

Budget Overview





STATE OF MICHIGAN
EXECUTIVE OFFICE
LANSING

RICK SNYDER
GOVERNOR

BRIAN CALLEY
LT. GOVERNOR

February 9, 2012

My Fellow Michigan Citizens:

Successfully reinventing Michigan demands that we make thoughtful, strategic and long-term investments in our state that deliver real results for real people. The platform for doing so is the fiscal year 2013 budget, which I am proud to recommend for consideration.

This proposal differs significantly from our current-year budget. Last year, our fiscal house was still in disarray. Michigan was burdened with a \$1.5 billion deficit and little effort had been made to pay down its long-term obligations. We were faced with difficult – but necessary – decisions that centered on budget cuts and major policy reforms. Working in partnership with the Legislature, we enacted a fiscally and structurally sound budget that laid the foundation for economic growth and prosperity while protecting our state's critical safety net.

Our work is paying off. Michigan is emerging as a stronger, more vibrant state. This recommended budget builds on that foundation for economic growth and job creation.

This proposed 2013 budget strategically invests in priorities such as education, our infrastructure, public safety, health and human services environment, and information technology while setting aside rainy day reserves and addressing legacy costs. Our focus is shifting from major policy reforms to one that is centered on good government and building for our future.

This budget again presents a balanced two-year plan that continues responsible management of taxpayer dollars. As promised, state spending is tied to measured outcomes through the use of performance metrics. We will be monitoring the performance metrics routinely throughout the year. This budget is the right balance of funding for the priorities and needs of our great state while ensuring that we maintain fiscal responsibility and structural balance. I look forward to working in partnership with the members of the Michigan House and Senate to enact the fiscal year 2013 budget and continue our state's drive to become a national model of success.

Sincerely,

A handwritten signature in black ink that reads "Rick Snyder".

Rick Snyder
Governor



REINVENTING MICHIGAN -- INVESTING IN OUR FUTURE

Executive Budget Recommendation for Fiscal Years 2013 and 2014

Michigan's reinvention began in earnest last year with Governor Rick Snyder's first budget, which laid the foundation for a return to fiscal integrity and economic growth. That momentum continues with the fiscal year 2013 and projected 2014 Executive Budget Recommendation. The fiscal discipline and policy reforms reflected in the current-year budget are fundamentally changing discussions regarding the 2013 plan. With the elimination of last year's \$1.5 billion deficit through difficult but necessary decisions, Michigan is now looking at revenue growth and greater opportunities to strategically invest in key priorities that deliver real results for real people. Michigan's future depends on a prosperous economy and opportunities for current and future generations. The governor's proposed 2013 budget continues on the path that creates an environment of economic success, protects our most vulnerable residents, enhances our quality of life, and promotes good government.

The two Executive Budget bills presented for legislative introduction are again "omnibus" in nature, with one bill including all departmental operations and the other focused on education. Just as last year, the budget provides a balanced, two-year spending plan with recommended fiscal year 2013 appropriations, as well as anticipated appropriations for fiscal year 2014. The two-year approach continues the commitment to focus on success over the long haul, achieving a strategic approach to budgeting with a vision toward the future.

Michigan's Improving Economy

After a decade of job loss, high unemployment, and declining state revenues, the dark cloud that had been hanging over Michigan has given way to rays of sunlight. In 2011, the state recorded a significant decline in the unemployment rate accompanied by a gain in payroll jobs. The annual average unemployment rate in 2011 fell by more than 2 full percentage points when compared to 2010, from 12.5 percent

"It's a new day in Michigan. We're leaving gridlock and negativity in the past. This fiscally disciplined, structurally balanced budget will let investors and job providers know that Michigan's house is in order. Restoring this fiscal integrity creates an economic environment that leads to more jobs for Michigan workers."

