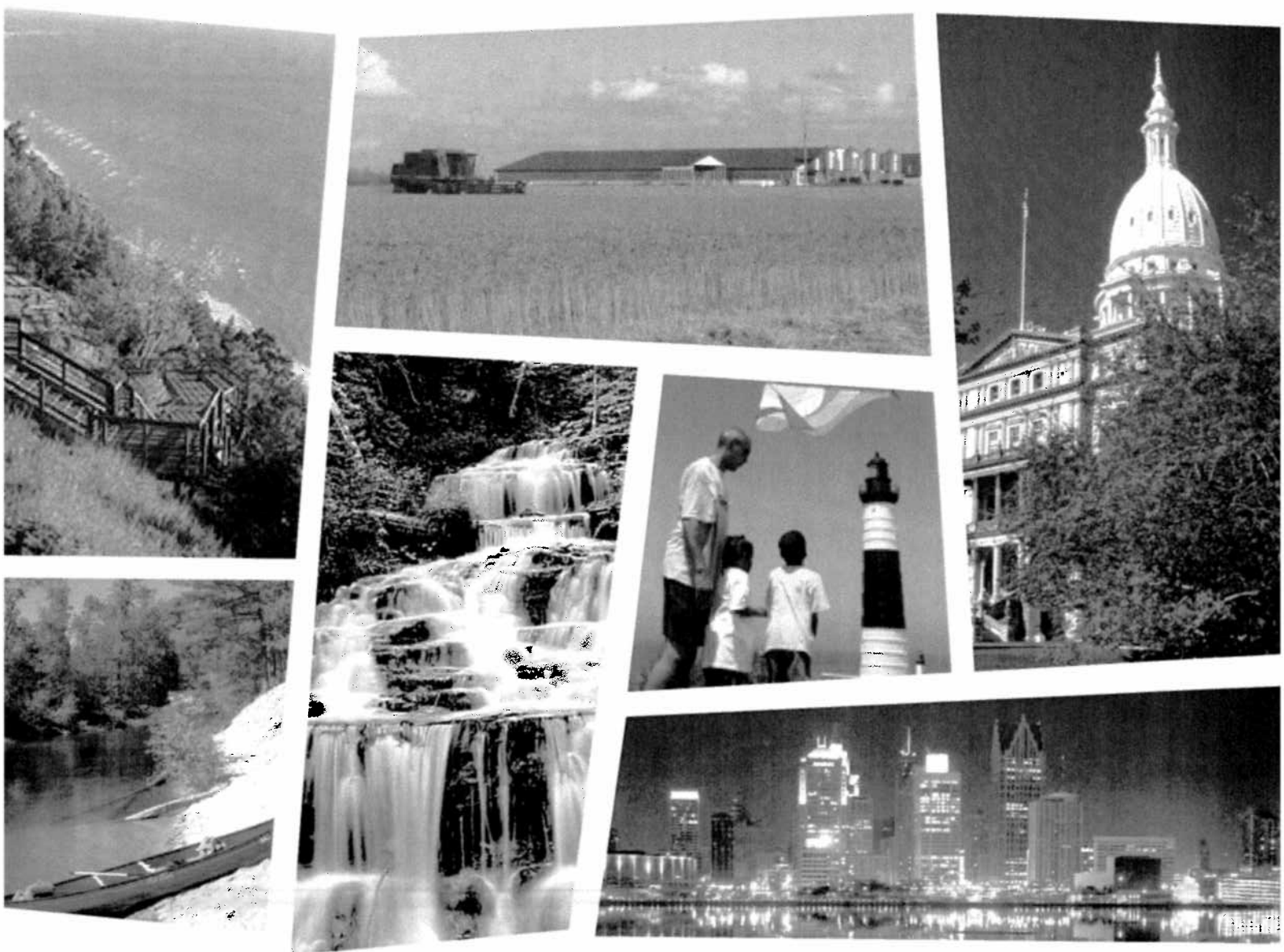




State of Michigan
Rick Snyder, Governor

State of Michigan Executive Budget

Fiscal Year 2012
Projected Fiscal Year 2013





STATE OF MICHIGAN
EXECUTIVE OFFICE
LANSING

RICK SNYDER
GOVERNOR

BRIAN CALLEY
LT. GOVERNOR

February 17, 2011

My Fellow Michigan Citizens:

As I said in my State of the State address, reinventing Michigan demands that we break the bad habits of the past and embrace opportunities for our future. State government has been spending more than it receives for far too long. A gaping budget deficit and serious problems have been the result. These are problems that cannot be fixed with accounting gimmicks or a one-time infusion of federal money. These are problems that require the resolve to make tough decisions.

I have been clear that the months ahead will not be easy. They will involve difficult but necessary changes to bring Michigan's budget into structural balance. There will be shared sacrifice, but through that shared sacrifice, Michigan will emerge as a stronger and more vibrant state. This budget will lay the foundation for economic growth, job creation and our robust collective future and quality of life.

The budget I am recommending is submitted in conjunction with a restructuring of Michigan's tax system in order to make it more simple, fair and efficient. In order to stimulate the economy and ensure that the state is open for business, my plan includes the promised elimination of the Michigan Business Tax, to be replaced with a flat Corporate Income Tax set at 6 percent. The scheduled reduction in the individual income tax rate from 4.35 percent remains and will be fixed at 4.25 percent. Michigan is one of only three states in the nation that exempt most or all of pension income from state income tax. This plan will broaden the base of taxpayers by including all those earning private and public pensions. In addition, I am proposing the elimination of many of the other credits for individual income tax.

