

**Consensus Revenue Agreement  
Executive Summary  
January 11, 2010**

**Economic and Revenue Forecasts  
Fiscal Years 2010 and 2011**



**Principals**

**Gary Olson, Director  
Senate Fiscal Agency**

**Mitch Bean, Director  
House Fiscal Agency**

**Robert J. Kleine, State Treasurer  
Michigan Department of Treasury**

**Staff**

**David Zin  
Senate Fiscal Agency**

**Rebecca Ross  
House Fiscal Agency**

**Jay Wortley  
Michigan Department of Treasury**

**Table 1**  
**Consensus Economic Forecast**

January 2010

|   | Calendar<br>2008<br>Actual | Calendar<br>2009<br>Forecast | Percent<br>Change<br>from Prior<br>Year | Calendar<br>2010<br>Forecast | Percent<br>Change<br>from Prior<br>Year | Calendar<br>2011<br>Forecast | Percent<br>Change<br>from Prior<br>Year |
|---|----------------------------|------------------------------|---|------------------------------|---|------------------------------|---|
| <b>United States</b>  |                            |                              |   |                              |   |                              |   |
| Real Gross Domestic Product<br>(Billions of Chained 2005 Dollars) | \$13,312                   | \$12,966                     | -2.6%                                   | \$13,251                     | 2.2%                                    | \$13,609                     | 2.7%                                    |
| Implicit Price Deflator GDP<br>(2005 = 100)                       | 108.5                      | 110.0                        | 1.2%                                    | 111.0                        | 0.9%                                    | 112.8                        | 1.6%                                    |
| Consumer Price Index<br>(1982-84 = 100)                           | 215.3                      | 214.7                        | -0.3%                                   | 220.5                        | 2.7%                                    | 225.6                        | 2.3%                                    |
| Consumer Price Index - Fiscal Year<br>(1982-84 = 100)             | 214.5                      | 213.8                        | -0.3%                                   | 219.1                        | 2.5%                                    | 224.1                        | 2.3%                                    |
| Personal Consumption Deflator<br>(2000 = 100)                     | 121.6                      | 122.0                        | 0.2%                                    | 124.4                        | 2.0%                                    | 126.5                        | 1.7%                                    |
| 3-month Treasury Bills<br>Interest Rate (percent)                 | 1.4                        | 0.2                          |   | 0.2                          |   | 0.9                          |   |
| Aaa Corporate Bonds<br>Interest Rate (percent)                    | 5.6                        | 5.3                          |   | 5.0                          |   | 4.9                          |   |
| Unemployment Rate - Civilian<br>(percent)                         | 5.8                        | 9.3                          |   | 10.2                         |   | 9.7                          |   |
| Housing Starts<br>(millions of starts)                            | 0.901                      | 0.580                        | -35.6%                                  | 0.710                        | 22.4%                                   | 1.100                        | 54.9%                                   |
| Light Vehicle Sales<br>(millions of units)                        | 13.2                       | 10.3                         | -22.0%                                  | 11.2                         | 8.7%                                    | 12.5                         | 11.6%                                   |
| Passenger Car Sales<br>(millions of units)                        | 6.8                        | 5.4                          | -20.6%                                  | 5.8                          | 7.4%                                    | 6.6                          | 13.8%                                   |
| Light Truck Sales<br>(millions of units)                          | 6.4                        | 4.9                          | -23.4%                                  | 5.4                          | 10.2%                                   | 5.9                          | 9.3%                                    |
| Import Share of Light Vehicles<br>(percent)                       | 25.4                       | 26.7                         |   | 25.5                         |   | 26.0                         |   |
| <b>Michigan</b>   |                            |                              |   |                              |   |                              |   |
| Wage and Salary Employment<br>(thousands)                         | 4,159                      | 3,876                        | -6.8%                                   | 3,791                        | -2.2%                                   | 3,757                        | -0.9%                                   |
| Unemployment Rate<br>(percent)                                    | 8.4                        | 14.1                         |   | 15.7                         |   | 15.3                         |   |
| Personal Income<br>(millions of dollars)                          | \$349,612                  | \$340,173                    | -2.7%                                   | \$343,575                    | 1.0%                                    | \$349,416                    | 1.7%                                    |
| Real Personal Income<br>(millions of 1982-84 dollars)             | \$170,752                  | \$167,145                    | -2.1%                                   | \$164,863                    | -1.4%                                   | \$164,508                    | -0.2%                                   |
| Wages and Salaries<br>(millions of dollars)                       | \$187,914                  | \$173,069                    | -7.9%                                   | \$171,338                    | -1.0%                                   | \$172,366                    | 0.6%                                    |
| Detroit Consumer Price Index<br>(1982-84 = 100)                   | 204.7                      | 203.5                        | -0.6%                                   | 208.4                        | 2.4%                                    | 212.4                        | 1.9%                                    |
| Detroit CPI Fiscal Year<br>(1982-84 = 100)                        | 204.6                      | 202.8                        | -0.9%                                   | 207.5                        | 2.3%                                    | 211.4                        | 1.9%                                    |

Table 1  
**January 2010 Consensus Forecast**  
(millions)

|                           | Net Revenue Estimates |                       |                       |                       |                       |                       |
|---------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                           | FY 2009               |                       | FY 2010               |                       | FY 2011               |                       |
|                           | May 2009<br>Consensus | Change<br>From<br>May | May 2009<br>Consensus | Jan 2010<br>Consensus | Change<br>From<br>May | Jan 2010<br>Consensus |
| <b>Net GF-GP Revenue</b>  | \$7,435.3             | (\$69.7)              | \$6,949.7             | \$6,898.4             | (\$51.3)              | \$6,968.4             |
| Growth                    | -20.6%                |                       | -6.5%                 | -6.3%                 |                       | 1.0%                  |
| <b>Net SAF Revenue</b>    | \$10,943.7            | (\$21.5)              | \$10,563.0            | \$10,458.1            | (\$105.0)             | \$10,480.5            |
| Growth                    | -4.9%                 |                       | -3.5%                 | -4.2%                 |                       | 0.2%                  |
| <b>Combined GF-GP/SAF</b> | \$18,378.9            | (\$91.2)              | \$17,512.7            | \$17,356.5            | (\$156.2)             | \$17,448.9            |
| Growth                    | -11.9%                |                       | -4.7%                 | -5.1%                 |                       | 0.5%                  |
|                           |                       |                       |                       |                       |                       | \$70.0                |
|                           |                       |                       |                       |                       |                       | \$22.4                |
|                           |                       |                       |                       |                       |                       | \$92.4                |

| Revenue Limit Calculation        |                  |                  |
|----------------------------------|------------------|------------------|
| Actual                           | FY 2009          | FY 2010          |
| Personal Income                  | \$345,885        | \$349,612        |
| Ratio                            | 9.49%            | 9.49%            |
| Revenue Limit                    | \$32,824.5       | \$33,178.2       |
| Revenue Subject to Limit         | \$25,105.8       | \$24,239.0       |
| <b>Amount Under (Over) Limit</b> | <b>\$7,718.7</b> | <b>\$8,939.2</b> |

