

Actuarially Sound Rates. Rates paid to Medicaid HMOs and Community Mental Health (CMH) agencies are increased to meet a Federal mandate that these rates be actuarially sound. Rates paid to Medicaid HMOs would be increased 4.2% (\$87.4 million Gross, \$36.6 million GF/GP) and rates paid to CMH agencies would be increased 2.5% (\$42.8 million Gross, \$15.4 million GF/GP) to meet this requirement.

State Employee Economics. Salary, wage, insurance, and retirement costs for DCH personnel account for an increase of \$26.2 million Gross, \$9.8 million GF/GP in FY 2007-08.

Long-Term Care Policy Changes. The recommendation includes several shifts in Medicaid long-term care policy to increase use of home- and community-based services for eligible Medicaid recipients. The State's Home and Community-Based Waiver Program would be expanded by \$20.0 million Gross, \$8.4 million GF/GP to accommodate an expansion in program slots and an increase in rates paid for these services. Michigan also received a Federal grant to largely finance the cost of identifying current residents of nursing homes who could be cared for in a home-based setting (\$11.8 million Gross, \$3.0 million GF/GP).

GF/GP Cost Reductions

Healthy Michigan Fund. A number of reductions would be made in programs currently financed through the Healthy Michigan Fund. In FY 2007-08, these funds would be used to support the Medicaid base, reducing GF/GP Medicaid expenditures by \$9.9 million GF/GP.

Long-Term Care Savings. The recommendation anticipates savings in Medicaid long-term care through greater use of home-based care. The savings of \$19.2 million Gross, \$6.0 million GF/GP are based upon the assumption that the affected individuals can be cared for in a lower-cost setting than nursing homes. Additionally, the Governor reduces Medicaid nursing home reimbursement by \$20.0 million Gross, \$8.4 million GF/GP. These reductions and assumed savings are used to finance increased participation in the Home and Community-Based Waiver program and other changes in long-term care infrastructure.

Other GF/GP Reductions. Additional reductions of \$45.9 million Gross, \$15.9 million GF/GP are included in the Governor's proposal. The budget assumes GF/GP savings from implementation of a Medicaid estate recovery program (\$10.0 million Gross, \$4.2 million GF/GP), elimination of a Medicaid Disproportionate Share Hospital (DSH) pool (\$5.0 million Gross, \$2.1 million GF/GP), implementation of a policy change reducing the State cost for individuals dually eligible for Medicaid and Medicare (\$10.0 million Gross, \$4.2 million GF/GP), and elimination of a number of minor items included in the FY 2006-07 DCH appropriation.

Fund Source Adjustments

Tobacco Settlement and Tobacco Tax Adjustments. A shortfall in the Medicaid Benefits Trust Fund makes a \$45.4 million GF/GP adjustment in the Medicaid base necessary. A reduction in available tobacco settlement funds also makes a \$13.9 million GF/GP allocation to the Medicaid base necessary.

Federal Match Adjustments. Increases in Michigan's Medicaid match rate from 56.38% to 58.10% and the State Children's Health Insurance Program (SCHIP) match rate from 69.47% to 70.67% create a \$155.1 million GF/GP saving to the State.

HMO and CMH QAAP Adjustment. Federal regulatory changes lowering the maximum provider tax rate from 6.0% to 5.5% will increase GF/GP costs for Medicaid HMO and CMH rates by \$21.4 million GF/GP.

DCH Summary

The Governor's FY 2007-08 budget proposal for DCH may be best described as a continuation budget with several reductions and several program enhancements.

The overriding issue is the Medicaid budget, which continues to grow, with a projected caseload of 1,581,000 in FY 2007-08, almost a 50% increase over the caseload at the start of the decade.

Base Medicaid costs for all Medicaid services are projected to increase by just over \$100.0 million GF/GP. When combined with the requirement for actuarial soundness in managed care rates, the cost increase is over \$150.0 million GF/GP. There are no rate increases for any of the fee-for-service providers.

This cost increase may be underestimated as the Governor's budget continues to reflect the assumptions that Congress will adopt legislation allowing states to capture pharmaceutical rebates earned by Medicaid managed care organizations. The budget assumes implementation of this statutory change by April 1, 2007, even though there is no indication that such legislation will pass in the next few weeks. If this legislation is not adopted, Medicaid costs will increase by another \$50.0 million GF/GP.

Fund source shortfalls continue to be an issue in Medicaid, as both the Medicaid Benefits Trust Fund and the Merit Award Trust Fund will have less revenue, leading to a cost increase of almost \$60.0 million GF/GP. A reduction in the maximum Quality Assurance Assessment Program (QAAP) tax rate from 6.0% to 5.5% will increase costs another \$21.0 million GF/GP.

In all, Medicaid caseload and fund source cost increases in FY 2007-08 will total at least \$230.0 million GF/GP and likely will be closer to \$280.0 million GF/GP unless Congress takes action on pharmaceutical rebates sometime this year.

There is one very significant piece of good news, as the Medicaid match rate will increase from 56.38% to 58.10%, which will reduce GF/GP costs by \$155.0 million. This match rate increase greatly alleviates the cost pressures faced by the Medicaid program.

Another issue involving Federal action, which does not have any GF/GP implications, is the potential approval of the Michigan First Healthcare proposal. The State is seeking \$1.0 billion in Federal money to expand health care coverage to an estimated 550,000 uninsured residents. Discussions between the Granholm Administration and the Bush Administration have been ongoing and the FY 2007-08 budget continues to include placeholder funding of \$100.0 million (all Federal) for the program.

Among the reductions are implementation of Medicaid Estate Recovery, elimination of the new DSH pool, and a policy change resulting in Medicaid no longer making outpatient copayments for those dually eligible for Medicaid and Medicare.

The recommendation also includes significant reductions and assumed savings in long-term care. These savings are used to fund expansion of community-based programs. The Governor's budget proposes reducing the increase in the nursing home variable cost limit by 1.8%, which equates to a reduction of \$20.0 million Gross to nursing homes. The funding from this provider rate reduction then would be used to expand the Home and Community-Based Waiver program by a similar amount.

Among the more notable reductions is an \$11.7 million Gross reduction in Healthy Michigan Fund programming. These cuts would include the elimination of funding for cardiovascular programming, osteoporosis, arthritis, Parkinson's, Huntington's, dental programs, childhood lead, the Michigan Model, and the Nurse Family Partnership. Major reductions of over 50.0% would be made to cancer prevention and control, smoking prevention, and the diabetes and kidney program.

The net result of all of these changes is a budget that increases by \$58.4 million GF/GP, or just about 2.0%, from FY 2006-07 to FY 2007-08.

Corrections: The recommendation includes a Gross increase of 3.2% and a GF/GP increase of 4.0%. The Gross net increase of \$61.3 million includes \$84.9 million in economic increases, which are partially offset by reductions elsewhere. Fiscal Year 2007-08 marks the first year the proposed Michigan Department of Corrections Gross appropriation is greater than \$2.0 billion. The budget also includes organizational changes and \$11.1 million in various funding increases that would make the appropriation more congruent with actual departmental operations. The appropriation would fund 1,400 new beds and authorize 404.2 additional full-time equated positions (FTEs). However, most of these beds already came online, or will come online, during FY 2006-07. A supplemental appropriation request addresses funding needs for these additional beds. Assuming that no reductions in prison intake or increases in prison exits occur, the prison and camp system is expected to run out of beds during the first quarter of FY 2007-08.

Policy Proposals

Policy options to address the run-out-of-beds date include modifying sentencing guidelines to reduce intake, amending Truth-in-Sentencing in order to allow the release of prisoners who have not yet served their full minimum sentence, paroling additional prisoners, and commuting prisoners' sentences. The Governor's budget includes a net \$92.0 million GF/GP reduction based on proposed amendments to the applicable statutes. Under the plan, the sentencing guidelines would be amended to move certain nonviolent offenders out of straddle cells and into intermediate sanction cells. Judges are not supposed to sentence offenders in intermediate sanction cells to prison; instead, they are sentenced to jail, probation, or other community-based treatment and sanctions. The Governor's proposal does not include details on the specific offenses that would be affected. The budget includes additional funding for supervising these offenders in the community, and the net savings for this measure would be \$37.0 million. The Governor also did not recommend an appropriation for the County Jail Reimbursement Program and left it as a placeholder. If sentencing guidelines are amended in any manner, offender eligibility for this program and other community corrections programs may be affected.

The recommendation also proposes to amend statute in order to release offenders currently in prison for the offenses that would be subject to sentencing adjustments described above. Funding is included for these offenders to go through the Michigan Prisoner Re-entry Initiative (MPRI) and then be placed on electronic monitoring in the community. The net saving for this measure is \$55.0 million.

Additionally, the recommendation proposes to review medically fragile prisoners, foreign nationals who would be deported after their release, parolable lifers, and nonviolent geriatric prisoners for parole or commutation consideration. The budget recommendation does not include savings for this measure.

Budgetary Options

High prison intake and low prison exits are addressed in the budget through the MPRI. The goal of the program is to better prepare prisoners for re-entry into the community, which should increase the parole rate and reduce the number of parolees who are returned to prison. The budget proposes an additional \$20.6 million in order to operate the program statewide and \$1.5 million for MPRI-related staff for the Parole Board and at the correctional facilities.

Education: The recommendation eliminates FY 2006-07 funding for the former Lansing School for the Blind and increases Federal funding for the Michigan School for the Deaf. Restricted revenue increases in teacher certification fees would fund upgrades of the teacher licensing database.

Environmental Quality: The recommendation represents a 14.2% reduction in Adjusted Gross appropriations and a 3.1% reduction in General Fund appropriations. The decrease in the recommended Adjusted Gross amount reflects the removal of one-time appropriations in FY 2006-07 of \$65.0 million in bond revenue for environmental cleanup projects and planning grants for wastewater treatment construction projects. The General Fund reduction in the budget is largely from a reduction of \$1,691,400 in the State match to Federal funding for the Drinking Water Revolving Loan Fund. There are enough residual interest dollars in the Fund that can be recharacterized to qualify as the State's required 20.0% match, so the State would still receive the full amount of Federal dollars available. The budget proposal includes six fee increases and two new fees for permit programs. A total of \$30.3 million in the budget depends on enactment of the fee proposals, including the postponement of sunset dates.

Executive: The recommendation includes no funding changes from FY 2006-07.

Higher Education: The recommendation includes an increase of 2.5% for each State university for a total increase of \$36.6 million, and for the fifth consecutive year, the Governor proposes to eliminate the \$58.8 million for need-based Tuition Grants for students at independent colleges and universities. The \$33.8 million funding level for the Agricultural Experiment Station (AES) remains unchanged while the \$29.2 million appropriation for the Cooperative Extension Service (CES) is reduced by \$2.7 million or 9.1%. There is a \$24.2 million reduction in the Michigan Merit Award Trust Fund appropriation to reflect the change in the payment schedule for the new Michigan Promise Grant.

The recommendation includes two separate appropriation bills for Higher Education: one bill for Michigan State University, University of Michigan-Ann Arbor, and Wayne State University which are characterized as "research universities"; and a separate bill for the other 12 universities and grants and financial aid. The recommendation includes an increase of \$7.1 million for the Tuition Incentive Program (TIP) due to a caseload increase; \$3.0 million in new Federal funds for Project Gear-Up, which provides scholarships to academically at-risk students; and elimination of the \$5.0 million MiLEAD line item, which is now a work project. The recommendation also includes a one-time payment of \$69.4 million to restore payments to universities, AES, and CES that are proposed to be delayed in FY 2006-07. Table 20 provides a summary of the recommendation; the dollar and percent changes in the table do not include the restoration of the FY 2006-07 delayed payment.

History, Arts, and Libraries: The recommendation eliminates the grant to book distribution centers and reduces State aid to libraries by 50.0%. State arts and cultural grants are funded at the FY 2006-07 level.

