State Tax Sources

Mitchell E. Bean, Senior Economist

This **State Tax Sources** section profiles each of Michigan's major state taxes. Together these will produce about 92% of total revenues from state tax sources in FY 1999-00. The taxes are sequenced in order of magnitude or amount of revenues raised in FY 1999-00 — largest revenue producer first.

Each state tax profile explains the basis of the tax (what is taxed), the tax rate, any significant tax credits and/or tax exemptions and the tax expenditures (revenue loss) attributable to these credits and exemptions, and the distribution of the revenue proceeds from the tax (i.e., to General Fund, to School Aid Fund, etc.). A table presents gross and net proceeds over the last three fiscal years as well as a standard measure of tax yield, for example – the amount of tax proceeds raised by 1% of the 4.4% personal income tax.

Personal Income Tax

Basis of Tax

This is a direct tax on income, which includes federal adjusted gross income (AGI) of individuals, estates and trusts, adjusted for credits and exemptions.

Tax Rate

The tax rate is 4.4% of AGI adjusted for credits and exemptions.

Credits and Exemptions

The most significant exemptions in terms of revenue loss are personal and dependency exemptions of $2,800 (which are indexed to inflation and are expected to increase to $2,900 for tax year 2000) and extra exemptions for children under 12 years of age, the handicapped, and senior citizens. The revenue loss associated with these exemptions exceeds $900 million. A homestead property tax credit is also available under certain circumstances. This credit reduces revenue by approximately $415 million. All exemptions and credits associated with the income tax represent tax expenditures of approximately $2.5 billion per year.

Disposition of Revenue

Twenty-three percent of gross collections distributed to the School Aid Fund; approximately $1.3 million earmarked by taxpayers for the State Campaign Fund; remainder to General Fund/General Purpose.

Table 13

PERSONAL INCOME TAX

Fiscal Year	Gross Collections (in millions)	Collections Net of Refunds (in millions)	Gross Collections Per 1% (in millions)
FY 1997-98 estimate	$7,395.0	$6,316.1	$1,680.7
FY 1998-99 estimate	$7,730.0	$6,604.4	$1,756.8
FY 1999-00 estimate	$7,999.0	$6,829.0	$1,817.9

Sales Tax

Basis of Tax

The basis of the tax is the privilege of selling at retail, which includes gross proceeds from retail sale of intangible personal property for use or consumption. It also includes certain conditional and installment lease sales; sales to consumers of electricity, gas, and steam; and sales to persons in real estate construction and improvements in business.

Tax Rate

The tax rate is 6% (State constitutional limitation).

Credits and Exemptions

The *State Constitution* exempts the sales of prescription drugs and sales of food for human use not prepared for immediate consumption from the tax base. The largest statutory exemptions in terms of revenue loss are associated with services ($3.7 billion inclusive of use tax exemptions) and the industrial processing exemption ($500 million inclusive of use tax exemptions). All exemptions and credits associated with the sale and use taxes represent tax expenditures of approximately $6 billion per year.

Disposition of Revenue

To the School Aid Fund, 73.3%; approximately 24.5% to local revenue sharing payments; 1.3% to Comprehensive Transportation Fund; $9 to $14 million for various health programs; remainder to General Fund/General Purpose.

Table 14

SALES TAX

Fiscal Year	Gross Collections (in millions)	Collections Per 1% (in millions)
FY 1997-98 estimate	$5,617.5	$936.2
FY 1998-99 estimate	$5,835.0	$972.5
FY 1999-00 estimate	$6,035.0	$1,005.8

Single Business Tax

Basis of Tax

This is a consumption-type, value-added tax computed by adding together profits; compensation paid; interest paid and depreciation, adjusted for numerous deductions; reductions; exemptions; and credits. Multistate firms are taxed on an apportioned base. Businesses eligible for a Small Business Credit are also eligible for an alternative tax based on adjusted business income. Insurance companies pay a gross receipts tax.

Tax Rate

The tax rate is 2.3% of apportioned tax base after credits, adjustments, and exemptions. Under the alternative tax, eligible small businesses pay 2% of adjusted business income. Insurance companies pay 1.3% of gross receipts.

Credits, Deductions, and Reductions

The largest deduction in terms of revenue loss is the Capital Acquisition Deduction which allows firms to fully deduct the cost of certain capital investments from their tax base. This deduction reduces yearly revenue by about $445 million. The Excess Compensation Reduction for labor-intensive firms reduces revenue by approximately $330 million. The total revenue loss associated with all exemptions, credits, and reductions is approximately $1.8 billion per year.

