

**OVERVIEW OF
GOVERNOR SNYDER'S
FY 2017-18 BUDGET**



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Summary

Summary

On February 8, 2017, Governor Rick Snyder presented his fiscal year (FY) 2017-18 State Budget Message and his budget projections for FY 2018-19. Pursuant to an Attorney General's letter opinion issued on February 9, 2011, the Governor is allowed to propose a two-year budget and the Legislature can enact a two-year budget but the second year would be only an expression of an "intent to appropriate", not binding or legally enforceable. This overview will focus on Governor Snyder's FY 2017-18 appropriation recommendation.

The FY 2017-18 budget recommendation from the Governor is based on the consensus revenue estimates agreed to on January 12, 2017. The FY 2017-18 General Fund/General Purpose (GF/GP) consensus revenue estimate is \$10.5 billion. This represents a 2.3% increase from the FY 2016-17 GF/GP consensus revenue estimate. The FY 2017-18 School Aid Fund (SAF) consensus revenue estimate is \$12.8 billion, a 2.6% increase from the FY 2016-17 consensus revenue estimate. The Governor's FY 2017-18 recommendation reflects a December 31, 2016, expiration of the Medicaid managed care use tax; tied to that expiration is reversion of the Health Insurance Claims Assessment (HICA) rate from 0.75% to 1.0%. The Governor's FY 2017-18 recommendation includes \$1.6 million in fee adjustments, all of which are from the elimination of fee sunsets in the Department of Environmental Quality. The Governor is also recommending statutory changes that would direct the deposit of 25.0% of the unassigned year-end GF/GP revenue balance to the Budget Stabilization Fund.

The Governor recommends FY 2017-18 Gross appropriations of \$56.3 billion and Adjusted Gross appropriations of \$55.4 billion. Included in this appropriation total are \$23.1 billion of Federal funds, \$383.1 million of local and private funds, \$21.8 billion of State Restricted revenue, and \$10.1 billion of GF/GP revenue. Table 1 outlines the sources of funding for each department and budget area included in the Governor's recommendation; Figures A and B illustrate the total funding by source and major spending category. Compared with FY 2016-17 year-to-date appropriations, the Governor's FY 2017-18 budget includes an Adjusted Gross appropriation increase of \$1.2 billion or 2.2%, an increase in State Spending from State Resources appropriations of \$777.5 million or 2.5%, and an increase in GF/GP appropriations of \$49.4 million or 0.5%.

The primary reasons for the increase in State Spending from State Resources appropriations are costs associated with Medicaid match in the Department of Health and Human Services; funding increases in the School Aid budget for the foundation allowance, the At Risk program, and the Michigan Public School Employees' Retirement System; and a nearly \$206.0 million increase in State restricted revenue for the Department of Transportation. Tables 2-4 compare the Governor's FY 2017-18 recommendation for Adjusted Gross, State Spending from State Resources, and GF/GP appropriations with the FY 2016-17 year-to-date appropriations. Table 5 compares the FY 2017-18 recommended number of 53,293.0 full-time equated (FTE) positions to the FY 2016-17 level of 52,714.0 FTEs, an increase of 579.0 positions or 1.1%.

The FY 2017-18 recommendation includes appropriations that the Governor has designated as either "ongoing" or "one-time". Table 6 outlines the proposed FY 2017-18 one-time appropriations by fund source, with a Gross total for all budget areas of \$321.4 million. The Governor's budget also includes a \$175.0 million Gross appropriation (all GF/GP revenue) for

the Budget Stabilization Fund, which brings total one-time appropriation recommendations to \$496.4 million Gross, and \$357.1 million GF/GP.

Table 7 lists the estimated State payments to local units of government for FYs 2016-17 and 2017-18, of \$17.3 billion and \$17.7 billion, respectively. The estimate for FY 2017-18 would result in a surplus of these "Section 30" payments of more than \$2.0 billion.

Tables 8 and 9 present the GF/GP and SAF balance sheets for FY 2016-17, FY 2017-18, and FY 2018-19, which reflect positive ending balances for all three fiscal years.

The total Gross and GF/GP dollar changes from FY 2016-17 to FY 2017-18 are increases of \$1.2 billion and \$49.4 million, respectively. Table 10 shows that the \$49.4 million GF/GP increase consists of \$33.7 million of GF/GP funding for new programs, \$424.9 million of GF/GP funding increases, \$315.7 million of GF/GP funding reductions, a \$127.1 million GF/GP decrease due to fund shifts, a GF/GP reduction of \$24.3 million due to technical program adjustments, an increase of \$57.6 million in GF/GP economic adjustments, and \$288,300 for an unclassified salaries increase. Tables 11-14 provide the details of these changes.

The FY 2017-18 School Aid Fund budget changes proposed by the Governor are outlined in Table 15. As the table indicates, the net change in SAF appropriations is an increase of \$140.3 million. This \$140.3 million change consists of \$27.7 million for new programs, \$470.2 million of funding increases for existing programs, and \$357.6 million of funding reductions.

Table 16 lists the Governor's proposed fee adjustments for FY 2017-18. Following the fee table, there is an update of the personal property tax reform issue that the Governor has tied to his lack of funding increases for community colleges and State Revenue Sharing, and expiration of foster care "hold harmless" provisions for State-county cost sharing. Tables 17-28 outline background information regarding major budget areas and other general appropriation issues, and Tables 29-38 provide recent State appropriation history.

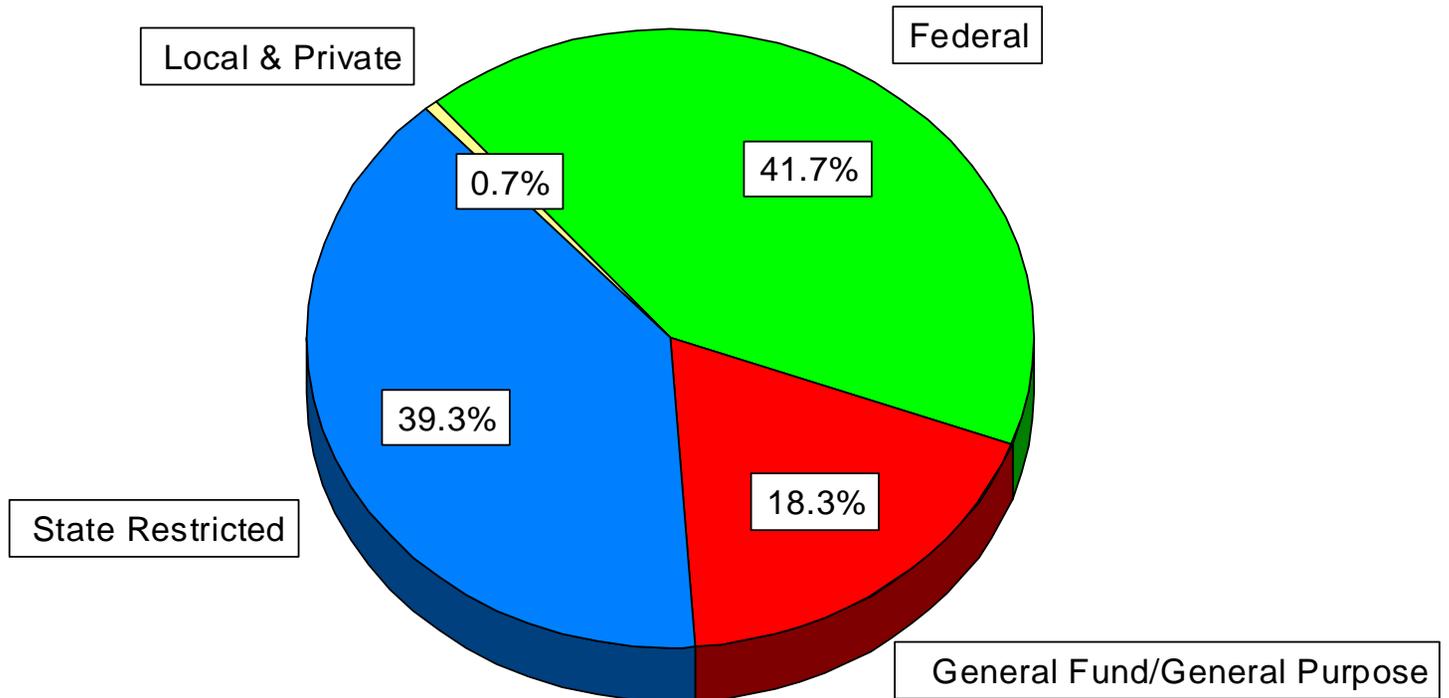
On an overall basis, the Governor's FY 2017-18 budget proposal increases Adjusted Gross appropriations by 2.2%, State Spending from State Resources appropriations by 2.5%, and GF/GP appropriations by 0.5%. Part of the reason for the lower increase in GF/GP appropriations is the shift of nearly \$133.0 million of Community College GF/GP appropriations to the School Aid Fund, and the lowering of debt service appropriations by \$29.5 million. As in his previous six budgets, the Governor's seventh budget message includes performance measures for State programs.

Table 1**FY 2017-18 GOVERNOR'S RECOMMENDATION
BY SOURCE OF FUNDS**

Department/Budget Area	Gross	IDGs	Adjusted Gross	Federal	Local & Private	State Restricted	General Fund/ General Purpose
Agriculture & Rural Development	\$104,928,800	\$310,300	\$104,618,500	\$11,273,900	\$101,600	\$36,661,000	\$56,582,000
Attorney General	101,068,800	29,915,300	71,153,500	9,518,000	0	21,336,900	40,298,600
Capital Outlay	0	0	0	0	0	0	0
Civil Rights	16,099,600	296,600	15,803,000	2,775,800	18,700	151,900	12,856,600
Community Colleges	398,167,600	0	398,167,600	0	0	395,142,600	3,025,000
Corrections	2,014,419,200	0	2,014,419,200	5,293,800	8,842,400	36,149,400	1,964,133,600
Education	349,309,500	0	349,309,500	251,854,700	7,851,500	8,567,600	81,035,700
Environmental Quality	510,842,000	3,100,500	507,741,500	170,042,600	555,300	285,825,300	51,318,300
Executive	6,848,500	0	6,848,500	0	0	0	6,848,500
Health & Human Services	25,537,414,500	13,640,900	25,523,773,600	18,351,244,100	268,624,300	2,442,169,800	4,461,735,400
Higher Education	1,637,224,400	0	1,637,224,400	111,526,400	0	235,743,500	1,289,954,500
Insurance & Financial Services	66,741,400	707,600	66,033,800	2,014,700	0	63,869,100	150,000
Judiciary	299,954,600	1,550,600	298,404,000	6,488,900	6,971,000	92,539,000	192,405,100
Legislative Auditor General	24,286,200	5,709,200	18,577,000	0	0	1,969,400	16,607,600
Legislature	154,974,800	0	154,974,800	0	400,000	4,277,700	150,297,100
Licensing & Regulatory Affairs	441,576,300	47,835,100	393,741,200	65,020,900	361,800	285,341,900	43,016,600
Military & Veterans Affairs	180,004,400	101,800	179,902,600	92,334,100	2,168,400	22,332,600	63,067,500
Natural Resources	416,374,300	232,200	416,142,100	70,095,700	7,446,000	274,553,100	64,047,300
Natural Resources (Trust Fund)	0	0	0	0	0	0	0
School Aid	14,302,088,800	0	14,302,088,800	1,726,943,500	0	12,360,145,300	215,000,000
State	249,358,500	20,000,000	229,358,500	1,460,000	50,100	205,709,400	22,139,000
State Police	693,588,900	26,221,600	667,367,300	83,662,500	6,013,300	135,423,700	442,267,800
Talent & Econ. Development	1,143,324,800	0	1,143,324,800	762,144,800	6,120,900	181,556,700	193,502,400
Technology, Mgt., & Budget	1,405,543,900	713,959,000	691,584,900	4,985,300	2,444,400	111,399,300	572,755,900
Transportation	4,347,443,000	4,039,300	4,343,403,700	1,340,301,200	50,632,000	2,952,470,500	0
Treasury (Debt Service)	107,580,000	0	107,580,000	0	0	0	107,580,000
Treasury (Operations)	512,829,800	12,613,700	500,216,100	27,022,600	14,543,500	359,881,500	98,768,500
Treasury (Revenue Sharing)	1,245,292,200	0	1,245,292,200	0	0	1,245,292,200	0
TOTAL APPROPRIATIONS	\$56,267,284,800	\$880,233,700	\$55,387,051,100	\$23,096,003,500	\$383,145,200	\$21,758,509,400	\$10,149,393,000

Figure A

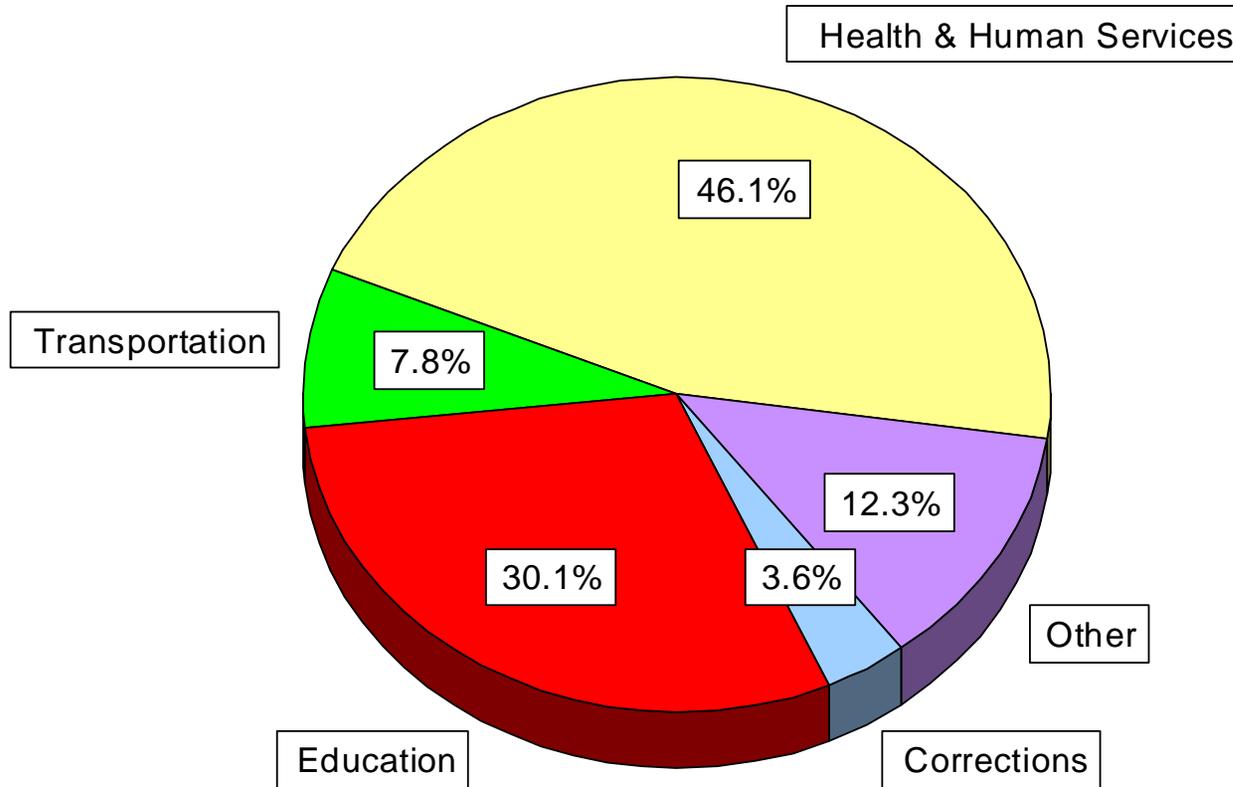
Appropriations by Source of Funds FY 2017-18 Governor's Recommendation Adjusted Gross



Total = \$ 55,387,051,100

Figure B

Adjusted Gross Appropriations by Major Category FY 2017-18 Governor's Recommendation



Total = \$ 55,387,051,100

Table 2

**ADJUSTED GROSS APPROPRIATIONS
FY 2016-17 YEAR-TO-DATE VERSUS FY 2017-18 GOVERNOR'S RECOMMENDATION**

Department/Budget Area	FY 2016-17 Year-to-Date Appropriations	FY 2017-18 Governor's Recommendation	Dollar Difference	Percent Change
Agriculture & Rural Development.....	\$95,583,700	\$104,618,500	\$9,034,800	9.5%
Attorney General	72,496,100	71,153,500	(1,342,600)	(1.9)
Capital Outlay.....	200	0	(200)	(100.0)
Civil Rights	15,954,900	15,803,000	(151,900)	(1.0)
Community Colleges	395,925,600	398,167,600	2,242,000	0.6
Corrections	2,002,729,000	2,014,419,200	11,690,200	0.6
Education	331,975,200	349,309,500	17,334,300	5.2
Environmental Quality	507,660,700	507,741,500	80,800	0.0
Executive.....	5,636,300	6,848,500	1,212,200	21.5
Health & Human Services	24,871,377,600	25,523,773,600	652,396,000	2.6
Higher Education.....	1,582,640,400	1,637,224,400	54,584,000	3.4
Insurance & Financial Services.....	65,549,600	66,033,800	484,200	0.7
Judiciary	296,684,000	298,404,000	1,720,000	0.6
Legislative Auditor General	18,093,300	18,577,000	483,700	2.7
Legislature.....	147,903,600	154,974,800	7,071,200	4.8
Licensing & Regulatory Affairs	372,588,600	393,741,200	21,152,600	5.7
Military & Veterans Affairs.....	176,998,400	179,902,600	2,904,200	1.6
Natural Resources	407,578,200	416,142,100	8,563,900	2.1
Natural Resources (Trust Fund).....	0	0	0	0.0
School Aid	14,161,842,100	14,302,088,800	140,246,700	1.0
State	228,315,600	229,358,500	1,042,900	0.5
State Police	622,895,700	667,367,300	44,471,600	7.1
Talent & Economic Development.....	1,149,114,300	1,143,324,800	(5,789,500)	(0.5)
Technology, Management, & Budget.....	689,671,600	691,584,900	1,913,300	0.3
Transportation	4,111,740,200	4,343,403,700	231,663,500	5.6
Treasury (Debt Service)	137,037,000	107,580,000	(29,457,000)	(21.5)
Treasury (Operations)	511,210,900	500,216,100	(10,994,800)	(2.2)
Treasury (Revenue Sharing).....	1,227,408,100	1,245,292,200	17,884,100	1.5
TOTAL APPROPRIATIONS.....	\$54,206,610,900	\$55,387,051,100	\$1,180,440,200	2.2%

Table 3

**STATE SPENDING FROM STATE RESOURCES APPROPRIATIONS
FY 2016-17 YEAR-TO-DATE VERSUS FY 2017-18 GOVERNOR'S RECOMMENDATION**