Human Services: The recommendation includes major changes reflected in caseload increases, revenue shortfalls, fund shifts, and program reductions to produce savings. The caseload changes include increases of 18,165 cases in the Family Independence Program (FIP), 567 Adoption cases, and 590 State Disability Assistance cases. The budget also includes \$5.0 million Gross, GF/GP for a 2.56% increase in the Child Care Fund spending. There are reductions in Foster Care payments of 30 cases and a 36-cent reduction per recipient in the State Supplement for Supplemental Security Income (SSI) payment rate. Major fund shifts include adding State funds to replace a \$26.3 million shortfall in Temporary Assistance to Needy Families (TANF) funding, \$16.7 million in Child Support Title IV-D, and \$3.3 million less in public assistance recoupment revenue. However, the budget includes the replacement of State funds with \$6.4 million in Title XIX (Medicaid) Federal Medical Assistance Percentage (FMAP), Crime Victim's Rights funds, and increased licensing fees, and \$10.0 million in Workforce Investment Act funds.

The major program increases include \$18.0 million Gross, \$16.0 million GF/GP for the Jobs, Education and Training (JET) Program to be expanded statewide, \$14.0 million Gross, \$9.3 million GF/GP for the Bridges technology benefit distribution system, and \$39.5 million Gross, \$35.0 million GF/GP for Child Welfare improvements, including 257 FTEs in order to reduce the backlog in out-of-home placements and licensing requirements and program management. The major program reductions include (\$84.0 million) Gross, GF/GP for Day Care Services policy changes, including the reduction of allowable reimbursed hours from 100 to 90 per pay period per child and 5,100 fewer FIP open cases and 5,000 more case closures. A new program for Day Care case reading reviews is expected to generate \$5.0 million in savings. The budget proposal includes TANF fund reductions to Community Action Agencies of \$2,350,000, Marriage and Fatherhood Initiatives of \$3.2 million, elimination of the 3.0% runaway and homeless youth contract FY 2006-07 rate increase, and other legislative priorities. The major program closures include Teenage Parent Counseling, Black Child and Family Institute, and Before- and After-School Programs.

Information Technology: The recommendation reflects a gross increase of \$31,738,100 or 8.39%, all of which is interdepartmental grant (IDG) funding. The Department of Information Technology (DIT) has worked with the agencies it serves to make reductions of \$47,000 in FY 2006-07 and \$443,700 in FY 2007-08. Additionally, several departments have further reduced their information technology expenses. The Department of Human Services (DHS) budget contains a scheduled increase of \$14.0 million for the Integrated Services Delivery Project, of which \$9,332,400 is GF/GP and \$4,667,600 is Federal funding. The recommendation transfers

out 2.0 FTEs to the DHS and 1.0 FTE to Treasury and adds 1.0 FTE for retirement services. The Juvenile Justice Information System also is transferred to DIT from the DHS. Additionally, the recommendation contains \$6,342,100 for employee economics.

Judiciary: The recommendation includes full-year funding for four additional circuit court judgeships and the conversion of seven part-time probate judges to full-time in January 2007. State restricted funding is increased for trial court automation and for the drunk driving case flow program. The recommendation also includes \$750,000 of administrative reductions to be left to the discretion of the court.

Labor and Economic Growth: The recommendation includes two new funding proposals. The first, titled No Worker Left Behind, is a program that would provide training to unemployed workers. Recipients of the program would receive free tuition for up to two years at a Michigan community college or an approved training provider. Fields of study would be limited to those determined to be necessary for employment in a high-demand occupation, an emerging industry, or entrepreneurship program. Recipients would be eligible to continue to receive unemployment benefits during training. Funding for this program would be \$37.0 million of Federal Workforce Investment Act (WIA) funds and \$40.0 million GF/GP.

The second, titled the Michigan Nursing Corps, would allocate \$15.0 million GF/GP over three years. The funding would be used to cover the cost of tuition, stipends, and other education-related expenses. Eligible institutions include Michigan universities and community colleges with existing accredited nursing Baccalaureate and Master's education programs. The institutions could receive one or more grants for a Master's degree nursing faculty program, a Doctoral degree nursing faculty program, a clinical instructors for nursing education program, and an accelerated second Bachelor's degree program for registered nurses. Eligible students for the faculty education programs would have to be registered nurses, and all participants would have to agree to be employed in Michigan after graduation. The program would be run cooperatively with the Department of Community Health.

The recommendation also assumes an increase in the liquor license fees similar to the proposal that was offered in FY 2006-07. The estimated revenue that would be generated would total \$22.0 million, of which \$14.3 million would be used to support public safety grants in the Department of Treasury, and \$2.3 million would be used to support at-post troopers and the Fire Investigation Unit in the Department of State Police. The remaining \$5.0 million would be used to support fund shifts from GF/GP or similar sources in the Fire Services Bureau and the Fire Protection Grants.

The budget proposes additional fee increases for some new occupations and the elimination of the 2007 sunsets on fee increases for other occupational licenses that were enacted in 2004.

A fund shift in the Welfare-to-Work line of \$10.0 million from TANF to Federal WIA funds is included in the budget for FY 2007-08 as well as in an Executive Order and supplemental for FY 2006-07. This change is the result of the overappropriation of the TANF funds in FY 2006-07. Another change to the Welfare-to-Work program includes a new line item called the JET Statewide Expansion. This new line includes a \$13.5 million IDG from the Department of Human Services with accompanying boilerplate language that places a contingency on these funds based on the documented level of savings achieved from the 2007 JET program implemented in half of the State.

Legislative Auditor General: The recommendation includes no funding changes from FY 2006-07.

Legislature: The recommendation includes no funding changes from FY 2006-07.

Management and Budget: The recommendation includes funding increases for the retirement services for data collection and information dissemination. Funding reductions include the business support program and savings in security costs for State buildings resulting from the implementation of new technology.

Military and Veterans Affairs: The recommendation includes the appropriation of Federal funds and fee revenue for the operation of the new Michigan Regional Training Institute at Fort Custer. This site will be a national training site for training and instruction of military and nonmilitary organizations.

Natural Resources: The recommendation represents a 0.38% reduction in Adjusted Gross appropriations and a 1.9% reduction in General Fund appropriations. The General Fund reduction is a result of the removal of one-time appropriations in FY 2006-07, a reduction for payments in lieu of taxes (PILT), and an increase for economic factors. The Governor recommends an increase for hunting and fishing license fees that would raise an additional \$16.9 million to fill a revenue shortfall and create a fund balance to support increasing expenditures in future years. The Governor's proposal also includes \$7.7 million in budget reductions from the Forest Development Fund. This Fund is experiencing declining revenue since it is subject to market demand for timber. The forestry reductions would affect timber treatments, forest regeneration, forest fire-fighting, and administration.

School Aid: On top of building in the FY 2006-07 equity payment of \$23 given to lower-funded districts, the recommended School Aid budget for FY 2007-08 includes a 2.5% increase in the basic foundation allowance (bringing it to \$7,286), which mirrors the 2.5% increase proposed for Community Colleges, Higher Education, and Revenue Sharing. Due to declining pupil enrollments and increasing taxable values, the net State cost to provide this increase is \$104.1 million.

The budget also includes a new program in which districts would be paid their foundation allowance for each educationally at-risk four-year-old enrolled in a full-day preschool program. The appropriation is \$194.6 million, which would provide funding to enroll approximately 26,000 children. The recommendation also proposes to increase the per-pupil funding for children enrolled in the Michigan School Readiness Program, which is a half-day program for educationally at-risk preschoolers. In FY 2006-07, the per-pupil funding is \$3,300, and the budget proposal for FY 2007-08 raises this to \$3,500, costing \$5.4 million.

Other items of note include a near doubling of funding to districts experiencing declining enrollment for the past two years (from \$20.0 million to \$36.0 million), a new \$10.0 million incentive program for districts to establish written cost-sharing agreements with their intermediate districts, additional MEAP testing costs (\$10.7 million), special education costs (\$31.2 million), and elimination of the Middle School Math initiative (\$20.0 million).

The proposed FY 2007-08 budget relies upon \$438.9 million in tax restructuring revenue, along with \$15.0 million in expanded Club Keno revenue. The FY 2007-08 budget also proposes that the rate of districts' payments into the Public School Employees' Retirement

System (PSERS) be reduced to 16.72% applied to payroll, down from the FY 2006-07 rate of 17.74%. However, this reduction would be achieved only if legislation were enacted to revalue the PSERS assets to their fair market value as of September 30, 2006. If this legislation is not enacted and PSERS assets continue to be valued using the five-year smoothing methodology in current statute, then the retirement rate would rise to 18.56%.

State: The recommendation contains fund source adjustments to offset projected shortages in restricted funding from the Transportation Administration Collection Fund. The recommendation also includes operational reductions to reflect vacant positions in various departmental programs.

State Police: The recommendation includes numerous shifts between State Restricted funding sources and GF/GP funding sources. Program reductions recommended include the funding of employees in the forensic science program and reductions in enlisted command positions.

Transportation: The recommendation is a reduction of 2.2% from the FY 2006-07 year-to-date level. The overwhelming majority of the difference is due to expenditure adjustments made based upon anticipated State and Federal revenue. In addition, the recommended budget includes a redirection of \$13.0 million in revenue from the Transportation Economic Development Fund to the General Fund.

Treasury (Debt Service): This recommendation represents a Gross increase of \$19,828,200 or 19.80%. The total increase is all GF/GP dollars, for a GF/GP increase of 26.01%. Of that, \$7,428,200 is for schedule adjustments in current debt service and \$12.4 million is for new issues. The Clean Michigan Initiative has \$8.1 million of new issues and Great Lakes Water Quality has \$4.3 million of new issues. The schedule adjustments break down as follows: a reduction of \$71,800 for Water Pollution Control, an increase of \$1.6 million for Quality of Life, an increase of \$5.0 million for Clean Michigan Initiative, and an increase of \$900,000 for Great Lakes Water Quality.

Treasury (Operations): The recommendation for Treasury Operations represents a Gross increase of \$12.9 million, or 3.20%, and a decrease of \$2.21 million GF/GP, or 3.91%, from FY 2006-07. The recommendation includes \$14.4 million for local public safety grants, which will be funded only if an increase in liquor license fees is enacted. Other increases include \$300,000 for the Cybershame initiative and \$150,000 for the Neighborhood Enterprise Zone Act. The Bureau of State Lottery contains 2.0 new FTEs and an increase of \$150,000, which would allow the Bureau to expand Club Keno locations. Administrative reductions are taken across several line items, with the single largest net cut being \$0.8 million and 5.0 FTEs in the revenue enhancement program. Half of these reductions appear in 2007 Executive Order reductions. The qualified agricultural loan program is removed, due to a scheduled sunset of September 30, 2007. Employee economics are included at a total of \$6.6 million, \$0.8 million GF/GP. The recommended supplemental includes a one-time authorization of \$10.0 million, all GF/GP, to implement the single business tax replacement.

Treasury (Strategic Fund): The recommendation includes the appropriation of \$75.0 million from the 21st Century Jobs Trust Fund to the Michigan Strategic Fund to continue the 21st Century programs, including investments and competitive-edge technology grants and loans. The funds originate as tobacco settlement revenue, and then are deposited into the 21st Century Jobs Trust Fund pursuant to Public Act 232 of 2005.

The recommendation increases the Michigan Promotion Program by \$10.0 million and expands it to business marketing in addition to tourism promotion. The recommendation also includes \$7.0 million to implement the Alternative Energy Initiative, passed by the Legislature as the Service Station Matching Grant program in Public Act 274 of 2006. This program would make grants to service stations that convert or construct facilities to pump E85 or biodiesel fuel.

In addition, the recommendation renames the Economic Development Job Training grant program as the Upper Hand Training program and reduces funding by 16.3% or (\$1,600,500) GF/GP to \$8,197,500. The focus of the program would change to training in order to address the specific needs of businesses in life sciences, advanced automotive, manufacturing and materials technology, homeland security, alternative energy, and other high-technology businesses. Community colleges would receive at least \$4.5 million of the funding. The program would be amended to add businesses that create at least 100 jobs at a single location to the eligible recipients of the remaining funds.

Table 21 provides detail for the Governor's FY 2007-08 Gross and GF/GP appropriation changes to FY 2006-07.

