

The Impact of State Policy and the State Budget on the Third Senate District



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<http://www.senate.michigan.gov/sfa/>

The Economy and State Revenue

The Great Recession

The 2008-09 recession was the most severe economic contraction in 70 years, both in duration and depth.

- Inflation-adjusted GDP fell 4.7% peak-to-trough, the largest decline since the Great Depression.
- U.S. payroll employment declined 6.3% (8.75 million jobs), the largest percentage decline since the end of World War II.
- During the recession retail sales fell 13.5% between November 2007 and March 2009, the largest decline on record back to 1967.
- Light vehicle sales started dropping earlier, and fell from a 17.6 million unit annual rate in January 2006 to a 9.0 million unit rate in February 2009 (a 48.7% decline), the largest decline on record back to 1976.
- Housing starts fell from a high rate of 2.3 million units in January 2006 to 478,000 units in April 2009, a 79.0% decline, the largest decline on record to 1959.

Figure 1

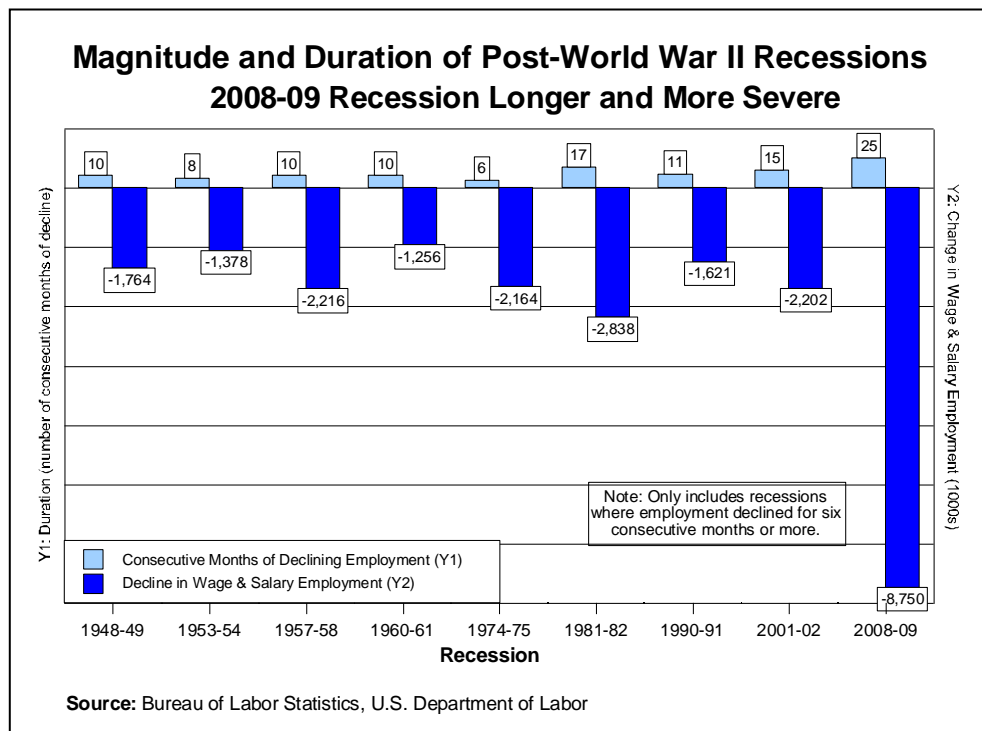


Figure 2

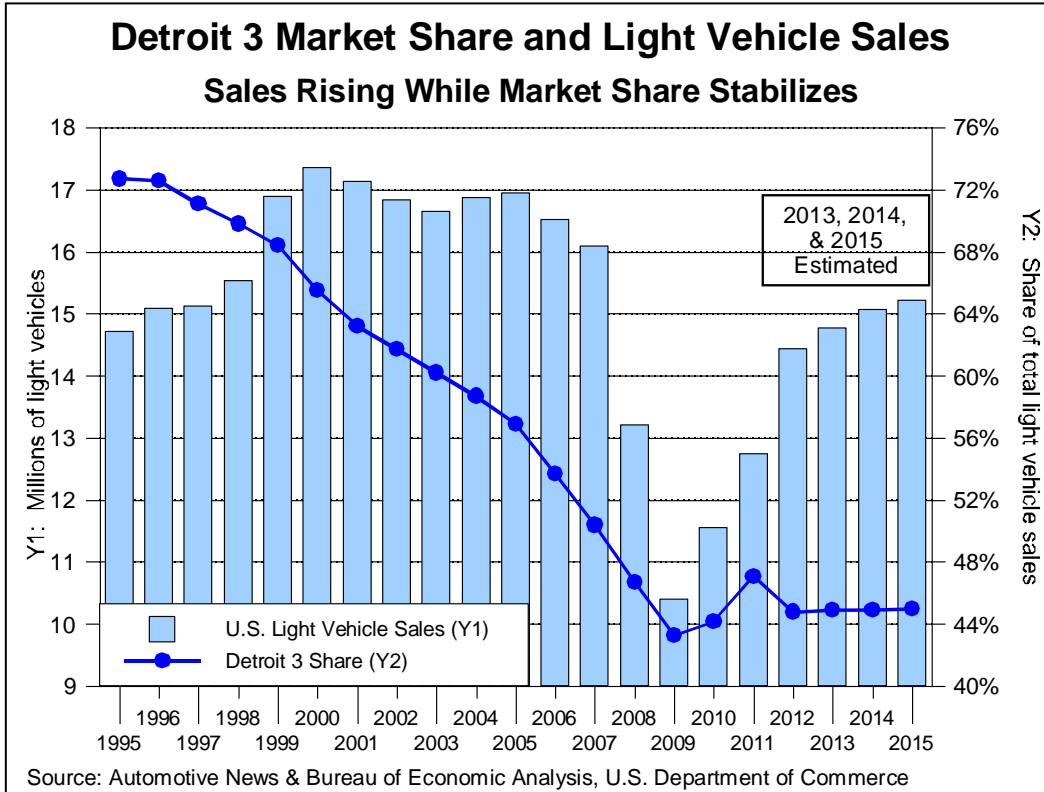
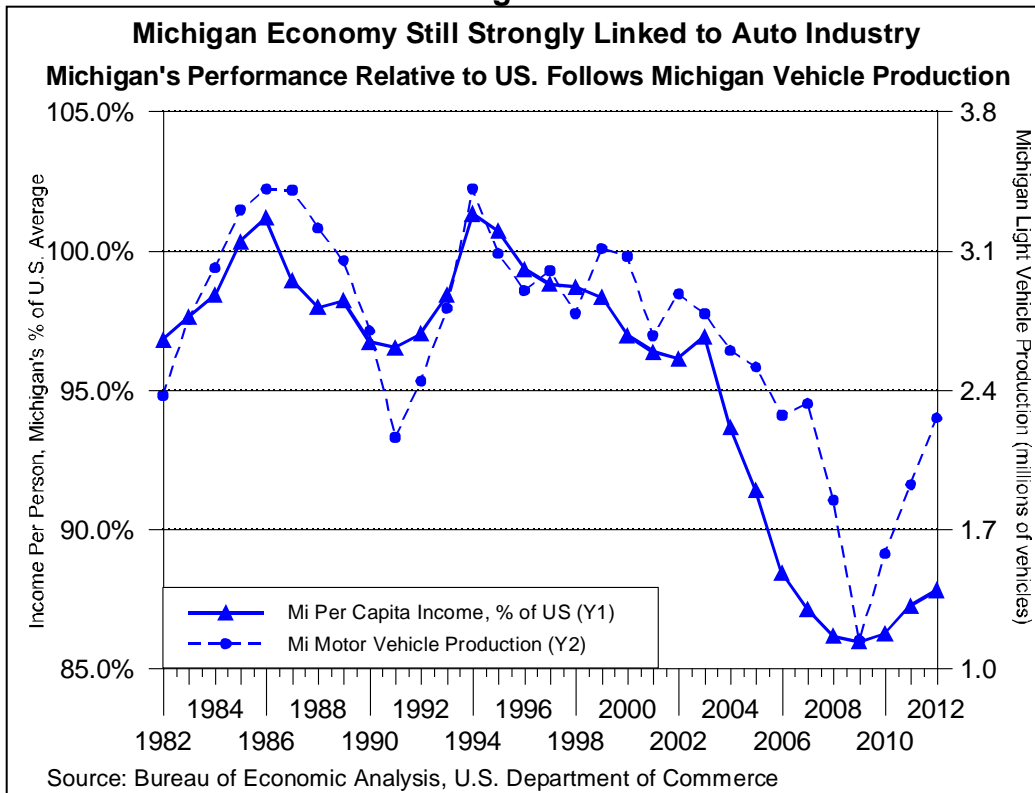


Figure 3



Recent U.S. Economic Highlights

- The economy is growing, but slowly. After growing 2.4% during 2010, inflation-adjusted GDP grew 1.8% in 2011. Growth during 2012 averaged 2.2%, but the economy only grew 0.4% in the fourth quarter of 2012. Between 1983 and 2007, the economy averaged 3.3% annual growth.
- Despite gains, employment remains well below pre-recession levels. Nationally, payroll employment has risen for 30 consecutive months, and in March 2013 was 4.5% above the February 2010 trough. However, payroll employment is still 2.9 million jobs (2.1%) below the January 2008 peak.
- Employment growth is barely keeping up with population growth. Average payroll employment gains have averaged 159,000 jobs per month since the February 2010 trough, compared to about 177,000 per month during 2003-2006, and 251,400 per month over the 1993-1999 period. The economy needs roughly 150,000 additional jobs per month to keep up with population growth.
- The U.S. unemployment rate in March 2013 was 7.6%, down from 8.2% in March 2012 but essentially unchanged since September 2012.
- In inflation-adjusted terms, average hourly earnings fell 1.1% in 2011 and were unchanged in 2012. Average weekly hours have remained essentially unchanged for 33 months.
- Light vehicle sales have improved, but remain below pre-recession levels. Light vehicle sales totaled 14.4 million units in 2012, up 13.4% from 2011 and 25.0% from 2010, well below the 16-17 million unit rate experienced between 1998 and 2007. November 2012 sales were at the highest annual rate since February 2008, at a 15.8 million unit rate. In March 2013 sales averaged a 15.5 million unit rate.
- Housing starts remain low. While 2012 starts were up 28.1% from 2011, 2012 was the fourth weakest year on record, after 2009, 2010, and 2011, and was down 62.3% from 2005. Year-to-date, starts in 2013 are at their highest level since 2008, and up 26.0% from last year.

Recent Michigan Economic Highlights

- Payroll employment increased by 13,500 jobs in February 2013, and employment was up 51,200 jobs from February 2012. Payroll employment was 238,300 jobs more than the July 2009 trough. Manufacturing employment in March 2013 was 110,300 jobs above the June 2009 trough, led by a 46,200 job increase in transportation equipment manufacturing.
- Michigan's unemployment rate was 8.8% in February 2013, down from 9.1% in December 2011, and down from the 14.2% peak in August 2009. However, much of the improvement in the unemployment rate reflects people leaving the labor force. Compared with July 2009, employment is up by 74,105 (1.8%) jobs but 198,700 people (4.1%) have left the labor force. The size of the labor force fell in 36 of 40 months between August 2009 and December 2012. However, the number of people in the labor force increased in both January and February of 2013.
- In 2012, Michigan motor vehicle production increased 17.4% from the 2011 level. Through February 2013, year-to-date vehicle production is up 8.7% from the year-ago level.
- While Michigan personal income grew faster than the national average in 2011, the growth is now slower. In 2012, Michigan personal income increased 3.5%, about the same as the national average, and ranking Michigan 23rd. However, Michigan personal income has grown slower than the national average in each of the last four quarters.
- On a per-person basis, Michigan ranked 8th with personal income per person growing 3.4% in 2012, compared with the national average of 2.7%. Illinois ranked 31st, Indiana ranked 9th, Ohio ranked 2nd, and Wisconsin ranked 35th.

Figure 4

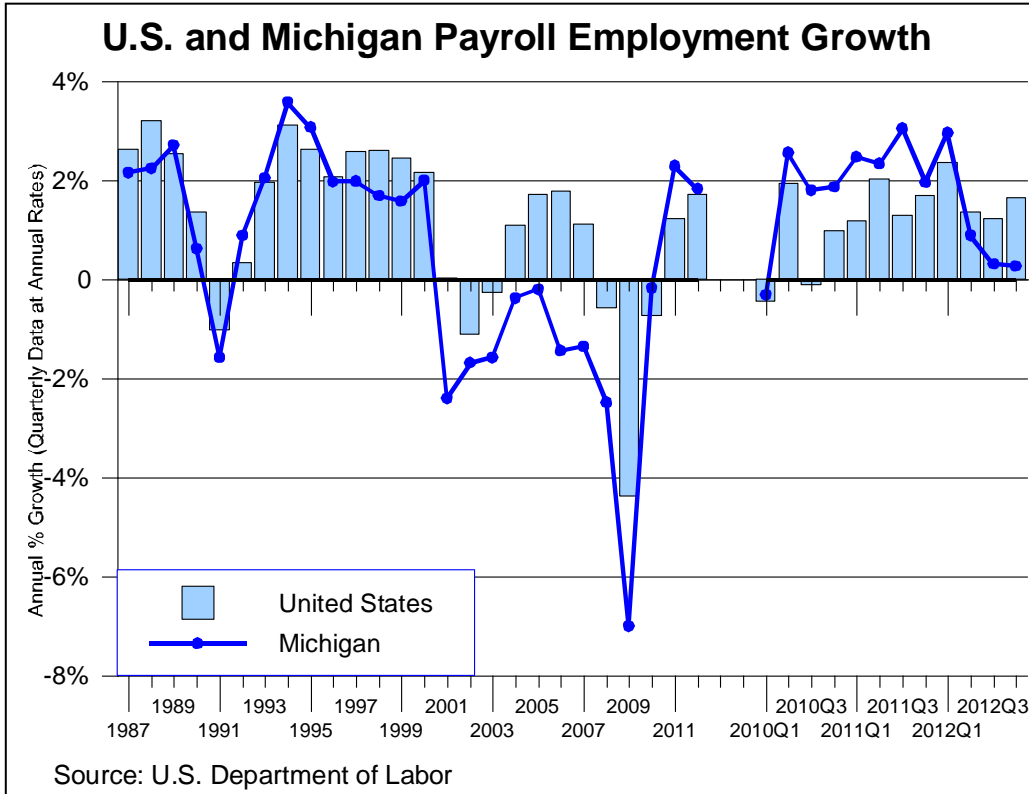
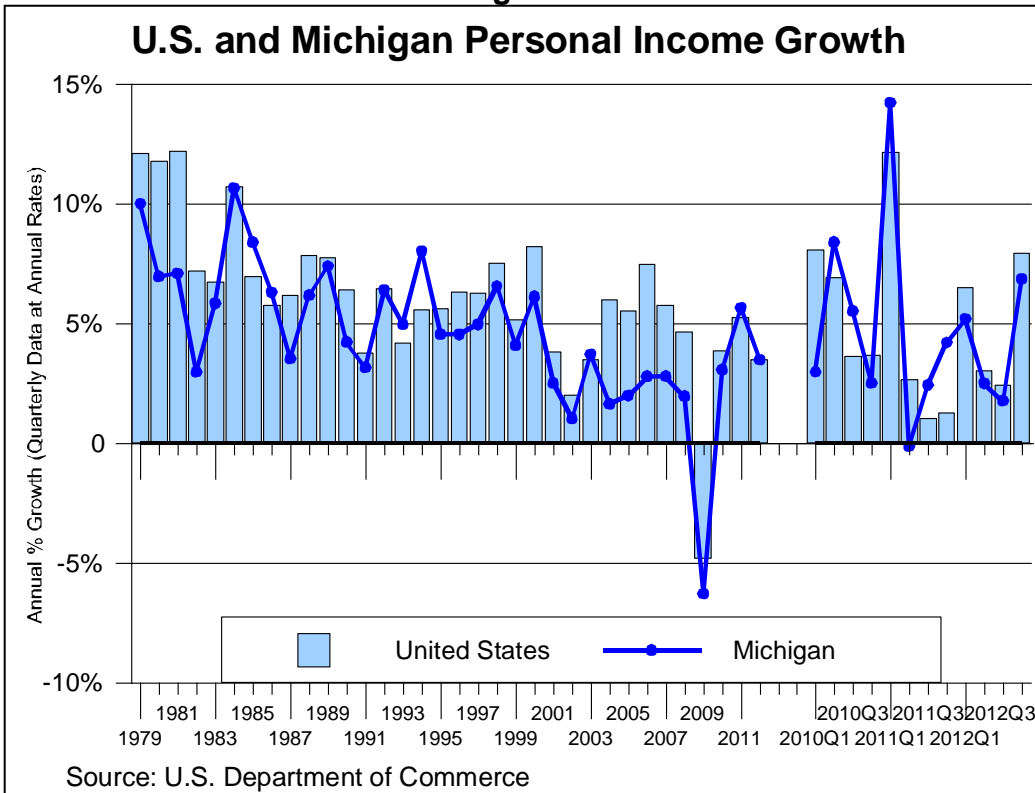


