



MICHIGAN GROWING STRONGER

Executive Budget Recommendation Fiscal Years 2016 and 2017

Building on the state's successes throughout the previous four years, Gov. Rick Snyder's fifth budget recommendation remains focused on helping Michigan to accelerate the state's comeback and grow stronger.

To continue this momentum, the governor's executive budget recommendation for fiscal year 2016 and projected fiscal year 2017 makes strategic investments in education, job growth, health and wellness, public safety, and infrastructure.

On the Right Path

Last month, economic experts forecasted a bright future for our state. Michigan's economy is growing and thriving, fostering more and better jobs for its residents. Simply look around and you can see so many signs that illustrate just how far Michigan's recovery has come in the past four years. The state has experienced numerous consecutive years of job growth, the unemployment rate is at its lowest point in 12 years, and the number of unemployed Michiganders dipped below 300,000 for the first time since October 2001.

More than 300,000 private sector jobs have been added since the governor took office, including 86,000 manufacturing jobs created since 2010 – the most in the nation. Additionally, Michigan's food and agriculture sector is now a \$101 billion industry while the state saw nearly a 50 percent increase in motor vehicle production.

"The governor's upbeat tone matches the state's increased stability. Detroit is out of bankruptcy and there's no doubt Michigan is in a better place than when he first took office."

Detroit News Editorial, January 20, 2015

Michigan home sales and values also continue to rise. In fact, home values have increased 25 percent since 2010, compared to the national average of only 16 percent. Additionally, personal income growth for Michiganders increased for two consecutive years after being stagnant or declining in our state's lost decade.

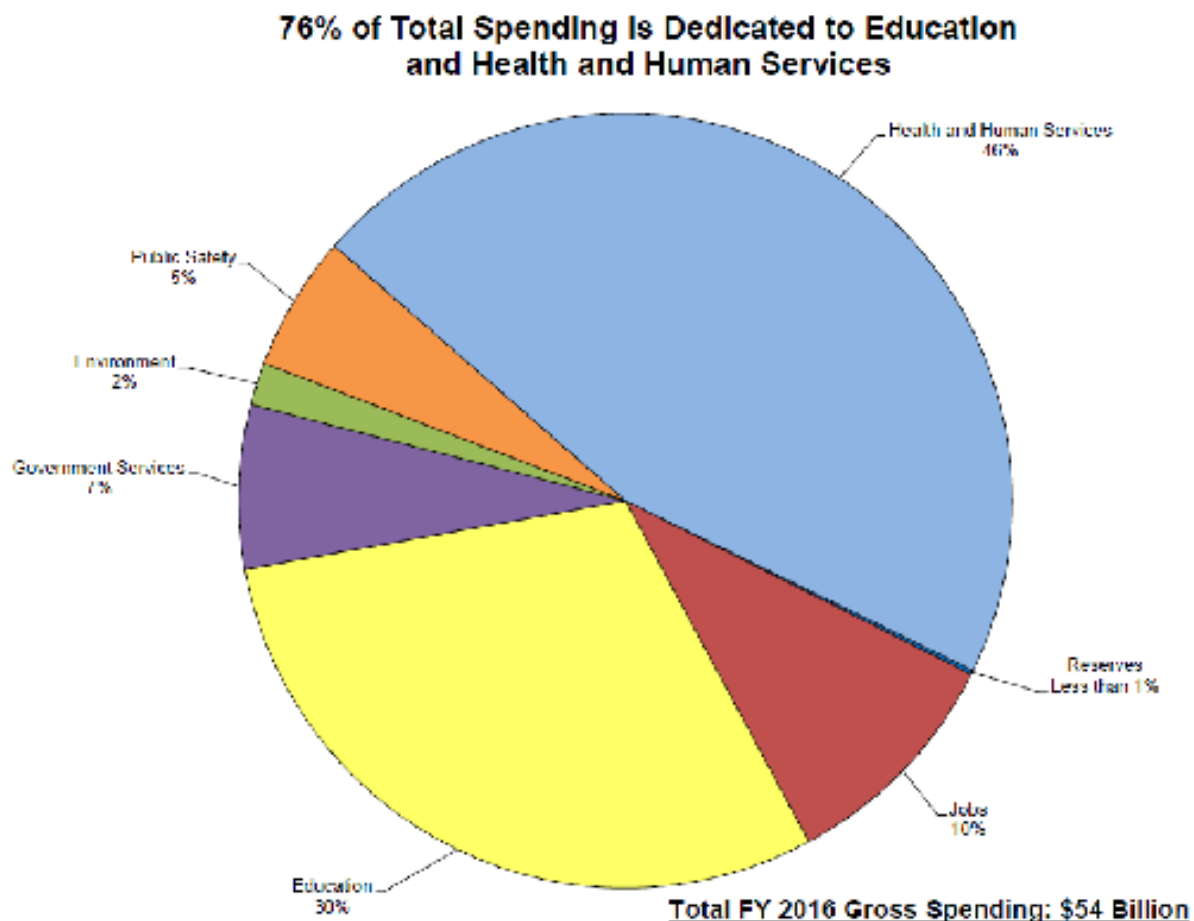
Analysis from numerous nonpartisan organizations validate this progress as well, evidenced by Michigan's entrepreneurial climate now ranking 6th, improved from 16th over the year before and from 44th in 2010. Michigan's tax climate now ranks 10th in 2015 after jumping from 27th in 2012.