This budget presents a balanced two-year plan that creates a forward-thinking approach to keeping the state's fiscal house in order. And for the first time, state spending will be tied to measured outcomes through the use of performance metrics. It's a responsible budget that cuts \$1.8 billion and tackles other necessary reductions for a long-term solution to our problems, while providing a critical safety net for Michigan citizens in need and preserving core, essential services. It provides the course correction that is needed to help businesses succeed and create jobs. Simply put, we are done kicking the can down the road.

Adoption of this budget plan by May 31, 2011, will send the message that Michigan is ready for a new, sound foundation, and it's the necessary budget for job creation and moving forward together. My administration stands ready to work in partnership with the members of the Michigan House and Senate to enact the fiscal year 2012 budget.

Sincerely,

A handwritten signature in black ink that reads "Rick Snyder". The signature is fluid and cursive, with the first name "Rick" being particularly prominent.

Rick Snyder
Governor



FOUNDATION FOR MICHIGAN'S REINVENTION

Fiscal Years 2012 and 2013 Executive Budget Recommendation

Michigan's reinvention begins in earnest with Governor Rick Snyder's fiscal years 2012 and 2013 Executive Budget Recommendation, which reflects his bold and decisive plan to energize Michigan's lagging economy, protect citizens and preserve critical functions, and reshape the delivery of public services. Turning the page on the old ways of doing business, Governor Snyder's budget recommendation lays the foundation for Michigan's resurgence with tax restructuring essential to spurring economic growth and job creation, as well as the difficult, but necessary actions needed to restore long-term fiscal solvency to the state.

Budget Process Reforms

Among Governor Snyder's priorities is reforming the budget process, and making state government more transparent and accountable to the citizens of Michigan. The budget presented today is a balanced, two-year spending plan with recommended fiscal year 2012 appropriations, as well as anticipated appropriations for fiscal year 2013. This new two-year approach to budgeting will allow for more long-term strategic planning, and if enacted by May 31, 2011, as requested by Governor Snyder, it will give schools, municipalities and other local service providers more time to manage their operations.

The two Executive Budget bills presented today for legislative introduction are also "omnibus" in nature, with one bill including all departmental operations and the other bill comprehensive to education. The two consolidated bills will allow for greater transparency in government spending, making appropriations easier to monitor across agencies. In addition, the bills have been streamlined to allow for greater flexibility in driving program performance.

Measuring Michigan's Performance

Governor Snyder's commitment to government transparency and accountability includes the creation of MiDashboard, available online at www.michigan.gov/midashboard. MiDashboard establishes clear statewide measures in the areas of economic strength, health and

education, value for money government, quality of life and public safety that allow the citizens of Michigan to easily gauge the state's progress across a number of key performance indicators.

MiDashboard represents an important step in moving Michigan's budget process toward a new model of managing for results. The spotlight cast by MiDashboard will require that elected officials and state leaders continually evaluate the efficiency and effectiveness of programs to determine if they are delivering the desired results. Further, it will be an honest representation of where Michigan stands relative to national benchmarks. It will identify strengths, but also illuminate areas where improvement is needed.



- Top 10 States
- Middle 30 States
- Bottom 10 States
- ↑ Performance improving
- ↔ Performance staying about the same
- ↓ Performance declining

Economic Strength				
	Prior	Current	Rank	Progress
Unemployment	12.4%	11.7%	●	↑
Gross Domestic Product (GDP)	(2.7)%	(5.2)%	●	↓
Real personal income per capita	\$28,250	\$27,558	●	↓
Number of structurally deficient bridges	2,732	2,726	●	↑
Children living in poverty	19%	23%	●	↓

Additional agency-specific performance measures that compliment MiDashboard are available for each program area supported in the Governor's budget recommendation. These measures, along with an indicator of how performance is trending, are key to the Governor's focus on managing for results. The measures presented are transitional, and reflect the initial steps of a work process that will culminate with the development of detailed balanced scorecards for each agency.

Michigan's Economic & Fiscal Challenges

While reforming the budget process and ensuring greater accountability are important components of Governor Snyder's road map for moving Michigan forward, the central task at hand is jump-starting the economy and getting Michigan's fiscal house in order.

"We have been spending more than we have in revenue and we have serious problems. It's not time to cry about it, it's not time to whine about it. It's time to go to work."

Governor Rick Snyder speaking at the Business Leaders for Michigan Leadership Summit on January 31, 2011

The reality facing Michigan is that our state continues to trail the nation in terms of economic recovery, and although there are positive signs related to the turnaround of the auto industry, unemployment remains unacceptably high and job growth is lagging. Further compounding Michigan's situation, the financial models of our state and local governments are unsustainable. Service duplication, debt, public employee compensation and unfunded retirement obligations are impacting the long-term fiscal health of state and local governments. Governor Snyder believes Michigan and its public institutions must correct course, stop spending money they don't have, and implement pragmatic solutions to the economic and fiscal problems that exist.

