



FY 2008-09
APPROPRIATIONS REPORT
Part I - Governor's Recommendations

March 2008



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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.
5. To review and evaluate the impact of Federal budget decisions on the State.
6. To review and evaluate State issuance of long-term and short-term debt.
7. To review and evaluate the State's compliance with constitutional and statutory fiscal requirements.
8. To prepare special reports on fiscal issues as they arise and at the request of members of the Senate.

The Agency is located on the 8th floor of the Victor Office Center. The Agency is an equal opportunity employer.



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OVERVIEW

Governor Granholm, on February 7, 2008, transmitted her fiscal year (FY) 2008-09 State Budget Message to the Legislature. The Governor's FY 2008-09 budget contains recommendations for \$44.0 billion of Adjusted Gross appropriations. Included in this appropriation total are \$14.8 billion of Federal funds, \$18.9 billion of State Restricted funds, \$512.2 million of local and private funds, and \$9.8 billion of General Fund/General Purpose (GF/GP) appropriations. Table 1 and Figure A provide summaries of the overall makeup of the FY 2008-09 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 2008-09 compared with FY 2007-08 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 for a 2.9% increase in Adjusted Gross appropriations, a 1.4% increase in State Spending from State Resources appropriations, and a 0.1% decline in GF/GP appropriations.

The Governor's Budget Message is based on the consensus revenue estimates agreed to on January 11, 2008. The FY 2008-09 GF/GP consensus revenue estimate is \$9.2 billion. This represents a 0.6% decline from the FY 2007-08 consensus estimate. The FY 2008-09 School Aid Fund (SAF) consensus revenue estimate is \$11.9 billion. This represents a 4.6% increase from the FY 2007-08 consensus estimate.

The Governor's Budget Message includes one proposed change in State tax policy. This is a recommendation to expand an existing credit and enact a new credit against the Michigan Business Tax Act related to job growth in the State. The expanded credit would provide certain Michigan-based businesses with an increase in the existing credit based on compensation paid to employees. This expanded credit would be available only to a select list of businesses. Certain new businesses that relocate to Michigan would be eligible to defer all or a portion of their Michigan business tax liability for up to four years. The proposed new business tax credits would reduce FY 2008-09 GF/GP revenue by \$34.8 million. The consensus revenue estimates and the proposed tax policy change are discussed in more detail in the Economic and Revenue Forecast section of this report.

The Governor's Budget Message also includes recommendations to restructure existing State-bonded debt and recommendations to increase the level of State debt. The recent reduction in interest rates will result in savings in the level of appropriations needed to fund debt service requirements on general obligation bonds issued by the State. The budget reflects a \$30.0 million GF/GP appropriation reduction in FY 2007-08 and a \$40.0 million GF/GP appropriation reduction in FY 2008-09 on debt service payments on these bonds. The budget also includes a recommendation to restructure and to extend the duration of the borrowing of the \$400.0 million of bonds issued in FY 2005-06 to finance economic development projects funded through the 21st Century Jobs Fund. The recommendation is to increase this borrowing by \$60.0 million and use this revenue for Michigan promotion activities conducted by the Strategic Fund Agency.

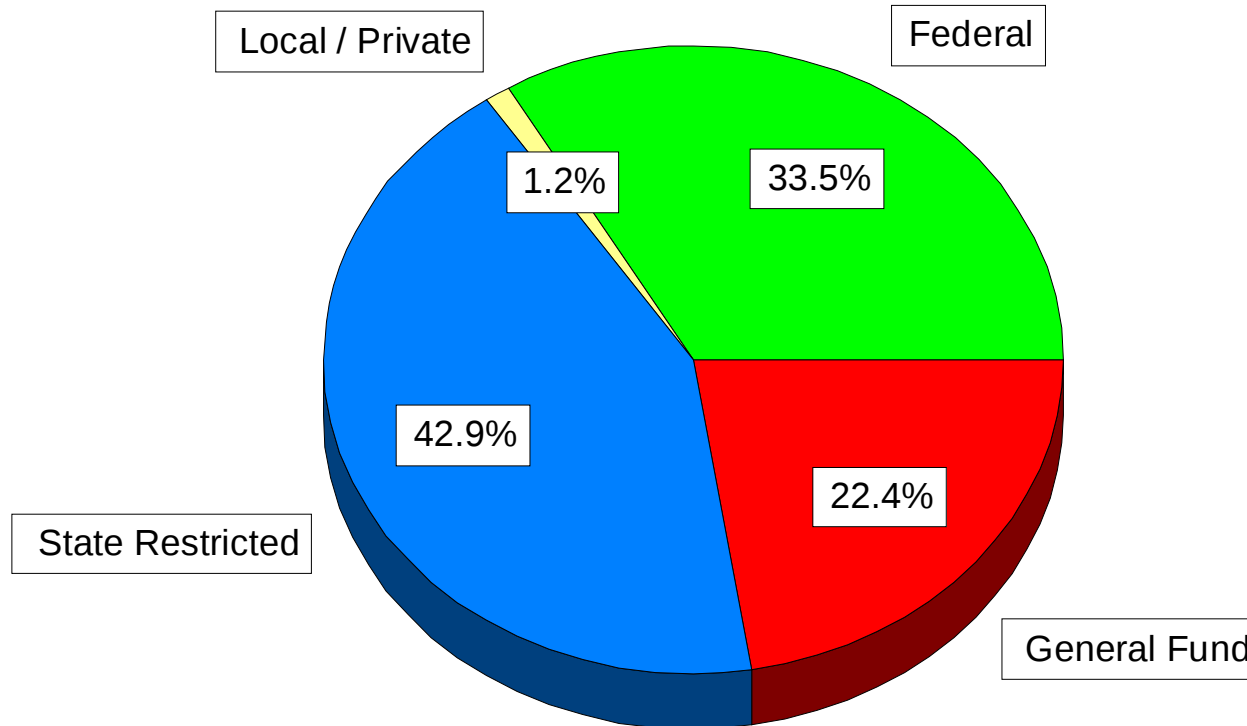
Increased levels of State borrowing are recommended for capital construction projects financed by the State Building Authority, for additional borrowing against future dedicated transportation revenue, and for borrowing to support proposed new programs in the K-12 School Aid budget. The budget recommends that the State Building Authority borrow \$561.9 million to help finance capital construction projects at 10 universities, 15 community colleges, and numerous State agencies. This borrowing would lead to increased future debt service payments of approximately \$56.0 million annually for the next 20 fiscal years. The budget also includes the recommendation to borrow \$150.0 million to speed up transportation construction and renovation projects across the State. The debt service payments on this borrowing would be future dedicated transportation revenue. The final new borrowing recommended in the budget is up to \$300.0 million to provide for planning and potential construction assistance for certain high schools across the State that are not meeting yearly academic progress as defined by the Federal government. The State would finance borrowing by dedicating \$32.0 million of School Aid Fund revenue for the next 20 years.

Table 1

FY 2008-09 GOVERNOR'S RECOMMENDATION BY SOURCE OF FUNDS					
Department/Budget Area	Adjusted Gross	Federal Funds	Local & Private Funds	Other State Restricted	General Funds
Agriculture	\$93,440,800	\$14,861,000	\$237,200	\$45,852,400	\$32,490,200
Attorney General	52,243,600	8,050,800	0	11,927,600	32,265,200
Capital Outlay	247,966,700	188,017,600	32,174,200	27,324,900	450,000
Civil Rights	14,528,400	2,057,300	0	0	12,471,100
Community Colleges	302,228,800	0	0	0	302,228,800
Community Health	12,444,246,500	7,159,187,100	308,667,400	1,890,286,200	3,086,105,800
Corrections	2,060,775,000	10,350,200	430,300	71,731,700	1,978,262,800
Education	94,743,200	69,675,500	10,012,400	6,980,800	8,074,500
Environmental Quality (Operations)	343,744,300	130,636,100	455,700	167,653,900	44,998,600
Environmental Quality (CMI Bond)	5,663,200	0	0	5,663,200	0
Executive	5,317,300	0	0	0	5,317,300
Higher Education	1,799,426,000	7,400,000	0	116,100,000	1,675,926,000
History, Arts, and Libraries	52,111,300	7,507,400	512,400	3,979,800	40,111,700
Human Services	4,656,272,700	3,146,833,100	71,468,200	61,419,200	1,376,552,200
Information Technology	0	0	0	0	0
Judiciary	259,389,200	4,626,400	6,935,600	87,893,800	159,933,400
Labor and Economic Growth	1,332,128,500	831,637,300	21,203,500	384,937,600	94,350,100
Legislative Auditor General	14,026,700	0	0	1,539,900	12,486,800
Legislature	114,504,000	0	400,000	1,109,800	112,994,200
Management and Budget	383,122,900	10,669,900	2,142,900	77,694,100	292,616,000
Military and Veterans Affairs	128,707,500	57,538,200	2,748,300	28,300,400	40,120,600
Natural Resources	283,166,500	49,909,100	3,245,000	206,553,500	23,458,900
School Aid	13,515,227,700	1,562,008,600	0	11,910,219,100	43,000,000
State	185,135,700	1,460,000	100	156,787,600	26,888,000
State Police	503,190,300	94,733,400	8,785,800	113,629,900	286,041,200
Transportation	3,424,465,500	1,316,771,200	40,950,000	2,066,744,300	0
Treasury (Debt Service)	83,123,000	0	0	15,514,500	67,608,500
Treasury (Operations)	386,132,700	36,868,900	1,105,100	283,332,300	64,826,400
Treasury (Revenue Sharing)	1,091,399,100	0	0	1,091,187,100	212,000
Treasury (Strategic Fund)	160,702,300	55,438,800	715,600	75,005,200	29,542,700
TOTAL APPROPRIATIONS	\$44,037,129,400	\$14,766,237,900	\$512,189,700	\$18,909,368,800	\$9,849,333,000

Figure A

Appropriations by Source of Funds FY 2008-09 Governor's Recommendation



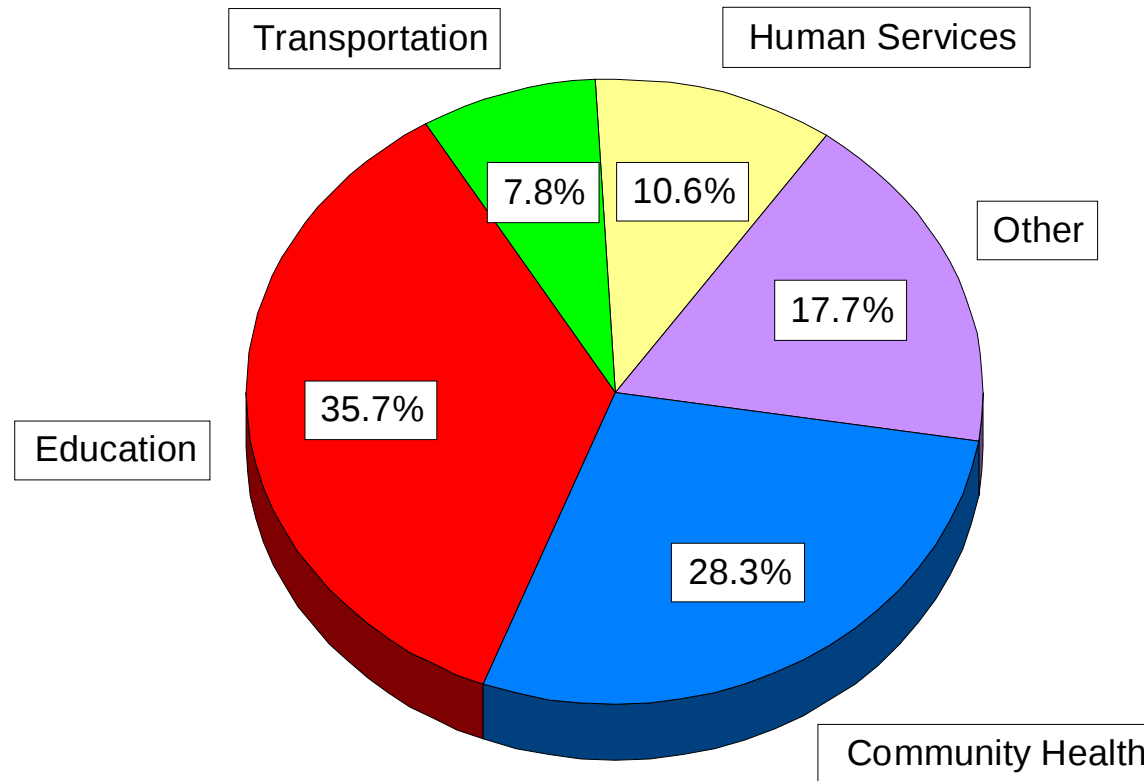
Total = \$ 44,037,129,400

Table 2

ADJUSTED GROSS APPROPRIATIONS FY 2007-08 VERSUS GOVERNOR'S RECOMMENDATION				
Department/Budget Area	FY 2007-08 Year-to-Date Appropriations	FY 2008-09 Governor's Recommendation	Dollar Difference	Percent Change
Agriculture	\$98,753,900	\$93,440,800	\$(5,313,100)	(5.4)%
Attorney General	51,343,900	52,243,600	899,700	1.8
Capital Outlay	0	247,966,700	247,966,700	100.0
Civil Rights	14,491,300	14,528,400	37,100	0.3
Community Colleges	318,928,800	302,228,800	(16,700,000)	(5.2)
Community Health	12,008,915,900	12,444,246,500	435,330,600	3.6
Corrections	2,077,004,500	2,060,775,000	(16,229,500)	(0.8)
Education	96,482,400	94,743,200	(1,739,200)	(1.8)
Environmental Quality (Operations)	346,268,300	343,744,300	(2,524,000)	(0.7)
Environmental Quality (CMI Bond)	5,663,200	5,663,200	0	0.0
Executive	5,317,300	5,317,300	0	0.0
Higher Education	1,896,375,700	1,799,426,000	(96,949,700)	(5.1)
History, Arts, and Libraries	49,363,700	52,111,300	2,747,600	5.6
Human Services	4,574,977,200	4,656,272,700	81,295,500	1.8
Information Technology	0	0	0	0.0
Judiciary	256,768,000	259,389,200	2,621,200	1.0
Labor and Economic Growth	1,266,757,900	1,332,128,500	65,370,600	5.2
Legislative Auditor General	14,026,700	14,026,700	0	0.0
Legislature	114,504,000	114,504,000	0	0.0
Management and Budget	342,209,800	383,122,900	40,913,100	12.0
Military and Veterans Affairs	127,749,800	128,707,500	957,700	0.7
Natural Resources	284,387,100	283,166,500	(1,220,600)	(0.4)
School Aid	13,006,025,100	13,515,227,700	509,202,600	3.9
State	187,681,400	185,135,700	(2,545,700)	(1.4)
State Police	540,139,900	503,190,300	(36,949,600)	(6.8)
Transportation	3,360,195,600	3,424,465,500	64,269,900	1.9
Treasury (Debt Service)	119,986,400	83,123,000	(36,863,400)	(30.7)
Treasury (Operations)	388,153,100	386,132,700	(2,020,400)	(0.5)
Treasury (Revenue Sharing)	1,072,990,600	1,091,399,100	18,408,500	1.7
Treasury (Strategic Fund)	166,342,500	160,702,300	(5,640,200)	(3.4)
TOTAL APPROPRIATIONS	\$42,791,804,000	\$44,037,129,400	\$1,245,325,400	2.9%