Department/Budget Area	FY 2016-17 Year-to-Date Appropriations	FY 2017-18 Governor's Recommendation	Dollar Difference	Percent Change
Agriculture & Rural Development.....	\$84,981,800	\$93,243,000	\$8,261,200	9.7%
Attorney General	63,019,400	61,635,500	(1,383,900)	(2.2)
Capital Outlay.....	200	0	(200)	(100.0)
Civil Rights	13,173,200	13,008,500	(164,700)	(1.3)
Community Colleges	395,925,600	398,167,600	2,242,000	0.6
Corrections	1,988,512,500	2,000,283,000	11,770,500	0.6
Education	84,561,900	89,603,300	5,041,400	6.0
Environmental Quality	368,082,600	337,143,600	(30,939,000)	(8.4)
Executive.....	5,636,300	6,848,500	1,212,200	21.5
Health & Human Services.....	6,686,900,300	6,903,905,200	217,004,900	3.2
Higher Education.....	1,481,114,000	1,525,698,000	44,584,000	3.0
Insurance & Financial Services.....	63,549,600	64,019,100	469,500	0.7
Judiciary	281,943,400	284,944,100	3,000,700	1.1
Legislative Auditor General	18,093,300	18,577,000	483,700	2.7
Legislature.....	147,503,600	154,574,800	7,071,200	4.8
Licensing & Regulatory Affairs.....	307,783,400	328,358,500	20,575,100	6.7
Military & Veterans Affairs.....	82,939,600	85,400,100	2,460,500	3.0
Natural Resources	327,366,400	338,600,400	11,234,000	3.4
Natural Resources (Trust Fund).....	0	0	0	0.0
School Aid	12,343,209,400	12,575,145,300	231,935,900	1.9
State	226,855,500	227,848,400	992,900	0.4
State Police	529,021,300	577,691,500	48,670,200	9.2
Talent & Economic Development.....	374,850,500	375,059,100	208,600	0.1
Technology, Management, & Budget.....	682,393,400	684,155,200	1,761,800	0.3
Transportation	2,746,477,700	2,952,470,500	205,992,800	7.5
Treasury (Debt Service)	137,037,000	107,580,000	(29,457,000)	(21.5)
Treasury (Operations)	462,062,400	458,650,000	(3,412,400)	(0.7)
Treasury (Revenue Sharing).....	1,227,408,100	1,245,292,200	17,884,100	1.5
TOTAL APPROPRIATIONS.....	\$31,130,402,400	\$31,907,902,400	\$777,500,000	2.5%

Table 4

**GENERAL FUND/GENERAL PURPOSE APPROPRIATIONS
FY 2016-17 YEAR-TO-DATE VERSUS FY 2017-18 GOVERNOR'S RECOMMENDATION**

Department/Budget Area	FY 2016-17 Year-to-Date Appropriations	FY 2017-18 Governor's Recommendation	Dollar Difference	Percent Change
Agriculture & Rural Development.....	\$49,926,900	\$56,582,000	\$6,655,100	13.3%
Attorney General	42,840,500	40,298,600	(2,541,900)	(5.9)
Capital Outlay.....	200	0	(200)	(100.0)
Civil Rights	13,021,300	12,856,600	(164,700)	(1.3)
Community Colleges	135,510,800	3,025,000	(132,485,800)	(97.8)
Corrections	1,951,957,900	1,964,133,600	12,175,700	0.6
Education	76,181,200	81,035,700	4,854,500	6.4
Environmental Quality	49,273,400	51,318,300	2,044,900	4.2
Executive.....	5,636,300	6,848,500	1,212,200	21.5
Health & Human Services	4,392,732,800	4,461,735,400	69,002,600	1.6
Higher Education.....	1,243,904,500	1,289,954,500	46,050,000	3.7
Insurance & Financial Services.....	150,000	150,000	0	0.0
Judiciary	189,157,400	192,405,100	3,247,700	1.7
Legislative Auditor General	16,123,900	16,607,600	483,700	3.0
Legislature.....	143,227,800	150,297,100	7,069,300	4.9
Licensing & Regulatory Affairs	43,721,100	43,016,600	(704,500)	(1.6)
Military & Veterans Affairs.....	58,243,600	63,067,500	4,823,900	8.3
Natural Resources	43,410,000	64,047,300	20,637,300	47.5
Natural Resources (Trust Fund).....	0	0	0	0.0
School Aid	218,900,000	215,000,000	(3,900,000)	(1.8)
State	22,109,600	22,139,000	29,400	0.1
State Police	405,162,800	442,267,800	37,105,000	9.2
Talent & Economic Development.....	182,508,900	193,502,400	10,993,500	6.0
Technology, Management, & Budget.....	568,052,600	572,755,900	4,703,300	0.8
Transportation	9,750,000	0	(9,750,000)	(100.0)
Treasury (Debt Service)	137,037,000	107,580,000	(29,457,000)	(21.5)
Treasury (Operations)	101,458,800	98,768,500	(2,690,300)	(2.7)
Treasury (Revenue Sharing).....	0	0	0	0.0
TOTAL APPROPRIATIONS.....	\$10,099,999,300	\$10,149,393,000	\$49,393,700	0.5%

Table 5**FULL-TIME EQUATED CLASSIFIED POSITIONS
FY 2016-17 YEAR-TO-DATE VERSUS FY 2017-18 GOVERNOR'S RECOMMENDATION**

Department/Budget Area	FY 2016-17 Year-to-Date Appropriations	FY 2017-18 Governor's Recommendation	Position Change	Percent Change
Agriculture & Rural Development	476.0	493.5	17.5	3.7%
Attorney General	527.0	533.0	6.0	1.1
Civil Rights	129.0	127.0	(2.0)	(1.6)
Corrections	13,803.9	13,803.9	0.0	0.0
Education	597.5	603.5	6.0	1.0
Environmental Quality	1,236.0	1,254.0	18.0	1.5
Executive	74.2	79.2	5.0	6.7
Health & Human Services	15,594.5	15,614.5	20.0	0.1
Higher Education	0.0	0.0	0.0	0.0
Insurance & Financial Services	336.5	336.5	0.0	0.0
Judiciary	510.0	501.0	(9.0)	(1.8)
Licensing & Regulatory Affairs	2,175.3	2,322.3	147.0	6.8
Military & Veterans Affairs	898.5	904.0	5.5	0.6
Natural Resources	2,237.8	2,264.8	27.0	1.2
State	1,587.0	1,608.0	21.0	1.3
State Police	3,226.0	3,437.0	211.0	6.5
Talent & Economic Development	1,609.0	1,609.0	0.0	0.0
Technology, Management, & Budget	2,877.0	2,937.0	60.0	2.1
Transportation	2,912.3	2,912.3	0.0	0.0
Treasury (Operations)	1,906.5	1,952.5	46.0	2.4
TOTAL POSITIONS	52,714.0	53,293.0	579.0	1.1%

Table 6

FY 2017-18 GOVERNOR'S RECOMMENDATION ONE-TIME APPROPRIATIONS				
Budget Area/Program	Gross	Federal	State Restricted	GF/GP
Agriculture and Rural Development				
Tree fruit commission	\$1,500,000	\$0	\$0	\$1,500,000
Enhanced wildlife risk mitigation project	1,000,000	0	0	1,000,000
Statewide double up food bucks	750,000	0	0	750,000
Flint expansion of double up food bucks.....	680,100	0	100	680,000
Intercounty drain mapping project.....	250,000	0	0	250,000
Agriculture and Rural Development Total	\$4,180,100	\$0	\$100	\$4,180,000
Attorney General				
Prosecuting attorneys coordinating council juvenile life cases	\$750,000	\$0	\$0	\$750,000
Attorney General Total.....	\$750,000			\$750,000
Community Colleges				
MPSERS normal cost: lowered assumed rate of return (SAF)	\$3,612,000	\$0	\$3,612,000	\$0
Michigan transfer network enhancement	1,025,000	0	0	1,025,000
Community Colleges Total.....	\$4,637,000	\$0	\$3,612,000	\$1,025,000
Corrections				
New custody staff training	\$4,359,000	\$0	\$0	\$4,359,000
Corrections Total.....	\$4,359,000	\$0	\$0	\$4,359,000
Education				
Flint declaration of emergency reserve fund placeholder	\$100	\$0	\$100	\$0
Education Total	\$100	\$0	\$100	\$0
Environmental Quality				
Environmental cleanup/redevelopment program fund shift.....	\$14,900,000	\$0	\$14,900,000	\$0
Flint declaration of emergency (includes \$100 reserve fund placeholder)	1,000,100	0	100	1,000,000
Environmental Quality Total	\$15,900,100	\$0	\$14,900,100	\$1,000,000
Health and Human Services				
Flint declaration of emergency (includes \$100 reserve fund placeholder)	\$13,361,700	\$3,500,000	\$8,861,700	\$1,000,000
Child lead poisoning elimination board recommendations.....	2,000,000	0	0	2,000,000
Refugee services enhancements.....	1,000,000	0	0	1,000,000
Shift university autism funding from ongoing to one-time	1,000,000	0	0	1,000,000
Autism navigator.....	565,000	0	0	565,000
Michigan food bank council: agricultural surplus system	500,000	0	0	500,000
Health and Human Services Total	\$18,426,700	\$3,500,000	\$8,861,700	\$6,065,000

FY 2017-18 GOVERNOR'S RECOMMENDATION ONE-TIME APPROPRIATIONS

Budget Area/Program	Gross	Federal	State Restricted	GF/GP
Higher Education				
MSU's animal agriculture initiative	\$2,500,000	\$0	\$0	\$2,500,000
MSU's agriculture workforce initiative	1,200,000	0	0	1,200,000
MPSERS normal cost: lowered assumed rate of return (SAF)	419,000	0	419,000	0
Higher Education Total	\$4,119,000	\$0	\$419,000	\$3,700,000
Judiciary				
State appellate defender's office (Montgomery v. Louisiana, 11.0 FTEs)	\$750,000	\$0	\$0	\$750,000
Pretrial risk assessment	300,000	0	0	300,000
Judiciary Total	\$1,050,000			\$1,050,000
Legislature				
IT systems design project	\$3,000,000	\$0	\$0	\$3,000,000
Legislature Total	\$3,000,000	\$0	\$0	\$3,000,000
Military and Veterans Affairs				
Armory special maintenance	\$2,500,000	\$0	\$0	\$2,500,000
Military and Veterans Affairs Total	\$2,500,000	\$0	\$0	\$2,500,000
Natural Resources				
State parks repair and maintenance	\$10,000,000	\$0	\$0	\$10,000,000
Trail development	5,000,000			5,000,000
Wetland mitigation banking program	3,850,000	0	0	3,850,000
Abandoned mine shaft closure (1.0 FTE)	2,002,400	0	0	2,002,400
Land ownership tracking system replacement (\$1 million forest dev. fund)	2,900,000	0	1,000,000	1,900,000
Natural Resources Total	\$23,752,400	\$0	\$1,000,000	\$22,752,400
School Aid				
MPSERS normal cost: lowered assumed rate of return (SAF)	\$48,969,000	\$0	\$48,969,000	\$0
Career and technical education equipment (SAF)	20,000,000	0	20,000,000	0
Flint declaration of emergency (includes \$100 reserve fund placeholder)	8,730,100	0	8,730,100	0
Declining enrollment assistance (SAF)	7,000,000	0	7,000,000	0
Feedback for instructional improvement/teacher evaluations (SAF)	7,000,000	0	7,000,000	0
Statewide school drinking water quality program (SAF)	4,500,000	0	4,500,000	0
Balanced calendar grants (SAF)	3,000,000	0	3,000,000	0
Cybersecurity competitions (SAF)	500,000	0	500,000	0
School Aid Total	\$99,699,100	\$0	\$99,699,100	\$0
State Police				
Disaster and emergency contingency fund	\$10,000,000	\$0	\$0	\$10,000,000
New trooper school (100 graduates)	6,246,900	0	0	6,246,900
Fair and impartial policing training grants	1,000,000	0	0	1,000,000

FY 2017-18 GOVERNOR'S RECOMMENDATION ONE-TIME APPROPRIATIONS

Budget Area/Program	Gross	Federal	State Restricted	GF/GP
Secure cities equipment lifecycle replacement	1,000,000	0	0	1,000,000
Forensic science division expansion.....	730,000	0	0	730,000
Sexual assault prevention and education initiative	600,000	0	0	600,000
Law enforcement officer job task analysis	200,000	0	0	200,000
State Police Total	\$19,776,900	\$0	\$0	\$19,776,900
Talent and Economic Development				
Business attraction and community revitalization	\$10,000,000	\$0	\$0	\$10,000,000
Going pro skilled trades training program	10,000,000	0	0	10,000,000
Talent marketing.....	5,000,000	0	0	5,000,000
Project rising tide.....	2,000,000	0	0	2,000,000
Protect and grow defense contracts.....	1,000,000	0	0	1,000,000
Arts and cultural program	1,000,000	0	0	1,000,000
Talent and Economic Development Total.....	\$29,000,000	\$0	\$0	\$29,000,000
Technology, Management, and Budget				
Flint declaration of drinking water emergency reserve fund	\$25,000,000	\$0	\$0	\$25,000,000
Michigan infrastructure fund.....	20,000,000	0	0	20,000,000
Michigan.gov content management system rewrite.....	9,050,000	0	0	9,050,000
Information technology investment fund (FY 18 total=\$7.5 million)	7,500,000	0	0	7,500,000
Multiple high-value IT system integrations	5,534,300	0	0	5,534,300
Michigan public safety communications system replacement	5,000,000	0	0	5,000,000
Sigma permanent organizational structure net (26.0 FTEs)	4,500,800	0	0	4,500,800
Cyber security staffing/hardware and support (12.0 FTEs)	4,000,000	0	0	4,000,000
School reform office priority school district data collection	353,000	0	0	353,000
Capital outlay planning authorizations	700	0	0	700
Technology, Management, and Budget Total	\$80,938,800	\$0	\$0	\$80,938,800
Treasury-Operations				
IT for systems, applications, and processes support.....	\$2,000,000	\$0	\$0	\$2,000,000
City income tax program assistance.....	1,500,000	0	1,500,000	0
Treasury-Operations Total	\$3,500,000	\$0	\$1,500,000	\$2,000,000
Treasury-Revenue Sharing				
City, village, and township nonconstitutional revenue sharing	\$5,800,000	\$0	\$5,800,000	\$0
Treasury-Revenue Sharing Total.....	\$5,800,000	\$0	\$5,800,000	\$0
Total One-Time Budget Area Appropriations.....	\$321,389,200	\$3,500,000	\$135,792,100	\$182,097,100
Budget Stabilization Fund appropriation	175,000,000	0	0	175,000,000
TOTAL ONE-TIME APPROPRIATIONS	\$496,389,200	\$3,500,000	\$135,792,100	\$357,097,100

Table 7

**STATE PAYMENTS TO LOCAL UNITS OF GOVERNMENT
FY 2016-17 YEAR-TO-DATE VERSUS FY 2017-18 GOVERNOR'S RECOMMENDATION**

Department/Budget Area	FY 2016-17 Year-to-Date Appropriations	FY 2017-18 Governor's Recommendation	Dollar Difference	Percent Change
Agriculture & Rural Development.....	\$4,750,000	\$7,350,000	\$2,600,000	54.7%
Attorney General	0	0	0	0.0
Capital Outlay.....	100	0	(100)	(100.0)
Civil Rights	0	0	0	0.0
Community Colleges	395,925,600	398,167,600	2,242,000	0.6
Corrections	111,888,200	114,388,800	2,500,600	2.2
Education	19,176,000	13,176,000	(6,000,000)	(31.3)
Environmental Quality	3,750,000	4,531,000	781,000	20.8
Executive.....	0	0	0	0.0
Health & Human Services	1,326,260,100	1,371,570,500	45,310,400	3.4
Higher Education.....	0	0	0	0.0
Insurance & Financial Services.....	0	0	0	0.0
Judiciary	137,775,900	146,794,000	9,018,100	6.5
Legislative Auditor General	0	0	0	0.0
Legislature.....	0	0	0	0.0
Licensing & Regulatory Affairs	32,625,700	29,225,700	(3,400,000)	(10.4)
Military & Veterans Affairs.....	102,400	142,400	40,000	39.1
Natural Resources	8,200,000	9,854,300	1,654,300	20.2
Natural Resources (Trust Fund).....	0	0	0	0.0
School Aid	12,181,929,700	12,411,741,800	229,812,100	1.9
State	1,211,300	1,215,900	4,600	0.4
State Police	17,198,900	14,113,200	(3,085,700)	(17.9)
Talent & Economic Development.....	11,224,800	34,300,000	23,075,200	205.6
Technology, Management, & Budget.....	0	2,500,000	2,500,000	100.0
Transportation	1,587,185,200	1,715,980,300	128,795,100	8.1
Treasury (Debt Service)	0	0	0	0.0
Treasury (Operations)	186,320,700	159,675,600	(26,645,100)	(14.3)
Treasury (Revenue Sharing).....	1,227,408,100	1,245,292,200	17,884,100	1.5
TOTAL APPROPRIATIONS.....	\$17,252,932,700	\$17,680,019,300	\$427,086,600	2.5%

Table 8

**FEBRUARY 2017 GOVERNOR'S RECOMMENDATION GENERAL FUND/GENERAL PURPOSE (GF/GP)
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(millions of dollars)**

	FY 2016-17	FY 2017-18	FY 2018-19
Revenue:			
Beginning Balance	\$604.4	\$366.0	\$7.6
Ongoing Revenue:			
Consensus Revenue Estimate (January 2017)	\$10,290.1	\$10,522.7	\$10,589.3
Revenue Sharing Payments	(465.3)	(465.9)	(465.9)
Shift of Borrowing Costs to School Aid Fund	5.5	6.5	7.5
Medicaid Managed Care Use Tax.....	105.3	0.0	0.0
Subtotal Ongoing Revenue	\$9,935.6	\$10,063.3	\$10,130.9
Non-ongoing Revenue:			
One-Time Appropriation for Revenue Sharing.....	(5.8)	(5.8)	0.0
Redirection of Restricted Revenue.....	16.8	0.0	0.0
Subtotal Non-Ongoing Revenue	\$11.0	(\$5.8)	\$0.0
Total Estimated GF/GP Revenue	\$10,551.0	\$10,423.5	\$10,138.5
Expenditures:			
Ongoing Appropriations:			
Initial Ongoing Appropriations	\$9,669.0	\$9,967.3	\$9,986.7
Estimated Average Baseline Adjustments	0.0	0.0	135.3
Subtotal Ongoing Appropriations	\$9,669.0	\$9,967.3	\$10,122.0
One-Time and Other Appropriations:			
Initial One-Time Appropriations	\$306.3	\$182.1	\$0.0
Appropriation to Budget Stabilization Fund.....	75.0	175.0	0.0
25% Unassigned GF Balance to Budget Stabilization Fund.....	0.0	91.5	0.0
Enacted Supplementals	42.6	0.0	0.0
Venture Michigan Fund I Tax Vouchers (PA 340 of 2016)	72.0	0.0	0.0
Flint Water Emergency Reserve Fund (PA 340 of 2016)	10.0	0.0	0.0
Pending Supplemental Request #2017-3	10.0	0.0	0.0
Subtotal One-Time and Other Appropriations.....	\$516.0	\$448.6	\$0.0
Total Estimated GF/GP Expenditures	\$10,185.0	\$10,415.9	\$10,122.0
PROJECTED YEAR-END GF/GP BALANCE	\$366.0	\$7.6	\$16.5

Table 9

**FEBRUARY 2017 GOVERNOR'S RECOMMENDATION SCHOOL AID FUND
REVENUE, EXPENDITURES, AND YEAR-END BALANCE
(millions of dollars)**

	FY 2016-17	FY 2017-18	FY 2018-19
Revenue:			
Beginning Balance	\$168.2	\$143.4	\$7.6
Ongoing Revenue:			
Consensus Revenue Estimate (January 2017)	\$12,457.0	\$12,783.1	\$13,131.5
General Fund/General Purpose Grant	218.9	215.0	145.0
Community District Trust Fund	72.0	72.0	72.0
Medicaid Managed Care Use Tax	52.6	0.0	0.0
Federal Ongoing Aid	<u>1,730.7</u>	<u>1,726.9</u>	<u>1,726.9</u>
Subtotal Ongoing Revenue	<u>\$14,531.2</u>	<u>\$14,797.0</u>	<u>\$15,075.4</u>
Total Estimated School Aid Fund Revenue	\$14,699.4	\$14,940.4	\$15,083.0
Expenditures:			
Ongoing Appropriations:			
Initial Ongoing K-12 Appropriations	\$14,119.8	\$14,202.4	\$14,204.3
Supplemental Request #2017-2 (Cost Adjustments)	(103.4)	0.0	0.0
Fund Community Colleges with School Aid Fund	260.4	391.5	396.2
Partially Fund Higher Education with School Aid Fund	<u>237.1</u>	<u>235.2</u>	<u>237.7</u>
Subtotal Ongoing Appropriations	<u>\$14,514.0</u>	<u>\$14,829.1</u>	<u>\$14,838.2</u>
One-Time and Other Appropriations:			
Initial One-Time K-12 Appropriations	\$42.0	\$99.7	\$97.9
Community College Budget Investments	0.0	3.6	7.2
Higher Education Budget Investments	<u>0.0</u>	<u>0.4</u>	<u>0.8</u>
Subtotal One-Time and Other Appropriations	<u>\$42.0</u>	<u>\$103.7</u>	<u>\$106.0</u>
Total Estimated School Aid Fund Expenditures	\$14,556.0	\$14,932.8	\$14,944.2
PROJECTED YEAR-END SCHOOL AID FUND BALANCE	\$143.4	\$7.6	\$138.8

**FY 2017-18 Gross and
GF/GP
Budget Changes**

Table 10

FY 2017-18 GOVERNOR'S APPROPRIATION RECOMMENDATION SUMMARY OF CHANGES FROM FY 2016-17 YEAR-TO-DATE GROSS AND GENERAL FUND/GENERAL PURPOSE APPROPRIATIONS (millions of dollars)		
	Gross	GF/GP
FY 2016-17 Year-To-Date Appropriation¹	\$55,071,084,700	\$10,099,999,300
Changes for FY 2017-18:		
New Programs.....	\$100,056,600	\$33,684,000
Program Increases	2,224,985,700	424,933,900
Program Eliminations/Reductions.....	(1,194,102,900)	(315,667,800)
Major Fund Shifts Affecting GF/GP.....	0	(127,134,000)
Other Technical Program Adjustments	(41,961,000)	(24,270,900)
Economic Increases	106,647,700	57,560,200
Unclassified Salaries	574,000	288,300
Total Changes.....	\$1,196,200,100	\$49,393,700
FY 2017-18 Governor's Recommendation	\$56,267,284,800	\$10,149,393,000

¹ Appropriation as of February 8, 2017.