Budget Recommendation in Totality

The total Executive Budget Recommendation for fiscal year 2016, including all state and federal revenue sources, is \$54 billion. Approximately 76 percent of the total budget is dedicated to education and health and human services.

The Consensus Revenue Estimating Conference held in early January projected that revenues will be \$9.7 billion in the general fund and \$12.3 billion in the School Aid Fund for fiscal year 2016, for a combined total of \$22 billion.

Fiscal year 2017 projected revenues are \$10 billion in the general fund and \$12.6 billion in the School Aid Fund, for a combined total of \$22.6 billion.



Investing in a Strong Education for Bright Futures

Recognizing that a good education is the bedrock of success, the governor's executive recommendation continues its focus on ensuring our children have the best learning opportunities possible. Focused on the three tiers of education – early childhood, K-12 and higher education – the prenatal to age 20 approach, or P-20, recognizes that each tier plays a vital role in a child's education and future success and quality of life.

Focusing on Foundation and Fundamentals

After investing \$130 million in the Great Start Readiness Program the past two years, the governor now shifts his early education focus to third grade reading.

Third grade reading proficiency is unquestionably one of the best indicators of future success and research shows that academic

performance is linked to economic

status. According to the National

Assessment of Educational Progress (NAEP), Michigan is one of only five states where fourth grade reading proficiency is in decline.

"We applaud Governor Snyder for putting a much needed spotlight on third grade reading proficiency and pushing for a comprehensive approach from birth through third grade. GRPS was one of the first public school districts to offer support for a legislative solution and we stand ready to work with the governor and state lawmakers on this initiative."

Grand Rapids Superintendent Teresa Weatherall Neal,
MLive, January 20, 2015

A new third grade reading initiative is proposed with recommended funding of \$25 million, focused on ensuring Michigan children are reading proficiently by third grade. A multifaceted approach will focus on early intervention, parental involvement, diagnostic testing, student instructional support, and teacher training. A workgroup including legislators will be put together to fully develop the proposal and legislation. After legislation is passed, the vision includes an independent commission that will oversee implementation of the proposal and monitor the improvement based on established metrics.