Figure B

Adjusted Gross FY 2008-09 Governor's Recommendation



Total = \$ 44,037,129,400

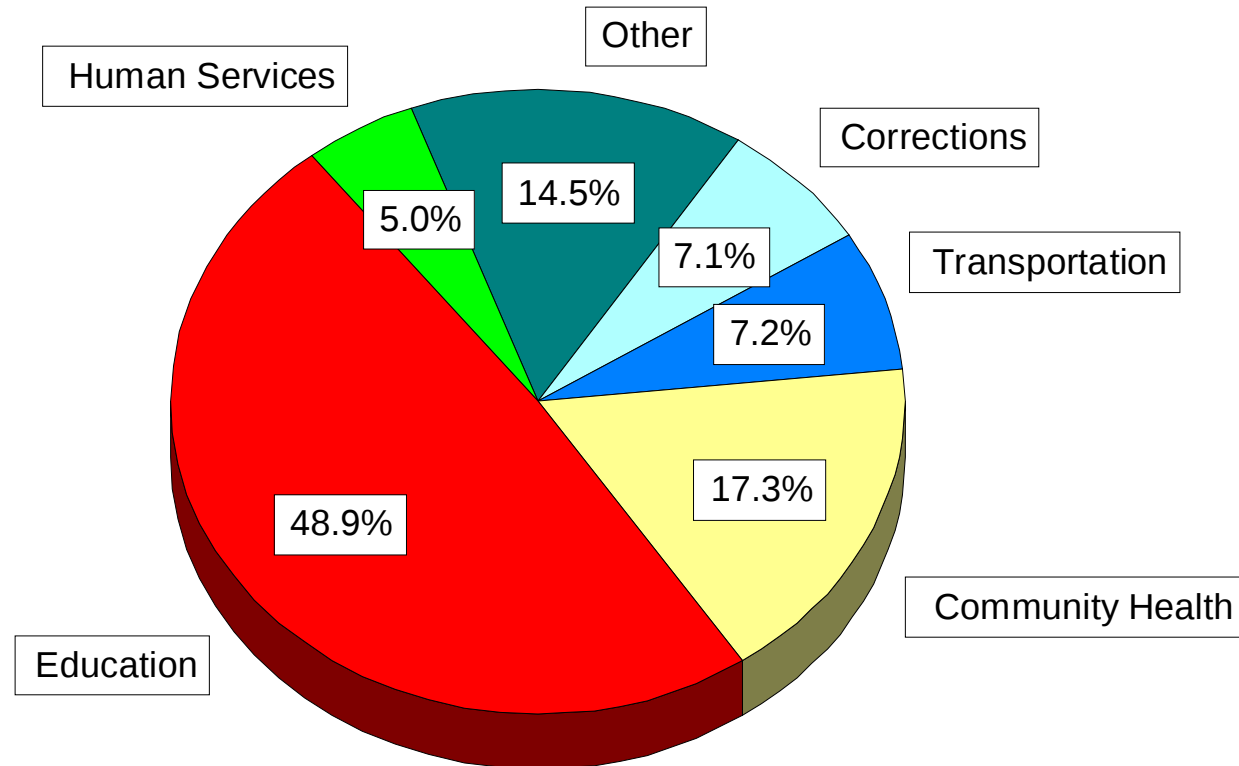
Table 3

STATE SPENDING FROM STATE RESOURCES FY 2007-08 VERSUS GOVERNOR'S RECOMMENDATION				
Department/Budget Area	FY 2007-08 Year-to-Date Appropriations	FY 2008-09 Governor's Recommendation	Dollar Difference	Percent Change
Agriculture	\$77,279,800	\$78,342,600	\$1,062,800	1.4%
Attorney General	43,527,900	44,192,800	664,900	1.5
Capital Outlay	0	27,774,900	27,774,900	100.0
Civil Rights	12,437,200	12,471,100	33,900	0.3
Community Colleges	318,928,800	302,228,800	(16,700,000)	(5.2)
Community Health	4,987,648,000	4,976,392,000	(11,256,000)	(0.2)
Corrections	2,066,234,100	2,049,994,500	(16,239,600)	(0.8)
Education	14,111,900	15,055,300	943,400	6.7
Environmental Quality (Operations)	214,062,700	212,652,500	(1,410,200)	(0.7)
Environmental Quality (CMI Bond)	5,663,200	5,663,200	0	0.0
Executive	5,317,300	5,317,300	0	0.0
Higher Education	1,888,975,700	1,792,026,000	(96,949,700)	(5.1)
History, Arts, and Libraries	41,943,900	44,091,500	2,147,600	5.1
Human Services	1,368,108,700	1,437,971,400	69,862,700	5.1
Information Technology	0	0	0	0.0
Judiciary	245,889,400	247,827,200	1,937,800	0.8
Labor and Economic Growth	424,846,400	479,287,700	54,441,300	12.8
Legislative Auditor General	14,026,700	14,026,700	0	0.0
Legislature	114,104,000	114,104,000	0	0.0
Management and Budget	335,580,700	370,310,100	34,729,400	10.3
Military and Veterans Affairs	68,815,100	68,421,000	(394,100)	(0.6)
Natural Resources	233,251,700	230,012,400	(3,239,300)	(1.4)
School Aid	11,526,698,800	11,953,219,100	426,520,300	3.7
State	185,770,100	183,675,600	(2,094,500)	(1.1)
State Police	384,898,100	399,671,100	14,773,000	3.8
Transportation	2,116,605,000	2,066,744,300	(49,860,700)	(2.4)
Treasury (Debt Service)	119,986,400	83,123,000	(36,863,400)	(30.7)
Treasury (Operations)	350,646,700	348,158,700	(2,488,000)	(0.7)
Treasury (Revenue Sharing)	1,072,990,600	1,091,399,100	18,408,500	1.7
Treasury (Strategic Fund)	110,199,000	104,547,900	(5,651,100)	(5.1)
TOTAL APPROPRIATIONS	\$28,348,547,900	\$28,758,701,800	\$410,153,900	1.4%

Figure C

State Spending From State Resources

FY 2008-09 Governor's Recommendation



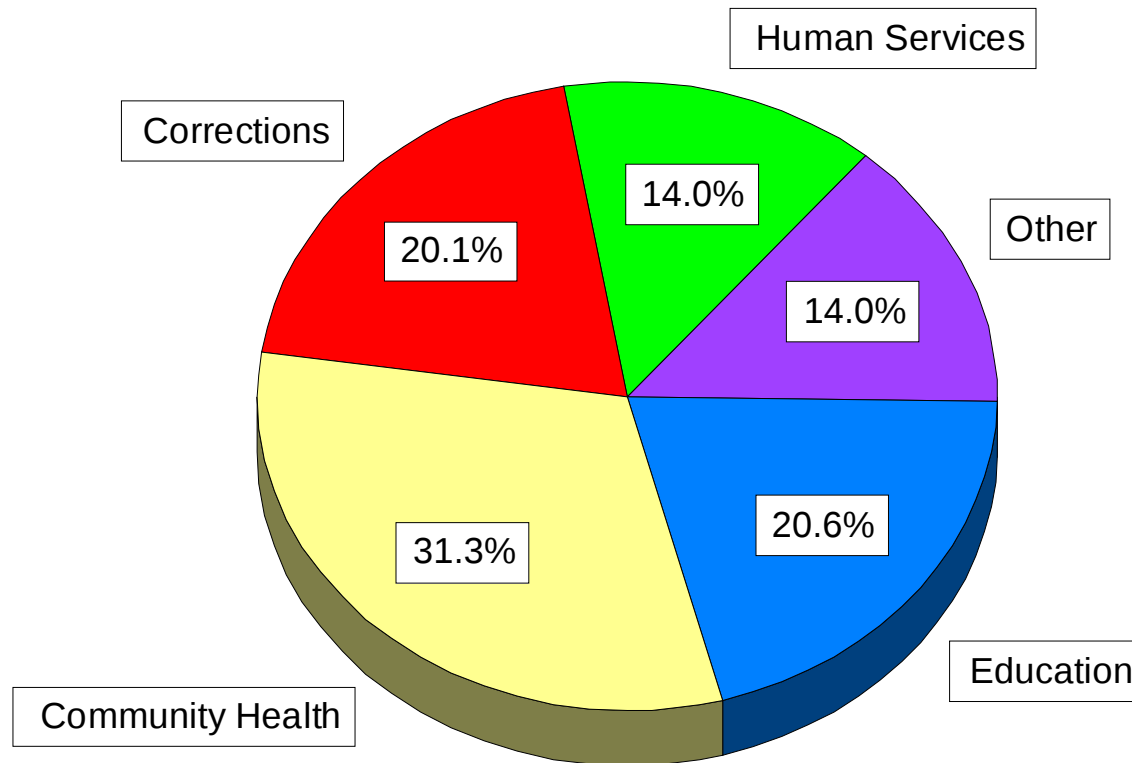
Total = \$ 28,758,701,800

Table 4

GENERAL FUND/GENERAL PURPOSE FY 2007-08 VERSUS GOVERNOR'S RECOMMENDATION				
Department/Budget Area	FY 2007-08 Year-to-Date Appropriations	FY 2008-09 Governor's Recommendation	Dollar Difference	Percent Change
Agriculture	\$31,158,100	\$32,490,200	\$1,332,100	4.3%
Attorney General	32,036,600	32,265,200	228,600	0.7
Capital Outlay	0	450,000	450,000	100.0
Civil Rights	12,437,200	12,471,100	33,900	0.3
Community Colleges	318,928,800	302,228,800	(16,700,000)	(5.2)
Community Health	3,125,311,600	3,086,105,800	(39,205,800)	(1.3)
Corrections	1,996,084,500	1,978,262,800	(17,821,700)	(0.9)
Education	7,075,400	8,074,500	999,100	14.1
Environmental Quality (Operations)	31,763,200	44,998,600	13,235,400	41.7
Environmental Quality (CMI Bond)	0	0	0	0.0
Executive	5,317,300	5,317,300	0	0.0
Higher Education	1,761,775,700	1,675,926,000	(85,849,700)	(4.9)
History, Arts, and Libraries	39,298,300	40,111,700	813,400	2.1
Human Services	1,308,410,100	1,376,552,200	68,142,100	5.2
Information Technology	0	0	0	0.0
Judiciary	157,996,700	159,933,400	1,936,700	1.2
Labor and Economic Growth	46,002,700	94,350,100	48,347,400	105.1
Legislative Auditor General	12,486,800	12,486,800	0	0.0
Legislature	112,994,200	112,994,200	0	0.0
Management and Budget	267,479,200	292,616,000	25,136,800	9.4
Military and Veterans Affairs	40,386,500	40,120,600	(265,900)	(0.7)
Natural Resources	22,743,200	23,458,900	715,700	3.1
School Aid	34,909,600	43,000,000	8,090,400	23.2
State	28,797,200	26,888,000	(1,909,200)	(6.6)
State Police	273,579,300	286,041,200	12,461,900	4.6
Transportation	0	0	0	0.0
Treasury (Debt Service)	96,071,900	67,608,500	(28,463,400)	(29.6)
Treasury (Operations)	63,419,300	64,826,400	1,407,100	2.2
Treasury (Revenue Sharing)	325,600	212,000	(113,600)	(34.9)
Treasury (Strategic Fund)	29,493,800	29,542,700	48,900	0.2
TOTAL APPROPRIATIONS	\$9,856,282,800	\$9,849,333,000	(\$6,949,800)	(0.1)%

Figure D

General Fund/General Purpose FY 2008-09 Governor's Recommendation



Total = \$ 9,849,333,000

SUMMARY OF MAJOR GF/GP APPROPRIATION CHANGES IN FY 2008-09

The Governor's FY 2008-09 GF/GP budget recommendation marks the sixth State budget that Governor Granholm has transmitted to the Legislature. The Governor's budget recommendation, pursuant to constitutional requirements, is balanced between estimated revenue and recommended appropriations.

Table 5 provides a summary of the FY 2008-09 GF/GP revenue assumptions included in the Governor's budget. The budget recommends total FY 2008-09 GF/GP revenue of \$9.9 billion. This includes a projected \$125.5 million year-end balance carried forward from FY 2007-08 and \$9.2 million of current law GF/GP revenue estimated at the January 11, 2008, Consensus Revenue Estimating Conference. Other GF/GP revenue changes recommended by the Governor, but not included in the consensus revenue estimate, include \$540.5 million of GF/GP revenue increases resulting from a freeze in revenue sharing payments to cities, villages, townships, and counties versus the distributions of the full level of sales tax provided in law. The budget also includes a \$16.2 million increase in statutory revenue sharing payments, \$34.8 million of reduced GF/GP revenue from the previously mentioned proposed changes to the Michigan Business Tax, \$45.0 million of increased GF/GP revenue resulting from charging a portion of the State short-term borrowing costs to the School Aid Fund, and \$6.5 million of revenue from the sale of surplus State property.

Table 5

GOVERNOR'S FY 2008-09 BUDGET RECOMMENDATION GENERAL FUND/GENERAL PURPOSE REVENUE RECOMMENDATIONS (Millions of Dollars)	
Beginning Balance Carried Forward from FY 2007-08.....	\$ 125.5
Consensus Revenue Estimate (January 2008)	9,193.7
<u>Revenue Adjustments not Included in the Consensus Estimate:</u>	
Revenue Sharing Freeze	540.5
Statutory Revenue Sharing 4.0% Increase	(16.2)
Michigan Job Creation Credit	(34.8)
Shift of Short-Term Borrowing Costs to School Aid Fund	45.0
Northville Surplus Property Sale	6.5
Subtotal Revenue Adjustments	541.0
Governor's GF/GP Revenue Recommendation	\$9,860.2

Table 6 provides a comparison of the Governor's recommended level of FY 2008-09 GF/GP appropriations with the year-to-date level of FY 2007-08 GF/GP appropriations. The Governor's recommendation represents a \$7.0 million decrease in GF/GP appropriations. This net change in GF/GP appropriations can be best characterized by funding increases, funding reductions, and funding shifts. Actual recommended funding increases total \$463.3 million, funding reductions total \$367.2 million, and the funding shifts to and from GF/GP appropriations, and from GF/GP appropriations to other fund sources, result in a \$103.1 million net decrease in GF/GP appropriations. The funding shifts are defined as changes in the level of overall GF/GP appropriations that do not affect the actual level of a program.

Table 6

GOVERNOR'S FY 2008-09 APPROPRIATION RECOMMENDATION MAJOR PROPOSED CHANGES FROM FY 2007-08 YEAR-TO-DATE GENERAL FUND/GENERAL PURPOSE APPROPRIATIONS (Millions of Dollars)	
FY 2007-08 Year-To-Date Appropriations	\$9,856.3
FY 2008-09 Governor's Recommendations	<u>9,849.3</u>
Net Change in Appropriations	\$ (7.0)
 Total Funding Increases	 \$ 463.0
Total Funding Reductions	(366.9)
Total Fund Shifts	<u>(103.1)</u>
Total GF/GP Funding Change	\$ (7.0)

Table 7 provides a summary of the \$463.0 million of GF/GP appropriation increases included in the FY 2008-09 budget recommendation. A significant level of the recommended appropriation increases involves caseload and cost adjustments in the Medicaid program in the Department of Community Health and the assistance programs in the Department of Human Services. These caseload and cost increases in the two departments total \$186.6 million. The budget includes 3.0% operations funding increases for universities and community colleges. These operations funding increases total \$52.2 million. Major new GF/GP funding initiatives in the budget include \$40.0 million in the Department of Labor and Economic Growth for a retraining program for displaced workers and an \$8.5 million funding increase for the Michigan Nursing Corps.

Table 7

GOVERNOR'S FY 2008-09 APPROPRIATION RECOMMENDATION GENERAL FUND/GENERAL PURPOSE FUNDING INCREASES (Millions of Dollars)	
<u>Department/Program</u>	
Agriculture	
Bovine Tuberculosis	\$ 1.7
Capital Outlay	
Armory Repairs	0.5
Community Colleges	
Operations Funding	8.6
Renaissance Zone Tax Reimbursement	0.5
Community Health	
Public Health Programming	1.6
Pilot Mental Health Courts	2.3
Medicaid Caseload/Utilization/Inflation	60.6
Actuarially Sound Rates for Medicaid HMOs and Community Mental Health	66.5
Long-Term Care Expansion	12.9

GOVERNOR'S FY 2008-09 APPROPRIATION RECOMMENDATION GENERAL FUND/GENERAL PURPOSE FUNDING INCREASES (Millions of Dollars)	
<u>Department/Program</u>	
Community Health (continued)	
Annualization of Prior-Year Program Enhancements	7.5
Quality Assurance Assessment Adjustments.....	3.8
Physician Adjustor Payments.....	(3.7)
Physician Adjustor Payments.....	1.7
Corrections	
Security/Metal Detectors at Parole Offices	0.5
Cell Phones for Parole/Probation Officers	0.2
Pardon/Commutation Unit	0.4
Local Reinvestment to Achieve Prisoner Reductions	9.6
Hepatitis C Testing and Treatment.....	14.9
800 Additional Prison Beds	10.8
Mental Health Treatment.....	4.8
Correctional Officer Training School	4.0
Health Care Funding	2.9
Correctional Facility Staffing.....	1.0
Inmate Legal Services.....	0.4
Field Operations	3.9
Equipment and Special Maintenance.....	2.0
Information Technology	2.0
Education	
Oversight of 21st Century Schools Fund	0.5
Higher Education	
Operations Funding.....	43.6
Agricultural Experiment Station.....	1.0
Cooperative Extension Service	0.9
Tuition Incentive Program	4.1
History, Arts, and Libraries	
Arts and Cultural Grants.....	0.2
Record Center Relocation Costs.....	0.9
Human Services	
Assistance Programs Caseload and Cost Adjustments.....	59.5
Child Day Care Rate Increase.....	10.0
Family Independence Program Rate Increase.....	11.4
State Disability Assistance Rate Increase.....	0.7
Food Stamp Program Federal Sanction.....	1.3
Rental Cost and Other Miscellaneous.....	2.6

GOVERNOR'S FY 2008-09 APPROPRIATION RECOMMENDATION GENERAL FUND/GENERAL PURPOSE FUNDING INCREASES (Millions of Dollars)	
<u>Department/Program</u>	
Judiciary	
Pilot Mental Health Courts.....	1.1
Labor and Economic Growth	
No Worker Left Behind	40.0
Michigan Nursing Corps	8.5
Management and Budget	
State Building Authority Debt Service	5.0
Children's Ombudsman	0.1
Military and Veterans Affairs	
Headquarters and Armories	0.2
Military Retirement Costs	0.2
Natural Resources	
Forest Recreation	0.5
Forest Fire Protection	0.5
School Aid	
GF/GP Grant to School Aid Fund	8.1
State Police	
New Trooper School.....	7.3
Palm Print Collection and Analysis.....	1.0
Forensic Science Laboratory Operations	2.0
Michigan Public Safety Communication System.....	3.0
Treasury - Debt Service	
Great Lakes Water Quality Bond Debt Service	9.7
Treasury - Operations	
Michigan Business Tax Implementation.....	3.4
Renaissance Zone Reimbursements	0.7
Information Technology Costs.....	0.4
Department-Wide Economic Adjustments	
Wage and Salary Increases	18.8
Employee Insurance Costs	(22.3)
Retirement Contributions.....	12.9
All Other Economic Adjustments.....	2.3
All Other Funding Adjustments.....	1.0
Total Major Funding Increases	\$463.0

Table 8 provides a summary of the \$367.2 million of GF/GP appropriation reductions contained in the Governor's budget. The largest of these recommended appropriation reductions involves the elimination of the FY 2007-08 extra funding for universities and community colleges related to the FY 2006-07 delay of the final State payments to these educational institutions. The elimination of the funding delay payments results in a \$164.5 million GF/GP appropriation reduction. Other major funding reductions include Medicaid provider reductions in the Community Health budget and approximately \$50.0 million of undesignated savings in the Department of Corrections. The other broad category of appropriation reductions includes savings of \$42.9 million that would result from the refinancing of outstanding general obligation bonds in the Department of Treasury.