Table 11

FY 2017-18 GOVERNOR'S APPROPRIATION RECOMMENDATION NEW PROGRAMS		
<u>Budget Area/Program</u>	Gross	GF/GP
Agriculture and Rural Development		
Enhanced wildlife risk mitigation (one-time)	\$1,000,000	\$1,000,000
Intercounty drain mapping project (one-time).....	250,000	250,000
Attorney General		
Medical marihuana regulation (PAs 281-283 of 2016)	375,000	0
Corrections		
Westside residential alternatives	1,500,000	1,500,000
Education		
Partnership model with districts	641,800	641,800
Environmental Quality		
Vapor intrusion (new in FY 2016-17; total in FY 2017-18 @\$2.6 million)	1,376,300	1,253,500
Health and Human Services		
Medical marihuana regulation.....	3,263,200	0
Vapor intrusion (new in FY 2016-17; total in FY 2017-18 @\$2.2 million)	815,000	815,000
Higher Education		
MSU agriculture workforce initiative (one-time).....	1,200,000	1,200,000
Judiciary		
Pretrial risk assessment.....	605,700	605,700
Private security at hall of justice	363,000	363,000
Licensing and Regulatory Affairs		
Day care worker background checks.....	800,000	0
Medical marihuana sales regulation	18,651,600	0
Natural Resources		
Mine shaft closure funding (one-time)	2,002,400	2,002,400
School Aid		
High school per pupil bonus	22,000,000	0
Partnership model districts	3,000,000	0
Technology regional data hubs.....	2,200,000	0
Cybersecurity competitions.....	500,000	0

**FY 2017-18 GOVERNOR'S APPROPRIATION RECOMMENDATION
NEW PROGRAMS**

<u>Budget Area/Program</u>	Gross	GF/GP
State		
Lottery assistance in the upper peninsula	1,015,800	0
State Police		
Medical marihuana regulation/licensing	9,435,700	0
Fair/impartial policing grants (one-time)	1,000,000	1,000,000
Officer job task analysis (one-time)	200,000	200,000
Talent and Economic Development		
Talent marketing	5,000,000	5,000,000
Project rising tide	2,000,000	2,000,000
Technology, Management, and Budget		
Michigan.gov content management rewrite (one-time)	9,050,000	9,050,000
Citizen centric government information technology (\$5.5 million one-time) ...	6,534,300	6,534,300
Michigan master computing contract	373,500	0
Labor market information and labor force projections	268,300	268,300
Treasury Operations		
Medical marihuana regulation/grants.....	4,635,000	0
TOTAL NEW PROGRAMS.....	\$100,056,600	\$33,684,000

Table 12

**FY 2017-18 GOVERNOR'S APPROPRIATION RECOMMENDATION
FUNDING INCREASES**

<u>Budget Area/Program</u>	Gross	GF/GP
Agriculture and Rural Development		
Food and agriculture investment program (formerly value-added grants)	\$1,852,400	\$1,852,400
Non-GF fund source adjustments	2,327,700	0
Michigan agriculture environmental assurance	1,500,000	0
Federal food/dairy requirements (food safety)	1,122,300	980,100
Double up food bucks program (one-time).....	750,000	750,000
Flint drinking water declaration of emergency (one-time)	680,100	680,000
Tree fruit commission (one-time).....	1,000,000	1,000,000
Right to farm	384,000	384,000
Department operations expansion	187,700	187,700
Attorney General		
Unlicensed activity law enforcement	732,300	0
Prescription drug abuse unit.....	700,000	700,000
Student safety OK 2 say program	470,000	0
Energy package funding.....	217,000	0
Juvenile life without parole (one-time; increase from \$700,000 in FY 2016-17).....	50,000	50,000
Community Colleges		
MPSERS adjustments (\$3,612,000 SAF; one-time)	10,317,000	0
Restoration of independent part-time student grants	2,000,000	2,000,000
Michigan transfer network enhancements	1,025,000	1,025,000
Corrections		
New custody staff training (one-time).....	4,359,000	4,359,000
Trinity food service contract	4,036,000	4,036,000
Corizon health care contract	3,511,900	3,511,900
Increased oncology costs	2,328,300	2,328,300
DTMB user fee rate change	1,500,000	1,500,000
Local tether reimbursements.....	69,600	0
Grand view plaza rent	64,000	64,000
Adjust DHHS eligibility specialist IDG	16,000	16,000
Judiciary data warehouse IDG adjustment	600	600

**FY 2017-18 GOVERNOR'S APPROPRIATION RECOMMENDATION
FUNDING INCREASES**

Budget Area/Program	Gross	GF/GP
Education		
Child care reimbursement at 75th percentile	27,200,000	8,400,000
State assessment staff support	2,550,000	2,550,000
Child development external support background checks	2,165,500	0
Environmental Quality		
State water revolving funds	35,007,000	2,950,000
New GF for oil, gas, mineral services.....	4,000,000	4,000,000
Lead and copper rule (compliance costs)	2,562,400	2,562,400
Flint: technical assistance for water treatment plant	1,000,100	1,000,000
Communications/public affairs (new office).....	708,400	708,400
Manufactured housing community regulations.....	500,000	500,000
Energy regulation package.....	150,000	0
Property management rent costs	83,300	20,600
Executive Office		
Operations	200,000	200,000
Health and Human Services		
Medicaid base/caseload	439,300,200	46,278,500
Health insurer fee reinstatement in calendar year 2018	167,034,300	0
Actuarial soundness	114,083,000	33,046,400
Expand nursing home QAAP	73,000,000	(8,243,700)
Integrated service delivery expansion	45,089,800	3,514,500
Behavioral health direct care worker 50 cent increase	45,000,000	14,161,500
Healthy homes administration dollars (federal Title XXI)	23,480,000	0
Private foster care rate increases.....	14,200,000	6,767,600
Flint drinking water declaration of emergency (one-time)	13,361,700	1,000,000
Expand Medicaid non-emergency transportation.....	12,032,000	3,432,500
Additional adult services staff.....	11,286,700	8,097,200
Ambulance QAAP annualization	10,290,000	0
Nutrition education grants (federal grant).....	10,000,000	0
Local public health administration federal funding	8,400,000	0
New state facility staff (72.0 FTEs).....	7,173,200	4,864,300
Expand pathways to potential	5,640,000	3,321,100
Illinois reimbursement for use of CHAMPs Medicaid computer system	5,000,000	0
Population health initiatives annualization	4,178,500	0
Hawthorn center new unit annualization	3,750,000	1,407,000
Emergency shelter per diem increase.....	3,744,800	3,744,800
Expand foster care support	3,591,400	2,807,900
Senior services wait list elimination.....	3,563,600	3,563,600
Increase FIP clothing allowance to \$200	2,687,100	0
Other technical/revenue adjustments.....	2,392,700	100
Child lead poisoning elimination (one-time)	2,000,000	2,000,000
Increase multicultural funding.....	2,000,000	2,000,000
DHHS finance and accounting staff	1,824,900	912,500
Juvenile justice prison rape elimination funding.....	1,230,400	462,000
Refugee services funding (one-time)	1,000,000	1,000,000
Child care fund caseload	993,000	993,000
Guardianship caseload.....	851,100	305,500
Prosecuting attorney rate increase.....	817,800	0
Adoption subsidy savings reinvestment	811,600	0
Food bank council MASS funding (one-time).....	500,000	500,000
Newborn screening fee increased revenue.....	343,700	0
Pharmacy inflation for State facilities (5%).....	312,100	256,900

**FY 2017-18 GOVERNOR'S APPROPRIATION RECOMMENDATION
FUNDING INCREASES**

Budget Area/Program	Gross	GF/GP
Dental programs (private grants).....	250,000	0
Genetic parentage implementation	248,000	84,300
DOC eligibility specialists	14,800	0
Higher Education		
University operations (2.5% increase)	35,000,000	35,000,000
Competitive scholarships	8,000,000	8,000,000
Tuition incentive program (TIP).....	5,300,000	0
Tuition grants.....	3,000,000	3,000,000
MSU animal agriculture initiative (one-time)	2,500,000	2,500,000
MPSERS rate of return adjustment.....	2,411,000	0
MSU AgBio (2.5% increase).....	831,100	831,100
MSU Extension (2.5% increase)	718,900	718,900
MPSERS normal cost offset (one-time)	419,000	0
Judiciary		
Trial court video conference equipment	815,000	815,000
Restore court of appeals judge funding	131,000	131,000
Annualize Michigan legal self-help funding	100,000	100,000
Montgomery v Louisiana compliance (one-time; increase to \$750,000).....	50,000	50,000
Private rent increases.....	11,700	11,700
Legislative Auditor General		
Operations	634,300	483,700
Legislature		
Operations	10,571,200	10,569,300
IT systems design project.....	3,000,000	3,000,000
Licensing and Regulatory Affairs		
New energy regulation requirements	3,110,500	0
First responder presumed coverage	1,980,000	0
Natural gas pipeline inspections.....	914,300	0
Attorney general costs for unlicensed activity	439,300	0
Video franchise fees.....	300,000	0
Ethnic commission service expansions.....	75,000	75,000
Military and Veterans Affairs		
Land purchases and appraisals	1,000,000	0
Grand Rapids veterans' home (increase from \$2 million in FY 2016-17)	820,000	820,000
Jacobetti facility staff (Medicaid certification)	800,000	800,000
Michigan veterans facility authority (increase from \$1 million in FY 2016-17) ..	500,000	500,000
National guard tuition assistance	500,000	500,000
Natural Resources		
State parks/trail development capital outlay (one-time).....	15,000,000	15,000,000
Capital outlay projects	5,842,000	0
Federal funds for wildlife management	4,308,000	0
Wetland mitigation banking program (\$3.85 million one-time).....	4,253,500	3,850,000
Land ownership tracking system (one-time)	2,900,000	1,900,000
Conservation officers.....	1,827,500	1,827,500
Recreation improvement (increase over \$1 million in FY 17 supplemental).....	1,817,500	0
Public infrastructure records.....	565,100	565,100
Michigan wildlife council	500,000	0
Forest fire equipment	350,000	350,000
Oil/gas/mineral lease compliance.....	304,600	0
MIRecGrants system support.....	63,500	0
State park bonds' debt service	2,200	0

**FY 2017-18 GOVERNOR'S APPROPRIATION RECOMMENDATION
FUNDING INCREASES**

<u>Budget Area/Program</u>	Gross	GF/GP
School Aid		
At risk funding.....	150,000,000	0
Foundation allowance increase.....	128,000,000	0
MPSERS rate cap on unfunded accrued liability (UAAL)	90,884,000	83,000
MPSERS normal costs lowered rate of return	48,969,000	0
Career and technical education equipment.....	16,800,000	(3,000,000)
Declining enrollment support.....	7,000,000	0
Educator evaluations.....	7,000,000	0
Center for education performance and information.....	4,000,000	4,000,000
Cash flow borrowing costs	3,500,000	0
ISD literacy coaches.....	3,000,000	0
Comprehensive STEM grants	2,000,000	(700,000)
School breakfast.....	2,000,000	0
Year-round schools/balanced calendar.....	1,500,000	0
Promise zone reimbursement	500,000	0
Integrated behavior and learning support	475,000	(1,125,000)
State		
Credit card service fees.....	2,000,000	0
Expand investigative services	1,420,400	1,420,400
Information technology increase for online support	1,000,000	0
Expand Mi-time line.....	400,000	400,000
State Police		
Disaster and emergency contingency fund (one-time).....	10,000,000	10,000,000
Annualize FY 2016-17 trooper school.....	6,382,900	6,382,900
New trooper school (\$3,046,900 one-time).....	6,024,000	6,024,000
Expand forensic science services (\$730,000 one-time)	2,570,000	2,570,000
Computer crimes unit	1,480,300	1,480,300
Secure cities equipment replacement (one-time).....	1,000,000	1,000,000
Emergency management	978,900	978,900
Forensic science testing supplies.....	844,700	844,700
OK 2 say hotline	608,300	608,300
Departmentwide equipment replacement	484,000	484,000
MCOLES revenue adjustment.....	368,000	0
Sexual assault prevention and education (one-time).....	100,000	100,000
Talent and Economic Development		
Business attraction ongoing increase	14,000,000	14,000,000
Going pro skilled trades training program (one-time).....	10,000,000	10,000,000
Arts and cultural program (one-time)	1,000,000	1,000,000
Technology, Management, and Budget		
Drinking water declaration of emergency reserve fund (one-time)	25,000,000	25,000,000
Information technology technical adjustment to correct IDGs.....	23,296,300	0
Michigan infrastructure fund (one-time; FY 2017-18 total @\$25 million).....	20,000,000	20,000,000
SIGMA organizational structure (\$4.5 mil one-time; FY 2017-18 total @\$61.9 mil.)....	19,381,400	16,815,100
IT investment fund (one-time; FY 2017-18 total @\$7.5 million).....	7,500,000	7,500,000
Cyber security (\$4.0 million one-time).....	7,044,600	7,044,600
Michigan public safety communication system replacement (one-time).....	5,000,000	5,000,000
MiPage mobile center of excellence	1,587,000	1,587,000
Grand Rapids veterans' home accounting services.....	1,206,300	0
School reform office	782,000	782,000
Office of performance/transformation.....	500,000	500,000
Michigan military retirement system administration	380,000	0
School reform office upgrade (one-time).....	353,000	353,000

**FY 2017-18 GOVERNOR'S APPROPRIATION RECOMMENDATION
FUNDING INCREASES**

Budget Area/Program	Gross	GF/GP
State police cyber crimes unit	137,900	0
MEDC payroll administration.....	127,700	0
State police retirement adjustment.....	27,000	27,000
Capital outlay planning authorizations (one-time)	700	700
Transportation		
County road commissions	83,467,600	0
State trunkline fund	56,775,800	0
Cities and villages	46,537,000	0
Federal programs	32,903,400	0
Transportation economic development fund	17,671,600	0
Transit and rail program adjustments.....	15,103,000	0
Metro Detroit drainage and flood mitigation	8,500,000	0
Movable bridge fund.....	5,110,000	0
Salt storage buildings containment contract	2,500,000	0
Local agency wetland mitigation	2,000,000	0
Information technology	1,000,000	0
Local bridge program	814,300	0
Transportation asset management council	250,000	0
Treasury-Debt Service		
Great Lakes water quality bonds debt service	3,992,000	3,992,000
Treasury-Operations		
City income tax administration	5,282,100	0
Information technology for systems	2,000,000	2,000,000
County lien fee increase	1,300,000	0
Tax processing bureau	992,200	992,200
State lottery staff.....	716,300	0
Dual enrollment funding	500,000	500,000
PILT 3% increase in purchased lands.....	252,800	96,600
Senior citizens cooperative housing.....	200,000	200,000
Casino information technology	149,900	0
Treasury-Revenue Sharing		
Constitutional revenue sharing (2.3% increase)	17,243,500	0
County incentive program (0.3% increase)	513,700	0
County revenue sharing (0.3% increase)	126,900	0
TOTAL FUNDING INCREASES	\$2,224,985,700	\$424,933,900

Table 13

**FY 2017-18 GOVERNOR'S APPROPRIATION RECOMMENDATION
FUNDING ELIMINATIONS/REDUCTIONS**

Budget Area/Program	Gross	GF/GP
Agriculture and Rural Development		
Remove SB 800 FY 2016-17 supplemental funding.....	(\$1,805,600)	\$0
Eliminate animal agriculture institute (one-time).....	(500,000)	(500,000)
Vital agriculture infrastructure grant (one-time).....	(220,000)	(220,000)
Grape and wine council (one-time).....	(170,000)	(170,000)
Align shared services funding with anticipated revenue.....	(12,900)	(12,900)
Attorney General		
State defense costs (one-time).....	(3,000,000)	(3,000,000)
Prescription drug funding (one-time).....	(700,000)	(700,000)
Capital Outlay		
Remove SB 800 FY 2016-17 supplemental funding.....	(200)	(200)
Civil Rights		
Deaf/hard of hearing funding (one-time).....	(250,000)	(250,000)
Community Colleges		
MPERS investment gain adjustments.....	(9,100,000)	0
Renaissance zone adjustments.....	(2,000,000)	(2,000,000)
Corrections		
New custody staff training (one-time).....	(8,506,100)	(8,506,100)
Adjust for actual Hepatitis C caseload.....	(3,199,500)	(3,199,500)
Eliminate supervising region incentive program.....	(2,518,600)	(2,518,600)
Eliminate goodwill flip the script.....	(1,500,000)	(1,500,000)
Reduce Pugsley closure costs.....	(800,000)	(800,000)
Regional incentive funding (one-time).....	(481,300)	(481,300)
Ballistic vest purchase (one-time).....	(481,300)	0
Federal education authorization adjustment.....	(237,100)	0
Administrative hearings officers, align with spending.....	(200,000)	(200,000)
Inmate legal services authorization alignment.....	(200,000)	(200,000)
Reentry center reimbursement authorization.....	(14,300)	0
Cost effective housing placeholder.....	(100)	(100)
Future facility placeholder.....	(100)	(100)
Education		
Drinking water emergency (one-time).....	(8,050,000)	0
Renaissance zone reimbursement phase-out.....	(2,000,000)	(2,000,000)
Federal assessment funding.....	(1,000,000)	0
Remove certification fees (one-time).....	(500,000)	(500,000)
Environmental Quality		
Strategic water initiatives grants and loans (Prop 2 bonds).....	(35,000,000)	0
Drinking water declaration of emergency (one-time).....	(5,400,100)	(5,400,000)
Oil/gas/mineral services (one-time).....	(4,000,000)	(4,000,000)
Water pollution control (one-time).....	(2,950,000)	(2,950,000)
Eliminate interdivisional charge IDT.....	(2,053,400)	0
Remove SB 800 FY 2016-17 supplemental funding.....	(2,025,000)	(225,000)
Technical revenue adjustments.....	(780,000)	0
Lake sediment cleanup (one-time).....	(700,000)	0
Saginaw River dredging (one-time).....	(50,000)	(50,000)
Health and Human Services		
Annualize phase out of Medicaid managed care use tax.....	(157,891,000)	(41,650,600)
Medicaid special financing adjustments.....	(54,061,000)	22,777,300
Integrated service delivery funding (one-time).....	(36,922,500)	(3,692,200)
Remove SB 800 FY 2016-17 supplemental funding.....	(34,918,900)	(10,048,900)