To address these fundamental issues, Governor Snyder’s Executive Budget Recommendation fulfills his commitment to create a more competitive business climate by eliminating the onerous and complex Michigan Business Tax, replacing it with a new tax structure that is simple, fair and efficient for all taxpayers. Governor Snyder also resolves the structural budget deficit that has plagued Michigan for the last decade.

The Governor’s budget recommendation includes difficult spending cuts, changes in service delivery, and the shared sacrifice of many, including public employees. It challenges schools and local governments to tackle necessary reforms. It constrains spending, stops the one-time fixes, and puts Michigan back on a path to long-term fiscal stability.

In short, this budget represents Governor Snyder’s Foundation for Michigan’s Reinvention: a bold plan requiring decisive action with a commitment to providing measurable results for the citizens of Michigan.

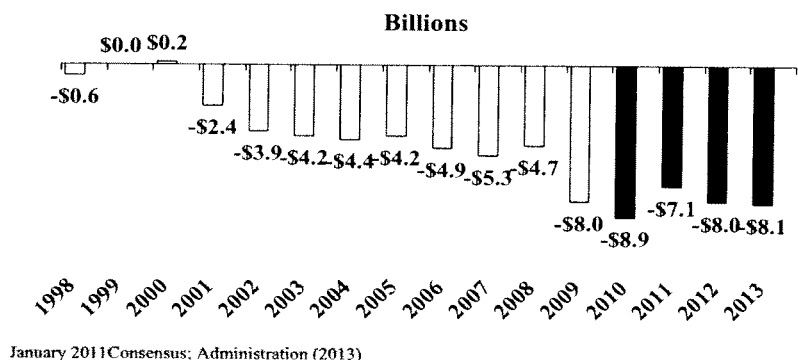
State Revenue Forecasting and Spending Limits

State law requires two revenue estimating conferences each year, typically held in mid-January and mid-May, corresponding to key points in the annual budget development and legislative appropriations process. The January conference provides the revenue estimates for the Governor’s budget recommendation presented in February, while the May conference updates the revenue estimates prior to conclusion of legislative deliberations and the enactment of appropriations.

Conferees include the State Treasurer and the directors of the Senate and House fiscal agencies. The conferees agree on baseline revenue estimates for the current year, and the upcoming fiscal year for both the general fund and School Aid Fund. For fiscal year 2012, the conferees project combined general fund and School Aid Fund revenues totaling \$18.5 billion, an increase of \$281 million or 1.5 percent from fiscal year 2011.

Revenues supporting the anticipated appropriations for fiscal year 2013 were not a part of the formal consensus process, and were instead developed by the State Treasurer. Combined general fund and School Aid Fund revenues for fiscal year 2013 are estimated to total \$18.6 billion. Baseline revenue growth from fiscal year 2012 to 2013 is \$503 million or 2.8 percent, however, it is offset by \$410 million in enacted tax expenditure commitments.

State Revenues are \$8 Billion Below the Constitutional Revenue Limit



Michigan's constitution includes a provision that limits revenue growth from year to year. This constitutional limitation – commonly known as the Headlee amendment – has been in place since 1978. The Headlee amendment limits annual growth in state revenues to a level that cannot exceed the year-to-year growth in personal income. This limit is intended to ensure that the state's overall revenues, both tax and non-tax, do not grow faster than the incomes of Michigan's citizens.

It is anticipated that state revenues will be \$8 billion below the constitutional revenue limit in fiscal year 2012, and \$8.1 billion below in fiscal year 2013. Both estimates include the Governor's tax restructuring proposal.

Fiscal Year 2011: Michigan's Current Year Budget

Fiscal year 2011 represents the last year in which federal stimulus revenues provided through the American Recovery and Reinvestment Act are available. General fund spending in the current year has been offset by these temporary revenues, and without them the fiscal year 2011 general fund spending would have been \$900 million higher.

At present, both the general fund and the School Aid Fund in fiscal year 2011 are balanced, and no action is needed at this time to reduce the current year spending plan. However, potential risks related to federal Medicaid disallowances and caseload growth, unemployment insurance loan interest payments and other spending pressures are being closely monitored. Should revenues and expenditures warrant budgetary action in the current year, adjustments will be recommended to revise the spending plan.

Fiscal Years 2012 and 2013 Executive Recommendation

The Consensus Revenue Estimating Conference held in January projected revenues will be \$7.3 billion in the general fund and \$11.2 billion in the School Aid Fund for fiscal year 2012, reflecting a combined total of \$18.5 billion. Due to the end of federal recovery assistance, Medicaid and Family Independence Program caseload growth and other unavoidable spending pressures, the fiscal year 2012 budget begins with a general fund budget gap of \$1.4 billion.

Fiscal Year 2012 Projected Budget Gap			
(\$ in millions)			
	GF/GP	School Aid Fund	Combined
Consensus Revenue Estimate	\$7,294	\$11,194	\$18,488
Non-Tax Revenue Adjustments	\$903	\$11	\$914
Federal Aid to Schools	\$0	\$1,653	\$1,653
Total Available Revenue	\$8,197	\$12,858	\$21,055
FY 11 Current Law Spending	\$8,302	\$13,134	\$21,436
Baseline Spending Adjustments:			
Replace FY 2011 One-Time Federal Stimulus Dollars	\$900	\$0	\$900
Community Health and Human Services Caseload	\$193	\$0	\$193
Employee Economics	\$88	\$0	\$88
Retiree Health Insurance Costs	\$17	\$0	\$17
Debt Service	\$98	\$0	\$98
Other Cost Adjustments	\$11	(\$422)	(\$411)
Total Baseline Spending Estimate	\$9,609	\$12,712	\$22,321
Projected Funding Gap	(\$1,412)	\$146	(\$1,266)

In fiscal year 2013, projected revenues are \$7.1 billion in the general fund and \$11.5 billion in the School Aid Fund, for a combined total of \$18.6 billion. Assuming enactment of the Governor's fiscal year 2012 plan, the fiscal year 2013 budget is balanced with a modest surplus remaining.