Table 19

FY 2007-08 Community College Appropriations: Governor's Recommendation				
College	FY 2006-07 Enacted PA 341 of 2006	FY 2007-08 Governor's Recommendation	Dollar Change	Percent Change
Alpena Community College	\$4,904,800	\$5,027,400	\$122,600	2.5%
Bay de Noc Community College.....	4,949,900	5,073,600	123,700	2.5
Delta College	13,309,200	13,641,900	332,700	2.5
Glen Oaks Community College	2,235,500	2,291,400	55,900	2.5
Gogebic Community College	4,044,400	4,145,500	101,100	2.5
Grand Rapids Community College	16,707,300	17,125,000	417,700	2.5
Henry Ford Community College	20,330,000	20,838,300	508,300	2.5
Jackson Community College	11,235,100	11,516,000	280,900	2.5
Kalamazoo Valley Community College	11,518,600	11,806,600	288,000	2.5
Kellogg Community College	9,037,500	9,263,400	225,900	2.5
Kirtland Community College	2,749,100	2,817,800	68,700	2.5
Lake Michigan College	4,872,600	4,994,400	121,800	2.5
Lansing Community College.....	28,890,800	29,613,100	722,300	2.5
Macomb Community College.....	30,847,300	31,618,500	771,200	2.5
Mid Michigan Community College	4,110,400	4,213,200	102,800	2.5
Monroe County Community College.....	4,009,800	4,110,000	100,200	2.5
Montcalm Community College.....	2,890,000	2,962,300	72,300	2.5
C.S. Mott Community College	14,587,500	14,952,200	364,700	2.5
Muskegon Community College.....	8,292,400	8,499,700	207,300	2.5
North Central Michigan College.....	2,810,400	2,880,700	70,300	2.5
Northwestern Michigan College.....	8,455,700	8,667,100	211,400	2.5
Oakland Community College	19,485,000	19,972,100	487,100	2.5
St. Clair County Community College	6,534,700	6,698,100	163,400	2.5
Schoolcraft College.....	11,393,400	11,678,200	284,800	2.5
Southwestern Michigan College	6,121,100	6,274,100	153,000	2.5
Washtenaw Community College	11,689,400	11,981,600	292,200	2.5
Wayne County Community College ¹⁾	15,209,100	15,820,000	610,900	4.0
West Shore Community College	2,135,700	2,189,100	53,400	2.5
Subtotal Operations	\$283,356,700	\$290,671,300	\$7,314,600	2.6%
At-risk Student Success Program.....	3,322,700	3,322,700	0	0.0
Renaissance Zone Tax Reimbursement	3,200,000	3,375,000	175,000	5.5
Total Gross Appropriation	\$289,879,400	\$297,369,000	\$7,489,600	2.6%
GF/GP	\$289,879,400	\$297,369,000	\$7,489,600	2.6%

¹⁾ The increase for Wayne County Community College includes a \$225,000 adjustment to completely restore a FY 2003-04 reduction and an increase of 2.5%.

Table 20

FY 2007-08 Higher Education Appropriations: Governor's Recommendation										
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
UNIVERSITIES	FY 2006-07 Year-to-Date Appropriation	FY 2006-07 Approp. Per Student ¹⁾	Increase for MSU, UM-AA, WSU: 2.5%	Increase for 12 Other Universities: 2.5%	Reduce Coop. Extension; Restore Payment Delay	Eliminate Tuition Grants; Increase TIP; Add Gear- Up, Mich. Promise	FY 2007-08 Governor's Rec.	\$ Change from FY 2006-07 ²⁾	% Change from FY 2006-07 ²⁾	FY 2007-08 Approp. Per Student ¹⁾
Central	\$82,383,700	\$3,818		\$2,059,600			\$84,443,300	\$2,059,600	2.5%	\$3,913
Eastern	78,168,700	4,163		1,954,200			80,122,900	1,954,200	2.5%	4,268
Ferris	50,045,100	4,524		1,251,100			51,296,200	1,251,100	2.5%	4,637
Grand Valley	64,797,700	3,242		1,619,900			66,417,600	1,619,900	2.5%	3,323
Lake Superior	12,928,400	5,048		323,200			13,251,600	323,200	2.5%	5,174
Michigan State	292,185,500	6,886	7,304,600				299,490,100	7,304,600	2.5%	7,058
Michigan Tech	49,219,300	8,037		1,230,500			50,449,800	1,230,500	2.5%	8,238
Northern	46,399,400	5,425		1,160,000			47,559,400	1,160,000	2.5%	5,561
Oakland	52,409,000	3,679		1,310,200			53,719,200	1,310,200	2.5%	3,771
Saginaw Valley	28,874,500	3,711		721,900			29,596,400	721,900	2.5%	3,804
UM-Ann Arbor	325,796,300	8,136	8,144,900				333,941,200	8,144,900	2.5%	8,340
UM-Dearborn	25,456,600	4,078		636,400			26,093,000	636,400	2.5%	4,180
UM-Flint	21,520,300	4,211		538,000			22,058,300	538,000	2.5%	4,316
Wayne State	220,033,000	8,719	5,500,800				225,533,800	5,500,800	2.5%	8,937
Western	112,876,400	4,847		2,821,900			115,698,300	2,821,900	2.5%	4,968
Ag Experiment Station (AES)	33,827,100						33,827,100	0	0.0%	
Cooperative Extension (CES)	29,176,400				(2,655,700)		26,520,700	(2,655,700)	-9.1%	
Payment Delay/Restoration	0				69,368,000		69,368,000	0	na	
Higher Education Database	200,000						200,000	0	0.0%	
Midwest Higher Ed Compact	90,000						90,000	0	0.0%	
King-Chavez-Parks	2,691,500						2,691,500	0	0.0%	
TOTAL UNIVERSITIES	\$1,529,078,900	\$5,783	\$20,950,300	\$15,626,900	\$66,712,300	\$0	\$1,632,368,400	\$33,921,500	2.2%	\$5,927
Merit Award Trust Fund	9,500,000		0	0	0	0	9,500,000	0	0.0%	
State GF/GP	\$1,519,578,900		\$20,950,300	\$15,626,900	\$66,712,300	\$0	\$1,622,868,400	\$33,921,500	2.2%	
GRANTS & FINANCIAL AID										
Competitive Scholarships	\$34,130,500						\$34,130,500	\$0	0.0%	
Tuition Grants	58,768,100					(58,768,100)	0	(58,768,100)	-100.0%	
Work Study	7,326,300						7,326,300	0	0.0%	
Part-time Independent	2,653,300						2,653,300	0	0.0%	
Ed. Opportunity Grants (MEOG)	2,084,200						2,084,200	0	0.0%	
Byrd Scholarship Program	1,500,000						1,500,000	0	0.0%	
Nursing Scholarship Program	4,250,000						4,250,000	0	0.0%	
Michigan Merit Award Program	127,700,000					(67,700,000)	60,000,000	(67,700,000)	-53.0%	
Michigan Promise Grant Program	0					43,500,000	43,500,000	43,500,000	na	
Tuition Incentive Program (TIP)	14,000,000					7,100,000	21,100,000	7,100,000	50.7%	
Children of Veterans Tuition	1,000,000						1,000,000	0	0.0%	
Project Gear-Up	0					3,000,000	3,000,000	3,000,000	na	
Mi. Leadership, Ed, Development	5,000,000					(5,000,000)	0	(5,000,000)	-100.0%	
TOTAL FINANCIAL AID	\$258,412,400		\$0	\$0	\$0	(\$77,868,100)	\$180,544,300	(\$77,868,100)	-30.1%	
Federal	3,000,000		0	0	0	3,000,000	6,000,000	3,000,000	100.0%	
Merit Award Trust Fund	138,300,000		0	0	0	(24,200,000)	114,100,000	(24,200,000)	-17.5%	
MHEAA/Carry-Forward	5,900,000		0	0	0	(4,700,000)	1,200,000	(4,700,000)	-79.7%	
Veterans Tax Checkoff	1,000,000		0	0	0	0	1,000,000	0	0.0%	
Civilian Conservation Corps	5,000,000		0	0	0	(5,000,000)	0	(5,000,000)	-100.0%	
State GF/GP	\$105,212,400		\$0	\$0	\$0	(\$46,968,100)	\$58,244,300	(\$46,968,100)	-44.6%	
TOTAL HIGHER ED	\$1,787,491,300		\$20,950,300	\$15,626,900	\$66,712,300	(\$77,868,100)	\$1,812,912,700	(\$43,946,600)	-2.5%	
TOTAL FEDERAL	3,000,000		0	0	0	3,000,000	6,000,000	3,000,000	100.0%	
TOTAL STATE RESTRICTED	159,700,000		0	0	0	(33,900,000)	125,800,000	(33,900,000)	-21.2%	
TOTAL STATE GF/GP	\$1,624,791,300		\$20,950,300	\$15,626,900	\$66,712,300	(\$46,968,100)	\$1,681,112,700	(\$13,046,600)	-0.8%	

¹⁾ FY 2005-06 Fiscal-Year-Equated Students (FYES); MSU calculation does not include funding for AES and CES.

²⁾ Dollar and percent changes do not include restoration of FY 2006-07 payment delay.

Table 21

Governor's FY 2007-08 Gross and GF/GP Changes to FY 2006-07

Budget Area/Line Items	Governor's Changes	
	Gross	GF/GP
Agriculture		
Eliminate local conservation district grants	\$(1,516,800)	\$(1,516,800)
Eliminate intercounty drain program	(469,300)	(469,300)
Reduce agriculture statistics	(261,300)	(261,300)
Eliminate aquaculture and cervid culture program	(250,000)	(250,000)
Eliminate Northwest horticulture research station grant	(30,000)	(30,000)
DIT 5.0% reduction	(12,900)	(2,400)
Reduce right to farm, lab services, pesticide plant pest management	(500,000)	(500,000)
Increase Buy Michigan	500,000	500,000
Reduce bovine TB (Agriculture Equine Industry Development Fund (AEIDF) revenue adjustment) ..	(215,500)	0
Reduce horse racing purses/supplements (AEIDF revenue)	(3,684,500)	0
Reduce emerald ash borer (Federal revenue adjustment)	(3,800,000)	0
Eliminate cooperative resources management initiative	(1,000,000)	0
Federal grants contingency line	1,000,000	0
Revenue adjustments	808,300	0
Human resources optimization user charges	(13,600)	(11,100)
Eliminate FFA & 4H grants	(100,000)	0
Retirement adjustment	(113,600)	(113,600)
Eliminate equine industry survey	(50,000)	0
Economic adjustments	<u>2,411,000</u>	<u>1,078,600</u>
Total Agriculture	\$(7,298,200)	\$(1,575,900)
Attorney General		
End of Byrne Federal grant	\$(225,000)	\$0
Early retirement sick leave payout	(71,300)	(71,300)
Increase IDG funding to accurately reflect reimbursements	6,654,500	0
Administrative reduction	(1,300,000)	(1,300,000)
DIT 5.0% reduction	(3,100)	(3,100)
Economic adjustments	<u>2,645,000</u>	<u>1,343,900</u>
Total Attorney General	\$7,700,100	\$(30,500)
Civil Rights		
Human resources optimization plan	\$(14,700)	\$(14,700)
Early retirement sick leave payout	(69,000)	(69,000)
Fund shift: additional Federal dollars to offset GF/GP	0	(400,000)
Administrative reduction	(50,000)	(50,000)
DIT 5.0% reduction	(1,300)	(1,300)

Governor's FY 2007-08 Gross and GF/GP Changes to FY 2006-07

Budget Area/Line Items	Governor's Changes	
	Gross	GF/GP
Economic adjustments.....	\$605,500	\$517,600
Total Civil Rights	\$470,500	\$(17,400)
Civil Service		
Human resources optimization plan	\$(14,700)	\$0
Early retirement sick leave payout.....	(4,200)	(4,200)
Administrative reduction	(348,600)	(348,600)
DIT 5.0% reduction	(12,500)	(2,000)
Economic adjustments.....	818,300	191,000
Total Civil Service.....	\$438,300	\$(163,800)
Community Colleges		
Restore Wayne County Community College funding reduced in FY 2003-04	\$225,000	\$225,000
Across-the-board 2.5% increase	7,089,600	7,089,600
Renaissance zone reimbursements	175,000	175,000
Total Community Colleges	\$7,489,600	\$7,489,600
Community Health		
Medicaid base/caseload/inflation/utilization	\$234,667,500	\$101,957,300
Community mental health (CMH)/substance abuse caseload	39,614,200	14,221,500
Children's special health care caseload/utilization	8,848,300	3,671,900
Adult benefits waiver caseload/utilization	5,978,500	1,737,800
HMO actuarially sound capitation rates (4.2%)	87,400,000	36,620,600
CMH actuarially sound capitation rates (2.5%)	42,808,200	15,368,100
Change in Federal Medicaid and SCHIP match rates.....	0	(155,134,200)
Loss of Merit Award Trust Fund revenue	0	13,900,000
Shortfall in Medicaid Benefits Trust Fund.....	0	45,400,000
Reduction of CMH and HMO QAAP from 6.0% to 5.5%	0	21,434,900
Reductions to Healthy Michigan Fund programming	(11,653,200)	(9,865,400)
Economic adjustments.....	26,160,800	9,781,700
Administrative reductions	(1,333,700)	(755,500)
Changes in Federal grant funding	5,967,500	0
Further human resources optimization	(408,800)	(213,900)
Remove early retirement sick leave credit	(519,400)	(519,400)
Contractual savings	(3,422,000)	100,000
CMH purchase of state services adjustments	6,639,600	2,797,000
CMH 2.0% wage increase, full funding plus expansion	7,300,000	3,710,400
Eliminate methamphetamine cleanup line.....	(175,000)	(175,000)

