

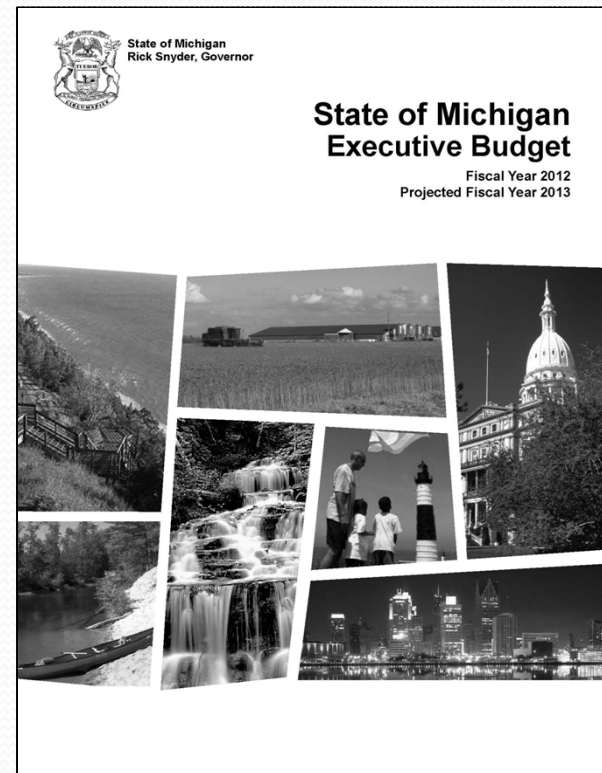
State of Michigan

Fiscal Year 2012 and Projected Fiscal Year 2013

Budget Recommendation

February 17, 2011

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Today's Presentation

- Our Focus
- The Budget Gap
- Resolving the Structural Deficit
- Key Budget Adjustments
- Critical Areas Maintained
- Q & A



Our Focus

Putting an end to crisis-management
and chronic budget issues

- Two-year spending plan
- Long-term fiscal solvency
- Program-specific adjustments
- Two omnibus budget bills
- Performance metrics and transparency
to assure value for money

...building a foundation for Michigan's reinvention.

The Budget Gap

FY 2011 – Current Year Budget

General Fund (GF) is currently balanced, however...

- Over \$300 million in risks—related to Medicaid changes, caseload growth, unemployment insurance loan interest payments and other spending pressures—are being closely monitored
- 14% of the FY11 GF budget is comprised of one-time solutions, principally federal recovery funds

The Budget Gap

FY 2012 – Projected

Based on Consensus Revenue Estimating Conference revenue projections, the total GF gap is \$1.4 billion

- Contributors to the Gap
 - Long-term structural imbalance between tax revenue and spending
 - End of \$900 million in federal recovery assistance
 - Spending pressures, including Medicaid and Family Independence Agency caseload growth as well as investment losses in pension funds

The Budget Gap

FY 2012 – Projected

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 Dollar	\$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)

Resolving the Structural Deficit

Governor Snyder's Gap Elimination Plan

- Brings spending into line without gimmicks or a general tax increase
- Provides \$1.5 billion in spending reductions, structural reforms and investments that encourage innovation, economic activity and long-term savings
- Creates incentive for best practices and accountability

Key Budget Adjustments

- Education
- Health Care & Human Services
- Public Safety
- Economic Development
- Revenue Sharing
- Employee Compensation

Education

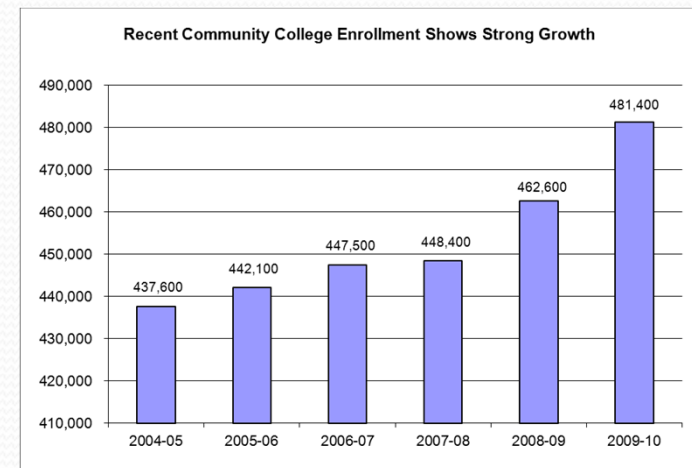
Investing in our Children's Future – at All Levels