"Reinventing Michigan demands that we break the bad habits of the past and embrace opportunities for our future....working together, we will chart a new course and measure our progress. At the end of the day, we will be a stronger, more vibrant state."

**Governor Rick Snyder, State of the State Address,
January 19, 2011**

Governor Snyder's budget recommendation confronts Michigan's underlying economic and fiscal issues in a decisive manner. First, the Governor's plan will restructure business taxes to grow the economy and create jobs by making Michigan a more competitive state for business. Most businesses in Michigan will experience a net tax reduction as a result of the Governor's plan. His plan further recommends additional tax restructuring to leverage this new economy and improve the quality of life in our state for all citizens.

Second, the Governor's recommendation resolves the state's structural budget deficit, and challenges the Legislature to quickly move forward with adoption of the budget to avoid delays in implementing cuts and reforms that will produce long-term savings.

Declaring Michigan "Open for Business"

The centerpiece of Governor Snyder's plan to stimulate the economy and create jobs is to eliminate the Michigan Business Tax and replace it with a flat Corporate Income Tax. Michigan's reputation as a state that is open and friendly to business has been tarnished by the Michigan Business Tax, which has stymied growth and hampered our state's ability to rebound from the prolonged recession.

Corporate Income Tax

Michigan's business taxes have traditionally been very complex, including an intricate web of incentives, credits and deductions that unfairly favor some businesses or industries over others. Governor Snyder believes this complicated tax structure hurts Michigan businesses and constrains job growth. He proposes a simple, fair and efficient Corporate Income Tax that will even the playing field and enable all businesses and industries, large and small, to grow and create jobs.

Under the Governor's proposal, generally only those business entities that issue public or private stock, known as "C" corporations for federal tax purposes, would be subject to the proposed 6 percent tax. Other businesses, such as partnerships, sole-proprietorships, limited liability companies and "S" corporations that are not classified as "C" corporations for federal tax purposes would be exempt, resulting in significant tax relief for these companies enabling them to invest and expand. It is estimated over 95,000 companies will no longer have to file a state business tax return, ending a practice of double-taxation for those companies that already pay tax on business profits under the individual income tax.

The Corporate Income Tax will also eliminate the practice of picking winners and losers via the old system of tax credits and deductions. Michigan is projected to forego almost \$2 billion in revenue for these tax preferences in fiscal year 2013, which represent spending done through the tax code and not the more transparent appropriations process. Under the Corporate Income Tax, business credits for brownfield re-development, the Michigan Economic Growth Authority, Next Energy, advanced battery, film, renaissance zones and others are eliminated. Governor Snyder's

Current Tax Expenditure Commitments				
(dollars in millions)				
Enacted Credits:*	FY12	FY13	FY14	FY15
MEGA	\$111	\$116	\$245	\$296
Battery**	\$40	\$293	\$317	\$274
Brownfield	\$50	\$50	\$40	\$32
Film	\$75	\$25	\$5	\$0
Other ***	\$17	\$16	\$16	\$16
Total	\$293	\$500	\$623	\$618

* Estimates of when awarded certified credits will be claimed.
 ** Includes battery, photovoltaic and polycrystalline credits.
 *** Includes renaissance zone, historic preservation, farmland preservation, workers disability, and anchor credits.

plan honors the existing commitments made to businesses through signed agreements under the old tax structure, which total \$500 million in fiscal year 2013, and it stops the practice of appropriating money through the tax system moving forward. Instead, economic development incentives will be awarded through the appropriations process and reviewed for effectiveness.

“As difficult as it will be in these tough economic times, Michiganders must join the governor in thinking about the long-term consequences of the next budget, not just dodging as much pain as possible in the short-term. And everyone, including taxpayers, should be prepared to pitch in.”

Detroit Free Press editorial, February 2, 2011

In keeping with this philosophy, the Governor recommends direct appropriation of general fund revenues for investment in critical business and economic incentives, including \$25 million for business retention activities and \$25 million for film incentives. This funding will augment the \$75 million in the 21st Century Jobs Fund and provide the Michigan Economic Development Corporation with important tools to attract, retain and grow existing

businesses and encourage economic development in Michigan. The budget also includes \$5 million general fund for an innovative Quality of Place partnership that will provide matching funds in support of art and cultural initiatives in local communities.

The elimination of the Michigan Business Tax and the shift to a 6 percent Corporate Income Tax will result in a net loss of revenue to the state of nearly \$1.8 billion on a full-year basis. To offset the impact of this tax restructuring on the state budget, Governor Snyder proposes additional tax changes that will further streamline the tax code and make the shift to the Corporate Income Tax essentially revenue neutral beginning in fiscal year 2013.

