

STATE BUDGET HISTORY AND UPDATE



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ECONOMIC UPDATE

Table 1

Michigan Consensus Economic Forecast				
	Calendar Year			
	2003	2004	2005	2006
United States				
Real Gross Domestic Product (% Change)	3.0%	4.4%	3.2%	3.2%
Consumer Price Index (% Change)	1.6%	2.7%	2.6%	2.4%
Unemployment Rate (%)	6.0%	5.5%	5.4%	5.5%
Light Vehicle Sales (millions)	16.6	16.7	16.8	16.8
Import Share of Light Vehicles (%)	19.9%	20.1%	20.6%	21.1%
Michigan				
Wage and Salary Employment (% Change)	(1.5)%	(1.1)%	0.3%	1.0%
Unemployment Rate (%)	7.3%	6.7%	6.9%	6.8%
Personal Income (% Change)	4.1%	2.7%	4.5%	5.6%

Figure 1

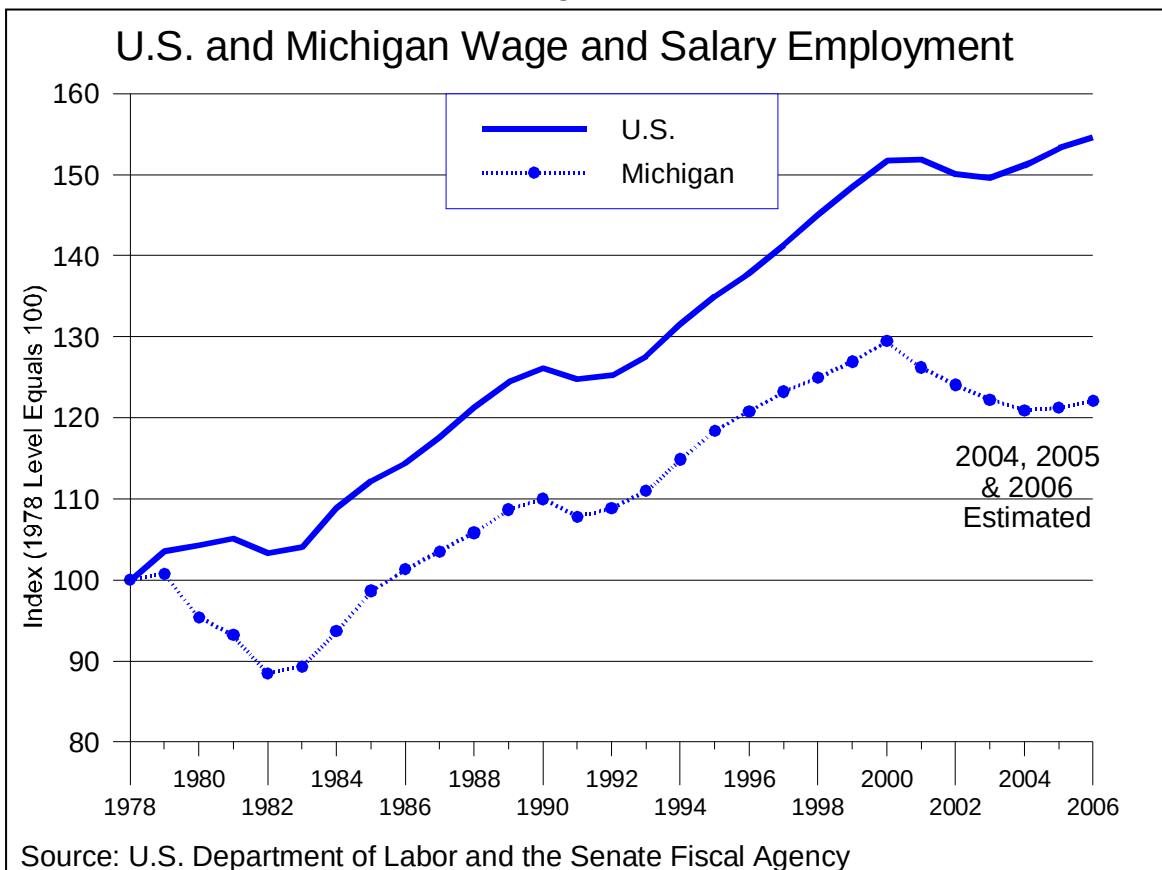


Figure 2

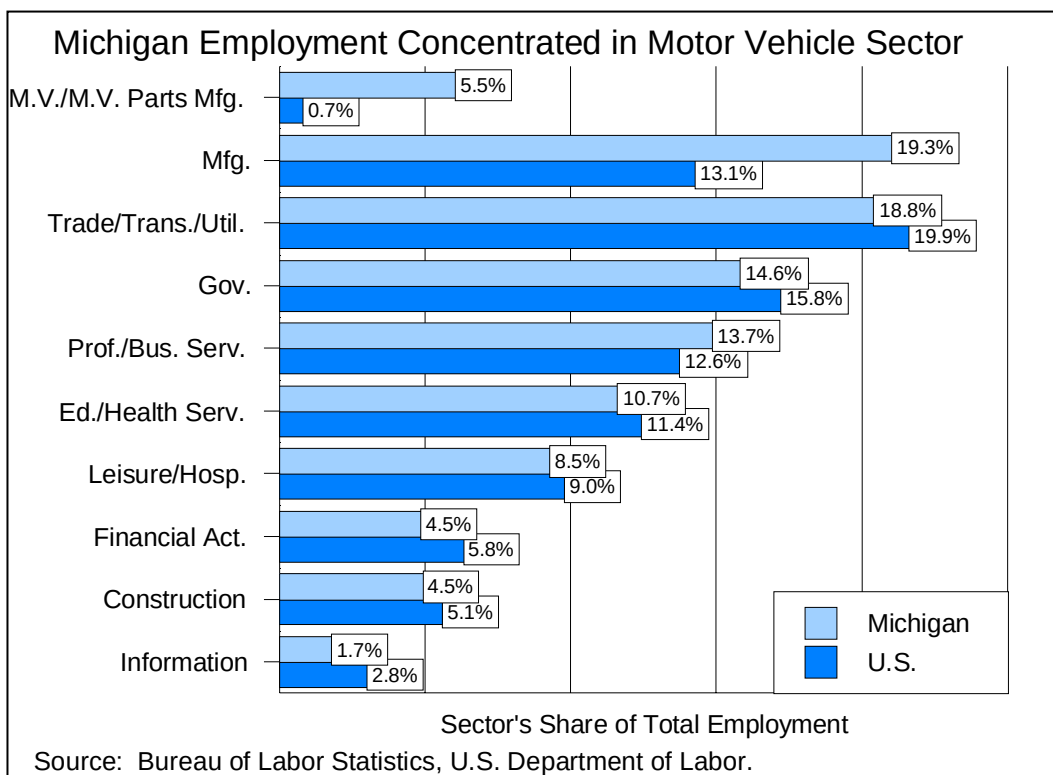


Figure 3

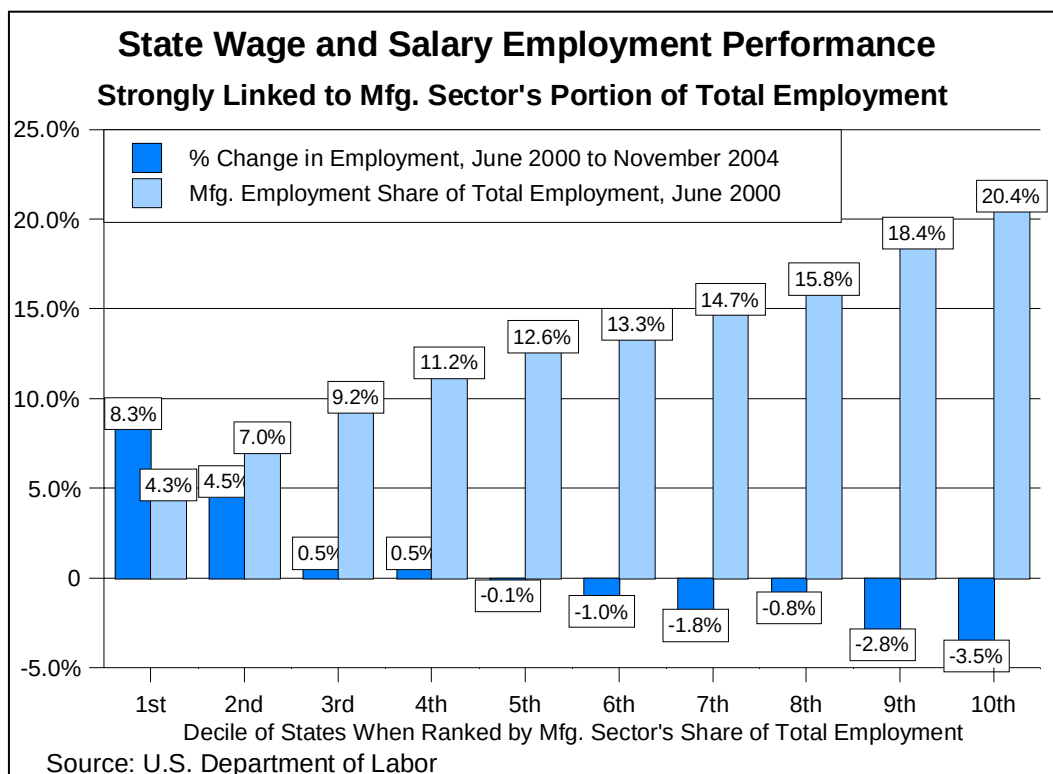


Table 2

Recent Trends in Payroll Employment Contrast Between Michigan and the United States		
	Michigan	United States
Recent Peak Level of Employment (employment in thousands).....	June 2000 4,690	March 2001 132,507
Employment Trough (employment in thousands).....	December 2004 4,345	August 2003 129,789
Total Loss in Employment	(345)	(2,718)
Percentage Employment Loss)	(7.4)%	(2.1)%
Current Level of Employment (employment in thousands).....	December 2004 4,345	December 2004 132,266
Employment Gain from Trough	0	2,477