Table 8

GOVERNOR'S FY 2008-09 APPROPRIATION RECOMMENDATION GENERAL FUND/GENERAL PURPOSE FUNDING REDUCTIONS/ELIMINATIONS (Millions of Dollars)	
<u>Department/Program</u>	
Attorney General	
Information Technology	\$ (1.4)
Community Colleges	
Payment Delay Reimbursement (Elimination)	(25.8)
Community Health	
Disproportionate Care Hospital Payments	3.8
Increased Pharmacy Rebates	(3.3)
Medicaid Long-Term Care Rate Reduction	(12.4)
Assumed Savings in Long-Term Care	(12.9)
Creation of Mental Health Managed Care Risk Pool	(7.3)
Second Disproportionate Share Hospital Pool (Elimination)	(2.0)
Increase in Hospital and Nursing Home QAAP Gainsharing	(36.2)
Corrections	
Southern Michigan Correctional Facility (Elimination)	(3.1)
Facility Maintenance (Elimination)	(0.1)
Mental Health Training (Elimination)	(0.1)
Regionalization of Facilities	(1.1)
One-Time Funding Adjustments	(0.9)
Facility Operating Efficiencies	(21.4)
Facility Repurposing	(5.0)
Health Care Efficiencies	(4.0)
Program Reconfigurations and Efficiencies	(2.8)
Proposed Policy Changes Leading to Prisoner Reductions	(29.7)
Higher Education	
Payment Delay Reimbursement (Elimination)	(138.7)

**GOVERNOR'S FY 2008-09 APPROPRIATION RECOMMENDATION
GENERAL FUND/GENERAL PURPOSE FUNDING REDUCTIONS/ELIMINATIONS
(Millions of Dollars)**

<u>Department/Program</u>	
Human Services	
Woodland East Juvenile Justice Facility (Elimination).....	(2.1)
Child Support Incentive Payments	(5.3)
Foster Care Caseload.....	(1.9)
Strong Families/Safe Children	(2.0)
Local Office Consolidation	(0.8)
Grant to Grand Rapids Youth Commonwealth (Elimination).....	(0.1)
Various Other Administrative Costs.....	(3.8)
Labor and Economic Growth	
Focus HOPE Pilot Project to Implement JET Program (Elimination)	(0.1)
Management and Budget	
Administrative Operations.....	(0.2)
Civil Service Operations	(0.3)
Statewide Administrative Cost Allocations	(0.4)
State	
Operations Adjustments	(0.6)
State Police	
Calumet Post Cost Property Purchase (Elimination)	(0.5)
Treasury - Debt Service	
Quality of Life Bond Refinancing	(22.9)
Clean Michigan Initiative Bond Refinancing	(20.0)
Treasury - Operations	
Tax on Services Implementation (Elimination)	(0.4)
Individual Income Tax Implementation (Elimination)	(0.1)
Neighborhood Enterprise Zones (Elimination).....	(0.2)
Senior Citizen Cooperative Housing Exemption.....	(0.5)
Revenue Enhancement Programs	(0.3)
Total Major Funding Reductions/Eliminations	\$(366.9)

Table 9 provides a summary of the \$103.1 million of GF/GP appropriation reductions resulting from the shifting of fund sources that have an impact on 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 \$176.9 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 as compared with other states.

Table 9

GOVERNOR'S FY 2008-09 APPROPRIATION RECOMMENDATION MAJOR GF/GP FUND SHIFTS TO INCREASE/(REDUCE) GF/GP (Millions of Dollars)	
<u>Department/Program</u>	
Community Health	
Merit Award Trust Fund Adjustment.....	\$ 45.3
Medicaid Benefits Trust Fund.....	10.6
Federal Medicaid Match Rate	(176.9)
Corrections	
Telephone Fees and Commissions.....	(1.6)
Environmental Quality	
Replacement Fee Revenue with GF/GP	13.5
Higher Education	
Tuition Grant Program	1.4
State Competitive Scholarship Program	1.2
Children of Veterans Income Tax Checkoff	0.7
Human Services	
Supplemental Security Income Recoveries	(4.3)
Local Office Field Staff	3.6
Federal Medical Assistance Rate Change	(0.5)
Child Support DNA Testing	0.2
Domestic Violence Prevention	(1.0)
Treasury - Debt Service	
Quality of Life Bond Debt Service	4.8
Treasury - Revenue Sharing	
County Revenue Sharing Fund Shift.....	(0.1)
Total Major Funding Shifts.....	\$(103.1)

SUMMARY OF MAJOR SCHOOL AID FUND APPROPRIATION CHANGES FOR FY 2008-09

The Governor's FY 2008-09 School Aid Fund (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 2008-09 SAF revenue assumed in the Governor's budget equals \$13.5 billion. This revenue total includes \$11.9 billion of State Restricted SAF revenue estimated at the January 2008 Consensus Revenue Estimating Conference. In addition, the Governor's budget assumes \$48.5 million of surplus FY 2007-08 SAF revenue carried forward into FY 2008-09, a \$43.0 million GF/GP grant to the SAF, and \$1.6 billion of appropriated Federal aid.

The Governor's FY 2008-09 appropriation recommendation for the SAF totals \$13.5 billion. This recommended appropriation level represents a \$509.2 million increase from the FY 2007-08 year-to-date level of SAF appropriations. Table 11 provides a summary of the details behind this recommended appropriation increase. The \$509.2 million of net appropriation increase recommended in the FY 2008-09 SAF budget includes \$506.4 million of expansions of existing programs, \$38.1 million of recommended new programs, and \$35.3 million of program reductions. The majority of the expansion of existing programs is accounted for by the recommended increase in the basic foundation allowance and the appropriation of additional Federal funds. The major new program is the proposed planning and construction grants for new small high schools and the major program elimination is the final payment of the *Durant* lawsuit settlement, which was made during FY 2007-08. More details on the School Aid Fund budget are contained in the "Department/Budget Areas" section of this report.

Table 10
GOVERNOR'S FY 2008-09 BUDGET RECOMMENDATION
SCHOOL AID FUND REVENUE RECOMMENDATIONS
(Millions of Dollars)

Beginning Balance Carried Forward from FY 2007-08	\$ 48.5
Consensus Revenue Estimate (January 2008)	11,870.6
<u>Other School Aid Fund Revenue Sources:</u>	
GF/GP Grant	43.0
Federal Aid.....	1,562.0
Governor's School Aid Fund Revenue Recommendation.....	\$13,524.1
Governor's School Aid Budget Recommendation	\$13,515.2
Governor's Ending Balance.....	\$ 8.9

Table 11

**GOVERNOR'S FY 2008-09 BUDGET RECOMMENDATION
K-12 SCHOOL AID APPROPRIATION INCREASES
(Millions of Dollars)**

FY 2007-08 Enacted Year-to-Date Appropriations.....	\$13,006.0
FY 2008-09 Governor's Recommended Appropriations.....	13,515.2
Net Increase in Appropriations	\$ 509.2
Recommended Appropriation Increases in Existing Programs:	
Basic Foundation Allowance Increase \$108/\$216 Per Pupil (1.3%/3.0%)	\$250.8
Federal Funds.....	86.0
<i>Durant</i> Bonds Debt Service	41.9
School Bond Loan Fund Debt Service.....	37.1
Michigan School Readiness Program: More Slots Funded.....	24.0
School Aid Fund Cash Flow Borrowing Costs.....	22.2
Special Education State Cost Increases.....	19.8
Renaissance Zone Reimbursement	7.5
Early Childhood Investment Corporation (ECIC).....	5.0
Student Data and School Personnel Tracking (CEPI).....	4.3
ISD Operational Increase (1.2%) and Technical Assistance Funding.....	2.9
MEAP/Michigan Merit Exam Testing	2.2
Additional School-Based Health Centers.....	2.0
Gifted and Talented	<u>0.7</u>
Subtotal Appropriation Increases in Existing Programs	\$506.4
Recommended New Categorical Programs:	
Small High School Startup and Facility Grants.....	\$32.0
Great Start – Innovative Programs	2.5
Grants to Sparsely Populated, Upper Peninsula Districts	1.3
Replacing Lost MBT Revenue in Out-of-Formula Districts.....	1.3
FIRST Robotics.....	<u>1.0</u>
Subtotal New Categorical Programs.....	\$38.1
Recommended Appropriation Reductions:	
<i>Durant</i> Cash Payments (last payment occurs in FY 2007-08)	\$(32.0)
Elimination of Specific District Categorical Grants	(2.8)
Educational Cost Reductions at Juvenile Detention Facilities.....	(0.3)
Central Michigan University's Lending Library Reduction	<u>(0.2)</u>
Subtotal Appropriation Reductions	\$(35.3)
Total Recommended Appropriation Changes	\$509.2

FISCAL YEAR 2007-08 SUPPLEMENTAL APPROPRIATIONS

The Governor's FY 2008-09 State Budget Message includes recommendations for the enactment of FY 2007-08 supplemental appropriations. The FY 2007-08 supplemental appropriation recommendations were transmitted to the Legislature on January 14, 2008, January 15, 2008, and February 7, 2008. In addition to the FY 2007-08 supplemental appropriation recommendations, the Governor is also asking the Legislature to appropriate \$100.0 million of surplus FY 2007-08 GF/GP revenue to the Budget Stabilization Fund.

Table 12 provides a summary of the total FY 2007-08 supplemental appropriation recommendations pending in the Legislature. These recommendations total \$488.8 million of Gross appropriations and \$43.2 million of GF/GP appropriations. The supplemental appropriations cover a broad range of topics. First, the recommendations include the initial Capital Outlay appropriations for the fiscal year. The FY 2007-08 Capital Outlay appropriations have not been enacted by the Legislature at this date. The Environmental Quality budget includes a \$11.0 million GF/GP supplemental to offset fee revenue supporting departmental programs that has not been enacted. Other major supplemental appropriations include the financing of the election costs associated with the January 2008 presidential primary election, increased funding for several K-12 School Aid categorical grant programs, and funding for the Michigan Strategic Fund Agency resulting from the restructuring of existing State debt on the 21st Century Jobs Fund. The recommendation also includes \$30.0 million of GF/GP funding reductions to reflect interest cost savings from the refinancing of State general obligation bonds.

Table 12
PENDING FY 2007-08 SUPPLEMENTAL APPROPRIATION
RECOMMENDATIONS FROM THE OFFICE OF THE STATE BUDGET
(Actual Dollars)

Department/Item	Office of the State Budget	
	Gross Appropriation	GF/GP Appropriation
Capital Outlay		
Farmland and Open Space Development Acquisition	\$3,750,000	\$ 0
State Building Maintenance	2,000,000	0
Military Affairs - Special Maintenance	15,000,000	0
Military Affairs - Camp Grayling Construction	11,500,000	0
Natural Resources - State Parks Maintenance	2,000,000	0
Natural Resources - Forest Roads	500,000	0
Natural Resources - Waterways Boating Programs	12,577,400	0
Natural Resources - Trust Fund Acquisition and Development Projects	35,266,200	0
Transportation - Maintenance and Renovations	14,305,000	0
Transportation - Airport Projects	183,191,300	0
State Building Authority Planning Authorization - 23 projects	2,300	2,300
State Building Authority Construction Authorization - six projects	600	600
Subtotal Capital Outlay	280,092,800	2,900

PENDING FY 2007-08 SUPPLEMENTAL APPROPRIATION RECOMMENDATIONS FROM THE OFFICE OF THE STATE BUDGET (Actual Dollars)		
Department/Item	Office of the State Budget	
	Gross Appropriation	GF/GP Appropriation
Community Health		
Federal Medicaid Disallowance Settlement	35,939,600	35,939,600
Medicaid Funding - Quality Assurance Assessment Adjustments	101,204,900	0
Subtotal Community Health	137,144,500	35,939,600
Education		
Education Assessment Operations	3,322,400	0
Subtotal Education	3,322,400	0
Environmental Quality		
Air Quality Fund Shift	0	3,527,400
Environmental Science Fund Shift	0	552,800
Water Fund Shift	0	2,302,400
Waste and Hazardous Materials Fund Shift	0	1,577,400
Land and Water Management Fund Shift	0	2,965,000
Office of Geological Survey Fund Shift	0	75,000
Subtotal Environmental Quality	0	11,000,000
Higher Education		
Michigan Merit Award Program	(7,700,000)	0
Michigan Promise Grant Program	(2,000,000)	0
Subtotal Higher Education	(9,700,000)	0
Human Services		
Nutrition Education	9,688,400	0
Foster Care Payment Funding Shortfall	2,281,200	1,175,500
Adoption Subsidy Funding Shortfall	374,600	236,000
Child Care Fund	838,600	838,600
Day Care Provider Rate Increases	10,000,000	10,000,000
Subtotal Human Services	23,182,800	12,250,100
Judiciary		
Trial Court Automation Support	489,500	0
Subtotal Judiciary	489,500	0
Labor and Economic Growth		
Office of Financial and Insurance Services	1,429,600	0
Subtotal Labor and Economic Growth	1,429,600	0

PENDING FY 2007-08 SUPPLEMENTAL APPROPRIATION RECOMMENDATIONS FROM THE OFFICE OF THE STATE BUDGET (Actual Dollars)		
Department/Item	Office of the State Budget	
	Gross Appropriation	GF/GP Appropriation
Natural Resources		
Forest Recreation and Trails	500,000	500,000
Wildfire Protection	500,000	500,000
Subtotal Natural Resources.....	1,000,000	1,000,000
School Aid Fund		
Great Start Preschool Program	4,700,000	0
Grants to Rural School Districts	1,275,000	0
Student Testing Prototypes	600,000	0
First Robotics Program.....	300,000	0
Student Testing - School Aid Replaces Federal Funding	3,322,400	0
Student Testing - Federal Funds Transferred to Education	(3,322,400)	0
School Bond Loan Fund Debt Service	2,000,000	0
Subtotal School Aid Fund	8,875,000	0
State Police		
At-Post Troopers	1,000,000	1,000,000
Laboratory Operations.....	2,000,000	2,000,000
Subtotal State Police	3,000,000	3,000,000
Strategic Fund Agency		
Michigan Promotion Program - 21 st Century Jobs Fund	60,000,000	0
Subtotal Strategic Fund Agency	60,000,000	0
Treasury		
Quality of Life Bond Debt Service.....	(8,000,000)	(8,000,000)
Clean Michigan Initiative Debt Service	(18,000,000)	(18,000,000)
Great Lakes Water Quality Bond Debt Service	(4,000,000)	(4,000,000)
Presidential Primary Costs	10,000,000	10,000,000
Subtotal Treasury	(20,000,000)	(20,000,000)
Total Pending Supplemental Appropriations	\$488,836,600	\$43,192,600

FEDERAL FUNDS ASSUMPTIONS

The Governor's FY 2008-09 budget recommendation includes the appropriation of \$14.8 billion of Federal funds. This appropriation level is primarily based on the continuation of Federal appropriation policy currently in place. To the extent that the United States Congress adjusts the funding levels of Federal aid to states, this appropriation of Federal funds 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 FY 2005-06. This program, which is designed to provide expanded health care coverage for low-income families, will not take effect without specific Federal approval.