Governor Rick Snyder, May 19, 2011

to 10.4 percent. Michigan added nearly 80,000 private-sector jobs last year, jobs that are higher paying than the national average. Michigan is the number one state in the nation for research and development facility project announcements, beating out Ohio, Pennsylvania, Indiana, and North Carolina. Michigan's strong base of engineering talent and the strength of its research universities are cited as the biggest reasons for the strong showing in research and development. Finally, the unaudited book closing for 2011 showed the state had a surplus. That surplus, along with the forecasted revenue growth in 2013 and 2014, paints a much brighter budget picture when compared to the past decade.

State's Supporting Role in Success

Michigan's turnaround isn't an accident. Tough decisions were made in last year's budget to get the state's fiscal house in order, showing job creators around the world that we are serious about our reinvention. Some of the key actions that have fueled the transformation that we are now witnessing include:

- Repealing the job-killing Michigan Business Tax and replacing it with a flat 6-percent corporate income tax that is simple, fair and efficient.

"Governor Rick Snyder got Michigan back on the right track with a series of key reforms during his first year in office. There will be those who differ with parts of his agenda for this year – as was the case in 2011 – but he's right to keep the pressure on for infrastructure improvements, better government efficiency at all levels and the use of technology to expand learning. As his online dashboards indicate, the unemployment rate is dropping, the state bond rating is rising and there's less violent crime."

The Detroit News, January 19, 2012

- Ending the unfair double tax on small business owners.
- Leveling the playing field for all job creators by eliminating tax loopholes.
- Adding rural development to the Department of Agriculture and Rural Development's mission to help build the economy in rural areas.
- Refocusing the Michigan Economic Development Corporation to provide greater assistance to Michigan businesses.
- Supporting Michigan's tourism industry by insuring stable funding for the successful Pure Michigan advertising campaign.
- Launching Pure Michigan Business Connect, resulting in \$8 billion of investment and capital being made available to Michigan businesses.
- Establishing the Global Michigan Immigration Initiative and the Cultural Ambassador program to attract and welcome immigrants with advanced degrees to Michigan.
- Launching Talent Connect to help reduce unemployment by connecting talent to jobs.

Budget Recommendation in Totality

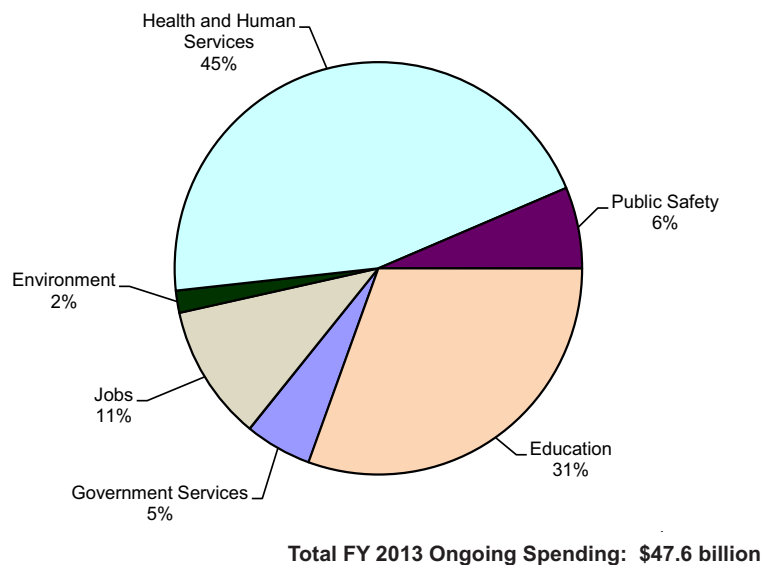
The total Executive Budget Recommendation for fiscal year 2013, including all state and federal revenue sources, is \$48.2 billion. This includes \$47.6 billion in ongoing base spending, with another \$600 million in one-time funding. Over 75 percent of the total budget is devoted to health, human services and education.

The Consensus Revenue Estimating Conference held in January projected that revenues will be \$9 billion in the general fund and \$11.1 billion in the School Aid Fund for fiscal year 2013, reflecting a combined total of \$20.1 billion. This budget cycle starts with a base increase of \$622.8 million over previously adopted revenue estimates.