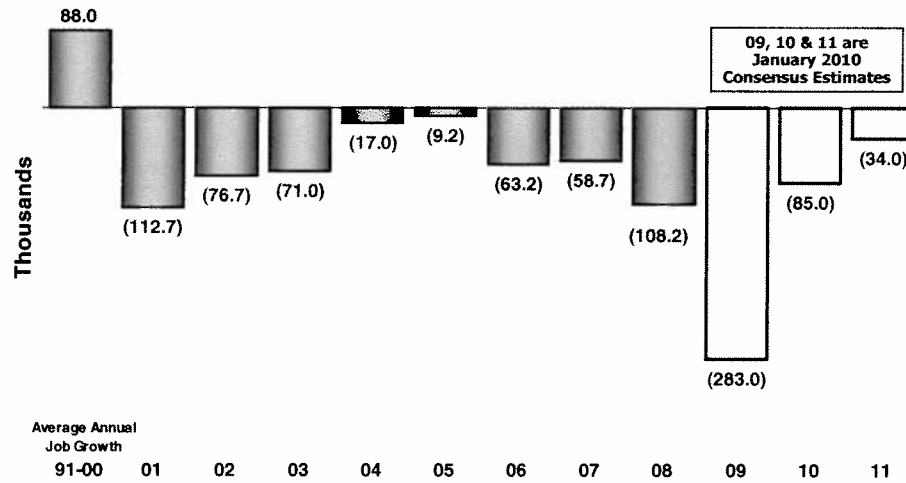
| Budget Stabilization Fund Calculation |          | School Aid Index          |         |
|---------------------------------------|----------|---------------------------|---------|
| FY 2010                               | FY 2011  | FY 2010                   | FY 2011 |
| Calculated Withdrawal                 | (\$89.7) | Revenue Adjustment Factor | 0.9798  |
| Calculated Withdrawal                 | (\$7.0)  | Pupil Membership Factor   | 1.0110  |
|                                       |          | School Aid Index          | 0.9906  |

Note: CY 2006 Personal Income is used for the FY 2008 revenue limit calculation, CY 2007 for FY 2009, CY 2008 for FY 2010 and CY 2009 for FY 2011.