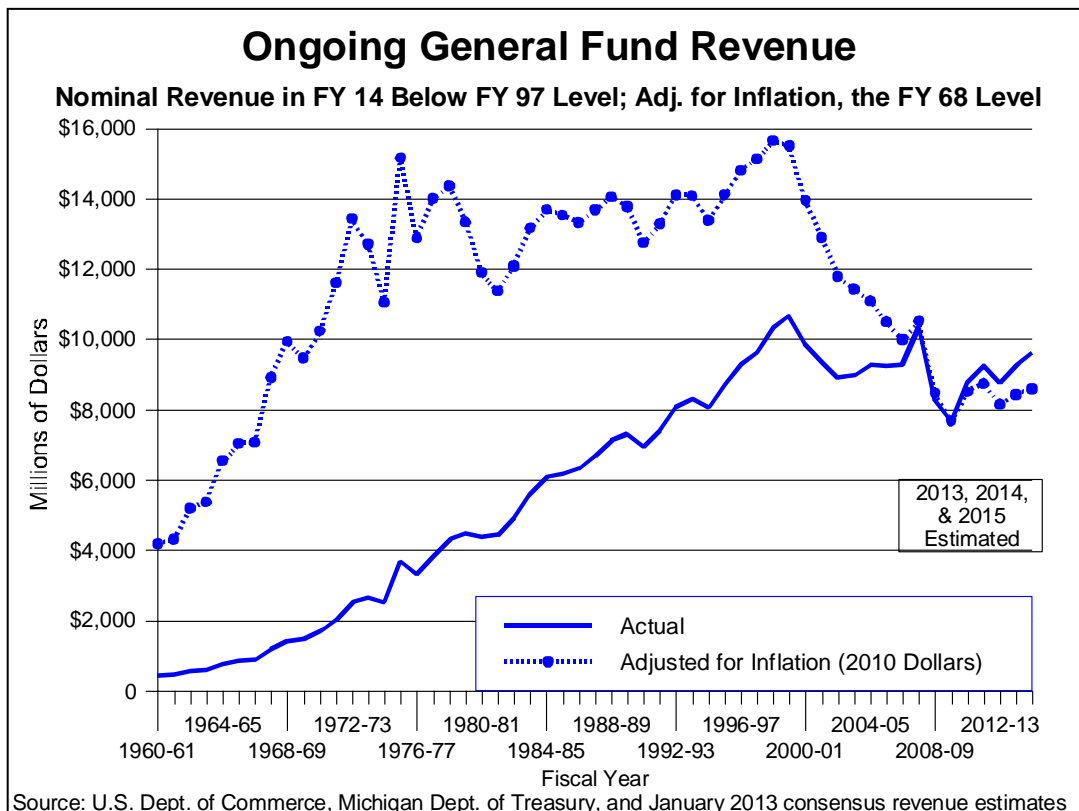
Figure 5



State Revenue

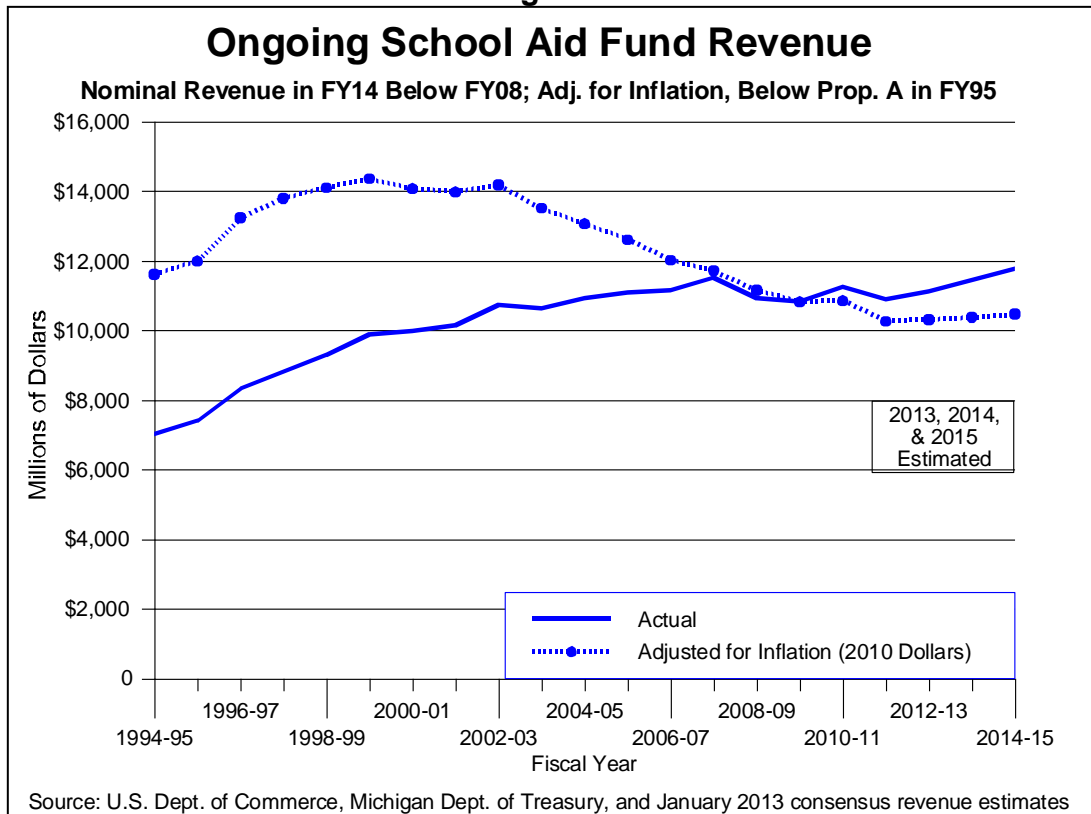
- The majority of State taxes and fees are deposited in the State's General Fund, School Aid Fund, or various transportation funds. Ongoing General Fund revenue has fallen as the economy has declined. Between FY 2007-08 and FY 2009-10, ongoing General Fund revenue fell 25.7% (\$2.7 billion) and ongoing School Aid (SAF) revenue fell 6.0% (\$696.0 million).
- On an inflation-adjusted basis, ongoing General Fund revenue in FY 2011-12 was 2.5% (\$223.7 million, in 2010 dollars) lower than the level in FY 1967-68, when the State adopted the new personal and corporate income taxes, as shown in Figure 6.

Figure 6



On an inflation-adjusted basis, ongoing SAF revenue in FY 2011-12 was 11.3% (\$1.7 billion) lower than the level in FY 1994-95, when Proposal A took effect, as shown in Figure 7.

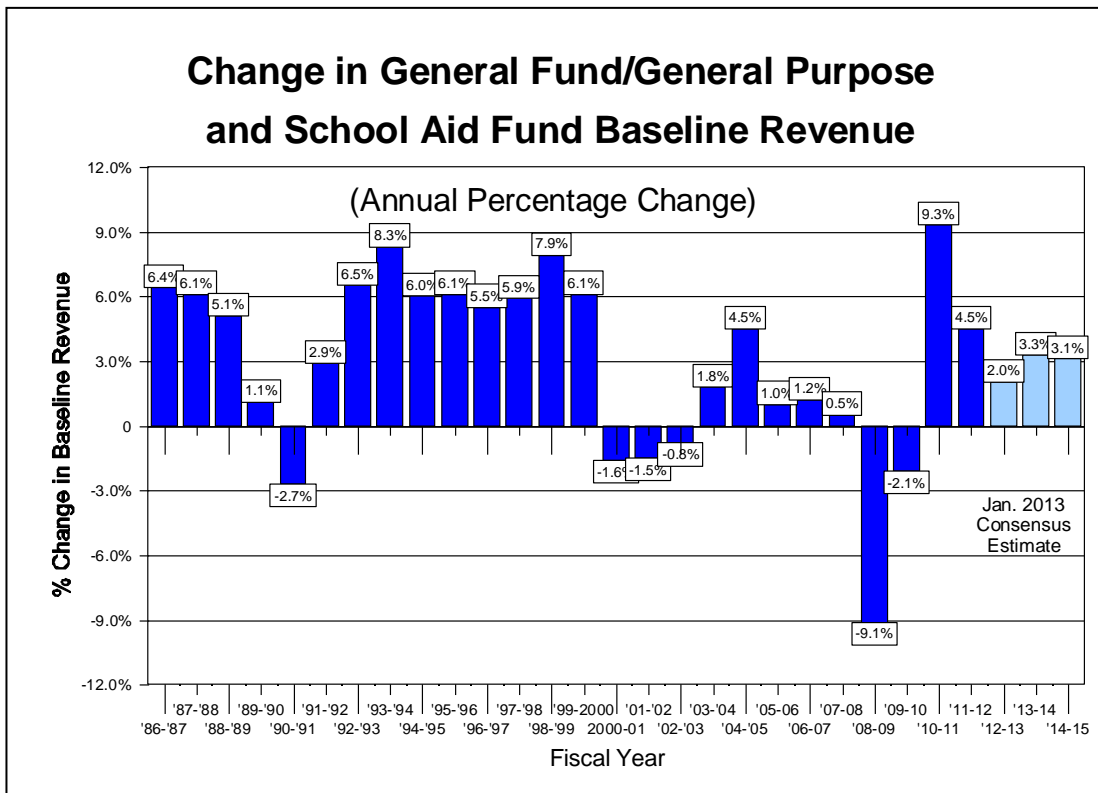
Figure 7



Forecast for State Revenue

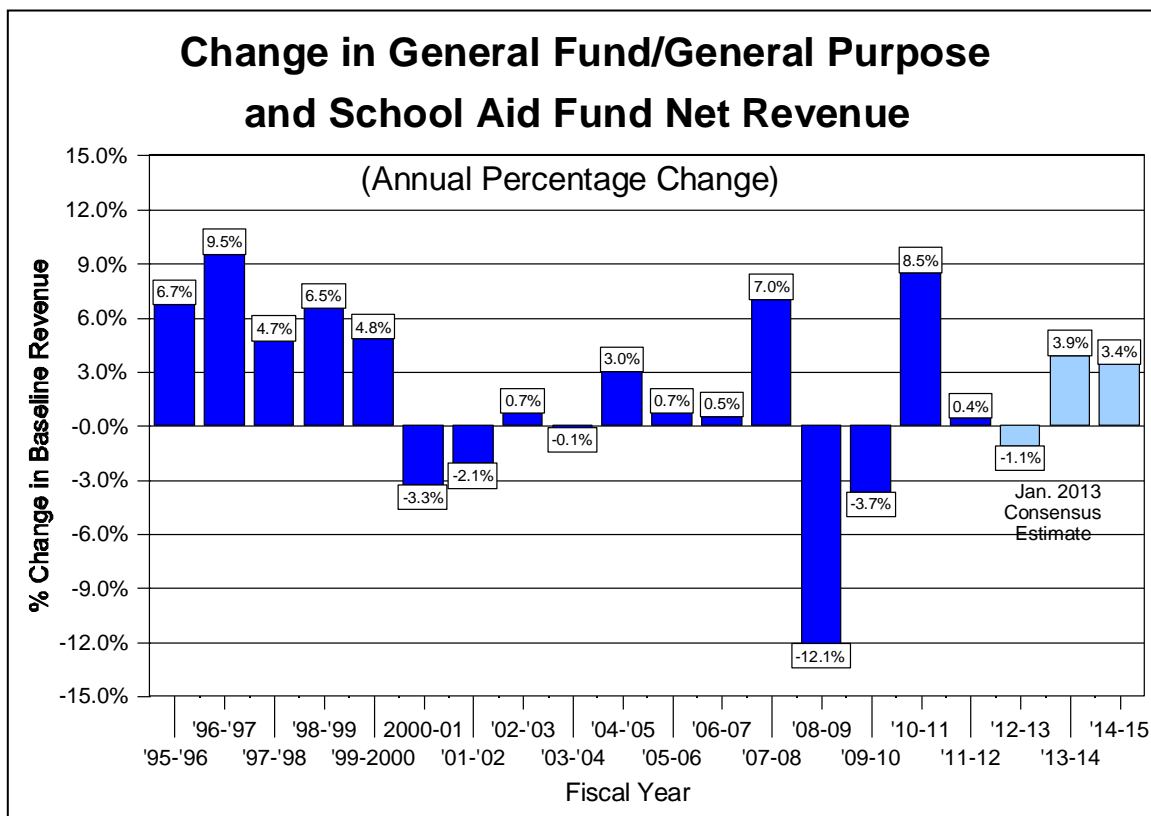
- Pursuant to State statute, there are Consensus Revenue Estimating Conferences held in January and May of each year in which the State Treasurer, and the Directors of the House and Senate Fiscal Agencies, meet to agree on the amount of State revenue available for the State budget.
- The Governor and the Legislature will use the revenue estimates from the May 15, 2013, Conference to finalize the FY 2013-14 budget. The Governor's budget recommendation for FY 2013-14 was based on the January 2013 Conference.
- The percentage changes in baseline General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue forecasted for FY 2011-12 through FY 2014-15 are compared with the actual growth rates during the preceding 25 years in Figure 8.

Figure 8



- Underlying economic fundamentals for FY 2012-13 and FY 2013-14 will be offset by tax policy changes that will reduce GF/GP and School Aid Fund revenue.
- The revised estimates for FY 2012-13, after accounting for tax changes, predict GF/GP revenue will decrease by 5.1% while SAF revenue will increase by 2.3%. GF/GP revenue in FY 2013-14 is estimated to increase 5.4% while SAF revenue will grow 2.7%.
- The percentage changes in net (after tax changes) General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue forecasted for FY 2012-13 through FY 2014-15 are compared with the actual growth rates during the preceding 17 years in Figure 9.

Figure 9



- Figures 10 and 11 display the estimated FY 2013-14 revenue sources for the State General Fund and School Aid Fund, respectively.