Percentage Change from Trough	0.0%	1.9%
Employment Change from Peak.....	(345)	(241)
Percentage Change from Peak	(7.4)	(0.2)%
United States payroll employment has grown for 16 consecutive months during the September 2003 through December 2004 period. Over this same time period Michigan payroll employment has declined in 10 of these 16 months.		

RECENT STATE BUDGET HISTORY

Table 3

Adjusted Gross Appropriation History (Millions of Dollars)			
Fiscal Year	Appropriations	Dollar Change	Percent Change
1997-98	\$31,472.8	\$1,816.3	6.1%
1998-99	33,160.3	1,687.5	5.4
1999-2000	35,417.7	2,257.4	6.8
2000-01	37,052.8	1,635.1	4.6
2001-02	38,751.3	1,698.5	4.6
2002-03	39,553.1	801.8	2.1
2003-04	39,075.7	(477.4)	(1.2)
2004-05	39,236.7	161.0	0.4
2005-06 Gov	40,490.0	1,253.3	3.2
Appropriations have increased by \$3.4 billion or 9.3% from FY 2000-01 to FY 2005-06.			

State Spending from State Resources Appropriation History (Millions of Dollars)			
Fiscal Year	Appropriations	Dollar Change	Percent Change
1997-98	\$22,493.6	\$941.3	4.4%
1998-99	23,276.8	783.2	3.5
1999-2000	24,579.0	1,302.2	5.6
2000-01	25,762.1	1,183.1	4.8
2001-02	26,086.8	324.7	1.3
2002-03	26,020.5	(66.3)	(0.3)
2003-04	25,762.4	(258.1)	(1.0)
2004-05	26,156.9	394.5	1.5
2005-06 Gov	27,246.7	1,089.8	4.2
Appropriations have increased by \$1.5 billion or 5.8% from FY 2000-01 to FY 2005-06.			