# Job Growth in Michigan



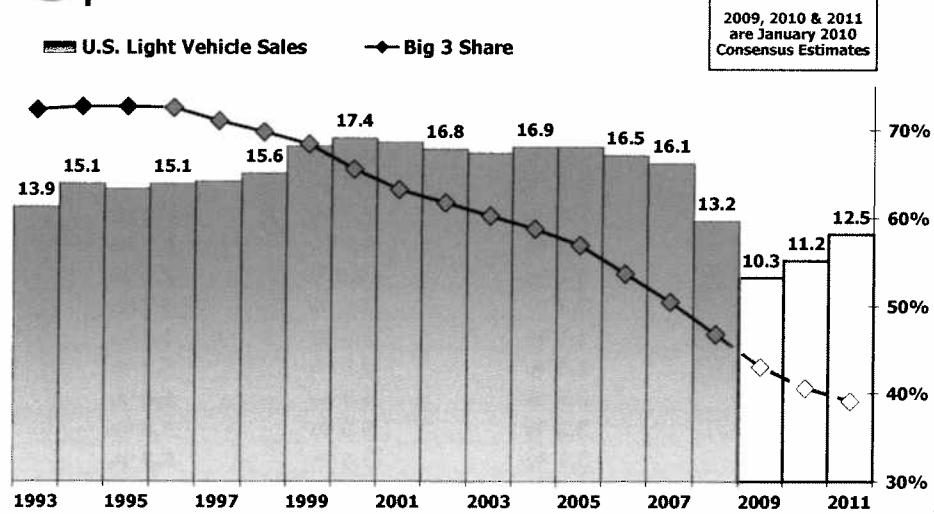
HOUSE OF FISCAL AGENCY

Source: U.S. Bureau of Labor Statistics and January 2010 Consensus Estimates

January 2010 1



# Big 3 Losing Market Share



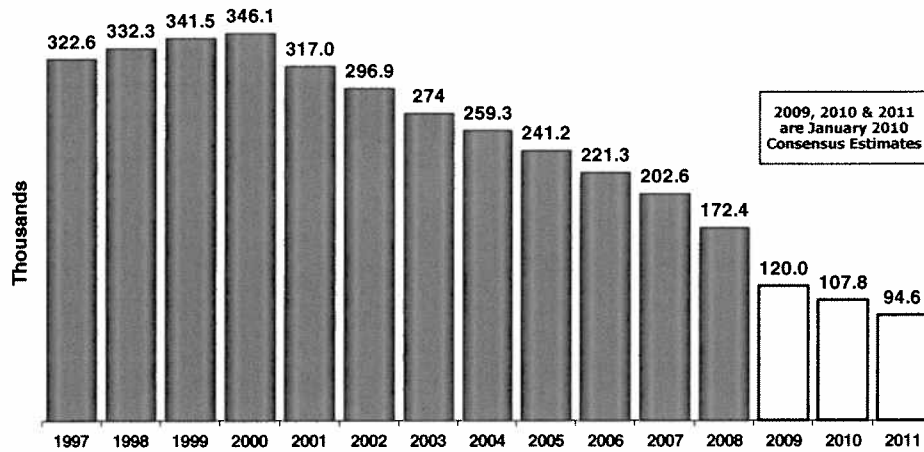
HOUSE OF FISCAL AGENCY

Source: Automotive News and January 2010 Consensus Estimates

January 2010 2



## Michigan Vehicle Employment



2009, 2010 & 2011 are January 2010 Consensus Estimates



Source: U.S. Bureau of Labor Statistics and January 2010 Consensus Estimates

January 2010 3



## Property Value Growth Slowing

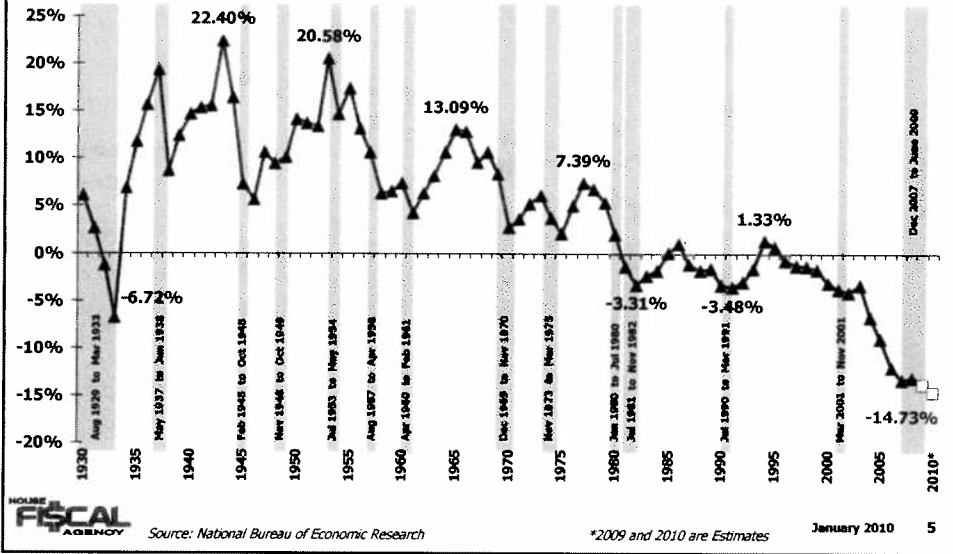
| Year | Yearly Change                          |                  |                            |
|------|--|------------------|----------------------------|
|      | Inflation Rate Multiplier for Property | Total SEV Growth | Total Taxable Value Growth |
| 1996 | 2.8 %                                  | 7.5 %            | 5.1 %                      |
| 1997 | 2.8 %                                  | 8.2 %            | 5.7 %                      |
| 1998 | 2.7 %                                  | 9.5 %            | 6.1 %                      |
| 1999 | 1.6 %                                  | 9.9 %            | 6.0 %                      |
| 2000 | 1.9 %                                  | 9.0 %            | 5.5 %                      |
| 2001 | 3.2 %                                  | 10.0 %           | 7.1 %                      |
| 2002 | 3.2 %                                  | 9.8 %            | 6.7 %                      |
| 2003 | 1.5 %                                  | 7.5 %            | 4.8 %                      |
| 2004 | 2.3 %                                  | 6.3 %            | 5.7 %                      |
| 2005 | 2.3 %                                  | 5.9 %            | 5.6 %                      |
| 2006 | 3.3 %                                  | 5.0 %            | 5.8 %                      |
| 2007 | 3.7 %                                  | 3.8 %            | 5.2 %                      |
| 2008 | 2.3 %                                  | -1.3 %           | 1.4 %                      |
| 2009 | 4.4 %                                  | -5.4 %           | -0.8 %                     |