Disposition of Revenue

General Fund/General Purpose.

Table 15

SINGLE BUSINESS TAX

Fiscal Year	Net Collections (in millions)	Collections Per 1% (in millions)
FY 1997-98 estimate	$2,320.6	$1,008.9
FY 1998-99 estimate	$2,395.0	$1,041.0
FY 1999-00 estimate	$2,480.0	$1,078.3

State Education Property Tax

Basis of Tax
This tax consists of the taxable value of all real and personal property not otherwise exempted.

Tax Rate
The tax rate is 6 mills ($6 per thousand dollars of taxable value)

Credits and Exemptions
Tax-exempt property represents about 80% of the revenue lost (about $320 million) through credits and exemptions. However, assessment caps that limit increases in the taxable value of property to the lesser of 5% per year or the rate of inflation until ownership of the property is transferred has reduced the base by about 6.4% and will continue to restrict the growth of the tax base.

Disposition of Revenue
State School Aid Fund.

Table 16

STATE EDUCATION PROPERTY TAX		
Fiscal Year	**Gross Collections (in millions)**	**Collections Per Mill (in millions)**
FY 1997-98 estimate	$1,259.4	$209.9
FY 1998-99 estimate	$1,300.4	$216.7
FY 1999-00 estimate	$1,355.0	$225.8

Use Tax

Basis of Tax
The basis of this tax is the privilege of using, storing, and consuming certain tangible personal property, plus the services of telephone, telegraph, and other leased wire communications; used auto sales between individuals; and use of transient hotel and motel rooms. Designed to complement the sales tax.

Tax Rate
The tax rate is 6% (State constitutional limitation) of purchase price of tangible personal property or service.

Credits and Exemptions
The *State Constitution* exempts the proceeds from the sales or use of prescription drugs and food for human use not prepared for immediate consumption from the tax base. The largest statutory exemptions in terms of revenue loss are associated with services ($3.7 billion, inclusive of sales tax exemptions) and the industrial processing exemption ($500 million inclusive of sales tax exemptions). All exemptions and credits associated with the sales and use tax represent tax expenditures of approximately $6 billion per year.

Disposition of Revenue
To General Fund, 67%; 33% to School Aid Fund.

Table 17

USE TAX

Fiscal Year	Gross Collections (in millions)	Collections Per 1% (in millions)
FY 1997-98 estimate	$1,155.4	$192.6
FY 1998-99 estimate	$1,193.0	$198.8
FY 1999-00 estimate	$1,238.0	$206.3

Gasoline Tax

Basis of Tax
Gasoline used in vehicles operating on public highways.

Tax Rate
The tax rate is $0.19 per gallon.

Credits and Exemptions
Major credits and exemptions include a 1.5% deduction in taxable gallons to allow for the cost of remitting the tax and various exemptions and refunds for public and nonprofit vehicles. Together, these credits and exemptions reduced revenues by approximately $32.5 million per year.

Disposition of Revenue
The Recreation Improvement Fund receives 2%, with the remaining 98% going to the Michigan Transportation Fund. Michigan Transportation Fund revenue is then distributed to the Critical Bridge Fund; the Rail Grade Crossing Account; the Transportation Economic Development Fund; the Comprehensive Transportation Fund; the State Trunkline Fund; and county road commissions, cities, and villages.

Table 18

GASOLINE TAX

Fiscal Year	Gross Collections (in millions)	Collections Per 1 Cent (in millions)
FY 1997-98 estimate	$903.5	$47.6
FY 1998-99 estimate	$917.2	$48.3
FY 1999-00 estimate	$929.0	$48.9

Lottery

Revenue Base
Gross lottery sales.

Disposition of Revenue
Prizes: 50%; commission to retailers: 7%; game-related expenses: 2%; administration: 2%; net revenue to School Aid Fund: 39%.

Table 19

LOTTERY

Fiscal Year	School Aid Fund Transfers (in millions)	Collections Per 1% (in millions)
FY 1997-98 estimate	$616.1	n/a
FY 1998-99 estimate	$604.0	n/a
FY 1999-00 estimate	$608.0	n/a

Tobacco Tax

Basis of Tax
The basis of this tax is the privilege of selling tobacco products in Michigan.

