



MOVING MICHIGAN FORWARD -- CONTINUING OUR COMEBACK

Executive Budget Recommendation for Fiscal Years 2014 and 2015

Building on the success and stability of the previous two years, Governor Rick Snyder's Executive Budget Recommendation continues to focus on reinvention and strategic investments to move Michigan forward. Through prioritized budgeting, the governor's plan is designed to improve the quality of life for Michigan residents by continuing to invest in education, health and human services, public safety, veteran services, natural resources and infrastructure.

Committed to the responsible management of taxpayer dollars, the governor's balanced two-year budget plan is the right combination of funding for the priorities and needs of our great state. In order to maintain structural balance, continue Michigan's economic comeback and further our fiscal sustainability, the state must continue along the path of financial responsibility.

Turning the Corner

Make no doubt about it, Michigan is making a comeback. The economic outlook is improving for the state and our residents. For two years in a row, the state has operated with an on-time, structurally balanced budget. Michigan's economy is at a 10-year high. Our income growth is the 9th best in the nation (including significant gains in per capita personal income in the state's metropolitan areas); the state's GDP growth is 6th best in the United States; Michigan motor vehicle production is improving (with 2012 production up above 2 million for the first time since 2007); and home sales have increased a full 10 percent.

Governor Snyder's business-minded approach to tackling the state's financial problems has positively impacted the state's economic outlook. As recognized by Bloomberg in its State of the States report, Michigan is ranked 2nd in the nation in economic health, making our state a model for implementing financial stability reforms.

"We applaud Gov. Rick Snyder and legislative leaders for the most pro-growth reforms by a governor and legislature in the past 50 years."

**Rob Fowler, President
Small Business Association of Michigan,
The Detroit News, Jan. 28, 2013**

According to Area Development magazine's 2012 *Top States for Doing Business Survey*, Michigan ranks 4th among all states in the nation in leading the economic recovery. In addition, the state recently received an unprecedented 1.16 percent interest rate, the lowest rate ever received on a State of Michigan bond issuance, signaling that investors across the country are feeling more confident about Michigan's economy.

While there is no question that Michigan's economy has turned a corner, Governor Snyder remains focused on the state's long term financial health and translating that into a positive difference for Michiganders. To help ensure Michigan's fiscal sustainability, we must be prudent stewards of the tax dollars collected from our hard-working residents; continue to maintain structural balance; address the state's long-term liabilities; continue to focus on performance-based funding; and save for the future by adding to the state's Budget Stabilization Fund.

Unemployment Continues to Drop

Michigan's unemployment peaked at 14.2 percent in August of 2009. Since Governor Snyder took office in 2011, Michigan's unemployment rate has dropped by two full points and averaged 8.9 percent in 2012, well below the 2011 annual average rate of 10.3 percent. Due to the difficult, yet responsible, decisions made in the governor's first budget plan, the state's jobless rate has declined, job levels have risen and the workforce is growing slowly but surely. In 2012, payroll jobs in Michigan rose by about 47,000 above 2011 levels, for a growth rate of 1.2 percent. Michigan registered a second consecutive year of job expansion in 2012, after 10 straight years of job loss.

"Since November 2011, the number of unemployed workers in Michigan has dropped by 32,000, or 7.2 percent."

MLive, Dec. 19, 2012

As released at the January 2013 Consensus Revenue Estimating Conference, by fiscal year 2015 nearly 40 percent of the jobs lost during the great recession will be recovered.