Governor's FY 2007-08 Gross and GF/GP Changes to FY 2006-07

Budget Area/Line Items	Governor's Changes	
	Gross	GF/GP
Expand pharmacy quality improvement program	\$(4,500,000)	\$(1,900,000)
Use increased health professions revenue	945,800	0
Replace nursing home background check funding	4,474,400	0
Create Crime Victims' Rights Fund IDG to MSP/DHS	2,327,300	0
Transfer DHS staff funding (end IDG to DHS)	(2,000,000)	(1,000,000)
Remove health information technology funding	(4,500,000)	(2,250,000)
Recognize FY 2005-06 long-term care lapse	(46,000,000)	(19,274,000)
Recognize dental clinic DSH funding	9,821,400	0
Adjustments to certified public expenditure authorization	(88,167,800)	0
Adjustments to special financing (physician adjustor, etc.)	41,271,100	0
Additional school-based services savings	7,192,300	(4,794,800)
Adult home help minimum wage adjustment	3,630,800	1,521,300
Family planning waiver: FY 2007-08 savings	(12,605,700)	(7,108,000)
Increase hospital QAAP to upper payment limit	20,925,300	0
Increase funding for home/community-based waiver	20,000,000	8,380,000
Recognize money-follows-person Federal grant	11,825,100	2,976,500
Increase nursing home staff and single points of entry	6,129,600	3,064,800
Implement Medicaid estate recovery	(10,000,000)	(4,190,000)
Reduce nursing home rate increase to 2.6%	(20,000,000)	(8,380,000)
Claim savings from money-follows-person program	(11,825,100)	(2,976,500)
Transfer 330 nursing home residents to community settings	(7,359,600)	(3,064,800)
Eliminate second disproportionate share (DSH) pool	(5,000,000)	(2,100,000)
Implement new outpatient reimbursement for dual eligibles	(10,000,000)	(4,190,000)
Eliminate Grand Rapids Alzheimers project	(360,000)	(155,800)
Eliminate healthy behaviors Federal waiver line	(10,000,000)	0
Other adjustments	(1,316,200)	(188,500)
Total Community Health	\$342,781,200	\$58,408,000
Corrections		
Additional prison and camp beds	\$28,096,200	\$28,096,200
Expand Michigan prisoner re-entry initiative (MPRI) statewide	20,620,800	20,620,800
Sentencing reform policy changes savings	(92,000,000)	(92,000,000)
Leave county jail reimbursement program as a placeholder	(13,248,900)	0
Pharmaceutical cost increases	10,420,300	10,420,300
Fuel and utility cost increases	4,000,000	4,000,000
Contractual uniform cleaning allowance funding	3,341,700	3,341,700
Additional correctional officer training school	2,680,100	2,680,100
Reverse one-time special maintenance shift to Capital Outlay	2,000,000	2,000,000

Governor's FY 2007-08 Gross and GF/GP Changes to FY 2006-07		
Budget Area/Line Items	Governor's Changes	
	Gross	GF/GP
Baseline insurance cost adjustment.....	\$2,000,000	\$2,000,000
Two additional DCH mental health outpatient teams	1,979,600	1,979,600
Field agents at correctional facilities for the MPRI	1,368,400	1,368,400
Remove FY 2001-02 sick leave payments	(1,232,100)	(1,232,100)
Upgrade telecommunications equipment to DIT platform	1,115,800	1,115,800
Add correctional officers for hospital security coverage	1,100,000	1,100,000
Field agents for Project Joshua/project safe neighborhoods	1,026,400	1,026,400
Replace Federal residential substance abuse treatment funds	0	950,600
Substance abuse treatment contract increase	789,400	789,400
Fund overtime for increased military leave utilization.....	698,400	698,400
Human resources optimization adjustments	(956,600)	(956,600)
Centralize timekeeping system.....	572,800	572,800
Remove one-time DIT funding.....	(800,000)	(800,000)
Convert counselors to assistant resident unit supervisors	481,400	481,400
Add sergeants at Huron Valley complex	418,000	418,000
Additional costs for housing inmates at Federal institutions.....	241,300	402,900
Increased law library costs	400,000	400,000
Additional intake staff for risk assessment	315,000	315,000
Restore transportation officer high security pay	207,000	207,000
Staff in crime victims unit to comply with P.A. 184 of 2005	146,300	146,300
Kiosk reporting stations at field offices for low-risk offenders.....	136,000	136,000
Add statewide transportation coordinator	105,400	105,400
Water/sewer contract increases at Oaks Correctional Facility.....	99,700	99,700
Lease increases at field offices	90,600	90,600
Parole board file screener for MPRI participants.....	89,300	89,300
Add assistant resident unit supervisor at Pugsley	79,400	79,400
DIT administrative reduction.....	(12,100)	(11,600)
Economic adjustments.....	84,890,100	82,880,500
Total Corrections	\$61,259,700	\$73,611,700
Education		
Michigan School for the Deaf and Blind (MSDB) FTE increase.....	\$532,000	\$0
MSDB summer residential alternative education program	197,000	0
MSDB donation authority increase	200,000	0
Camp Tuhsmeheeta operations increase	45,000	0
Sale of the Lansing School for the Blind (former site).....	(1,821,100)	0
License 2000 certification database upgrade.....	1,704,400	0
Increased tenant rent at Fay Hall	111,000	0

Governor's FY 2007-08 Gross and GF/GP Changes to FY 2006-07

Budget Area/Line Items	Governor's Changes	
	Gross	GF/GP
Stand-alone testing environment cost increase	\$176,000	\$0
Human resources optimization savings.....	(14,700)	(17,400)
Reduce information technology rates	(22,100)	(6,600)
Reduce special education operations.....	(120,000)	0
Reduce school improvement operations	(60,000)	0
Eliminate best practices study	(175,000)	(175,000)
Sick leave savings	(5,900)	(5,900)
Other adjustments	104,000	3,300
Economic adjustments.....	<u>1,704,000</u>	<u>189,600</u>
Total Education.....	\$2,554,600	\$(12,000)
Environmental Quality		
Air emissions fee	\$1,000,000	\$0
Groundwater discharge fee	300,000	0
Hazardous waste user fee	0	0
Land and water permit fees	0	0
Mineral well regulatory fee.....	0	0
Solid waste fee	0	0
On-site wastewater treatment fee.....	0	0
Pollution prevention program fee.....	0	0
Drinking water revolving loan fund	(10,148,400)	(1,691,400)
Cleanup funding.....	(2,000,000)	0
Removal of one-time projects.....	(66,061,000)	0
Other changes	(1,371,400)	(91,500)
Economic adjustments.....	<u>5,500,700</u>	<u>750,900</u>
Total Environmental Quality	\$(72,780,100)	\$(1,032,000)
Executive Office		
No changes recommended	<u>\$0</u>	<u>\$0</u>
Total Executive Office	\$0	\$0
Higher Education		
Repay FY 2006-07 payment delay	\$69,368,000	\$69,368,000
University operations: across-the-board 2.5% increase.....	36,577,200	36,577,200
Reduce cooperative extension service.....	(2,655,700)	(2,655,700)
Eliminate Michigan tuition grants.....	(58,768,100)	(58,768,100)
Adjust funding for merit awards	(67,700,000)	0
Add funding for promise grants	43,500,000	0

Governor's FY 2007-08 Gross and GF/GP Changes to FY 2006-07

Budget Area/Line Items	Governor's Changes	
	Gross	GF/GP
Increase for TIP due to caseload.....	\$7,100,000	\$7,100,000
Add new Federal program: Project GEAR UP	3,000,000	0
Eliminate MiLEAD line-item (restricted revenue).....	(5,000,000)	0
Replace restricted revenue fund sources with GF/GP	0	4,700,000
Total Higher Education	\$25,421,400	\$56,321,400
History, Arts, and Libraries		
State aid to libraries.....	\$(6,071,500)	\$(6,071,500)
Book distribution centers	(350,000)	(350,000)
Library of Michigan operations	(252,900)	(252,900)
Administrative reductions	(190,700)	(190,700)
Rent	171,000	171,000
DIT web portal	140,000	140,000
Other adjustments	(1,545,100)	31,000
Economic adjustments.....	688,900	596,700
Total History, Arts, and Libraries.....	\$(7,410,300)	\$(5,926,400)
Human Services		
Family independence and State disability assistance caseloads.....	\$83,847,900	\$93,784,600
Child welfare improvements (257.0 FTEs)	39,534,400	35,000,000
Jobs, education, and training (JET) expansion	18,103,100	16,267,100
DIT adjustments.....	15,884,300	9,213,200
Donated funds program adjustments (45.0 FTEs)	4,350,900	0
Other staff fund source adjustments.....	(30,200)	169,700
Day care policy changes	(28,600,000)	(28,600,000)
Family independence program (FIP) policy changes	(60,370,300)	(60,370,300)
Reduce indigent burial by 25.0%.....	(1,477,400)	(1,477,400)
Reduce food stamp reinvestment.....	(3,971,500)	(3,971,500)
Eliminate legislative non-statewide initiatives and programs	(17,362,800)	(17,102,800)
FIP fund shift from Federal and restricted to GF/GP.....	(5,261,200)	22,518,500
Other adjustments	(2,508,100)	(1,841,100)
Economic adjustments.....	35,540,500	23,859,100
Total Human Services	\$77,679,600	\$87,449,100
Information Technology		
Administrative reduction	\$(443,700)	\$0
Remove 2002 early retirement sick leave payments.....	(281,200)	0
Transfers in.....	7,115,000	0

Governor's FY 2007-08 Gross and GF/GP Changes to FY 2006-07		
Budget Area/Line Items	Governor's Changes	
	Gross	GF/GP
Transfers out.....	\$(325,700)	\$0
Human resources optimization	(1,481,000)	0
DCH: adjustments to IT line.....	657,100	0
DCH: Federal grant for WIC pilot program	108,500	0
DOC: upgrades and removal of one-time costs	1,176,600	0
DOE: Federal funds for security controls.....	176,000	0
DEQ: restricted funds for information life cycle management system.....	500,000	0
HAL: increase for web portal expenses.....	140,000	0
DHS: scheduled increase for integrated service delivery project.....	14,000,000	0
DHS: align Federal authorization for child support automation	2,182,100	0
DHS: children's welfare improvements.....	485,700	0
DHS: daycare case review project	74,600	0
DLEG: reduce information technology.....	(1,000,000)	0
DMB: retirement system improvement	132,000	0
DMB: MAIN administrative savings	(150,000)	0
MSP: adjustment to information technology line	1,500,000	0
MSP: increase base for public safety local subscriber fees	500,000	0
MDOT: reduction in anticipated restricted revenue	(50,000)	0
MDOT: replace PowerBuilder development program.....	400,000	0
Treasury: reduce land reutilization program.....	(20,000)	0
Economic adjustments.....	6,342,100	0
Total Information Technology	\$31,738,100	\$0
Judiciary		
Full-year funding for new full-time circuit/probate judges	\$339,700	\$339,700
Defined contribution/FICA for new judges and yearly increases.....	391,400	391,400
Remove IDG from DLEG due to lack of Federal funds	(40,000)	0
Remove 2002 early retirement sick leave payments.....	(148,300)	(148,300)
GF/GP administrative reductions.....	(560,300)	(560,300)
Court equity fund reimbursement reduction	(189,700)	(189,700)
Drunk driving caseflow: adjustment to reflect program size	700,000	0
Direct trial court automation: increase local fees for new system	1,693,000	0
Economic adjustments.....	1,618,300	1,499,700
Total Judiciary	\$3,804,100	\$1,332,500
Labor and Economic Growth		
OFIS spending authority changes	\$1,223,700	\$0
Eliminate Broadband Authority	(501,800)	0