Figure 10

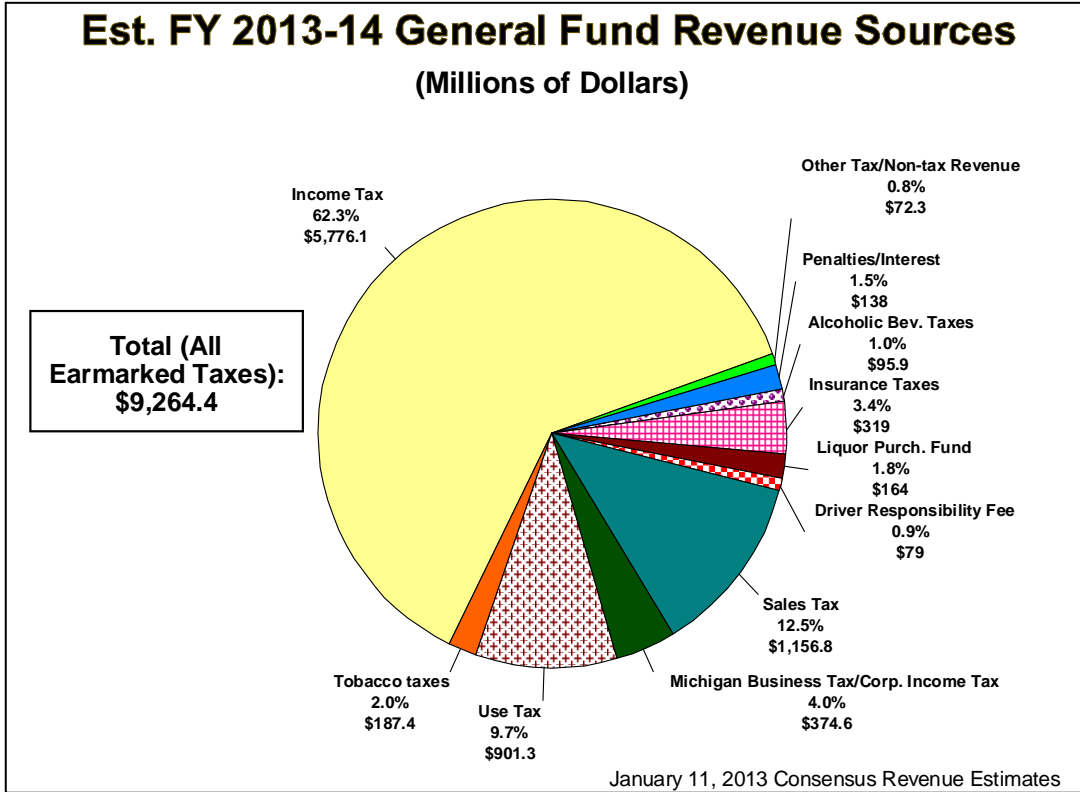
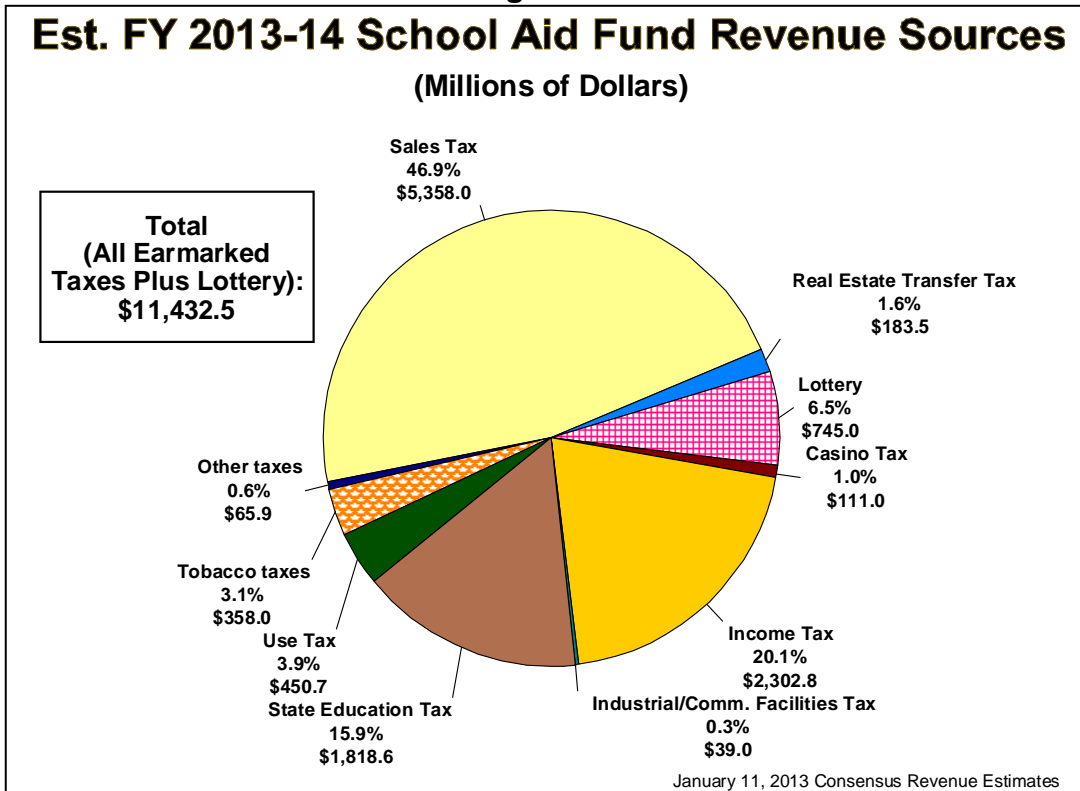


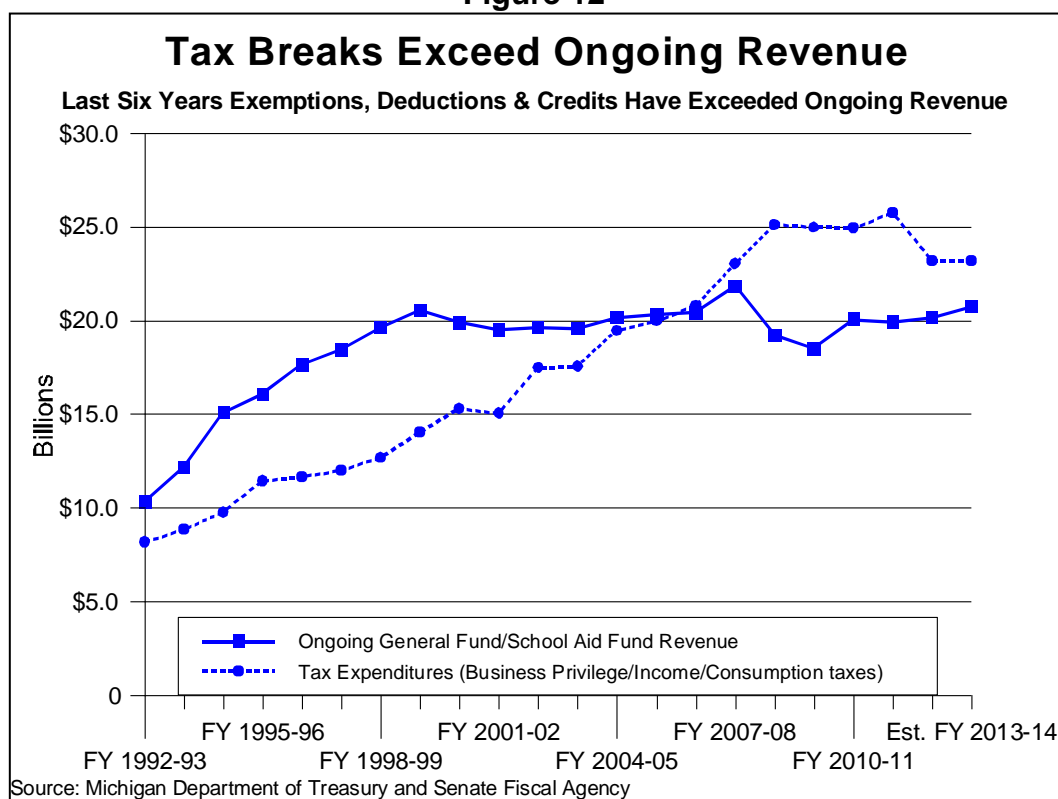
Figure 11



State Tax Expenditures

- Based on estimates of the Michigan Department of Treasury, the level of State tax expenditures under the State's business privilege, income, and consumption taxes increased from \$14.1 billion in FY 1999-2000 to \$25.0 billion in FY 2009-10. The estimate for FY 2011-12 is \$25.7 billion.
- During FY 1999-2000 tax expenditures equaled 68.2% of ongoing GF/GP and SAF revenue. During FY 2010-11 tax expenditures equaled 124.4% of total ongoing GF/GP and SAF revenue.

Figure 12



- The growth in tax expenditures has primarily focused on consumption taxes and individual income taxes. The most recently enacted major tax expenditures include the earned income tax credit and credits to subsidize certain battery manufacturers.

- Table 1 provides details on major changes in tax expenditures from FY 1999-2000 to FY 2013-14.

Table 1

DETAIL ON MAJOR CHANGES IN TAX EXPENDITURES					
(Millions of Dollars)					
	FY	FY	\$ Change	FY	\$ Change
	1999-2000	2011-12	FY 1999-2000	2013-14	FY 2011-12 to
			to FY 2011-12		FY 2013-14
Consumption Taxes					
Food	\$860.0	\$1,220.2	\$360.2	\$1,280.5	\$60.3
Industrial Processing	660.0	920.0	260.0	1,108.0	188.0
Prescription Drugs	242.0	536.3	294.3	928.5	392.2
Services	4,392.0	10,357.2	5,965.2	10,709.1	351.9
Individual Income Taxes					
Adjustments to Income	1,600.0	3,351.7	1,751.7	3,3248.3	(103.4)
Homestead Prop. Tax Credit	471.0	831.1	360.1	523.6	(307.5)
Personal Exemption ¹⁾	987.0	1,173.7	186.7	1,142.2	(31.5)
Earned Income Tax Credit	0.0	360.0	360.0	115.5	(244.5)
All Other Tax Expenditures	4,859.4	6,995.6	2,136.2	5,007.0	(1,988.6)
Total Tax Expenditures	\$14,071.4	\$25,745.8	\$11,674.4	\$24,062.7	(\$1,683.1)

1) Does not include impact of increasing the personal exemption under PA 224 of 2012.

Source: Michigan Department of Treasury

- Changes in the tax structure enacted in May 2011 are forecasted to reduce the level of tax expenditures by \$2.8 billion in FY 2012-13 and \$2.5 billion in FY 2013-14 compared to the FY 2011-12 level. These new tax expenditure estimates do not include the cost of exempting pass-through entities such as sole proprietorships, partnerships, S-corporations, and limited liability corporations (LLCs) from the new corporation income tax. However, tax expenditures are still expected to exceed ongoing revenue.

Tax Code Restructuring

- Public Acts 38, 39, and 40 of 2011 restructured Michigan's business and personal income taxes.
- The existing Michigan Business Tax (MBT) was repealed and replaced with a new 6.0% Corporate Income Tax (CIT).
- Changes to the Michigan personal income tax include: freezing the personal income tax rate at 4.35% until January 1, 2013 (later modified to October 1, 2012, by PA 223 of 2012), modifying pension deductions and the homestead property tax credit, reducing the earned income tax credit (EITC), and eliminating most of the other credits, deductions, and exemptions.
- Table 2 outlines estimates of the fiscal impact for the State GF/GP and the School Aid Fund of the tax restructuring. The first year of the full impact of the changes will be FY 2012-13 when it is estimated that GF/GP revenue will increase by \$385.5 million and School Aid Fund revenue will decrease by \$669.9 million.

Table 2

**ENACTED TAX RESTRUCTURING LEGISLATION
(Dollars in Millions)**

Tax Provision	FY 2011-12			FY 2012-13			FY 2013-14		
	GF/GP	SAF	Total	GF/GP	SAF	Total	GF/GP	SAF	Total
<u>Prior Law:</u>									
Michigan Business Tax	\$1,449.8	\$759.1	\$2,208.9	\$1,144.4	\$778.8	\$1,923.2	\$1,259.8	\$793.6	\$2,053.4
<u>Business Tax Changes:</u>									
Repeal MBT (12/31/11)	(\$454.2)	(\$759.1)	(\$1,213.3)	(\$1,259.5)	(\$778.8)	(\$2,038.3)	(\$1,304.8)	(\$793.6)	(\$2,098.4)
Corporate Income Tax (1/1/12)	457.9	0.0	457.9	795.1	0.0	795.1	866.8	0.0	866.8
Financial Institutions Tax	27.7	0.0	27.7	43.9	0.0	43.9	45.6	0.0	45.6
Certified Credits/Options Tax	<u>(282.0)</u>	<u>0.0</u>	<u>(282.0)</u>	<u>(437.4)</u>	<u>0.0</u>	<u>(437.4)</u>	<u>(568.9)</u>	<u>0.0</u>	<u>(568.9)</u>
Total Changes to Business Taxes	<u>(250.6)</u>	<u>(759.1)</u>	<u>(1,009.7)</u>	<u>(857.9)</u>	<u>(778.8)</u>	<u>(1,636.7)</u>	<u>(961.3)</u>	<u>(793.6)</u>	<u>(1,754.9)</u>
Net Business Tax Rev. After Credits	\$1,199.2	\$0.0	\$1,199.2	\$286.5	\$0.0	\$286.5	\$298.5	\$0.0	\$298.5
<u>Individual Income Tax Changes¹⁾:</u>									
Delay/Eliminate Tax Rate Changes	\$172.0	\$0.0	\$172.0	\$225.0	\$0.0	\$225.0	\$415.4	\$0.0	\$415.4
Repeal Senior/Unemp. Ins. Exempt.	6.7	2.1	8.8	34.3	6.7	41.0	32.2	10.0	42.2
Repeal Child Deduction	0.0	0.0	0.0	52.9	4.2	57.1	48.0	10.8	58.8
Pension Tax Changes	182.5	38.4	220.9	255.7	80.5	336.2	260.2	86.8	347.0
Repeal Nonrefundable Credits	73.9	0.0	73.9	103.5	0.0	103.5	107.0	0.0	107.0
Homestead Credit Changes	0.0	0.0	0.0	257.0	0.0	257.0	265.0	0.0	265.0
Modify Earned Income Tax Credit	0.0	0.0	0.0	261.6	0.0	261.6	269.4	0.0	269.4
Eliminate Subtract./Exemp./Other	37.9	9.5	47.5	53.5	17.5	71.1	54.2	18.1	72.3
Total Chngs. to Individ. Income Tax	\$473.0	\$50.0	\$523.1	\$1,243.5	\$108.9	\$1,352.5	\$1,451.4	\$125.7	\$1,577.1
Net Impact of Proposed Reforms	\$222.4	(\$709.1)	(\$486.6)	\$385.6	(\$669.9)	(\$284.2)	\$490.1	(\$667.9)	(\$177.8)
<u>Addendum: Impact by Taxpayer Type</u>									
Businesses			(\$1,009.7)			(\$1,636.7)			(\$1,754.9)
Individuals			\$523.1			\$1,352.5			\$1,577.1
1) Does not include impact of increasing the personal exemption under PA 224 of 2012.									

Source: May 2012 Consensus Revenue estimates

Constitutional Revenue Limit

- Section 26 of Article IX of the State Constitution limits total State revenue to a maximum of 9.49% of Michigan personal income.
- Based on the revised revenue estimates, revenue subject to the Constitutional revenue limit is estimated to be approximately \$5.3 billion below the limit for FY 2011-12, \$6.9 billion below the limit in FY 2012-13, \$7.2 billion below the limit in FY 2013-14, and \$7.3 billion below the limit in FY 2014-15.