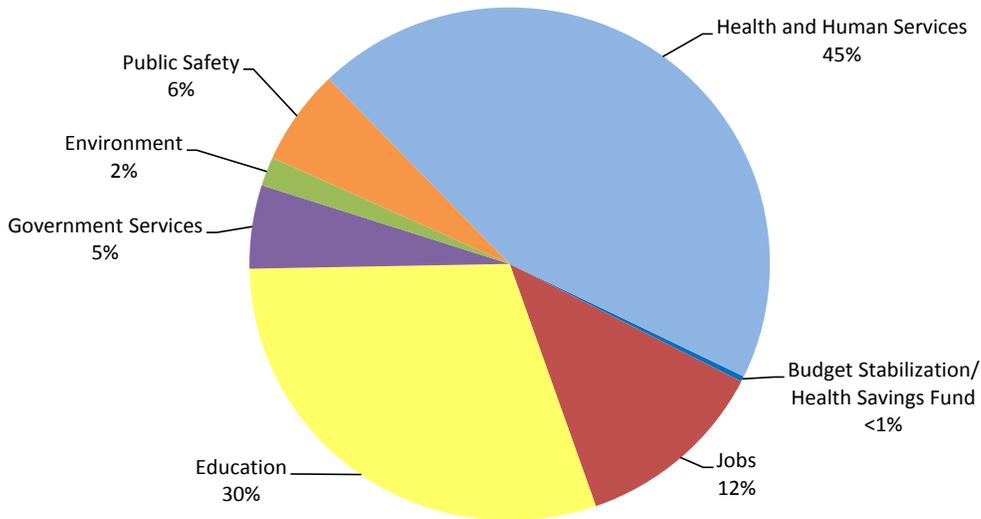
Budget Recommendation in Totality

The total executive budget recommendation for fiscal year 2014, including all state and federal revenue sources, is \$50.9 billion. Nearly 75 percent of the total budget is dedicated to education and health and human services.

The Consensus Revenue Estimating Conference projected that revenues will be \$9.3 billion in the general fund and \$11.4 billion in the School Aid Fund for fiscal year 2014, for a combined total of \$20.7 billion.

Fiscal year 2015 projected revenues are \$9.6 billion in the general fund and \$11.8 billion in the School Aid Fund, for a combined total of \$21.4 billion.

Nearly 75% of Total Spending is Dedicated to Education and Health and Human Services



Total FY 2014 Adjusted Gross Spending: \$50.9 billion

Paying and Lowering Our Bills

Governor Snyder has often said that having a balanced budget is not sufficient and that the state’s spending cannot outpace its revenue. Michigan’s financial future hinges on addressing its long-term obligations, such as post-retirement benefits. So far, Michigan’s unfunded liabilities have been reduced by \$20 billion thanks to pension and retiree health care reforms for both state and public school employees.

To advance the goal of getting the state back on solid financial footing, the governor’s plan includes more than a billion dollars to pay down the debt burden of post-employment benefits (retiree health, dental and vision). The governor led the charge to begin paying down the actual principal. Gone is the short-sighted “pay-as-you-go” approach. Under Governor Snyder, the state is pre-funding post-employment benefits to ensure that today’s employees can count on benefits when they retire.

Additionally, State of Michigan employees are doing their part to help the system remain solvent. Retirement reforms enacted last year resulted in state employees paying more for health costs to bring them more in line with employee contributions in the private sector. In addition, state employees eligible for pensions are now paying 4 percent of their salary to help pay the costs.

“Now Michigan is rebuilding reserves, in keeping with strong financial management practices, as the auto industry stabilizes. Bonded debt remains modest and, with the state’s adoption of defined contribution pension plans, Michigan’s funding burden for retiree benefits should be manageable.”

Moody’s Investor Services, Mar. 2012

Paying down this debt strengthens Michigan’s economic revitalization, showing fiscal responsibility to improve our credit rating. Making these changes now will ensure a brighter future for our children.

Driving the Economy Forward: Investing in Infrastructure

Good infrastructure paves the way to economic growth. Michigan's residents, tourists and job providers depend on the state's transportation system for leisure travel, workday commutes and the movement of goods. Realizing the important link between infrastructure and the state's economy, the governor's proposed transportation budget recommends an additional \$1.2 billion to adequately maintain and improve Michigan's roads.

The current transportation funding model is simply not able to keep pace with system needs, and the time for investment has never been more critical given future system condition forecasts. It is the choice of spending \$12 billion over the next 10 years to

repair our infrastructure, or \$25 billion later on to reconstruct a failed system. Governor Snyder's balanced approach tackles the issue of Michigan's deteriorating road system. The plan addresses the lack of appropriate road funding by creating a new funding model based on a gasoline and diesel tax of 33 cents a gallon; and increasing registration taxes for vehicles and heavy trucks. This will cost a typical Michigan family an estimated \$120 per vehicle each year.