**FY 2017-18 GOVERNOR'S APPROPRIATION RECOMMENDATION
FUNDING ELIMINATIONS/REDUCTIONS**

Budget Area/Program	Gross	GF/GP
Adjust restricted authorization to actual revenue	(33,640,400)	0
Family independence program caseload	(21,656,700)	(4,000,000)
Drinking water declaration of emergency (one-time)	(15,138,100)	(9,094,200)
SACWIS implementation funding (one-time)	(11,538,600)	(5,769,300)
Adoption subsidy caseload	(11,477,700)	(5,268,600)
Sunset of county hold harmless (child care fund)	(8,000,000)	(8,000,000)
Family preservation (one-time)	(6,098,200)	0
University of Detroit Mercy and statewide dental clinic funding	(3,550,000)	(3,550,000)
Remove Medicaid pregnant women dental benefit enhancement	(2,726,000)	(950,000)
Centers for independent living reduction	(2,000,000)	(2,000,000)
Medicaid immunization education funding	(1,500,000)	(500,000)
Wayne State psychiatric residency reduction	(1,401,500)	(1,401,500)
Payment of civil service 1% charge	(1,100,000)	(1,100,000)
Eliminate Healthy Michigan Plan incentives program	(1,000,000)	(500,000)
MedIncentives demonstration funding	(830,000)	(415,000)
Supplemental security income caseload	(562,600)	(562,600)
Eliminate SSI contract	(500,000)	(500,000)
Reduce real alternatives program	(350,000)	(350,000)
Kent County child welfare funding	(335,000)	(335,000)
Michigan 2-1-1 funding (one-time)	(300,000)	(300,000)
Covenant house funding	(280,000)	(280,000)
Maxey maintenance funding	(250,000)	(250,000)
Hope network facility funding	(250,000)	(250,000)
Foster care caseload	(178,300)	2,176,600
State disability assistance caseload	(131,400)	(73,100)
Mobile electronic verification study (one-time)	(25,000)	(25,000)
Higher Education		
MPERS rate cap changes	(4,296,000)	0
Eliminate MSU veterinary lab funding (one-time)	(500,000)	(500,000)
Judiciary		
Align authorization with available revenue	(1,455,900)	0
Reduce judgeship funding	(614,300)	(614,300)
Problem solving court (remove one-time)	(250,000)	(250,000)
Legislature		
Remove SB 800 FY 2016-17 supplemental funding	(6,000,000)	(6,000,000)
Criminal justice policy commission (remove one-time)	(500,000)	(500,000)
Licensing and Regulatory Affairs		
Fire protection grant enhancement (one-time)	(3,400,000)	(3,400,000)
Reduce federal and restricted authorization to actual	(2,983,300)	0
Liquor control commission IT upgrades (one-time)	(1,560,000)	0
Remove SB 800 FY 2016-17 supplemental funding	(770,000)	0
Reduce administrative hearing IDG from DOC	(200,000)	0
Military and Veterans Affairs		
Grand Rapids Medicaid certification pilot (one-time)	(1,000,000)	(1,000,000)
Homeless veterans (one-time)	(300,000)	(300,000)
Reduce Camp Grayling special maintenance for commander housing	(300,000)	(300,000)
Baseline revenue adjustments	(181,900)	0
Veterans home planning placeholder	(100)	(100)
Natural Resources		
Remove prior year capital outlay	(10,442,100)	0
Remove SB 800/SB 1137 FY 2016-17 supplemental funding	(9,700,000)	(3,500,000)
Adjust revenue authorization to actual	(5,489,200)	0

**FY 2017-18 GOVERNOR'S APPROPRIATION RECOMMENDATION
FUNDING ELIMINATIONS/REDUCTIONS**

Budget Area/Program	Gross	GF/GP
Land ownership track funding (one-time)	(4,000,000)	0
Forestry investment (one-time)	(2,100,000)	0
Forest fire equipment (one-time).....	(1,000,000)	0
Invasive species (one-time)	(1,000,000)	(1,000,000)
Fisheries management (one-time)	(600,000)	(300,000)
Swimmer's itch funding (one-time).....	(250,000)	(250,000)
Water trail development (one-time).....	(100,000)	(100,000)
School Aid		
MPSERS rate cap (without change in annual rate of return)	(112,900,000)	0
Federal grant reductions	(91,689,200)	0
Cap funding for shared time.....	(55,000,000)	0
Technical foundation allowance cost adjustment	(45,000,000)	4,680,700
Reduce cyber schools allowance 20%	(16,000,000)	0
Technical special education cost adjustments.....	(9,900,000)	0
Computer adaptive tests	(4,000,000)	0
Consolidation innovation grants.....	(3,000,000)	0
Gang prevention and intervention.....	(3,000,000)	0
Nonpublic schools mandate reimbursement.....	(2,500,000)	(2,500,000)
Renaissance zone reimbursement	(2,000,000)	0
Student transition grants in dissolved districts	(1,860,000)	0
Financial data analysis tools	(1,500,000)	0
Online algebra tool	(1,500,000)	(1,500,000)
Flint drinking water declaration of emergency funding	(1,412,500)	(1,412,500)
School bond loan fund debt service.....	(1,000,000)	0
Michigan education/reading corps	(1,000,000)	(1,000,000)
Dropout recovery.....	(750,000)	0
Strict discipline academies.....	(750,000)	0
Competency based transcript pilot.....	(500,000)	(500,000)
Detroit area precollege engineering.....	(340,000)	(340,000)
Cooperative education grant.....	(300,000)	0
Ten cents a meal program	(250,000)	(250,000)
Van Andel education institute	(250,000)	(250,000)
Science olympiad and STEM.....	(250,000)	0
Health department partnership with ISD.....	(250,000)	0
Eliminate kindergarten test	(185,000)	0
Early learning collaborative.....	(175,000)	0
Conductive learning center study.....	(150,000)	0
Youth ChalleNGe	(110,000)	0
Culinary education grant	(79,000)	(79,000)
College readiness outreach	(50,000)	(50,000)
State		
Election administration/services (one-time)	(5,000,000)	(5,000,000)
Adjust lines to reflect expenditures	(1,000,000)	0
Remove SB 800 FY 2016-17 supplemental funding.....	(300,000)	0
State Police		
Adjust authorization to actual funds received	(3,035,500)	0
Advance 9-1-1 (one-time)	(2,200,000)	(2,200,000)
School safety initiative (one-time).....	(2,000,000)	(2,000,000)
Michigan international speedway traffic control (one-time)	(800,000)	(800,000)
Rent adjustments	(203,800)	(203,800)
Roadside saliva placeholder	(100)	(100)

**FY 2017-18 GOVERNOR'S APPROPRIATION RECOMMENDATION
FUNDING ELIMINATIONS/REDUCTIONS**

Budget Area/Program	Gross	GF/GP
Talent and Economic Development		
FY 2016-17 special grants (one-time)	(12,000,000)	(12,000,000)
Data system integration (one-time).....	(8,778,500)	0
Technical adjustments to revenue	(7,915,800)	900
Business attraction (one-time)	(4,000,000)	(4,000,000)
Remove SB 800 FY 2016-17 supplemental funding.....	(3,120,000)	(3,120,000)
Reduce protect and grow (FY 2017-18 total@ \$1.0 million).....	(2,000,000)	(2,000,000)
TANF adjustment	(1,200,000)	0
Technology, Management, and Budget		
Venture Michigan Fund I payout (SB 800).....	(72,034,000)	(72,034,000)
SIGMA reduction (FY 2017-18 total@ \$61.9 million)	(12,642,000)	(3,754,700)
Remove SB 800 FY 2016-17 supplemental funding.....	(10,500,000)	(10,500,000)
Legal services funding (one-time).....	(5,000,000)	(5,000,000)
IT investment fund (one-time; FY 2017-18 total@ \$72.5 million)	(4,500,000)	(4,500,000)
Office of retirement services IT (one-time)	(2,850,000)	0
Special maintenance (one-time; FY 2017-18 total@ \$26 million)	(1,600,900)	(1,600,900)
FY 2016-17 special projects (one-time).....	(250,000)	(250,000)
Alignment of fund sources	(193,800)	(81,000)
Transportation		
Blue Water bridge fund reduction	(19,197,300)	0
Debt service adjustments.....	(8,985,900)	0
Aviation program adjustments	(6,156,000)	0
Lenawee access route (one-time).....	(5,000,000)	(5,000,000)
Macomb access ramps (one-time).....	(2,000,000)	(2,000,000)
Berrien right-of-way acquisition (one-time)	(1,500,000)	(1,500,000)
Remove SB 800 FY 2016-17 supplemental funding.....	(1,250,000)	(1,250,000)
Adjustments in IDGs	(108,400)	0
Treasury-Debt Service		
Clean Michigan initiative debt service decrease.....	(26,726,000)	(26,726,000)
Quality of life bonds debt service decrease	(6,723,000)	(6,723,000)
Treasury-Operations		
Federal Department of Education grant reduction.....	(12,955,700)	0
Health and safety fund grant.....	(7,500,000)	0
Remove SB 800 FY 2016-17 supplemental funding.....	(3,050,000)	(3,050,000)
Individual e-file (one-time).....	(2,842,500)	(2,842,500)
Removal of ongoing grants	(521,600)	(521,600)
Urban search/rescue (one-time)	(500,000)	(500,000)
Remove FY 2016-17 transfer funding.....	(300,000)	0
Drinking water declaration of emergency reserve fund placeholder(one-time)....	(100)	0
TOTAL GF/GP FUNDING ELIMINATIONS/REDUCTIONS.....	(\$1,194,102,900)	(\$315,667,800)

Table 14

FY 2017-18 GOVERNOR'S APPROPRIATION RECOMMENDATION FUND SHIFTS TO INCREASE/(REDUCE) GF/GP	
<u>Budget Area/Program</u>	<u>GF/GP</u>
Community Colleges	
Fund source shift from GF/GP to School Aid Fund	(\$133,510,800)
Education	
Fund source shift from building occupancy charges to GF/GP	56,700
Environmental Quality	
Air quality program fund source shift to GF/GP	1,362,000
Health and Human Services	
Medicaid expansion match rate from 96.25% to 94.25%	55,215,400
Regular Medicaid match rate from 65.15% to 64.78%	43,818,300
Child care fund swap of TANF to GF/GP	9,540,000
Medicaid certified public expenditures revenue	2,720,800
Adoption savings reinvestment	1,066,600
Correct Medicaid match funding for FY 2016-17 initiatives	809,800
Foster parent youth fund source	783,500
Mental health and wellness commission, shift from Federal to GF/GP	562,500
SCHIP match rate from 98.61% to 98.35%	284,000
Increase in HICA revenue	(79,607,900)
Fund shift from GF/GP to Merit Award Trust Fund (Tobacco settlement revenue)	(25,260,800)
Increased Healthy Michigan Fund revenue offsetting GF/GP	(9,625,600)
Talent agency fund swap of GF/GP to TANF	(1,200,000)
Higher Education	
Tuition incentive program fund shift from GF/GP to TANF	(4,700,000)
Judiciary	
Fund source shift for judges retiree health care fund from restricted to GF/GP	286,000
Military and Veterans Affairs	
Replace veterans' tuition assistance fund revenue with GF/GP	3,447,000
State	
Replace lost driver responsibility fee revenue with GF/GP	3,000,000
Adjustment for position transfer fund source	(2,700)
State Police	
Replace State services fee fund revenue with GF/GP	4,000,000
Replace law enforcement training (MCOLES) funding with GF/GP	521,200
Reverse FY 2016-17 supplemental replenishment of court case revenue	(2,500,000)
Technology, Management, and Budget	
Civil service 1.0% financing charge change that increases GF/GP	1,800,000
TOTAL GF/GP FUND SHIFTS	(\$127,134,000)

FY 2017-18 GOVERNOR'S APPROPRIATION RECOMMENDATION PROGRAM TRANSFERS		
<u>Budget Area/Program</u>	<u>Gross</u>	<u>GF/GP</u>
<u>School Drinking Water Quality Program</u>		
From: Department of Education	(4,500,000)	(4,500,000)
To: School Aid	4,500,000	0
<u>Office of Urban Initiatives (5.0 FTEs)</u>		
From: Department of Technology, Management, and Budget	(1,012,200)	(1,012,200)
To: Executive Office	1,012,200	1,012,200
<u>Indigent Defense Commission</u>		
From: Judiciary	(2,329,000)	(2,329,000)
To: Licensing and Regulatory Affairs	2,386,800	2,386,800
TOTAL PROGRAM TRANSFERS	\$57,800	(\$4,442,200)

FY 2017-18
School Aid
Budget Changes

School Aid Recommendations

Overall, the Governor is recommending a Gross appropriation increase of \$140.3 million compared with current law, or a \$243.6 million increase compared with projected revised FY 2016-17 spending. The recommendation would decrease GF/GP support of the budget slightly, from \$218.9 million in current law to \$215.0 million in FY 2017-18.

Proposed Supplemental

The Governor's FY 2016-17 supplemental request (2017-2) would decrease Gross appropriations by \$103.4 million, consisting of negative adjustments to expected Federal grants totaling \$87.9 million and negative net cost adjustments throughout the budget to align with anticipated spending levels, which total \$15.5 million of SAF revenue. The negative \$15.5 million is based on consensus pupils and cost adjustments, developed in January 2017. The specifics of the supplemental are increased costs of \$10.0 million for foundation allowance payments, an increased cost of \$2.5 million for cash flow borrowing costs, an increased cost of \$2.0 million for school breakfast, savings of \$2.0 million in renaissance zone reimbursements, and savings of \$28.0 million in special education.

Foundation Allowance

The Governor is recommending an increase ranging from \$50 per pupil for districts with foundation allowances at or above the basic foundation (which is \$8,229 for FY 2016-17), up to \$100 per pupil for districts at the minimum foundation allowance (which is \$7,511 for FY 2016-17). The proposal uses the "2x" formula, which provides double the dollar increase to districts at the minimum compared with the dollar increase for districts at or above the basic, with districts between the minimum and the basic getting something between "1x" and "2x". Under the proposal, the basic would increase to \$8,279 and the minimum to \$7,611. The total cost of the proposal is \$128.0 million.

In addition, the Governor is proposing to reduce the foundation allowance of cyber schools (i.e., those public school academies that were issued a contract under the Revised School Code to operate as a school of excellence that is a cyber school) by 20% if the school is in at least its second year of operation. This proposal would save the State an estimated \$16.0 million.

At Risk

The Governor is proposing an increase of 40.0%, or \$150.0 million, for the At Risk program, bringing total funding to \$529.0 million. The At Risk program, when fully funded, is designed to provide 11.5% of a district's foundation allowance for each at-risk pupil, currently defined as pupils eligible for free lunch, to those districts whose per-pupil operational funding is at or below the basic foundation allowance (currently \$8,229 per pupil). The Governor's proposal would expand eligibility to all districts, regardless of their foundation allowance, and make the payment equal to 11.5% of the statewide average foundation allowance. Also, eligibility would be expanded to include children: a) who are eligible for reduced-price lunch, in addition to free lunch; b) whose families receive food or cash assistance; or c) who are homeless, migrant, or in foster care.

Michigan Public School Employees' Retirement System (MPSERS)

The Governor is proposing to lower the assumed rate of return in the closed MPSERS plans (and in the other closed State plans) from 8.0% to 7.5%. (The open hybrid plan, established in 2010, assumes a 7.0% rate of return.) In MPSERS, this reduction would be funded over two years. The K-12 budget cost for FY 2017-18 would total \$139.9 million. The cost is broken into two parts: \$90.9 million for the increase in cost on the "old" debt, paid for by the State via the MPSERS rate cap, plus \$49.0 million for the increase in the "normal" cost for service earned in the future. The normal cost is generally paid by the employer, but the Governor's proposal uses one-time funding to cover the increase in the normal cost for FY 2017-18 and FY 2018-19. There would be a similar cost increase

again in FY 2018-19, on top of the inflated FY 2017-18 base. This higher cost base would be continued through the payoff date of FY 2037-38.

Other New Programs

The Governor's budget proposal includes \$22.0 million for a new per-pupil payment to districts for the support of their high school students. Payments are estimated at \$50 per high school pupil. In addition, the Governor is proposing \$3.0 million for partnership model districts, designed to address districts that have at least one school receiving an F grade in the accountability system, before being identified by the School Reform Office as chronically failing. Two other new programs proposed are technology regional data hubs (\$2.2 million) and cybersecurity competitions (\$500,000).

Increases in Existing Programs

Other than the increases mentioned earlier for the foundation allowance and At Risk, the budget proposal includes an increase of \$16.8 million for the purchase of career and technical education equipment, a \$7.0 million appropriation for the second of two years of funding for educator evaluations, an increase of \$4.0 million for the Center for Educational Performance and Information to backfill expiring Federal funds, a \$3.0 million increase for intermediate school district early literacy coaches, an increase of \$2.0 million for science, technology, engineering, and math grants, and some other increases in programs and costs. The Governor also is proposing a \$7.0 million categorical appropriation to help districts that experienced 5% or more pupil loss in the last two years, with this additional support lasting two years.

Program Reductions or Eliminations

The Governor is proposing to reduce the amount of funding spent in the budget for shared-time programs. In a shared-time program, a nonpublic or home-schooled student participates in one or more non-core public school classes, generating payment for the public school that is able to count that student in membership. The current estimate of the FY 2016-17 State cost of shared-time programs is \$115.0 million; the Governor's budget caps the FY 2017-18 amount available for shared-time programs at \$60.0 million, a reduction of \$55.0 million.

The Governor is proposing to eliminate a number of programs, including funding for computer adaptive tests, gang prevention and intervention programs, consolidation innovation grants, reimbursement to nonpublic schools for mandates, reimbursement for the purchase of financial data analysis tools, an online algebra tool, Michigan Education Corps, strict discipline academies, dropout recovery programs, and a number of smaller grant programs.