General Fund/General Purpose Appropriation History (Millions of Dollars)			
Fiscal Year	Appropriations	Dollar Change	Percent Change
1997-98	\$8,735.1	\$366.0	4.4%
1998-99	9,415.0	679.9	7.8
1999-2000	9,607.7	192.7	2.0
2000-01	9,744.6	136.9	1.4
2001-02	9,189.3	(555.3)	(5.7)
2002-03	8,830.9	(358.4)	(3.9)
2003-04	8,821.6	(9.3)	(0.1)
2004-05	8,850.7	29.1	0.3
2005-06 Gov	8,875.1	24.4	0.3
Appropriations have declined by \$869.5 million or 8.9% from FY 2000-01 to FY 2005-06.			

Figure 4

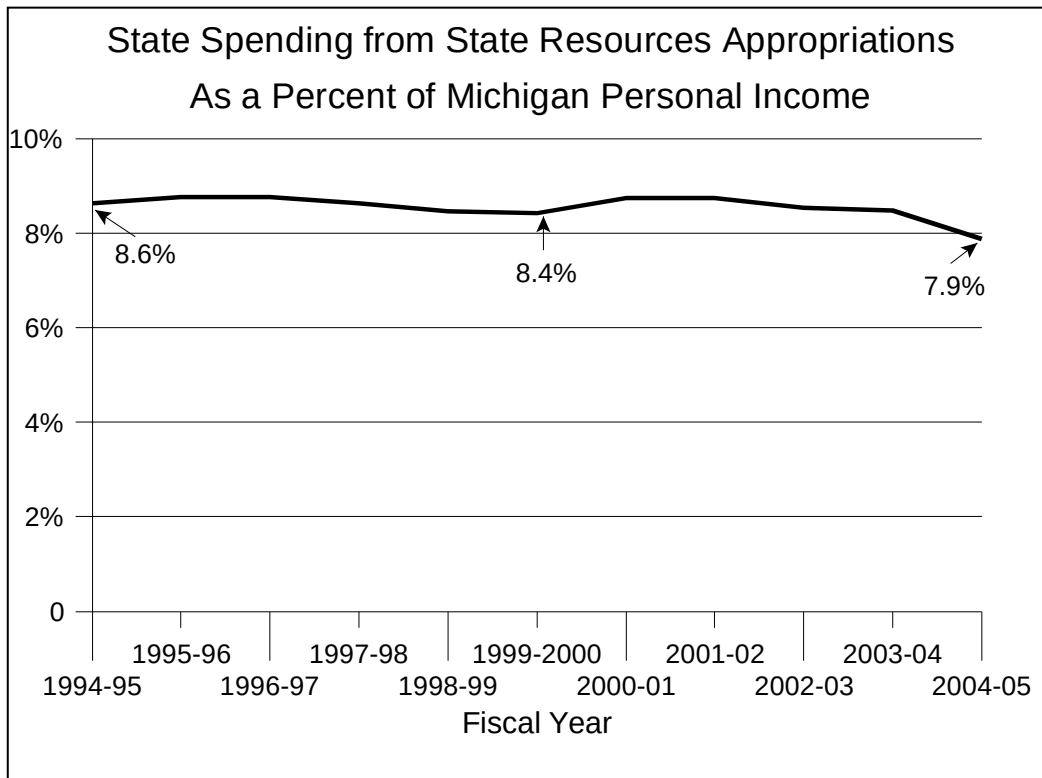


Figure 5

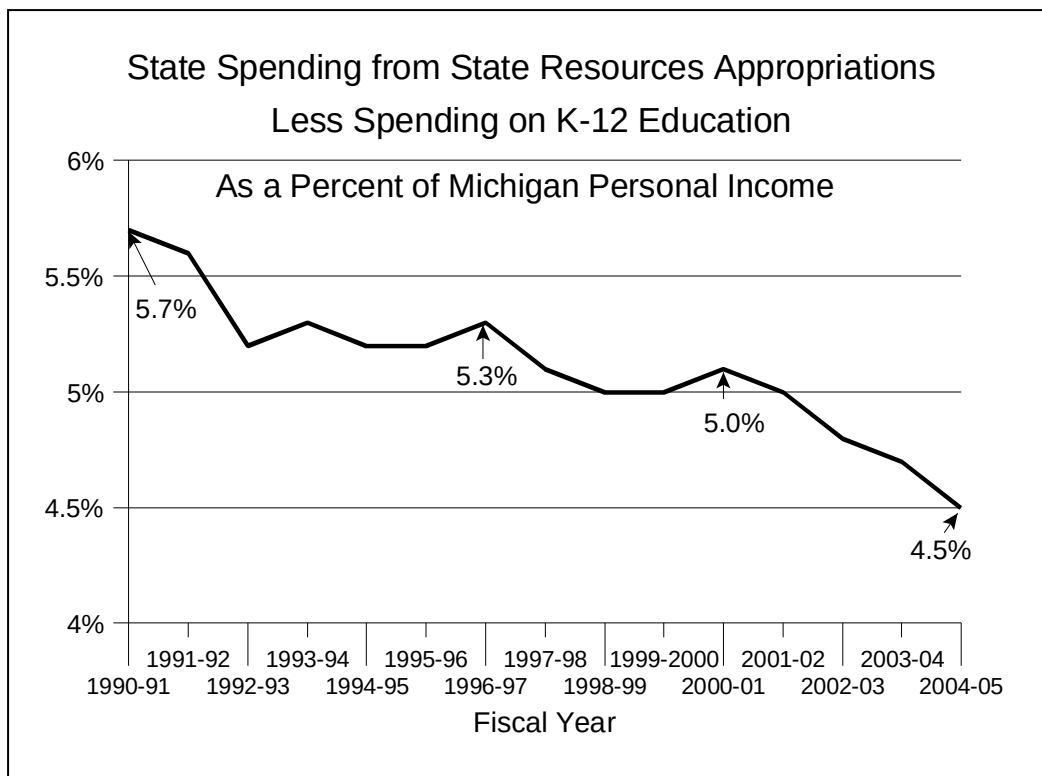


Table 4

State Spending from State Resources Appropriations Total Compared to Selected Budget Areas FY 2000-01 to FY 2004-05		
Department/Budget Area	Four-Year Dollar Change	Four-Year Percent Change
Community Health	\$ 943,438,700	30.6%
Corrections	103,771,900	6.2
K-12 School Aid.....	441,615,000	4.1
Community Colleges	\$ (30,743,500)	(9.5)%
Higher Education.....	(177,992,200)	(9.3)
Revenue Sharing.....	(428,719,700)	(27.6)
Total State Spending.....	\$394,807,000	1.5%