Figure 13

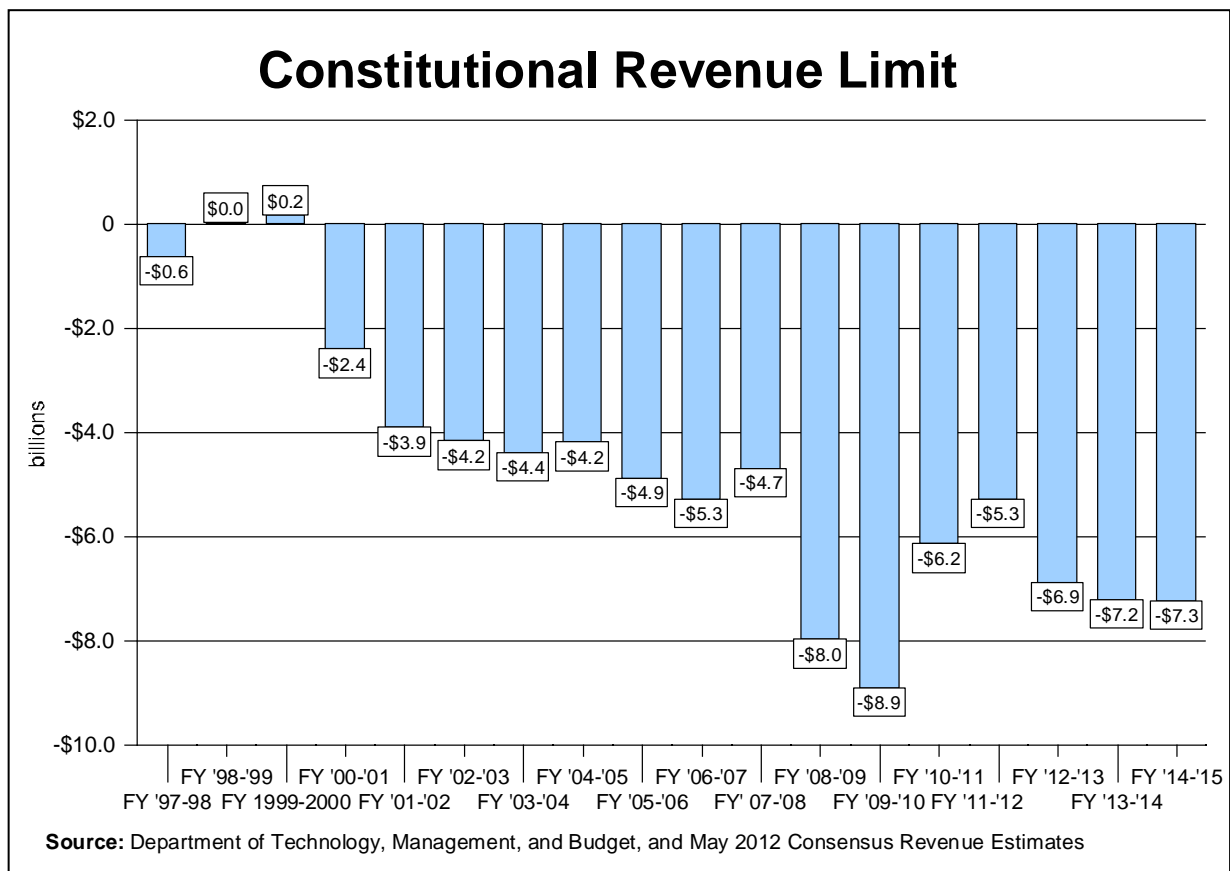


Figure 14

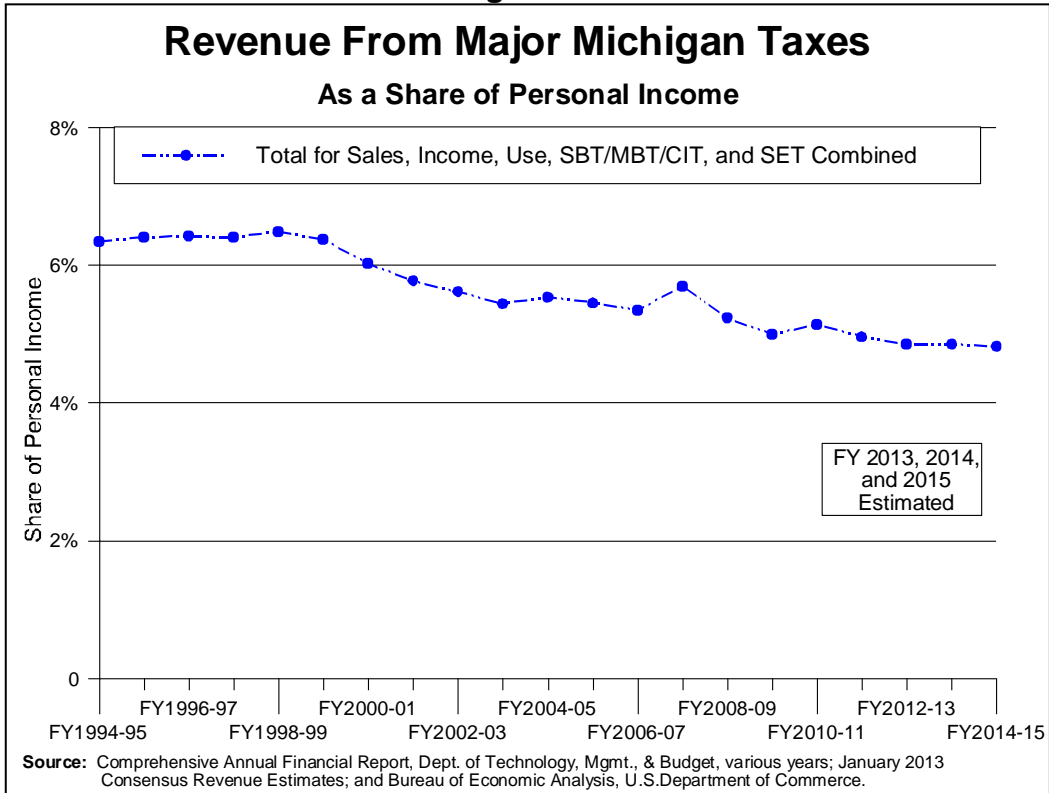
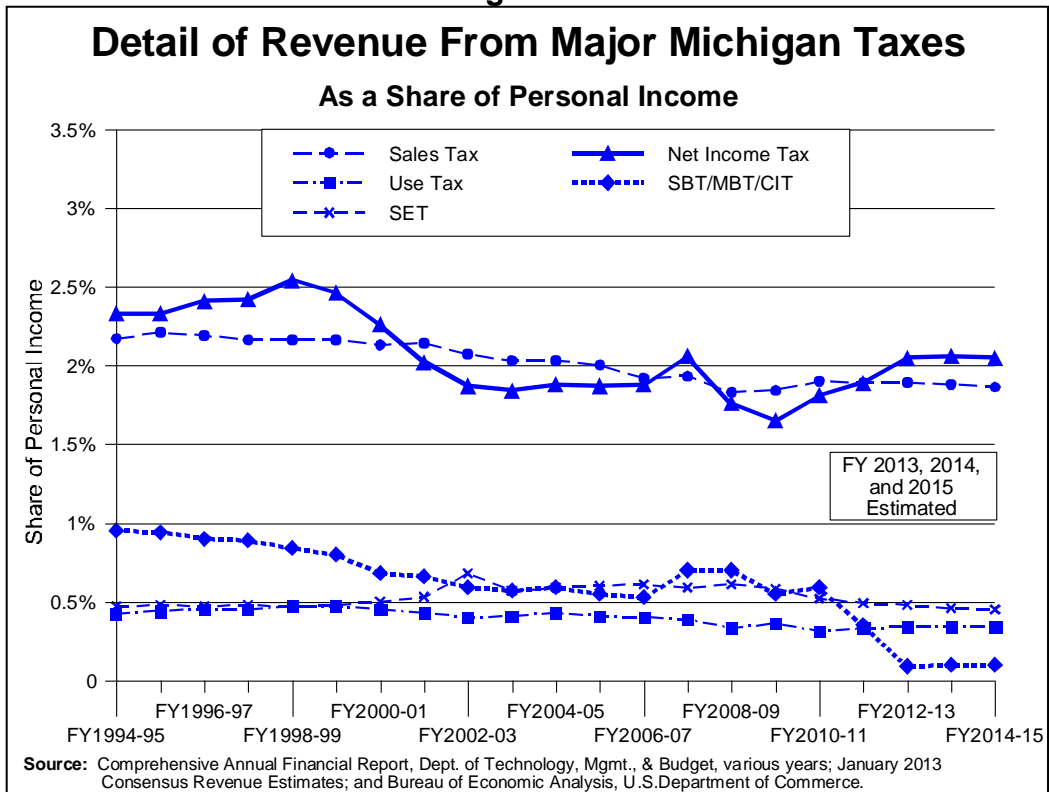


Figure 15



**The Executive Budget Rec.
FY 2013-14**

Summary

- Governor Rick Snyder presented his third State Budget Message on February 7, 2013.
- The FY 2013-14 budget recommendation is based on the General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) consensus revenue estimates agreed to on January 11, 2013.
- The Governor recommends FY 2013-14 Adjusted Gross appropriations of \$50.8 billion, and GF/GP appropriations of \$9.0 billion.
- Compared with FY 2012-13 year-to-date appropriations, the Governor's FY 2013-14 budget includes an Adjusted Gross appropriation increase of \$2.5 billion or 5.3%, and an increase in GF/GP appropriations of \$14.4 million or 0.2%.
- The primary reasons for the large increase in Adjusted Gross appropriations are the Governor's proposals for new spending of \$1.2 billion of State Restricted revenue for the transportation investment package, and \$1.3 billion of Federal funding for the expansion of the Medicaid program.
- The Governor proposes to increase these taxes and fees to fund his \$1.2 billion transportation investment package:
 1. Increase gasoline tax from 19 to 33 cents\$598.7 million
 2. Increase diesel fuel tax from 15 to 33 cents.....\$129.0 million
 3. Increase vehicle, truck, trailer registration fees\$508.3 million
- The Governor proposes to expand Medicaid to cover all individuals up to 133% of the Federal poverty level. The increase would be 100% Federally-funded in FY 2013-14, and the initial assumption is that 321,000 people would be covered in FY 2013-14, with that number growing up toward 460,000 by FY 2017-18. The State would see an estimated GF/GP savings of \$205.9 million in FY 2013-14, with full-year GF/GP savings of \$275.0 million in FY 2014-15.

- The Governor recommends a \$103.0 million appropriation to the proposed Michigan Health Savings Fund. This FY 2013-14 appropriation of \$103.0 million to this new fund represents a deposit of 50.0% of the savings from the Governor's proposal to expand Medicaid.
- The Governor's FY 2013-14 State Revenue Sharing proposal provides a 4.1% increase in Constitutional revenue sharing, from \$713.3 million to \$742.6 million. The non-Constitutional programs would increase from \$370.6 million to \$380.6 million or 2.7%.
- The Governor's School Aid budget increases total spending by \$318.0 million or 2.5%. This includes \$242.8 million to pay for the cost of keeping the employer retirement contribution rate relatively flat, an increase of \$65.0 million for the Great Start Readiness Program, and \$24.0 million as a one-time payment for districts with funding below \$7,000 per pupil.
- In the Department of Treasury's Strategic Fund, the Governor proposes to reduce the Film Incentive Program from the FY 2012-13 level of \$50.0 million to \$25.0 million in FY 2013-14.
- The Governor's budget includes \$90.4 million in fee adjustments other than the vehicle registration fee increases proposed in his transportation package. The budget also assumes \$400.0 million in Health Insurance Claims Assessment (HICA) revenue in the Department of Community Health which would require a statutory change. There are 24 statutory changes required to implement the Governor's FY 2013-14 budget recommendation.
- Finally, the Governor recommends a \$75.0 million appropriation to the Budget Stabilization Fund which would bring the total amount in the Fund to approximately \$585.0 million.

Table 3

ADJUSTED GROSS APPROPRIATIONS FY 2012-13 VERSUS GOVERNOR'S RECOMMENDATION				
Department/Budget Area	FY 2012-13 Year-to-Date Appropriations	FY 2013-14 Governor's Recommendation	Dollar Difference	Percent Change
Agriculture & Rural Development	\$76,433,700	\$76,469,000	\$35,300	0.0%
Attorney General	61,000,400	61,951,400	951,000	1.6
Civil Rights	14,765,500	15,198,300	432,800	2.9
Community Colleges	294,130,500	335,977,600	41,847,100	14.2
Community Health	15,019,033,900	16,624,194,900	1,605,161,000	10.7
Corrections	2,017,523,800	2,028,198,400	10,674,600	0.5
Education	328,909,900	318,888,400	(10,021,500)	(3.0)
Environmental Quality	423,308,700	502,766,900	79,458,200	18.8
Executive	4,887,900	4,970,000	82,100	1.7
Higher Education	1,399,220,400	1,430,573,500	31,353,100	2.2
Human Services	6,673,512,400	6,015,181,500	(658,330,900)	(9.9)
Judiciary	271,121,900	282,965,700	11,843,800	4.4
Legislative Auditor General	14,895,600	15,462,300	566,700	3.8
Legislature	110,922,500	123,819,300	12,896,800	11.6
Licensing & Regulatory Affairs	632,404,900	559,678,100	(72,726,800)	(11.5)
Military & Veterans Affairs	170,907,100	161,958,000	(8,949,100)	(5.2)
Natural Resources	335,855,600	352,976,600	17,121,000	5.1
School Aid	12,944,687,000	13,235,234,800	290,547,800	2.2
State	200,669,300	199,548,900	(1,120,400)	(0.6)
State Police	552,744,200	578,582,000	25,837,800	4.7
Technology, Management, & Budget	507,408,700	508,815,400	1,406,700	0.3
Transportation	3,462,905,600	4,571,162,500	1,108,256,900	32.0
Treasury (Debt Service)	140,554,900	154,202,500	13,647,600	9.7
Treasury (Operations)	503,563,000	486,667,200	(16,895,800)	(3.4)
Treasury (Revenue Sharing)	1,083,700,000	1,123,150,200	39,450,200	3.6
Treasury (Strategic Fund)	984,196,800	1,000,613,900	16,417,100	1.7
TOTAL APPROPRIATIONS	\$48,229,264,200	\$50,769,207,300	\$2,539,943,100	5.3%

