



Michigan League FOR Human Services

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## Governor Granholm Issues FY2008 Executive Budget Proposal: Program Cuts, Tax Increases and Operational Reforms Recommended

On February 7th State Budget Director Bob Emerson and State Treasurer Robert Kleine outlined a series of proposed tax and program policy recommendations they indicated would address Michigan s' ongoing budget crisis while preparing Michigan s' workforce for a rapidly changing economy. The FY2008 Executive Budget proposal, issued in conjunction with a proposed FY2007 Executive Order necessitated by a significant current year deficit, included a series of spending reductions, net tax increases, and operational reforms intended to address an estimated shortfall of over \$3 billion.

In an effort to place the administration s' revenue and spending reduction proposals in context, the Governor noted in her Executive Budget transmittal letter that "I have cut spending more than any other governor before me. I have resolved \$4 billion in budget shortfalls. "The administration noted that these shortfalls were driven in large measure by \$3 billion in tax cuts in the last decade, resulting in a reduction of inflation adjusted General Fund revenues of nearly 30 percent.

Given the significant role tax reductions appear to have played in a fiscal crisis entering its seventh year, and the very significant program reductions instituted in response to that crisis, the Governor included several tax policy recommendations in the Executive Budget that Treasurer Kleine indicated would recapture about 1/3 of tax cuts of the last decade "in an effort to limit the magnitude of program reductions required to balance the state s budgets through FY2008.

### Tax Policy Recommendations

Included in the FY2008 Executive Budget are a series of tax policy proposals that would serve to increase, decrease or replace a broad range of existing state revenue sources. Most notably, a variety of business taxes, including the Single Business Tax scheduled for elimination on December 31, 2007, would be replaced by a Michigan Business Tax, reducing direct taxes on business by approximately \$578 million. Offsetting this decrease, and estimated to yield a total of \$1.474 billion in revenues, is a proposed 2 percent excise (sales) tax on non-excluded services purchased by businesses and the general public. (Notable exclusions from the proposed excise tax include health care and educational services, services purchased by governmental units and non-profits, purchases related to research and computer systems design, admissions to zoos and museums, and admissions to non-professional sports events.)

The following additional tax policy recommendations are estimated to increase net General Fund and School Aid Fund revenues in FY2008 by \$159.9 MIL: (Note: MIL = million)

1. Estate Tax on value over \$2 million excludes farms and small businesses and is estimated to impact approximately 350 (0.5 percent) Michigan estates annually \$119.2 MIL
2. Cigarette (5 cents per pack) and Other Tobacco Products (100 percent) Tax Increase \$57.6 MIL
3. Liquor Markup Increase \$28.9 MIL

- 4. Adopt New Commercial Rental Property Tax Linking Taxable Value with Occupancy Increases and Decreases \$5 MIL
- 5. Close a series of tax expenditure loopholes (exemptions, etc.) \$84.2 MIL
- 6. Insurance Company Premiums Tax \$40.0 MIL
- 7. Exempt trade-in value of motor vehicles from the 6 percent sales tax (\$175 MIL)

In addition to the tax policy recommendations outlined above, the Executive Budget proposed creating, increasing or extending twenty-nine state fees as detailed in the Senate Fiscal Agency table on the following page. These recommendations were projected to increase state revenues by \$115 million.

**Program and Spending Recommendations**

While the FY2008 Executive Budget recommendation reflects a 2.3 percent increase in total spending from year-to-date appropriations for FY2007 of \$41.64 billion roughly the rate of inflation projected over the coming fiscal year, spending from state revenue sources is expected to grow by only 1.8 percent. Within the General Fund budget, approximately \$700 million in proposed inflationary adjustments and program initiatives are partially offset by approximately \$336 million in program reductions and eliminations. While comprehensive lists of major General Fund spending increases and decreases prepared by the Senate Fiscal Agency are reflected in tables on pages 4 and 5 of this report, the following reflects many of the most significant Executive Budget recommendations:

**Major Inflation and Caseload Cost Increases**

- 2.5 percent adjustment to Higher Education and Community College appropriations \$43.7 MIL
- State Employee Salary and Wage, Insurance and Retirement cost adjustments \$147.8 MIL
- Medicaid Caseload, Utilization, Inflation and Rate Adjustments \$150.1 MIL
- Human Services Caseload Increases \$97.0 MIL
- Department of Corrections Bed Space and Pharmaceutical Cost Increases \$38.5 MIL
- General Obligation Debt Service \$19.9 MIL

**Major Program Reductions Savings**

- Parole and sentencing guideline reforms intended to reduce the prison population \$92 MIL
- Sanction increases and other policy changes for Public Assistance (PA) households \$60.4 MIL
- Reduce hours of reimbursable Day Care services for employed PA recipients \$28.6 MIL
- End Before and After School, Black Child and Family, and Teen Parent Programs \$7.3 MIL
- Eliminate the Tuition Grant Program for Private Colleges and Universities \$58.8 MIL
- Reduce Aid to Libraries by 50 percent \$26.1 MIL