Governor's FY 2007-08 Gross and GF/GP Changes to FY 2006-07

Budget Area/Line Items	Governor's Changes	
	Gross	GF/GP
PSC: video franchise regulation fee	\$1,000,000	\$0
Commercial services: information technology reductions/corporation fees	(4,412,300)	0
Jobs, education, and training (JET) statewide expansion	13,476,700	0
No worker left behind.....	77,000,000	40,000,000
Michigan nursing corps.....	15,000,000	15,000,000
Fund shift for fire protection grants, GF/GP to restricted.....	0	(3,700,000)
Other adjustments	(3,861,700)	(58,900)
Economic adjustments.....	14,746,600	427,300
Total Labor and Economic Growth.....	\$113,671,200	\$51,668,400
Legislative Auditor General		
No changes recommended	\$0	\$0
Total Legislative Auditor General	\$0	\$0
Legislature		
No changes recommended	\$0	\$0
Total Legislature	\$0	\$0
Management and Budget		
Building occupancy charges.....	\$(93,400)	\$0
Early retirement sick leave payout.....	(79,400)	(79,400)
Administrative reduction	(230,000)	(230,000)
Retirement services.....	432,000	0
State budget office funding shift to maximize Federal match.....	(56,500)	(118,200)
State building authority rent adjustments	(4,575,000)	(1,000,000)
DIT 5.0% reduction and MAIN vacancy management	(165,700)	(151,600)
Other adjustments	63,300	(212,700)
Economic adjustments.....	3,383,700	1,240,900
Total Management and Budget	\$(1,321,000)	\$(551,000)
Military and Veterans Affairs		
Regional training institute operations	\$1,500,000	\$0
Headquarters and armories.....	600,000	0
Military training sites	175,000	0
Starbase program expansion	57,000	0
Grand Rapids Veterans Home fund shift GF/GP to Federal	0	(163,600)
Grand Rapids Veterans Home Medicaid/Medicare fund shift	0	(466,700)
D.J. Jacobetti Veterans Home Medicaid/Medicare fund shift.....	0	(8,400)

Governor's FY 2007-08 Gross and GF/GP Changes to FY 2006-07		
Budget Area/Line Items	Governor's Changes	
	Gross	GF/GP
Unclassified employee increase	\$4,700	\$4,700
Military retirement cost increase	74,200	74,200
Mackinac bridge walk security duty costs	5,000	0
Human resources optimization user charges	(13,000)	(3,500)
Sick leave savings	(43,100)	(43,100)
D.J. Jacobetti Veterans Home fund shift GF/GP to restricted	0	(269,000)
Grand Rapids Veterans Home administrative reductions	(370,000)	(370,000)
Information technology administrative reduction	(3,600)	(1,200)
Headquarters and armories: eliminate four mechanic positions	(300,000)	(300,000)
Grand Rapids Veterans Home lease revenue adjustment	(22,800)	0
Economic adjustments	3,295,700	1,723,900
Total Military and Veterans Affairs	\$4,959,100	\$177,300
Natural Resources		
Hunting and fishing license fees	\$0	\$0
Forest development fund reductions	(7,679,800)	0
Purchased land PILT reduction	(700,000)	(350,000)
Removal of one-time projects	(445,000)	(320,000)
Other changes	682,800	(197,900)
Economic adjustments	7,052,800	389,700
Total Natural Resources	\$(1,089,200)	\$(478,200)
School Aid		
Basic foundation allowance increase \$178 per pupil (2.5%)	\$104,050,000	\$0
Full-day preschool for educationally at-risk children (new)	194,600,000	0
Special education State cost increases	31,200,000	0
Expansion of declining enrollment payments	16,000,000	0
MEAP testing	10,674,800	0
Services consolidation incentives (new)	10,000,000	0
Michigan school readiness program: per-pupil increase	5,400,000	0
School Bond Loan Fund debt service increase	3,800,000	0
Renaissance zone reimbursement increase	3,000,000	0
PILT reimbursement increase	1,000,000	0
ISD operations increase: 2.5%	2,003,100	0
Expansion of health/science middle college grants	2,000,000	0
Eliminate middle school math initiative	(20,000,000)	0
Equity payment (rolled into eligible districts' base funding)	(20,000,000)	0
Children of incarcerated parents	(1,875,000)	0

Governor's FY 2007-08 Gross and GF/GP Changes to FY 2006-07

Budget Area/Line Items	Governor's Changes	
	Gross	GF/GP
Web-based testing	\$(1,000,000)	\$0
Book-a-month	(500,000)	0
Early intervening	(400,000)	0
School building security mapping	(350,000)	0
Positive behavioral support	(300,000)	0
Mercy education project	(100,000)	0
Automated external defibrillators	(100,000)	0
Kalamazoo pre-college engineering	(100,000)	0
International baccalaureate grants	(250,000)	0
Conductive learning center study	(250,000)	0
Freedom to learn: program ended	(1,500,000)	0
Economic adjustment: bus inspection, ChalleNGe, DHS facilities, CEPI	280,400	0
Total School Aid	\$337,283,300	\$0
State		
Restricted fund reduction	\$(950,000)	\$0
Early retirement sick leave payout	(44,700)	(44,700)
Fees to local units	40,000	40,000
Replace Transport. Admin. Collection Fund with GF/GP	0	6,000,000
Branch operations	(1,797,300)	(660,900)
Central operations	(485,900)	(188,400)
Other administrative reductions	(263,000)	(104,800)
DIT 5.0% reduction	(36,800)	(4,800)
Economic adjustments	6,615,400	5,167,900
Total State	\$3,077,700	\$10,204,300
State Police		
Information technology increase to assist shortfall	\$2,000,000	\$1,500,000
At-post troopers fund shift, restricted to GF/GP	0	6,000,000
At-post troopers fund shift, GF/GP to restricted (liquor license)	0	(1,004,200)
Fire investigations fund shift, GF/GP to restricted (liquor license)	0	(1,593,300)
Support services fund shift, GF/GP to IDG, local, restricted	0	0
Criminal justice information center fund shift, GF/GP to IDG (crime victims)	475,800	0
Lab operations fund shift, GF/GP to IDG (crime victims)	430,000	0
Amber alert program fund shift, GF/GP to IDG (crime victims)	121,500	0
Executive direction fund shift, GF/GP to Trunkline Fund	0	(450,000)
Traffic safety program fund shift, GF/GP to Trunkline Fund	0	(482,700)
Traffic services program fund shift, GF/GP to Trunkline Fund	0	(365,700)

Governor's FY 2007-08 Gross and GF/GP Changes to FY 2006-07

Budget Area/Line Items	Governor's Changes	
	Gross	GF/GP
Uniform services increase due to GF/GP and Trunkline Fund shifts	\$1,298,400	\$1,298,400
Information technology fund shift, GF/GP to motor carrier fees	0	(464,500)
Fleet leasing increase due to GF/GP to motor carrier shift	464,500	464,500
Fleet leasing increase due to cost allocation fund shifts	500,000	0
Information technology administrative reduction	(23,800)	(18,400)
Justice training grants for in-service training (restricted revenue)	200,000	0
Federal revenue adjustments	(24,223,300)	0
Human resources optimization savings	(115,400)	(93,100)
Restricted revenue adjustment for revenue received	(4,375,900)	0
Special operations: aviation unit	400,000	400,000
Sick leave savings	(307,600)	(307,600)
Hazardous materials programs	110,800	0
Nuclear power plant planning	200,000	0
Michigan youth leadership academies	169,700	0
Economic adjustments	<u>17,221,700</u>	<u>14,451,000</u>
Total State Police	\$(5,453,600)	\$19,334,400
Transportation		
Debt service payments	\$15,992,200	\$0
Equated lane mile adjustment	1,191,600	0
Safe routes to school (Federal)	3,000,000	0
IDG increase to State Police	1,298,400	0
Other IDG adjustments	(70,800)	0
Federal aid construction funding	28,716,700	0
Intercity services (Federal)	1,000,000	0
Transportation Economic Development Fund transfer to GF	(13,000,000)	0
Comprehensive Transportation Fund reductions (revenue adjustment)	(14,047,700)	0
Michigan Transportation Fund revenue adjustments	(102,311,200)	0
Other revenue-based adjustments	(8,019,700)	0
Administrative reductions	(1,500,000)	0
Software pilot project	400,000	0
Adjustments to building occupancy charges	1,935,300	0
Human resources consolidation	(158,700)	0
DIT 5.0% reduction	(33,800)	0
DIT economic adjustments	378,800	0
Economic adjustments	<u>8,619,200</u>	<u>0</u>
Total Transportation	\$(76,609,700)	\$0

Governor's FY 2007-08 Gross and GF/GP Changes to FY 2006-07		
Budget Area/Line Items	Governor's Changes	
	Gross	GF/GP
Treasury - Debt Service		
Water pollution control schedule adjustment.....	\$(71,800)	\$(71,800)
Quality of life schedule adjustment.....	1,600,000	1,600,000
Clean Michigan Initiative new issue.....	8,100,000	8,100,000
Clean Michigan Initiative schedule adjustment	5,000,000	5,000,000
Great Lakes water quality new issue.....	4,300,000	4,300,000
Great Lakes water quality schedule adjustment.....	900,000	900,000
Total Treasury - Debt Service.....	\$19,828,200	\$19,828,200
Treasury - Operations		
Administrative reduction	\$(300,000)	\$(200,000)
Remove 2002 early retirement sick leave payments.....	(115,300)	(115,300)
Transfers out.....	(1,637,500)	(92,500)
Human resources optimization	(58,800)	(44,100)
Revenue enhancement program net reduction	(816,800)	(816,800)
DIT administrative reduction.....	(79,500)	(10,800)
Sunset of qualified agricultural loan payments.....	(2,500,000)	(2,500,000)
Neighborhood Enterprise Zone Act	150,000	150,000
Renaissance zone reimbursements - increase in estimates	465,000	465,000
Defined contribution plan administrative fees.....	100,000	0
New program: local public safety grants.....	14,381,000	0
Cybershame initiative	250,000	0
Lottery: expand Club Keno	150,000	0
Michigan education savings program: reduce to FY 2006-07 costs	(200,000)	0
Reduce land reutilization program.....	(3,020,000)	0
Reduce Michigan Transportation Fund IDG to reflect anticipated revenue	(1,031,000)	0
Economic adjustments.....	7,116,300	955,700
Total Treasury - Operations.....	\$12,853,400	\$(2,208,800)
Treasury - Revenue Sharing		
Adjust constitutional payment estimates	\$6,627,000	\$0
Adjust statutory payment estimates.....	(5,055,000)	0
Remove special census payments	(892,400)	(892,400)
County revenue sharing payment for Tuscola County	113,600	113,600
New program: local government collaborative efforts	27,160,000	0
Total Treasury - Revenue Sharing	\$27,953,200	\$(778,800)

Governor's FY 2007-08 Gross and GF/GP Changes to FY 2006-07		
Budget Area/Line Items	Governor's Changes	
	Gross	GF/GP
Treasury - Strategic Fund		
Jobs for Michigan Investment Fund.....	\$75,000,000	\$0
Michigan promotion program.....	10,000,000	10,000,000
Alternative energy initiative.....	7,000,000	7,000,000
Economic development job training grants	(1,600,500)	(1,600,500)
Community development block grant Federal pass through.....	8,000,000	0
Administrative reductions	(250,000)	(250,000)
Other adjustments	(391,400)	(91,400)
Economic adjustments.....	413,000	354,900
Total Treasury - Strategic Fund	\$98,171,100	\$15,413,000
Total All Budget Areas	\$1,007,172,300	\$388,463,100

Payments to Local Units of Government

The FY 2007-08 budget recommendation includes \$16.5 billion of estimated payments to local units of government. This exceeds the required level of payments to local units of government pursuant to Article IX, Section 30 of the State Constitution of 1963 by \$2.5 billion. Table 22 provides a summary of this estimate.