Table 5

General Fund/General Purpose Revenue History (Millions of Dollars)			
Fiscal Year	Ongoing Revenue	Dollar Change	Percent Change
1997-98	\$8,810.5	\$444.0	5.3%
1998-99	9,580.0	769.5	8.7
1999-2000	9,799.3	219.3	2.3
2000-01	8,989.5	(809.8)	(8.3)
2001-02	8,368.0	(621.5)	(6.9)
2002-03	8,073.9	(294.1)	(3.5)
2003-04	8,317.2	243.3	3.0
2004-05	8,410.9	93.7	1.1
2005-06	8,732.4	321.5	3.8
Revenues have declined by \$1.1 billion or 10.9% from FY 1999-2000 to FY 2005-06.			

Table 6

Historical State Revenue Sharing Funding (Millions of Dollars)			
Fiscal Year	Cities, Villages, and Townships	Counties	Total
1999-2000	\$1,248.2	\$214.3	\$1,462.5
2000-01	\$1,326.7	\$228.7	\$1,555.5
2001-02	\$1,299.8	\$217.5	\$1,517.3
2002-03	\$1,248.8	\$202.6	\$1,451.4
2003-04	\$1,122.6	\$182.1	\$1,304.7
Est. 2004-05*	\$1,115.8	\$0.0	\$1,115.8
Est. 2005-06*	\$1,121.0	\$0.0	\$1,121.0
*Estimates are based upon the January 2005 Consensus revenue estimates. Estimates exclude \$442,300 appropriated in FY 2004-05 and \$212,000 recommended in FY 2005-06 for hold-harmless grants funded from the General Fund to units with State-appointed emergency financial managers, but do reflect the temporary replacement of county revenue sharing payments with revenues generated by a one-time shift in the collection date for county operating property taxes. Actual payments will differ from the estimates presented depending on how actual revenues differ from the January 2005 estimates.			

Table 7

Historical K-12 Funding			
<u>Basic Foundation Allowance</u>			
Fiscal Year	Enacted Per Pupil	After Proration	Percent Change
1999-2000	\$5,700	\$5,700	N/A
2000-01	6,000	6,000	5.26%
2001-02	6,500	6,500	8.33%
2002-03	6,700 ^{a)}	6,626	1.94%
2003-04	6,700 ^{b)}	6,626	0.00%
2004-05	6,700	6,700	1.12%
Five-Year Dollar Change	\$1,000	\$1,000	
Five-Year Percent Change	17.54%	17.54%	
a) Proration occurred in this year, with a total shortfall of \$126.9 million. This shortfall was applied to district's payments by reducing their unprotected funding by 3.8%. If you were to simply calculate a per-pupil reduction, the shortfall was equivalent to \$74 per pupil. b) Proration to date in this fiscal year is estimated at \$74 per pupil, which takes into account the pupils and revenue agreed upon at the January 2004 Consensus Revenue Estimating Conference. Districts choose where to reduce funding to absorb the proration.			
Note: The proration did NOT statutorily reduce the foundation allowance in either year; what is shown here is for comparison purposes only.			

Total State Spending for K-12

Fiscal Year	State Spending	Percent Change
1999-2000	\$ 9,957,608,600	N/A
2000-01	10,732,285,000	7.78%
2001-02	11,220,561,700	4.55%
2002-03	11,334,551,600	1.02%
2003-04	11,056,500,000	(2.45)%
2004-05	11,173,800,000	1.06%
Five-Year Dollar Change	\$1,216,192,400	
Five Year Percent Change	12.21%	

Table 8

School Aid Fund Budget History (Millions of Dollars)			
Fiscal Year	Ongoing Restricted Revenue	Dollar Change	Percent Change
1997-98	\$8,817.1	\$486.1	5.8%
1998-99	9,346.1	529.0	6.0
1999-2000	9,908.9	562.8	6.0
2000-01	9,994.1	85.2	0.9
2001-02	10,140.9	146.8	1.5
2002-03	10,715.0	574.1	5.7
2003-04	10,615.3	(99.7)	(0.9)
2004-05	10,878.9	263.6	2.5
2005-06	11,300.9	422.0	3.9
Revenues have increased by \$1.4 billion or 14.0% from FY 1999-2000 to FY 2005-06.			

Table 9

Recent Revenue Collections for the Income, Sales, Use, and Single Business Taxes FY 1997-98 to FY 2005-06 Estimates (dollars in millions)				
Fiscal Year	Income Tax (Net)	Sales and Use Taxes	Single Business Tax	Total Tax Revenues
1997-98	\$6,316.1	\$6,776.3	\$2,349.1	\$20,626.0
1998-99	6,904.9	7,184.7	2,360.5	23,634.8
1999-00	7,135.6	7,632.9	2,324.9	24,726.3
2000-01	6,748.3	7,685.9	2,022.9	24,143.0
2001-02	6,095.2	7,746.3	1,983.8	23,571.6
2002-03	5,810.6	7,652.4	1,843.1	22,958.5
2003-04	5,872.8	7,790.0	1,827.6	23,262.4
2004-05	5,877.4	8,077.1	1,855.7	23,939.2
2005-06	6,111.3	8,435.5	1,905.2	24,825.0
Notes: 1) Total State Tax revenue has increased by \$98.7 million or 0.4% from FY 1999-2000 to FY 2005-06. 2) Income Tax revenue accounted for 30.6% of total tax revenue in FY 1997-98 and only 24.6% in FY 2005-06.				