The budget proposes a number of cost adjustments, including savings in the MPSERS rate cap costs due to better actual experience compared to actuarial assumptions (with these savings then used in the budget to pay for the costs associated with a lower assumed rate of return), a reduction in Federal grants anticipated to be received, technical foundation allowance and special education cost adjustments, and some other smaller program reductions.

Other Items of Note

The budget continues the \$72.0 million from the Community District Trust Fund to support the foundation allowance of the Detroit Public Schools Community District. Funding for Flint is maintained in large part, with funding totaling \$8.7 million for FY 2017-18. The Governor's recommendation for the overall Education omnibus funds the Community Colleges budget entirely out of School Aid Fund revenue (while FY 2016-17 is a split between SAF and GF/GP revenue), for total School Aid Fund support of postsecondary budgets of \$630.8 million (\$395.1 million for Community Colleges and \$235.6 for Higher Education). The MPSERS changes mentioned above for K-12 are carried into the Community Colleges and Higher Education budgets as well.

Table 15

FY 2017-18 GOVERNOR'S GROSS APPROPRIATION RECOMMENDATION K-12 SCHOOL AID APPROPRIATION CHANGES (millions of dollars)	
FY 2016-17 Year-to-Date Gross Appropriations.....	\$14,161.8
FY 2017-18 Governor's Recommended Gross Appropriations	14,302.1
Net Change in School Aid Appropriations	\$140.3
Recommended Appropriations for New Programs:	
High school per-pupil payment of \$50	\$22.0
Partnership model districts	3.0
Technology regional data hubs.....	2.2
Cybersecurity competitions.....	0.5
Subtotal Appropriations for New Programs	\$27.7
Recommended Appropriation Increases in Existing Programs:	
At risk	\$150.0
Foundation allowance: \$50 to \$100 per-pupil increase	128.0
MPERS rate cap on unfunded accrued liabilities due to lowered AROR.....	90.9
MPERS normal cost increase due to lowered assumed rate of return (AROR)	49.0
Career and technical education equipment upgrades	16.8
Educator evaluations	7.0
Declining enrollment support	7.0
School drinking water quality program (transferred in from MDE)	4.5
Center for Educational Performance and Information	4.0
Cash flow borrowing costs.....	3.5
ISD literacy coaches	3.0
Comprehensive STEM grants.....	2.0
School breakfast.....	2.0
Year-round schools/balanced calendar	1.5
Promise zone reimbursement.....	0.5
Integrated behavior and learning support (MiBLSi)	0.5
Economics	0.1
Subtotal Appropriation Increases in Existing Programs.....	\$470.2
Recommended Appropriation Eliminations or Reductions:	
MPERS rate cap technical cost adjustments (in absence of lowered AROR)	(\$112.8)
Federal grants.....	(91.7)
Cap funding for shared-time programs (funded at \$60.0 m; total est. cost of \$115.0 m)	(55.0)
Technical foundation allowance cost adjustments (pupils, taxable values)	(45.0)
Reduce cyber schools' foundation allowances 20%.....	(16.0)
Special education cost adjustments	(9.9)
Eliminate funding for computer adaptive tests.....	(4.0)
Eliminate funding for gang prevention and intervention programs	(3.0)
Eliminate consolidation innovation grants	(3.0)
Eliminate reimbursement to nonpublic schools for mandates	(2.5)
Technical renaissance zone reimbursement cost adjustment.....	(2.0)
Eliminate student transition grants in dissolved districts	(1.9)
Eliminate reimbursement for financial data analysis tools.....	(1.5)
Eliminate funding for an online algebra tool	(1.5)
Reduce Flint declaration of emergency funding	(1.4)
Eliminate Michigan Education Corps/Reading Corps.....	(1.0)
Reduce school bond loan fund debt service.....	(1.0)
Eliminate added cost funding for strict discipline academies	(0.8)
Eliminate added cost funding for dropout recovery programs.....	(0.8)
Eliminate pilot project funding for a competency-based transcript program	(0.5)

FY 2017-18 GOVERNOR'S GROSS APPROPRIATION RECOMMENDATION K-12 SCHOOL AID APPROPRIATION CHANGES (millions of dollars)	
Eliminate Science Olympiad and Van Andel Education Institute (\$250,000 each)	(0.5)
Eliminate Detroit area precollege engineering program funding	(0.3)
Eliminate Marshall cooperative education grant.....	(0.3)
Eliminate Van Buren ISD/health department grant.....	(0.3)
Eliminate 10 cents a meal program	(0.3)
Eliminate early learning collaborative funding	(0.2)
Eliminate conductive learning study grant	(0.2)
Eliminate kindergarten readiness assessment funding	(0.2)
Reduce Youth ChalleNGe Academy	(0.1)
Eliminate culinary education (MRA) grant	(0.1)
Reduce college readiness outreach	(0.1)
Subtotal Appropriation Eliminations or Reductions.....	(\$357.6)
TOTAL RECOMMENDED APPROPRIATION CHANGES.....	\$140.3

Fee and Revenue Proposals

Proposed Fee Adjustments

The FY 2017-18 budget proposes \$1.6 million in total fee adjustments, all of which are from the elimination of fee sunsets in the Department of Environmental Quality. No other fee adjustments are included in the Governor's Recommendations.

Table 16

FY 2017-18 GOVERNOR'S RECOMMENDATION PROPOSED FEE ADJUSTMENTS INCLUDED IN BUDGET (actual dollars)		
Department	Fee Type	Estimated Revenue
Fee Sunsets		
Environmental Quality	Liquid industrial byproduct transporter & facility site identification number fees	\$3,900
Environmental Quality	Hazardous waste manifest fees & handler user charges	1,052,300
Environmental Quality	Hazardous waste generator, transporter, treatment, storage, or disposal facility user charges	43,800
Environmental Quality	Wastewater operator training and certification fees	242,000
Environmental Quality	Drinking water operator training and certification fees	220,000
Environmental Quality	Sewage operator training and certification fees	\$0 ¹
Subtotal Fee Sunsets		\$1,562,000
TOTAL ALL FEE ADJUSTMENTS		\$1,562,000

¹ Revenue detail not available at this time.

Personal Property Tax Reform Update

Personal property taxes (PPTs) were substantially changed by legislation adopted in 2012, amended in 2013 and 2014, and then made effective by voter approval in 2014. These reforms exempted small personal property taxpayers and eligible manufacturing personal property from ad valorem property taxation. The small taxpayer exemption was effective beginning in 2014. The manufacturing personal property tax exemption is being phased in from 2016 to 2023. To reimburse local governments that had a lower property tax base as a result of the PPT exemptions and thus received less property tax revenue, the Local Community Stabilization Authority (LCSA) was created. The LCSA is required to levy a fixed dollar amount of the use tax and then distribute that revenue to compensate local governmental units for reduced personal property tax revenue according to a statutory formula.

The statutory reimbursement from the LCSA depends on definitions that specify what counts as a qualified loss and the level of millage considered for reimbursement. Certain types of millage are guaranteed 100% reimbursement under the statute. These are referred to as "Tier 1" millage. The types of millage reimbursed at 100% are debt millage levied by a school district or intermediate school district; local school district sinking fund or recreation millage or operating millage not reimbursed by the School Aid Fund; essential services (police, fire, and jail) operating millage or debt millage levied by a county, city, village, or township; small taxpayer exemption loss; and tax increment finance authority levies. Other types of millage (county, city, village, and township nonessential services debt and operating millage, and debt and operating millage levied by community colleges, libraries, and authorities) are not guaranteed a certain percentage of

reimbursement. Instead, for these "Tier 2" tax levies, municipalities share proportionately in funds remaining from the LCSA tax levy after the 100% reimbursements are made. The remaining funds are distributed to each eligible municipality in the same proportion as a municipality's Tier 2 qualified loss is to the total of all Tier 2 qualified losses.

The Department of Treasury determined that the reimbursements due in FY 2016-17 for calendar year 2016 taxes total \$374.3 million. Of that amount, \$158.2 million is payable to Tier 1 municipalities for millage guaranteed at 100%. The remaining funds available to be distributed to Tier 2 municipalities total \$216.1 million. Of the Tier 2 amount, only \$81.5 million is needed to reimburse the eligible local units for all of their qualified loss. The remaining \$134.6 million is in excess of the qualified losses. The amount of money necessary to reimburse local governments for Tier 2 millage was overestimated at the time the PPT package was enacted. The statute, however, requires the funds to be distributed. The payments are made according to a statutory schedule with most of the payments distributed on November 20, 2016, and the remaining distribution due on February 20, 2017.

The Governor's recommendation characterizes the \$134.6 million in reimbursements in excess of 100% of the qualified loss as "bonus payments" that can be regarded as funds that reduce the need for FY 2017-18 State appropriations in certain budget areas. The proposed budgets for community colleges, revenue sharing, and the Department of Health and Human Services (private agency foster care rates) note that the PPT bonus payments are available to many local units of government to offset increased costs in other areas. Not every local government, however, receives this additional payment, which depends on the loss in taxable value of personal property from 2013 to the current year multiplied by the lowest rate of eligible millage levied between 2012 and the immediately preceding year for jurisdictions and types of millage that are not guaranteed 100% reimbursement.

Major Budget Areas Appropriation Summaries

Capital Outlay, Community Colleges, and Higher Education Recommendations

Capital Outlay

The Governor's FY 2017-18 budget recommendation includes new planning authorizations for three universities, two community colleges, and two State agency projects. While planning authorizations are not a commitment on the part of the State to fund a project, if the projects eventually receive construction authorizations, the total cost to the State would be \$215.0 million. The State's share of project costs would be funded through the State Building Authority (SBA). Annual rental payments to the SBA would range from \$15.0 million to \$19.3 million until the bonds were retired (approximately 17 years). The State agency projects include the replacement of the Caro Center with a new State Psychiatric Hospital. The estimated cost of the new facility is \$115.0 million. The other State agency project is a 90,000-square-foot addition to the Secretary of State Building at the Secondary Complex in Dimondale, Michigan. The total estimated project cost is \$34.1 million.

Table 17 provides a summary of capital outlay requests and the Governor's recommendation.

Community Colleges

The Governor's budget recommendation does not include an increase for community college operations. The Governor proposes to shift \$133.5 million from GF/GP to the School Aid Fund (SAF), to fund community college operations and renaissance zone reimbursements entirely with SAF dollars. The Governor includes \$2.0 million GF/GP to initiate a revised version of the Independent Part-Time Student Grants created by Public Act 102 of 1986. The grants were established to foster the pursuit of postsecondary education by part-time students who have financial need. The last year funding was made available for these grants was FY 2008-09. The Governor is also recommending \$1,025,000 GF/GP in one-time funding to support the renovation of the Michigan Transfer Network. Renaissance zone reimbursements are reduced by \$2.0 million based on current projections and net adjustments of \$1.2 million SAF are included to reflect adjustments Michigan Public School Employees' Retirement System costs.

Details of appropriations are included in Table 18.

Higher Education

The Governor's budget recommendation for Higher Education includes a \$35.0 million (2.5%) GF/GP increase for university operations. Half of the increase would be distributed proportionally to FY 2010-11 appropriations and half would be distributed based on the performance metrics as used in the FY 2016-17 budget. Tuition restraint is recommended at 3.8% or \$475, whichever is greater. In FY 2016-17, tuition restraint is 4.2%. Michigan State University AgBioResearch and Extension would receive an increase of \$1.6 million (2.5%). Funding for Competitive Scholarships and Tuition Grants is increased by \$11.0 million GF/GP. The Tuition Incentive Program (TIP) is increased by \$5.3 million in Temporary Assistance for Needy Families (TANF) funding, from \$53.0 million to \$58.3 million based on program need. A \$2.6 million TANF supplemental for TIP is also included in the Governor's FY 2016-17 supplemental recommendations. One-time FY 2016-17 funding for the MSU Vet Lab is eliminated. The budget includes two new one-time grants for MSU: the MSU Animal Agricultural Initiative, \$2.5 million GF/GP, and the MSU Agriculture Workforce Initiative, \$1.2 million GF/GP. Net adjustments to Michigan Public School Employees' Retirement System reimbursements (a negative \$1.5 million SAF) are made based on investment earnings, health cost experience, and reducing the expected average rate of return.

Table 19 provides details on the Higher Education recommendation.

**Table 17: FY 2017-18 Capital Outlay Appropriation: Governor's Recommendation
State Building Authority (SBA) Projects**

<u>Institution</u>	<u>Project</u>	<u>Institution Request</u>			<u>Governor's Recommendation</u>		
		<u>Total Cost</u>	<u>State Share</u>	<u>Institution Share</u>	<u>Total Cost</u>	<u>State Share</u>	<u>Institution Share</u>
Ferris	Center for Virtual Learning	\$40,000,000	\$30,000,000	\$10,000,000			
Michigan State	STEM Teaching and Learning Facility	72,500,000	29,900,000	42,600,000			
Michigan Tech	H-STEM Engineering & Health Tech Complex - Phase 1	39,600,000	29,700,000	9,900,000	39,600,000	29,700,000	9,900,000
Northern	Technical Career & Engineering Technology Facility	26,500,000	19,875,000	6,625,000			
Oakland	South Foundation Hall Expansion	40,000,000	30,000,000	10,000,000			
Saginaw Valley	College of Business & Management Expansion	17,500,000	9,800,000	7,700,000	17,500,000	9,800,000	7,700,000
Wayne State	STEM Innovation Learning Center	29,500,000	14,750,000	14,750,000	29,500,000	14,750,000	14,750,000
SUBTOTAL - UNIVERSITIES		\$265,600,000	\$164,025,000	\$101,575,000	\$86,600,000	\$54,250,000	\$32,350,000
Alpena	Center for Health Sciences and Student Success	\$6,700,000	\$3,350,000	\$3,350,000			
Bay de Noc	Catherine Bonifas Building Renovation	5,259,200	2,629,600	2,629,600			
Glen Oaks	Library, Concourse, and Fine Arts Studio Transformation	3,202,200	1,601,100	1,601,100			
Gogebic	Lindquist Student Center Renovation/Wellness Center	2,400,000	1,200,000	1,200,000			
Grand Rapids	Applied Technology Center Renovation & Expansion	12,734,500	6,367,250	6,367,250			
Henry Ford	Entrepreneur & Innovation Institute/Tech. Bldg. Ren. & Add.	14,900,000	6,700,000	8,200,000	14,900,000	6,700,000	8,200,000
Jackson	Health and Sports Management Center	6,000,000	3,000,000	3,000,000			
Kirtland	Michigan Forest Products Institute Building	6,100,000	3,050,000	3,050,000			
Lansing	505 North Capitol Avenue Building Renovation	6,500,000	3,250,000	3,250,000			
Macomb	Advanced Technology Complex	24,516,800	12,258,400	12,258,400			
Mid Michigan	Classroom and Library Renovations	14,622,100	7,311,050	7,311,050			
Mott	Southern Lakes Branch Center: Rehabilitation/Renovation	8,112,200	4,056,100	4,056,100			
North Central	AD/CL Classroom Renovation & Expanded Learning Space	6,800,000	3,400,000	3,400,000			
Oakland	No new project requested						
Schoolcraft	Applied Science Renovation & Expansion	20,000,000	10,000,000	10,000,000			
St. Clair	Health Sciences AJT - Building Renovation	9,800,000	4,900,000	4,900,000	9,800,000	4,900,000	4,900,000
Washtenaw	Advanced Transportation Center Addition & Remodeling	4,000,000	2,000,000	2,000,000			
Wayne	Eastern Campus Repurposing & Upgrading	18,000,000	9,000,000	9,000,000			
SUBTOTAL - COMMUNITY COLLEGES:		\$169,647,000	\$84,073,500	\$85,573,500	\$24,700,000	\$11,600,000	\$13,100,000
DHHS	Caro Center Replacement - New Psychiatric Hospital	\$115,000,000	\$115,000,000	N/A	\$115,000,000	\$115,000,000	N/A
DTMB	Secondary Complex - Secretary of State Building Addition	34,100,000	34,100,000	N/A	34,100,000	34,100,000	N/A
SUBTOTAL - STATE AGENCIES:		\$149,100,000	\$149,100,000	\$0	\$149,100,000	\$149,100,000	\$0
TOTAL SBA PROJECTS:		\$584,347,000	\$397,198,500	\$187,148,500	\$260,400,000	\$214,950,000	\$45,450,000

Table 18: FY 2017-18 Community College Appropriations: Governor's Recommendation

College	FY 2016-17 Year-To-Date					Percent Change
		Total Formula Distribution	Non-Formula Adjustments	Total Adjustments	FY 2017-18 Appropriation	
Alpena	\$5,544,700	\$0		\$0	\$5,544,700	0.0%
Bay de Noc	5,560,900	0		0	5,560,900	0.0%
Delta	14,907,700	0		0	14,907,700	0.0%
Glen Oaks	2,586,900	0		0	2,586,900	0.0%
Gogebic	4,577,800	0		0	4,577,800	0.0%
Grand Rapids	18,450,500	0		0	18,450,500	0.0%
Henry Ford	22,176,000	0		0	22,176,000	0.0%
Jackson	12,397,600	0		0	12,397,600	0.0%
Kalamazoo Valley	12,873,900	0		0	12,873,900	0.0%
Kellogg	10,087,500	0		0	10,087,500	0.0%
Kirtland	3,270,000	0		0	3,270,000	0.0%
Lake Michigan	5,492,800	0		0	5,492,800	0.0%
Lansing	31,677,300	0		0	31,677,300	0.0%
Macomb	33,681,800	0		0	33,681,800	0.0%
Mid Michigan	4,834,100	0		0	4,834,100	0.0%
Monroe	4,636,700	0		0	4,636,700	0.0%
Montcalm	3,343,100	0		0	3,343,100	0.0%
Mott	16,115,500	0		0	16,115,500	0.0%
Muskegon	9,150,600	0		0	9,150,600	0.0%
North Central	3,290,400	0		0	3,290,400	0.0%
Northwestern	9,318,000	0		0	9,318,000	0.0%
Oakland	21,770,900	0		0	21,770,900	0.0%
Schoolcraft	12,909,300	0		0	12,909,300	0.0%
Southwestern	6,732,500	0		0	6,732,500	0.0%
St. Clair	7,259,300	0		0	7,259,300	0.0%
Washtenaw	13,534,000	0		0	13,534,000	0.0%
Wayne County	17,234,200	0		0	17,234,200	0.0%
West Shore	2,478,000	0		0	2,478,000	0.0%
Subtotal Operations:	\$315,892,000	\$0	\$0	\$0	\$315,892,000	0.0%
MPERS Retiree Health Care	1,733,600		0	0	1,733,600	0.0%
MPERS Reform Costs	73,200,000		(2,395,000)	(2,395,000)	70,805,000	(3.3%)
Renaissance Zone Reimbursements	5,100,000		(2,000,000)	(2,000,000)	3,100,000	(39.2%)
Independent Part-Time Student Grants	0		2,000,000	2,000,000	2,000,000	----
Michigan Transfer Network Enhancements (one-time)	0		1,025,000	1,025,000	1,025,000	----
MPERS Normal Cost Offset (one-time)	0		3,612,000	3,612,000	3,612,000	----
Total Appropriations:	\$395,925,600	\$0	\$2,242,000	\$2,242,000	\$398,167,600	0.6%
State School Aid Fund	260,414,800	0	134,727,800	134,727,800	\$395,142,600	51.7%
GF/GP	\$135,510,800	\$0	(\$132,485,800)	(\$132,485,800)	\$3,025,000	(97.8%)