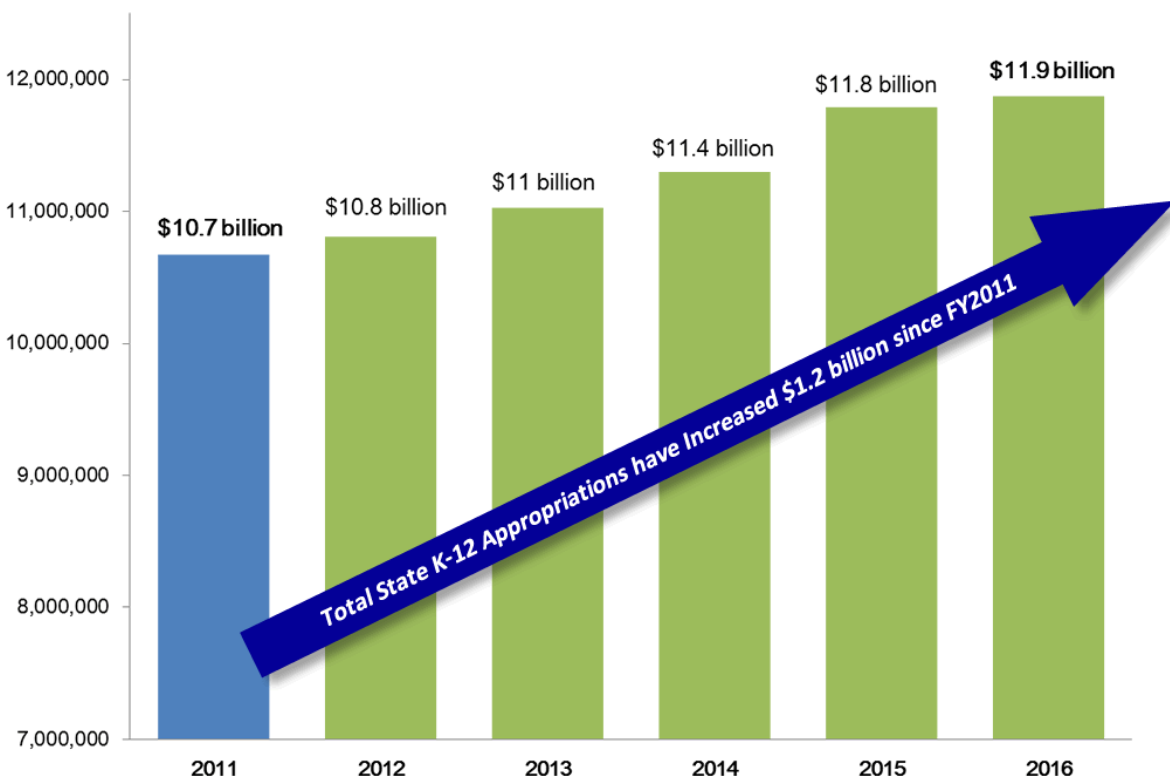
K-12

Michigan's K-12 investment has increased by \$1.2 billion since fiscal year 2011, despite continued declining enrollment. In fiscal year 2016, the governor recommends \$11.9 billion in state funds for K-12. An investment of \$108 million is recommended to provide a \$75 per-pupil increase, raising the foundation allowance for schools across the state. The governor's commitment to help rehabilitate distressed school districts continues in this budget recommendation with \$75 million dedicated to this effort. The recommendation also calls for an increase of \$100 million for at-risk funding for school students across the state in need of additional assistance. The governor's plan also includes \$25 million in technology infrastructure improvement grants to help schools meet online learning needs.

A total of \$30 million is recommended for districts that implement both financial and academic best practices. Under the proposal, districts will be rewarded for executing financial best practices like making available a public dashboard and maintaining a fund balance of at least 5 percent.

The academic best practices are aligned with the governor’s third grade reading and career and technical education initiatives and include offering a kindergarten entry assessment and other diagnostic tools to assess reading proficiency for students in grades K-3, as well as assessing the effectiveness of current college and career advising programs the district offers.

State K-12 Appropriations Continue to Increase (in thousands)



Post-secondary Education

Under the governor’s plan, universities will receive an operations increase of \$28 million, an increase of 2 percent. Keeping with the governor’s goal of helping ensure affordability for every Michigan student who wants to pursue a degree at one of Michigan’s 15 public universities, the executive budget recommendation requires that universities hold any tuition increases to no more than 2.8 percent if they are to receive any new funding.

For the 28 community colleges, the proposed budget includes a 1.4 percent operations increase of \$4.3 million, as well as \$6 million for the restoration of a financial aid program to provide grant assistance to part-time adult students pursuing further education at a community college.

Job Creation

Gov. Snyder is concentrated on further advancing and accelerating Michigan's economic turnaround by focusing on the skilled trades and job creation. The governor's innovative policies are designed to keep Michigan growing stronger and he remains committed to developing a skilled workforce that will lead the nation. This funding will help create the talent capacities that match the needs of Michigan businesses. A total of \$17.8 million is included as part of the recommendation for career and technical education early/middle college programs. The governor's plan includes a \$10 million increase for skilled trades training programs, bringing total funding to \$20 million to encourage more residents to master a skilled trade. The governor's total proposed investment to prioritize skilled trades comes to \$83 million. The executive recommendation also calls for \$129 million in funding for community revitalization and business attraction efforts that have already proven instrumental.

"The state's finances are in shape. Budgets arrive early rather than the 11th hour. Taxes have been realigned: A Byzantine business tax has been replaced by a corporate income tax, and the personal property tax manufacturers hated most is gone. School pensions are bolstered and, contrary to critics' claims, he has increased spending on education."