In fiscal year 2014, projected revenues are \$9.2 billion in the general fund and \$11.4 billion in the School Aid Fund, for a combined total of \$20.6 billion. Assuming enactment of the Governor's fiscal year 2013 recommendation, the fiscal year 2014 budget is balanced with a modest surplus remaining.

The budget recommendation continues the Governor's focus on being accountable to the taxpayers with metrics to measure progress. With a new tax structure now firmly in place and a budget that is structurally balanced for the long term, this budget provides the right balance of funding for investing in Michigan's future, with associated measurements so results can be monitored.

Over 75% of total budget devoted to health, human services and education spending



One of the key financial principles used in the development of the recommended budget is that ongoing spending and one-time revenues are no longer commingled. This new budgeting approach is a major reform from past practice, where one-time funding was added to base spending creating the condition for structural imbalance. This new approach balances current revenues to current expenditures, enforcing fiscal responsibility and keeping the state on solid financial footing for the future.

At present, both the general fund and the School Aid Fund in fiscal year 2012 are balanced, and no action is needed at this time to rebalance the enacted budget. If revenues and expenditures warrant budgetary action in the current year, adjustments will be recommended to revise spending.

Jobs and the Economy

The recommended budget provides \$195 million in funding for economic development to assist Michigan businesses, with a continued focus on an economic gardening strategy to help local businesses grow.

Reinventing Michigan and investing in our future demands that we ensure career opportunities for future generations. Thinking strategically about the relationship between economic development and a highly skilled workforce, Governor Snyder's special message on talent development provides the blueprint to reinvent the way in which we prepare the current and next generation for fulfilling careers. It redesigns the way in which employers obtain the skills they need. Pure Michigan Talent Connect, the new online tool at www.MiTalent.org, is a web-based marketplace aimed at ensuring Michigan's economic development and talent enhancement are occurring in tandem.

The Governor recommends an additional \$15 million in general fund to support economic development in Michigan's distressed cities. The Talent Fund for Job Training and Skills Development will target communities with populations that have a history of chronic unemployment, investing in initiatives that assist citizens in accessing education, training, and employment opportunities.

Education: K-12 and Beyond

In his special message on education, Governor Snyder proposed reforms aimed at transforming Michigan's educational system from one still rooted in the days of a mostly farm-based society to one that prepares students for the technological age of today and jobs of tomorrow. His message outlined a dramatic shift from viewing different levels of education as separate stages to viewing them as part of an integrated system, beginning with early childhood education all the way through the completion of an advanced degree or career training.

"Read through Snyder's proposed education reforms, and it's clear he understands how you go about producing an excellent product, which in the case of education, means kids who are ready to perform in the workforce."

**Dan Calabrese, The Michigan View,
April 29, 2011**

In laying out his case for reform, the governor noted that Michigan ranks 21st in the country in total current per-pupil expenditures according to the most recent data from the National Center for Education Statistics, yet it ranks 39th in the nation when it comes to fourth grade math proficiency and 34th in reading proficiency. Fewer than 50 percent of students are proficient in writing, and ACT test scores need improvement.

The transformation has already started with the recognition that success in school starts well before a child's first day of class. To make sure children are developmentally on track, the governor created a new Michigan Office of Great Start. The proposed budget includes funding for this office of \$209.2 million, of which \$41.2 million is general fund. This is augmented by another \$115 million in School Aid funding for early childhood programs.

The recommended budget supports the \$10.8 billion in available School Aid Fund revenues with an additional \$200 million in general fund for best practices, and protects the per-pupil foundation allowances. Due to the pressure placed on school district budgets related to employee pension and health care costs, a total of \$179 million in ongoing funding is provided to help local schools defray those costs.

Enhanced Best Practices for Education

A total of \$200 million is designated for districts engaged in best practices and meeting required performance metrics. This represents an increase of \$46 million from fiscal year 2012.