STATE REVENUE SHARING

The Governor's FY 2008-09 budget recommendation includes \$1.09 billion of revenue sharing payments to cities, villages, townships, and counties. This represents an increase of \$18.4 million or 1.7% above the current fiscal year. The highlight of the recommendation is a \$16.2 million or 4.0% increase in the appropriated level of statutory revenue sharing payments. If approved, this will mark the first increase in statutory revenue sharing payments since FY 2000-01.

Under the recommendation, revenue sharing to cities, villages, and townships would be computed by freezing combined constitutional and statutory revenue sharing payments at the FY 2007-08 levels. Because constitutional payments are forecast to decline by 0.9%, this would require all units to receive a statutory revenue sharing payment. Cities, villages, and townships then would receive an additional amount equal to 4.0% of the local unit's FY 2006-07 statutory revenue sharing payment. The 868 local units, mostly townships, that did not receive a statutory payment during FY 2006-07 thus would not receive an additional amount and would instead receive the same combined payment that they received during FY 2007-08. The recommendation also includes \$2.4 million for revenue sharing payments to counties. This funding would go to six counties that have exhausted their property tax reserve funds and will now be eligible to receive State revenue sharing payments.

PROPOSED FEE INCREASES

The Governor's budget recommendation contains no proposals for statutory changes in the existing levels of State fees supporting State programs. The FY 2008-09 appropriation recommendations are based on the fee structure currently provided for in State law.

EMPLOYEE RETIREMENT CONTRIBUTION RATES

An important financial aspect of the State budget and the budget of local school districts involves the level of payments to be made by employers into the major retirement accounts for State employees and employees of local school districts. The Governor's budget recommendation contains the required FY 2008-09 employer contribution rates to the State Employees Retirement System (SERS) and the Public School Employees Retirement System (PSERS). Table 13 provides a summary of these contribution rates for FY 2008-09 along with the contribution rates paid in FY 2006-07 and FY 2007-08. The FY 2008-09 employer contribution rates to the SERS

represent a slight increase from the contribution levels during FY 2007-08. The health care portion of the SERS contribution rate reflects increased payments by retired State employees for their health care coverage. The FY 2008-09 employer contribution rates to the PSERS represent a slight decline from the contribution levels in FY 2007-08.

Table 13

RETIREMENT CONTRIBUTION RATES AS A PERCENTAGE OF PAYROLL				
	FY 2006-07	FY 2007-08	FY 2008-09	FY 2008-09 Change
<u>State Employees Retirement System</u>				
Defined Benefit Pension	10.26% ^{a)}	18.72%	18.84%	0.12%
Defined Benefit Health Care	12.20%	11.40%	11.80%	0.40%
Total Defined Benefit Costs	22.46%	30.12%	30.64%	0.52%
Defined Contribution Pension	5.30%	5.91%	5.91%	0.00%
Defined Contribution Health Care	12.20%	11.40%	11.80%	0.40%
Total Defined Contribution Costs	17.50%	17.31%	17.71%	0.40%
<u>Public School Employees Retirement System</u>				
Defined Benefit Pension	11.19%	10.17%	9.73%	(0.44)%
Defined Benefit Health Care	6.55%	6.55%	6.81%	0.26%
Total Defined Benefit Costs	17.74%	16.72%	16.54%	(0.18)%
^{a)} Rate was lower than originally estimated due to the re-valuation of assets to their market value as of September 30, 2006.				

STATE CLASSIFIED EMPLOYEE FUNDING INCREASES

The Governor's budget recommendation includes funding for the FY 2008-09 increases in the cost of State employees. These costs include salaries and wages, retirement contribution rates, employee health care costs, workers' compensation payments, and other employee economic issues. Table 14 provides a summary of the cost increases that have been built into the FY 2008-09 appropriation recommendations for these employee costs. The amount of the wage and salary cost increases and the employee insurance cost increases have been affected by the contracts for State Civil Service employees that will take effect on October 1, 2008. State Civil Service employees will not be receiving a general salary increase during FY 2008-09. The reduction in health insurance costs is a direct result of new State Civil Service employment contracts that shift an increasing share of the cost of providing health insurance to State workers from the employer to the employee in terms of higher monthly premiums and higher insurance co-pays.

Table 14

FY 2008-09 STATE BUDGET RECOMMENDATION ECONOMIC INCREASES INCLUDED IN BUDGET (Millions of Dollars)		
	Gross	GF/GP
Wages and Salaries.....	\$31.6	\$18.8
Employee Insurance Costs.....	(36.2)	(22.3)
Retirement Contributions.....	22.1	12.9
Workers' Compensation.....	(0.9)	(0.5)
All Other Economics	2.9	2.8
Total Economics	\$19.5	\$11.7

TOBACCO SETTLEMENT APPROPRIATIONS AND REVENUE

The Governor's budget recommendation provides for \$218.0 million of FY 2008-09 appropriations supported by tobacco settlement funds revenue deposited into the Michigan Merit Award Trust Fund. Table 15 provides a summary of the tobacco settlement appropriations and revenue included in the FY 2008-09 budget. Tobacco settlement revenue is expected to total \$337.6 million during FY 2008-09. The first \$44.6 million of the revenue is used for debt service payments on bonds issued to finance the 21st Century Jobs Fund in FY 2005-06. In addition, by statutory requirement, an additional \$75.0 million of tobacco settlement revenue is deposited into the 21st Century Jobs Fund during FY 2008-09. This leaves \$218.0 million of FY 2008-09 tobacco settlement revenue that is deposited into the Michigan Merit Award Trust Fund and appropriated in the Governor's budget recommendation.

Table 15

FY 2008-09 TOBACCO SETTLEMENT APPROPRIATIONS AND REVENUE	
	FY 2008-09 Gov's Rec.
MERIT AWARD TRUST FUND APPROPRIATIONS	
<u>Department/Budget Area</u>	
Attorney General	
Administration	\$ 408,600
Community Health	
Medicaid Base	88,700,000
Medicaid Nursing Home Personal Needs Allowance	5,000,000
Aging: Respite Care	5,000,000
Total Community Health	98,700,000
Higher Education	
Merit Award Scholarships	5,200,000
Promise Grants	90,500,000
Tuition Incentive Program	15,850,000
Nursing Scholarship Program	4,250,000
Total Higher Education	115,800,000
Department of Treasury	
Merit Award Administration	1,453,000
Michigan Education Savings Plan	800,000
Tuition Incentive Program Administration	426,700
Information Technology	415,900
Total Treasury	3,095,600
Total Merit Award Trust Fund Appropriations	\$ 218,004,200
Tobacco Settlement Revenue Estimates	
Balance From Prior Fiscal Year	\$ 15,000,000
Annual Payments	321,700,000
Interest Earnings	900,000
Total Tobacco Settlement Revenue	\$ 337,600,000
<u>Less Transfers Out For:</u>	
Payment on Bond Securitization	\$ (44,600,000)
Deposit to 21st Century Jobs Fund	(75,000,000)
Net Revenue to Merit Award Trust Fund	\$ 218,000,000

DEPARTMENT/BUDGET AREAS

Agriculture: The recommendation includes a \$1.7 million Gross and GF/GP funding increase for bovine tuberculosis programs.

Attorney General: The recommendation includes a \$1.4 million Gross and GF/GP funding reduction for information technology programs within the Department.

Capital Outlay: As of February 7, 2008, the Legislature had not enacted Capital Outlay appropriations for FY 2007-08. On January 14, 2008, the Governor recommended to the Legislature the FY 2007-08 Capital Outlay appropriations. The Governor's FY 2008-09 budget recommendations includes Capital Outlay appropriations. The FY 2007-08 Capital Outlay recommendation totals \$280.1 million of Gross appropriations. This amount includes \$35.3 million for Natural Resources Trust Fund projects, \$183.2 million for airport improvement projects, \$26.5 million for maintenance and construction projects in the Department of Military Affairs, and \$12.6 million for waterways boating access projects and numerous other maintenance projects at State buildings.

The FY 2007-08 Capital Outlay budget also included the recommendation for the planning of 23 construction projects at universities and community colleges, the authorization of two construction projects at universities and community colleges, and funding for construction projects at State buildings. These projects would be partially financed with bonds issued by the State Building Authority. The total of the State Building Authority financing recommendations is \$561.9 million. The remaining costs of these construction projects would be from contributions made to the projects by universities and community colleges.

The FY 2008-09 Capital Outlay recommendation includes the continuation of funding of the FY 2007-08 recommendation submitted on January 14, 2008, excluding the Natural Resources Trust Fund projects. The recommendations for Natural Resources Trust Fund projects will be submitted to the Legislature at a later date. The FY 2008-09 recommendation does not include any additional projects to be financed by the State Building Authority.

Civil Rights: The recommendation is primarily a continuation budget from the current fiscal year.

Community Colleges: The recommendation provides for an \$8.6 million or 3.0% average increase for the operations funding for community colleges. The increase is distributed pursuant to the performance indicators task force formula. This results in individual increases that range from 2.4% to 3.9%. Table 16 summarizes the funding recommendation for each community college.

Community Health: The recommendation for the Department includes funding for continuing growth in Medicaid costs, although that growth has slowed over the past year. That slowed growth, combined with cost reduction proposals and an increase in the Federal Medicaid match rate, leads to a reduction in GF/GP funding for the Department.

The net savings in the budget are contingent on the acceptance of Medicaid cost reduction proposals, several of which will draw attention from provider groups, particularly hospitals, nursing homes, and community mental health boards. These proposals include reductions in payments to disproportionate share hospitals, nursing home rate reductions, reductions in nursing home admissions,

reductions in payments to community mental health boards, and changes in the hospital and nursing home quality assurance assessment funding, which will increase the net amount of these assessments received by the State. In total, these proposed policy changes will result in GF/GP reductions of \$68.8 million.

Corrections: The recommendation is highlighted by a small decline in overall appropriations. The last annual decline in appropriations for the Department occurred in FY 2001-02.

Funding increases include \$14.9 million for Hepatitis C testing and treatment for prisoners and \$10.8 million for 800 additional beds. The additional beds include adding an eighth bunk to seven-bunk open bays as well as opening a 240-bed unit at the Macomb Correctional Facility.

Funding reductions include various operations and program reductions totaling \$5.3 million, and the transfer of human resources functions to the Department of Management and Budget, reducing appropriations by \$13.4 million.

The budget also includes \$50.0 million of savings through facility operating and health care efficiencies, facility repurposing, program configurations and efficiencies, and a reduction in prisoners due to policy changes. In regard to operational and program efficiencies, the budget proposes to implement health care efficiencies, changes in facility staffing assignments, consolidation of prison operations, adjustments in prisoner housing arrangements, and changes in prisoner classification and new parole guidelines; the budget recommendation does not specify how these savings would be achieved, however.

While the budget does not include any specific proposals for policy changes that would result in a reduction in prison population, the budget proposes to use approaches as recommended by a potential initiative with the Council of State Governments. This initiative would work to find policy reforms that would be acceptable to all involved parties.

Education: The recommendation includes increased Federal funding and increases in departmental employees for education assessment and testing programs.

Environmental Quality: The recommendation is highlighted by a fund shift between State Restricted fund sources and GF/GP fund sources. The FY 2007-08 budget assumed revenue from increased fees and those fee increases have not been enacted. The FY 2008-09 budget recommendation includes \$13.5 million of GF/GP funding increases to offset the fee increases that have not been enacted. This leaves the major departmental programs funded at the current fiscal year levels.

Executive: The recommendation includes no funding adjustments from the current fiscal year.

Higher Education: The recommendation provides for a \$43.6 million or 3.0% average increase for the operations funding for universities. The increase is distributed based on a formula that takes into account three factors. These factors are the number of undergraduate Pell Grant awards, research and commercial licensing activities, and academic degrees completed, with a higher weight given to math, science, engineering, and health degrees. This formula will lead to increases in university operations ranging from 2.3%

to 6.2%. The recommendation for financial aid programs represents a continuation of the policies in place during the current fiscal year. Table 17 summarizes the Governor's recommendation for higher education appropriations.

History, Arts, and Libraries: The recommendation is primarily a continuation budget from the current fiscal year. Funding increases are recommended to move the Department's record center from its current facility to a new location, where it would be located with other departmental record storage.

Human Services: The budget recommendation for the Department of Human Services can best be characterized as a continuation of current-year funding and service levels. The budget includes a \$68.1 million or 5.2% increase in GF/GP funding over current year appropriations. The recommendation does not provide for the funding of new initiatives and leaves current year programs largely untouched from service reduction or elimination.

The GF/GP funding increases are largely driven by program caseload and cost growth. The budget estimates a need of nearly \$60.0 million GF/GP to fund the major income support and child care programs.

The budget identifies about \$17.5 million of GF/GP funding reductions. These savings are mostly driven by recognition of Federal policy changes, fund shifts, and the identification of administrative efficiencies.

Program increases are targeted to rate increases for child care providers and Family Independence Program and State Disability Program recipients. The budget recommends a 2.0% grant increase for Family Independence Program and State Disability Assistance Program recipients. A clothing allowance increase to providers and a \$10.0 million GF/GP rate increase for child day care providers are included in the budget.

Major policy changes included in the FY 2007-08 Human Services appropriation bill, including the closure of the Woodland East juvenile justice facility, and rate increases for private agencies providing adoption and foster care services, are not modified in the FY 2008-09 budget proposal.

Information Technology: The recommendation for information technology services is primarily a continuation budget, with several recommended changes. The Department of Corrections is recommended for a \$2.1 million funding increase for maintenance, the upgrading of departmental file servers, and the purchase of new personal computers. The Department of State Police is recommended for a \$3.6 million funding increase for the Automated Fingerprint Identification System and the Public Safety Communications System. On an overall statewide level, the appropriation recommendation for all information technology expenditures represents a 1.2% increase from the current fiscal year.

Judiciary: The recommendation is primarily a continuation budget from the current fiscal year. Increased funding of \$1.1 million is provided for a pilot mental health court project designed to keep mentally ill citizens out of the criminal justice system. This funding is in conjunction with mental health treatment funding in the Department of Community Health budget.

Labor and Economic Growth: The FY 2008-09 recommendation for the Department of Labor and Economic Growth includes several proposed funding increases. These proposed funding increases would be funded with a combination of State Restricted revenue and GF/GP revenue.

The regulatory side of the budget contains recommendations to add 71.0 full-time equated positions to be funded by \$7.4 million in State Restricted revenue. The majority of the proposed funding increase would be directed in the areas of insurance, banking, mortgage lending, and payday lending services. This would provide increased oversight of the financial industry and would be financed by fee schedules currently authorized by statute. The actual level of fees paid by the financial industry is likely to increase, but the increases can be established by the Department under existing law and will not require any further action by the Legislature.

The GF/GP funding increases in the budget are for the expansion of two existing programs. The first would be the appropriation of \$40.0 million of GF/GP funding for the No Worker Left Behind Program, supplementing the \$37.0 million of Federal funds currently dedicated for this program. The second item would provide an additional \$8.5 million of GF/GP funding for the Nursing Corps Program, increasing it from \$1.5 million to \$10.0 million.

Legislative Auditor General: The recommendation contains no funding adjustments from the current fiscal year.

Legislature: The recommendation contains no funding adjustments from the current fiscal year.

Management and Budget: The recommendation is highlighted by the transfer in of two departmentwide functions. Human resources services are being transferred into the Department from each individual State department and agency. This proposed consolidation is designed to bring efficiencies to the delivery of human resources functions across State government. This transfer results in an increase of 358.0 full-time equated positions and \$33.4 million of Gross funding and \$19.4 million of GF/GP funding. The second function being transferred into the Department is the internal audit functions of State government. This transfer results in an increase of 51.0 full-time equated positions and \$5.9 million of Gross funding. The budget recommendation also includes a \$5.0 million Gross and GF/GP funding increase for the projected debt service payments on outstanding bonds issued by the State Building Authority.

Military and Veterans Affairs: The recommendation is primarily a continuation budget from the current fiscal year. Adjustments are made in the estimated levels of Federal funds available to support programs. The funding recommendation for grants to veterans' service organizations is at the current fiscal year level.

Natural Resources: The budget includes \$0.5 million of GF/GP funding increases each for forest recreation programs and the fire protection programs. Other funding adjustments reflect the estimated levels of Federal and State Restricted funds available to support programs. The major change in the level of State Restricted funding is a \$2.5 million reduction in State Park operations to reflect anticipated revenue.