Additionally, the governor recommends a local option that would allow Michigan's 83 counties to raise additional revenue for local transportation needs. Subject to local voters, a local vehicle registration tax of 0.18 percent of a vehicle's list price would generate \$280 million that counties could use to fix local roads or invest in public transportation. Revenues from the new registration tax would be collected by the Secretary of State and returned to each county.

Educating Our Children

Michigan's future lies in the hands of our children. In order to truly move Michigan forward, the state must make vital investments that benefit future generations.

"In the largest effort ever to collect and analyze public opinion on K-12 education, Michigan taxpayers overwhelmingly supported an expansion of early childhood opportunities."

Center for Michigan Report, Jan. 2013

report, more Great Start Readiness Program students graduated on time from high school than non-participants. The governor's proposed budget increases funding by \$130 million over the next two years to further expand early childhood education opportunities.

"It's going to be expensive to fix Michigan's roads, but doing nothing carries a heavy price. The state simply cannot afford a legislative roadblock on this issue. Further, deteriorating roads cost jobs in the form of unrealized economic development and opportunity. Our manufacturing, tourism and agricultural sectors depend on good roads to manage their costs."

Battle Creek Enquirer, Jan. 29, 2013

The governor recommends \$11.5 billion in state funds for the School Aid budget, an increase of over 2 percent. The recommendation includes an equity payment to further close the foundation allowance funding gap between districts. The K-12 budget also supports online and blended learning, as the Michigan Virtual University works with schools to create and maintain a statewide catalog of online courses. District performance and best practices funding is continued, as well as technology infrastructure improvement grants.

While establishing a firm foundation for lifelong learning is essential to preparing our children for their future, it is also critical to sufficiently fund the state's institutions of higher learning. Home to 15 outstanding public universities and 28 outstanding community colleges, Michigan's college graduates are prepared to enter the workforce in a wide variety of fields – from high tech jobs such as engineering or computer science to highly skilled manufacturing. If we want the future generations to be prepared for the jobs of the 21st century in advanced careers, higher education funding must be a priority. To achieve this goal, the governor's plan calls for a 2 percent increase in state support for higher education using the same performance formula as adopted in fiscal year 2013. The funding formula includes metrics designed to help ensure Michigan college students are receiving a quality education at a reasonable cost by linking funding to performance.

For community colleges, the recommendation also includes a 2 percent increase (\$5.8 million) allocated through a performance formula, including a new metric that rewards community colleges that place skilled trades students in jobs and apprenticeships, with special emphasis on veterans. The recommendation also includes \$1.1 million for the Virtual Learning Collaborative to increase student access to online courses.

Since taking office, Governor Snyder has helped reduce the long-term liabilities facing the Michigan Public School Employees Retirement System. Prefunding the system allows the state to address one of its largest long-term liabilities while providing needed stability to the retirement system depended upon by hundreds of thousands of hard-working Michigan public school employees and retirees. This move puts school districts in a better fiscal position and reduces the unfunded liability from \$46 billion to \$31 billion, ensuring that the resources can instead be spent in the classroom.

Ensuring a Healthier Michigan

Creating a healthy Michigan is paramount to improving the vitality of the state's economy. A key component to increasing the health of the state's residents is ensuring that people have access to affordable, quality health care.

Governor Snyder's budget recognizes the need for positive health outcomes and invests additional resources in Michigan's health care system.