Of this total, \$120 million is recommended for districts that meet five of six best practices, which are: the district publishes a citizen’s dashboard; the district serves as the policy holder for health care benefits; participation in schools of choice; the district monitors student growth in each subject area at least twice a year; the district offers dual enrollment, Advanced Placement courses, participates in a middle college, or offers other post-secondary learning opportunities; or the district offers online or blended learning.

A total of \$70 million is recommended for performance funding focused on student academic growth. Performance funding is allocated based on student growth in mathematics for grades 3-8, student growth in reading for grades 3-8, and growth over a four year period in all tested subject areas for high school students.

The recommendation also includes \$10 million in one-time funds for competitive innovation grants to help defray transition costs associated with consolidation of shared services efforts. Both local and intermediate school districts will be eligible to compete for these funds.

The recommended budget for community colleges includes a new performance formula based on degree completions to distribute an additional \$8.5 million to community colleges. This 3 percent increase is to be distributed based on associate degree and certificate completions in critical skill areas.

The Governor’s recommendation for higher education establishes total funding of \$1.4 billion, of which \$1.1 billion is general fund. Investing an additional \$36.2 million in state universities, this 3 percent funding increase is distributed using a new performance formula based on four metrics: the growth in the number of undergraduate degree completions, the number of undergraduate completions in critical skill areas, the number of undergraduate Pell Grant recipients, and compliance with tuition restraint. Universities doing a better job of holding tuition costs down will receive greater funding. Funding for all student grants and financial aid is \$98.2 million.

“I believe the Governor’s plan goes a long way toward creating the system of standards, measurements and accountability that Michigan so desperately needs.”

**Stephen Henderson, Detroit Free Press,
April 28, 2011**

Protecting Michigan Residents

Residents and businesses demand that government provide for the safety of the public. A key role of government is to ensure that citizens are safe and protected. With four of the top 10 most violent cities in the nation, and with an overall crime rate that is too high, we must do better. In March, the Governor will present a special message on public safety, with key reforms to create a safer Michigan.

The proposed budget makes a strong investment in public safety by:

- Funding core programs for the Michigan State Police (MSP) including road patrol, motor carrier enforcement, investigative services, emergency management and homeland security, secondary road patrol grant funding, and funding for the Michigan Commission on Law Enforcement Standards. The recommendation adds a total of \$47 million in general fund for MSP, an increase of 16 percent over the current year.
- Providing \$3.1 million general fund for additional staffing within Forensic Sciences within MSP, reducing the number of days for processing forensic tests for criminal investigations.
- Implementing improved enforcement of tobacco tax laws with multi-agency support totaling \$2.2 million for MSP, Treasury, and Attorney General.
- Reserving an additional \$15 million general fund for law enforcement enhancements to be detailed in the Governor’s Special Message on Public Safety in March.
- Adding \$4.8 million for critical maintenance needs at the 43 state armories throughout the state.
- An additional \$15 million is proposed for the criminal justice system, including funding for anticipated costs related to the public safety emergency in Flint and other distressed cities. The proposal increases funding for mental health courts by \$1 million.
- Funding the Department of Military and Veterans Affairs (DMVA) with \$55.7 million for Military Preparedness, representing the Michigan National Guard’s traditional mission of state and national defense and homeland security.

Advancing Health and Human Services; Protecting the Safety Net

The Governor’s special message on health and wellness points out that good health is the foundation for our state’s economic transformation and overall quality of life. While our state is home to some of the best health care providers and services in the world, many of our citizens still lack access, knowledge of and a commitment to a healthy lifestyle. Creating a healthy Michigan means giving people the tools they need to make informed decisions to access high-quality and affordable health care. The special message encouraged the expansion of the Healthy Kids Dental program as a priority item during the fiscal year 2013 budget cycle. The program has been highly successful in the areas in which it operates. Unfortunately, it is absent from some of our most populous counties where the greatest disparities in dental care exist. Expanding it to

all 83 counties would improve preventive care and decrease visits to emergency rooms for dental problems. A total of \$25 million in both 2013 and 2014 is proposed for a phased-in expansion of the Healthy Kids Dental program so that coverage will be available for all children receiving Medicaid over the next few years.