Tax Rate
Cigarettes at 37.5 mills per cigarette (75 cents per pack); cigars, non-cigarette smoking tobacco, and smokeless tobacco at 16% of wholesale price.

Credits and Exemptions
The largest exemptions in terms of revenue loss are a 1.25% exemption of total tax due from licensees for administration costs ($7.0 million) and exemptions of the sale of cigarettes on U.S. military bases and to Native Americans living on reservations ($8.0 million).

Disposition of Revenue
Cigarette proceeds: 63.4% to School Aid Fund; 25.3% to General Fund; 6% to improving the health and safety of State residents; 4% to health and safety fund; and 1.3% to city, county, and district health departments. Cigar, non-cigarette smoking tobacco, and smokeless tobacco proceeds: 94% to School Aid Fund; 6% to improving the health and safety of state residents.

Table 20

TOBACCO TAX

Fiscal Year	Gross Collections (in millions)	Collections Per Mill Per Cigarette (in millions)
FY 1997-98 estimate	$566.0	$14.7
FY 1998-99 estimate	$620.0	$16.2
FY 1999-00 estimate	$608.0	$15.9

Diesel Fuel Tax

Basis of Tax
Diesel fuel used in vehicles operating on public highways.

Tax Rate
The tax rate is $0.15 per gallon.

Credits and Exemptions
Major credits and exemptions include a $0.06 per gallon discount for commercial trucks and various exemptions and refunds for public and nonprofit vehicles. Credits and exemptions reduce revenues by approximately $15 million per year.

Disposition of Revenue
The Michigan Transportation Fund (MTF), with MTF revenue distributed to: Critical Bridge Fund; Rail Grade Crossing Account; Transportation Economic Development Fund; Comprehensive Transportation Fund; State Trunkline Fund; county road commissions; cities and villages.

Table 21

DIESEL FUEL TAX

Fiscal Year	Gross Collections (in millions)
FY 1997-98 estimate	$118.2
FY 1998-99 estimate	$119.0
FY 1999-00 estimate	$121.0

Revenues From Federal Sources

Kirk Lindquist, Fiscal Analyst

The federal government spent more than $39.6 billion in Michigan in FY 1996-97, but only 19% of this amount was provided to Michigan state government to fund medicaid, welfare, and transportation programs. Federal funds directly support a number of state and local programs as well, including local education agencies and school districts, colleges and universities, public housing, and community development programs.

Chart 5 shows that most federal spending goes directly to Michigan citizens. These individuals receive retirement and disability payments, medicare rehabilitation programs, low-income housing, and income support. Of the amount spent for federal employee salaries, most is allocated to the postal service for postal employees.

For FY 1998-99, the Michigan Legislature appropriated $8.1 billion from federal sources; this is over one fourth of the state's total appropriations of $31.8 billion. Most of this federal money (66%) was appropriated for medicaid, support payments, food and nutrition, and other payments — primarily to the Community Health and Family Independence Agency budgets.

Chart 5

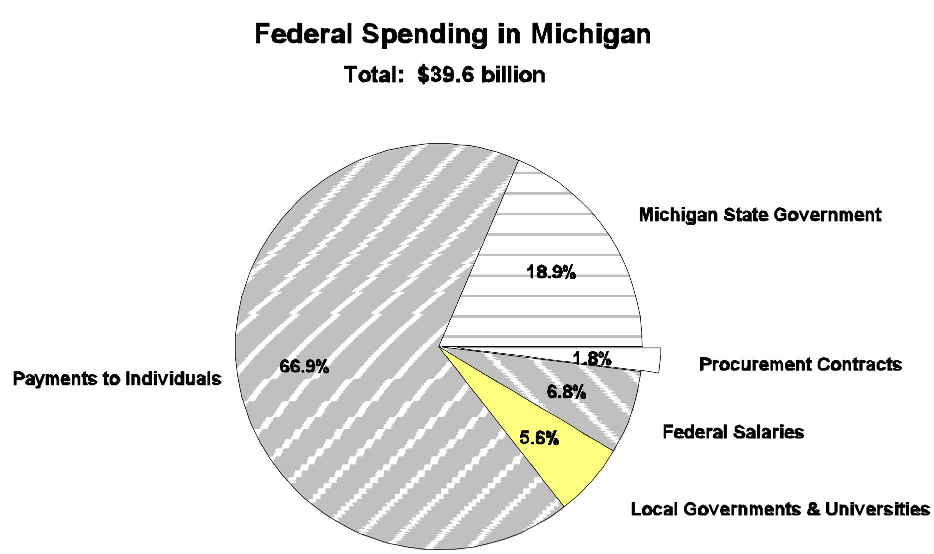


Table 22 illustrates the distribution of federal funds among state departments. Between 1992 and 1997, substantial percentage increases occurred in grants from the Departments of Agriculture, Energy, Housing and Urban Development, Justice, Education, Defense, and Health and Human Services.