**Education & Training, Economic Development and Governmental Reform Proposals**

- No Worker Left Behind Initiative (up to two years of free tuition for approved training) \$40.0 MIL
- Michigan Nursing Corps Initiative \$15.0 MIL
- Statewide expansion of the Jobs, Education and Training (JET) Program in DHS \$16.0 MIL
- Michigan Promotion Program \$10.0 MIL
- Alternative Energy Initiative \$7.0 MIL
- Michigan Long-term Care Expansion \$14.2 MIL
- Prison Re-entry Program Expansion \$20.8 MIL
- Child Welfare Program Expansion (includes funding for 257 staff) \$35.0 MIL
- Incentives for Local Unit of Government Service Delivery Efficiencies up to \$27.16 MIL

In addition to the above recommendations, the administration proposed depositing \$200 million in the Medicaid Benefits Trust Fund to address potential future program cost increases.

**Fee Increases Included in Governor's FY 2007-08 Budget**

Department/ Budget Area	Type of Fee	Estimate of New FY 2007-08 Revenue
Agriculture	Pesticide Applicator Fees	\$112,000
	Pet Shop License Fees	25,200
	Livestock Operations License Fees	20,500
	Horse Riding Stable License Fees	3,000
	Nursery Stock Fees	381,500
Education	Teacher Certification Fees (various)	\$1,504,400
	Teacher College Review Fees	54,000
Environmental Quality	Air Emissions Fees	\$16,576,000
	Groundwater Discharge Permit Fees	3,084,500
	Hazardous Waste User Fees	2,500,000
	Land and Water Permit Fees	6,200,000
	Mineral Well Regulatory Fees	75,000
	On-Site Wastewater Treatment Fees	598,000
	Pollution Prevention Program Fee	2,400,000
Solid Waste Surcharge Fees	6,000,000	
Human Services	Adult Foster Care/Child Day Care/Child Placing Licensing Fees	\$606,800
Judiciary	Court of Appeals Motion Fees	\$87,500
	Judiciary Local User Fees	1,693,000
Labor & Economic Growth	Corporation Fees	\$6,461,800
	Electrical, Mechanical, Plumbers, Inspectors License Fees	708,600
	Liquor License Fees	5,021,500
	Securities Fees	4,257,700
	License and Regulation Fees	2,611,100
Natural Resources	Hunting and Fishing License Fees	\$16,900,000
State Police	Fingerprint Fees	\$1,500,000
	Commercial Mobile Radio System Fees	700,000
	Liquor License Fees	2,597,500
Treasury	Commercial Mobile Radio System Fees	17,982,000
	Liquor License Fees	14,381,000
<b>Total .....</b>		<b>\$115,042,600</b>
	New Fees .....	\$ 4,745,000
	Increases of Existing Fees .....	58,294,800
	Extensions of Sunsets .....	52,002,800
	<b>Total.....</b>	<b>\$115,042,600</b>

**FY 2007-08 Governor's Appropriation Recommendation  
GF/GP Major Funding Increases  
(Millions of Dollars)**

<b>Department/Program</b>	
<b>Agriculture</b>	
Buy Michigan Promotion.....	\$0.5
<b>Community Colleges</b>	
Operations Funding Increase (2.5%) .....	7.1
Wayne County Community College Adjustment .....	0.2
Renaissance Zone Reimbursements .....	0.2
<b>Community Health</b>	
Medicaid Caseload/Utilization/Inflation.....	98.1
Medicaid Rates for HMOs and Community Mental Health.....	52.0
Medicaid Long-Term Care Expansion.....	14.2
<b>Corrections</b>	
Funding of Additional Beds .....	28.1
Prison Re-entry Program Expansion.....	20.6
Pharmaceutical Costs.....	10.4
Correctional Officer Training School .....	2.7
Correctional Facilities Staffing and Adjustments .....	7.0
Field Operations .....	1.3
Various Other Funding Adjustments .....	12.4
<b>Higher Education</b>	
Operations Funding Increase (2.5%) .....	36.6
Tuition Incentive Program .....	7.1
<b>Human Services</b>	
Family Independence Program Caseload.....	82.4
State Disability Assistance Caseload.....	3.6
Adoption Subsidy Caseload .....	11.0
Jobs Education and Training Program.....	16.1
Information Technology-Bridges Project.....	9.3
Child Welfare Program Expansions .....	35.0
<b>Labor and Economic Growth</b>	
No Worker Left Behind Program .....	40.0
Michigan Nursing Corps .....	15.0
<b>Strategic Fund Agency</b>	
Michigan Promotion Program.....	10.0
Alternative Energy Initiative.....	7.0
<b>Treasury</b>	
General Obligation Bond Debt Service .....	19.9
Neighborhood Enterprise Zones .....	0.2
Renaissance Zone Reimbursements .....	0.5
Revenue Enhancement Program.....	0.4
<b>Department Wide Economic Adjustments</b>	
Wage and Salary Increases .....	76.1
Employee Insurance Costs .....	30.1
Retirement Contributions.....	39.7
All Other Economic Adjustments.....	1.0
<b>Total Major Funding Increases .....</b>	<b>\$695.8</b>