School Aid: The Governor's budget for FY 2008-09 provides for a foundation allowance increase between \$108 and \$216 per pupil. School districts whose FY 2007-08 foundation allowances are \$8,433 (the basic foundation allowance) or higher would receive \$108 per pupil, and districts at \$7,204 (the minimum) would receive \$216 per pupil. Districts in between those figures would receive an increase between \$108 and \$216 per pupil, with higher increases provided to districts with lower foundation allowances. However, a new aspect proposed in the budget reduces the per-pupil increase by 7.5% for each high school grade (9-12) not offered by a local district or charter school. It is estimated that this high school grade proration would reduce spending by \$3.0 million.

The Governor also proposes an additional \$31.5 million for early childhood programs. Included in this overall increase is an extra \$24.0 million for filling more slots in the School Readiness Program, which provides preschool for at-risk four-year-olds. Total funding for the School Readiness Program under the Executive Recommendation is \$117.6 million, or 34,573 slots. The Governor also increases Early Childhood Investment Corporation (ECIC) funding from \$1.75 million to \$6.75 million, or an increase of \$5.0 million. These dollars are offered as competitive grants to intermediate school districts (ISDs) for assessing early childhood needs and availability, identifying local resources for children with disabilities, coordinating and expanding early childhood and daycare programs, and evaluating local programs. Finally, within early childhood funding, a new program is proposed: Great Start - Innovative Programs, at \$2.5 million. This program would provide grants to ISDs to identify evidence-based practices that provide children ages 0-5 with quality early learning experiences that promote school readiness, and develop model programs that can be used statewide.

A new 21st Century Schools Fund is proposed to be financed with up to \$300.0 million of borrowing. The new borrowing is proposed to be paid at a rate of \$32.0 million per year for the next 20 years. This program would provide startup grants of up to \$2.0 million, facility grants up to \$8.0 million (if matched by private money), or millage equalization funding for each small high school proposed in eligible districts. In order to apply for this funding, a district would have to have at least one high school not making adequate yearly progress for at least two years. Funding other than startup grants would be used in districts with more than 800 pupils in grades 9-12, to create small high schools of not more than 450 students.

State: The recommendation is primarily a continuation budget from the current fiscal year. The budget does include a series of administrative cost savings in several areas of the Department.

State Police: The recommendation contains several program expansions and enhancements. Funding for a trooper school that would begin in September 2008 and graduate 80 new troopers in February 2009 is included in the budget. The last trooper school that graduated was in February 2004. Other funding increases in the budget include increased funding for palm print collection and analysis, increased funding for the operation of laboratories, and increases in information technology spending.

Transportation: The recommendation provides for an overall 1.9% increase in the level of Federal and State Restricted funding for the Department. The budget includes full funding for transportation economic development projects that were reduced in FY 2007-08 to provide for additional funding sources in the overall GF/GP budget.

Treasury - Debt Service: The recommendation is a \$36.9 million Gross and a \$28.5 million GF/GP reduction in the overall level of appropriations for debt service requirement on general obligation bonds. The appropriation reductions are a result of the refinancing of existing outstanding general obligation bonds to take advantage of the recent reductions in interest rates on these bonds.

Treasury - Operations: The recommendation is highlighted by a number of program increases. Increased funding is proposed for casino gaming administration to provide for the necessary oversight of the new casinos opening in Detroit. Administration of the Michigan business tax is provided with a \$3.4 million GF/GP funding increase. Other adjustments in the budget reflect a wide variety of adjustments dealing with program expenditures and the availability of different fund sources.

Treasury - Strategic Fund Agency: The recommendation is primarily a continuation budget from the current fiscal year. The major recommended change in the budget involves the Governor's proposal to borrow an additional \$60.0 million for the 21st Century Jobs Fund. This additional borrowing would be financed by restructuring the existing borrowing supporting the 21st Century Jobs Fund and by extending the terms of the initial borrowing. The additional \$60.0 million for the 21st Century Jobs Fund is proposed to increase spending on travel promotion and business promotion during FY 2007-08 and FY 2008-09.

Table 18 provides detail for the Governor's FY 2008-09 Gross and GF/GP appropriation changes compared with FY 2007-08.

Table 16

FY 2008-09 COMMUNITY COLLEGES APPROPRIATIONS: GOVERNOR'S RECOMMENDATION								
FY 2008-09 Governor's Recommendation (Performance Task Force Distribution)								
College	FY 2007-08 Year-to-Date*	50% Proportionate to Base	17.5% Student Contact Hours	17.5% Weighted Degree Formula	15% Strategic Value Proportionate to Base	Other Adjustments	Total Increase	Percent Change
Alpena	5,034,800	75,500	13,600	25,300	22,700		137,100	2.7%
Bay de Noc	5,084,400	76,300	16,100	25,700	22,900		141,000	2.8%
Delta	13,458,400	201,900	74,000	103,300	60,600		439,800	3.3%
Glen Oaks	2,259,100	33,900	9,500	14,900	10,200		68,500	3.0%
Gogebic	4,207,700	63,100	7,400	11,800	18,900		101,200	2.4%
Grand Rapids	16,879,000	253,200	103,900	78,200	76,000		511,300	3.0%
Henry Ford	20,524,100	307,900	85,400	76,600	92,400		562,300	2.7%
Jackson	11,338,500	170,100	42,700	41,700	51,000		305,500	2.7%
Kalamazoo Valley	11,643,300	174,600	71,600	69,400	52,400		368,000	3.2%
Kellogg	9,129,600	136,900	41,800	53,400	41,100		273,200	3.0%
Kirtland	2,781,000	41,700	12,000	26,500	12,500		92,700	3.3%
Lake Michigan	4,919,800	73,800	24,000	18,500	22,100		138,400	2.8%
Lansing	29,183,800	437,800	124,800	174,200	131,300		868,100	3.0%
Macomb	31,158,600	467,400	156,500	158,700	140,200		922,800	3.0%
Mid Michigan	4,202,200	63,000	24,800	23,900	18,900		130,600	3.1%
Monroe	4,054,300	60,800	28,400	25,400	18,200		132,800	3.3%
Montcalm	2,919,500	43,800	16,400	19,800	13,100		93,100	3.2%
Mott	14,730,200	221,000	73,200	68,900	66,300		429,400	2.9%
Muskegon	8,369,000	125,500	34,100	27,100	37,700		224,400	2.7%
North Central	2,838,000	42,600	15,600	12,400	12,800		83,400	2.9%
Northwestern	8,531,900	128,000	34,100	24,800	38,400		225,300	2.6%
Oakland	19,698,200	295,500	169,300	99,800	88,600		653,200	3.3%
St. Clair	6,600,400	99,000	31,300	34,100	29,700		194,100	2.9%
Schoolcraft	11,516,300	172,700	81,700	69,900	51,800		376,100	3.3%
Southwestern	6,174,000	92,600	17,400	16,700	27,800		154,500	2.5%
Washtenaw	11,841,800	177,600	89,700	140,300	53,300		460,900	3.9%
Wayne County	15,586,500	233,800	96,700	54,300	70,100		454,900	2.9%
West Shore	2,156,900	32,400	9,800	10,300	9,700		62,200	2.9%
FY '07 Delayed Payment Reimbursement	* See Notes							
Subtotal Operations	\$286,821,300	\$4,302,400	\$1,505,800	\$1,505,900	\$1,290,700	\$0	\$8,604,800	3.0%
At Risk	3,322,700	0	0	0	0	0	0	0.0%
Renaissance Zone	3,025,000	0	0	0	0	455,000	455,000	15.0%
Total Appropriation	\$293,169,000	\$4,302,400	\$1,505,800	\$1,505,900	\$1,290,700	\$455,000	\$9,059,800	3.1%
GF/GP	\$293,169,000	\$4,302,400	\$1,505,800	\$1,505,900	\$1,290,700	\$455,000	\$9,059,800	3.1%
Notes: For the purposes of this analysis, the FY 2007-08 \$25,759,800 appropriation related to reimbursement for the August 2007 delayed payment is not included in the adjusted FY 2007-08 base.								

Table 17

FY 2008-09 HIGHER EDUCATION APPROPRIATIONS: GOVERNOR'S RECOMMENDATION											
UNIVERSITIES	(1)	(2)	Formula Allocations				(7)	(8)	(9)	(10)	(11)
	FY 2007-08 Adjusted Appropriation	FY 2007-08 Approp. Per Student*	Undergrad Pell Grant Factor	Research/ Commercial- ization Factor	Degree Completion Factor	Minimum Increase Adjustment	AES/CES 3.0%; Compact Dues; Fin. Aid Adjust.	FY 2008-09 Gov's Rec.	Dollar Change From Adjusted 2007-08	Percent Change From Adjusted 2007-08	2008-09 Approp. Per Student*
Central	\$81,941,100	\$3,837	\$459,800	\$81,500	\$1,231,400	\$111,900		\$83,825,700	\$1,884,600	2.3%	\$3,925
Eastern	77,774,100	4,222	585,500	155,500	997,300	50,500		79,562,900	1,788,800	2.3%	4,319
Ferris	49,730,800	4,484	616,500	0	970,900	(20,300)		51,297,900	1,567,100	3.2%	4,626
Grand Valley	63,387,500	3,057	434,200	19,800	1,116,300	(20,100)		64,937,700	1,550,200	2.4%	3,132
Lake Superior	12,981,900	5,541	635,300	0	182,100	(10,400)		13,788,900	807,000	6.2%	5,885
Michigan State	290,139,800	6,753	1,542,400	1,554,000	4,755,000	0		297,991,200	7,851,400	2.7%	6,936
Michigan Tech	49,028,200	8,160	389,000	1,117,400	671,600	(27,800)		51,178,400	2,150,200	4.4%	8,518
Northern	46,171,500	5,408	631,100	0	439,700	(8,900)		47,233,400	1,061,900	2.3%	5,532
Oakland	51,932,900	3,549	339,000	369,600	847,600	(19,900)		53,469,200	1,536,300	3.0%	3,654
Saginaw Valley	28,356,200	3,603	612,900	3,400	396,100	(12,900)		29,355,700	999,500	3.5%	3,730
UM - Ann Arbor	323,439,900	8,020	1,001,100	3,837,200	5,351,600	0		333,629,800	10,189,900	3.2%	8,272
UM - Dearborn	25,295,000	4,196	626,100	289,800	580,100	(19,100)		26,771,900	1,476,900	5.8%	4,441
UM - Flint	21,379,900	4,065	806,700	85,400	325,100	(15,600)		22,581,500	1,201,600	5.6%	4,293
Wayne State	219,046,500	8,597	3,701,200	853,500	2,382,800	0		225,984,000	6,937,500	3.2%	8,869
Western	112,122,000	5,030	374,800	668,000	1,543,400	(7,400)		114,700,800	2,578,800	2.3%	5,146
Ag Experiment Station (AES)	33,996,200						1,019,900	35,016,100	1,019,900	3.0%	
Cooperative Extension (CES)	29,322,300						879,700	30,202,000	879,700	3.0%	
Higher Education Database	200,000							200,000	0	0.0%	
Midwest Higher Ed Compact	90,000						5,000	95,000	5,000	5.6%	
King-Chavez-Parks	2,691,500							2,691,500	0	0.0%	
Total Universities	\$1,519,027,300	\$5,734	\$12,755,600	\$9,035,100	\$21,791,000	\$0	\$1,904,600	\$1,564,513,600	\$45,486,300	3.0%	\$5,906
State GF/GP	\$1,519,027,300		\$12,755,600	\$9,035,100	\$21,791,000	\$0	\$1,904,600	\$1,564,513,600	\$45,486,300	3.0%	
GRANTS & FINANCIAL AID											
Competitive Scholarships	\$35,530,500							\$35,530,500	\$0	0.0%	
Tuition Grants	56,668,100							56,668,100	0	0.0%	
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	60,000,000						(54,800,000)	5,200,000	(54,800,000)	-91.3%	
Michigan Promise Grant Prog.	43,500,000						47,000,000	90,500,000	47,000,000	108.0%	
Tuition Incentive Program (TIP)	21,100,000						4,100,000	25,200,000	4,100,000	19.4%	
Children of Veterans Tuition	1,000,000							1,000,000	0	0.0%	
Project Gear-Up	3,000,000							3,000,000	0	0.0%	
Total Financial Aid	\$238,612,400		\$0	\$0	\$0	\$0	(\$3,700,000)	\$234,912,400	(\$3,700,000)	-1.6%	
Federal	7,400,000		0	0	0	0	0	7,400,000	0	0.0%	
Merit Award Trust Fund	123,600,000		0	0	0	0	(7,800,000)	115,800,000	(7,800,000)	-6.3%	
MHEAA Revenue	1,200,000		0	0	0	0	(1,200,000)	0	(1,200,000)	-100.0%	
Carry-Forward Funds	1,400,000		0	0	0	0	(1,400,000)	0	(1,400,000)	-100.0%	
Veterans Tax Checkoff	1,000,000		0	0	0	0	(700,000)	300,000	(700,000)	-70.0%	
State GF/GP	\$104,012,400		\$0	\$0	\$0	\$0	\$7,400,000	\$111,412,400	\$7,400,000	7.1%	
TOTAL HIGHER ED	\$1,757,639,700		\$12,755,600	\$9,035,100	\$21,791,000	\$0	(\$1,795,400)	\$1,799,426,600	\$41,786,300	2.4%	
TOTAL FEDERAL	7,400,000		0	0	0	0	0	7,400,000	0	0.0%	
TOTAL STATE RESTRICTED	127,200,000		0	0	0	0	(11,100,000)	116,100,000	(11,100,000)	-8.7%	
TOTAL STATE GF/GP	\$1,623,039,700		\$12,755,600	\$9,035,100	\$21,791,000	\$0	\$9,304,600	\$1,675,926,000	\$52,886,300	3.3%	

Note: FY 2007-08 is adjusted to remove the one-time delayed payment.

* FY 2006-07 Fiscal-Year-Equated Students (FYES)

Table 18

GOVERNOR'S FY 2008-09 GROSS AND GF/GP CHANGES TO FY 2007-08		
Budget Area/Line Items	Governor's Changes	
	Gross	GF/GP
Agriculture		
Bovine tuberculosis increase (12.0 FTEs).....	\$1,700,000	\$1,700,000
Federal funds reduction.....	(6,400,000)	0
Management services reduction	(150,000)	(150,000)
FTE adjustments: reduction of 100.0 FTEs.....	0	0
Other changes	(81,000)	(900)
Human resources transfer to Civil Service	(642,500)	(350,500)
Economic adjustments	<u>184,200</u>	<u>133,500</u>
Total Agriculture.....	(\$5,389,300)	\$1,332,100
Attorney General		
Adjust revenue sources to reflect memos of understanding	\$3,005,000	\$0
DIT 5.0% reduction	(1,400)	(1,400)
Economic adjustments	<u>416,800</u>	<u>230,000</u>
Total Attorney General.....	\$3,420,400	\$228,600
Capital Outlay		
Agriculture: farmland development rights acquisition.....	\$3,750,000	\$0
DMB: major special maintenance and remodeling.....	2,000,000	0
Military operations on urban terrain training course	40,000,000	0
Military and veterans affairs land acquisitions.....	500,000	0
Military and veterans affairs maintenance/armory repairs	12,900,000	450,000
DNR parks and forests	4,800,000	0
DNR waterways infrastructure.....	5,193,000	
DNR waterways: Port Austin site improvements.....	500,000	0
DNR waterways: Mackinaw City marina, phase V	300,000	0
DNR waterways: metro beach metropark docks/upgrades.....	2,400,000	0
DNR waterways: land acquisitions	1,000,000	0
MDOT: Port Huron transportation service center.....	1,915,000	0
MDOT: Fennville maintenance garage expansion	945,000	0
MDOT: buildings, facilities, and miscellaneous maintenance	6,272,000	0
MDOT aeronautics	<u>167,491,700</u>	<u>0</u>
Total Capital Outlay.....	\$249,966,700	\$450,000