Table 22 State Payments to Local Units of Government Article IX, Section 30 Requirement (Millions of Dollars)	
	FY 2007-08 Estimate
State Spending From State Resources.....	\$28,486.9 ^{a)}
Required Payments to Local Units of Government (48.97%)	13,950.0
Actual or Estimated Payments to Locals.....	16,455.5
Actual Percentage of Total State Spending	57.77%
Surplus of Section 30 Payments.....	2,505.5
^{a)} Does not include \$20.0 million of Federal aid counted as GF/GP revenue.	

State Employment

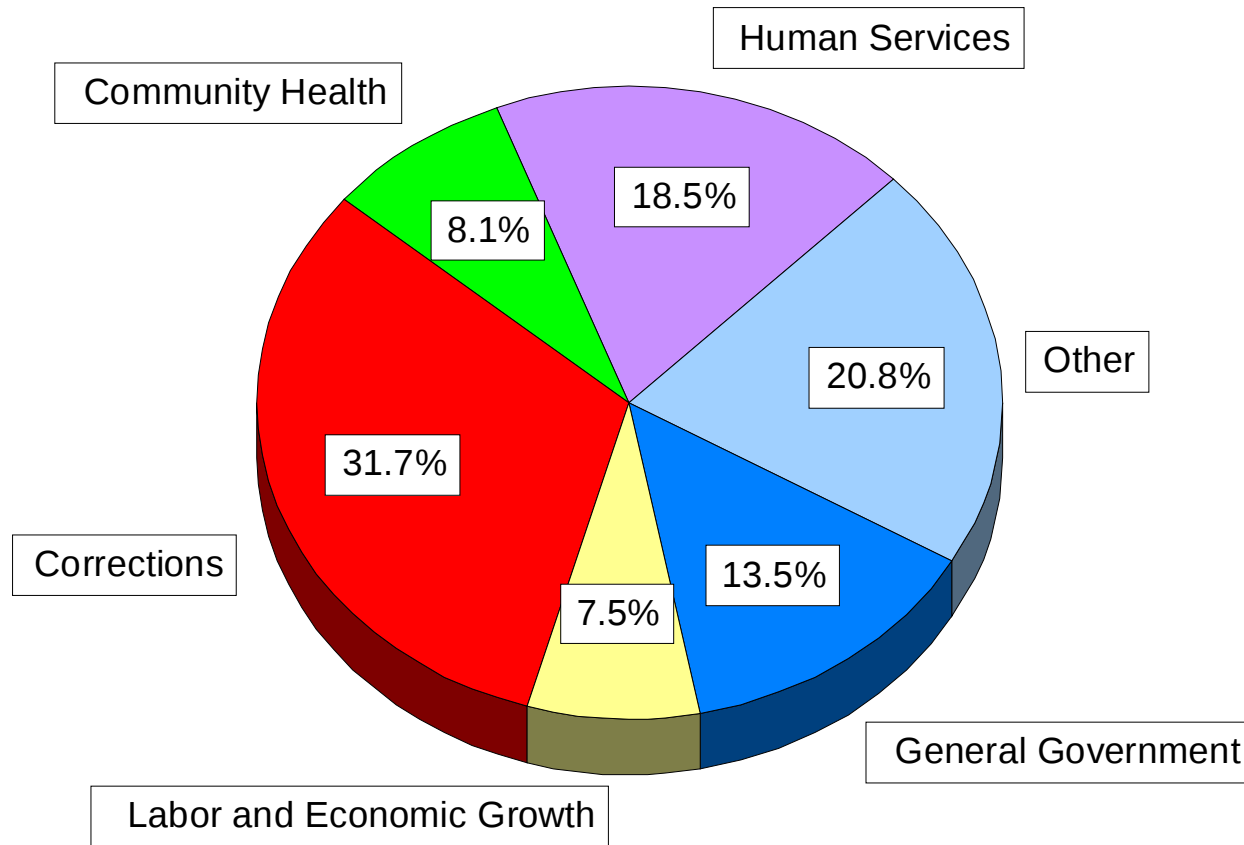
Table 23 and Figure E provide a comparison of classified full-time equated positions (FTEs) recommended by the Governor for FY 2007-08 with the appropriated level of FTEs during FY 2006-07. The budget recommendation includes the funding for 57,430.3 FTEs during FY 2007-08. This represents an increase of 706.0 FTEs or 1.2% from FY 2006-07. Total employment in the Department of Corrections accounts for 31.6% of the recommended FTEs.

Table 23

Full-Time Equated Positions FY 2006-07 Versus Governor's Recommendation				
Department/Budget Area	FY 2006-07 Year-to-Date Appropriations	FY 2007-08 Governor's Recommendation	Position Change	Percent Change
Agriculture	690.0	674.0	(16.0)	(2.3)%
Attorney General	559.0	556.0	(3.0)	(0.5)
Civil Rights	136.0	136.0	0.0	0.0
Civil Service	240.5	240.5	0.0	0.0
Community Health	4,658.1	4,655.2	(2.9)	(0.1)
Corrections	17,782.0	18,186.2	404.2	2.3
Education	435.5	441.5	6.0	1.4
Environmental Quality	1,561.7	1,561.7	0.0	0.0
Executive	74.2	74.2	0.0	0.0
Higher Education	1.0	1.0	0.0	0.0
History, Arts, and Libraries	232.0	228.0	(4.0)	(1.7)
Human Services	10,343.4	10,609.1	265.7	2.6
Information Technology	1,776.4	1,774.4	(2.0)	(0.1)
Judiciary	509.0	509.0	0.0	0.0
Labor and Economic Growth	4,238.5	4,306.5	68.0	1.6
Management and Budget	752.0	747.5	(4.5)	(0.6)
Military and Veterans Affairs	1,015.0	1,015.0	0.0	0.0
Natural Resources	2,086.4	2,082.9	(3.5)	(0.2)
State	1,853.8	1,853.8	0.0	0.0
State Police	2,900.0	2,899.0	(1.0)	(0.0)
Transportation	3,030.3	3,029.3	(1.0)	(0.0)
Treasury (Operations)	1,697.5	1,697.5	0.0	0.0
Treasury (Strategic Fund)	152.0	152.0	0.0	0.0
Total Positions	56,724.3	57,430.3	706.0	1.2%

Figure E

Full-Time Equated Positions FY 2007-08 Governor's Recommendation



Total = 57,430.3

Projected Year-End Balances

Combining the Governor's FY 2007-08 appropriation recommendations with the consensus revenue estimates and the recommended revenue policy changes leads to updated estimates of the FY 2007-08 GF/GP and SAF year-end balances. Assuming that all of the Governor's appropriation and revenue recommendations are enacted, the FY 2007-08 GF/GP budget will close the fiscal year with a \$48.3 million balance. The FY 2007-08 SAF budget will close the fiscal year with a \$12.2 million balance. [Tables 24](#) and [25](#) provide a summary of these estimates.

Table 24

FY 2007-08 General Fund/General Purpose Revenue, Expenditures, and Year-End Balance (Millions of Dollars)	
	February 2007 Gov.'s Rec.
Revenue:	
Beginning Balance	\$2.1
Consensus Revenue Estimate	7,010.0
Continue Revenue Sharing Freeze	545.3
Recommended Revenue Adjustments:	
Michigan Business Tax	1,249.4
Insurance Company Premiums Tax	40.0
Consumer Services Tax (2.0%)	226.7
Business Services Tax (2.0%)	523.5
Sales Tax on the Difference (Auto Purchases).....	(15.0)
Financial Institutions Fund Transfer to General Fund	2.0
Shift of Short-Term Borrowing Costs to School Aid Fund	22.8
Transportation Economic Development Revenue to General Fund.	13.0
Other Tax Policy Changes	39.4
Subtotal Recommended Revenue Adjustments	2,101.8
Total Estimated Revenue	\$9,659.2
Expenditures:	
Governor's Appropriation Recommendations	\$9,610.9
Projected Year-End Balance	\$48.3

Table 25
FY 2007-08 School Aid Fund
Revenue, Expenditures, and Year-End Balance
(Millions of Dollars)

	February 2007 Gov.'s Rec.
Revenue:	
Beginning Balance	\$11.3
Consensus Revenue Estimate	11,532.9
GF/GP Grant	35.0
Federal Aid	1,410.1
Recommended Revenue Adjustments:	
Consumer Services Tax (2.0%)	175.5
Business Services Tax (2.0%)	405.2
Sales Tax on the Difference (Auto Purchases)	(128.3)
Michigan Estate Tax	119.2
Liquor Markup Increase	28.9
Industrial and Commercial Property Exemption from Personal Property Taxes	(203.4)
Expanded Club Keno Lottery Game	15.0
Other Tax Policy Changes	41.8
Subtotal Recommended Revenue Adjustments	453.9
Total Estimated Revenue	\$13,443.2
Expenditures:	
Governor's Appropriation Recommendations	\$13,431.0
Projected Year-End Balance	\$12.2

ECONOMIC AND REVENUE FORECAST

Economic Forecast

The Governor's proposed budget for FY 2007-08 is based on the consensus economic forecast adopted at the January 18, 2007, Consensus Revenue Estimating Conference. This economic forecast is summarized in [Table 26](#).

U.S. Economy. The U.S. economy grew at a rate of 3.3% in 2006, as measured by the percentage change in real Gross Domestic Product (GDP). This followed a 3.2% increase in 2005, and marked the fifth year of economic expansion since the 2001 recession ended in November 2001. The healthy rate of growth experienced in 2006 occurred despite the fact that the motor vehicle and housing sectors contracted in 2006. Light vehicle sales fell 2.5% from 16.9 million units in 2005 to 16.5 million units in 2006. Unfortunately for Michigan, sales for the Big Three domestic producers experienced an even sharper decline. Nationwide, housing starts fell 12.9% from 2.1 million units in 2005 to 1.8 million units in 2006. Employment increased 1.4% in 2006 and the unemployment rate fell to 4.6% from 5.1% in 2005.

In 2007 and 2008, the pace of economic growth at the national level is expected to slow down. Real GDP is forecast to slow to a growth rate of 2.2% in 2007 and then expand at a rate of 2.7% in 2008. Light vehicle sales will total an estimated 16.3 million units, which will be down 1.2% from the 2006 level, and then edge back up to 16.5 million units in 2008. Inflation, as measured by the U.S. Consumer Price Index, is expected to remain in the 2.0% to 3.0% range in 2007 and 2008, after measuring 3.3% in 2006. Employment is expected to continue to improve through 2008, but not quickly enough to reduce the unemployment rate. In fact, after holding steady at 4.6% in 2007, the unemployment rate is expected to edge up to 4.7% in 2008.

Michigan Economy. While the recession ended nationally in November 2001, Michigan's economy still has not turned the corner. Compared with June 2000, when employment peaked in Michigan, by the end of 2006 employment was down 310,000 jobs or 6.6%. During the same time period, manufacturing jobs in Michigan declined by almost 30.0%. The drop in jobs in Michigan pushed the unemployment rate up to 6.8% in 2006 from 6.7% in 2005. Personal income increased 3.5% in 2006, but the income from wage and salary payments was up only 2.1% in 2006.

In 2007 and 2008, Michigan's economy still is not expected to end the ongoing slide in employment. Wage and salary employment is expected to decline 0.9% in 2007 and another 0.6% in 2008. These declines would mark eight years in a row of employment decline, which has never happened before in the post-World War II era. The unemployment rate is expected to move up to 7.4% in 2007 and to 7.7% in 2008. Inflation, as measured by the Detroit Consumer Price Index, is expected to slow to a rate of 1.7% in 2007 after measuring 3.0% in 2006. This slowdown in the rate of inflation will be due primarily to a leveling off of energy prices. In 2008, the rate of inflation is expected to edge back up to 2.5%. Given the forecast for employment and inflation, wage and salary income is expected to increase only 1.0% in 2007 and 1.6% in 2008. With employment forecast to decline, this increase in wages and salaries will reflect increases in earnings per worker. Personal income, which measures the total income received by individuals (including interest, dividends, self employment earnings, workers' compensation, and transfer payments, in addition to wages and salaries) is forecast to increase 2.8% in 2007 and 3.0% in 2008, both of which are lower rates of growth than was experienced in 2006.