**FY 2004-05
STATE BUDGET UPDATE**

Table 10
FY 2004-05
General Fund/General Purpose
Revenues, Expenditures and Year-End Balance
(Millions of Dollars)

	February 2005 Governor's Recommendation
Revenues:	
Beginning Balance	\$ 0.0
Ongoing Revenues:	
Consensus Revenue Estimate	7,869.8
Revenue Sharing Adjustments	511.1
Adjust Interfund Borrowing Costs	20.0
Pharmaceutical Tax Credit Adjustment.....	<u>10.0</u>
Subtotal Ongoing Revenues.....	8,410.9
Non-ongoing Revenues:	
Sale of Surplus State Property	83.4
Restricted Fund Transfers to General Fund	<u>15.5</u>
Subtotal Non On-Going Revenues	98.9
Total GF/GP Revenues	\$8,509.8
Expenditures:	
Initial Enacted Appropriations	\$8,699.4
Supplemental Appropriations (PA 352 of 2004).....	43.0
Supplemental Appropriations (PA 358 of 2004).....	8.5
Supplemental Appropriations (PA 358 of 2004).....	99.5
Supplemental Appropriations (PA 468 of 2004).....	0.2
Lapse from Building Occupancy Charges.....	<u>(0.7)</u>
Total GF/GP Expenditures	\$8,849.9
Projected Current Law Year-End Balance	\$(340.1)
Governor's Supplemental Recommendations:	
Community Health (Medicaid Caseload)	39.8
Special Election for Higher Education Bond Proposal	6.0
Lawsuit Settlement	<u>0.7</u>
Subtotal	46.5
Projected Year-End Balance	\$(386.6)

Table 11

Governor's Proposal to Balance FY 2004-05 General Fund/General Purpose Budget (Millions of Dollars)	
Projected Year-End Balance	\$(386.6)
Appropriation Reductions:	
Executive Order 2005-03 Appropriation Reductions.....	219.8
Negative Supplemental Appropriation Items.....	<u>85.5</u>
Subtotal	305.3
Revenue Adjustments:	
Withdrawal from Budget Stabilization Fund	73.8
Escheats Enforcement.....	2.5
Professional Employer Organization SBT Base Adjustment...	<u>5.0</u>
Subtotal	81.3
Total Recommended Adjustments to Budget	<u>\$386.6</u>
Adjusted Year-End Balance	<u>\$ 0.0</u>

Table 12

Executive Order 2005-03 Major Recommendations to Reduce GF/GP Appropriations (Millions of Dollars)	
K-12 School Aid(Reduce GF/GP Grant to School Aid Fund)	\$ (99.5)
Departmental Administrative Reductions.....	(51.2)
Higher Education Operations.....	(25.1)
Community College Operations.....	(4.9)
Reduce Agricultural Experiment Station (MSU).....	(0.8)
Reduce Cooperative Extension Service (MSU)	(1.6)
Family Independence Agency (Day Care Waiting Period).....	(10.0)
Various GF/GP Reductions Offset with Federal and State Restricted Funding	(9.8)
Liquor Licensing and Enforcement Program.....	(1.0)
Various Departmental Appropriation Lapses	(15.9)
Total Executive Order Reductions	<u>\$(219.8)</u>

Table 13

Major Items in Governor's Recommended FY 2004-05 Supplemental Appropriations General Fund/General Purpose Appropriations (Millions of Dollars)	
Positive Supplemental Appropriation Items	
Medicaid and Children's Special Health Care Base Funding.....	\$39.8
Special Election Funding (GO Bond Proposal).....	6.0
Total Positive Items	<u>\$45.8</u>
Negative Supplemental Appropriation Items	
Medicaid (Offset GF/GP with Medicaid Benefits Trust Fund)	(25.9)
Medicaid (Reduce Provider Rates by 4% to Hospitals, Nursing Homes, Physicians, and Other Providers)	(18.5)
Higher Education (Fund Shift on funding of University of Detroit Dental Clinics and Wayne State University Psychiatric Research and Training Program).....	(10.1)
Secretary of State (Fund Shift from GF/GP to Transportation Administration Collection Fund for Branch Offices Operations).....	(10.0)
Medicaid (Fund Shift to Various Local and State Restricted Revenue Sources)	(7.2)
Medicaid (6.0% Provider Tax on Community Mental Health)	(6.0)
Cancel Youth Correction Facility Contract	(5.9)
Agriculture (Fund Shift to Agriculture Equine Fund)	(0.7)
Corrections (Close Benton Harbor and Saginaw Corrections Centers)	(0.6)
Judiciary (Fund Shift Restricted Revenue for GF/GP)	(0.5)
Total Negative Items.....	<u>\$(85.4)</u>
Total Supplemental Appropriation Recommendations	<u>\$(39.6)</u>

Table 14
FY 2004-05
School Aid Fund Budget
Revenues, Expenditures and Year-End Balance
(Millions of Dollars)

	February 2005 Governor's Recommendation
Revenues:	
Beginning Balance	\$ 74.1
Ongoing Estimated Restricted Revenues	10,878.8
Other Revenue Adjustments:	
GF/GP Grant	165.2
GF/GP Grant (PA 518 of 2004)	99.5
Federal Aid	1,353.6
Payment in Lieu of Taxes	(2.0)
Subtotal Other Revenue Adjustments.....	1,616.3
Total Estimated Revenue	\$12,569.2
Expenditures:	
Enacted Appropriations	12,527.4
Reduction of Homestead Audit Savings	26.6
Reduction of Personal Property Tax Audit Savings	14.5
Special Education Cost Shift	0.0
Enhanced Tax Enforcement Savings.....	(3.5)
Appropriation Lapse (Pupils/Taxable Value).....	(70.0)
Total Estimated Expenditures	12,495.0
Projected Year-End Balance	\$ 74.2
<u>Governor's Recommended Adjustments to Balance:</u>	
Executive Order 2005-03(Reduce GF/GP Grant)	(99.5)
School Bond Loan Fund Reform Package.....	41.1
Revised Pupil Count Expenditure Adjustment	8.0
Total Recommended Adjustments.....	(50.4)
Projected Year-End Balance	\$ 23.8