GOVERNOR'S FY 2008-09 GROSS AND GF/GP CHANGES TO FY 2007-08		
Budget Area/Line Items	Governor's Changes	
	Gross	GF/GP
Civil Rights		
Computer equipment and software upgrade	\$75,000	\$60,000
DIT 5.0% reduction	(600)	(600)
Human resources transfer to Civil Service	(209,900)	(198,100)
Economic adjustments	172,600	172,600
Total Civil Rights	\$37,100	\$33,900
Community Colleges		
3.0% increase allocated through performance indicators	\$8,604,800	\$8,604,800
Renaissance zone reimbursements (\$3.025 million to \$3.48 million)	455,000	455,000
Eliminate one-time funding for August 07 delayed payment	(25,759,800)	(25,759,800)
Total Community Colleges	(\$16,700,000)	(\$16,700,000)
Community Health		
Medicaid match rate from 58.10% to 60.27%	\$0	(\$173,658,300)
Title XXI match rate from 70.67% to 72.19%	0	(3,240,500)
Changes in Federal authorization	9,221,400	(286,600)
Michigan Health Initiative funding adjustments	(525,000)	866,700
Merit Award Trust Fund adjustment	0	45,300,000
Remove funding for reverse 911 at Caro	(50,000)	(50,000)
Remove funding for Section 272 study	(150,000)	(150,000)
Adjust gambling addiction revenue to spending	(500,000)	0
Family support subsidy adjustments	(415,100)	0
Rebasing of State hospitals and centers	(7,231,200)	0
Increase in CMH and substance abuse Medicaid caseload	22,228,700	7,608,800
CMH QAAP revenue adjustments	(2,463,300)	291,900
CMH actuarially sound rates	58,744,700	20,108,300
CMH unrealized pharmacy carve-in savings	(8,679,900)	5,231,400
Shift of risk pool funds to facilities	1,400,000	0
Shift of medical services to facilities	1,000,000	0
Mental health court pilot funding	2,253,800	2,253,800
Establishment of mental health central service fund	(7,250,000)	(7,250,000)
Forensic center pharmacy costs	93,500	87,400
Base adjustment to DOC interdepartmental grant	(1,071,800)	0
New DOC outpatient teams	1,173,900	0
Residential treatment staffing increase	1,181,400	0
Recognize Medicare part D revenue at facilities	3,374,800	0
Private anti-obesity grants	761,600	0

GOVERNOR'S FY 2008-09 GROSS AND GF/GP CHANGES TO FY 2007-08		
Budget Area/Line Items	Governor's Changes	
	Gross	GF/GP
Community Health (continued)		
Increase paternity registry IDG from DHS.....	235,100	0
Public health physician practice project	600,000	300,000
Federal funding for birth certificate standards	1,000,000	0
Recognize additional health professions restricted revenue	1,187,200	0
Adjustments to primary care disproportionate share funding	968,200	186,600
Hospital match for provider loan repayment.....	105,000	0
Staff to reduce nursing home complaint backlog	376,600	82,900
Upgrade health professions phone system	2,000,000	0
Shift background check costs to providers	(3,119,600)	0
Sexually transmitted disease initiative in Wayne County	1,000,000	1,000,000
Newborn screening revenue adjustments	297,900	0
Childhood blood lead test revenue	475,000	0
Drug resistance staph tracking (new program)	300,000	300,000
New Federal bioterrorism match requirements	(600,000)	1,077,300
Child teen health centers local grant.....	75,000	0
Children's special health services base/caseload	11,355,700	6,276,700
Increase in crime victims revenue	115,300	0
Increase in Federal Title V revenue	395,000	0
Increase hospital QAAP to upper payment limit.....	91,521,000	5,000,000
Replace shortfall in Medicaid Benefits Trust Fund	0	10,600,000
Reflect unrealized family planning waiver savings	5,030,700	2,258,000
HMO QAAP revenue	0	(1,218,300)
Medicaid FY 09 base, caseload, utilization, and inflation.....	125,243,000	38,951,400
HMO actuarial soundness	116,691,700	46,361,600
Annualization of FY 08 funding increases	18,768,300	7,456,700
Recognition of U-M contribution to healthy kids dental	1,600,000	0
School-based services adjustment.....	5,773,300	(3,848,800)
Special financing adjustments	(23,610,600)	3,788,700
Physician adjustor payments.....	42,734,300	(1,365,600)
Flow-through of former DSH revenue through HMO QAAP	2,418,300	1,556,000
Reduce increase in nursing home variable cost rate	(31,261,900)	(12,420,300)
Increase in pharmacy rebates	(8,154,000)	(3,239,600)
Recognize Medicaid False Claim Act savings	0	(100,000)
Elimination of second DSH pool.....	(5,000,000)	(1,986,500)
Increased nursing home and hospital QAAP gainsharing.....	0	(36,197,800)
Assumed savings from reduced nursing home utilization	(32,429,200)	(12,884,100)
Expansion of home/community based waiver and PACE	32,429,200	12,884,100

GOVERNOR'S FY 2008-09 GROSS AND GF/GP CHANGES TO FY 2007-08		
Budget Area/Line Items	Governor's Changes	
	Gross	GF/GP
Community Health (continued)		
Transfer "money follows the person grant" to HCBW	5,000,300	0
DIT adjustments to restricted funding.....	497,700	0
DIT 5.0% administrative reduction	(8,500)	(2,000)
Human resources transfer to Civil Service	(4,492,000)	(2,782,400)
Economic adjustments	4,188,800	1,646,700
Total Community Health	\$436,804,300	(\$39,205,800)
Corrections		
Hepatitis C testing and treatment	\$14,856,600	\$14,856,600
Additional beds	10,802,900	10,802,900
Mental health treatment.....	4,802,000	4,802,000
Training	3,997,800	3,997,800
Equipment and special maintenance	2,000,000	2,000,000
Additional medical service providers and licensed practical nurses	1,485,600	1,485,600
Nurse signing and retention bonuses	801,000	801,000
DIT office automation rate adjustments.....	976,400	976,400
Personal computer replacements.....	750,000	750,000
Additional registered nurses	631,000	631,000
Security and metal detectors for high-risk parole offices	548,600	548,600
Deerfield staffing adjustment.....	412,300	412,300
Inmate legal services.....	390,000	390,000
Pardon and commutation unit	367,200	367,200
Emergency response team equipment.....	357,500	357,500
GPS tethers	301,800	301,800
File and print servers	300,000	300,000
Cell phones for parole and probation offices.....	248,000	248,000
Field office lease space	231,100	231,100
Trash removal.....	215,700	215,700
Parolee LEIN checks	79,900	79,900
Pugsley work crew.....	34,500	34,500
Water and sewer rate increases.....	25,900	25,900
Telephone fees and commissions replacement.....	0	(1,600,000)
Local mental health training grants	(100,000)	(100,000)
Camp Manistique maintenance and repurposing.....	(120,000)	(120,000)
Mental health study	(400,000)	(400,000)
One-time cost removal	(510,000)	(510,000)
Regionalization	(1,071,000)	(1,071,000)

GOVERNOR'S FY 2008-09 GROSS AND GF/GP CHANGES TO FY 2007-08		
Budget Area/Line Items	Governor's Changes	
	Gross	GF/GP
Corrections (continued)		
Southern Michigan Correctional Facility closure	(3,072,000)	(3,064,500)
Corrections reform.....	(50,000,000)	(50,000,000)
DIT administrative reduction.....	(5,600)	(5,400)
Human resources transfer to Civil Service	(13,392,600)	(13,217,500)
Economic adjustments	7,838,500	7,650,900
Total Corrections	(\$16,216,900)	(\$17,821,700)
Education		
Add special education teachers/interpreters (6.0 FTEs)	\$480,000	\$0
Eliminate MSDB summer institute	(90,000)	0
Additional state program oversight (10.0 FTEs)	1,217,200	1,100,000
Best practices study on assessments for disabled students.....	300,000	0
Add funding for state testing item bank system (13.0 FTEs)	1,427,500	0
Eliminate data systems.....	(4,405,000)	0
Other adjustments	(796,700)	(113,800)
Economic adjustments	127,800	12,900
Total Education	(\$1,739,200)	\$999,100
Environmental Quality		
Fund shift from restricted permit fees to General Fund.....	\$0	\$13,473,300
Federal funds adjustments	(1,227,600)	0
FTE adjustments: reduction of 100.0 FTEs.....	0	0
Other changes	(51,900)	(600)
Human resources transfer to Civil Service	(1,476,000)	(315,500)
Economic adjustments	639,800	78,200
Total Environmental Quality	(\$2,115,700)	\$13,235,400
Executive Office		
No changes recommended	\$0	\$0
Total Executive Office	\$0	\$0
Higher Education		
Eliminate one-time funding for August 07 delayed payment.....	(\$138,736,000)	(\$138,736,000)
University operations: total average increase of 3.0%	43,581,700	43,581,700
Agricultural experiment station 3.0% increase	1,019,900	1,019,900
Cooperative extension service 3.0% increase	879,700	879,700
Midwest higher education compact dues increase	5,000	5,000

GOVERNOR'S FY 2008-09 GROSS AND GF/GP CHANGES TO FY 2007-08		
Budget Area/Line Items	Governor's Changes	
	Gross	GF/GP
Higher Education (continued)		
Adjust funding for merit awards	(54,800,000)	0
Add funding for promise grants	47,000,000	0
Increase for Tuition Incentive Program (TIP) due to caseload	4,100,000	4,100,000
Replace restricted revenue fund sources with GF/GP	0	3,300,000
Total Higher Education	(\$96,949,700)	(\$85,849,700)
History, Arts, and Libraries		
Records center relocation	\$1,154,700	\$603,400
HAL fund expenditures brought on-budget	1,302,700	0
IT upgrades for department	179,500	179,500
Arts grants increase	250,000	250,000
Michigan history day elimination	(25,000)	(25,000)
Revenue adjustments	588,100	(15,400)
DIT 5.0% reduction	(7,300)	(7,000)
Human resources transfer to Civil Service	(228,000)	(228,000)
Economic adjustments	62,300	55,900
Total History, Arts, and Libraries	\$3,277,000	\$813,400
Human Services		
Increase private authorization to recognize new grants	\$1,000,000	\$0
Increase GF/GP to support paternity testing	0	185,900
Increase restricted authorization for bench warrant fees	170,000	0
Federal nutrition education grant increase	14,900,000	0
Jobs, education, and training (JET) fund shift	0	(1,362,800)
Domestic violence fund shifts	0	(1,504,300)
Foster care base adjustment	(5,887,600)	(2,882,000)
Reverse Title IV-E reform savings (foster care)	(24,138,500)	(7,083,600)
Newly licensed foster homes cost	8,107,300	4,053,700
Maintenance payment newly licensed foster homes	5,532,800	2,226,900
Foster care rate increase	3,765,700	1,885,200
Annualize private agency funding related to Maxey closure	2,555,000	1,233,300
Foster care fund source adjustment	0	450,000
Adoption subsidy base adjustment	4,289,000	4,506,100
Adoption caseload reduction funding	2,372,700	1,232,200
Annualize 4.0% increase in adoption contract rates	374,600	236,000
Children's services fund source adjustment	0	982,500
Strong families/safe children reduction	(2,000,000)	(2,000,000)

GOVERNOR'S FY 2008-09 GROSS AND GF/GP CHANGES TO FY 2007-08		
Budget Area/Line Items	Governor's Changes	
	Gross	GF/GP
Human Services (continued)		
Michigan youth opportunity initiative (new)	1,225,000	0
Annualize full-year savings related to Maxey closure	(4,269,000)	(2,134,500)
Annualize funding for private agency placements	842,900	842,900
Reverse Title IV-E reform savings (child care fund)	12,083,600	7,083,600
Child care fund rate increase	1,705,400	1,705,400
Child care fund base adjustment	15,000,000	15,000,000
County juvenile officers fund source adjustment	0	244,600
Federal reduction for food stamp operation	0	3,586,000
Food stamp reinvestment increase	1,320,000	1,320,000
One-time moving costs	2,136,000	1,568,000
Increased rent costs	871,300	639,600
Occupancy charge fund source adjustment	0	600,000
Local office consolidation	(1,090,000)	(800,200)
Foster care worker background check analysts	182,800	182,800
Child and adult licensing restricted fund adjustment	(349,800)	0
Family independence program (FIP) base adjustment	19,010,900	19,010,900
FIP savings for newly licensed foster care cases	(2,684,700)	(2,684,700)
FIP grant increase	7,484,400	7,484,400
FIP clothing allowance increase	3,920,500	3,920,500
Child support pass-through savings	(5,300,000)	(5,300,000)
Child support collection fund shift	0	2,000,000
FIP savings from SSI repayments (new policy)	0	(4,338,300)
Child daycare base adjustment	(1,095,300)	(1,095,300)
Child daycare rate increase	20,000,000	20,000,000
State disability assistance (SDA) base adjustment	4,585,500	4,585,500
SDA grant increase	696,900	696,900
SDA fund shift	0	(500,000)
State supplementation base adjustment	1,916,600	1,916,600
Camp O'Malley grant reduction	(126,500)	(126,500)
DHS information technology administrative savings	(5,318,200)	(2,810,200)
DIT administrative savings	(9,100)	(3,300)
Agency reorganization	(1,257,300)	(1,000,000)
Medicaid match rate from 58.10% to 60.27%	0	(6,390,300)
Human resources transfer to Civil Service	(4,961,600)	(1,413,100)
Economic adjustments	3,734,900	2,191,700
Total Human Services	\$81,296,200	\$68,142,100

GOVERNOR'S FY 2008-09 GROSS AND GF/GP CHANGES TO FY 2007-08		
Budget Area/Line Items	Governor's Changes	
	Gross	GF/GP
Information Technology		
PC and server replacement for various departments.....	\$1,685,800	\$0
Ongoing maintenance of various systems	3,947,800	0
New staff for criminal justice information center and DHS	421,200	0
Disaster recovery for public health systems in DCH	327,600	0
Retirement system costs	369,700	0
Software licenses and system upgrades for HAL and DCH.....	205,000	0
Support for office automation in Corrections	976,400	0
Departmental adjustments to IT IDGs	(178,700)	0
Technical adjustments.....	2,996,800	0
Department of Human Services overall reduction	(5,318,200)	0
Remove one-time funding	(1,008,000)	0
Administrative reduction	(233,400)	0
Economic adjustments	932,800	0
Total Information Technology	\$5,124,800	\$0
Judiciary		
Next generation judicial information systems.....	\$652,700	\$0
Pilot mental health courts	1,100,000	1,100,000
OASI and social security adjustments for judges.....	248,300	248,300
Defined contribution costs for newly elected judges	197,400	197,400
Economic adjustments	422,800	391,000
Total Judiciary	\$2,621,200	\$1,936,700
Labor and Economic Growth		
OFIS mortgage fraud regulation.....	\$2,859,200	\$0
OFIS financial institution regulation.....	1,817,700	0
No Worker Left Behind	40,000,000	40,000,000
Nursing corps	8,500,000	8,500,000
Jobs, education, and training (JET).....	(4,467,600)	0
Employment relations, construction, admin. hearings caseload	1,090,700	0
Liquor control local grants and direct shipper licensees	620,000	0
IT upgrades for OFIS, admin. hearings, and postsecondary ed.	1,959,500	0
Focus: HOPE JET pilot elimination	(140,000)	(140,000)
Occupational regulation investigate unlicensed activity	1,050,000	0
Revenue adjustments.....	9,022,300	0
DIT 5.0% reduction.....	(43,000)	0
Human resources transfer to Civil Service	(2,641,700)	0

GOVERNOR'S FY 2008-09 GROSS AND GF/GP CHANGES TO FY 2007-08		
Budget Area/Line Items	Governor's Changes	
	Gross	GF/GP
Labor and Economic Growth (continued)		
Economic adjustments	1,994,900	(12,600)
Total Labor and Economic Growth.....	\$61,622,000	\$48,347,400
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		
State building authority rent adjustments	\$5,000,000	\$5,000,000
Building occupancy charges adjustments	446,100	0
Statewide cost allocation plan (SWCAP) adjustments.....	0	(443,100)
Eliminate one-time enhancements for retirement services	(798,000)	0
Increase funding for professional development	71,000	0
Transfer of departmental internal audits to budget office.....	5,870,400	0
Increase for internal audits	31,600	0
Parking enforcement efficiencies	(300,000)	0
Administrative efficiencies	(274,000)	(150,000)
Civil Service Commission administrative efficiencies.....	(300,800)	(300,800)
Fully fund children's ombudsman supervisor position.....	80,000	80,000
State-owned property utilization study/relocating personnel.....	550,000	0
Add staff to Office of Retirement Services (ORS) (6.0 FTEs).....	440,000	0
ORS interactive voice response hardware/software upgrade	357,700	0
DIT 5.0% reduction	(40,000)	(17,200)
Human resources transfer to Civil Service	32,535,500	21,407,500
Economic adjustments	30,000	(439,600)
Total Management and Budget.....	\$43,699,500	\$25,136,800
Military and Veterans Affairs		
Military training sites maintenance equipment	400,000	0
Military retirement cost increase.....	169,500	169,500
Starbase educational program increased training activity.....	815,000	0
Headquarters maintenance cost for new facility	200,000	200,000
DIT administrative reduction.....	(1,700)	(600)