Table 19: FY 2017-18 Higher Education Appropriation: Governor's Recommendation

University	FY 2016-17 Year-To-Date Appropriation	Formula Adjustments					Total Formula Distribution	Other Changes	FY 2017-18 Gov. Rec.	Dollar Chg From FY 2016-17	Percent Change	Approp. Per FYES**
		Proportional	Critical Skills	Research & Develop.	Carnegie Peers							
Central	\$83,925,500	987,302	197,644	17,981	958,221	2,161,100		\$86,086,600	\$2,161,100	2.6%	\$4,138	
Eastern	73,593,800	936,715	207,549	4,838	821,053	1,970,200		75,564,000	1,970,200	2.7%	4,387	
Ferris	52,259,900	599,035	312,534	0	757,889	1,669,500		53,929,400	1,669,500	3.2%	4,447	
Grand Valley	68,227,900	763,608	311,079	0	1,265,502	2,340,200		70,568,100	2,340,200	3.4%	3,108	
Lake Superior	13,567,400	156,405	40,528	0	62,618	259,600		13,827,000	259,600	1.9%	6,997	
Michigan State	275,862,100	3,495,271	683,448	502,678	2,039,895	6,721,300		282,583,400	6,721,300	2.4%	6,105	
Michigan Tech	48,097,500	590,472	212,373	80,089	310,462	1,193,400		49,290,900	1,193,400	2.5%	7,326	
Northern	46,279,200	556,171	129,387	0	387,172	1,072,700		47,351,900	1,072,700	2.3%	6,414	
Oakland	49,920,700	625,427	279,535	13,385	725,645	1,644,000		51,564,700	1,644,000	3.3%	2,890	
Saginaw Valley	29,114,000	341,545	107,115	0	366,464	815,100		29,929,100	815,100	2.8%	3,597	
UM-Ann Arbor	308,639,000	3,896,556	698,665	1,074,499	1,767,908	7,437,500		316,076,500	7,437,500	2.4%	7,234	
UM-Dearborn	24,803,300	304,650	100,780	0	367,869	773,300		25,576,600	773,300	3.1%	3,771	
UM-Flint	22,549,300	257,483	133,836	0	249,256	640,600		23,189,900	640,600	2.8%	3,463	
Wayne State	196,064,500	2,638,795	220,680	224,980	797,115	3,881,600		199,946,100	3,881,600	2.0%	8,949	
Western	107,440,900	1,350,562	253,736	25,995	789,597	2,419,900		109,860,800	2,419,900	2.3%	5,519	
Subtotal University Operations:	\$1,400,345,000	\$17,499,997	\$3,888,889	\$1,944,445	\$11,666,666	\$35,000,000	\$0	\$1,435,345,000	\$35,000,000	2.5%	\$5,503	
MPSERS Reimbursement	5,890,000						(1,885,000)	4,005,000	(1,885,000)	(32.0%)		
MSU AgBioResearch	33,243,100						831,100	34,074,200	831,100	2.5%		
MSU Extension	28,672,600						718,900	29,391,500	718,900	2.5%		
Higher Education Database	200,000						0	200,000	0	0.0%		
Midwest Higher Ed Compact	115,000						0	115,000	0	0.0%		
King-Chavez-Parks	2,691,500						0	2,691,500	0	0.0%		
MSU Veterinary Lab	500,000						(500,000)	0	(500,000)	(100.0%)		
MPSERS Normal Cost Offset	0						419,000	419,000	419,000	----		
MSU Animal Agriculture Initiative	0						2,500,000	2,500,000	2,500,000	----		
MSU Agriculture Workforce Initiative	0						1,200,000	1,200,000	1,200,000	----		
Total Universities	\$1,471,657,200	\$17,499,997	\$3,888,889	\$1,944,445	\$11,666,666	\$35,000,000	\$3,284,000	\$1,509,941,200	\$38,284,000	2.6%		
School Aid Fund	\$237,109,500	0	0	0	0	0	(1,466,000)	235,643,500	(1,466,000)	(0.6%)		
State GF/GP	\$1,234,547,700	\$17,499,997	\$3,888,889	\$1,944,445	\$11,666,666	\$35,000,000	\$4,750,000	\$1,274,297,700	\$39,750,000	3.2%		
Grants and Financial Aid												
State Competitive Scholarships	\$18,361,700						\$8,000,000	\$26,361,700	\$8,000,000	43.6%		
Tuition Grants	35,021,500						3,000,000	38,021,500	3,000,000	8.6%		
Tuition Incentive Program (TIP)	53,000,000						5,300,000	58,300,000	5,300,000	10.0%		
Children of Veterans & Officer's Tuition	1,400,000						0	1,400,000	0	0.0%		
Project Gear-Up	3,200,000						0	3,200,000	0	0.0%		
Total Grants/Financial Aid	\$110,983,200						\$16,300,000	\$127,283,200	\$16,300,000	14.7%		
Federal Higher Ed Act	3,200,000						0	3,200,000	0	0.0%		
Federal TANF	98,326,400						10,000,000	108,326,400	10,000,000	10.2%		
Veterans Tax Check-off	100,000						0	100,000	0	0.0%		
State GF/GP	\$9,356,800						\$6,300,000	\$15,656,800	\$6,300,000	67.3%		
TOTAL HIGHER EDUCATION												
TOTAL ALL FUNDS	\$1,582,640,400	\$17,499,997	\$3,888,889	\$1,944,445	\$11,666,666	\$35,000,000	\$19,584,000	\$1,637,224,400	\$54,584,000	3.4%		
TOTAL FEDERAL	101,526,400	0	0	0	0	0	10,000,000	111,526,400	10,000,000	9.8%		
TOTAL STATE RESTRICTED	237,209,500	0	0	0	0	0	(1,466,000)	235,743,500	(1,466,000)	(0.6%)		
TOTAL STATE GF/GP	\$1,243,904,500	\$17,499,997	\$3,888,889	\$1,944,445	\$11,666,666	\$35,000,000	\$11,050,000	\$1,289,954,500	\$46,050,000	3.7%		

Department of Health and Human Services Recommendations

The proposed FY 2017-18 Department of Health and Human Services (DHHS) budget reflects a \$652.5 million Gross and \$69.0 million GF/GP increase over the year-to-date FY 2016-17 budget. Most of this increase is tied to changes in Medicaid costs, in particular increased expenditures in the Medicaid expansion, the Healthy Michigan Plan (HMP). The budget also features a number of program enhancements, most notably a 50-cents-per-hour wage pass-through for direct care behavioral health workers, the first such wage pass-through in nearly a decade.

There is one potential issue that is not addressed: the future design of the Medicaid program, in particular the HMP. It is not clear whether or how Congress and President Trump will repeal or replace the Affordable Care Act (ACA), which authorized the Medicaid expansion known in Michigan as the HMP. It is also not clear whether or how Congress and the President will make changes to the structure of the traditional Medicaid program. It does appear, however, that any changes are far more likely to take effect in FY 2018-19, than in FY 2017-18, so the Governor's FY 2017-18 budget assumes no changes.

Base and Caseload Adjustments

The budget recommendation includes a \$439.3 million Gross, \$46.3 million GF/GP increase in funding for traditional Medicaid and the HMP. As noted, most of this increase is for the HMP, as the program has grown to cover about 630,000 individuals (compared to the traditional Medicaid caseload of about 1.8 million). The GF/GP portion of this increase is low relative to the Gross amount because the HMP match rate is 95% Federal in calendar year 2017 and will be 94% Federal in calendar year 2018.

The traditional human services caseloads continue to drop for the most part, with a net reduction in spending of \$33.0 million Gross and \$6.7 million GF/GP. Most of this cost reduction is in the Family Independence Program (FIP) caseload, which has continued its long-term decline.

Match Rates and Fund Source Adjustments

As noted, the Federal HMP match rate will continue to decline, leading to a cost increase of \$55.2 million GF/GP in FY 2017-18. The traditional Medicaid match rate also will decline, from 65.15% to 64.78%, leading to a cost increase of \$43.8 million GF/GP.

Offsetting these GF/GP cost increases are GF/GP savings as increased availability of Tobacco Settlement revenue (\$25.3 million) and Healthy Michigan Fund revenue (\$9.1 million) will reduce GF/GP costs.

Also of note, there will be a large one-time increase in revenue from the Health Insurance Claims Assessment (HICA) as a rebate projected to be owed in FY 2016-17 will not have to be paid. Combined HICA and net GF/GP use tax revenue in excess of the statutory cap (roughly \$450.0 million) must be reimbursed via a rebate in the subsequent year. However, GF/GP use tax revenue was reduced due to the enacted personal property tax legislation (which diverted some use tax revenue formerly dedicated to the General Fund to reimburse local units of government for the exemption of certain personal property from taxation). That led to the combined HICA and net GF/GP use tax revenue coming in below the cap, meaning there will be no rebate. The result is an increase in HICA revenue above what was budgeted and a net GF/GP benefit of \$76.9 million.

Reductions

The budget features few reductions aside from the removal of one-time funding. Several legislatively initiated dental enhancements are removed from the budget, including grants to statewide dental clinics (\$1,550,000), a grant to the University of Detroit dental clinic (\$2.0 million), and an enhanced payment rate for Medicaid dental services for pregnant women (\$950,000 GF/GP).

Program Enhancements

The Governor's budget proposes a number of program enhancements. These include: 1) continuation of the FY 2016-17 restoration of the "Heat and Eat" program (\$6.8 million Gross and GF/GP; no change to FY 2016-17); 2) a 50-cents-per-hour wage pass-through for behavioral health workers employed by Pre-Paid Inpatient Health Plans (PIHPs) (\$45.0 million Gross and \$14.2 million GF/GP); 3) expansion of the Pathways to Potential Program (\$5.6 million Gross, \$3.3 million GF/GP); 4) expansion of Medicaid nonemergency transportation contract services in the State (\$12.0 million Gross, \$3.4 million GF/GP); 5) an increase in Foster Care private agency administrative rates to those recommended by an auditing firm (\$14.2 million Gross, \$6.8 million GF/GP); 6) increased Senior services funding to eliminate wait lists (\$3.6 million Gross and GF/GP); 7) increased funding for multicultural organizations (\$2.0 million Gross and GF/GP); 8) an increase in the FIP clothing allowance from \$140 to \$200 (\$2.7 million, all TANF); and 9) an expanded nursing home Quality Assurance Assessment Program (QAAP), with increased QAAP revenue used to fund a quality incentive program for nursing homes.

The Governor also proposes adding staff in certain areas, including 72.0 FTEs to State facilities to bring staffing up to federally recommended levels (\$7.2 million Gross, \$4.9 million GF/GP) and 95.0 FTEs for adult services (\$11.3 million Gross, \$8.1 million GF/GP).

Other Issues

The budget reflects net economic adjustments of \$15.6 million Gross and \$8.7 million GF/GP. The budget assumes eventual closure of the Caro Center and its replacement with a new facility at a yet unidentified location, to be funded through the Capital Outlay process.

Finally, the budget continues language (Section 298) on discussions of integration of Medicaid behavioral health and physical health services. Unlike FY 2016-17, the proposed language does not permit or direct that a merger of such services occur.

For the most part, the Governor's proposed FY 2017-18 DHHS budget is a continuation budget. The budget does contain a number of program enhancements with a minimal number of reductions. The largest potential issue is future changes to the Medicaid program, but that will be determined in Washington and any changes are unlikely to affect the FY 2017-18 budget.

Revenue Sharing Payments

The Governor recommends revenue sharing payments of approximately \$1.2 billion in FY 2017-18, an increase of 1.5% or \$17.9 million over FY 2016-17 year-to-date appropriations. This increase is due almost entirely to an estimated \$17.2 million increase in constitutional revenue sharing for cities, villages, and townships (CVTs). There also is an increase of \$640,600 in revenue sharing payments to counties to cover the full-year payment cost of two counties that returned to State-paid county revenue sharing for part-year funding in FY 2016-17. City, village, and township revenue sharing ("statutory") and the grant program for financially distressed cities, villages, and townships would be funded at the same levels in FY 2017-18 as in FY 2016-17. The Governor's recommendation is shown in [Table 20](#).

Table 20

REVENUE SHARING APPROPRIATION SUMMARY				
Ongoing/One-Time Appropriations	FY 2016-17 Year-to-Date	FY 2017-18 Gov's Rec.	Dollar Change	Percent Change
Constitutional Revenue Sharing	\$756,300,600 ^{a)}	\$773,544,100	\$17,243,500	2.3%
CVT Revenue Sharing	248,840,000	248,840,000	0	0.0
County Incentive Program	43,033,500	43,160,400	126,900	0.3
County Revenue Sharing	174,234,000	174,747,700	513,700	0.3
Financially Distressed CVTs	5,000,000	5,000,000	0	0.0
TOTAL	\$1,227,408,100	\$1,245,292,200	\$17,884,100	1.5%

^{a)} Reflects the January 2017 consensus revenue estimate for sales tax revenue.

Constitutional revenue sharing is estimated at \$773,544,100 in FY 2017-18 based on the January 2017 consensus revenue estimates. This would provide CVTs with a 2.3% increase in payments over the revised FY 2016-17 estimate. Constitutional revenue sharing pays CVTs 15.0% of sales tax collected at a rate of 4.0%. The funds are distributed on a per capita basis. Each CVT is projected to receive approximately \$78.51 per capita in FY 2017-18.

For CVT revenue sharing ("statutory"), the Governor recommends a total of \$248,840,000 in FY 2017-18. This consists of \$243,040,000 in ongoing funding and \$5.8 million in one-time funding, the same as in FY 2016-17. Eligibility, payments, and transparency and accountability requirements would remain the same as in the current year.

The Governor proposes to increase revenue sharing payments to counties by 0.3% to \$217.9 million. The County Revenue Sharing line would increase by \$513,700 to \$174,747,700 and the County Incentive Program would increase by \$126,900 to \$43,160,400. The additional funding covers the increased cost of payments to two counties (Alcona and Charlevoix) that returned to State-paid revenue sharing in FY 2016-17 for part-year funding and will be eligible for full-year funding in FY 2017-18. Payments to other counties would not change. As in prior years, compliance with accountability and transparency criteria would be required for eligible counties to receive full payments under the County Incentive Program in FY 2017-18. The last five counties (Antrim, Emmet, Keweenaw, Leelanau, and Mackinac) are projected to return to State-paid revenue sharing from FY 2018-19 to FY 2022-23, when withdrawals from each county's revenue sharing reserve fund will be completed.

The Governor maintains the grant program for Financially Distressed Cities, Villages, or Townships at \$5.0 million in FY 2017-18, the same level of funding as in FY 2016-17.

Summary of Other General Appropriation Issues

State Employee Compensation Changes

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

The Civil Service Commission on December 14, 2016, approved a two-year agreement for wages and benefits for employees who are exclusively represented by employee unions (AFSCME, MCO, MSEA, SEIU, and UAW) for fiscal years (FYs) 2017-18 and 2018-19. The Commission approved a 3.0% general wage increase effective October 1, 2017, for represented employees and a 2.0% general wage increase effective October 1, 2018. Additionally, contracts will require represented employees to continue to pay 20.0% of their health care premiums.

The Civil Service Commission also adopted a Coordinated Compensation Plan for non-exclusively represented State classified employees (NEREs) for FY 2017-18. Beginning on October 1, 2017, NEREs will receive a 3.0% general wage increase. They also will continue to pay 20.0% of their health insurance premium in FY 2017-18. Coordinated Compensation Plans for NEREs are approved by the Civil Service Commission on an annual basis; thus, a compensation plan for FY 2018-19 will not be considered until December 2017.

Total Gross employee wages and salaries in the FY 2017-18 Governor's budget are an estimated \$3.3 billion, while other total Gross employee benefit costs are an estimated \$2.7 billion.

Table 21 provides a summary of the incremental State employee economic cost changes for FY 2017-18 recommended in the Governor's budget, including Gross employee salary increases of \$92.8 million. The State's portion of the cost of longevity payments and employee health insurance is estimated to increase by \$1.3 million for FY 2017-18. The amount that needs to be contributed to the State employee retirement systems in FY 2017-18 results in an increase in costs. Retirement contributions, excluding payments for legacy pension costs, will increase \$23.3 million Gross and \$12.8 million GF/GP. Other employee retirement costs (OERC), including legacy pension costs and retiree health care costs, for FY 2017-18 will be less than the costs in FY 2016-17. Gross changes for OERC will total a negative \$13.0 million or a negative \$3.3 million GF/GP. The total GF/GP impact of economic adjustments for FY 2017-18 is an increase of \$57.6 million.

Table 21
FY 2017-18 STATE BUDGET RECOMMENDATION
ECONOMIC ADJUSTMENTS INCLUDED IN BUDGET
(millions of dollars)

	Gross	GF/GP
Wages and Salaries	\$92.8	\$48.0
Longevity and Employee Insurance Costs	1.3	0.7
Retirement Contributions	23.3	12.8
Other Employee Retirement Costs (OERC)	(13.0)	(3.3)
Workers' Compensation.....	(4.6)	(3.8)
All Other Economics	6.8	3.2
TOTAL ECONOMICS	\$106.6	\$57.6

Employer Retirement Contribution Rates

A significant aspect of the State budget, as well as the budgets of K-12 school districts and community colleges, is the amount employers are required to pay into the retirement accounts of their employees. The Governor's budget includes the required employer contribution rates to the two largest plans: the State Employees' Retirement System (SERS) and the Michigan Public School Employees' Retirement System (MPERS). The State also has retirement plans for State Police, Judiciary, and the Legislature, but those systems are not discussed here as they are much smaller in scale. Public Acts 300 of 2012 and 136 of 2016 implemented a cap on the rate school employers in MPERS pay toward the unfunded accrued liabilities (UAL) in the system, with any required payments above that cap to be made by a State appropriation.

Proposal to Lower the Assumed Rate of Return (AROR)

New for FY 2017-18, and reflected in Tables 22 and 23, the Governor is proposing to lower the assumed rate of return in most of the State's retirement plans. Currently, in all of the retirement plans, with the exception of the MPERS hybrid plan (established for new hires beginning in 2010) and the State Police hybrid plan (established for new hires beginning in 2012), the assumed rate of return on assets in the retirement plan portfolios is 8.0%. (The MPERS and State Police hybrid plans assume a 7.0% rate of return on assets.) The Governor is proposing to lower the assumed rate of return from 8.0% to 7.5% in FY 2017-18 for the State employee plans (built into baseline costs for FY 2017-18), and from 8.0% to 7.5% over a two-year phase-in for the MPERS basic and member investment plans (with half of the costs built into the baseline for FY 2017-18 and the other half added in FY 2018-19).

The proposal to lower the assumed rate of return results in increased contribution rates required to be paid by employers. Contribution rates are a combination of the amount required to pay down liabilities accrued in the past (legacy costs) and the amount required to pay for benefits earned today (normal cost). The proposal to lower the AROR would increase both the legacy unfunded accrued liabilities (UAL) and the normal cost, in both SERS and MPERS, totaling \$246.9 million in FY 2017-18 and \$406.9 million in FY 2018-19. However, due to baseline savings of \$237.3 million resulting from lower health care costs and better investment returns compared to the assumed levels, along with the completion of paying off the most recent SERS early-out, the net cost in FY 2017-18 is \$9.6 million. Another \$160.0 million will be necessary in FY 2018-19 to pay the increased normal and legacy costs in MPERS for the second year of the phase-in of the lower AROR. The higher funding levels would continue until the UAL is paid off (FY 2037-38).