Figures 16 and 17

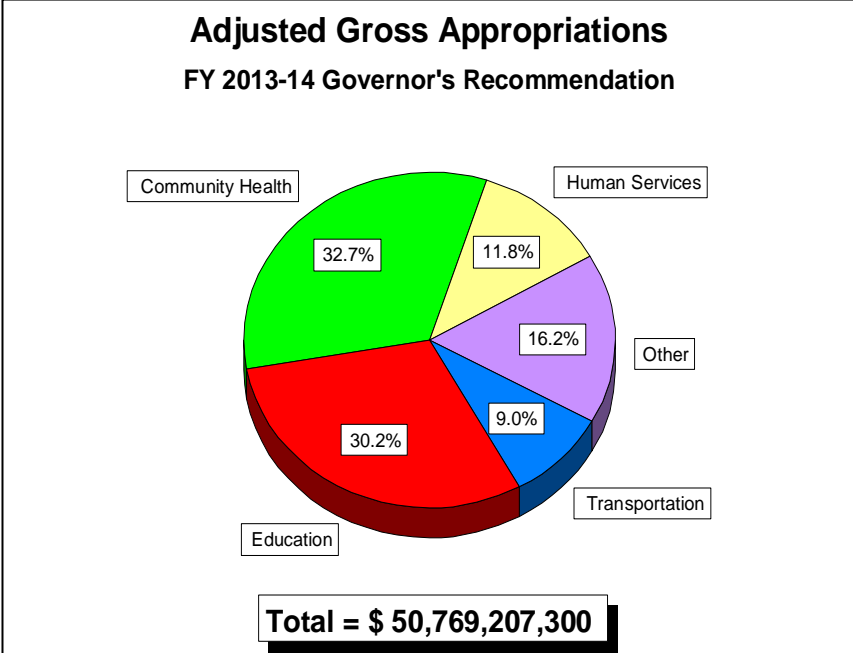
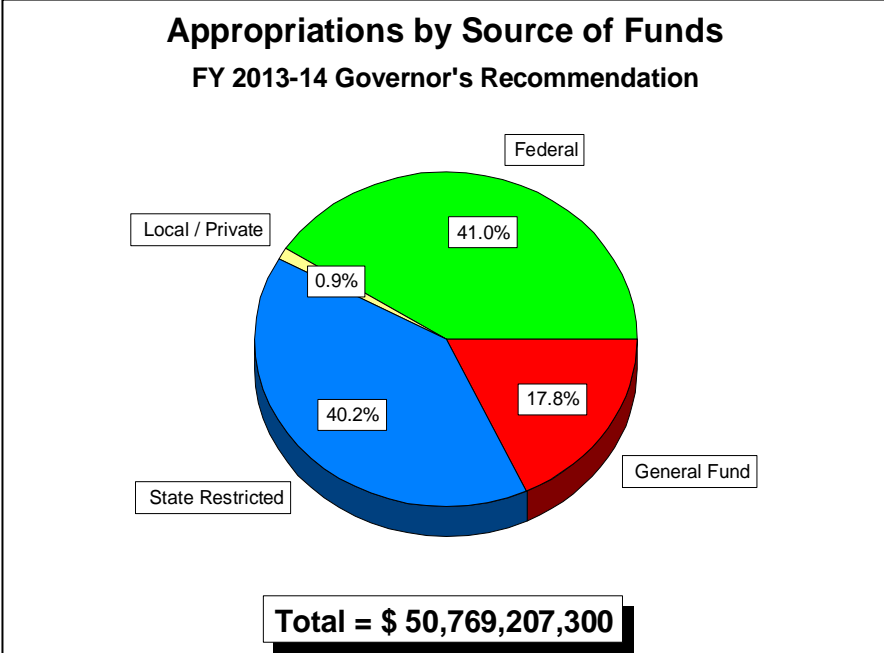


Table 4

STATE SPENDING FROM STATE RESOURCES APPROPRIATIONS FY 2012-13 VERSUS GOVERNOR'S RECOMMENDATION				
Department/Budget Area	FY 2012-13 Year-to-Date Appropriations	FY 2013-14 Governor's Recommendation	Dollar Difference	Percent Change
Agriculture & Rural Development	\$65,058,300	\$66,651,200	\$1,592,900	2.4%
Attorney General	51,067,800	52,113,200	1,045,400	2.0
Civil Rights	12,105,500	12,489,400	383,900	3.2
Community Colleges	294,130,500	335,977,600	41,847,100	14.2
Community Health	4,975,497,800	4,897,846,100	(77,651,700)	(1.6)
Corrections	2,008,475,100	2,019,079,700	10,604,600	0.5
Education	75,719,500	78,926,000	3,206,500	4.2
Environmental Quality	261,088,000	351,295,400	90,207,400	34.6
Executive	4,887,900	4,970,000	82,100	1.7
Higher Education	1,302,194,000	1,333,547,100	31,353,100	2.4
Human Services	1,117,223,200	1,164,731,200	47,508,000	4.3
Judiciary	257,133,700	269,557,200	12,423,500	4.8
Legislative Auditor General	14,895,600	15,462,300	566,700	3.8
Legislature	110,522,500	123,419,300	12,896,800	11.7
Licensing & Regulatory Affairs	361,024,900	359,539,800	(1,485,100)	(0.4)
Military & Veterans Affairs	68,660,400	69,935,300	1,274,900	1.9
Natural Resources	262,091,600	278,612,100	16,520,500	6.3
School Aid	11,243,645,600	11,470,813,500	227,167,900	2.0
State	198,859,200	197,738,800	(1,120,400)	(0.6)
State Police	440,732,500	472,528,700	31,796,200	7.2
Technology, Management, & Budget	496,433,400	498,513,300	2,079,900	0.4
Transportation	2,188,895,300	3,321,999,900	1,133,104,600	51.8
Treasury (Debt Service)	140,554,900	154,202,500	13,647,600	9.7
Treasury (Operations)	460,945,000	445,275,300	(15,669,700)	(3.4)
Treasury (Revenue Sharing)	1,083,700,000	1,123,150,200	39,450,200	3.6
Treasury (Strategic Fund)	316,362,700	352,355,200	35,992,500	11.4
TOTAL APPROPRIATIONS	\$27,811,904,900	\$29,470,730,300	\$1,658,825,400	6.0%

Table 5

**GENERAL FUND/GENERAL PURPOSE (GF/GP) APPROPRIATIONS
FY 2012-13 VERSUS GOVERNOR'S RECOMMENDATION**

Department/Budget Area	FY 2012-13 Year-to-Date Appropriations	FY 2013-14 Governor's Recommendation	Dollar Difference	Percent Change
Agriculture & Rural Development	\$36,098,900	\$37,630,300	\$1,531,400	4.2%
Attorney General	33,825,800	34,481,300	655,500	1.9
Civil Rights	11,953,600	12,337,500	383,900	3.2
Community Colleges	96,516,400	138,363,500	41,847,100	43.4
Community Health	2,817,437,800	2,725,532,500	(91,905,300)	(3.3)
Corrections	1,941,485,600	1,963,053,600	21,568,000	1.1
Education	68,093,200	70,893,900	2,800,700	4.1
Environmental Quality	29,812,400	29,104,500	(707,900)	(2.4)
Executive	4,887,900	4,970,000	82,100	1.7
Higher Education	1,101,628,300	1,132,981,400	31,353,100	2.8
Human Services	1,028,769,600	1,013,112,400	(15,657,200)	(1.5)
Judiciary	170,751,500	183,441,300	12,689,800	7.4
Legislative Auditor General	13,004,900	13,511,300	506,400	3.9
Legislature	109,412,700	122,309,500	12,896,800	11.8
Licensing & Regulatory Affairs	36,945,200	38,804,900	1,859,700	5.0
Military & Veterans Affairs	38,233,400	42,381,300	4,147,900	10.8
Natural Resources	19,737,900	27,286,600	7,548,700	38.2
School Aid	282,400,000	230,000,000	(52,400,000)	(18.6)
State	14,888,100	15,253,400	365,300	2.5
State Police	317,513,800	350,974,300	33,460,500	10.5
Technology, Management, & Budget	405,916,200	405,887,400	(28,800)	(0.0)
Transportation	23,000,000	0	(23,000,000)	(100.0)
Treasury (Debt Service)	135,040,400	151,188,000	16,147,600	12.0
Treasury (Operations)	111,294,500	82,503,300	(28,791,200)	(25.9)
Treasury (Revenue Sharing)	0	0	0	0.0
Treasury (Strategic Fund)	173,501,600	210,503,900	37,002,300	21.3
TOTAL APPROPRIATIONS	\$9,022,149,700	\$9,036,506,100	\$14,356,400	0.2%

Table 6

FULL-TIME EQUATED POSITIONS FY 2012-13 VERSUS GOVERNOR'S RECOMMENDATION				
Department/Budget Area	FY 2012-13 Year-to-Date Appropriations	FY 2013-14 Governor's Recommendation	Position Change	Percent Change
Agriculture & Rural Development	425.0	428.0	3.0	0.7%
Attorney General	508.0	511.0	3.0	0.6
Civil Rights	121.0	122.0	1.0	0.8
Community Health	3,546.6	3,583.6	37.0	1.0
Corrections	14,695.2	14,496.5	(198.7)	(1.4)
Education	590.5	594.5	4.0	0.7
Environmental Quality	1,321.5	1,285.5	(36.0)	(2.7)
Executive	74.2	74.2	0.0	0.0
Higher Education	0.0	0.0	0.0	0.0
Human Services	12,308.0	12,276.5	(31.5)	(0.3)
Judiciary	472.0	482.0	10.0	2.1
Licensing & Regulatory Affairs	3,709.8	3,267.0	(442.8)	(11.9)
Military & Veterans Affairs	834.0	872.0	38.0	4.6
Natural Resources	2,093.8	2,135.3	41.5	2.0
State	1,689.0	1,562.0	(127.0)	(7.5)
State Police	2,881.0	2,914.0	33.0	1.1
Technology, Management, & Budget	2,808.0	2,806.0	(2.0)	(0.1)
Transportation	2,912.3	2,912.3	0.0	0.0
Treasury (Operations)	1,774.5	1,784.5	10.0	0.6
Treasury (Strategic Fund)	748.0	772.0	24.0	3.2
TOTAL POSITIONS	53,512.4	52,878.9	(633.5)	(1.2%)

Table 7

**FY 2011-12, FY 2012-13, FY 2013-14, AND FY 2014-15 GENERAL FUND/GENERAL PURPOSE (GF/GP)
REVENUE, EXPENDITURES, AND YEAR-END BALANCE ESTIMATES
(Millions of Dollars)**

	Preliminary Closing FY 2011-12	FY 2012-13	Gov's Rec. FY 2013-14	Gov's Rec. FY 2014-15
Revenue:				
Beginning Balance.....	\$553.7	\$972.5	\$278.4	\$15.7
<u>Ongoing Revenue:</u>				
Consensus Revenue Estimate (May 2012)	\$9,064.4	\$8,969.9	\$9,259.0	\$9,639.9
January 2013 Consensus Revenue Change	200.8	(177.7)	5.4	0.0
Consensus Revenue Estimate (January 2013)	\$9,265.2	\$8,792.2	\$9,264.4	\$9,639.9
<u>Other Revenue Adjustments:</u>				
Revenue Sharing Payments.....	(300.0)	(350.6)	(358.6)	(358.6)
Restricted Revenue/Bookclosing Adjustments	(24.9)	3.2	6.0	8.0
Blue Cross/Blue Shield Insurance Revenue	0.0	0.0	62.0	75.0
Subtotal Ongoing Revenue	\$8,940.3	\$8,444.8	\$8,973.8	\$9,364.3
<u>Non-Ongoing Revenue:</u>				
One-Time Appropriation for Revenue Sharing.....	(40.0)	(20.0)	(22.0)	0.0
FY 2011-12 - Use Tax HMOs; FY 2012-13 - LPRF Lapse	127.5	(2.0)	0.0	0.0
Total Estimated GF/GP Revenue	\$9,581.5	\$9,395.3	\$9,230.2	\$9,380.0
Expenditures:				
Initial Ongoing Appropriations	\$8,275.5	\$8,628.5	\$8,850.7	\$9,034.7
Initial One-Time Appropriations.....	171.6	365.7	185.8	4.0
One-Time Appropriations to Budget Stabilization Fund.....	362.7	140.0	75.0	150.0
One-Time Appropriations to Michigan Health Savings Fund.....	0.0	0.0	103.0	137.8
Enacted Supplementals.....	113.6	28.0	0.0	0.0
Caseload and Cost Adjustments for DCH/DHS	(179.5)	(57.4)	0.0	0.0
Pending Supplementals.....	0.0	29.5	0.0	0.0
General Fund Grant to School Aid	(40.0)	0.0	0.0	0.0
Health Insurance Claims Assessment Revenue Shortfall ¹⁾	0.0	0.0	0.0	0.0
Estimate of Year-End Lapses.....	(\$94.9)	(\$17.4)	\$0.0	\$0.0
Total Estimated GF/GP Expenditures	\$8,609.0	\$9,116.9	\$9,214.5	\$9,326.5
Projected Year-End GF/GP Balance	\$972.5	\$278.4	\$15.7	\$53.5

¹⁾ Assumes use of other Restricted revenue in FY 2011-12 and FY 2012-13 and passage of HICA legislation for subsequent fiscal years.

Table 8
FY 2011-12, FY 2012-13, FY 2013-14, AND FY 2014-15 SCHOOL AID FUND (SAF)
REVENUE, EXPENDITURES, AND YEAR-END BALANCE ESTIMATES
(Millions of Dollars)

	Preliminary Closing FY 2011-12	FY 2012-13	Gov's Rec. FY 2013-14	Gov's Rec. FY 2014-15
Revenue:				
Beginning Balance	\$724.7	\$254.1	\$49.9	\$1.3
<u>Ongoing Revenue:</u>				
Consensus Revenue Estimate (May 2012).....	\$10,876.1	\$11,169.5	\$11,471.5	\$11,768.8
January 2013 Consensus Revenue Change	2.6	(41.8)	(39.0)	0.0
Consensus Revenue Estimate (January 2013).....	\$10,878.7	\$11,127.7	\$11,432.5	\$11,768.8
<u>Other Revenue Adjustments:</u>				
General Fund/General Purpose Grant.....	78.6	282.4	180.0	233.0
Federal Ongoing Aid.....	1,819.0	1,701.0	1,764.4	1,764.4
ILottery	0.0	0.0	7.8	23.4
MPERS Retirement Obligation Reform Reserve Fund	0.4	0.0	150.0	100.0
Subtotal Ongoing Revenue	\$12,776.7	\$13,111.1	\$13,534.7	\$13,889.6
<u>Non-Ongoing Revenue:</u>				
General Fund/General Purpose Grant.....	65.1	0.0	50.0	0.0
Total Estimated School Aid Fund Revenue	\$13,566.5	\$13,365.2	\$13,634.6	\$13,890.9
Expenditures:				
Initial Ongoing K-12 Appropriations	\$12,203.6	\$12,750.2	\$13,135.7	\$13,490.6
Initial One-Time K-12 Appropriations.....	472.0	194.3	99.5	0.0
Public Act 29 of 2012 Adjustments/Public Act 465 of 2012 (PILT)	68.4	0.2	0.0	0.0
Cost Adjustments	2.9	(27.5)	0.0	0.0
Partially Fund Community Colleges with School Aid Fund.....	259.6	197.6	197.6	197.6
Partially Fund Higher Education with School Aid Fund	200.0	200.5	200.5	200.5
Federal Expenditures Adjustment.....	161.0	0.0	0.0	0.0
Estimate of Year-End Lapses	(55.1)	0.0	0.0	0.0
Total Estimated School Aid Fund Expenditures	\$13,312.4	\$13,315.3	\$13,633.3	\$13,888.7
Projected Year-End School Aid Fund Balance.....	\$254.1	\$49.9	\$1.3	\$2.2

Table 9

FY 2013-14 BUDGET RECOMMENDATION MAJOR CHANGES FROM FY 2012-13 YEAR-TO-DATE GENERAL FUND/GENERAL PURPOSE (GF/GP) APPROPRIATIONS (Millions of Dollars)	
FY 2012-13 Year-to-Date Appropriations.....	\$9,022.1
FY 2013-14 Governor's Recommendation.....	<u>9,036.5</u>
Net Change in GF/GP Appropriations	\$14.4
Total New Programs	\$118.0
Total Net Savings Medicaid Expansion.....	(205.9)
Total Funding Increases	266.4
Total Funding Reductions	(217.2)
Total Fund Shifts	(42.7)
Total OPEB Funding Adjustment	14.3
Total Non-OPEB Economic Adjustments.....	<u>81.5</u>
TOTAL GF/GP FUNDING CHANGE	\$14.4

Revenue Sharing Payments

The Governor recommended over \$1.1 billion in FY 2013-14 for revenue sharing and incentive program payments to local units of government. This is an increase of \$39.5 million or 3.6% over FY 2012-13. This increase consists of the projected increase in constitutional revenue sharing of \$29.5 million for cities, villages, and townships (CVTs) and an increase of \$10.0 million for County Revenue Sharing and the County Incentive Program to cover the cost of counties that return to the revenue sharing program and thus also become eligible for the County Incentive Program. The Governor's recommended appropriations for revenue sharing in FY 2013-14 are shown in Table 10.