**FY 2005-06
GOVERNOR'S BUDGET
RECOMMENDATION**

Table 15

FY 2005-06 Budget General Fund/General Purpose Revenues, Expenditures, and Year-End Balance (Millions of Dollars)	
Revenues:	
Beginning Balance.....	\$ 0.0
Other Revenue Adjustments:	
Consensus Revenue Estimate.....	8,156.2
Revenue Sharing Freeze	396.1
Suspend County Revenue Sharing.....	182.3
Cap Interfund Borrowing Rates.....	20.0
Nonuse of SBT Pharmaceutical Credit	10.0
Land Sales	10.0
Escheats Revenue	<u>10.0</u>
Subtotal Revenues	8,784.6
Governor's Recommended Revenue Adjustments:	
Tax Policy Changes	64.0
Agriculture Equine Industry Fund Transfer	6.1
Comprehensive Transportation Fund Transfer	11.1
Liquor License Fee Increase.....	<u>13.0</u>
Subtotal Governor's Recommended Revenue Adjustments	94.2
Total Estimated Revenues	\$8,878.8
Expenditures:	
Governor's Appropriation Recommendations.....	\$8,875.1
Projected Year-End Balance.....	\$ 3.7

Table 16

FY 2005-06 Budget School Aid Fund Revenues, Expenditures, and Year-End Balance (Millions of Dollars)	
Revenues:	
Beginning Balance.....	\$ 23.7
Consensus Revenue Estimate	11,300.9
Other Revenue Adjustments:	
Payments in Lieu of Taxes	(2.0)
GF/GP Grant.....	20.2
Governor's Recommended Tax Policy Changes.....	47.9
School Bond Loan Fund Reform Proposal	44.5
Federal Revenue	<u>1,374.1</u>
Subtotal Other Revenue Adjustments	1,484.7
Total Estimated Revenues	\$12,809.3
Expenditures:	
Governor's Appropriation Recommendation	\$12,809.3
Projected Year-End Balance.....	\$ 0.0

Table 17

FY 2005-06 Governor's Budget Recommendation Revenue Increases Recommended in Budget (Millions of Dollars)		
Proposed Tax Increases	GF/GP	School Aid Fund
<u>Oil and Gas Severance Tax</u>		
Tax Oil and Gas Extracted from Marginal Wells at the Same Rate as Other Wells	\$2.2	\$0.0
<u>Sales and Use Tax</u>		
Subject International Phone Calls to Use Tax	14.6	7.3
Reduce Exemption for Interstate Trucks and Trailers	5.6	10.8
Remove Exemption for Motion Pictures	10.7	9.3
Remove Exemption for Food Sold in a Vending Machine	6.7	18.5
Remove Exemption for Purchases in Prison Stores.....	0.2	0.5
<u>Income Tax</u>		
Eliminate Deduction of Oil and Gas Depreciation Expenses.....	4.0	1.0
<u>Property Tax</u>		
Remove Exemption for Railroad Companies	20.0	0.0
Remove Exemption for Water Softeners from Personal Property Tax.....	0.0	0.5
Total Proposed Tax Increases	\$64.0	\$47.9
Other Revenue Items in Governor's Budget		
Casino Tax (Move Revenues from Agricultural Equine Fund to GF/GP).....	6.1	0.0
Comprehensive Transportation Deposit to GF/GP	11.1	0.0
Sale of Surplus State Property	10.0	0.0
Other Revenue Items	\$27.2	\$0.0

Table 18

Governor's FY 2005-06 Appropriation Recommendations Major Proposed Changes from FY 2004-05 Year-To-Date General Fund/General Purpose Appropriations (Millions of Dollars)	
FY 2004-05 Year-To-Date Appropriations	\$8,850.7
FY 2005-06 Governor's Appropriation Recommendations	8,875.1
Net Increase in Appropriations	\$ 24.4
Total Funding Increases	\$ 474.7
Total Funding Reductions	(635.4)
Total Fund Shifts	185.1
Total GF/GP Funding Change	\$ 24.4

Table 19

FY 2005-06 Governor's Recommendation GF/GP Major Funding Increases (Millions of Dollars)	
<u>Department/Program</u>	
<u>Capital Outlay</u>	
State Building Authority Debt Service Payments.....	\$ 31.0
<u>Community Health</u>	
Medicaid Caseload/Utilization/Inflation.....	214.3
<u>Corrections</u>	
New Beds.....	14.4
Prisoner Re-entry Pilot Program	5.0
Prisoner Reentry for Mentally Ill Prisoners	3.0
Programs for Local Jails.....	4.0
Community Corrections Programs	3.0
Full-Year Costs of FY 2004-05 Prison Beds.....	3.9
Staff Seniority Step Increases	8.1
Substance Abuse Testing and Treatment.....	2.0
<u>Education</u>	
School Breakfast Program	1.6
<u>Family Independence Agency</u>	
Net Caseload Funding Increases	8.2
Information Technology Initiatives for Caseworkers.....	8.5
<u>Judiciary</u>	
Judges Salaries.....	0.4
<u>Treasury-Debt Service</u>	
General Obligation Bond Debt Service	7.6
Departmentwide Economic Issues:	
Restore FY 2004-05 Employee Concessions.....	76.3
Employee Insurance Cost Increases.....	37.5
Employee Retirement Cost Increases	44.3
Worker's Compensation Cost Adjustments	(2.5)
Building Occupancy Charges	4.1
Total Funding Increases	\$474.4