Other Tax Changes Necessary to Leverage Economic Growth

Governor Snyder supports a tax code that is simple, fair and efficient for individual taxpayers, as well as businesses. Along with a flat Corporate Income Tax, the Governor proposes that the individual income tax rate be reduced on October 1, 2011, from 4.35 to 4.25 percent, as currently planned.

Further, Governor Snyder believes all taxpayers should pay the same rate regardless of their source of income. In conjunction with the reduced rate, the Governor recommends broadening the base to which the individual income tax is applied in order to capture all individual income in the state regardless of source. This more equitable application will ensure that all income is taxed at the same 4.25 percent rate.

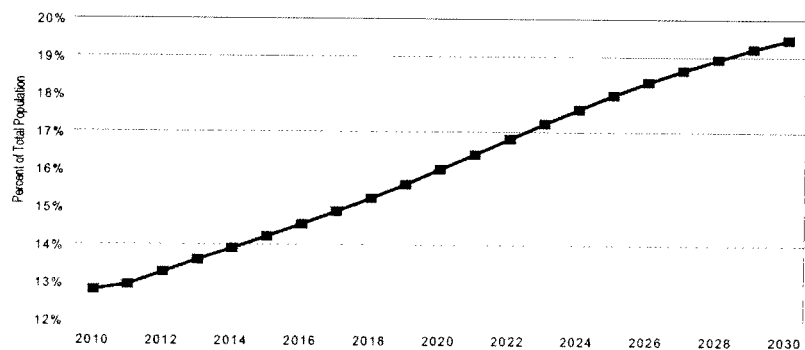
Consistent with his simple, fair approach to the Corporate Income Tax, the Governor also recommends that all credits and deductions related to the individual income tax, with the exception of the personal exemption, the exemption for individuals with disabilities, special provisions dealing with military personnel and veterans, the homestead property tax credit and a few other subtractions, be eliminated. These changes are designed to provide equitable treatment for taxpayers.

The personal exemption will be retained, but phased-out for income in excess of \$75,000 for single filers, and \$150,000 for joint filers. Similarly, the homestead property tax credit will be retained, but the phase-out range is lowered to \$61,000 to \$70,000. The homestead property tax credit will also now equal 80 percent of the difference between property taxes and 3.5 percent of income for most homeowners.

Significantly impacted by these tax changes will be those with private and public pension income. Michigan is one of only three states in the nation that exempt most or all of pension income from state income tax.

Given our state's declining population and growing senior demographic, Governor Snyder believes Michigan can no longer afford to exempt any segment of the population from supporting an equitable share of public services. Under the tax plan pension income will be taxed, but social security benefits will continue to be exempt from state income tax.

**Michigan's Senior Population Projected to Increase
From 12.8% to 19.5% Over Next 20 Years**



Source: U.S. Census Bureau, Interim Projections of Population by State and Age, 2004-2030 (released April, 2008)

The projected net revenue impact of these individual income tax changes is \$1.7 billion on a full-year basis. With an effective date of January 1, 2012, the total net impact of both the shift to the Corporate Income Tax and the individual income tax changes is a \$254 million reduction in fiscal year 2012, which is offset in fiscal year 2013. In addition, a fee and tax reform reserve fund will be created to capture revenue generated from freezing the personal income tax rate at 4.25 percent. Michigan's personal income tax rate is already very competitive. Revenues in the reserve fund will be used to provide additional ongoing tax relief in areas where the state is currently uncompetitive.

Tax Restructuring Plan (dollars in millions)		
<u>Revenue Adjustments:</u>	<u>FY 2012</u>	<u>FY 2013</u>
Current Law:		
Michigan Business Tax (MBT)	\$2,170.0	\$2,024.4
Proposed Reforms:		
MBT (Repealed 12/31/11)	\$900.2	\$0.0
Corporation Income Tax (Effective 1/1/12)	\$460.1	\$748.8
Financial Institutions Tax	\$27.7	\$43.9
Certified Credits Already Awarded	(\$293.0)	(\$500.0)
Net Business Tax Revenue After Credits	<u>\$1,095.0</u>	<u>\$292.7</u>
Individual Income Tax Changes	\$820.9	\$1,863.8
Reserved for Future Tax Cuts	---	(\$100.0)
Net Impact: Proposed Tax Changes	\$1,915.9	\$2,056.5
Net Change from Current Law	(\$254.1)	\$32.1
Prepared By: Office of Revenue and Tax Analysis, Michigan Department of Treasury		

These tax changes represent the shared sacrifice needed to move Michigan forward. Jump-starting the Michigan economy requires all citizens to play a role in the reinvention. With a \$1.4 billion general fund shortfall in fiscal year 2012, Governor Snyder's tax restructuring plan does not add to the existing problem. Instead, the Governor's plan is revenue neutral beginning in fiscal year 2013, and carefully balances the necessary tax adjustments with the equally challenging task of eliminating the state's structural budget deficit.

Restoring Michigan's Fiscal House to Order

Governor Snyder's budget recommendation eliminates the projected \$1.4 billion general fund funding gap in fiscal year 2012, with \$1.5 billion in spending reductions and structural reforms. Further, the savings generated in fiscal year 2012 are carried forward on an ongoing basis to effectively provide solutions for both fiscal years.