Michigan must also join the majority of states in more aggressively dealing with the challenges posed by autism. Without treatment, the average lifetime cost to Michigan of a single person suffering from autism is \$3.7 million. With early treatment, however, children can achieve better outcomes and many of these costs can be avoided. Michigan is recognized as one of the 10 worst states in which to raise a child with autism because evidence-based treatment is largely excluded from insurance coverage. To date, 27 other states have changed their laws to require insurers to cover evidence-based therapies for autism that will save taxpayers billions of dollars. While the Legislature continues its deliberations about autism coverage for children, the Governor's budget recommends a total of \$34.1 million to provide expanded autism coverage for children eligible for Medicaid and MICHild.

Each citizen can significantly improve personal health by practicing four key behaviors: maintaining a healthy diet, engaging in regular exercise, getting an annual physical examination, and avoiding all tobacco use. The four key health measures closely tied to the incidence of chronic disease are: body mass index (BMI), blood pressure, cholesterol levels, and blood sugar levels. When considered together, these four behaviors and four measures can be characterized as the "Michigan 4x4 Plan." In addition, infant mortality is a critical indicator of the overall health of Michigan, as well as the quality and accessibility of prenatal care for women. Unfortunately, the infant mortality rate in Michigan has increased over the past three years. The proposed budget increases funding for infant mortality reduction and 4 x 4 Wellness, with \$5 million in one-time funding, and \$1 million in ongoing funding.

In support of seniors and people with disabilities, \$14.1 million is recommended to reduce the waiting list for the MIChoice Home and Community Based Waiver Program. This increased support for home and community-based care allows the elderly to receive needed services while honoring their preference to remain in their homes or communities, and supports transitions from nursing homes to the waiver program.

This budget maintains Medicaid eligibility and uses federal funding to increase provider reimbursement rates for primary care providers. An appropriation of \$282 million in federal funds supports the provider rate increase, improving access to care for Medicaid recipients.

The proposed budget invests over \$942 million in Michigan's child welfare system. The rate paid to foster care parents and adoptive parents is increased by \$3 per day to help pay for basic living expenses and to encourage recruitment of foster and adoptive parents. Improvements to the child welfare system will maintain the focus on keeping children safe in their own homes, and when necessary, will support alternative living arrangements including foster care and adoption.

The recommendation invests \$255 million in federal and state restricted funds to support heating assistance programs, including \$195 million in federal funds for the home heating credit, energy-related crisis payments and weatherization for low-income home owners. The new Home

Heating Assistance for the Vulnerable Fund is supported with \$60 million in state restricted funds. Funded through utility rates and distributed to local agencies, these new funds will provide heating assistance to low-income families and individuals.

Veterans, their families, and Michigan communities are served in this budget through outreach programs with \$16.2 million in funding. As part of that funding, Veterans Service Organizations will receive \$2.9 million in state-funded grants to counsel veterans and assist them in receiving benefits and services for which they are eligible. In addition, \$65.6 million is provided to support the Grand Rapids and D. J. Jacobetti Veterans' Homes, which provide direct nursing care for 731 resident veterans.

Investing in our Infrastructure

Governor Snyder said it in his special message on infrastructure: better roads drive better jobs. Investments in the state's infrastructure are essential to the economy and to the future growth of our state. The Governor's message focused on a modern transportation system that moves people and goods efficiently, reliably and safely, as well as water and sewer systems that support and protect Michigan's rich environment.

The proposed transportation budget totals \$3.3 billion in both 2013 and 2014, including \$119 million in one-time general fund appropriations in fiscal year 2013 to allow the legislature time to develop a long-term road funding solution. The \$119 million investment of general fund revenues will ensure that Michigan matches all federal highway and transit aid in fiscal year 2013. Ignoring the state's deteriorating infrastructure is not an option, nor is allowing unmatched federal money to flow to other states. An extensive package of bills recently introduced in the Legislature provides for other necessary reforms mentioned in the special message on infrastructure, including the need for additional revenues.