Table 20

FY 2005-06 Governor's Recommendation GF/GP Major Funding Reductions (Millions of Dollars)	
<u>Community Colleges</u>	
Continuation of 1.76% Executive Order 2005-03 Reduction	\$(4.9)
Eliminate FY 2004-05 One-Time Funding.....	(8.5)
<u>Community Health</u>	
Medicaid Providers (4.0% Reduction)	(63.5)
Local Public Health Vision and Hearing Screening	(5.2)
Medicaid (Freeze Enrollment for 19 and 20 Year Olds)	(2.2)
Medicaid (Eliminate Retroactive Benefits)	(12.3)
Medicaid (Reduce Benefits for 19- and 20-Year-Olds and Caretaker Relatives)	(2.8)
Medicaid (Eliminate Chiropractic Services).....	(0.6)
Medicaid (Change Eligibility for Nursing Home Residents)	(8.0)
Medicaid (Institute an Estate Recovery Program).....	(4.3)
Office of Services to the Aging Program Reductions	(1.5)
<u>Corrections</u>	
Facility Closures.....	(25.5)
Eliminate Conditional Reintegration Program	(3.7)
Reduce Community Residential Programs	(3.1)
Decrease Security Levels at Five Facilities.....	(2.9)
Other Various Corrections Reductions.....	(6.0)
<u>Family Independence Agency</u>	
Indigent Burial 4% Reduction.....	(0.2)
Day Care 30 Day Waiting Period for New Enrollees	(10.0)
Licensing Costs.....	(2.0)
Juvenile Justice State Facilities Efficiencies	(3.8)
Foster Care Expense Efficiencies	(5.0)
<u>Higher Education</u>	
Continuation of 1.76% Executive Order 2005-03 Reduction	(27.6)
Eliminate CMU National Charter School Institute Grant.....	(0.5)
Eliminate Tuition Grant Program for Private Colleges.....	(61.8)
Reduce MSU Agricultural Experiment Station by 10%.....	(3.3)
Reduce MSU Cooperative Extension Service by 23.4%.....	(6.7)
Eliminate One-Time FY 2004-05 Funding.....	(43.0)
<u>History, Arts and Libraries</u>	
Eliminate Library Preservation Projects	(1.0)
Reduce Arts and Cultural Grants by 3.8%	(0.4)
<u>Information Technology</u>	
Continue Reductions in Executive Order 2005-03	(8.1)
Other Statewide Information Technology Reductions	(2.1)
<u>Management and Budget</u>	
Unspecified Reductions in State Contracts.....	(30.0)

FY 2005-06 Governor's Recommendation GF/GP Major Funding Reductions (Millions of Dollars)	
<u>Military and Veterans Affairs</u>	
Armory Closures	(0.3)
<u>Natural Resources</u>	
Law Enforcement Programs	(1.0)
<u>K-12 School Aid</u>	
Reduce GF/GP Grant to School Aid Fund	(244.5)
<u>State Police</u>	
Closure of Three Local Posts.....	(1.1)
Fire Investigation Program Reductions	(3.4)
<u>Treasury-Operations</u>	
Personal Property Tax Auditors	(2.5)
<u>Other Reductions Statewide</u>	(22.1)
Total Funding Reductions	\$(635.4)

Table 21

FY 2005-06 Governor's Recommendation Major Fee Increases/Funding Shifts to Increase/(Reduce) GF/GP (Millions of Dollars)	
<u>Department/Program</u>	
<u>Capital Outlay</u>	
State Agency Special Maintenance Fund Shift to GF/GP from State Restricted	\$ 2.0
<u>Community Health</u>	
Medicaid (Physician Quality Assessment to Offset GF/GP Funding)	(40.0)
Medicaid (Federal Match Rate Adjustment)	9.8
Medicaid (Shift from Tobacco Tax Funds to GF/GP Funding)	119.5
Medicaid (Shift to GF/GP to Replace Loss of Federal Funding)	161.2
Medicaid (Various Other Shifts from GF/GP to State Restricted Funding) ..	(33.0)
Community Mental Health Provider Assessment to Offset GF/GP Funding	(35.0)
Medicaid (Shift from use of Merit and Tobacco Settlement to GF/GP)	54.5
<u>Environmental Quality</u>	
Fund Shift of State Revolving Fund Program	5.8
<u>Family Independence Agency</u>	
Fund Shift for Homeless Shelter Contracts	(1.7)
Foster Care Fund Shift	2.9
Child Care Support System Fund Shift	(4.4)
<u>Higher Education</u>	
Shift Funding of WSU Psychiatric Research Program to Federal Funds	(5.6)
Shift Funding of University of Detroit Dental Clinics to Federal Funds	(4.5)
<u>History, Arts and Libraries</u>	
Mackinac Island State Park Fee Increase	(1.5)
<u>Judiciary</u>	
Court Equity Fund Shift to State Restricted Funding	(2.2)
<u>Labor and Economic Growth</u>	
Shift Funding of Life Sciences Grants to Bond Proceeds	(20.0)
<u>State</u>	
Fund Shift for Branch Offices to Restricted Transportation Funding	(10.0)
<u>State Police</u>	
School Bus Inspections Charged to Local School Districts	(1.2)
Michigan Commission on Law Enforcement Standards Shift to State Restricted	(2.0)
<u>Treasury-Debt Service</u>	
Quality of Life Bond Debt Service Fund Shift to GF/GP	2.9
Other Statewide Various Fund Shifts	(12.4)
Total Fund Shifts	\$185.1

Bonding Proposals Included in Governor's FY 2005-06 Budget Message

General Obligation Bonding Proposal

The Governor is recommending that the Legislature authorize the State to issue \$2.0 billion of General Obligation bonds. State General Obligation bond issues a two-thirds vote of both Houses of the Legislature and a positive vote of the public in a statewide election to be effective. The Governor is recommending that the Legislature approve the bond issue and that a statewide special election for voter approval be held November 2, 2005.

The Governor is referring to this General Obligation bond proposal as "Michigan's 21st Century Jobs Initiative". The proposal calls for the issuance of \$200 million of General Obligation bonds per year for the next 10 years. The proceeds of the bonds would be used for the following purposes:

- Increase the amount of research and innovation taking place at State Universities, companies, and nonprofit research institutions.
- Accelerate the pace of commercialization.
- Generate new companies that produce cutting edge technologies and allow Michigan to leverage State dollars to attract more research funds.
- Increase early stage capital, attract new talent, and provide assistance to technology startups and entrepreneurs.