Crain's Detroit Business, October 5, 2014

Investing in People - Health and Human Services

To better serve Michigan residents and ensure they get the help they need when they need it, the governor recently joined the Department of Community Health and the Department of Human Services to create the Department of Health and Human Services. This reflects a new view and approach Gov. Snyder refers to as "The River of Opportunity," in which people are served in a holistic manner, more effectively eliminating barriers to success and bringing them into the mainstream of opportunity.

Since signing the Healthy Michigan Plan into law two years ago, more than 500,000 residents now have access to affordable health care that is making a meaningful difference in people's quality of life and ensuring a healthy, productive workforce. The governor is also committed to expanding the Healthy Kids Dental program to provide dental care to more children across the state. Currently, more than 500,000 Michigan children residing in 80 of Michigan's 83 counties are enrolled in the program. The governor calls for \$21.8 million to expand the program to children 0-8 years old in the three remaining counties: Kent, Oakland and Wayne, bringing the total number of children receiving dental care through the program to an estimated 822,000.

"In making Michigan a healthier, stronger state, we have placed a significant focus on improving the health status of residents. The Healthy Michigan Plan is another positive step forward in helping Michiganders make healthier choices, and have access to healthier options."

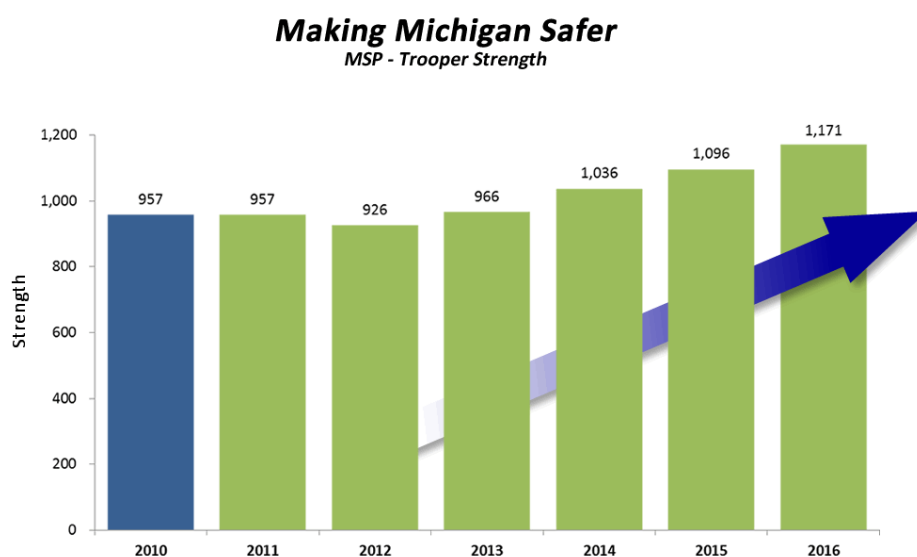
James K. Haveman, former director of the Department of Community Health, Michigan Chronicle, April 30, 2014

Other investments include \$23 million to increase access to dental care for 613,000 existing adult Medicaid recipients, \$1.9 million for the Mental Health Commission recommendation for residential treatment for youth, and \$500,000 each to five state universities to train more autism service providers.

Bolstering Public Safety

The Secure Cities Partnership spearheaded by the Michigan State Police (MSP) continues to succeed in reducing violent crime in four of the state's larger cities. Between 2011 and 2014, violent crime has dropped 20.2 percent in Detroit; 28.1 percent in Flint; 28.3 percent in Pontiac; and 26.7 percent in Saginaw.

The governor's budget recommendation continues to invest in public safety by increasing the state police's trooper strength. The governor calls for an investment of \$7.7 million to train 75



new troopers through the Michigan State Police Training Academy to patrol Michigan roadways and communities. The proposed budget also includes an additional \$1 million to train 10 new motor carrier officers. This investment will bring trooper strength to its highest level since 2002. Michigan residents across the entire state will benefit from more troopers protecting and serving the public.

Other public safety investments include a total of \$3.4 million to accelerate the resolution of sexual assault cases, including \$1.7 million to process the DNA testing backlog and \$1.7 million for the prosecution of cases. The governor is also calling for a \$500,000 investment to help prevent sexual assaults on college campuses, and \$1.5 million for a new statewide drug policy initiative to assist those with substance abuse problems.

Supporting Our Local Communities

Michigan's cities, villages, townships and counties are the pulse of the state. When Michigan's municipalities are succeeding, the state flourishes. The fiscal year 2016 budget increases constitutional revenue sharing payments for cities, villages and townships by \$23.8 million. The governor's budget provides \$243 million for eligible municipalities that meet accountability and

transparency requirements. The recommendation also proposes providing maximum funding in revenue sharing and incentive programs for 76 eligible counties, a \$3.5 million increase.