Table 26**Consensus Economic Forecast: 2007 and 2008
January 18, 2007**

	Calendar 2006	% Change from Prior Year	Calendar 2007 Forecast	% Change from Prior Year	Calendar 2008 Forecast	% Change from Prior Year
United States:						
Real Gross Domestic Product (billions of chained 2000 dollars)	\$11,413	3.3%	\$11,664	2.2%	\$11,979	2.7%
Consumer Price Index (1982-84=100)	201.7	3.3%	205.9	2.1%	211.7	2.8%
3-Month Treasury Bills (Interest Rate, %)	4.7		4.9		5.0	
Unemployment Rate (%)	4.6		4.6		4.7	
Light Vehicle Sales (millions of units)	16.5	(2.5)%	16.3	(1.2)%	16.5	1.1%
Michigan:						
Wage and Salary Employment (thousands)	4,358	(0.6)%	4,319	(0.9)%	4,293	(0.6)%
Unemployment Rate (%)	6.8		7.4		7.7	
Personal Income (billions of dollars)	\$342,900	3.5%	\$352,501	2.8%	\$362,984	3.0%
Real Personal Income (billions of 1982-84 \$s)	\$174,504	0.5%	\$176,427	1.1%	\$177,238	0.5%
Detroit Consumer Price Index (1982-84=100)	195.9	3.7%	198.4	1.3%	203.4	2.5%

Revenue Estimates

Based on the economic forecast summarized above, combined with the current tax structure, the Governor's proposed tax changes, and other proposed revenue adjustments, it is estimated that revenue totaling \$43.9 billion will be available in FY 2007-08 to support Governor Granholm's proposed budget. This represents a 3.4% increase from the revised total revenue estimate for FY 2006-07. This total State government revenue includes revenue from existing taxes, fees, interest, licenses and permits, penalties, and fines; Federal aid; carryover balances; and the Governor's proposed changes to tax policy, fees, and other revenue. In particular, the major tax changes that the Governor is proposing include replacing the soon-to-expire single business tax with a new business tax, creating a new 2.0% excise tax on most services, eliminating personal property from the base of the State education property tax and the local school district 18-mill tax, and eliminating a variety of special exemptions and other tax breaks that are currently part of the sales, use, and property taxes. The Governor also is proposing a new tax reduction that would lower the sales tax on new vehicles purchased from new car dealers when a vehicle is traded in as part of the transaction. These tax changes would generate an estimated \$530.0 million in FY 2006-07 and \$2.7 billion in FY 2007-08. A more detailed discussion of these proposed tax changes is presented later in this section. Estimates of the total revenue on which the Governor's proposed budget is based, including the proposed tax increases, are summarized in Table 27.

Table 27

Governor's Projected Total State Revenue: FY 2006-07 and FY 2007-08
(Millions of Dollars)

	FY 2005-06 Final	FY 2006-07 Estimate	% Change FY 07/FY 06	FY 2007-08 Estimate	% Change FY 08/FY 07
General Fund/General Purpose					
Beginning Balance.....	\$220.5	\$7.2	---	\$2.1	---
Revenue From Ongoing Sources ¹⁾	8,266.7	8,230.0	(0.4)%	7,010.1	(14.8)%
Proposed Tax/Revenue Changes	0.0	320.7	---	2,064.0	---
One-Time Revenue Adjustments and Other	630.4	652.5	3.5	583.0	(10.7)
Total GF/GP Revenue	\$9,117.6	\$9,210.4	1.0%	\$9,659.2	4.9%
School Aid Fund					
Beginning Balance.....	\$93.7	\$0.0	(100.0)%	\$11.3	---
Ongoing Earmarked Tax and Lottery Revenue ¹⁾	11,082.1	11,230.9	1.3	11,532.9	2.7%
Proposed Tax/Revenue Changes	0.0	191.1	---	438.9	---
Other Revenue (includes Federal aid)	1,508.3	1,637.8	8.6	1,460.1	(10.8)
Total SAF Revenue	\$12,684.1	\$13,059.8	3.0%	\$13,443.2	2.9%
Other Funds					
General Fund/Special Purpose and Special					
Revenue Funds	\$15,780.3	\$15,838.5	0.4%	\$16,504.6	4.2%
Transportation Funds.....	4,536.8	4,889.2	7.8	4,904.0	0.3
Fund Balances:					
Restricted GF Subfunds Unreserved Balances	479.9	479.9	0.0	479.9	0.0
Special Revenue Fund Balances	151.2	151.2	0.0	125.5	(17.0)
Total Fund Balances.....	\$631.1	\$631.1	0.0%	\$605.4	(4.1)%
Total Other Funds with Beginning Balance	\$20,948.2	\$21,358.8	2.0%	\$22,014.0	3.1%
Gross Revenue	\$42,749.9	\$43,629.0	2.1%	\$45,116.4	3.4%
Less Interfund Transfers.....	(1,657.8)	(1,161.2)	(30.0)	(1,206.2)	3.9
Net Total Revenue	\$41,092.1	\$42,467.8	3.3%	\$43,910.2	3.4%

¹⁾ Estimates adopted at the January 18, 2007, Consensus Revenue Estimating Conference.

Source: Governor's Executive Budget for FY 2007-08, Appendix D, and Senate Fiscal Agency.

General Fund/General Purpose and School Aid Fund

Two of the major funds in the overall State budget are the General Purpose portion of the General Fund (GF/GP) and the School Aid Fund (SAF). These two funds account for \$23.1 billion, or 52.6%, of the total revenue estimated for FY 2007-08. A breakdown of the GF/GP and SAF revenue estimates for FY 2006-07 and FY 2007-08, are presented in [Tables 28](#) and [29](#), respectively. The estimates for GF/GP and SAF revenue derived from ongoing revenue sources and enacted tax policy changes are the consensus estimates adopted by the Granholm Administration, Senate Fiscal Agency, and House Fiscal Agency at the January 18, 2007, Consensus Revenue

Estimating Conference. In addition to the consensus estimates, the total GF/GP and SAF revenue estimates include the Administration's estimates of one-time revenue adjustments, grants and transfers, Federal aid, beginning carryover balances, and the impact of the Governor's proposed tax increases and revenue adjustments.

General Fund/General Purpose Revenue. As shown in Table 28, GF/GP revenue is expected to total \$9.7 billion in FY 2007-08, which represents a 4.9% increase from the FY 2006-07 revised estimate. Revenue from ongoing revenue sources is expected to total \$7.0 billion, which represents a decrease of 14.8% from FY 2006-07. This sharp decline in GF/GP revenue from the current-law tax structure reflects that under current law the single business tax will expire on December 31, 2007. It is estimated that the repeal of the single business tax will reduce GF/GP revenue by almost \$1.2 billion in FY 2007-08. The Governor's proposed tax increases, including a new business tax, would generate \$2.1 billion in new revenue for the GF/GP budget. The Governor also is proposing to maintain a freeze in revenue sharing payments, which would send an estimated \$545.3 million in additional sales tax revenue to the General Fund in FY 2007-08.

School Aid Fund. School Aid Fund revenue available for spending in FY 2007-08 will total an estimated \$13.4 billion, representing a 2.9% increase from the revised estimate for FY 2006-07. The estimate of SAF revenue in FY 2007-08 is summarized in Table 29. The SAF revenue estimate for FY 2007-08 includes ongoing earmarked tax and lottery revenue totaling an estimated \$11.5 billion, a grant from the GF/GP budget proposed at \$35.0 million, and Federal aid of \$1.4 billion. In addition, the Governor's proposed tax increases would generate an estimated \$438.9 million in new SAF revenue in FY 2007-08. The Governor also is proposing that the Lottery's Club Keno game be expanded, which would generate an estimated \$15.0 in new lottery revenue for the SAF in FY 2007-08.

Table 28

**General Fund/General Purpose Revenue Estimates
FY 2006-07 and FY 2007-08
(Millions of Dollars)**

	FY 2006-07	FY 2007-08	Percent Change
Beginning Balance	\$7.2	\$2.1	(70.8)%
Consensus Estimates for Ongoing Revenue Sources: ¹⁾			
Taxes:			
Net Income Tax	\$4,180.9	\$4,213.5	0.8%
Single Business Tax	1,870.3	700.6	(62.5)
Sales	104.5	107.1	2.5
Use	943.0	980.0	3.9
Cigarette	229.0	225.1	(1.7)
Insurance Company Premiums	226.1	169.5	(25.0)
Telephone and Telegraph	78.0	72.0	(7.7)
Casino	47.1	18.6	(60.5)
All Other Taxes	<u>193.2</u>	<u>195.1</u>	<u>1.0</u>
Subtotal Taxes	\$7,872.1	\$6,681.5	(15.1)%
Nontax Revenue	357.9	328.6	(8.2)
Total GF/GP Consensus Revenue Estimates	\$8,230.0	\$7,010.1	(14.8)%
Enacted Revenue Adjustments ²⁾	558.0	545.3	(2.3)
Proposed Tax Increases ³⁾	320.7	2,064.0	543.6
Proposed Budget Adjustments ⁴⁾	<u>94.5</u>	<u>37.7</u>	<u>(60.1)</u>
Total GF/GP Revenue Current Fiscal Year	\$9,203.2	\$9,657.1	4.9%
Total GF/GP Revenue with Beginning Balance	\$9,210.4	\$9,659.2	4.9%

¹⁾ Estimates adopted at the January 18, 2007, Consensus Revenue Estimating Conference.

²⁾ Includes the increased sales tax revenue due to a freeze in revenue sharing payments of \$558.0 million in FY 2006-07 and \$545.3 million in FY 2007-08.

³⁾ Includes the Governor's proposed tax increases, which are summarized in [Table 29](#).

⁴⁾ Includes the following: FY 2006-07 - \$46.9 million in land sales, \$22.8 million in short-term interest payments from the SAF, and other adjustments totaling \$24.8 million. FY 2007-08 - \$22.8 million in short-term interest payments from the SAF, \$2.0 million transfer from the Financial Institutions Fund, and \$13.0 million from other adjustments.

Table 29

**School Aid Fund Revenue Estimates
FY 2006-07 and FY 2007-08
(Millions of Dollars)**

	FY 2006-07	FY 2007-08	Percent Change
Beginning Balance	\$0.0	\$11.3	---
Consensus Estimates for Earmarked Tax and Lottery Revenue:¹⁾			
Sales Tax and Use Tax	\$5,372.0	\$5,506.9	2.5%
Income Tax	2,059.7	2,096.8	1.8
State Education Property Tax	2,094.5	2,203.7	5.2
Real Estate Transfer Tax	244.2	256.1	4.9
Tobacco Taxes	459.1	449.9	(2.0)
Casino Gaming Tax	109.1	118.4	8.5
Other Tax Revenue	189.4	191.8	1.3
Subtotal Taxes	\$10,528.2	\$10,823.6	2.8%
Lottery	702.0	709.4	1.1
Subtotal Earmarked Tax and Lottery Consensus Estimate	\$11,230.0	\$11,532.9	2.7%
GF/GP Grant	35.0	35.0	0.0
Federal Aid and Other	1,411.2	1,410.1	(0.1)
Proposed Tax Increases ²⁾	191.1	438.9	129.7
Proposed Revenue Changes ³⁾	192.5	15.0	(92.2)
Total SAF Revenue Current Fiscal Year	\$13,059.8	\$13,431.9	2.8%
Total SAF Revenue with Beginning Balance	\$13,059.8	\$13,443.2	2.9%
¹⁾ Estimates adopted at the January 18, 2007, Consensus Revenue Estimating Conference.			
²⁾ Governor's proposed tax increases are summarized in <u>Tables 30</u> and <u>31</u> .			
³⁾ Includes the following: FY 2006-07 - \$7.5 million in revenue from expanding Club Keno lottery game and \$185.0 million transfer reserve from the Public School Employees' Retirement System resulting from revaluation of fund assets. FY 2007-08 - \$15.0 million in revenue from expanding Club Keno lottery game.			