"Governor Snyder is smart to be taking a comprehensive approach toward fixing the roads, bridges, sewers and water lines that are crumbling beneath our feet and wheels."

The Detroit News, October 27, 2011

The proposed budget recommends an additional \$10 million of restricted refined petroleum fund for environmental cleanup work at leaking underground storage tank sites. An additional \$5 million is recommended for use as state match to obtain federal grant dollars for the drinking water revolving fund program. The added funding will provide infrastructure loans to public water suppliers, enabling an increased percentage of communities to be in compliance with federal health-based standards. The recommendation also includes \$1 million to reach the goal of 5,000 MAEAP (Michigan Agriculture Environmental Assurance Program) farm verifications by 2015, which will result in more sustainable systems and increased production for the agriculture industry.

Resources have been included to stimulate investments in large sewer system improvement projects, with debt service funding to accommodate anticipated bond issuances of \$125 million in fiscal years 2013 and 2014.

Revenue Sharing

Constitutional revenue sharing payments for cities, villages, and townships are increased by \$13.6 million (2 percent), to \$711.1 million, based on estimated sales tax collections. The budget continues and strengthens the Economic Vitality Incentive Program (EVIP) for local units of government, with \$210 million in funding for fiscal year 2013. Aimed at encouraging best practices for cities, villages, and townships, EVIP funding will again require that local units of government meet certain criteria that include accountability and transparency requirements, consolidation of services, and employee compensation reforms.

“Snyder is hoping to end once and for all the status quo thinking that has continued long after local units of government could afford to pay for it ... More cooperation and outright consolidation make sense.”

The Flint Journal, August 4, 2011

A new incentive-based program for counties is recommended to replace statutory revenue sharing beginning in fiscal year 2013, funded with \$125.6 million in sales tax revenue. Sixty-one counties are estimated to exhaust their revenue sharing reserve funds prior to, or during, fiscal year 2013. These counties will qualify for financial incentive payments provided they meet specific standards and adopt best practices, consistent with requirements under EVIP for cities, villages, and townships.

In addition, a competitive grant assistance program is funded in fiscal year 2013 with \$25 million in sales tax revenue, using \$5 million in ongoing funding plus a one-time augmentation of \$20 million. Cities, villages, townships, or counties that elect to combine government operations may apply for reimbursement of costs for approved projects. Fiscal year 2013 funding represents a four-fold increase from fiscal year 2012 funding of \$5 million. The proposed one-time increase addresses significant interest expressed by local units seeking help with transition costs associated with mergers, inter-local agreements, and other cooperative efforts.

Good Government and Measuring for Success

Governor Snyder’s first budget required tough decisions to achieve balance for the long term. Because that has been accomplished, a renewed focus on good government is now in motion, utilizing metrics and measurements to monitor progress and help make informed decisions. The commitment to government transparency and accountability is strong, and the government culture is fully ingrained in the movement to measure. Last year, the Citizens Guide to State Government provided the first step in making it easier for Michigan citizens to understand how and where their money is spent and whether it is effective. The Governor continued the progress in transparency and accountability with the Michigan Dashboard, providing a quick assessment of the state’s performance in key areas including: economic strength; health and education; value for money government; quality of life; and public safety. Separate dashboards were created for measuring education, health and wellness, infrastructure, and talent. And now, with the release of this budget and



representing the evolution of the original Citizen’s Guide, the state unveils its new dashboard for financial health, found at www.michigan.gov/openmichigan.

While the dashboards measure how Michigan as a whole is doing within key areas, there are also scorecards in place that track how Michigan government is performing within each of the agencies. During budget development, the State Budget Office worked closely with state departments to ensure that funding is aligned to agency priorities. In doing so, each funding decision is examined and outcomes are evaluated based on how they “move the needle” of performance.