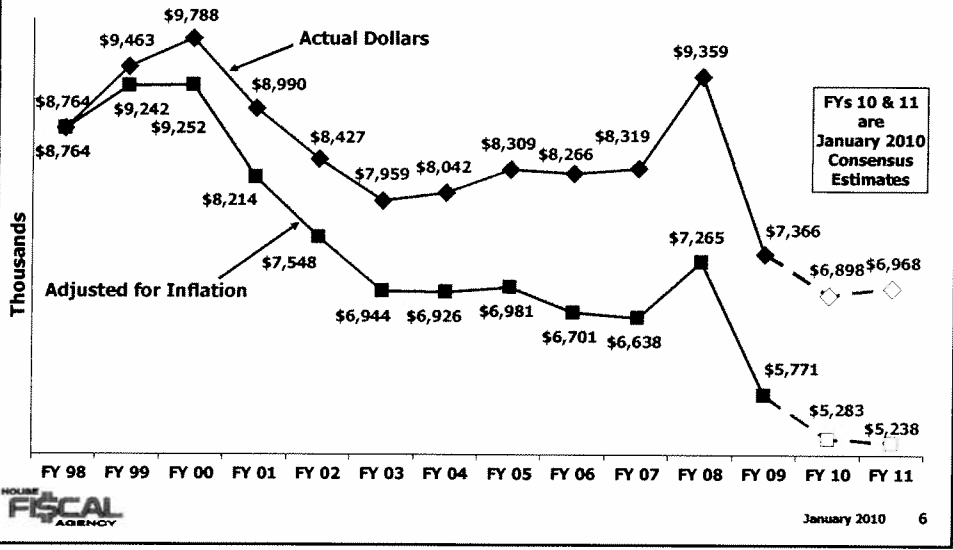
January 2010 4



## Michigan Per Capita Income Deviation from National Average

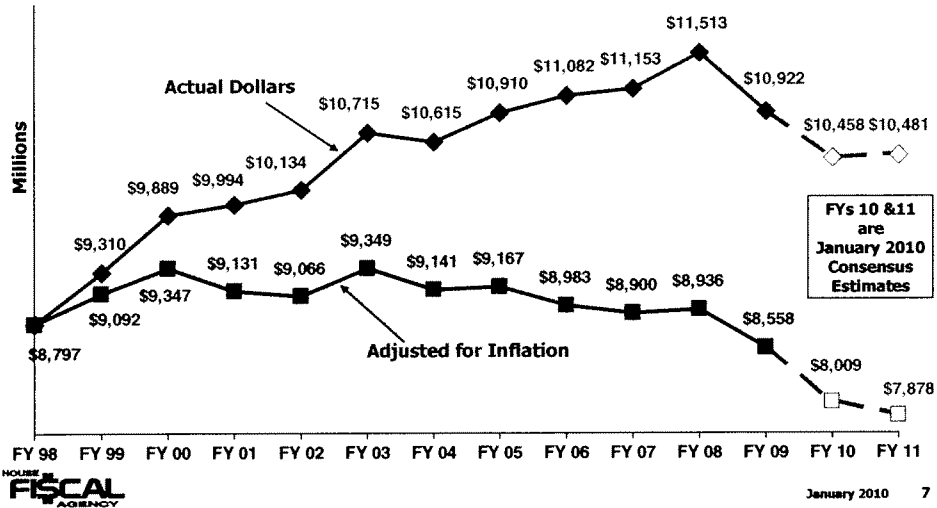


## Inflation Adjusted GF/GP Revenue Down 43.4% Since FY 2000

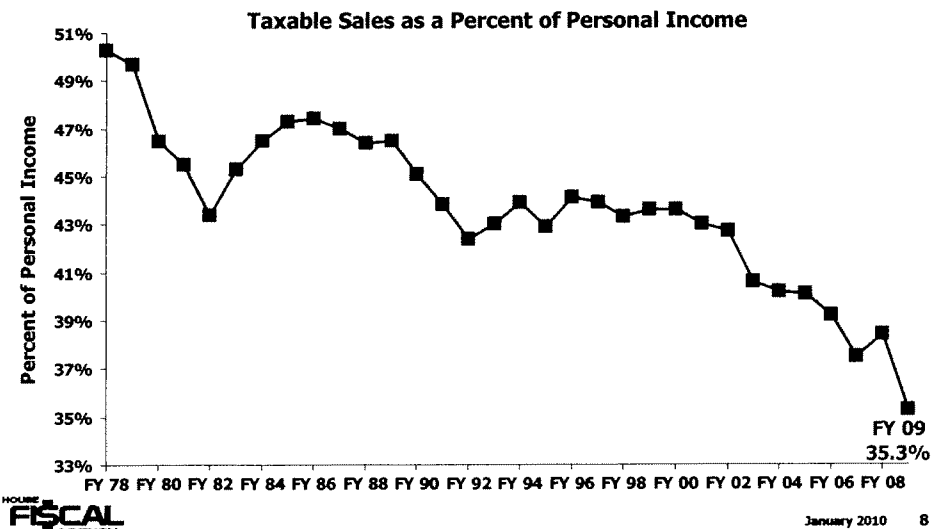




## Inflation Adjusted SAF Net Revenue Down 15.7% Since FY 2000



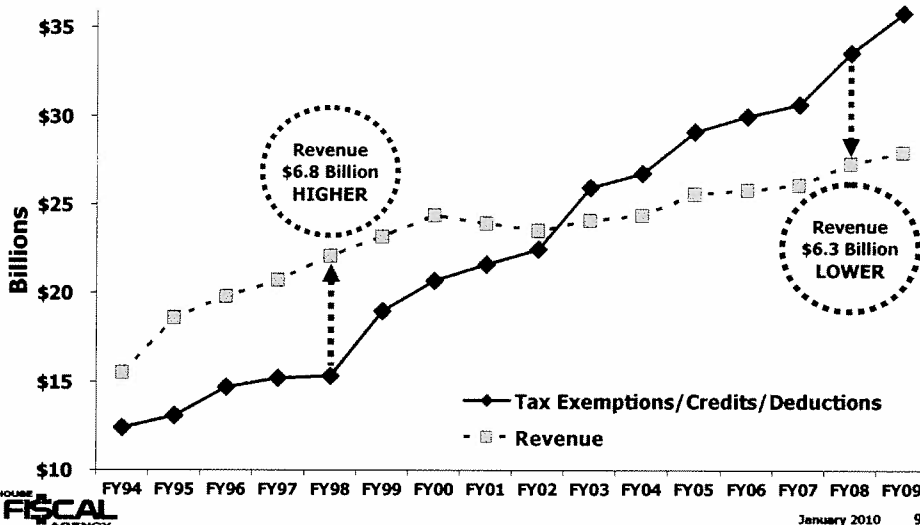
## Sales/Use Tax Share Declining







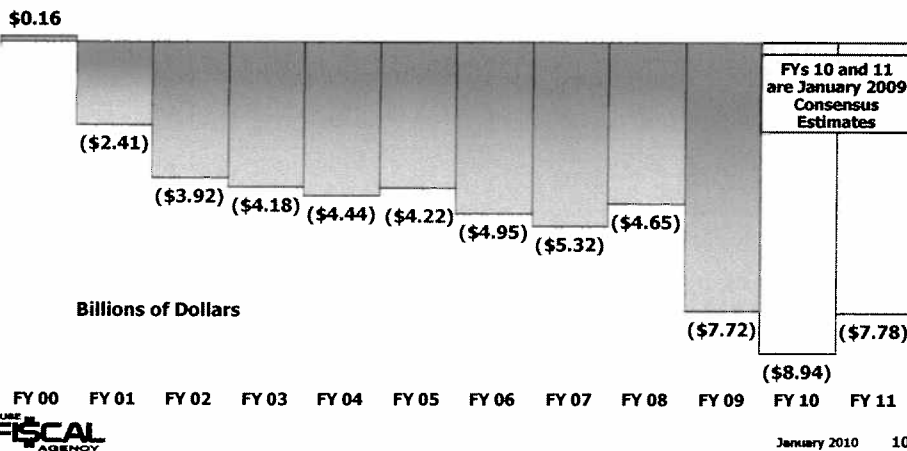
# Impact of Tax Exemptions/Credits/Deductions



# Constitutional Revenue Limit

Average growth of Michigan personal income = 2.7% per year from 2000 through 2011

Average decline of Michigan revenue = 0.1% per year from 2000 through 2011





## FORECAST COMPARISON

|                   |                  |                 |                    |                  |                 |                         |                       |
|-------------------|------------------|-----------------|--------------------|------------------|-----------------|-------------------------|-----------------------|
|                   |                  |                 |                    |                  |                 |                         |                       |
| <u>FY 2009-10</u> | <u>CONSENSUS</u> | <u>HFA</u>      | <u>FY 20010-11</u> | <u>CONSENSUS</u> | <u>HFA</u>      | <u>HFA DIFFERENCE</u>   | <u>FROM CONSENSUS</u> |
| GF/GP             | \$6,898.4        | \$6,890.8       | GF/GP              | \$6,968.4        | \$6,935.1       |                         | (\$33.3)              |
| SAF               | \$10,458.1       | \$10,438.2      | SAF                | \$10,480.5       | \$10,380.5      |                         | (\$100.0)             |
| TOTAL             | \$17,356.5       | \$17,329.0      | TOTAL              | \$17,448.9       | \$17,315.6      |                         | (\$133.3)             |
|                   |                  |                 |                    |                  |                 |                         |                       |
| <u>FY 2009-10</u> | <u>CONSENSUS</u> | <u>SFA</u>      | <u>FY 20010-11</u> | <u>CONSENSUS</u> | <u>SFA</u>      | <u>SFA DIFFERENCE</u>   | <u>FROM CONSENSUS</u> |
| GF/GP             | \$6,898.4        | \$6,805.6       | GF/GP              | \$6,968.4        | \$6,642.9       |                         | (\$325.5)             |
| SAF               | \$10,458.1       | \$10,471.3      | SAF                | \$10,480.5       | \$10,530.1      |                         | \$49.6                |
| TOTAL             | \$17,356.5       | \$17,276.9      | TOTAL              | \$17,448.9       | \$17,173.0      |                         | (\$275.9)             |
|                   |                  |                 |                    |                  |                 |                         |                       |
| <u>FY 2009-10</u> | <u>CONSENSUS</u> | <u>TREASURY</u> | <u>FY 20010-11</u> | <u>CONSENSUS</u> | <u>TREASURY</u> | <u>TREAS DIFFERENCE</u> | <u>FROM CONSENSUS</u> |
| GF/GP             | \$6,898.4        | \$6,909.9       | GF/GP              | \$6,968.4        | \$7,205.2       |                         | \$236.8               |
| SAF               | \$10,458.1       | \$10,478.6      | SAF                | \$10,480.5       | \$10,607.1      |                         | \$126.6               |
| TOTAL             | \$17,356.5       | \$17,388.5      | TOTAL              | \$17,448.9       | \$17,812.3      |                         | \$363.4               |
|                   |                  |                 |                    |                  |                 |                         |                       |
| <u>FY 2009-10</u> | <u>CONSENSUS</u> | <u>RSQE</u>     | <u>FY 20010-11</u> | <u>CONSENSUS</u> | <u>RSQE</u>     | <u>RSQE DIFFERENCE</u>  | <u>FROM CONSENSUS</u> |
| GF/GP             | \$6,898.4        | \$7,011.0       | GF/GP              | \$6,968.4        | \$7,086.0       |                         | \$117.6               |
| SAF               | \$10,458.1       | \$10,545.0      | SAF                | \$10,480.5       | \$10,531.0      |                         | \$50.5                |
| TOTAL             | \$17,356.5       | \$17,556.0      | TOTAL              | \$17,448.9       | \$17,617.0      |                         | \$168.1               |