Table 10

REVENUE SHARING APPROPRIATION SUMMARY				
Ongoing & One-Time Appropriations	FY 2012-13 Year-to-Date	FY 2013-14 Gov's Rec.	Dollar Change	Percent Change
Constitutional Revenue Sharing	\$713,100,000	\$742,550,200	\$29,450,200	4.1%
Economic Vitality Incentive Program.....	225,000,000	225,000,000	0	0.0
County Incentive Program	26,120,000	28,120,000	2,000,000	7.7
County Revenue Sharing.....	104,480,000	112,480,000	8,000,000	7.7
Competitive Grant Assistance Program ...	15,000,000	15,000,000	0	0.0
TOTAL	\$1,083,700,000	\$1,123,150,200	\$39,450,200	3.6%

Constitutional revenue sharing for CVTs is the largest part of the revenue sharing program. It is estimated to rise from \$713.1 million in FY 2012-13 to \$742.6 million in FY 2013-14, an increase of 4.1% based on the January consensus revenue estimates. The Constitution requires the distribution of 15.0% of the revenue from the sales tax levied at 4.0% to CVTs on a per-capita basis.

The Governor recommended \$112,480,000 in FY 2013-14 for county revenue sharing, an increase of \$8.0 million. An eligible county is a county that has exhausted its revenue sharing reserve fund created by acceleration of property tax collections in FY 2003-04. When a county has exhausted that reserve by making the required withdrawals, it returns to State-paid County Revenue Sharing, which increases State costs. The proposed increase of \$8.0 million would cover the projected cost of 11 counties that re-entered revenue sharing for a part-year in FY 2012-13 and will receive their first full year of County Revenue Sharing payments in FY 2013-14. The increase also would cover the cost of a county that is projected to re-enter County Revenue Sharing in FY 2013-14. Payments to other counties would remain the same as in FY 2012-13 and payments to all counties would be prorated at the same rate as in FY 2012-13. The Governor also recommended \$28,120,000 in FY 2013-14 for the County Incentive Program, an increase of \$2.0 million. Similar to the situation with County Revenue Sharing, this increase would cover the estimated cost of counties that become eligible in FY 2013-14 for payments under the incentive program. In total, revenue sharing and incentive payments to counties would be \$140.6 million in FY 2013-14 under the Governor's recommendation. This would be \$41.7 million below the estimated \$182.3 million needed to fund the county revenue sharing formula in FY 2013-14.

Funding for the Economic Vitality Incentive Program (EVIP) for CVTs would remain the same under the Governor's recommendation, which would provide \$225.0 million in FY 2013-14.

The Economic Vitality Incentive Program and the County Incentive Program requirements would be revised in each of the three program categories. For Category 1, accountability and transparency, the requirements would specify that debt service reporting consists of a statement of issuance dates, issuance amounts, and a listing of annual debt service payments. Category 2, consolidation of services, would require participants to report on the status of all previous proposals and add a new proposal for consolidation, collaboration, or cooperation with estimated potential savings and a timeline for implementation. Category 3, employment compensation, would require each participant to certify *both* that it has an employee compensation plan that it intends to implement with any new, modified, or extended employee contract or employment agreement that meets specific parameters with respect to retirement plans and health care premiums, *and* that it is in compliance with the Publicly Fund Health Insurance Contribution Act, Public Act 152 of 2011, or that it does not offer medical insurance to employees or elected officials.

The Competitive Grant Assistance Program would remain at \$15.0 million in FY 2013-14, the same amount as in FY 2012-13. The Governor would allocate \$7.5 million for projects to combine public safety operations. The Governor also recommended expanding eligibility for the program to authorities that combine operations with a CVT or county. Currently, CVTs, counties, school districts, and intermediate school districts (ISDs) are eligible. School districts and ISDs, as proposed for authorities, are eligible only when they combine operations with another local unit of government.

Figure 18

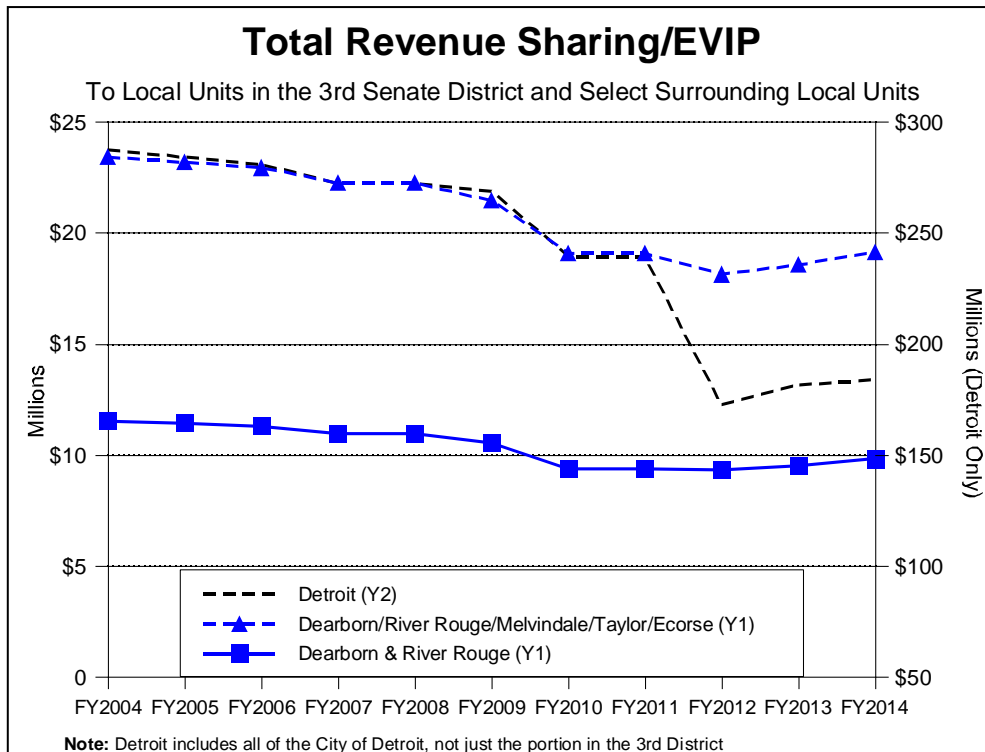


Figure 19

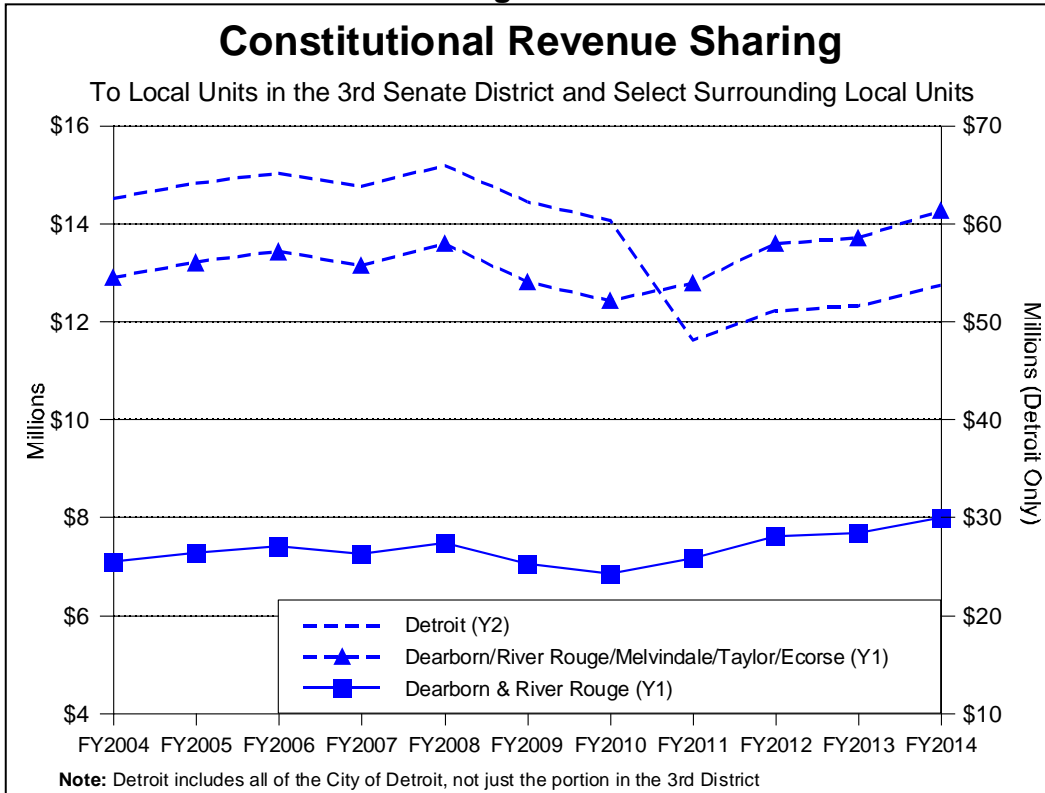
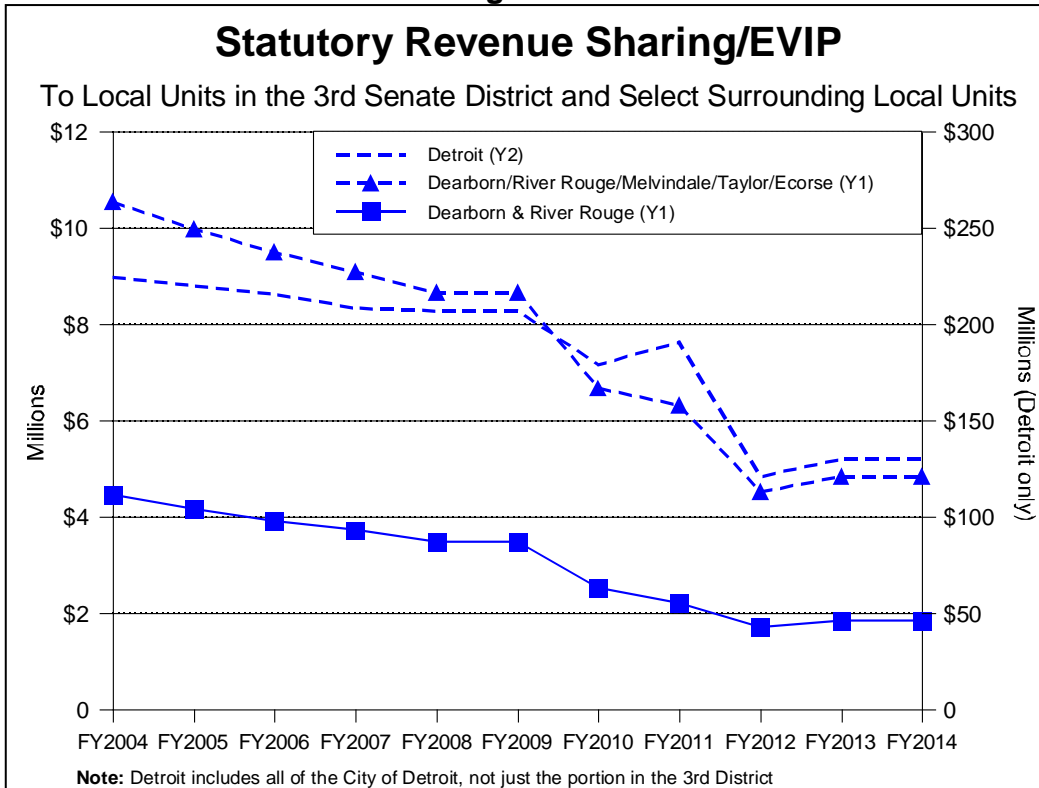


Figure 20



Transportation Investment Package

The Governor's FY 2013-14 budget recommendation includes a comprehensive transportation package that would provide \$1.2 billion in additional revenue for the Michigan Department of Transportation. This additional revenue primarily would be used to repair or replace the State's infrastructure of roads and bridges. The State's current transportation network is primarily funded through fees on its users in the form of gasoline taxes and vehicle registration fees. The Governor's proposal would increase these taxes and fees to raise the estimated \$1.2 billion in additional revenue as follows:

1. Increase the gasoline tax from 19 cents to 33 cents \$598.7 million
 2. Increase the diesel fuel tax from 15 cents to 33 cents..... \$129.0 million
 3. Increase vehicle, truck, and trailer registration fees (25% increase for trucks and trailers; 60% increase for light vehicles) \$508.3 million
- Total** **\$1,236.0 billion**

The Governor also is proposing changes to the distribution formulas used to allocate revenue to different transportation funds, agencies, and projects. Certain funds, such as the Transportation Economic Development Fund, would be eliminated. The Governor's proposal would create two new funds and would create a new "baseline" allocation formula to replace the current statutory formulas for allocating revenue to the State Trunkline Fund and local road agencies.

In addition, the Governor proposes a local registration fee option whereby each of Michigan's 83 counties would be given the option of raising additional revenue for specific local transportation projects. Subject to local voter approval, counties could raise vehicle registration fees by up to 0.18% of the vehicle list price. If collected by every county, this additional fee is estimated to raise up to \$280.0 million in additional revenue for local entities. The fee would be collected by the Secretary of State at the time of vehicle registration or renewal and the revenue then remitted to each county collecting the fee.