Of the total costs listed above, the Governor is proposing to use one-time revenue to hold local schools, community colleges, libraries, and universities harmless from the increase in normal costs, in both FY 2017-18 (\$53.0 million) and FY 2018-19 (another \$60.0 million). The cap on the amount local employers pay toward the UAL means that the increase in legacy costs (\$100.0 million in FY 2017-18 and another \$100.0 million in FY 2018-19) would be borne entirely by the School Aid Fund.

Contribution Rates and Estimated Costs for SERS and MPERS

Table 22 provides a three-year summary of the contribution rates for defined benefit (DB) and defined contribution (DC) retirement for SERS. Beginning in FY 2012-13, the unfunded accrued liability in SERS was spread across both DB and DC payroll, rather than just the declining DB payroll as had been the case previously. Also, beginning in FY 2011-12, the funding methodology for retiree health care was changed from a cash basis to a prefunding basis,

requiring larger contributions up front in order to save money down the road. The State Employees' Retirement System pension component was closed to newly hired employees on March 31, 1997, and the retiree health care premium coverage component was closed to new employees on January 1, 2012.

Table 22

STATE RETIREMENT CONTRIBUTION RATES AS A PERCENTAGE OF PAYROLL				
	FY 2015-16	FY 2016-17	FY 2017-18	2017-18 Change
State Employees' Retirement System¹⁾				
Defined Benefit Pension	26.05%	25.50%	24.60%	(0.90%)
Defined Benefit Health Care	20.63	21.05	22.14	1.09
Total Defined Benefit Costs	46.68%	46.55%	46.74%	0.19%
Defined Contribution Retirement	29.74%	28.94%	26.43%	(2.51%)
Defined Contribution Health Care	21.16	21.70	22.14 ²⁾	0.44
Total Defined Contribution Costs	50.90%	50.64%	48.57%	(2.07%)
1) Public Act 264 of 2011 required the unfunded accrued liability to be spread across both DB and DC payroll. Also, FY 2017-18 will be the seventh year of prefunding retiree health.				
2) For DC employees hired after January 1, 2012, cost would be 2% higher to pay the 401k health match.				

Table 23 provides a look at the FY 2017-18 contribution rates for the seven different retirement plan combinations in MPSERS. Before the enactment of significant MPSERS reforms in 2010 and 2012, there were two principal types of retirement plans available to school employees, based on hire date: the basic system and the Member Investment Plan (MIP) system. Since the passage of the reforms that began in 2010, there are now seven combinations of retirement and retiree health care plans in MPSERS, including the earlier basic and MIP plans (no longer available to new employees), the Pension Plus hybrid plan (available since July 2010), and a straight defined contribution plan (available since September 2012). Retiree health care for school employees first hired since September 4, 2012, is now strictly a personal health fund (401k or similar savings account) and does not contain any health care premium subsidy. All employees hired before September 4, 2012, also were given an opportunity to "cash out" the value of their health care premium subsidy and convert to a personal health fund. Similar to one of the SERS reforms, prefunding of retiree health care is now a component of MPSERS.

Public Act 300 of 2012 capped the K-12 and community college contribution rate for unfunded liabilities at roughly 21% of payroll (their FY 2011-12 amount), and Public Act 136 of 2016 capped the university contribution rate for unfunded liabilities at roughly 26% of payroll (their FY 2011-12 amount); the State is required to make an appropriation for any liabilities above that amount. The "normal" cost for pension and retiree health care can fluctuate slightly from year to year, and is generally paid by the local employer. The maximum total employer (school) cost for FY 2017-18 under any of the seven plans is between roughly 25% and 27% of payroll, depending on the plan and employee DC contributions. The Governor is proposing to use one-time revenue to pay for the roughly 0.76% increase in normal costs due to the lower assumed rate of return, at a total education (K-12, libraries, community colleges, and higher education) cost of \$53.0 million. The State subsidy on the UAL is roughly 11.3% of MPSERS payroll for schools, community colleges, and participating libraries, or about \$1,031.6 million, slightly lower than the 11.7% subsidy in FY 2016-17. Legislation was enacted in 2016 to implement a rate cap for the seven universities that remain part of MPSERS for employees hired before 1996, and that State cost is roughly \$4.0 million.

Table 23

FY 2017-18 MPSERS EMPLOYER CONTRIBUTION RATES							
	Basic/MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus PHF	Pension Plus to DC with PHF	Basic/MIP to DC with Premium Subsidy	Basic/MIP to DC with PHF	Basic/MIP with PHF
<u>Pension Contributions</u>							
Pension Normal Cost	4.35%	3.07%	3.07%	0.00%	0.00%	0.00%	4.35%
Pension UAL	14.78	14.78	14.78	14.78	14.78	14.78	14.78
Pension Early Retirement Incentive	1.36	1.36	1.36	1.36	1.36	1.36	1.36
Pension Total Rate	20.49%	19.21%	19.21%	16.14%	16.14%	16.14%	20.49%
<u>Health Contributions</u>							
Health Normal Cost	0.25%	0.25%	0.00%	0.00%	0.25%	0.00%	0.00%
Health UAL	4.82	4.82	4.82	4.82	4.82	4.82	4.82
Health Total Rate	5.07%	5.07%	4.82%	4.82%	5.07%	4.82%	4.82%
DB CONTRIBUTION TOTAL	25.56%	24.28%	24.03%	20.96%	21.21%	20.96%	25.31%
<u>DC Contributions</u>							
DC Employer Contributions	0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%
Personal Health Care Fund	0.00	0.00	2.00	2.00	0.00	2.00	2.00
DC CONTRIBUTION TOTAL	0.00%	1.00%	3.00%	5.00%	4.00%	6.00%	2.00%
<u>Total Uncapped Rate</u>	36.88%	35.60%	35.35%	32.28%	32.53%	32.28%	36.63%
State Subsidy	11.32	11.32	11.32	11.32	11.32	11.32	11.32
DC = Defined Contribution; MIP = Member Investment Plan; PHF = Personal Health Fund							
Note: The Governor's budget includes \$960.8 million in the K-12 budget, \$70.8 million in the Community Colleges budget, and \$4.0 million in the Higher Education budget to pay the State subsidy for the UAL rate cap, which includes the FY 2017-18 cost of lowering the assumed rate of return, phased in over two years. Identified as one-time funding, the Governor's budget includes \$49.0 million in the K-12 budget, \$6.7 million in the Community Colleges budget, and \$2.4 million in the Higher Education budget to hold the entities harmless from increased pension and health care normal costs due to a lowering in the assumed rate of return.							

Source: State Budget Office

Table 24 outlines the FY 2017-18 estimated contributions to SERS and MPERS by the State and local employers, as proposed in the Governor's budget. The total combined cost of the estimated employer (State and local) contributions is \$4.8 billion.

Table 24

FY 2017-18 ESTIMATED CONTRIBUTIONS TO TWO LARGEST RETIREMENT SYSTEMS (millions of dollars)	
<u>State Employees' Retirement System (SERS)¹⁾</u>	
Defined Benefit Pension	\$216.0
Defined Contribution	590.0
Retiree Health Care	705.0
Subtotal State Employees' Retirement System ²⁾	\$1,511.0
<u>Michigan Public School Employees' Retirement System (MPERS)³⁾</u>	
<u>Local Share</u>	
Defined Benefit Pension.....	\$1,813.0
Defined Benefit Health Care	457.0
"401k" for Health Care	25.0
Subtotal Public School Employees' Retirement System (Local)	\$2,295.0
<u>State Share</u>	
Unfunded Accrued Liabilities (Pension and Health)	\$1,035.6
Subtotal Michigan Public School Employees' Retirement System	\$3,330.6
TOTAL ESTIMATED RETIREMENT CONTRIBUTIONS.....	\$4,841.6
FY 2017-18 Estimated Subsidy Per K-12 Pupil on Average.....	\$640
1) Public Act 264 of 2011 required the unfunded accrued liability to be spread across both DB and DC payroll. Also, FY 2017-18 will be the seventh year of prefunding retiree health.	
2) Excludes FICA, which totals approximately \$260.0 million.	
3) Excludes DC contributions for pension; includes DC contributions for health.	

For the third year, the Governor's proposed budget includes a boilerplate section for each department identifying how much of the appropriation is in support of the legacy costs associated with the State Employees' Retirement System. As noted earlier, the total contributions made to a retirement system are a combination of a payment toward the past unfunded accrued liabilities for benefits already earned (legacy costs) and a payment toward the accrual of service credit in the future (normal costs). As shown on Table 24, the total contributions in the State Employees' Retirement System are estimated by the Senate Fiscal Agency at \$1.5 billion, and of that total, \$1.2 billion is estimated by the State Budget Office for legacy costs (both pension and health), with the remaining \$300.0 million for normal costs including State DC contributions for SERS. Table 25 identifies the estimated legacy costs for pension and for retiree health care, and the total of the two, for each department.

Table 25
FY 2017-18
LEGACY COSTS BREAKOUT – PENSIONS AND HEALTH CARE

Department	Pension-Related Legacy Costs (Retirement) Gross	Health Care Legacy Costs (OPEB) Gross	Total Legacy Costs Gross
Agriculture & Rural Development	\$6,381,100	\$6,018,900	\$12,400,000
Attorney General	8,893,100	8,388,200	17,281,300
Civil Rights	1,387,200	1,308,400	2,695,600
Corrections	145,788,300	137,512,400	283,300,700
Education	7,939,900	7,489,200	15,429,100
Environmental Quality	16,580,100	15,638,900	32,219,000
Health & Human Services	172,731,300	162,926,000	335,657,300
Insurance & Financial Services	4,915,200	4,636,100	9,551,300
Judiciary	7,185,500	6,777,600	13,963,100
Legislature and Auditor General	10,936,800	10,315,900	21,252,700
Licensing & Regulatory Affairs	29,005,600	27,359,100	56,364,700
Military & Veterans Affairs	8,787,300	8,288,500	17,075,800
Natural Resources	22,774,200	21,481,400	44,255,600
State	16,040,400	15,129,800	31,170,200
State Police	70,149,700	54,090,700	124,240,400
Talent & Economic Development	16,651,100	15,705,900	32,357,000
Technology, Management & Budget	43,301,700	40,843,600	84,145,300
Transportation	32,905,600	31,037,700	63,943,300
Treasury	22,140,700	20,883,900	43,024,600
School Aid	723,500	682,400	1,405,900
TOTAL	\$645,218,300	\$596,514,600	\$1,241,732,900

Source: State Budget Office

Debt Service Adjustments

Table 26 provides a summary of recommended debt service appropriations for FY 2017-18. These include School Bond Loan Fund bonds in K-12 School Aid; debt service costs related to the Facility for Rare Isotope Beams and the Community College Skilled Trades Equipment Program appropriated in the Department of Talent and Economic Development; State Building Authority rent payments appropriated in the Department of Technology, Management, and Budget (DTMB); various transportation-related bonds in the Department of Transportation; and general obligation bonds in the Department of Treasury. Gross appropriations for debt service on these bonds total \$720.5 million for FY 2017-18. This represents a \$39.4 million (5.2%) decrease from the \$759.9 million debt service appropriations in FY 2016-17.

Table 26

DEBT SERVICE APPROPRIATIONS FY 2017-18 COMPARED WITH FY 2016-17				
Department/Program	FY 2016-17 Gross Appropriation	FY 2017-18 Gross Appropriation	Dollar Change	Percent Change
School Aid				
School Bond Loan	\$126,500,000	\$125,500,000	(\$1,000,000)	(0.8)
Subtotal School Aid	\$126,500,000	\$125,500,000	(\$1,000,000)	(0.8)
Talent and Economic Development¹				
Facility For Rare Isotope Beams (MSF)	\$7,300,000	\$7,300,000	\$0	0.0
Community College Skilled Trades Equipment Program (MSF)	4,600,000	4,600,000	0	0.0
Subtotal Talent & Economic Dev.	\$11,900,000	\$11,900,000	\$0	0.0
DTMB-State Building Authority Rent				
State Agencies	\$49,665,800	\$49,665,800	\$0	0.0
Department of Corrections	21,029,900	21,029,900	0	0.0
Universities	144,995,300	144,995,300	0	0.0
Community Colleges	30,879,600	30,879,600	0	0.0
Subtotal Technology, Mgt., & Budget	\$246,570,600	\$246,570,600	\$0	0.0
Transportation				
State Trunkline	\$194,076,400	\$185,109,100	(\$8,967,300)	(4.6)
Economic Development	11,612,200	11,548,300	(63,900)	(0.6)
Local Bridge Fund	2,406,500	2,315,400	(91,100)	(3.8)
Blue Water Bridge Fund	6,963,900	7,105,100	141,200	2.0
Airport Safety and Protection Plan	4,616,400	4,617,000	600	0.0
Comprehensive Transportation	18,249,900	18,244,500	(5,400)	(0.0)
Subtotal Transportation	\$237,925,300	\$228,939,400	(\$8,985,900)	(3.8)
Treasury				
Quality of Life Bond	28,687,000	21,964,000	(6,723,000)	(23.4)
Clean Michigan Initiative	89,477,000	62,751,000	(26,726,000)	(29.9)
Great Lakes Water Initiative	18,873,000	22,865,000	3,992,000	21.2
Subtotal Treasury	\$137,037,000	\$107,580,000	(\$29,457,000)	(21.5)
TOTAL	\$759,932,900	\$720,490,000	(\$39,442,900)	(5.2%)

¹ Does not include Michigan Strategic Fund (MSF) bonding for the Cadillac Place, House Office Building, or Senate Office Building.

Tobacco Settlement Revenue and Appropriations

In 1998, a Master Settlement Agreement was reached between 46 states, including Michigan, and certain U.S. tobacco manufacturers, to provide annual payments to states. The payments began in 2000 and will continue in perpetuity. As [Table 27](#) illustrates, there are several transfers out of the tobacco settlement revenue before it is deposited into the Merit Award Trust Fund, where it is available for appropriation by the Legislature. Pursuant to law, \$75.0 million of the tobacco settlement revenue is earmarked each fiscal year, from FY 2007-08 through FY 2018-19, for the 21st Century Jobs Trust Fund. Also pursuant to law, \$17.5 million of the tobacco settlement revenue is deposited each fiscal year, from FY 2014-15 through FY 2034-35, into the Budget Stabilization Fund as repayment for an FY 2013-14 State appropriation of \$194.8 million to the Settlement Administration Fund to help mitigate the impact of the City of Detroit bankruptcy on its pensioners. A new statutory earmark for the Community District Trust Fund of \$72.0 million annually for 10 years, was enacted in FY 2016-17 to implement a new system for schools in Detroit.

The other transfer of funds from tobacco settlement revenue is for debt service on the securitization of a portion of the tobacco settlement revenue in 2006 and 2007. The debt service amount for FY 2017-18 is estimated to be \$68.9 million. Under the Governor's proposal, there would be an estimated FY 2017-18 year-end balance of \$1.4 million in the Merit Award Trust Fund.

Table 27

TOBACCO SETTLEMENT REVENUE AND APPROPRIATIONS			
FY 2016-17 COMPARED TO FY 2017-18 GOVERNOR'S RECOMMENDATION			
(Actual Dollars)			
	FY 2016-17	FY 2017-18	Gov's Rec. Chg.
	Year-To-Date	Gov's Rec.	From FY 2016-17
Revenue			
Unreserved Balance From Prior Fiscal Year	\$119,400	\$523,000	\$403,600
Total Annual Payments	294,583,800	306,345,800	11,762,000
Assumed Withheld Payments	(19,737,100)	(20,525,200)	(788,100)
Settlement Credit to Manufacturers/Adjustments	(23,000,000)	0	23,000,000
Interest Earnings	50,000	100,000	50,000
Total Tobacco Settlement Revenue	\$252,016,100	\$286,443,600	\$34,427,500
Less Transfers Out For:			
21st Century Jobs Trust Fund	(\$75,000,000)	(\$75,000,000)	\$0
Community District Trust Fund (Detroit)	(72,000,000)	(72,000,000)	0
Payment to Budget Stabilization Fund (Detroit)	(17,500,000)	(17,500,000)	0
Payment on 2006 Bond Securitization	(33,596,300)	(38,128,500)	(4,532,200)
Payment on 2007 Bond Securitization	(27,123,900)	(30,782,900)	(3,659,000)
Total Transfers Out	(\$225,220,200)	(\$233,411,400)	(\$8,191,200)
Net Revenue To Merit Award Trust Fund	\$26,795,900	\$53,032,200	\$26,236,300
Appropriations			
Attorney General			
Operations	\$495,700	\$499,500	\$3,800
Health and Human Services			
Medicaid Base	19,739,200	45,000,000	25,260,800
Aging: Respite Care	4,068,700	4,068,700	0
State Police			
Tobacco Tax Enforcement	805,500	843,000	37,500
Department of Treasury			
Student Financial Services Administration	1,163,800	1,172,200	8,400
Total Merit Award Trust Fund Appropriations	\$26,272,900	\$51,583,400	\$25,310,500
MERIT AWARD TRUST FUND YEAR-END BALANCE	\$523,000	\$1,448,800	\$925,800

Data Source: State Budget Office

Budget Stabilization Fund

The Budget Stabilization Fund (BSF) is the State's "Rainy Day" fund or cash reserve. In years of economic growth, deposits may be made to the Fund, and in years of recession, money may be withdrawn to cushion the budgetary impact of declining State revenue or for job creation activities. Statutory formulas direct the amount of the pay-in or pay-out from the BSF; however, the Legislature has the authority to appropriate the formula amount or a different amount.

The BSF balance was \$612.4 million at the close of FY 2015-16. Deposits of \$92.5 million have been appropriated for FY 2016-17. Public Act 340 of 2016 appropriated \$75.0 million GF/GP to the BSF in FY 2016-17 and the Michigan Trust Fund Act requires the deposit of \$17.5 million from tobacco settlement revenue into the BSF each year from FY 2014-15 to FY 2034-35. The Trust Fund Act transfers reimburse the BSF for a \$194.8 million withdrawal in FY 2013-14 related to the Detroit bankruptcy settlement. Based on the appropriated deposits and estimated interest earnings, the BSF balance at the close of FY 2016-17 is estimated at \$708.9 million.

The Governor recommends two deposits to the BSF which total an estimated \$266.5 million in FY 2017-18. These deposits consist of an appropriation of \$175.0 million GF/GP and the appropriation of 25% of the FY 2016-17 unassigned GF/GP closing balance. In the Executive Recommendation, the FY 2016-17 GF/GP unassigned closing balance is estimated at \$366.0 million; 25% of that amount would result in a BSF deposit of \$91.5 million. The actual year-end deposit would be based on the final closing balance for FY 2016-17 and could be either higher or lower than the current estimate. The deposits recommended by the Governor would increase the BSF balance from an estimated \$734.6 million to \$1,001.1 million at the close of FY 2017-18. The history of the BSF year-end balances and the estimated impact of the Governor's recommendation for FY 2017-18 are shown in [Figure C](#).