Medicaid Expansion

To protect Michigan's most vulnerable residents and ensure access to health care, the governor recommends

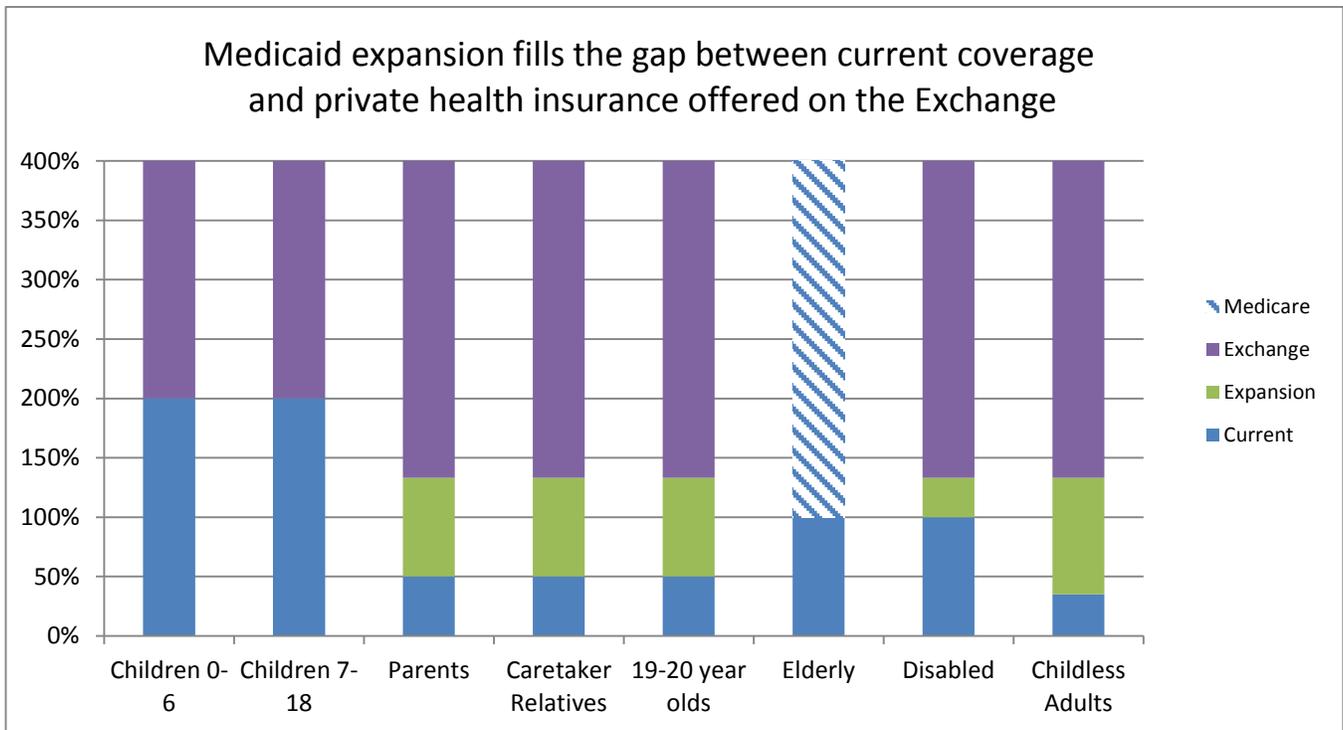
"Expanding Medicaid will be good for the state. Ann Arbor's Center for Health Care Research and Transformation found that it could save the state \$1 billion over 10 years and improve the quality of life and mortality rates of Michigan residents -- ultimately reducing disability costs and promoting productivity on the job."

Detroit Free Press, Jan. 28, 2013

expanding Medicaid for adults to 133 percent of the federal poverty level. With this expansion, the governor’s budget calls for \$12.3 billion to provide health care to 2.2 million Michigan residents. A study published by the New England Journal of Medicine in 2011 showed that compared to individuals who are uninsured, Medicaid recipients saw doctors more often; were less likely to delay getting care; reported better health; were less likely to die from disease, accidents, injuries and drug abuse; and reported better financial stability. As the old adage goes, “an ounce of prevention is worth a pound of cure.”

Individuals eligible for the Medicaid expansion will be enrolled in a health maintenance organization (HMO) where their medical home is established. All 13 Michigan Medicaid HMOs are accredited and nationally recognized as leaders in health care delivery. Members in plans get the care they need for themselves and their children quickly and seamlessly. To keep moms and babies healthy, pre and post natal care is an integral part of HMO services. In addition, coverage includes tests for breast and cervical cancer and other infections, which can help diagnose these diseases earlier and allows for more treatment choices. These medical homes are already in place for our current Medicaid population and they are effective.