**HFA GF/GP BALANCE SHEET: UPDATED 01/11/10**

| <u>LINE #</u> |   | <u>FY 2009-10</u> |
|---------------|---|-------------------|
| 1             | ESTIMATED BEGINNING BALANCE                       | \$176.7           |
| 2             | JAN CONSENSUS                                     | \$6,898.4         |
| 3             | REVENUE SHARING FREEZE/CUTS SAVINGS               | \$495.2           |
| 4             | SHORT TERM BORROWING TO SAF                       | \$45.0            |
| 5             | TRANSFER LPRF & CORP FEES TO GF                   | \$1.5             |
| 6             | TRANSFER SSFF TO GF                               | \$1.6             |
| 7             | TRANSFER TDEF TO GF                               | \$12.0            |
| 8             | REPLACE QAAP W/USE TAX                            | <u>\$339.5</u>    |
| 9             | SUBTOTAL  | \$7,969.9         |
|               | <b>ANTICIPATED REVENUES -- LEGISLATION NEEDED</b> |                   |
| 10            | TRANSFER 21st CENTURY JOBS TRUST FUND TO GF       | \$37.5            |
| 11            | TRANSFER MI RAIL ASSISTANCE BALANCE FUND TO GF    | \$5.8             |
| 12            | TRANSFER MERIT AWARD TRUST FUND TO GF             | <u>\$140.0</u>    |
| 13            | SUBTOTAL  | <u>\$183.3</u>    |
| 14            | ANTICIPATED REVENUES                              | \$8,153.2         |
| 15            | ENACTED EXPENDITURES                              | \$8,128.0         |
| 16            | ANTICIPATED REDUCTIONS                            |                   |
| 17            | UNSPECIFIED ADMIN SAVINGS                         | (\$10.0)          |
| 18            | EMPLOYEE CONCESSIONS                              | (\$27.5)          |
| 18            | CONTRACT SAVINGS                                  | <u>(\$20.0)</u>   |
| 19            | ANTICIPATED EXPENDITURES                          | \$8,070.5         |
| 20            | ANTICIPATED ENDING BALANCE (1)                    | \$82.7            |

(1) SBO believes most or all FY 2010 balance will be required to meet increased caseload costs.

**HFA GF/GP BALANCE SHEET: UPDATED 01/11/10**

| <u>LINE #</u> |   | <u>FY 2010-11</u> |
|---------------|---|-------------------|
| 1             | ESTIMATED BEGINNING BALANCE                 | \$0.0             |
| 2             | JAN CONSENSUS                               | \$6,968.4         |
| 3             | REVENUE SHARING FREEZE/CUTS SAVINGS         | \$427.3           |
| 4             | OTHER ADJUSTMENTS TO REVENUE                |                   |
| 5             | SHORT TERM BORROWING TO SAF                 | \$45.0            |
| 6             | TRANSFER LPRF & CORP FEES TO GF             | \$1.5             |
| 7             | TRANSFER TDEF TO GF                         | \$12.0            |
| 8             | REPLACE QAAP W/USE TAX                      | \$341.0           |
| 9             | TRANSFER 21st CENTURY JOBS TRUST FUND TO GF | \$37.5            |
| 10            | TRANSFER MERIT AWARD TRUST FUND TO GF       | <u>\$140.0</u>    |
| 11            |   |                   |
| 12            | ANTICIPATED REVENUES                        | \$7,972.7         |
| 13            | ENACTED EXPENDITURES                        | \$8,128.0         |
| 14            | FY 2010-11 EXPENDITURE ADJUSTMENTS          |                   |
| 15            | REPLACE FY 2010 ARRA                        | \$973.0           |
| 16            | FY 2011 ARRA SUPPLANTS GF                   | (\$209.0)         |
| 17            | REPLACE HE ARRA WITH GF                     | \$75.9            |
| 18            | DCH CASELOAD/UTILIZATION                    | \$150.0           |
| 19            | FMAP ADJUSTMENT DCH & DHS (ADMIN ESTIMATE)  | (\$85.0)          |
| 20            | ADDITIONAL DEBT SERVICE & SBA RENT          | \$84.3            |
| 21            | EMPLOYEE ECONOMICS                          | \$132.0           |
| 22            | DHS CASELOAD ADJUSTMENT                     | \$15.0            |
| 23            | OFFSET GF W/ADDITIONAL TANF                 | <u>(\$44.0)</u>   |
| 24            | ANTICIPATED EXPENDITURES                    | \$9,220.2         |
| 25            | ANTICIPATED ENDING BALANCE                  | (\$1,247.5)       |

**SCHOOL AID BALANCE SHEET**  
(Dollars In Millions)

**ESTIMATED REVENUE**

**ESTIMATES OF SCHOOL AID FUND**

|                             | <u>FY 2009-10</u> | <u>FY 2010-11</u> |
|-----------------------------|-------------------|-------------------|
| Beginning Balance           | \$229.2           | \$53.8            |
| Jan 2010 Revenue Conference | <u>\$10,458.1</u> | <u>\$10,480.5</u> |
| <i>Subtotal</i>             | \$10,687.3        | \$10,534.3        |

**ESTIMATED OTHER SCHOOL AID REVENUE**

|                                    |                  |                  |
|------------------------------------|------------------|------------------|
| General Fund/General Purpose Grant | \$30.2           | \$30.2           |
| ARRA                               | \$450.0          | \$184.1          |
| Federal Aid                        | <u>\$1,601.8</u> | <u>\$1,601.8</u> |
| <i>Subtotal</i>                    | \$2,082.0        | \$1,816.1        |

**TOTAL REVENUE**

\$12,769.3                      \$12,350.4

**ESTIMATED EXPENDITURES**

\$12,715.5                      \$12,774.4

**BALANCE**

\$53.8                              (\$424.0)

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MEMORANDUM



**DATE:** January 20, 2010  
**TO:** House Appropriations Committee  
**FROM:** Mitchell E. Bean, Director *MB*  
**RE:** School Districts with Negative Fund Balance

At the end of FY 2008-09, there were 40 districts with a negative fund balance. It is difficult to know for sure how many districts will be in deficit by the end of FY 2009-10. There are 76 additional districts which could be in danger of being in deficit because their fund balance at the end of FY 2008-09 was less than their lost school aid revenue from the \$165 per pupil reduction made in FY 2009-10.

However, those districts may have adjusted their current year expenditures in order to bring spending in line with those revenue reductions in order to end the year in balance. While the \$165 per pupil reduction has a significant impact on district budgets, another major factor is the loss of pupils over anticipated levels which could add to the number of districts in deficit.