Figure C

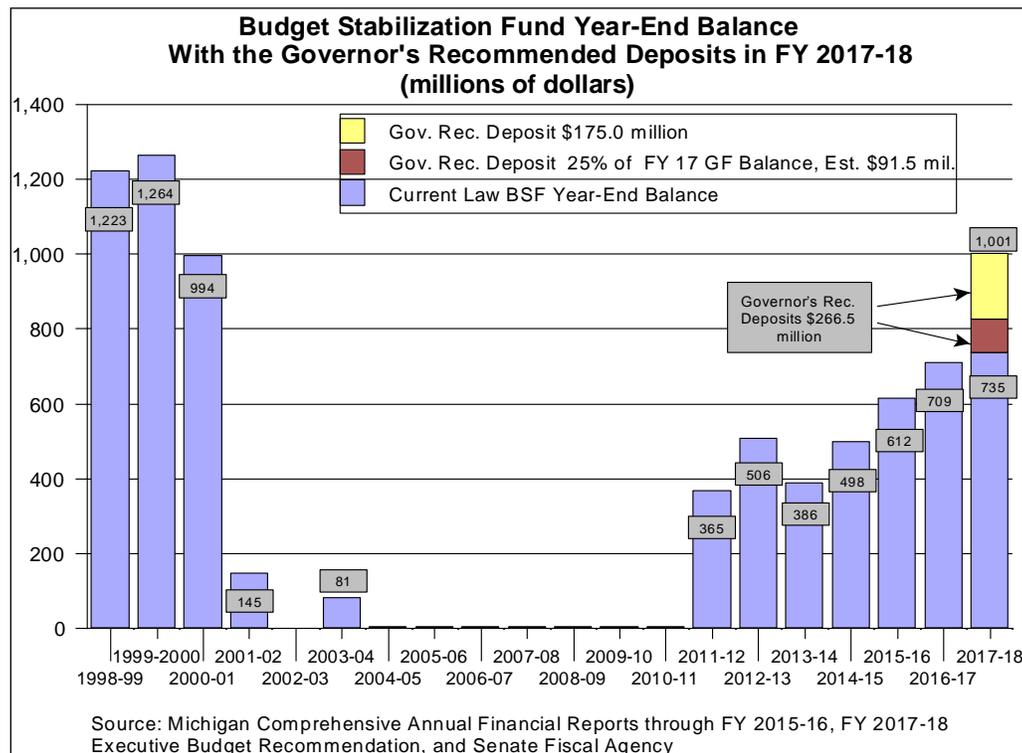


Table 28

FLINT DRINKING WATER DECLARATION OF EMERGENCY SUMMARY OF GROSS AND GF/GP STATE APPROPRIATIONS FY 2015-16 AND FY 2016-17 ENACTED/FY 2017-18 GOVERNOR'S RECOMMENDATION						
Department/Budget Area	FY 2015-16 Year-to-Date		FY 2016-17 Year-to-Date		FY 2017-18 Gov's Rec.	
	Gross	GF/GP	Gross	GF/GP	Gross	GF/GP
Agriculture & Rural Development	\$0	\$0	\$0	\$0	\$680,100	\$680,000
Attorney General	1,300,000	0	5,600,000	3,000,000	0	0
Education	28,285,000	8,685,000	8,050,100	0	100	0
Environmental Quality	47,253,500	45,776,500	7,200,100	5,400,000	1,000,100	1,000,000
Health & Human Services (HHS)	32,097,100	19,600,100	15,138,100	9,094,200	13,361,700	1,000,000
HHS: Medicaid Waiver	20,862,600	4,470,700	30,352,500	6,098,100	30,352,500	6,098,100
Licensing & Regulatory Affairs	1,860,000	1,660,000	0	0	0	0
Military & Veterans Affairs	2,500,000	2,000,000	0	0	0	0
Natural Resources	250,000	250,000	0	0	0	0
School Aid	9,200,000	9,200,000	10,142,600	10,142,500	8,730,100	0
State Police	6,100,000	6,100,000	0	0	0	0
Tech, Man, Budget Reserve Fund	18,900,000	18,900,000	10,000,000	10,000,000	25,000,000	25,000,000
Reserve Fund Withdrawals	(977,000)	0	(1,764,900)	0	(500)	0
Treasury	44,130,000	44,130,000	300,100	0	0	0
Total	\$211,761,200	\$160,772,300	\$85,018,600	\$43,734,800	\$79,124,100	\$33,778,100
Cumulative Total State Appropriations (including FY 2017-18 Governor's Rec.) =					<u>Gross</u>	<u>GF/GP</u>
					\$375,903,900	\$238,285,200
					Reserve Fund Balance =	\$51,157,600

Recent State Appropriation History

Table 29

ADJUSTED GROSS APPROPRIATION HISTORY (millions of dollars)			
Fiscal Year	Appropriations	Dollar Change	Percent Change
2000-01	\$36,953.3	\$1,535.6	4.3%
2001-02	38,751.3	1,798.0	4.9
2002-03	39,553.1	801.8	2.1
2003-04	39,115.3	(437.8)	(1.1)
2004-05	39,908.5	793.2	2.0
2005-06	41,322.7	1,414.2	3.5
2006-07	41,851.8	529.1	1.3
2007-08	43,616.5	1,764.7	4.2
2008-09	47,942.0	4,325.5	9.9
2009-10	45,656.6	(2,285.3)	(4.8)
2010-11	48,089.6	2,433.0	5.3
2011-12	47,598.1	(491.6)	(1.0)
2012-13	47,758.6	160.6	0.3
2013-14	50,199.5	2,440.9	5.1
2014-15	53,247.0	3,047.5	6.1
2015-16	53,540.8	293.8	0.6
2016-17	54,206.6	665.8	1.2
2017-18 (Gov's Rec.)	55,387.1	1,180.4	2.2
Change FY 2007-08 to FY 2017-18		\$11,770.6	27.0%
Detroit CPI 10-Year Percent Change			12.6%
Note: Does not include Budget Stabilization Fund appropriations of \$362.7 million, \$140.0 million, \$75.0 million, \$94.0 million, \$95.0 million, \$75.0 million, and \$175.0 million for FYs 2011-12, 2012-13, 2013-14, 2014-15, 2015-16, 2016-17, and 2017-18, respectively; includes \$147.1 million FY 2013-14 appropriation and \$82.9 million FY 2014-15 appropriation from the Roads and Risks Reserve Fund.			

Table 30

STATE SPENDING FROM STATE RESOURCES APPROPRIATION HISTORY (millions of dollars)			
Fiscal Year	Appropriations	Dollar Change	Percent Change
2000-01	\$25,761.6	\$1,182.6	4.8%
2001-02	26,086.8	325.2	1.3
2002-03	26,020.5	(66.3)	(0.3)
2003-04	25,802.5	(218.0)	(0.8)
2004-05	26,285.3	482.8	1.9
2005-06	27,704.0	1,418.7	5.4
2006-07	27,928.6	224.6	0.8
2007-08	28,441.3	512.7	1.8
2008-09	26,309.9	(2,131.4)	(7.5)
2009-10	25,239.0	(1,070.8)	(4.1)
2010-11	26,266.7	1,027.7	4.1
2011-12	27,346.9	1,080.3	4.1
2012-13	27,847.1	500.2	1.8
2013-14	29,164.7	1,317.6	4.7
2014-15	29,867.7	703.0	2.4
2015-16	30,342.2	474.4	1.6
2016-17	31,130.4	788.2	2.6
2017-18 (Gov's Rec.)	31,907.9	777.5	2.5
Change FY 2007-08 to FY 2017-18		\$3,466.6	12.2%
Detroit CPI 10-Year Percent Change			12.6%
Note: Does not include Budget Stabilization Fund appropriations of \$362.7 million, \$140.0 million, \$75.0 million, \$94.0 million, \$95.0 million, \$75.0 million, and \$175.0 million, for FYs 2011-12, 2012-13, 2013-14, 2014-15, 2015-16, 2016-17, and 2017-18, respectively; includes \$147.1 million FY 2013-14 appropriation and \$82.9 million FY 2014-15 appropriation from the Roads and Risks Reserve Fund.			

Table 31

GENERAL FUND/GENERAL PURPOSE APPROPRIATION HISTORY (millions of dollars)			
Fiscal Year	Appropriations	Dollar Change	Percent Change
2000-01	\$9,744.4	\$136.7	1.4%
2001-02	9,189.3	(555.1)	(5.7)
2002-03	8,830.9	(358.4)	(3.9)
2003-04	8,770.1	(60.8)	(0.7)
2004-05	8,702.8	(67.3)	(0.8)
2005-06	9,106.3	403.5	4.6
2006-07	9,118.7	12.4	0.1
2007-08	9,980.7	862.0	9.5
2008-09	8,568.7	(1,412.0)	(14.1)
2009-10	7,787.4	(781.2)	(9.1)
2010-11	8,424.6	637.2	8.2
2011-12	8,341.1	(83.6)	(1.0)
2012-13	9,024.2	683.2	8.2
2013-14	9,571.3	547.1	6.1
2014-15	9,691.1	119.8	1.3
2015-16	10,157.9	466.8	4.8
2016-17	10,100.0	(57.9)	(0.6)
2017-18 (Gov's Rec.)	10,149.4	49.4	0.5
Change FY 2007-08 to FY 2017-18		\$168.7	1.7%
Detroit CPI 10-Year Percent Change			12.6%
Note: Does not include Budget Stabilization Fund appropriations of \$362.7 million, \$140.0 million, \$75.0 million, \$94.0 million, \$95.0 million, 75.0 million, and \$175.0 million for FYs 2011-12, 2012-13, 2013-14, 2014-15, 2015-16, 2016-17, and 2017-18, respectively; does not include \$230.0 million FY 2013-14 appropriation for the Roads and Risks Reserve Fund.			

Table 32

FEDERAL FUNDS APPROPRIATED IN MICHIGAN BUDGET (millions of dollars)			
Fiscal Year	Federal Funds	Adjusted Gross Appropriations	Federal as Percent of Total Adjusted Gross
2000-01	\$10,019.2	\$36,953.3	27.11%
2001-02	11,242.9	38,751.3	29.01
2002-03	12,226.7	39,553.1	30.91
2003-04	12,361.6	39,115.3	31.60
2004-05	12,855.5	39,908.5	32.21
2005-06	13,179.9	41,322.7	31.89
2006-07	13,436.1	41,851.8	32.10
2007-08	14,669.5	43,616.5	33.63
2008-09	21,124.7	47,941.9	44.06
2009-10	19,940.9	45,656.6	43.68
2010-11	21,314.5	48,089.6	44.32
2011-12	19,730.5	47,598.1	41.45
2012-13	19,372.7	47,758.6	40.56
2013-14	20,500.2	50,199.5	40.84
2014-15	22,840.1	53,247.0	42.89
2015-16	22,799.4	53,540.8	42.58
2016-17	22,687.6	54,206.6	41.85
2017-18 (Gov's Rec.)	23,096.0	55,387.1	41.70
Change FY 2007-08 to FY 2017-18		57.4%	27.0%

Table 33

APPROPRIATED FULL-TIME EQUATED CLASSIFIED POSITIONS (FTEs) IN MICHIGAN STATE BUDGET			
Fiscal Year	FTEs	Change	Percent Change
2000-01	64,602.5	971.6	1.5%
2001-02	64,190.1	(412.4)	(0.6)
2002-03	62,760.2	(1,429.9)	(2.2)
2003-04	57,811.1	(4,949.1)	(7.9)
2004-05	57,028.3	(782.8)	(1.4)
2005-06	56,436.4	(591.9)	(1.0)
2006-07	56,760.3	323.9	0.6
2007-08	57,041.7	281.4	0.5
2008-09	56,491.1	(550.6)	(1.0)
2009-10	55,597.2	(893.9)	(1.6)
2010-11	56,089.3	492.1	0.9
2011-12	54,795.5	(1,293.8)	(2.3)
2012-13	53,583.5	(1,212.0)	(2.2)
2013-14	52,797.5	(786.0)	(1.5)
2014-15	52,853.5	56.0	0.1
2015-16	52,702.9	(150.6)	(0.3)
2016-17	52,714.0	11.1	0.02
2017-18 (Gov's Rec.)	53,293.0	579.0	1.1
Change FY 2007-08 to FY 2017-18		(3,748.7)	(6.6%)
Detroit CPI 10-Year Percent Change			12.6%

Note: Includes exempt positions in Judiciary.

Table 34

SCHOOL AID K-12 APPROPRIATION HISTORY (millions of dollars)			
Fiscal Year	State-Funded K-12		
	Appropriations	Dollar Change	Percent Change
2000-01	\$10,732.3	\$656.5	6.5%
2001-02	11,220.6	488.3	4.5
2002-03	11,334.6	114.0	1.0
2003-04	11,059.3	(275.3)	(2.4)
2004-05	11,113.5	54.2	0.5
2005-06	11,308.0	194.5	1.8
2006-07	11,597.0	288.9	2.6
2007-08	11,421.8	(175.2)	(1.5)
2008-09	11,097.8	(324.0)	(2.8)
2009-10	10,675.1	(422.7)	(3.8)
2010-11	10,803.4	128.3	1.2
2011-12	11,088.9	285.5	2.6
2012-13	11,211.0	122.1	1.1
2013-14	11,506.1	295.1	2.6
2014-15	11,865.8	359.7	3.1
2015-16	11,960.5	94.7	0.8
2016-17	12,343.2	382.7	3.2
2017-18 (Gov's Rec.)	12,575.1	231.9	1.9
Change FY 2007-08 to FY 2017-18		\$1,153.3	10.1%
Detroit CPI 10-Year Percent Change			12.6%

Table 35

PUPIL MEMBERSHIP HISTORY FY 1994-95 to FY 2018-19				
Blend Calculation	Fiscal Year	Local Districts	Charter Schools	Total
50/50	1994-95	1,593,306	0	1,593,306
50/50	1995-96	1,610,130	4,790	1,614,920
50/50	1996-97	1,634,074	11,520	1,645,594
60/40	1997-98	1,651,011	19,202	1,670,213
60/40	1998-99	1,656,186	31,109	1,687,295
75/25	1999-2000	1,651,300	45,290	1,696,590
80/20	2000-01	1,649,085	55,072	1,704,157
80/20	2001-02	1,647,459	62,113	1,709,572
80/20	2002-03	1,647,531	67,336	1,714,867
80/20	2003-04	1,640,929	73,473	1,714,402
75/25	2004-05	1,626,289	81,491	1,707,780
75/25	2005-06	1,607,880	89,654	1,697,534
75/25	2006-07	1,584,435	96,627	1,681,062
75/25	2007-08	1,553,568	98,987	1,652,555
75/25	2008-09	1,517,714	102,030	1,619,744
75/25	2009-10	1,487,297	108,425	1,595,722
75/25	2010-11	1,457,160	112,276	1,569,436
90/10	2011-12	1,432,200	119,900	1,552,100
90/10	2012-13	1,405,599	130,390	1,535,989
90/10 CY	2013-14	1,374,800	147,828	1,522,628
90/10 CY	2014-15	1,356,640	151,368	1,508,008
90/10	2015-16	1,344,369	151,611	1,495,980
90/10	2016-17	1,337,700	153,000	1,490,700
90/10	2017-18 Est.	1,336,500	150,000	1,486,500
90/10	2018-19 Est.	1,330,000	152,000	1,482,000

Table 36

STATE SPENDING PER PUPIL HISTORY			
Fiscal Year	State-Funded Appropriations (Millions of Dollars)	Pupils (Millions)	Appropriations Per Pupil
2000-01	\$10,732.3	1.7042	\$6,297
2001-02	11,220.6	1.7096	6,563
2002-03	11,334.6	1.7149	6,609
2003-04	11,059.3	1.7144	6,450
2004-05	11,113.5	1.7078	6,507
2005-06	11,308.1	1.6975	6,661
2006-07	11,597.0	1.6811	6,898
2007-08	11,421.8	1.6526	6,911
2008-09	11,097.8	1.6197	6,851
2009-10	10,675.1	1.5957	6,690
2010-11	10,803.4	1.5694	6,884
2011-12	11,088.9	1.5521	7,144
2012-13	11,211.0	1.5360	7,299
2013-14	11,506.1	1.5226	7,557
2014-15	11,865.8	1.5080	7,869
2015-16	11,960.5	1.4960	7,995
2016-17	12,343.2	1.4907	8,280
2017-18 (Gov's Rec.)	12,575.1	1.4865	8,460

Table 37

K-12 SCHOOLS MINIMUM FOUNDATION ALLOWANCE HISTORY				
Fiscal Year	Enacted Per Pupil	After Reductions	Percent Change	
2000-01	\$6,000	\$6,000	N/A	
2001-02	6,500	6,500	8.3%	
2002-03	6,700	6,626	1.9	
2003-04	6,700	6,626	0.0	
2004-05	6,700	6,700	1.1	
2005-06	6,875	6,875	2.6	
2006-07	7,108	7,108	3.4	
2007-08	7,204	7,204	1.4	
2008-09	7,316	7,316	1.6	
2009-10	7,316	7,151	(2.3)	
2010-11	7,316	7,146	0.0	
2011-12	6,846	6,846	(4.2)	
2012-13	6,966	6,966	1.8	
2013-14	7,076	7,076	1.6	
2014-15	7,251	7,251	2.5	
2015-16	7,391	7,391	1.9	
2016-17	7,511	7,511	1.6	
2017-18 (Gov's Rec.)	7,611	7,611	1.3	
10-Year Change	\$407	\$407		
10-Year % Change	5.6%	5.6%		
10-Year Detroit CPI % Change		12.6%		

Table 38

STATE SPENDING FROM STATE RESOURCES APPROPRIATIONS TOTAL COMPARED IN SELECTED BUDGET AREAS (millions of dollars)				
Budget Area	FY 2007-08	FY 2017-18	Dollar Difference	Percent Change
	Year-to-Date Appropriations	Gov's Rec. Appropriations		
Health and Human Services	\$6,514.5	\$6,903.9	\$389.4	6.0%
Corrections	2,066.2	2,000.3	(66.0)	(3.2)
K-12 School Aid	11,421.8	12,575.1	1,153.4	10.1
Community Colleges	318.9	398.2	79.2	24.8
Higher Education	1,771.5	1,525.7	(245.8)	(13.9)
Revenue Sharing-Constitutional	688.2	773.5	85.3	12.4
Revenue Sharing-Nonconstitutional	388.2	471.7	83.5	21.5
All Other Programs	5,272.0	7,259.4	1,987.4	37.7
Total State Spending	\$28,441.3	\$31,907.9	\$3,466.6	12.2%
Addendum:				
Medicaid Caseload	1,550,654	2,400,000	849,346	54.8%
Prison Population	51,454	41,148	(10,306)	(20.0%)
K-12 Pupil Count	1,652,555	1,486,500	(166,055)	(10.0%)
University Students	254,231	260,817	6,586	2.6%
Community College Students	146,234	124,371	(21,863)	(15.0%)
Michigan Personal Income (millions)	\$353,728.0	\$469,953.5	\$116,225.5	32.9%
Detroit Consumer Price Index	204.6	230.4	25.8	12.6%
NOTES: Revenue Sharing: Constitutional number is the January 2017 Consensus Revenue Estimating Conference (CREC) estimate. Medicaid Caseload: Number for FY 2017-18 includes the estimated 630,000 individuals who are eligible under the expansion of Medicaid. Prison Population: These are the year-end numbers published by the Department of Corrections for calendar years 2006 and 2016, respectively. K-12 Pupils: FY 2017-18 pupil count is the January 2017 CREC estimate. Community College and University Students: Numbers in FY 2017-18 column reflect the most recent data available, which are FY 2015-16 fiscal-year-equated-students as reported in the Activities Classification Structure (ACS) and the Higher Education Institutional Data Inventory (HEIDI). Michigan Personal Income and Detroit CPI: Numbers are fiscal year averages; FY 2017-18 numbers are January 2017 CREC estimates.				