In fiscal year 2012, the \$1.5 billion in combined solutions includes \$1.2 billion in permanent spending reductions, \$324 million in structural reforms, and \$10 million in investments that encourage economic activity and produce long-term savings. Fiscal year 2012 also recognizes a shift in education costs of \$896 million from the general fund to the School Aid Fund.

"The time has come for Michigan's leaders to look at all of the state's earmarked revenues and rethink them as they set new budget priorities. Everything must be on the table and nothing, including the School Aid Fund, should be untouchable."

The Detroit News editorial, January 17, 2011

Education: Early Childhood Through Higher Education

The Governor's budget recommends the creation of a new State Education Funding Act that utilizes School Aid Fund revenue as well as available general fund dollars to support the state's education system at all levels from early childhood to higher education. The Executive Budget for education totals \$13.8 billion, including \$12.2 billion in funding for K-12 school districts, \$1.4 billion for higher education and \$296 million for community colleges. Nearly 53 percent of state resources in the Governor's budget are devoted to education.

A mix of state funds supports all three components of Michigan's education system in Governor Snyder's budget recommendation. State funds of \$10.5 billion (\$413 million general fund) support the K-12 school districts. Community colleges are supported by a mix of \$100 million in general fund and \$196 million from the School Aid Fund. Higher education state funds total nearly \$1.3 billion, of which \$564 million is general fund and \$700 million is from the School Aid Fund.

Nearly \$8.8 billion is provided for K-12 basic school operations - \$8.7 billion for per pupil foundation allowance payments and \$62.1 million for intermediate school district operations. In order to live within available state funds, foundation allowances have been reduced 4.1 percent, or \$300 per pupil in addition to the currently budgeted \$170 per pupil reduction, for a savings of \$452.5 million. Intermediate school district operations have been reduced by 5 percent.

Early childhood education programs, serving 28,000 children, are maintained at nearly \$110 million. Special education is funded at \$1.4 billion, including \$975 million of state funds. Other major core academic programs maintained in the Governor's budget total \$1.2 billion, including \$309 million state funding for academically at-risk students, \$36 million for career and vocational education, and \$22 million for adult education. Categorical programs and district-specific funding of \$85.6 million are eliminated.

Funding for community colleges is maintained at the fiscal year 2011 level of \$296 million. Community college enrollment continues to climb to over 480,000, while local revenues have dropped due to lower taxable values.

Recognizing Michigan's economic realities, university operations funding is reduced by 15 percent or \$222 million to \$1.2 billion. To protect students, Governor Snyder sets aside \$83 million to reward those universities that contain tuition and fee increases below the historical five-year annual system average. In addition, the Governor maintains student financial aid funding at \$51.5 million for needy students, but merges existing programs into a single Pathway to Higher Education program to streamline administration.

Governor Snyder challenges Michigan's public universities and local school districts to implement reforms that will keep tuition in check and restrain spending. The Governor encourages public universities and local school districts to institute best practices, including competitively bidding non-instructional services, and collaborations with other institutions or service providers. At the local district level, studies indicate that just a 10 percent savings in non-instructional services would yield \$300 million savings statewide.

For fiscal year 2013, the Governor sets aside \$300 million from discretionary funding and, at a minimum, makes it available to eligible school districts whose employees' share of health insurance costs is comparable to that of state employees. Program details will be included in Governor Snyder's April 2011 special message on education reform.

Revenue Sharing: Incentive-Based Reforms

The Governor's budget recommendation increases constitutional revenue sharing payments to cities, villages and townships by \$25.5 million or 4 percent in fiscal year 2012, based on estimated sales tax collections.

The Governor's budget also eliminates statutory revenue sharing payments for cities, villages and townships in fiscal year 2012, leading to a net savings of \$92.1 million. This reduction will impact 509 local units of government; currently, less than 30 percent of all local units receive statutory revenue sharing payments.

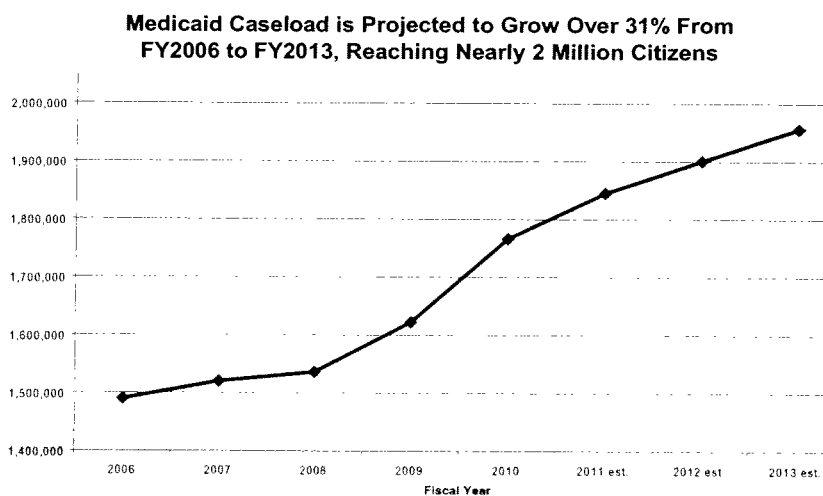
To encourage necessary reforms, the Governor's budget includes \$200 million for a new incentive-based revenue sharing program available to cities, villages and townships that meet specific standards and adopt best practices. Program components will be provided in Governor Snyder's March 2011 special message on government reform.