Table 22

FEDERAL REVENUE TO GENERAL AND SPECIAL REVENUE FUNDS FY 1991-92 AND FY 1996-97 (Dollars in Thousands)			
Federal Agencies	**1992**	**1997**	**% Change**
Health and Human Services	$3,640,090	$4,876,981	34.0%
Education	404,606	613,813	51.7%
Agriculture	301,554	1,105,020	266.4%
Labor	349,601	242,887	-30.5%
Housing and Urban Development	24,439	43,567	78.3%
Environmental Protection Agency	21,776	23,267	6.8%
Energy	11,982	23,641	97.3%
Transportation	453,447	588,411	29.8%
Interior	13,270	16,194	22.0%
Defense	18,243	27,075	48.4%
Justice	20,340	36,080	77.4%
Other	30,072	56,559	88.1%
TOTAL	**$5,289,420**	**$7,653,495**	**44.7%**

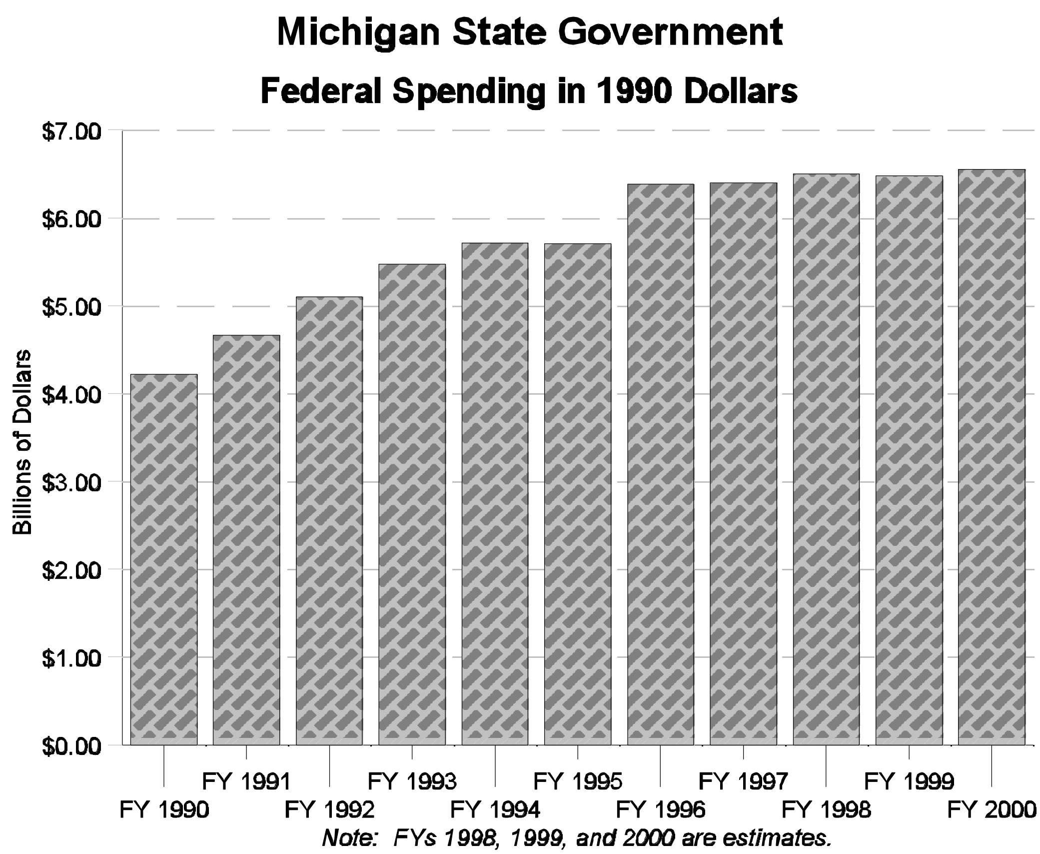
Source: State of Michigan Comprehensive Annual Financial Report, Years Ending September 30, 1992, and September 30, 1997.