GOVERNOR'S FY 2008-09 GROSS AND GF/GP CHANGES TO FY 2007-08		
Budget Area/Line Items	Governor's Changes	
	Gross	GF/GP
Military and Veteran Affairs (continued)		
Human resources transfer to Civil Service	(984,900)	(829,300)
Economic adjustments	360,100	194,500
Total Military and Veterans Affairs	\$958,000	(\$265,900)
Natural Resources		
State park operations reduction (Park Improvement Fund)	(\$2,500,000)	\$0
Forest recreation increase	500,000	500,000
Wildfire protection increase	500,000	500,000
Wildfire equipment increase (Forest Development Fund)	400,000	0
Federal funds adjustments	1,400,000	0
FTE adjustment: increase of 100.0 FTEs	0	0
Other changes, reduction of 2.0 FTEs	28,600	4,100
Human resources transfer to Civil Service	(1,932,200)	(304,300)
Economic adjustments	376,900	15,900
Total Natural Resources	(\$1,226,700)	\$715,700
School Aid		
Foundation allowance (increases between \$108 and \$216)	\$250,750,000	(\$329,600)
Federal grants	83,432,300	0
Debt service (school bond loan fund, Durant bonds)	78,959,000	0
New small high schools infrastructure program	32,000,000	0
School Aid Fund cash flow borrowing costs	22,200,000	0
School readiness district grants	22,000,000	0
Special education state funding	19,800,000	0
Renaissance zone reimbursement	7,500,000	2,100,000
State funding for assessments	5,472,800	0
Early childhood investment corporation collaborative grants	5,000,000	0
Center for educational performance and information (CEPI)	3,570,000	4,320,000
ISD operational and technical assistance funding	2,900,000	0
New innovative programs grants	2,500,000	0
School readiness competitive grants	2,000,000	2,000,000
Expansion of school-based health centers	2,000,000	0
MBT revenue loss reimbursement (out-of-formula districts)	1,300,000	0
Grants to sparsely populated UP districts	1,275,000	0
FIRST Robotics	1,000,000	0
Expansion of gifted and talented	715,000	0
Durant cash payments (last payment was in FY 2007-08)	(32,000,000)	0

GOVERNOR'S FY 2008-09 GROSS AND GF/GP CHANGES TO FY 2007-08		
Budget Area/Line Items	Governor's Changes	
	Gross	GF/GP
School Aid (continued)		
Elimination of various district-specific grants.....	(2,750,000)	0
Reduction in educational costs at juvenile justice facilities	(281,300)	0
Reduction to CMU's lending library	(150,000)	0
Economic adjustments	9,800	0
Total School Aid	\$509,202,600	\$8,090,400
State		
Replacement of outdated computer server	\$90,000	\$90,000
Increased attorney charges for assigned claims	120,000	0
Eliminate one-time Federal Help America Vote Act funds	(350,000)	0
Eliminate unused Federal social security verification funds	(101,200)	0
Department services operations administrative reduction	(237,000)	(237,000)
Regulatory services operations administrative reduction	(222,000)	(222,000)
Central operations administrative reduction	(76,800)	(76,800)
Branch operations administrative reduction	(68,600)	(68,600)
DIT 5.0% reduction	(17,100)	(2,900)
Economic adjustments	(1,683,000)	(1,391,900)
Total State	(\$2,545,700)	(\$1,909,200)
State Police		
New trooper school.....	\$7,335,900	\$7,335,900
Restore Marquette, Sterling Heights crime labs.....	2,000,000	2,000,000
Enable palm-print lab analysis	2,500,000	1,000,000
Michigan public safety communications system shortfall	3,000,000	3,000,000
Information systems adjustments.....	1,032,800	0
Drunk driving enforcement	865,000	0
Concealed weapons enforcement training via web, cd.....	100,000	0
Fingerprint analysis technical upgrade.....	200,000	0
Federal grant funds authorization adjustment	(52,454,700)	0
Mental health awareness training transfer to Judiciary.....	(100,000)	0
Completion of Calumet police post purchase.....	(450,000)	(450,000)
Communications division restricted revenue adjustment	(213,800)	0
9-1-1 operations revenue adjustment.....	127,100	0
DIT administrative reduction.....	(11,100)	(7,100)
Human resources transfer to Civil Service	(1,775,700)	(1,150,300)
Economic adjustments	973,100	733,400
Total State Police.....	(\$36,871,400)	\$12,461,900

GOVERNOR'S FY 2008-09 GROSS AND GF/GP CHANGES TO FY 2007-08		
Budget Area/Line Items	Governor's Changes	
	Gross	GF/GP
Transportation		
Adjust debt service payments	(\$31,608,600)	\$0
Adjust IDG amounts	(534,000)	0
Increase Federal aid road construction	159,071,100	0
Reduce road and bridge programs (State restricted revenue)	(65,739,300)	0
Reduce Federal/local funding for public transportation	(13,000,000)	0
Adjust CTF expenditures - revenue adjustment	(2,485,600)	0
Adjust various expenditures - revenue adjustment	12,000	0
Add inflationary increases for maintenance	4,270,200	0
Increase funding for roadside cleaning	1,250,000	0
Eliminate TEDF funding for truck inspection stations	(40,000)	0
Fund an unclassified position for UPTRAN	70,600	0
Restore FY 2007-08 TEDF reductions	13,000,000	0
Other adjustments	(163,200)	0
Economic adjustments	166,700	0
Total Transportation.....	\$64,269,900	\$0
Treasury - Debt Service		
Water pollution control schedule adjustment	(\$63,400)	(\$63,400)
Quality of life schedule adjustment	2,000,000	2,000,000
Quality of life new issue debt service	100,000	100,000
Quality of life funding shift	0	4,826,500
Clean Michigan initiative schedule adjustment	(10,200,000)	(6,626,500)
Clean Michigan initiative new issue debt service	1,600,000	1,600,000
Great Lakes water quality schedule adjustment	(4,300,000)	(4,300,000)
Great Lakes water quality new issue debt service	14,000,000	14,000,000
Refinancing adjustments	(40,000,000)	(40,000,000)
Total Treasury - Debt Service.....	(\$36,863,400)	(\$28,463,400)
Treasury - Operations		
MBT implementation	\$3,400,000	\$3,400,000
Renaissance zone reimbursements	705,000	705,000
New staff for casino gaming	684,000	0
Lottery commissioner salary	17,000	0
Attorney general charges	700,000	100,000
Consultant for pension plans	1,000,000	0
Increase for home heating assistance	400,000	0
Costs of out-of-state lien filings	250,000	0

GOVERNOR'S FY 2008-09 GROSS AND GF/GP CHANGES TO FY 2007-08		
Budget Area/Line Items	Governor's Changes	
	Gross	GF/GP
Treasury - Operations (continued)		
Commercial mobile radio services fees sunset 2/28/09	(6,800,000)	0
Michigan Transportation Fund decrease	(750,900)	0
Neighborhood enterprise zones	(150,000)	(150,000)
Senior citizen cooperative housing tax exemption	(498,400)	(498,400)
Other GF/GP reductions	(461,600)	(461,600)
Remove funding for tax on services and income tax increase	(520,000)	(520,000)
Information technology adjustments	753,100	395,400
Human resources transfer to Civil Service	(2,057,300)	(1,533,100)
Economic adjustments	571,600	(30,200)
Total Treasury - Operations	(\$2,757,500)	\$1,407,100
Treasury - Revenue Sharing		
Statutory revenue sharing 4.0% increase	\$16,127,600	\$0
County revenue sharing payments	2,280,900	0
County revenue sharing fund shift	0	(113,600)
Total Treasury - Revenue Sharing	\$18,408,500	(\$113,600)
Treasury - Strategic Fund		
Eliminate \$100 line item placeholders	(\$700)	(\$700)
Eliminate one-time funding for Michigan promotion	(5,700,000)	0
Revenue adjustments	0	0
Human resources transfer to Civil Service	(17,800)	(17,800)
Economic adjustments	78,600	67,400
Total Treasury - Strategic Fund	(\$5,639,900)	\$48,900
Total All Budget Areas	\$1,255,692,800	(\$6,949,800)

PAYMENTS TO LOCAL UNITS OF GOVERNMENT

The FY 2008-09 appropriation recommendation includes \$16.3 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 \$2.2 billion. Table 19 provides a summary of this estimate.

Table 19

STATE PAYMENTS TO LOCAL UNITS OF GOVERNMENT ARTICLE IX, SECTION 30 REQUIREMENT (Millions of Dollars)	
	FY 2008-09 Estimate
State Spending from State Resources	\$28,738.7 ^{a)}
Required Payments to Local Units of Government (48.97%)	14,073.3
Actual or Estimated Payments to Locals	16,262.7
Actual Percentage of Total State Spending.....	56.59%
Surplus of Section 30 Payments.....	2,189.4
^{a)} Does not include \$20.0 million of Federal aid counted as GF/GP revenue.	

STATE EMPLOYMENT

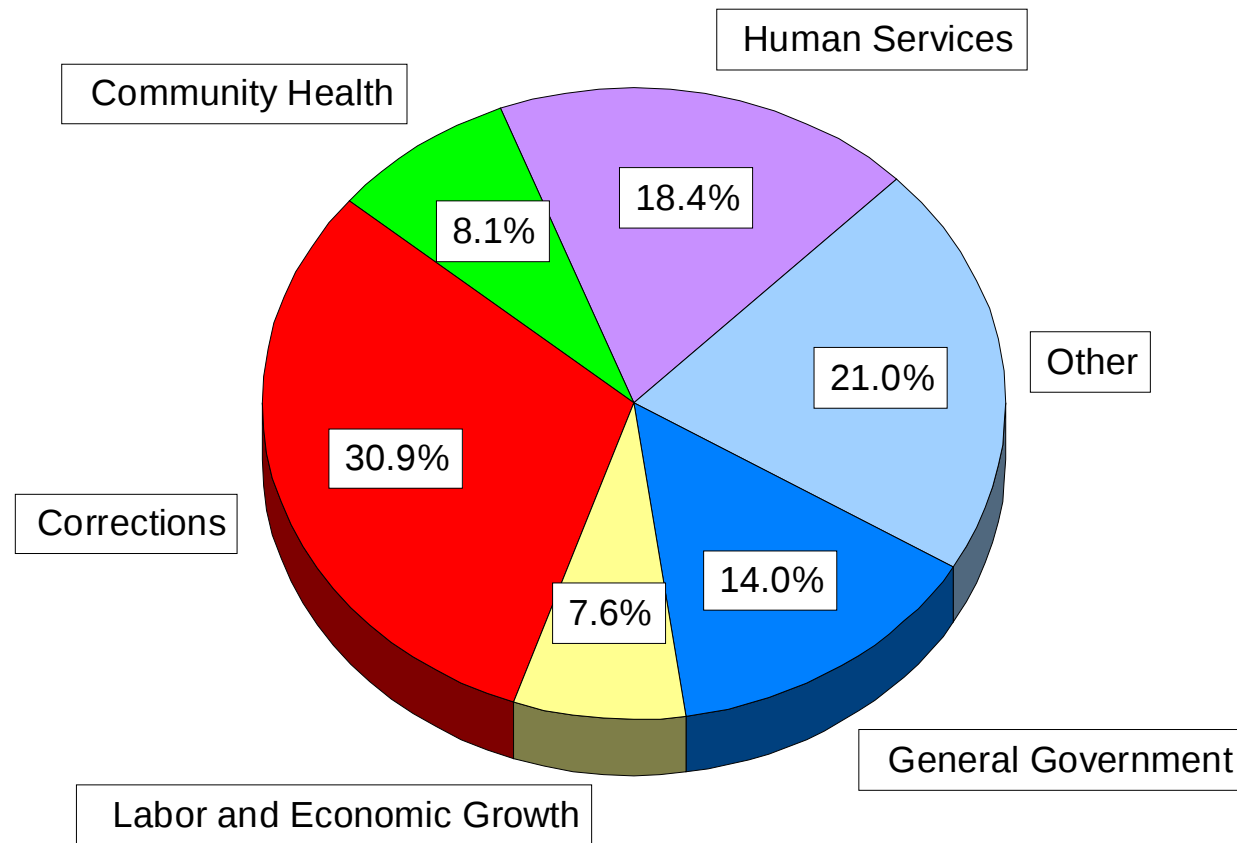
Table 20 and Figure E provide a comparison of the classified full-time equated positions (FTEs) recommended by the Governor for FY 2008-09 with the appropriated level of FTEs during FY 2007-08. The budget recommendation includes the funding of 56,676.6 FTEs during FY 2008-09. This represents a decrease of 350.1 FTEs from the current fiscal year. All of the departmental FTE numbers during FY 2008-09 are affected by the Governor's proposal to shift FTEs out of the Executive branch departments into the Department of Management and Budget. These shifts involve 358.0 FTEs working in human resources programs and 51.0 FTEs working in internal audit functions.

Table 20
FULL-TIME EQUATED POSITIONS
FY 2007-08 VERSUS GOVERNOR'S RECOMMENDATION

Department/Budget Area	FY 2007-08 Year-to-Date Appropriations	FY 2008-09 Governor's Recommendation	Position Change	Percent Change
Agriculture	686.5	593.5	(93.0)	(13.5)%
Attorney General	556.0	537.0	(19.0)	(3.4)
Civil Rights	136.0	127.0	(9.0)	(6.6)
Community Health	4,761.6	4,602.7	(158.9)	(3.3)
Corrections	17,637.4	17,499.5	(137.9)	(0.8)
Education	460.5	480.0	19.5	4.2
Environmental Quality	1,561.7	1,513.7	(48.0)	(3.1)
Executive	74.2	74.2	0.0	0.0
Higher Education	1.0	1.0	0.0	0.0
History, Arts, and Libraries	230.0	227.0	(3.0)	(1.3)
Human Services	10,575.4	10,442.8	(132.6)	(1.3)
Information Technology	1,774.4	1,657.0	(117.4)	(6.6)
Judiciary	519.0	490.0	(29.0)	(5.6)
Labor and Economic Growth	4,282.5	4,292.5	10.0	0.2
Management and Budget	988.0	1,418.0	430.0	43.5
Military and Veterans Affairs	1,015.0	985.0	(30.0)	(3.0)
Natural Resources	2,082.9	2,164.9	82.0	3.9
State	1,853.8	1,809.0	(44.8)	(2.4)
State Police	2,899.0	2,924.0	25.0	0.9
Transportation	3,029.3	3,008.3	(21.0)	(0.7)
Treasury (Operations)	1,744.5	1,682.5	(62.0)	(3.6)
Treasury (Strategic Fund)	152.0	147.0	(5.0)	(3.3)
TOTAL POSITIONS	57,026.7	56,676.6	(350.1)	(0.6)%

Figure E

Full-Time Equated Positions FY 2008-09 Governor's Recommendation



Total = 56,676.6

PROJECTED YEAR-END BALANCES

Combining the Governor's FY 2008-09 appropriation recommendations with the consensus revenue estimates and the recommended revenue policy changes included in the budget leads to updated estimates of the FY 2008-09 GF/GP and SAF year-end balances. Assuming that all of the Governor's FY 2008-09 GF/GP revenue and appropriation recommendations are enacted, the FY 2008-09 GF/GP budget will close the fiscal year with a \$10.9 million balance. The FY 2008-09 SAF budget, as recommended by the Governor, will close the fiscal year with an \$8.9 million balance. Table 21 and Table 22 provide a summary of these estimates.

Table 21

FY 2008-09 GENERAL FUND/GENERAL PURPOSE REVENUE, EXPENDITURES, AND YEAR-END BALANCE (Millions of Dollars)	
	Feb. 2008 Gov's Rec.
Revenue:	
Beginning Balance	\$ 125.5
Ongoing Consensus Revenue.....	9,193.7
Revenue Sharing Freeze	540.5
Statutory Revenue Sharing 4.0% Increase	(16.2)
Michigan Job Creation Credit	(34.8)
Shift of Short-Term Borrowing Costs to School Aid Fund	45.5
Sale of Surplus State Property - Northville	6.5
Total Estimated Revenue	\$9,860.2
Expenditures:	
Governor's Appropriation Recommendations.....	9,849.3
Total Projected Expenditures	\$9,849.3
Projected Year-End Balance.....	\$ 10.9

Table 22
FY 2008-09 SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(Millions of Dollars)

	Feb. 2008 Gov's Rec.
Revenue:	
Beginning Balance	\$ 48.5
Ongoing Consensus Revenue Estimate.....	11,870.6
GF/GP Grant.....	43.0
Federal Aid.....	1,562.0
Total Estimated Revenue	\$13,524.1
Expenditures:	
Governor's Appropriation Recommendation	\$13,515.2
Total Projected Expenditures	\$13,515.2
Projected Year-End Balance.....	\$ 8.9

ECONOMIC AND REVENUE FORECAST

Economic Forecast

The Governor's proposed budget for FY 2008-09 is based on the consensus economic forecast adopted at the January 11, 2008, Consensus Revenue Estimating Conference. This economic forecast is summarized in Table 23.