Improving Michigan's Roadways, Infrastructure

The governor firmly believes in investing in the state's infrastructure to properly maintain our transportation system. According to *The Wall Street Journal*, more than 20 percent of Michigan's 122,085 miles of public roads are in poor condition and nearly 30 percent of the state's bridges are "structurally deficient" or "functionally obsolete." This is simply not acceptable. Recognizing the significant impact that road conditions play in the health of a state's economy and the safety of its residents, the governor calls for a comprehensive approach that will produce sufficient funding to address the critical state of Michigan's transportation infrastructure. The governor's plan calls for a total of \$113 million to ensure the maximum in federal match money for our roads, but more must be done.

A solution to the road problem now requires voter support. In May, voters will have the opportunity to vote on Proposal 1 – a measure that would generate an additional \$1.2 billion a year in new funds for Michigan's rapidly deteriorating roads and bridges. If passed, the ballot proposal would generate new revenues by replacing Michigan's antiquated per-gallon retail tax on motor fuel with a new wholesale tax while also ensuring that all state taxes levied on fuel go to support transportation. The ballot proposal would raise the sales tax from 6 percent to 7 percent, generate \$300 million for schools, restore the Earned Income Tax Credit for Michigan families in need, and provide \$94 million in new support for local governments. For the purposes of budgeting, however, the governor's Executive Budget Recommendation for fiscal years 2016 and 2017 is based on current law and does not factor in funding that would be produced if the ballot proposal is approved.

Protecting Michigan's Natural Resources

Known as the "Great Lakes State," Michigan provides its residents and millions of tourists a magical, natural playground for hiking, boating, skiing, biking, horseback riding and snowmobiling. Gov. Snyder recognizes the critical link between the well-being of the state's natural resources, quality of life for its residents and our bustling economy.

The governor's fiscal year 2016 recommendation continues to focus on the state's natural resources, by maintaining vital funding for cleaning up underground storage tanks; food and dairy safety improvements; prevention, detection and eradication of invasive species; state park maintenance; and the recycling initiative.

More Efficient, Effective and Accountable Government

The State of Michigan workforce is down more than 15,000 employees since 2001, ensuring highly focused, productive workers, all the while improving services to residents across Michigan. The governor is committed to ensuring a lean, efficient and effective state government and places a strong focus on investing in technology and building maintenance to achieve that goal.

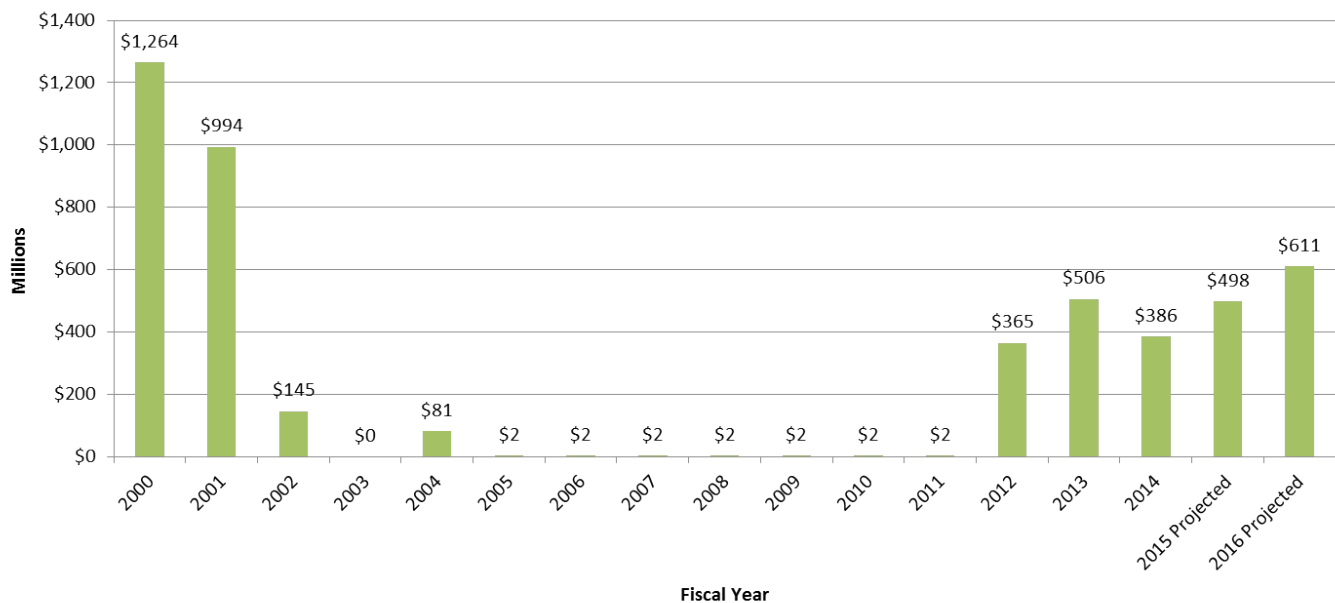
Since taking office, the governor has made strategic investments in information technology, replacing or modernizing 56 out-of-date legacy systems – resulting in \$3 million in savings from cost avoidance and efficiencies. Other benefits of investing in this modernization include improved customer service, productivity savings, enhanced capabilities, and improved user experience. Adding \$70 million in technology to replace and modernize legacy computer systems will build upon this work and further improve government efficiency and services to Michiganders. This investment includes \$7 million to strengthen cybersecurity efforts to protect the state’s computer systems, networks, and critical data from daily and growing cyber threats.