The measurements provided by the dashboards and scorecards cast a spotlight on how Michigan is doing, and whether we’re trending in a positive or negative direction. Without this focus on measurement, it’s impossible to know where government is succeeding or failing so that the necessary course adjustments can be made.

Investing in our Business Platforms and Physical Assets

In times of budget crisis, states cannot make necessary investments to save money over the long term. Most states across the country still find themselves in this negative situation. With Michigan’s fiscal house restored to order, we can now make targeted investments that protect our assets, build for the future, and lead to long-term cost savings.

Technology plays a major role in realizing government efficiency, but requires up-front investments to achieve it. The proposed budget includes \$50 million in ongoing funding for information technology projects designed to address system upgrades and major opportunities for automation. The Department of Technology, Management and Budget will complete an assessment of those systems and areas most in need of investment, ensuring that the information technology investment will help state workers do their jobs, improve services for citizens, and produce long term savings for the state.

Governor Snyder recommends additional support of Michigan’s universities and community colleges by advancing 18 capital outlay construction projects previously approved for planning by the legislature. The budget also recommends substantial reform of the capital outlay process in order to ensure spending decisions are more transparent and merit-based for future projects. These reforms will assist in strategically aligning capital investments with statewide economic development goals, while streamlining the approval process.

Fiscal Order Restored

Just one year ago, Michigan faced a \$1.5 billion deficit with unresolved liabilities that had lingered for years. It was an unhealthy budget situation for both taxpayers and businesses. Tough decisions were necessary to get Michigan government back into long-term structural balance so residents and businesses could see that state government had its fiscal house in order. Through a strong partnership with the legislature, the deficit is gone and the budget is in structural balance. For the first time in almost a decade, state government is balanced for the future, with ongoing expenditures now matching ongoing revenues. Reinventing Michigan demanded a new approach to budgeting.

Legacy Costs No Longer Ignored

Not only has the budget been put into balance for the long term, Governor Snyder's 2012 budget also took major strides in addressing the state's long-term liabilities, including post-retiree health care costs. The state paid off its \$3.2 billion loan to the federal government for unemployment benefits in order to refinance the liability at a better rate. Successful negotiations with unions representing state employees produced solutions to better

"Working together, Michigan showed great commitment to do not just what is easy but what is right. Not what is political but what is practical. Not what is partisan but what is principled. While not everyone agreed on every approach, we worked hard to make sure our decisions were rooted in common sense. We refused to engage in the kind of finger-pointing that stymies government from meeting its obligations to citizens."

**Governor Rick Snyder, State of the State Address,
January 18, 2012**

manage rocketing state employee health care costs. In short, after too many years of pushing the problem down the road, the state got serious about its legacy costs.

One of the most significant and monumental accomplishments came with the signing of Public Acts 264 and 265 in December 2011 (commonly referred to as the OPEB legislation, where OPEB refers to "other post-employment benefits"). The new laws reduce the state's long-term retiree health care liability, ensuring that the post-retirement promises made to employees can be kept.

Michigan has restructured state employee retiree benefits, saving the state \$5.6 billion in long-term liabilities. Funding has been included in the base budget to fully fund the anticipated actuarially required contribution (ARC) for state employee pensions and health care. Fully funding the ARC is significant, especially in light of the OPEB legislation, because it's another step in paying down the liability and making good on the promise to state employees.

Last year also brought important and significant reforms to health care costs for existing state employees. After a successful bargaining process between the state and union leaders representing state employees, the Michigan Civil Service Commission took action in approving the contracts overwhelmingly ratified by the unions. As in the case of the OPEB legislation, the agreement provided wins for both the state and state employees. The new contracts provide a 1 percent pay raise to state employees in October, 2012. In addition, lump-sum payments will

be made in 2012 and 2013 that equal 1 percent increases, but will not be added to ongoing base pay. In turn, union leaders worked in partnership with the state to resolve the financial stress placed on the state related to funding health care for employees. As a result of the agreement, all employees will begin paying 20 percent of their health plan premiums beginning in October 2012, bringing the state in line with the private sector. Those hired on or after April 1, 2010 already pay 20 percent.