State revenue sharing payments to counties are reduced by \$51.8 million in fiscal year 2012.

Michigan's Families: Health Care and Human Services

Through its partnership with the federal government, Michigan's Medicaid program provides basic physical and mental health services to low-income citizens, seniors, and people with disabilities. Governor Snyder's Medicaid budget is funded at \$12 billion, reflecting the institution of a new 1 percent health care insurance claims assessment on all paid health care insurance claims.

In anticipation of federal action that will require the phase-out of the current 6 percent tax on health maintenance organizations, the Governor recommends a broad-based claims assessment. By broadening the base to all insurance claims, the rate can be reduced to 1 percent and generate the same amount of revenues. Governor Snyder supports this continued investment in our health care system even in the face of difficult budget cuts, as it will keep over \$780 million



of federal dollars flowing to maintain existing Medicaid reimbursement rates to Michigan's health care providers, including hospitals, health maintenance organizations, nursing homes and physicians. Medicaid eligibility is maintained and provider reimbursement rates are supported without reductions.

To better provide more efficient medical care to seniors and people with disabilities, individuals eligible for both Medicare and Medicaid will be integrated into a managed care service delivery model. This change in providing medical services will save \$10 million general fund. The Governor's budget also proposes efficiencies in the adult home help program that will save \$6 million general fund, while maintaining basic services that assist seniors and people with disabilities living at home.

Additional budget reductions in the Department of Community Health totaling \$41.5 million general fund include reduced graduate medical education payments, as well as reductions in other department programs, and savings from adding behavioral health medications to the preferred drug list.

While Governor Snyder's budget supports continued investment in health care, it also recognizes that with our limited resources, public assistance must be a bridge to family independence. The Governor's budget includes a lifetime limit of 48 months with exemptions for incapacity and hardship, for families receiving cash assistance through the Department of Human Services' Family Independence Program, saving \$77.4 million (\$65 million general fund).

The Governor's budget reduces the hourly rates paid by the Department of Human Services to unlicensed aides and relatives in the child day care program saving \$13.9 million, while continuing to provide assistance with child care expenses for low-income families.

The recommendation also provides for the closure of the Shawono Center in Grayling and a 20-bed reduction in capacity at the Maxey Training School in Whitmore Lake, both detention and treatment facilities for male youth operated by the Department of Human Services, resulting in \$787,000 in general fund savings. Other reductions in the Department of Human Services include the elimination of 300 field worker positions, before-and after-school programs, and other programmatic savings totaling \$26.1 million general fund.

Other Service Delivery Transformations and Spending Reductions

Part of addressing the structural deficit involves recognizing that state government can no longer continue with business as usual. Governor Snyder's budget recommendation includes innovative new public-private partnerships, and acknowledges that some services can no longer be sustained or continued in the same manner with the limited resources available. Key spending reductions include:

- Ongoing declines in the prison population will allow for the closure of one facility late in fiscal year 2011, providing full-year savings of \$18.9 million general fund. Other administrative efficiencies, supply chain transformations, elimination of the public works program, and competitive bidding of food service and prison stores in the Department of Corrections will save \$32.3 million general fund.

- Field services restructuring in the Michigan State Police will reduce the number of posts saving \$3.2 million general fund. The dual mission of the department will remain highway patrol and 9-1-1 response to criminal complaints. Other reductions, including consolidation of regional dispatch centers and an increase in fingerprint revenues, will provide savings of \$17.5 million general fund.
- The budget recommends that resident care aide services provided at the Grand Rapids Veterans' Home be competitively bid, saving \$4.2 million general fund in the Department of Military and Veterans Affairs.
- The Senior Citizens Cooperative Housing Tax Exemption program is reduced by \$2.5 million general fund to reflect actual spending levels in the Department of Treasury, and additional efficiencies provide total savings of \$4 million general fund.
- A series of revenue adjustments and administrative efficiencies in the Department of Environmental Quality seek to make these programs self-supporting relative to the cost of regulation, and facilitate the saving of \$3.8 million general fund.
- Administrative efficiencies and contract reductions in the Department of Technology, Management and Budget provide savings of \$3.8 million general fund.
- Payment in lieu of taxes (PILT) payments in the Department of Treasury and in the School Aid budget, and fire protection grants in the Department of Energy, Labor and Economic Growth are reduced by 15 percent reflecting declining property valuations, saving a total of \$3.7 million.
- The dairy farm inspection program is eliminated in the Department of Agriculture and Rural Development budget, saving \$600,000 general fund. Inspection responsibility will be turned over to industry field representatives certified by the department. Other reductions and regulatory support measures in the department provide additional savings of \$2.4 million general fund.
- Shifting support for the Mackinac Island State Park Commission to restricted funds in the Department of Natural Resources will save \$1.6 million general fund. The department's recommended budget also saves an additional \$838,100 general fund through other program and administrative reductions.
- Along with administrative efficiencies in the Department of Energy, Labor and Economic Growth, the budget eliminates the Worker's Compensation Appellate Commission, saving a total of \$2.3 million general fund.
- The budget eliminates several state educational reform activities implemented in conjunction with Michigan's unsuccessful Race to the Top application, saving \$1.9 million general fund. State aid to libraries in the Department of Education budget is also reduced by \$2.3 million general fund, with \$950,000 directed to the Michigan eLibrary, resulting in net general fund savings of \$1.4 million.