This unique opportunity to provide health care to Michigan’s low-income population will improve the quality of care and health outcomes for the most vulnerable. The governor’s executive recommendation includes 100 percent federal funds to support Medicaid expansion. For fiscal year 2014, the budget recommendation recognizes a reduction in state general fund spending of \$206 million. To cover future state health care liabilities, \$103 million is deposited in a newly created health care savings fund.



Mental Health

The governor's executive recommendation also includes expanded Medicaid coverage for mental health services, funding for jail diversion, behavioral health homes, and mental health innovations. These investments will strengthen Michigan's mental health services. Jail diversion will address mental health and substance abuse problems outside of the criminal justice system. Behavioral health homes will be demonstrated across the state to coordinate physical and mental health care services for Medicaid beneficiaries with chronic conditions. The mental health needs of our youth will be addressed through a variety of mental health innovations. These include home-based mental health services for children, care management and treatment for high-risk youth, and mental health training and awareness programs to assist community stakeholders and law enforcement in identifying youth with mental health needs and guiding them to treatment resources.

Healthy Kids Dental

Tooth decay is the most common chronic childhood disease in America, affecting more than one-fourth of children 2-5 years old and half of those 12-15 years old. Left untreated, tooth decay and disease can affect a child's health, well-being, growth, and achievement. Children with serious oral health problems can have difficulty eating, sleeping and concentrating in school. To improve dental health outcomes for young Michiganders, Governor Snyder's budget invests in Michigan's children by expanding the Healthy Kids Dental program, a public-private partnership between the Michigan Department of Community Health and Delta Dental of Michigan. Since it began 12 years ago, Healthy Kids Dental has garnered national attention and is recognized by the American Dental Association as one of five national models for improving access to dental care for low-income children. Under the governor's plan, Healthy Kids Dental will cover an additional 70,500 children in Ottawa, Ingham and Washtenaw counties, funded with \$11.6 million. Currently, more than 440,000 Michigan children residing in 75 of Michigan's 83 counties are enrolled in the Healthy Kids Dental program.

Infant Mortality

The governor's budget invests an additional \$2.5 million to reduce Michigan's infant mortality rate. The governor called for the development of an infant mortality plan in his Special Message on Health and Wellness. The Department of Community Health will address a variety of initiatives outlined in the plan, including support for high risk mothers and families.

Health Innovation Grants

The governor is also calling for \$3 million in health innovation grants in the Department of Community Health. These grants will provide funding to community organizations and coalitions to devise innovative approaches to improving Michigan's health care system. The resulting new ideas will improve the health outcomes of Michiganders.

Supporting Job Creation

Realizing the importance of having highly-trained workers in Michigan, Governor Snyder's budget recommends \$10 million for a new skilled trades training program to better match talent with employers' needs. There are currently thousands of jobs that could be filled if workers had the necessary training to meet these employer needs. The mismatch must be addressed for the Michigan economy to continue to grow and diversify.

"The business climate reforms enacted by Snyder over the past two years have been credited with making Michigan more attractive to growing industrial firms."

Site Selection magazine, Jan. 2013

The governor's budget also calls for an additional \$27.5 million for the Michigan Economic Development Corporation to help grow Michigan's economy, including \$20 million for a new, innovative debt financing program to assist banks and other lenders invest in underserved communities.

Bolstering Human, Veterans Services

Launched last summer, Pathways to Potential puts workers at the Department of Human Services in local communities where they can directly and easily connect with clients. This service delivery model was designed to help families and children break down barriers to success. Initially located in 22 neighborhood schools in Detroit, Pontiac, Flint and Saginaw, Pathways to Potential helps families address a wide variety of issues including education, employment, food and child care needs. By addressing truancy, hunger and lack of transportation, department

"Governor Rick Snyder's business roots show through in many of his plans for Michigan. He's about delivering goods to taxpayers – he considers them his customers – in the most efficient way possible. A new program that places state social workers directly in schools follows suit, offering children and their parents access to services in a place that's convenient."