Federal grant levels tend to grow during downturns in the economy. **Chart 6** shows (in non-inflationary dollars) annual changes in the level of federal spending. Note that modest increases are evident in the first several years during and following the 1991-93 recession.

Prior to 1995, federal disbursements for the food stamp program were made directly to recipients. After 1995, (note Federal Department of Agriculture in **Table 22**), federal grants for the food stamp program were directed through the state budget.

No unusual or significant change in federal spending policy is expected for FY 1999-2000. A continuation of current budget policy would provide as much as $8.3 billion if all grant levels are increased by 3%. If no inflationary increases are provided, Michigan could receive $8.0 billion in FY 1999-2000.

Chart 6



Federal Spending (Billions of Dollars)

1990	1991	1992	1993	1994	1995	1996	1997	1998*	1999*	2000*
$4.22	$4.66	$5.10	$5.47	$5.71	$5.71	$6.38	$6.40	$6.50	$6.47	$6.55

**Estimates*

State Government Organization and Employees

Craig Thiel, Fiscal Analyst

Michigan state government is divided into three separate branches: legislative, executive, and judicial. The vast majority of state governmental operations are administered by the principal executive departments and state agencies housed in the executive branch. Article V, Section 2 of the *Michigan Constitution* limits the number of principal executive departments to 20 and provides the governor with the authority to reorganize the executive branch, subject to legislative approval, for efficient administration.

The executive branch currently consists of 18 principal departments. Autonomous state agencies, housed within principal departments and which do not count toward the constitutional limit, also carry out functions under the executive branch. The three agencies discussed here are the Bureau of State Lottery and Michigan Gaming Control Board, both housed within the Department of Treasury, and the Office of Services to the Aging, which resides in the Department of Community Health.

Departments and Agencies

The principal departments are headed by an elected single executive, by a chief administrator appointed by the governor, or by a chief administrator appointed by a multi-member commission or board.

The Departments of Attorney General and State are headed by elected officials. The attorney general and the secretary of state are elected every four years and both serve four-year terms.

Each of the other 16 departments has a chief administrator, often referred to as a department director, who is either directly appointed by the governor or by a commission or a board. The chief administrator of each department is charged with implementing the policies set forth by the governor or by their respective commission or board. The governor, with the advice and consent of the Senate, appoints the directors of the Department of Community Health, Department of Consumer and Industry Services, Department of Corrections, Department of Environmental Quality, Family Independence Agency, Department of Management and Budget, Michigan Jobs Commission, Department of Military and Veterans Affairs, Department of State Police, and Department of Treasury.

Commissions, or in the case of the Department of Education, the State Board of Education, have been formed to write and implement policy for the remaining five departments. A multi-member commission or board appoints the chief administrator of these departments. In the case of the

Departments of Agriculture, Civil Rights, Civil Service, and Natural Resources, a commission appointed by the governor, with the advice and consent of the Senate, selects the department director.

In the case of the Department of Education, the State Board of Education (an eight-member elected body) appoints the Superintendent of Public Instruction.