The annual debt service payments on these General Obligation bonds would be approximately \$12 million per year of each \$200 million of debt issued. When the entire \$2.0 billion of General Obligation bonds are issued the annual debt service cost would be approximately \$120 million. This obligation would continue for 30 years following the final issuance of the bonds.

Other Bonding Proposals

The Governor's budget also includes the issuance of other bonds that are designed to help spur economic activity in the State. The details of these bond issues include:

University and Community College Special Maintenance: The Governor is proposing that the State Building Authority issued \$100 million of bonds in both FY 2004-05 and FY 2005-06 for special maintenance projects at universities and community colleges. The proceeds of these bonds would be distributed to the institutions based on the amount of their operating appropriations. The proceeds of the bonds could be used only for specific major special maintenance projects. The estimated annual State debt service on this \$200 million of bonding would be approximately \$20 million a year for the next 20 years.

State Building Special Maintenance: The Governor is proposing that the State Building Authority issue \$125 million of bonds in FY 2004-05 for special maintenance projects at State-owned buildings. The estimated annual debt service on this \$125 million of bonding would be approximately \$12.5 million a year for the next 20 years.

State Police Telecommunications System: The Governor is proposing that the State Building Authority issue \$13.8 million of bonds in FY 2004-05 for enhancements to the State Police telecommunications system. The estimated annual debt service on this \$13.8 million of bonding would be approximately \$1.4 million a year for the next 20 years.

Transportation Bonding: The Governor is proposing that the Department of Transportation issue an additional \$200 million of transportation revenue bonds in both FY 2006-07 and FY 2007-08. This bonding would be used to accelerate and supplement planned State road and bridge projects. The estimated annual debt service on this \$400 million of debt would be approximately \$30 million a year for the next 30 years.

School Bond Loan Fund Reform: The Governor is proposing comprehensive reform of the State School Bond Loan Fund program. This Constitution-based program provides local school districts with assistance in borrowing for capital needs. The existing program provides a State guarantee on the repayment of qualified bonds issued by local school districts and also allows local school districts the ability to levy fewer mills yearly for debt service by extending the repayment on bonds past the original life of the issue, as approved by local voters. Currently, if a district borrows from the Fund, the district must repay the loan within five years of the original debt issue being paid off unless the district undertakes another bond issue and more borrowing from the Fund. In this manner, the State cannot rely on a stable repayment schedule reflecting actual borrowing and without a change in the program, the State's debt service payment will continue to increase.

To address the above concerns, the Governor is proposing several changes in the School Bond Loan Fund. First, local school districts would not be able to borrow new money from the Fund until they have repaid their existing borrowing on a fixed repayment schedule. Second, the State would assign the rights of the assets in the existing loan portfolio of the Fund to the Michigan Municipal Bond Authority (MMBA). The MMBA then would sell a revenue bond and use the proceeds to set up a revolving fund that would no longer require the State to issue general obligation bonds for school loan purposes. The proceeds also would be used to make debt service payments in FY 2004-05 and FY 2005-06 on existing general obligation debt in the Fund (thereby saving the K-12 budget a combined \$87 million). This reform would allow for an end to the State's debt service payments on existing Fund debt in approximately 20 years and the new revolving fund would be self-sustaining without additional State debt burden.

Jobs Today for Schools: Infrastructure and Construction Loans to School Districts: As part of the Jobs Today package and related to the complicated financial transactions of restructuring the State School Bond Loan Fund, the Governor is proposing the State provide \$320 million of zero interest loans to local school districts for major renovation projects or for the demolition of obsolete buildings. This money would be loaned to school districts, up to a maximum of \$10 million per district, interest free for five years. After the five-year time period is complete, the school districts would begin to repay the loans out of existing operating budgets, or by existing authorized debt millage, if available and subject to voter approval. The second piece of this loan program would be \$180 million loaned to local school districts for the construction of small high schools. These funds would be used to construct small qualified high schools designed to increase student achievement. These loans would have the same terms and conditions of repayment as the loans issued for school renovation or demolition projects. Both loan programs would be awarded on a need basis. The Renovation/Demolition grants' criteria likely would include facilities' condition, useful life, and taxable value per pupil. The Qualified New High Schools program criteria likely would include taxable value per pupil, dropout rates, and remaining useful life of facilities. The State costs of this additional \$500 million of borrowing for school projects would be absorbed by the financing changes proposed to the School Bond Loan Fund.

FY 2005-06 K-12 School Aid Fund Recommendations

The Governor is recommending a \$261.3 million or 2.3% increase in total State funding for K-12 Education. The GF/GP grant to the School Aid Fund is recommended to be reduced from the FY 2004-05 year-to-date level of \$264.7 million to an FY 2005-06 level of \$20.2 million.

The Basic Foundation Allowance will increase from \$6,700 in FY 2004-05 to \$6,875 in FY 2005-06, an increase of 2.6%. If enacted this Basic Foundation Allowance increase would be the first appropriated increase since FY 2002-03 when the Basic Foundation Allowance was increased from \$6,500 to \$6,700.

The Governor's recommendation includes additional funding of \$50 per pupil for each high school student. This proposal marks the first effort to institute a differential per pupil funding by grade since the current per-pupil funding was put in place in 1994.

Funding for At-Risk students is recommended to increase from \$314.2 million in FY 2004-05 to \$347.2 million or an increase of \$33.0 million or 10.5%.

Funding for debt service payments on loans made by the School Bond Loan Fund of \$44.5 million is offset by a proposal to capitalize the existing loans through a financing mechanism put in place by the Michigan Municipal Bond Authority.

The FY 2005-06 School Aid Fund budget recommendation is balanced utilizing \$47.9 million of increased School Aid Fund revenues from tax policy changes included in the Governor's overall budget recommendations.

The contribution rate for members of the Public School Employees Retirement System would increase from a rate of 14.87% of payroll in FY 2004-05 to a rate of 16.34% of payroll in FY 2005-06. This is an incremental cost increase equal to 1.47% of payroll. This cost must be absorbed by local school districts.