The Detroit News, Feb. 4, 2013

workers help to improve school attendance, classroom performance and family independence. The governor's proposed budget includes \$6.2 million to expand Pathways to Potential.

The budget recommendation also includes \$2.5 million to expand three critical family preservation programs: Family Reunification; Families Together Building Solutions; and Supportive Visitation/Home-Based Parent Education.

To improve program integrity and to ensure that Michigan's resources support those who are truly needy, the recommendation calls for \$1.2 million to augment the Department of Human Services' fraud prevention, detection and recoupment efforts. These funds will augment efforts by the Department of Human Services, the Michigan State Police and the Attorney General's office to identify and prevent fraud before a case is open.

After serving their country bravely, veterans face a number of obstacles when returning home. Believing that the state should and can do more to honor the nearly 700,000 veterans who call Michigan home, Governor Snyder's proposed budget includes \$8.6 million to create a new agency to focus directly on improving services to veterans. Furthermore, the plan contains \$600,000 to increase the number of qualified service officers by an additional five full-time employees who will work to connect veterans with the services they need. Having additional officers on staff will allow for better service to Michigan's deserving veterans.

Making Michigan Safer

A key function of state government is to ensure the safety of its residents. As outlined in the governor's Special Message on Public Safety, the state must prevent crime through "smart justice" that recognizes the connection between law enforcement, prevention and economic opportunity.

Building on the initiatives begun in 2012, phase two of the governor's public safety plan continues to invest in the well-being of Michigan residents. The budget recommendation allots \$15.2 million to train an additional 107 troopers through the Michigan State Police Training Academy to patrol Michigan roadways and communities. Increasing the number of troopers trained to protect and serve will help improve public safety all across Michigan.

The governor proposes an investment of \$18 million to train up to 790 corrections officers. The additional officers will help maintain safety and order in prisons across the state.

Michigan State Police Director Col. Kriste Kibbey Etue "is shepherding perhaps Governor Rick Snyder's most ambitious and difficult initiative to reverse long-term problems with violent crime in the four cities, all of which show up on the FBI's list of the 10 most violent U.S. cities in 2010."

Gongwer, Feb. 1, 2013

The governor also calls for \$4 million to be directed to a new Trial Court Performance Innovations Fund for the adoption and improvement of performance measures and to provide funding for grants for innovative proposals to improve the trial courts. The fund will establish incentives for Michigan's 245 trial courts to adopt best practices, encourage positive change and remove barriers to achieving high performance.

The governor recommends an additional \$2 million investment for mental health courts, bringing the total funding to \$4.1 million. This will provide for the maintenance of nine existing mental health courts while allowing for further expansion of this successful specialty court program.

To continue ensuring public safety while reducing drug and alcohol convictions, the governor recommends an additional \$3 million to expand treatment courts and pilot "regional driving while intoxicated/sobriety" courts. This investment brings the total funding for drug and alcohol courts to \$10.1 million.

The Michigan Land Bank is working cooperatively with municipalities on strategies to combine parcels of land for economic development opportunities and to improve neighborhood safety. The governor's plan includes \$9.5 million for blight elimination and \$4 million for the Good Neighbor Program. Funds for the Blight Elimination Program will be utilized to continue demolishing vacant and abandoned properties, particularly near schools, thereby promoting public safety, the stabilization of property values, and enhancing economic development opportunities. Money appropriated for the Good Neighbor Program will go toward property maintenance, such as mowing the grass or cleaning up litter, at state-owned tax-reverted properties.

Protecting our Natural Resources

With the most fresh water coastline in the United States and being the only state that touches four of the five Great Lakes, Michigan is known far and wide as "The Great Lakes State." Whether camping, hiking, cross-country skiing, hunting, biking, fishing or snowmobiling, it is easy for residents and tourists to discover Michigan's abundant natural beauty. Michigan's pure and pristine forests, lakes and waterways significantly contribute to the high quality of life found in our great state. To protect and preserve the state's environment, the governor's plan contains \$2.5 million in funding to clean up leaking underground storage tanks.