Deferred Maintenance

Another component of infrastructure that too often goes unnoticed is maintenance of state buildings. The budget recommendation includes \$15 million in ongoing funding for state buildings plus \$10 million in one-time funding to be administered by the Department of Technology, Management and Budget (DTMB). The past practice of bonding for routine building maintenance defers payment of current costs to the future. The new funding will eliminate that practice and fund current needs with current resources. DTMB will develop a space consolidation plan that will make better use of existing state office space, putting necessary investments into the renovation and upkeep of existing state owned buildings, eliminating the need for some of the existing leased space paid for by the state. The proposed budget also includes funding for armory maintenance with \$2.4 million in ongoing funding, plus an additional \$2.4 million in one-time funding.

Maintaining Structural Balance; Reserves for a Rainy Day

While this budget places new investments in our future, the importance of maintaining structural balance has not been and cannot be lost. Funding for programs is recommended based on the state's ability to pay, making sure that revenues match expenditures to keep the state in balance for the long term.

"Last January, Michigan ranked at or near the bottom of most measures of economic activity and attractiveness. Today, its recovery is leading the nation, and the people who make decisions about where to invest are viewing the state in a far more favorable light...Using today's surpluses to further reduce Michigan's future obligations is a good investment."

The Detroit News, December 27, 2011

This budget recommendation makes another deposit in the Budget Stabilization Fund. Commonly referred to as the Rainy Day Fund, a deposit of \$130 million is recommended to continue to build the necessary reserves in the event of an emergency. This deposit, coupled with the action taken last year to invest \$255 million into the fund, places the state's rainy day reserves at \$385 million - a far cry from just two short years ago when the fund had bottomed out and there were essentially no emergency reserves.

External Validation

Working in “dog years” coupled with “relentless positive action” have been popular themes in all areas of the Snyder administration, and those concepts have certainly been applied to the budget development process. Hard work and a positive attitude toward structural balance have led the budget process, and others outside of Michigan have taken note. In July 2011, Fitch Ratings announced that it had revised the State of Michigan’s Rating Outlook for all bonds to Positive from Stable. According to Fitch, continued evidence of a return to structural balance in the budget, continued progress toward re-building reserve funds, and continued employment recovery could trigger a future upgrade in Michigan’s rating.

“The Positive Outlook reflects prudent budgeting and efforts to grow reserve levels in the context of an economy beginning to slowly rebound.”

Fitch Ratings, July 2011

Fitch Ratings are not the only ones who have noticed the positive steps in Michigan. Bloomberg has long been a respected leader when it comes to delivering business and financial information, news and insight around the world. In November 2011, Bloomberg’s Economic Evaluation of States ranked Michigan second in economic health out of all 50 states, sending a strong message that Michigan’s economy is headed in the right direction. The Bloomberg analysis took into account important economic factors such as personal income, tax revenue, employment, home prices and other key indicators, placing Michigan at the upper echelon of the ranking. The Bloomberg evaluation provides evidence that Michigan is ripe for positive growth in our economy that will make a positive difference for Michiganders. Strong corporate performance, coupled with the fact that Michigan’s state budget is now balanced for the long term, has put Michigan in a solid economic position.

Conclusion

This budget invests in our future and funds the key priorities to continue Michigan’s recovery and its path to further growth and success. In stark contrast to last year’s budget where cuts and strong reforms were necessary for long-term structural balance, this budget is focused on building on that foundation – a budget made possible due to the tough but necessary decisions made in the 2012 budget. This two-year budget presented by Governor Snyder continues the plan that will lead to job creation and a brighter future for Michigan’s residents. It is a budget built with metrics and measurements so our progress and results can be monitored, found at www.michigan.gov/openmichigan. The Snyder administration stands ready to work in partnership with the members of the Michigan House of Representatives and Senate to enact a fiscal year 2013 budget that will lead to an even stronger, more prosperous state.