It is too soon to be able to project how many districts could be in deficit for FY 2010-11. Even with an estimated revenue shortfall for School Aid which could equate to a \$268 per pupil reduction, districts still have over 5 months to adopt their budgets for the following school year and reduce expenditures in anticipation of such reductions.

Attachment

### School Districts in Deficit as of June 30, 2009

| District Code | District                                      | FY 2008-09<br>General Fund<br>Current Operating<br>Expenditures | FY 2008-09<br>Year End<br>Deficit | Deficit as<br>Percent of<br>GF COE |
|---------------|---|---|-----------------------------------|------------------------------------|
| 04901         | Bingham Academy                               | \$1,214,508   | -\$138,097                        | -11.37%                            |
| 11010         | Benton Harbor Area Schools                    | \$41,888,723  | -\$11,523,786                     | -27.51%                            |
| 11905         | Dream Academy                                 | \$1,360,611   | -\$42,593                         | -3.13%                             |
| 31010         | Hancock Public Schools                        | \$6,780,957   | -\$1,605,570                      | -23.68%                            |
| 32090         | Owendale-Gagetown Area Schools                | \$1,873,304   | -\$27,472                         | -1.47%                             |
| 35020         | Hale Area Schools                             | \$5,911,734   | -\$117,633                        | -1.99%                             |
| 38903         | Jackson Arts and Technology PSA               | \$1,347,498   | -\$127,800                        | -9.48%                             |
| 46080         | Hudson Area Schools                           | \$8,350,846   | -\$195,898                        | -2.35%                             |
| 47010         | Brighton Area Schools                         | \$56,372,633  | -\$2,396,282                      | -4.25%                             |
| 49040         | Les Cheneaux Community Schools                | \$3,324,530   | -\$46,473                         | -1.40%                             |
| 50020         | East Detroit Public Schools                   | \$49,632,900  | -\$3,813,147                      | -7.68%                             |
| 50070         | Clintondale Community Schools                 | \$31,727,507  | -\$5,230,637                      | -16.49%                            |
| 50160         | Mt. Clemens Community School District         | \$25,205,873  | -\$949,010                        | -3.77%                             |
| 50170         | New Haven Community Schools                   | \$11,989,312  | -\$394,143                        | -3.29%                             |
| 52110         | Republic-Michigamme Schools                   | \$1,691,852   | -\$64,519                         | -3.81%                             |
| 52180         | Ishpeming Public School District              | \$7,646,502   | -\$468,964                        | -6.13%                             |
| 61020         | Muskegon Heights School District              | \$22,033,838  | -\$1,340,713                      | -6.08%                             |
| 63030         | Pontiac City School District                  | \$94,227,114  | -\$8,533,503                      | -9.06%                             |
| 63070         | Avondale School District                      | \$37,126,367  | -\$1,102,339                      | -2.97%                             |
| 63130         | Hazel Park City School District               | \$54,181,197  | -\$1,774,492                      | -3.28%                             |
| 63250         | Oak Park City School District                 | \$46,439,929  | -\$3,032,012                      | -6.53%                             |
| 63919         | Woodmont Academy                              | \$2,852,355   | -\$49,997                         | -1.75%                             |
| 66045         | Ewen-Trout Creek Consolidated School District | \$2,701,755   | -\$1,087,795                      | -40.26%                            |
| 70901         | Walden Green Montessori                       | \$1,444,368   | -\$193,744                        | -13.41%                            |
| 80040         | Covert Public Schools                         | \$11,027,698  | -\$1,002,758                      | -9.09%                             |
| 81020         | School District of Ypsilanti                  | \$50,541,481  | -\$2,212,805                      | -4.38%                             |
| 81150         | Willow Run Community Schools                  | \$23,619,791  | -\$3,007,673                      | -12.73%                            |
| 81907         | Victory Academy Charter School                | \$1,131,079   | -\$47,368                         | -4.19%                             |
| 82010         | Detroit City School District                  | \$1,178,119,496   | -\$218,969,421                    | -18.59%                            |
| 82050         | Garden City School District                   | \$44,725,994  | -\$471,497                        | -1.05%                             |
| 82060         | Hamtramck Public Schools                      | \$28,928,289  | -\$1,118,967                      | -3.87%                             |
| 82070         | Highland Park City Schools                    | \$29,345,494  | -\$3,070,471                      | -10.46%                            |
| 82080         | School District of the City of Inkster        | \$30,233,860  | -\$10,049,858                     | -33.24%                            |
| 82120         | River Rouge School District                   | \$13,293,089  | -\$2,166,650                      | -16.30%                            |
| 82240         | Westwood Community Schools                    | \$23,473,023  | -\$2,664,334                      | -11.35%                            |
| 82250         | Ecorse Public School District                 | \$10,707,423  | -\$239,538                        | -2.24%                             |
| 82716         | Vista Meadows Academy                         | \$420,607   | -\$4,216                          | -1.00%                             |
| 82903         | Aisha Shule/WEB Dubois Prep. Academy School   | \$2,211,414   | -\$186,855                        | -8.45%                             |
| 82959         | West Village Academy                          | \$4,025,709   | -\$10,381                         | -0.26%                             |
| 82992         | Northpointe Academy                           | \$2,447,110   | -\$126,906                        | -5.19%                             |



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MEMORANDUM



**DATE:** January 20, 2010  
**TO:** House Appropriations Committee  
**FROM:** Mitchell E. Bean, Director *MEB*  
**RE:** Potential Budget Cuts

We produced this list of potential budget cuts because numerous Members have posed the question; "If the Legislature were to reduce the General Fund/General Purpose (GF/GP) budget by over \$1 billion in FY 2010-11, what types of budget cuts would need to be considered?"

Most of the GF/GP budget is concentrated in these areas:

1. Colleges and Universities represent 22.2% of GF/GP spending,
2. DCH represents 28.3% of GF/GP spending,
3. DOC represents 23.4% of GF/GP spending,
4. DHS represents 10.5% of GF/GP spending,
5. and MSP represents 3.3% of GF/GP spending.
6. Debt service represents 4% of GF/GP spending, but that must be paid.

Combined they represent about 92% of GF/GP spending this year. Hence, the Legislature would need to take a serious look at cuts in these five areas -- excluding debt service. In addition, the Legislature would need to consider cuts to statutory revenue sharing.

The following list contains potential options to cut the budget. It is important to note that they are not my recommendations, but should be considered options.

It is also important to note that each cut has important consequences that I would urge the Legislature to consider before they make any decision.