- The Department of State budget saves \$2.1 million general fund by continuing the integration and expansion of self-service options.
- Elimination of six trial court judgeships in the Judiciary budget saves \$942,100 general fund consistent with anticipated caseload reductions.

State Employee Concessions and Structural Reforms

While the number of state employees has declined by 12,900 or 21 percent over the last decade, total employee compensation has increased by 38 percent. These costs are increasing at an unsustainable pace, and are a result of employee and retiree benefits that are considered out-of-step with the private sector. In addition, a number of work rules or negotiated issues that present unique challenges and add substantial costs for the operation of 24-hour institutions must be further examined. Governor Snyder's budget includes savings of \$180 million general fund for employee concessions to be negotiated with represented employee organizations. These concessions reflect the necessary, long-term reforms needed to bring state employee compensation in-line with current fiscal realities.

One of the most significant drivers of long-term employee compensation costs are post-employment benefits provided to state retirees, principally for health care. Unlike pension obligations, which are actuarially determined and pre-funded, the state pays for retiree health care on a current or cash basis. At the close of fiscal year 2010, the long-term liability of this benefit totaled \$14.5 billion. The Governor's budget includes \$200 million general fund to begin to address this growing fiscal obligation to actuarially fund the required contribution, setting an example for Michigan's local units of government to likewise confront this liability. In addition, the Governor is recommending statutory changes to reduce the state's long-term post retirement exposure.

Governor Snyder's budget also includes an investment of \$5 million in the Department of Technology, Management and Budget to incentivize state agency reforms through a new Information Technology Innovations Fund. This fund will be used to competitively select and invest in high-priority, low-cost state agency innovation projects that demonstrate significant return on investment.

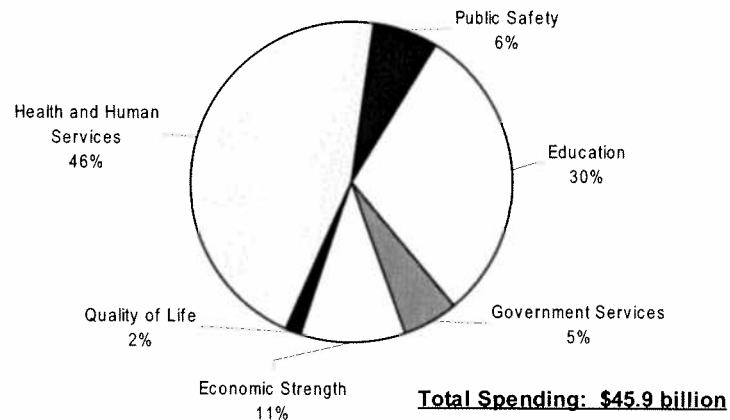
Protecting Citizens and Preserving Critical Services

While significant reductions are needed to restore fiscal solvency, the Governor's budget recommendation carefully prioritizes remaining resources to protect citizens and preserve critical services. The Governor's budget provides total spending of \$46 billion, balancing the needs of our citizens while meeting Michigan's long-term obligations.

Other key spending recommended in the Governor's budget:

- \$13.8 billion for education in K-12 schools, universities and community colleges, providing the essential foundation for Michigan's workers of tomorrow;
- \$12 billion supporting health care for nearly two million adults and children, representing one in five Michigan residents;
- \$3.6 billion in Food Assistance Program benefits for over two million Michigan residents;
- \$2.9 billion for road and bridge construction and maintenance and public transportation programs supporting the movement of people and goods;
- \$1.8 billion to maintain public safety by managing the custody and care for 44,000 prisoners and supervision of 80,000 felony probationers and parolees;
- \$670 million for workforce training and development programs;
- \$659 million for constitutional revenue sharing payments to local units of government;
- \$340 million for regulatory and consumer protection;
- \$250 million for state parks, recreation and natural resource stewardship programs;
- \$245 million for environmental protection, pollution prevention and response programs;
- \$75 million for the 21st Century Jobs Fund to promote economic development;
- \$30 million for the protection of Michigan's food supplies ranging from inspections to detecting and preventing disease in our livestock.

Over 75% of Total FY 2012 Spending Devoted to Health, Human Services and Education



Conclusion

The challenge that this budget presents cannot be understated. It seeks to invigorate Michigan's economy with a bold plan to spur growth and job creation. It proposes a new tax structure that is simple, fair and efficient, and asks all of our citizens to help leverage our state's economic revitalization through shared sacrifice. It recommends difficult spending reductions. It demands that we think about our public institutions and government services in new and alternative ways. It challenges schools and local governments to enact necessary reforms, and it requires additional concessions of our public employees.

While the task at hand may be difficult, Governor Snyder believes we can no longer push our budget problems to the future. In order to turn the page on the past decade and start anew with relentless positive action, our leaders must have the courage to tackle our state's economic and fiscal problems, and do so in a timely and pragmatic manner. The two-year budget presented by Governor Snyder provides the long-term fiscal solvency needed, and it positions Michigan to again be a leader in economic growth and job creation. Adoption of this budget plan by May 31, 2011, will send a strong message to businesses looking to invest, and citizens of this great state, that this is the right foundation for Michigan's reinvention.