Since January 2011, the State has eliminated more than 1 million square feet of leased space by maximizing use of state-owned space, reducing the footprint of new leases and further consolidating into existing leases. The governor’s recommendation includes a total of \$31 million for building maintenance for state facilities, representing a significant investment in the state’s infrastructure that will prevent higher costs in the near and distant future.

Responsible Budgeting

Families across the state have to live according to a budget – paying bills, reducing debt and setting aside savings. The governor approaches the state’s budget the same way. After funding critical programs and services and making strategic, long-term investments, the governor firmly believes that the state needs to ensure it has sufficient reserves.

***The Budget Stabilization Fund (BSF) Peaked at \$1.3 Billion in FY 2000, but Had to be Rebuilt.
FY16 Deposit of \$95M One-time and \$17.5 Million Ongoing.***



Before the Great Recession hit, Michigan’s reserves stood at more than \$1.2 billion. By the time the governor took office the Budget Stabilization Fund (commonly referred to as the “Rainy Day Fund”) was depleted to a balance of only \$2.2 million. Gov. Snyder’s plan continues to make strategic investments in the Rainy Day Fund and calls for setting aside \$95 million, and combined with the ongoing \$17.5 million from tobacco settlement funds, brings the projected balance

to a total of \$611 million by the end of 2016. Best practices call for setting aside approximately 6 to 8 percent of general fund/School Aid Fund dollars, or roughly \$1.2 billion to \$1.6 billion. Strengthening the state's reserves helps ensure higher credit ratings, which ultimately saves taxpayer dollars.

In addition to saving for a rainy day, the governor's proposed budget also concentrates on the importance of paying down the state's long-term debt. Gov. Snyder's executive recommendation continues to pay for pension and retiree health care liabilities and his commitment to fully meeting and paying off these obligations is strong. Reforms made to the school employee retirement system and the state employee retirement system have reduced the state's long-term debt by more than \$20 billion while protecting retirement security for school and state employees. Funding for the school employee retirement system is set at \$815 million for K-12 schools, which equates to \$600 per K-12 student. This investment provides fiscal relief to schools for retirement obligations and helps ensure retirement promises made to employees can be kept.

A \$2.7 million increase, for a total of \$5.2 million, is recommended within higher education to provide for costs above a proposed rate cap for seven participating universities in the Michigan Public School Employees Retirement System (MPERS). A \$17.2 million increase, for a total of \$71.2 million, is recommended for community colleges to provide for MPERS costs. Capping costs for universities and community colleges is another example of Gov. Snyder's commitment to fiscal responsibility.

Conclusion

Gov. Snyder remains committed to tackling the tough challenges, working with relentless positive action to ensure the Great Lakes State is moving forward for all Michiganders. While much has been accomplished in the past four years, the governor recognizes that we still have more work to do. The governor's solid two-year budget plan continues to make strategic investments to continue Michigan's reinvention and improve the quality of life for our state's residents.

Adoption of Gov. Snyder's fiscally responsible budget recommendation for fiscal year 2016 and projected budget for 2017 will ensure that Michigan stays on the right path. The governor and his administration are ready to work in partnership with the members of the Michigan Senate and House of Representatives to enact a budget that will help ensure a vibrant, prosperous Michigan that can and will grow even stronger.