- All Levels
 - Creates a State Education Funding Act to support Michigan's education system at all levels
 - Executive Budget totals \$13.8 billion, including \$12.2 billion for K-12, \$1.4 billion for higher education and \$296 million for community colleges
 - Maintains early childhood education at nearly \$110 million
- K-12
 - Maintains 95% of funding for school foundation grants, savings of \$452.5 million
 - Beginning in 2013, creates \$300 million incentive for districts that at a minimum require employees to share health care costs comparable to state employees

Education

Investing in our Children's Future – at All Levels

- Higher Education
 - Protects students and parents by providing tuition restraint incentives to Michigan's 15 public universities
 - Holds reduction to 15% if tuition incentive grants are earned
- Community Colleges
 - Rewards history of keeping tuition rates low and recognizes funding lost to declining property values by preserving funding at current levels
- Financial Aid
 - Merges major financial aid programs into needs-based Pathway to Higher Education scholarships for students attending public or private institutions, preserving current levels of funding



Health Care & Human Services

Safeguarding Michigan's Families & Children

- Community Health
 - Funds Medicaid budget at \$12 billion, including \$2 billion GF
 - Protects \$780 million in federal dollars for Michigan's health care providers
 - Broadens the tax base and proactively eliminates the federally-scrutinized HMO use tax
 - Maintains provider payment rates and current eligibility requirements

Health Care & Human Services

Safeguarding Michigan's Families & Children

- Human Services
 - Recommends \$6.9 billion in funding, including \$1.1 billion GF
 - Funds the Food Assistance Program with \$3.6 billion in federal dollars
 - Implements a 48-month lifetime limit for Family Independence Program recipients, providing a savings of \$77.4 million, including \$65 million GF
 - Reduces rates for unlicensed child care providers for a total of \$13.9 million in savings
 - Reduces detention and treatment beds for male youth by 20 at Maxey Training School and closes the 22-bed Shawono Center, for a total savings of \$787,000

Health Care & Human Services

Safeguarding Michigan's Families & Children

- Child Welfare Reform Investment
 - Recommends an additional \$69 million, including \$49 million GF, to support state staffing, private child-placing agencies, critical IT infrastructure and evaluation of program reforms to date
 - Builds on prior-year funding to bring total state investment over five years to \$273 million, including \$186 million GF
 - Fully funds anticipated caseload needs for the foster care and adoption subsidy programs, totaling \$435 million, including \$174 million GF
 - Sustains funding for family preservation and abuse prevention programs with \$55.4 million

Public Safety

Protecting our Citizens

- Corrections
 - Closes a prison late in FY11 for full-year savings of \$18.9 million
 - Eliminates public works program, competitively bids food service and prison store operations, creates supply chain transformations and administrative savings of \$32.3 million
- State Police
 - Restructures field services, strategically closing posts, while expanding investigative services in all districts, saving \$3.2 million
 - Makes other reductions, including consolidation of regional dispatch centers and an increase in fingerprint revenues, for a total of \$17.5 million in savings

Economic Development

Supporting Michigan's Growth

Provides funding for investment in critical business and economic development activities, including:

- Supports the Pure Michigan Campaign at \$25 million
- Promotes business attraction and economic gardening with \$50 million
- Funds innovation and entrepreneurship at \$25 million
- Provides a film incentive (replaces film tax credit) at \$25 million

State Employee Compensation

- Short-term Issues
 - Recommends employee concessions to be negotiated, for a savings of \$180 million GF
- Long-term Liability
 - Addresses \$14.5 billion Other Post-Employment Benefits (OPEB) health care liability; unlike the pension system, health care is paid for on a current or cash basis
 - Takes immediate action to address this growing fiscal obligation, beginning in FY 2012 with \$200 million in GF funding on an ongoing basis

Revenue Sharing

Incentive-based Reforms

- Constitutional Payments
 - Increases constitutional revenue sharing payments to cities, villages and townships by 4% or \$25.5 million
- Statutory Payments
 - Eliminates statutory revenue sharing for cities, villages and townships, saving \$92.1 million (only 29% currently receive this)
 - Creates \$200 million incentive-based program for local governments that meet specific standards/best practices; more details on this are coming in the March 2011 special message on government reform
 - Reduces county revenue sharing by 34%, saving \$51.8 million

Critical Areas Maintained

With a Strong Foundation for the Future

Total Fiscal Year 2012 budget:
\$45.9 billion





Questions & Answers