The proposed budget also includes \$97 million for the Department of Environmental Quality to issue grants and low-interest loans to municipalities across the state to improve water quality. These funds will be made available to local units of government in the form of grants and loans to design, develop and implement sanitary sewer and storm sewer infrastructure, with the end goal of improving sewage and treatment systems.

The recommendation also includes \$5.9 million to hire and train 41 new Department of Natural Resources conservation officers to enforce natural resource, recreational safety and environmental protection laws. Michigan ranks 6th in the nation in the amount of money contributed to the state's economy by hunters and anglers, but ranks 19th in the number of conservation officers. Increasing the number of officers will increase safety, protect public health and preserve our environment by ensuring the state's population of wild animals remains healthy and abundant. This investment will help enhance the outdoor experience in Michigan.

"Governor Snyder understands the important role of parks and recreation in placemaking and why it matters for Michigan's economy, Michigan's communities and our future as a state. Additionally, the governor's commitment to health and wellness is evident with his 4 x 4 health and wellness initiative," said MRPA Chief Operating Officer Ann Conklin. "These issues are all important to the park and recreation profession, and the Michigan Recreation and Park Association applauds the governor's leadership and we are proud to present him with the Elected Official Award."

The Oakland Press, Jan. 23, 2013

Michigan residents and tourists enjoy plentiful and picturesque opportunities for boating. To help ensure harbors remain passable for those who enjoy this pastime, the governor’s budget recommends \$9.4 million in ongoing funding for harbor dredging in 2014. To address the immediate need for dredging, a 2013 supplemental totaling \$21.5 million will also be sent to the legislature.

Saving for the Future, Preparing for Emergencies

Responsible budgeting means preparing for unforeseen financial emergencies. Recognizing that Michigan needs to have a healthy cash reserve, Governor Snyder has consistently called for significant deposits into the state’s Budget Stabilization Fund (commonly referred to as the Rainy Day Fund). The fund, which had been depleted to a balance of only \$2.2 million when the governor took office, will have a balance of more than half a billion dollars by the end of fiscal year 2013. This represents the largest balance in more than a decade.

With the governor’s recommendation to make another deposit of \$75 million, the state’s reserves in the Rainy Day Fund will grow to \$580 million. An additional \$103 million will be deposited into the newly created Michigan Health Savings Fund to offset future health care costs, bringing the total state savings to \$683 million. Establishing this reserve for the future shows fiscal responsibility, saves for unforeseen needs, and adds even more stability to Michigan’s fiscal situation.

Just as Michigan families prepare for possible emergencies by setting funds aside, the state must also prepare for natural disasters such as forest fires, tornadoes, flooding or collapsed mines. Last spring, the Duck Lake fire, the third-largest wildfire in Michigan’s modern history, raged across 21,000 acres (33 square miles) in the Upper Peninsula’s Luce County. Started by lightning, the fire resulted in evacuations, campground closures and the loss of 136 structures, including homes, cabins and recreational vehicles.



To help ensure the state is financially prepared to respond to these sorts of emergency situations in the future, the governor’s plan calls for \$4 million in fiscal year 2014 with an additional \$4 million in 2015 for the creation of a Disaster and Emergency Contingency Fund. These funds will help the state be ready for response when an emergency or natural disaster strikes.

Conclusion

This sound budget recommendation is a roadmap designed to move Michigan forward and help ensure the continuation of the state's comeback. The governor's budget clearly details his priorities for improving the quality of life for Michigan residents by continuing to invest in infrastructure, education, health and human services, public safety, veteran services, and natural resources. The plan set forth for fiscal years 2014 and 2015 continues and sustains critical funding needed to reinforce the firm financial footing Michigan has attained throughout the past two years. With Governor Snyder's financially responsible and balanced approach to the state's finances, and a healthy reserve in the Rainy Day Fund, Michigan is poised for financial stability well into the future.