U.S. Economy. The U.S. economy grew at a rate of 2.2% in 2007, as measured by the percentage change in inflation adjusted Gross Domestic Product. This followed a 2.9% increase in 2006, and marked the sixth year of economic expansion since the 2001 recession ended in November 2001. The slowdown in the rate of growth experienced in 2007 was due to a number of factors including a slowdown in housing activity and a decline in motor vehicle sales. Housing starts fell from 1.8 million units in 2006 to 1.35 million units in 2007, representing a decline of 24.8%. In addition, existing home sales were down 12.8% and mortgage delinquencies and foreclosures rose dramatically as the year progressed. This weakness in the housing sector reduced the value of houses in many parts of the country, and caused consumers, who had been relying on rising housing values to help support consumer spending, to temper their spending. Light vehicle sales fell to 16.1 million vehicles in 2007 from 16.5 million units in 2006, representing a decline of 2.5%. Helping offset some of these negative developments was the strong increase in exports due largely to the decline in the value of the U.S. dollar relative to the currencies of the nation's key trading partners. The net impact of these developments had a negative impact on the labor market as the U.S. unemployment rate rose from 6.9% in 2006 to 7.2% in 2007.

In 2008, the pace of economic growth is expected to slow down, particularly in the first half of the year. In fact, the chances of a national recession are probably about 50.0%, although the consensus economic forecast is not predicting a recession. During the second half of 2008, the rate of growth is expected to improve gradually and continue to improve through the end of 2009. Real Gross Domestic Product (GDP) is forecast to slow to a growth rate of 1.8% in 2008 and then expand at a rate of 2.6% in 2009. The housing sector is expected to continue to weaken in 2008 before improving slightly in 2009; however, the level of activity in 2009 still will be at a very low level historically. Light vehicle sales will decline to an estimated 15.7 million units in 2008 and then edge up to 16.0 million units in 2009. Inflation, as measured by the U.S. Consumer Price Index, is expected to measure 2.8% in 2008, which would be unchanged from the 2007 level, and then ease down to 2.5% in 2009. Weakness in the labor market will push the unemployment rate up to an estimated 5.1% in 2008, and while employment is expected to increase in 2009, it will not be strong enough to bring down the unemployment rate. In fact, the unemployment rate is expected to edge up to 5.3% in 2009.

Michigan Economy. Michigan's economic activity remained weak in 2007. Wage and salary employment declined 1.4% from the 2006 level to 4.28 million workers. This marked the seventh consecutive year that wage and salary employment declined from the previous year's level. During these seven years, Michigan lost 398,000 jobs, a decline of 8.5%. As a result of this weakness in the labor market, the unemployment rate increased to 7.2% in 2007, from 6.9% in 2006 and 3.8% in 2000. Personal income, the total income received by individuals from all sources, rose 3.4% in 2007, but after adjusting for inflation, was up only 1.4%.

In 2008 and 2009, employment in Michigan is expected to continue to decline. Wage and salary employment will decline another 1.9% in 2008 to an estimated 4.2 million workers, and then decline an estimated 0.8% to 4.17 million in 2009. This drop in wage and salary employment will push the unemployment rate up to an estimated 8.2% in 2008 and 8.7% in 2009. Personal income adjusted for inflation will decline 1.2% in 2008 and then edge up a meager 0.5% in 2009. Inflation, as measured by the Detroit Consumer Price Index, will measure 2.5% in 2008 and 2.3% in 2009.

Table 23

CONSENSUS ECONOMIC FORECAST: 2008 AND 2009							
JANUARY 11, 2008							
	Calendar 2006	Calendar 2007	% Change From Prior Year	Calendar 2008 Forecast	% Change From Prior Year	Calendar 2009 Forecast	% Change From Prior Year
United States:							
Real Gross Domestic Product (billions of chained 2000 dollars)	\$11,319	\$11,568	2.2%	\$11,776	1.8%	\$12,082	2.6%
Consumer Price Index (1982-84=100)	201.6	207.2	2.8%	213.0	2.8%	218.3	2.5%
3-Month Treasury Bills (Interest Rate, %)	4.7	4.4		3.5		4.0	
Unemployment Rate (%)	4.6	4.6		5.1		5.3	
Light Vehicle Sales (millions of units)	16.5	16.1	(2.5)%	15.7	(2.5)%	16	1.9%
Michigan:							
Wage and Salary Employment (thousands)	4,341	4,280	(1.4)%	4,199	(1.9)%	4,165	(0.8)%
Unemployment Rate (%)	6.9	7.2		8.2		8.7	
Personal Income (billions of dollars)	\$341,075	\$352,672	3.4%	\$357,256	1.3%	\$367,260	2.8%
Real Personal Income (billions of 1982-84 \$s)	\$173,487	\$175,896	1.4%	\$173,847	(1.2)%	\$174,719	0.5%
Detroit Consumer Price Index (1982-84=100)	196.6	200.5	2.0%	205.5	2.5%	210.2	2.3%

Revenue Estimates

Based on the economic forecast summarized above, combined with the current tax structure, the Governor's proposed tax policy changes, and other proposed revenue adjustments, it is estimated that revenue totaling \$44.7 billion will be available in FY 2008-09 to support Governor Granholm's proposed budget. This represents a 2.4% increase from the revised total revenue estimate for FY 2007-08. 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 tax policy changes and other revenue changes. Estimates of the total revenue on which the Governor's proposed budget is based are summarized in [Table 24](#). Below are summaries of the Governor's proposed tax policy changes, and the revenue estimates on which the Governor's proposed General Fund/General Purpose and School Aid Fund budgets are based.

Table 24

GOVERNOR'S PROJECTED TOTAL STATE REVENUE: FY 2007-08 AND FY 2008-09

(Millions of Dollars)

	FY 2006-07 Final	FY 2007-08 Estimate	% Change FY '08/FY '07	FY 2008-09 Estimate	% Change FY '09/FY '08
General Fund/General Purpose:					
Beginning Balance	\$ 2.5	\$ 259.1	---	\$ 125.5	---
Revenue From Ongoing Sources ¹⁾	8,317.7	9,246.5	11.2%	9,193.7	(0.6)%
Proposed Tax/Revenue Changes	0.0	(6.2)	---	(34.8)	---
One-Time Revenue Adjustments & Other	956.0	525.6	(45.0)	575.8	9.6
Total GF/GP Revenue	\$9,276.2	\$10,025.0	8.1%	\$9,860.2	(1.6)%
School Aid Fund:					
Beginning Balance	0.0	82.4	---	48.5	(41.1)
Ongoing Earmarked Tax & Lottery Revenue ¹⁾	11,153.1	11,353.1	1.8	11,870.6	4.6
Proposed Tax/Revenue Changes	0.0	0.0	---	0.0	---
Other Revenue (General Fund Grant, Federal Aid . . .)	1,654.6	1,510.9	(8.7)	1,605.0	6.2
Total SAF Revenue	\$12,807.7	\$12,946.4	1.1%	\$13,524.1	4.5%
Other Funds:					
General Fund/Special Purpose & Special Revenue Funds	\$16,383.6	\$16,877.5	3.0%	\$17,169.4	1.7%
Transportation Funds	4,694.5	4,504.9	(4.0)	4,733.8	5.1
Fund Balances:					
Restricted General Fund Subfunds Unreserved Balances	479.9	330.6	(31.1)	330.6	0.0
Special Revenue Fund Balances	151.2	175.5	16.1	275.7	57.1
Total Fund Balances	631.1	506.1	(19.8)	606.3	19.8
Total Other Funds W/ Beginning Balance	21,709.2	21,888.5	0.8	22,509.5	2.8
Gross Revenue	\$43,793.1	\$44,859.9	2.4%	\$45,893.8	2.3%
Less Interfund Transfers	(1,673.8)	(1,190.7)	(28.9)	(1,196.7)	0.5
Net Total Revenue	\$42,119.3	\$43,669.2	3.7%	\$44,697.1	2.4%

¹⁾ Estimates adopted at the January 11, 2008, Consensus Revenue Estimating Conference.

Source: Governor's Executive Budget for FY 2008-09, Appendix C, and Senate Fiscal Agency.

Proposed Tax Policy Changes

The Governor's only proposed tax policy change for FY 2008-09 is entitled the "Michigan Job Creation Incentive". Under this proposal, two new Michigan business tax (MBT) credits related to job growth would be created. In order to be eligible for either of these credits, a business would have to be part of a business sector that is on a designated list of the 50 fastest-growing sectors in the U.S. economy; however, this proposed list of eligible business sectors has not yet been finalized by the administration.

Enhanced MBT Compensation Credit. Under current law, the Michigan business tax provides businesses with a credit equal to 0.37% of the compensation paid to workers in Michigan. The Governor is proposing a new credit equal to double the current compensation credit for the compensation paid to employees in new jobs created by businesses that are on the list of the fastest-growing business sectors. This new credit would be in addition to the existing compensation credit. The credit would be based on the jobs created from May 1, 2008, to April 30, 2009, and eligible businesses would be able to claim this credit for the tax year in which the jobs are created plus in each of the three succeeding tax years.

New Business Credit. A new Michigan business tax credit would be created for businesses that are newly formed in Michigan or are moved to Michigan from May 1, 2008, through December 31, 2011. The credit could be claimed for four years. The credit would equal 100% of a qualifying business's MBT liability in the first year, 75% in the second year, 50% in the third year, and 25% in the fourth year.

Together, these proposed credits would reduce MBT revenue going into the General Fund by an estimated \$6.2 million in FY 2007-08 and \$34.8 million in FY 2008-09.

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 \$23.3 billion, or 52.2% of the total State government revenue estimated for FY 2008-09. A breakdown of the GF/GP and SAF revenue estimates for FY 2007-08 and FY 2008-09 is presented in [Table 25](#) and [Table 6](#), 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 11, 2008, 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 new Michigan business tax credits and revenue adjustments.

General Fund/General Purpose Revenue. As shown in [Table 25](#), GF/GP revenue is expected to total \$9.86 billion in FY 2008-09, which represents a 1.6% decrease from the FY 2007-08 revised estimate. Revenue from ongoing revenue sources is expected to total \$9.19 billion, which represents a decline of 0.6% from FY 2007-08. Of this amount, an estimated \$1.3 billion will be due to the tax increases that were enacted in 2007; which includes \$818.4 million from the increase in the income tax rate from 3.9% to 4.35%, \$489.3 million from replacing the single business tax with the Michigan business tax, including the surcharge, and the loss of \$8.0 million due to the reduction in the State property tax on telephone company personal property. The Governor also is proposing a modest increase in revenue sharing payments from the freeze in revenue sharing payments that was maintained in the FY 2007-08 budget. Compared with the statutory revenue sharing earmarkings, the Governor's proposal for FY 2008-09 would send an estimated \$524.3 million in additional sales tax revenue to the General Fund. The Governor also is proposing that the School Aid Fund reimburse the General Fund for the cost of borrowing funds short-term, which the State does each year to help bolster the State's cash flow position so it is able to make scheduled payments, including School Aid Fund payments, on a timely basis. This short-term borrowing cost reimbursement from the SAF would total an estimated \$45.0 million. The Governor's estimate of GF/GP revenue in FY 2008-09

also includes a beginning balance expected to be carried over from FY 2007-08 of \$125.5 million. The General Fund/General Purpose revenue estimates on which the Governor's proposed budget for FY 2008-09 is based are presented in [Table 25](#).

	FY 2007-08	FY 2008-09	Percent Change
Beginning Balance	\$259.1	\$125.5	(51.6)%
Consensus Estimates for Ongoing Revenue Sources¹⁾			
Taxes:			
Net Income Tax	4,980.1	4,910.5	(1.4)
Single Business Tax	638.0	0.0	(100.0)
Michigan Business Tax.....	1,543.3	2,181.8	41.4
Sales.....	64.1	93.0	45.1
Use	924.0	930.0	0.6
Cigarette	221.0	216.6	(2.0)
Insurance Co. Premiums.....	244.0	260.0	6.6
Telephone & Telegraph	79.0	75.0	(5.1)
Casino	15.2	0.0	(100.0)
All Other Taxes	200.6	197.4	(1.6)
Subtotal Taxes.....	8,909.3	8,864.3	(0.5)
Nontax Revenue	337.3	329.3	(2.4)
Total GF/GP Consensus Revenue Estimates	\$9,246.5	\$9,193.6	(0.6)%
Revenue Sharing Reduction	557.6	524.3	(6.0)
Proposed Tax Policy Changes ²⁾	(6.2)	(34.8)	461.3
Proposed Budget Adjustments ³⁾	(32.0)	51.5	(260.9)
Total GF/GP Revenue Current Fiscal Year	\$9,765.9	\$9,734.7	(0.3)%
Total GF/GP Revenue with Beginning Balance	\$10,025.0	\$9,860.2	(1.6)%
¹⁾ Estimates adopted at the January 11, 2008, Consensus Revenue Estimating Conference. ²⁾ Includes the Governor's proposed new MBT credits intended to help increase jobs in Michigan. ³⁾ Includes the following: FY 2007-08 - \$22.9 million in land sales, \$22.8 million in short-term interest payments from the SAF, \$2.0 million transfer from the Financial Institutions Fund, \$100.0 million transfer to the Budget Stabilization Fund, and \$20.3 million in other adjustments. FY 2008-09 - \$45.0 million in short-term interest payments from the SAF and \$6.5 million in land sales.			

School Aid Fund. School Aid Fund revenue available for spending in FY 2008-09 will total an estimated \$13.5 billion, representing a 4.5% increase from the revised estimate for FY 2007-08. The estimate of SAF revenue in FY 2008-09 is summarized in [Table 26](#). The SAF revenue estimate for FY 2008-09 includes ongoing earmarked tax and lottery revenue totaling an estimated \$11.87 billion, which

includes an already enacted earmark from the new Michigan business tax totaling \$729.0 million. In addition, the SAF revenue estimate for FY 2008-09 includes a grant from the GF/GP budget proposed at \$43.0 million and Federal aid of \$1.56 billion. Due to the timing of some of the components of the new Michigan business tax that have an impact on the SAF's revenue and expenditures, the 4.5% projected growth in SAF revenue in FY 2008-09 overstates the true growth in SAF underlying revenue. Beginning in FY 2008-09, the earmarked revenue from the Michigan business tax will include the amount needed to reimburse the SAF for increased foundation allowance payments it will have to make to local school districts that experience a reduction in their local 18-mill school property tax as a result of the new personal property tax exemption that is part of the newly enacted Michigan business tax package. In FY 2008-09, the SAF will receive \$729.0 million from the Michigan business tax, and \$341.6 million of this total amount will be to fund the additional foundation allowance payments the SAF will have to pay to schools in FY 2008-09. Adjusting for this large increase in the Michigan business tax earmark, which will be directly offset by an increase in SAF expenditures, SAF revenue will be up only about 1.8% in FY 2008-09.

Table 26

SCHOOL AID FUND REVENUE ESTIMATES FY 2007-08 AND FY 2008-09 (Millions of Dollars)			
	FY 2007-08	FY 2008-09	Percent Change
Beginning Balance	\$ 82.4	\$ 48.5	(41.1)%
Consensus Estimates for Earmarked Tax and Lottery Revenue:¹⁾			
Sales Tax and Use Tax	5,212.5	5,253.5	0.8
Income Tax.....	2,100.3	2,123.7	1.1
State Education Property Tax	2,071.2	2,143.2	3.5
Real Estate Transfer Tax	211.0	211.0	0.0
Michigan Business Tax	341.0	729.0	113.8
Tobacco Taxes.....	441.6	431.9	(2.2)
Casino Gaming Tax.....	118.0	120.4	2.0
Other Tax Revenue	<u>114.6</u>	<u>115.0</u>	<u>0.3</u>
Subtotal Taxes.....	10,610.1	11,127.6	4.9
Lottery.....	743.0	743.0	0.0
Subtotal Earmarked Tax and Lottery Consensus Estimate	\$11,353.1	\$11,870.6	4.6%
GF/GP Grant	\$ 34.9	\$ 43.0	23.2%
Federal Aid and Other	1,476.0	1,562.0	5.8
Proposed Tax Policy Changes	0.0	0.0	---
Proposed Revenue Changes	0.0	0.0	---
Total SAF Revenue Current Fiscal Year.....	\$12,864.0	\$13,475.6	4.8%
Total SAF Revenue with Beginning Balance	\$12,946.4	\$13,524.1	4.5%

¹⁾ Estimates adopted at the January 11, 2008, Consensus Revenue Estimating Conference.



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