Attachment

Potential FY 2010-11 GF/GP Reductions

| Item #                  | Item  | Gross                | Fed Funds Lost       | GF/GP Savings        |
|-------------------------|---|----------------------|----------------------|----------------------|
| <b>AGRICULTURE</b>      |   |                      |                      |                      |
| 1                       | 20% reduction: Administrative reductions, staff layoffs, etc.                           | 6,010,100            |                      | 6,010,100            |
|                         | <b>Total</b>  | <b>6,010,100</b>     |                      | <b>6,010,100</b>     |
| <b>ATTORNEY GENERAL</b> |   |                      |                      |                      |
| 1                       | 20% reduction: Administrative reductions, staff layoffs, etc.                           | 5,757,000            |                      | 5,757,000            |
|                         | <b>Total</b>  | <b>5,757,000</b>     |                      | <b>5,757,000</b>     |
| <b>CIVIL RIGHTS</b>     |   |                      |                      |                      |
| 1                       | 20% reduction: Administrative reductions, staff layoffs, etc.                           | 2,341,300            |                      | 2,341,300            |
|                         | <b>Total</b>  | <b>2,341,300</b>     |                      | <b>2,341,300</b>     |
| <b>COMMUNITY HEALTH</b> |   |                      |                      |                      |
| 1                       | Protection and advocacy services support - eliminate                                    | 194,400              | 0                    | 194,400              |
| 2                       | CMH non-Medicaid services - eliminate   | 287,468,000          | 0                    | 287,468,000          |
| 3                       | Medicaid adults benefits waiver (mental health) - eliminate                             | 40,000,000           | 29,692,000           | 10,308,000           |
| 4                       | Multicultural services - eliminate  | 6,823,800            | 0                    | 6,823,800            |
| 5                       | State disability assistance program substance abuse - eliminate                         | 2,243,100            | 0                    | 2,243,100            |
| 6                       | Local public health operations - 50% GF/GP reduction                                    | 17,466,400           | 0                    | 17,466,400           |
| 7                       | Healthy Michigan Fund projects* - 50% Healthy Michigan Fund reduction for GF/GP savings | 5,476,800            | 0                    | 5,476,800            |
| 8                       | Michigan Health Initiative Fund appropriations* - eliminate                             | 9,100,000            | 0                    | 9,100,000            |
| 10                      | Aging - community services - 50% GF/GP reduction  | 6,713,400            | 0                    | 6,713,400            |
| 11                      | Aging - nutrition services - 50% GF/GP reduction  | 4,775,100            | 0                    | 4,775,100            |
| 12                      | Senior volunteer programs (3 line items) - eliminate                                    | 4,853,200            | 0                    | 4,853,200            |
| 13                      | Aging - respite care program - eliminate Merit Award Trust Fund dollars                 | 4,468,700            | 0                    | 4,468,700            |
| 14                      | Optional Medicaid services, elimination (1)   |                      |                      |                      |
|                         | Mental health and substance abuse (2)   | 1,663,111,400        | 1,218,561,700        | 444,549,700          |
|                         | Pharmacy services (including HMO drug costs)  | 666,594,400          | 488,413,700          | 178,180,700          |
|                         | Adult home help   | 264,057,900          | 195,405,700          | 68,652,200           |
|                         | MiChoice - home and community-based services  | 176,426,800          | 126,685,200          | 49,741,600           |
|                         | Hospice services  | 104,666,000          | 71,623,500           | 33,042,500           |
|                         | Medical supplies, orthotics, prosthetics  | 53,318,600           | 39,066,500           | 14,252,100           |
|                         | Intermediate care facilities for the mentally retarded                                  | 33,183,500           | 24,313,600           | 8,869,900            |
|                         | Personal care services  | 20,463,400           | 14,000,000           | 6,463,400            |
|                         | Clinical services (local health departments)  | 2,812,200            | 2,060,500            | 751,700              |
| 15                      | Medicaid provider rate reduction, 1%  | 44,372,200           | 32,511,500           | 11,860,700           |
| 16                      | Medicaid adult benefits waiver (physical health) - eliminate                            | 138,871,700          | 115,838,300          | 23,033,400           |
|                         | <b>Total</b>  | <b>3,557,461,000</b> | <b>2,358,172,200</b> | <b>1,199,288,800</b> |

Potential FY 2010-11 GF/GP Reductions

| Item # | Item | GF/GP Savings |
|--------|------|---------------|
|--------|------|---------------|

- (1) Expenditures (except pharmacy) do not include optional services provided through Medicaid health plans.
- (2) A component of mental health and substance abuse capitation payments to CMHSPs are optional, but the data to separately identify mandatory and optional services is not readily available.

Note: ARRA provisions prohibit states from eliminating Medicaid eligibility for any specific groups currently covered by the program through January 1, 2011. Funding reductions in certain areas (mental health/substance abuse, home help, MiChoice, pharmacy services) are likely to create offsetting state costs in other areas.

**CORRECTIONS**

|   |  |                    |
|---|--|--------------------|
| 1 | Reduce prisoner population by 12,000-15,000 (equivalent of 8-10 prison facilities) | 200,000,000        |
|   | <b>Total</b>   | <b>200,000,000</b> |

Operational areas (transportation and food service logistics) can be further improved, but there are few alternatives to further reducing prisoner population, because prison costs constitute roughly 85% of Corrections budget. As a general rule, about one-third of savings tied to prison closures should be reinvested in additional services/sanctions/supervision needed to adequately manage the additional offenders in the community. So, to save \$200 million, bed closures would have to generate \$300 million in savings by reducing prisoner population by 12,000-15,000 prison beds--equivalent to closing another 8-10 prisons. As of November 2009, there were fewer than 11,500 prisoners eligible for parole, over 1,500 of whom already had paroles in hand and were awaiting release. Another 1,300 had been approved for parole but were under deferrals to determine the need for any further programming. So total potential pool of additional parolees was only about 8,600; given department's recent efforts in identifying prisoners for parole, probably many of the 8,600 would not be considered good candidates for parole.

**EDUCATION**

|   |  |                  |
|---|--|------------------|
| 1 | Administrative reductions, staff layoffs, etc. | 1,575,600        |
| 2 | Library of Michigan operations                 | 1,070,300        |
| 3 | State aid to libraries                         | 1,040,000        |
| 4 | Eliminate book distribution centers            | 200,000          |
|   | <b>Total</b>                                   | <b>3,885,900</b> |

**ENERGY, LABOR, ECON GROWTH**

|   |   |                   |
|---|---|-------------------|
| 1 | No worker left behind - eliminate General Fund support    | 4,500,000         |
| 2 | Reduce Welfare-to-Work                                    | 2,609,800         |
| 3 | Fire Services - General Fund shift to fire fees (HB 4026) | 2,600,000         |
| 4 | Worker's Comp/Board of Magistrates automation options     | 633,800           |
| 5 | Eliminate Nursing Corps                                   | 300,000           |
| 6 | Eliminate Commission on Spanish Speaking Affairs          | 259,500           |
|   | <b>Total</b>  | <b>10,903,100</b> |

**EXECUTIVE OFFICE**

|   |  |                |
|---|--|----------------|
| 1 | 20% reduction (excluding Governor and Lt. Governor salaries); Administrative reductions, staff layoffs, etc. | 892,700        |
|   | <b>Total</b>   | <b>892,700</b> |