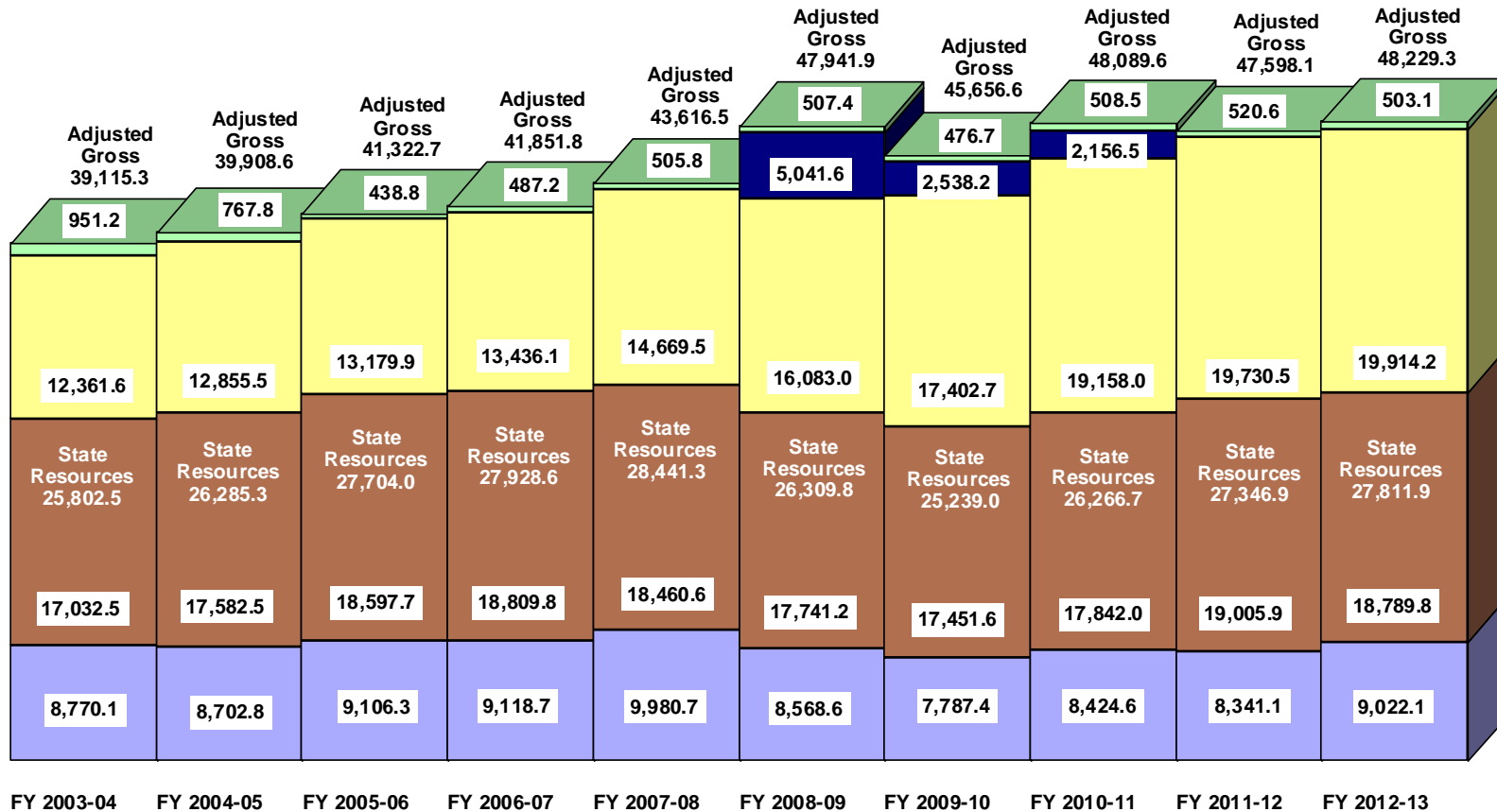
The Governor estimates that the average cost of this investment package on each Michigan motorist would be \$120 annually per vehicle (not including the optional local fee).

Recent State Appropriation History

Figure 21

State Of Michigan Appropriations by Fund Source Year-To-Date (Millions of Dollars)

■ LOCAL/PRIVATE
 ■ ARRA
 ■ FED FUNDS
 ■ RESTRICTED
 ■ GF/GP



Notes: Adjusted Gross = Total appropriations for all departments. State Resources = State restricted + GF/GP appropriations.
 Does not include BSF appropriations of \$362.7 million and \$140 million for FYs 2011-12 and 2012-13, respectively.
 Senate Fiscal Agency, February 14, 2013

Table 11

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	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	47,941.9	4,325.4	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	48,229.3	631.2	1.3
2013-14 Gov's Rec.	50,769.2	2,539.9	5.3
Change FY 2003-04 to FY 2013-14		\$11,653.9	29.8%
Detroit CPI 10-Year Percent Change			20.8%

Table 12

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	25,761.6	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	26,309.8	(2,131.5)	(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	27,811.9	465.0	1.7
2013-14 Gov's Rec.	29,470.7	1,658.8	6.0
Change FY 2003-04 to FY 2013-14		\$3,668.2	14.2%
Detroit CPI 10-Year Percent Change			20.8%

Table 13

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	9,744.4	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	8,568.6	(1,412.1)	(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	9,022.1	681.1	8.2
2013-14 Gov's Rec.	9,036.5	14.4	0.2
Change FY 2003-04 to FY 2013-14		\$266.4	3.0%
Detroit CPI 10-Year Percent Change			20.8%

Table 14

SCHOOL AID FUND APPROPRIATION HISTORY (Millions of Dollars)			
Fiscal Year	State-Funded Appropriations	Dollar Change	Percent Change
1997-98	\$9,307.4	\$749.1	8.8%
1998-99	9,495.1	187.7	2.0
1999-2000	9,957.6	462.5	4.9
2000-01	10,732.3	774.7	7.8
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	11,308.1	194.6	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	11,243.6	154.7	1.4
2013-14 Gov's Rec.	11,470.8	227.2	2.0
Change FY 2003-04 to FY 2013-14		\$411.5	3.7%
Detroit CPI 10-Year Percent Change			20.8%

Table 15

STATE SPENDING PER PUPIL			
Fiscal Year	State-Funded Appropriations (Millions of Dollars)	Pupils (Millions)	Appropriations Per Pupil
1997-98	\$9,307.4	1.6702	\$5,572
1998-99	9,495.1	1.6873	5,627
1999-2000	9,957.6	1.6966	5,869
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	11,243.6	1.5374	7,313
2013-14 Gov's Rec.	11,470.8	1.5320	7,487

Table 16

K-12 SCHOOLS MINIMUM FOUNDATION ALLOWANCE			
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	7,085	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 Gov's Rec.	7,000	7,000	0.5
Change FY 2003-04 to FY 2013-14	300	374	
Foundation 10-Year Percent Change	4.5%	5.6%	
Detroit CPI 10-Year Percent Change	20.8%	20.8%	

Table 17

APPROPRIATED FULL-TIME EQUATED POSITIONS (FTEs) IN MICHIGAN STATE BUDGET			
Fiscal Year	FTEs	Change	Percent Change
1997-98	64,119.8	(1,500.2)	(2.3)%
1998-99	62,082.6	(2,037.2)	(3.2)
1999-2000	63,630.9	1,548.3	2.5
2000-01	64,601.5	970.6	1.5
2001-02	64,190.1	(411.4)	(0.6)
2002-03	62,760.2	(1,429.9)	(2.2)
2003-04	57,817.1	(4,943.1)	(7.9)
2004-05	57,034.3	(782.8)	(1.4)
2005-06	56,442.4	(591.9)	(1.0)
2006-07	56,766.3	323.9	0.6
2007-08	57,041.7	275.4	0.5
2008-09	56,491.1	(550.6)	(1.0)
2009-10	55,603.2	(887.9)	(1.6)
2010-11	56,095.3	492.1	0.9
2011-12	54,801.5	(1,293.8)	(2.3)
2012-13	53,512.4	(1,289.1)	(2.4)
2013-14 Gov's Rec.	52,878.9	(633.5)	(1.2)
Change FY 2003-04 to FY 2013-14		(4,938.2)	(8.5%)
Detroit CPI 10-Year Percent Change			20.8%

Table 18

FEDERAL FUNDS APPROPRIATED IN MICHIGAN BUDGET (Millions of Dollars)			
Fiscal Year	Federal Funds	Adjusted Gross Appropriations	Federal as Percent of Total Adjusted Gross
1997-98	\$7,931.5	\$31,472.8	25.20%
1998-99	8,623.4	33,160.3	26.01
1999-2000	9,765.6	35,417.7	27.57
2000-01	10,002.2	36,953.3	27.07
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	19,914.2	48,229.0	41.29
2013-14 Gov's Rec.	20,816.9	50,769.2	41.00
Change FY 2003-04 to FY 2013-14			
	68.4%	29.8%	

Table 19

STATE SPENDING FROM STATE RESOURCES APPROPRIATIONS TOTAL COMPARED IN SELECTED BUDGET AREAS (Millions of Dollars)				
Department/Budget Area	FY 2003-04 Appropriations	FY 2013-14 Gov's Rec.	Dollar Change	Percent Change
Community Health	\$3,600.6	\$4,897.8	\$1,297.3	36.0%
Corrections	1,674.3	2,019.1	344.8	20.6
Human Services	1,159.1	1,164.7	5.7	0.5
K-12 School Aid	11,108.3	11,470.8	362.5	3.3
Community Colleges	276.8	336.0	59.1	21.4
Higher Education	1,649.2	1,333.5	(315.6)	(19.1)
Revenue Sharing - Constitutional	654.8	742.6	87.8	13.4
Revenue Sharing - Nonconstitutional	651.5	380.6	(270.9)	(41.6)
All Other Programs	5,028.0	7,125.6	2,097.6	41.7
Total State Spending	\$25,802.5	\$29,470.7	\$3,668.2	14.2%
Addendum:				
Medicaid Caseload	1,374,206	1,920,000	545,794	39.7
Prison Population	50,782	43,953	(6,829)	(13.4)
K-12 Pupil Count	1,714,402	1,532,000	(182,402)	(10.6)
University Students	249,621	264,915	15,294	6.1
Community College Students	127,717	164,830	37,113	29.1
Michigan Personal Income (millions)	\$318,668.5	\$392,211.5	\$73,543.0	23.1%
Detroit Consumer Price Index	184.2	222.5	38.3	20.8
Notes:				
Medicaid caseload: Number for FY 2013-14 does not include the estimated 320,000 individuals who would be eligible under the proposed expansion of Medicaid.				
Prison Population: These "average populations" are taken from the appropriation bill for the respective fiscal year; they do not represent the exact count on any particular date, but demonstrate how many beds are associated with the appropriation.				
K-12 Pupils: FY 2013-14 pupil count is from the January 2013 CREC.				
Community College and University Students: Numbers in FY 2013-14 column reflect FY 2011-12 fiscal-year-equated-students as reported in the Activities Classification Structure (ACS) and the Higher Education Institutional Data Inventory (HEIDI).				

Personal Property Tax Reform

Arguments Regarding Personal Property Tax Reform

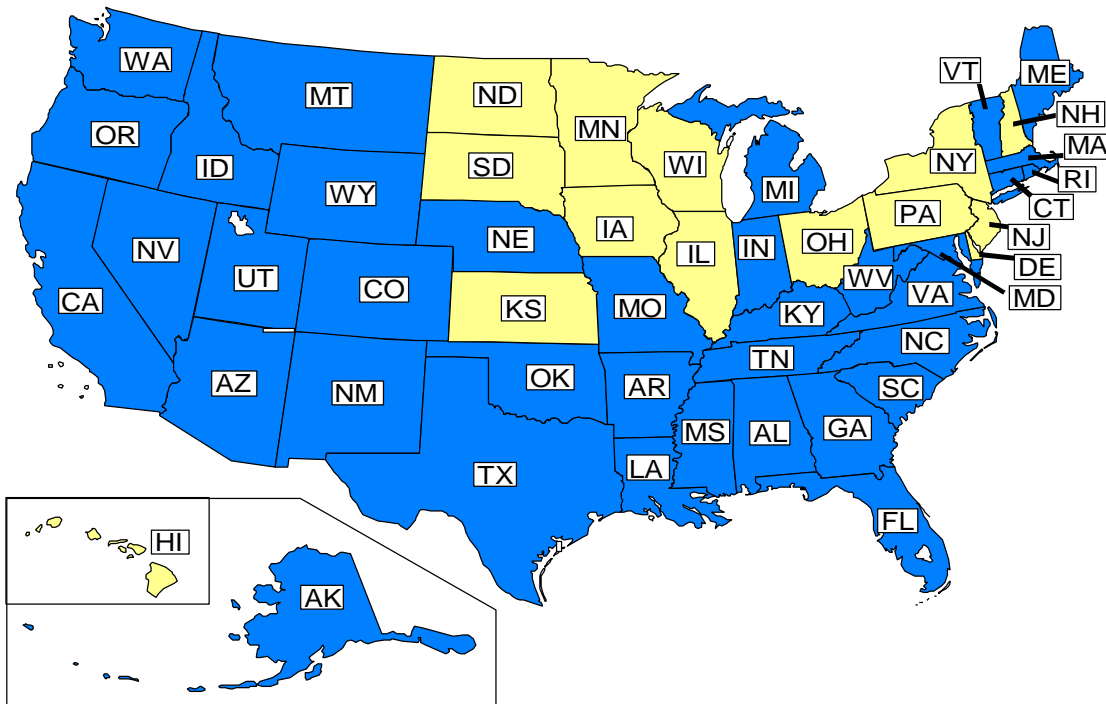
Pro

- Largely visible, immobile tax item (characteristics related to the history of the general property tax and agrarian history of economy)
- Easy to allocate revenue/tax base to the “appropriate” entity
- Hidden tax aspect
- Stable source of revenue
- Tax non-resident property owners

Con

- No longer as easy to administer
- Business is more mobile
- No longer as well linked to the “benefits received” principle that originally justified the tax
- Represents a tax on investment, which is generally regarded as increasing economic productivity and economic growth
- When combined with a business income tax, can represent a sizeable burden on investment

Figure 22



Personal Property Tax Reform Legislation

Legislation divided in two groups

- Property tax reductions
 - Primary reductions (Senate bills 1069-1071, which became Public Acts 401, 402, and 403)
 - Complementary technical changes to other property tax provisions (Senate bills 1065-1068, which became Public Acts 397, 398, 399, and 400)

- Mechanisms for revenue replacement (House bills 6022 and 6024-6026, which Public Acts 406, 407, and 408)

The bills within each group are tie-barred together

None of the bills take effect unless a statewide vote required under PA 408 adopts the use tax provisions contained in the Act.

Public Act 402: \$40,000 Exemption

Exempts personal commercial and industrial property valued at less than \$40,000

- Exemption is based on all commercial and industrial property owned by a single taxpayer within a local tax collecting unit
- NOT based on whether an individual piece of personal property exhibits a taxable value of less than \$40,000

Must annually filing for exemption

- If taxable value rises, relies on compliance by taxpayer to rescind exemption
- Creates a variety of incentives to avoid taxation

Begins December 31, 2013

Eligible Manufacturing Personal Property

New definition

- Used in Public Acts 401 and 403

Not affected by classifications such as commercial or industrial

Based on use of the property

- Roughly similar to the conditions under the sales tax exemption for industrial processing equipment

Property that is used at least 50% of the time in industrial processing or direct integrated support of industrial processing

- Direct integrated support is defined as certain R&D, testing & quality control, engineering, and warehousing functions that directly support industrial processing, as well as certain sorting and distribution centers related to the handling of inputs for industrial processing

Public Acts 401 and 403

Exemptions begin December 31, 2015

Public Act 401 exempts “new” eligible manufacturing personal property

- New is defined as property purchased after December 31, 2012 (purchased in 2013 or later)

Public Act 403 exempts “old” eligible manufacturing personal property

- Affects property that is at least 10 years old
- Increments each year, so that, when combined with PA 401, by 2023 all eligible manufacturing personal property would be exempt

Public Acts 404 and 407

Public Act 407 creates a new statewide authority: the Metropolitan Areas Metropolitan Authority (MAMA)

- Primary function is to levy a local use tax created by PA 408 and distribute the revenue to local units
- Public Act 404 also transfers the current duties of the Metropolitan Extension Telecommunications Rights-of-Way Oversight Authority to MAMA

Beginning in 2016, local units will submit information by June 15 that will be used to compute distributions

- Calculation is the taxable value of industrial and commercial personal property in 2013 less the value in the current year, multiplied by the lowest millage rate levied between 2012 and the current year and less any revenue authorized to be levied from the emergency services assessment (whether or not the assessment is actually levied)
- This calculation represents the “qualified loss”

Distributions Under Public Act 407

In FY 2013-14 and 2014-15, distributes revenue for debt loss

- Legislature is to appropriate the revenue

In FY 2015-16 and later, distributes a prorated amount of the revenue available for distribution