Proposed Tax Increases

The Governor's budget includes some significant tax changes. These tax changes fall into three major categories: 1) replacement of the single business tax, including a proposed new business tax, an increase in the tax on insurance companies, and a proposed new personal property exemption for businesses (which are the only taxpayers liable for property taxes on personal property) from the State education tax and the 18-mill local school tax; 2) tax increases including a new 2.0% excise tax on most services and the proposed elimination or reduction of a variety of special tax exemptions that currently provide tax breaks to only certain taxpayers; and 3) tax reduction on new motor vehicles purchased from new car dealers when the transaction includes trading in a used vehicle. These tax changes would generate an estimated \$529.7 million in FY 2006-07 and \$2.7 billion in FY 2007-08. Each of the proposed tax changes is summarized below and their estimated fiscal impacts for FY 2006-07 and FY 2007-08 are presented in Tables 30 and 31, respectively.

Table 30

Governor's Proposed Tax Policy Changes - FY 2006-07 Estimated Fiscal Impacts*
(Dollars in Millions)

Tax Proposal	GF/GP	SAF	Revenue Sharing	Medicaid Trust Fund	Other	Total
SBT Replacement						
Michigan Business Tax ¹⁾	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Insurance Tax: Rate Increase ¹⁾	0.0	0.0	0.0	0.0	0.0	0.0
Personal Property Tax Exemption ¹⁾	0.0	0.0	0.0	0.0	0.0	0.0
Subtotal SBT Replacement	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Tax Increases						
2.0% Services Tax ²⁾	\$306.7	\$170.2	\$0.0	\$0.0	\$0.0	\$476.9
Commercial Rental Property Tax ¹⁾	0.0	0.0	0.0	0.0	0.0	0.0
Estate Tax: Decouple from Fed. Tax ³⁾	0.0	0.0	0.0	0.0	0.0	0.0
Liquor Markup Increase ²⁾	(0.2)	9.2	0.0	0.0	(0.2)	8.8
Cigarette Tax Increase: \$0.05/pack ²⁾	0.0	0.0	0.0	8.5	0.0	8.5
Other Tobacco Products Tax ²⁾	0.0	0.0	0.0	9.6	0.0	9.6
<u>Closing Tax "Loopholes":</u>						
Tax International and Other Calls (use tax) ²⁾	4.9	2.5	0.0	0.0	0.0	7.4
Interstate Trucks: Cut Sales/Use Tax Exemption ²⁾	3.7	1.8	0.0	0.0	0.0	5.5
Tax Prisoner Purchases ²⁾	0.1	0.1	0.0	0.0	0.0	0.2
Tax Insurance Co. Out-of-State Purchases (use tax) ²⁾	0.8	0.4	0.0	0.0	0.0	1.2
Repeal Oil and Gas Income Tax Exemption ⁴⁾	0.0	0.0	0.0	0.0	0.0	0.0
Tax Vended Foods (sales tax) ²⁾	2.3	6.5	0.0	0.0	0.0	8.8
Tax Water Softeners (property tax) ¹⁾	0.0	0.0	0.0	0.0	0.0	0.0
Tax Affiliates w/ Nexus in MI (use tax) ²⁾	0.8	0.4	0.0	0.0	0.0	1.2
Increase Penalties on Delinquent Taxes ²⁾	<u>1.7</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>1.7</u>
Subtotal Tax "Loophole" Closings	14.2	11.7	0.0	0.0	0.0	26.0
Subtotal Tax Increases	\$320.7	\$191.1	\$0.0	\$18.1	\$(0.2)	\$529.8
Tax Decreases:						
Sales Tax Exemption on Trade-In Value ⁵⁾	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Change Due to Tax Policy Changes	\$320.7	\$191.1	\$0.0	\$18.1	\$(0.2)	\$529.7

* Change in revenue from the consensus revenue estimates adopted January 18, 2007.
¹⁾ Effective date January 1, 2008. ²⁾ Effective date June 1, 2007. ³⁾ Effective for deaths occurring on or after April 1, 2007. ⁴⁾ 2007 tax year, but the first impact would be in FY 2007-08 when 2007 tax returns are filed. ⁵⁾ Effective date October 1, 2008.

Table 31

**Governor's Proposed Tax Policy Changes
FY 2007-08 Estimated Fiscal Impacts*
(Dollars in Millions)**

Tax Proposal	GF/GP	SAF	Revenue Sharing	Medicaid Trust Fund	Other	Total
SBT Replacement						
Michigan Business Tax ¹⁾	\$1,249.4	\$0.0	\$0.0	\$0.0	\$0.0	\$1,249.4
Insurance Tax: Rate Increase ¹⁾	40.0	0.0	0.0	0.0	0.0	40.0
Personal Property Tax Exemption ¹⁾	0.0	(203.4)	0.0	0.0	0.0	(203.4)
Subtotal SBT Replacement.....	\$1,289.4	\$(203.4)	\$0.0	\$0.0	\$0.0	\$1,086.0
Tax Increases						
2.0% Services Tax ²⁾	\$750.2	\$580.7	\$0.0	\$143.0	\$0.0	\$1,473.9
Commercial Rental Property Tax ¹⁾	0.0	5.0	0.0	0.0	0.0	5.0
Estate Tax: Decouple from Fed. Tax ³⁾	0.0	119.2	0.0	0.0	0.0	119.2
Liquor Markup Increase ²⁾	(0.6)	28.3	0.0	0.0	(0.6)	27.1
Cigarette Tax Increase: \$0.05/pack ²⁾	0.0	0.0	0.0	21.0	0.0	21.0
Other Tobacco Products Tax ²⁾	0.0	0.0	0.0	36.6	0.0	36.6
Closing Tax "Loopholes":						
Tax International and Other Calls (use tax) ²⁾	15.2	7.6	0.0	0.0	0.0	22.8
Interstate Trucks: Cut Sales/Use Tax Exemption ²⁾	11.3	5.6	0.0	0.0	0.0	16.9
Tax Prisoner Purchases ²⁾	0.0	0.5	0.2	0.0	0.0	0.7
Tax Insurance Co. Out-of-State Purchases (use tax) ²⁾	2.5	1.2	0.0	0.0	0.0	3.7
Repeal Oil and Gas Income Tax Exemption ⁴⁾	2.9	1.0	0.0	0.0	0.0	3.9
Tax Vended Foods (sales tax) ²⁾	0.6	20.0	6.6	0.0	0.0	27.2
Tax Water Softeners (property tax) ¹⁾	0.0	0.3	0.0	0.0	0.0	0.3
Tax Affiliates w/ Nexus in MI (use tax) ²⁾	2.4	1.2	0.0	0.0	0.0	3.6
Increase Penalties on Delinquent Taxes ²⁾	5.1	0.0	0.0	0.0	0.0	5.1
Subtotal Tax "Loophole" Closings	40.0	37.4	6.8	0.0	0.0	84.2
Subtotal Tax Increases	\$789.6	\$770.6	\$6.8	\$200.6	\$(0.6)	\$1,767.0
Tax Decreases:						
Sales Tax Exemption on Trade-In Value ⁵⁾	\$(15.0)	\$(128.3)	\$(31.8)	\$0.0	\$0.0	\$(175.0)
Net Change Due to Tax Policy Changes.....	\$2,064.0	\$438.9	\$(25.0)	\$200.6	\$(0.6)	\$2,677.9
* Change in revenue from the consensus revenue estimates adopted January 18, 2007. The consensus revenue estimates include the impact of repealing the SBT effective December 31, 2007.						
¹⁾ Effective date January 1, 2008. ²⁾ Effective date June 1, 2007. ³⁾ Effective for deaths occurring on or after April 1, 2007. ⁴⁾ 2007 tax year, but the first impact would be in FY 2007-08 when 2007 tax returns are filed. ⁵⁾ Effective date October 1, 2008.						

SBT Replacement. These tax changes would generate net new revenue totaling an estimated \$1.09 billion in FY 2007-08. The consensus revenue estimate, on which the Governor's budget is based, already reflects the loss of an estimated \$1.2 billion due to the repeal of the single business tax effective December 31, 2007. Due to the timing of the collection of the revenue from the proposed Michigan business tax and the reimbursement to the School Aid Fund for the loss in personal property tax revenue, it is estimated that about \$385.0 million of the total \$1.09 billion net gain in revenue that would be generated in FY 2007-08 would be a one-time gain in revenue that would occur only in FY 2007-08.

Michigan Business Tax - Tax base would equal income, gross receipts, and assets, and tax rate would equal 0.125%; however, extra weight would be placed on the income component of the base and, as a result the effective tax rate on income, would be 1.875%. Businesses with their headquarters in Michigan would receive a special credit. (Effective 1-1-08)

Insurance Tax - Current rate on premiums tax paid by insurance companies would be increased from 1.07% to 1.25% and certain tax credits would be eliminated. (Effective 1-1-08)

Personal Property Tax - Personal property owned by industrial and commercial businesses would be exempt from the 6-mill State education tax and the 18-mill local school tax. Some of the revenue generated from the new Michigan business tax would be earmarked to the School Aid Fund to reimburse the Fund for the State education tax revenue it would lose due to this proposed new exemption. The SAF also would be reimbursed for the increased expenditures it would have to make in order to make up the amount local school districts would lose from their local 18-mill school property tax revenue due to this proposed personal property tax exemption. (Effective 1-1-08)

Tax Increases. Various proposed tax increases would generate an estimated \$530.0 million in FY 2006-07 and \$1,767.0 million in FY 2007-08.

Services Tax - A 2.0% tax would be assessed on services, excluding medical and educational services and services purchased by nonprofits and governments. (Effective 6-1-07)

Commercial Rental Property - Commercial rental property would be exempt from the property tax and instead would be subject to a new specific tax that would allow the taxable values of individual properties to be adjusted up and down as vacancy rates changed. (Effective 1-1-08)

Estate Tax - Michigan would reinstate the estate tax by basing it on Federal estate tax provisions that preceded the 2001 Federal law changes that ended Michigan's tax. (Effective 4-1-07)

Liquor Markup - State government is the wholesaler of all liquor in Michigan. Currently, it marks up prices by 65.0%. Under this proposal, the price markup would increase to 75.0%. (Effective 6-1-07)

Cigarette Tax - The current \$2/pack tax on cigarettes would be increased by \$0.05/pack. (Effective 6-1-07)

Other Tobacco Products - The tax on other tobacco products, which is currently equal to 32.0% of the wholesale price, would be increased to 64.0% of the wholesale price. (Effective 6-1-07)

International Telecommunications - Certain interstate and international calls currently are exempt from the use tax, while intrastate calls are taxed. This exemption would be repealed. (Effective 6-1-07)

Truck Purchases - A current sales tax exemption on trucks and trailers purchased for use in interstate travel would be reduced. (Effective 6-1-07)

Prisoner Purchases - Purchases made by prisoners in prison stores are currently exempt from the sales tax. The Governor is proposing that these purchases be subject to the sales tax. (Effective 6-1-07)

Insurance Companies - A current use tax exemption granted to insurance companies on items they purchase in other states but use in Michigan would be repealed. (Effective 6-1-07)

Oil and Gas - Income from oil and gas production is subject to the severance tax and not Michigan's income tax; however, oil and gas production companies are still able to deduct certain production expenses when calculating their Michigan income tax. The Governor is proposing that this deduction be repealed. (Effective 2007 tax year)

Vended Foods - Food sold for immediate consumption is subject to the sales tax; however, certain food sold by vending machines and mobile vendors is exempt. This current sales tax exemption would be repealed. (Effective 6-1-07)

Water Softeners - A current exemption from the personal property tax for water softener equipment that is rented or leased would be repealed. (Effective 1-1-08)

Affiliate Nexus - Multistate businesses based in Michigan currently avoid use tax liabilities by establishing out-of-state divisions as separate legal entities. Proposed changes would revise the Nexus standards to make these out-of-state affiliates subject to the use tax. (Effective 6-1-07)

Tax Penalties - Penalties on certain late tax payments would be restored to their 2002 level. (Effective 6-1-07)

Tax Decrease. A proposed tax decrease would reduce revenue an estimated \$175.0 million in FY 2007-08.

Sales Tax on the Difference - The sales tax currently is assessed on the full purchase price of a new vehicle even if another vehicle is traded in as part of the transaction. The Governor is proposing that when a new vehicle is purchased from a new car dealer, the sales tax be based on the difference between the price of the new vehicle and value of the used vehicle traded in as part of the transaction. This proposed tax reduction is commonly referred to as "sales tax on the difference." (Effective 10-1-07)



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