Potential FY 2010-11 GF/GP Reductions

GF/GP Savings

Item # Item

HIGHER EDUCATION/COMMUNITY COLLEGES

- 1 State university/community college operations - maximum reduction under ARRA MOE requirement
- 2 Financial aid and grants - eliminate all remaining state funding, shift Merit Award Trust Fund to GF

7,100,000  
80,564,700  
**87,664,700**

Total

HUMAN SERVICES

|  | Gross             | Fed Funds Lost    | GF/GP Savings     |
|--|-------------------|-------------------|-------------------|
| 1 State disability assistance program- eliminate   | 35,952,000        | 0                 | 26,123,700        |
| 2 Michigan Community Service Commission - eliminate  | 9,101,600         | 8,439,500         | 662,100           |
| 3 Bureau of Child and Adult Licensing - 25% reduction (redirect federal funding to other programs) | 5,890,700         | 0                 | 5,890,700         |
| 4 Crisis prevention & Elder Law of Michigan Food for the Elderly Project - eliminate               | 150,000           | 0                 | 150,000           |
| 5 Domestic violence and rape prevention programs - eliminate GF/GP and redirect restricted revenue | 4,417,200         | 1,400,000         | 3,017,200         |
| 6 Regional detention support services - eliminate  | 1,396,600         | 0                 | 1,396,600         |
| 7 SSI Advocacy contracts - eliminate   | 2,190,500         | 702,000           | 1,488,500         |
| 8 Estimated discretionary component of SSI supplements - eliminate                                 | 1,500,000         | 0                 | 1,500,000         |
| 9 Food Bank Council funding - eliminate GF/GP  | 1,095,000         | 0                 | 1,095,000         |
| 10 Homeless Programs funding for non-TANF eligibles - eliminate                                    | 6,988,000         | 0                 | 6,988,000         |
| 11 Multicultural integration funding - eliminate and redirect TANF                                 | 1,815,500         | 910,700           | 904,800           |
| 12 Indigent Burial program - eliminate and redirect TANF   | 4,209,300         | 0                 | 4,209,300         |
| 13 Emergency Services funding for non-TANF eligibles - eliminate                                   | 10,000,000        | 0                 | 10,000,000        |
| <b>Total</b>   | <b>84,706,400</b> | <b>11,452,200</b> | <b>63,425,900</b> |

Additional Option: End participation in the federal Temporary Assistance for Needy Families (TANF) program. State would forfeit \$775 million in federal funding, but also relieve itself of obligation to meet \$499 million maintenance of effort requirement. With no MOE requirement, Michigan could eliminate state EITC, eliminate certain School Aid categoricals, and eliminate DHS public assistance programs. This would also impact TANF programs in DCH and DELEG.

Note: Significant program reductions within TANF-eligible programs are not feasible due to State Maintenance of Effort (MOE) requirements; similarly, reductions to child welfare programs are limited by the requirements of the state's child welfare lawsuit settlement.

JUDICIARY

- 1 20% reduction (excluding judicial salaries): Administrative reductions, staff layoffs, Court Equity Fund, etc.

12,937,400  
**12,937,400**

Total

LEGISLATIVE AUDITOR GENERAL

- 1 20% reduction (excluding judicial salaries): Administrative reductions, staff layoffs, etc.

2,324,000  
**2,324,000**

Total

Potential FY 2010-11 GF/GP Reductions

| Item #                                     | Item  | GF/GP Savings     |
|--|---|-------------------|
| <b>LEGISLATURE</b>                         |   |                   |
| 1  | 20% reduction (excluding legislators' salaries): Administrative reductions, staff layoffs, etc. | 18,456,800        |
|  | <b>Total</b>  | <b>18,456,800</b> |
| <b>MILITARY &amp; VETERANS AFFAIRS</b>     |   |                   |
| 1  | Reduce staff at veterans homes  | 4,300,000         |
| 2  | Eliminate veterans services organization grants   | 3,029,600         |
|  | <b>Total</b>  | <b>7,329,600</b>  |
| <b>NATURAL RESOURCES &amp; ENVIRONMENT</b> |   |                   |
| 1  | Replace General Fund with new wildfire protection fee   | 3,214,400         |
| 2  | Environmental Quality - offset General Fund with new source review permit fees                  | 2,000,000         |
| 3  | Administrative reductions, staff layoffs, etc.  | 3,575,500         |
|  | <b>Total</b>  | <b>8,789,900</b>  |
| <b>STATE</b>                               |   |                   |
| 1  | 20% reduction: Administrative reductions, staff layoffs, etc.                                   | 3,591,100         |
|  | <b>Total</b>  | <b>3,591,100</b>  |
| <b>STATE POLICE</b>                        |   |                   |
| 1  | Eliminate all 998 road patrol troopers - savings net of unemployment costs                      | 70,000,000        |
|  | <b>Total</b>  | <b>70,000,000</b> |
| <b>TECHNOLOGY, MANAGEMENT &amp; BUDGET</b> |   |                   |
| 1  | 20% reduction (excluding SBA rent): Administrative reductions, staff layoffs, etc.              | 11,640,700        |
|  | <b>Total</b>  | <b>11,640,700</b> |
| <b>TREASURY-OPERATIONS</b>                 |   |                   |
| 1  | Administrative reductions, staff layoffs, etc. (excluding debt service)                         | 12,033,200        |
| 2  | Reduce Senior Cooperative and Renaissance Zone grants   | 3,502,400         |
| 3  | Reduce Payment in Lieu of Taxes   | 2,101,300         |
|  | <b>Total</b>  | <b>17,636,900</b> |

Potential FY 2010-11 GF/GP Reductions

| Item #                            | Item   | GF/GP Savings        |
|-----------------------------------|--|----------------------|
| <b>TREASURY-REVENUE SHARING</b>   |  |                      |
| 1                                 | Eliminate remaining statutory revenue sharing (restricted fund savings realized as GF revenue) | 314,200,000          |
|                                   | <b>Total</b>   | <b>314,200,000</b>   |
| <b>TREASURY-STRATEGIC FUND</b>    |  |                      |
| 1                                 | Economic Development Job Training grants - eliminate General Fund support                      | 4,690,200            |
| 2                                 | Administrative reductions, staff layoffs, etc.   | 737,000              |
| 3                                 | 21st Century Jobs Fund - eliminate remaining \$37.5 million, transfer to General Fund          | 37,500,000           |
|                                   | <b>Total</b>   | <b>42,927,200</b>    |
| <b>TOTAL POTENTIAL REDUCTIONS</b> |  |                      |
|                                   | <b>Gross</b>   | <b>4,459,627,500</b> |
|                                   | <b>Fed Funds Lost</b>  | <b>2,369,624,400</b> |
|                                   |  | <b>GF/GP Savings</b> |
|                                   |  | <b>2,090,003,100</b> |