- Distribution amount set by statute in PA 408
- Must be a qualified unit to receive a distribution
 - Qualified units are community colleges, or units that exhibit a 2.3% or greater reduction in total taxable due to the exemptions under Public Acts 401, 402, and 403
- In FY 2015-16, proration based on each unit's share of total qualified losses
 - Beginning in FY 2017-18, the proration begins shifting, by 5% per year, to a factor based on the unit's share of revenue from industrial real property on which property is exempt under PA 401 and/or PA 403
 - Payments under the new phased-in formula are not restricted to qualified units
 - Uses lowest millage rate levied between 2012 and the current year

Public Act 406

Only affects local units which operate “essential services”: ambulance services, fire services, police services, and/or jail operations

Allows a special assessment to be levied to cover all or a part of the cost of acquiring/maintaining equipment used to provide essential services, or the cost of providing essential services

- Levied on real industrial and commercial property located on parcels with exempt eligible manufacturing personal property
- Does not include losses under PA 402
- Does not require a vote of the people, only a resolution by the unit’s legislative body
- May not be imposed until January 1, 2016

Public Act 408

Authorizes the imposition of a local use tax by the MAMA

- Combined State/local rate remains at 6%
- The rate is calculated to generate a set amount of revenue
 - \$41.7 million in FY 2015-16
 - \$257.5 million in FY 2016-17
 - Grows approximately \$15.0-\$20.0 million per year through FY 2022-23
 - FY 2022-23 total is specified at \$362.4 million
 - In later years the amount grows at “an industrial and commercial personal property growth factor” determined by the Department of Treasury

Earmarks revenue to the School Aid Fund

- From portion that would otherwise go to the General Fund
- Amount equals any lost revenue under the State Education Tax or basic school operating mills

Requires levy to be approved in a statewide election held in August 2014

The Vote Under Public Act 408

Vote approves the local levy

- State directed to appropriate revenue in FY 2013-14 and FY 2014-15 for losses associated with debt mills No other reimbursements or replacement revenue until FY 2015-16
- Most local units will not receive revenue
 - 2.3% threshold to be a qualified municipality
 - Growth in other portions of the property tax base
- Units receiving revenue will not receive full replacement
 - Certain losses excluded
 - Levy from the special assessment
 - Revenue limit under the use tax levy

Vote does NOT approve the local levy

- State directed to appropriate revenue in FY 2013-14 and FY 2014-15 for losses associated with debt mills
- Exemption under PA 402 repealed
- None of the other exemptions become effective
- Other provisions under Public Acts 404, 406, 407 and 408 will not become effective

Figure 23

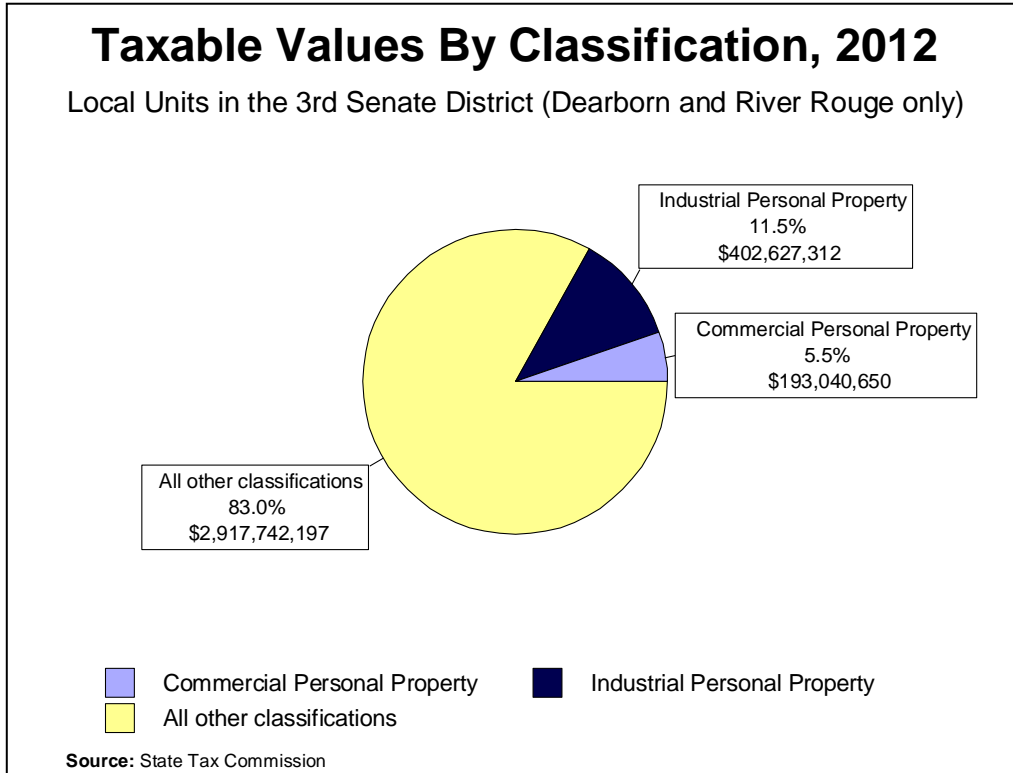


Figure 24

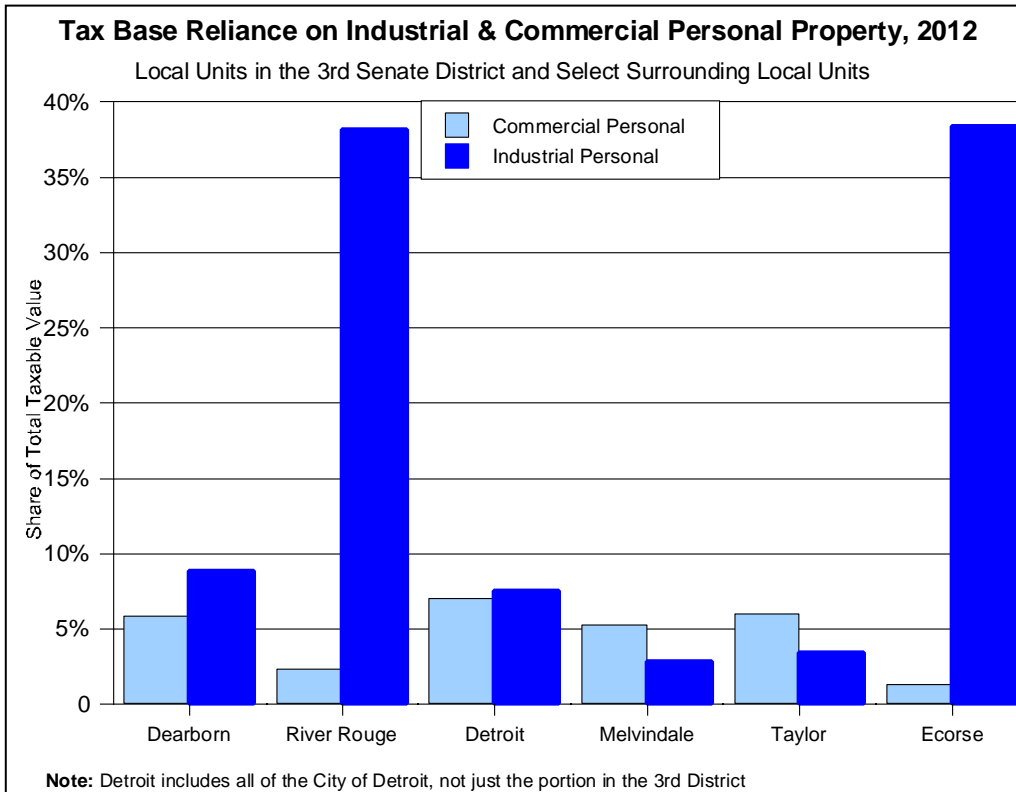


Figure 25

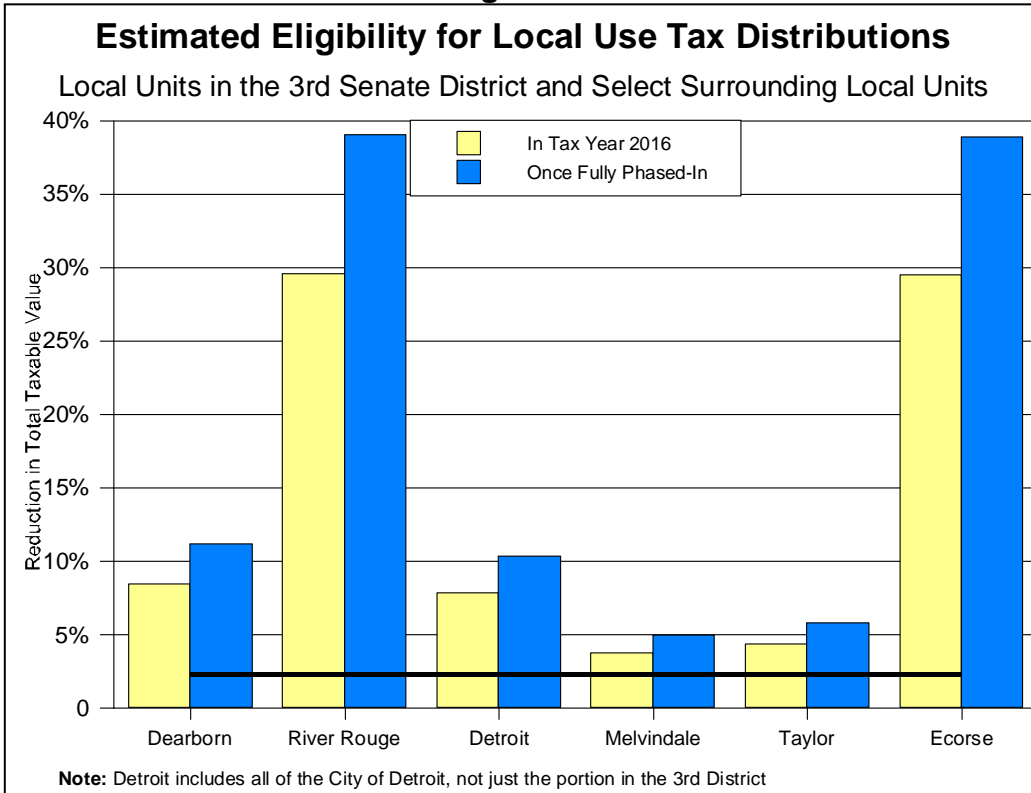


Figure 26

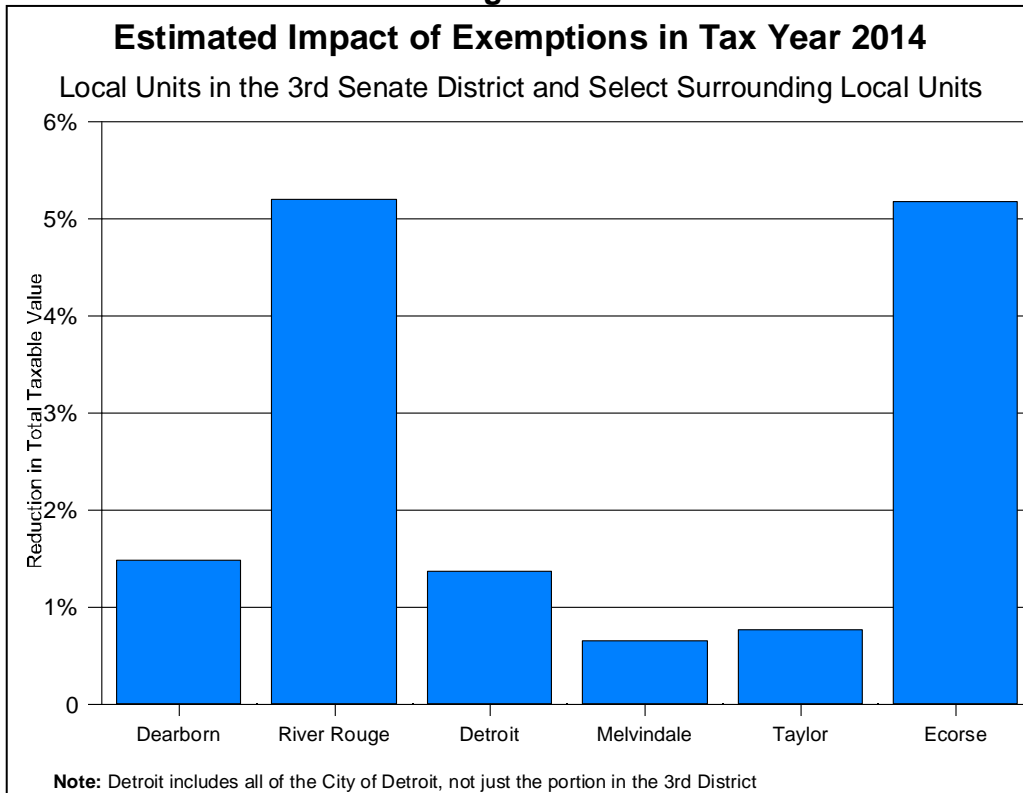


Figure 27

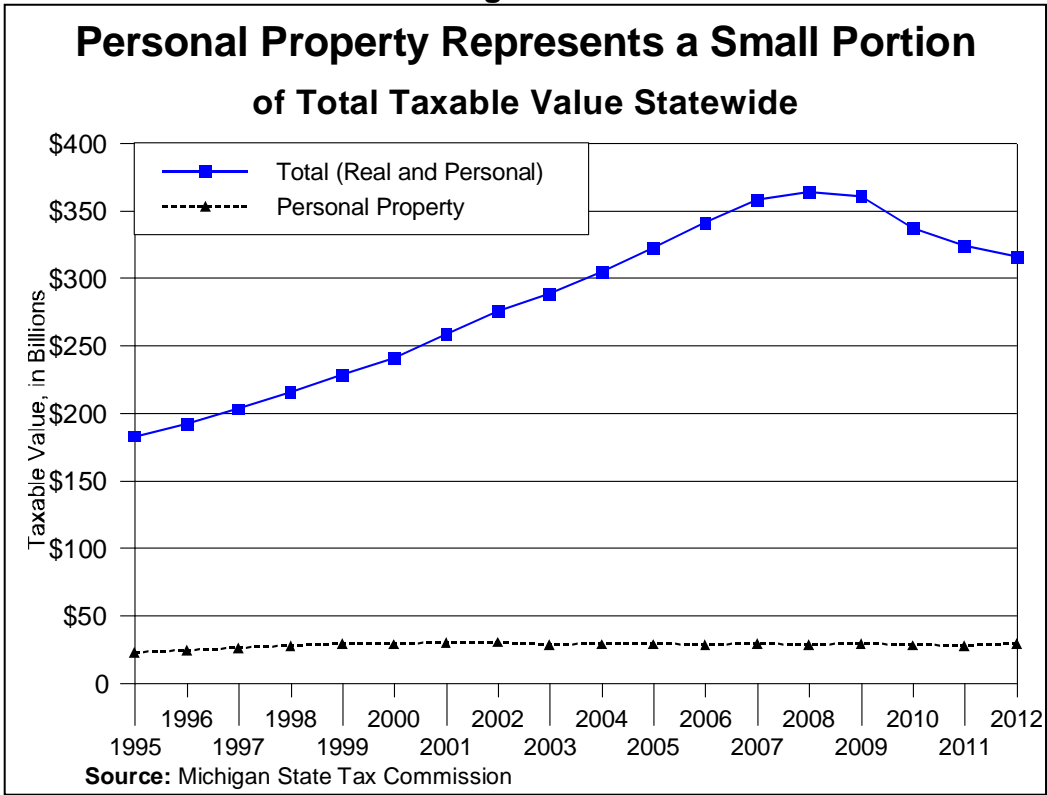


Figure 28