**FY 2007-08 Governor's Appropriation Recommendation  
GF/GP Major Funding Reductions  
(Millions of Dollars)**

<b><u>Department/Program</u></b>	
<b>Agriculture</b>	
Eliminate Local Soil Conservation District Grants .....	\$ (1.5)
<b>Community Health</b>	
Disproportionate Share Hospital Payments .....	(2.1)
Medicaid Long-Term Care Reductions .....	(14.4)
Healthy Michigan Fund Reductions .....	(9.9)
<b>Corrections</b>	
Reduction in Population and Intake of Nonviolent Offenders .....	(92.0)
<b>Environmental Quality</b>	
Drinking Water Revolving Loan Fund .....	(1.7)
<b>Higher Education</b>	
Eliminate Tuition Grant Program .....	(58.8)
Reduce Cooperative Extension Service (9.1% Reduction) .....	(2.7)
<b>History, Arts, and Libraries</b>	
State Aid to Libraries (50.0% Reduction) .....	(6.1)
Book Distribution Center Funding .....	(0.4)
<b>Human Services</b>	
Foster Care Program .....	(8.1)
Day Care Funding Reductions .....	(28.6)
Family Independence Program Policy Changes .....	(60.4)
Legal Support Contracts .....	(0.7)
Food Stamp Reinvestment .....	(4.0)
Indigent Burial Rate (25.0% Reduction) .....	(1.5)
Child Support Payments to Friend of the Court .....	(2.0)
Teenage Parent Counseling Program .....	(3.5)
Community Action Agency Funding .....	(2.3)
Before and After School Programs .....	(5.0)
Early Retirement Sick Leave Payouts .....	(1.5)
Eliminate Various Location Specific Earmarks .....	(3.6)
<b>Management and Budget</b>	
State Building Authority Debt Service .....	(1.0)
<b>Natural Resources</b>	
Payments in Lieu of Property Taxes .....	(0.4)
<b>Strategic Fund Agency</b>	
Economic Development Job Training Grants .....	(1.6)
<b>Treasury</b>	
Qualified Agricultural Loan Payments .....	(2.5)
Revenue Enhancement Program .....	(1.2)
Statewide Operational Reductions .....	(18.5)
<b>Total Major Funding Reductions .....</b>	<b>\$(336.0)</b>

**FY2008 School Aid Fund Recommendations**

The FY2008 Executive Budget recommended a \$382.5 million increase in K-12 state spending linked primarily with a proposed 2.5 percent/\$178 per pupil increase in the Basic Foundation Allowance (\$125.3 million), and a recommended 200 percent increase in the Full-Day Preschool for Educationally At-Risk Children Program (\$194.6 million).

The Executive Budget also recommended \$94.4 million in economic adjustments related primarily to Special Education (\$51.2 million) and Declining Enrollment Payments (\$16 million). Partially offsetting these cost increases were \$41.8 million in recommended program reductions related primarily to a decrease in the Middle School Math Initiative (\$20 million) and school district Equity Payments (\$20 million).

To fund the recommended School Aid Fund spending increases, the Executive Budget linked revenues associated with the following tax policy proposals to the K-12 Education budget:

2 Percent Consumer Services Tax	\$175.5 MIL
2 Percent Business Services Tax	\$405.2 MIL
Auto Trade-in Sales Tax Reduction	(\$128.3 MIL)
Estate Tax Revenue Earmark	\$119.2 MIL
Liquor Markup Revenue Earmark	\$28.9 MIL
Commercial Property Exemption	(\$203.4 MIL)
Club Keno Lottery Game Expansion	\$15.0 MIL
Other Tax Policy Changes	<u>\$ 41.8 MIL</u>
<b>Revenue Adjustment Totals</b>	<b>\$453.9 million</b>

**FY2007 Executive Order and Appropriations Supplemental**

A number of the tax policy proposals included in the FY2008 Executive Budget were recommended by the administration for implementation by June 1, 2007. The administration assumed that the timely adoption of these tax proposals, together with the other recommendations outlined below, would yield revenues and savings sufficient to resolve a current year deficit estimated to total \$982 million:

2 Percent Tax on Services	\$477.0 MIL
Cigarette and Tobacco Taxes	\$18.1 MIL
Wholesale Liquor Mark-up Increase	\$8.8 MIL
Closure of Specified Tax Exemptions	\$25.9 MIL
Change formula used to compute public employee pension contributions	\$274.8 MIL
Delay 4 <sup>th</sup> Quarter Higher Education Payment until FY2008	\$69.0 MIL
Use available federal funds to reduce General Fund expenditures	\$27.0 MIL
Program Reductions and Other (\$25 MIL in DHS, \$21.9 MIL in DCH, etc.)	\$80.8 MIL

On February 14 the Senate Appropriations Committee acted to reject the Governor's Executive Order recommendation. Michigan's Management and Budget Act specifies that the Governor must present a new proposal to balance the state's current year budget within 30 days.

Senate Republican's have indicated that they have developed an alternative proposal for balancing the state's current year budget. A meeting to discuss their recommendations with the administration appears likely to be scheduled within the next few days.