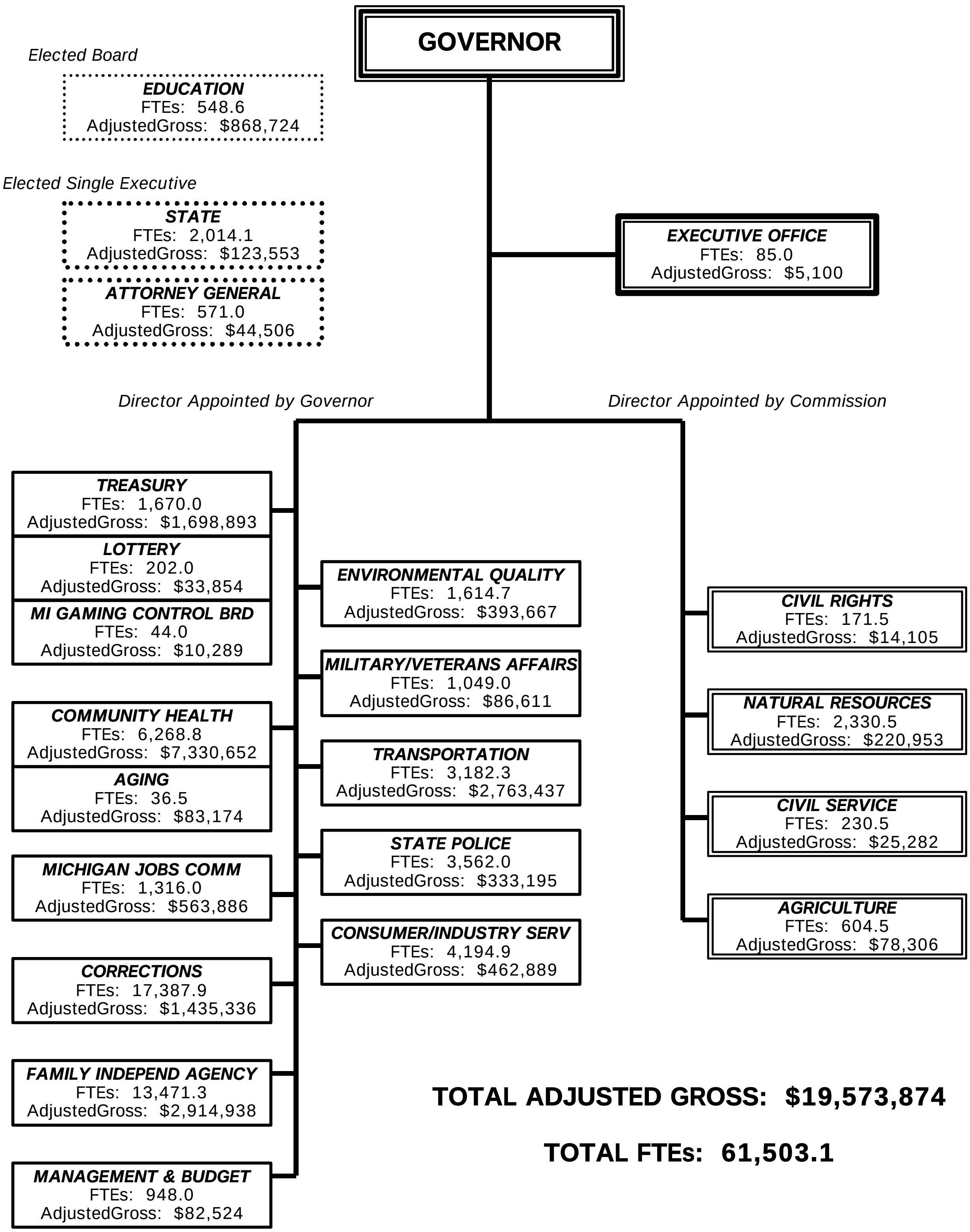
The governor appoints the lottery commissioner and the executive director of the Michigan Gaming Control Board, again with the advice and consent of the Senate. The Commission on Services to the Aging selects the director of the Office of Services to the Aging. The lottery commissioner reports directly to the governor, while the director of the Office of Services to the Aging reports to the Commission on Services to the Aging and the Executive Director of the Michigan Gaming Control Board reports to the Michigan Gaming Control Board.

State Government Organization

The current organization of the executive branch of Michigan's state government is reflected in **Chart 5**. This chart depicts the FY 1998-99 adjusted gross appropriation and the total number of full-time equated positions appropriated to each department and agency in the executive branch.

Chart 7

EXECUTIVE BRANCH ORGANIZATION
FY 1998-99 YTD
(Dollars in Thousands)



The daily functions of the principal executive departments and State agencies are carried out by three types of employees: unclassified, classified, and contractual.

Unclassified Employees

Article XI, Section 5 of the *Michigan Constitution* allows each principal executive department six positions that are exempted from the state classified service. Except for the director of the Department of Civil Service, who is a classified civil servant, all other department directors are unclassified employees. The department director may employ five other unclassified employees in positions that are policy-making in nature. Unclassified employees typically serve at the pleasure of the appointing authority, whether it is the governor, the department's policy-making commission, or the department director.

Classified Employees

Classified employees are those persons who serve in the classified service of the state, commonly referred to as civil servants. These employees carry out the operational and programmatic functions of departments and agencies. In most cases, classified employees must pass a civil service application test for the position they wish to fill. The Department of Civil Service administers these tests and classifies each position. Classifications determine hierarchy and rates of compensation. To be promoted to a higher classification, a civil servant typically must pass a test specifically designed for that position.

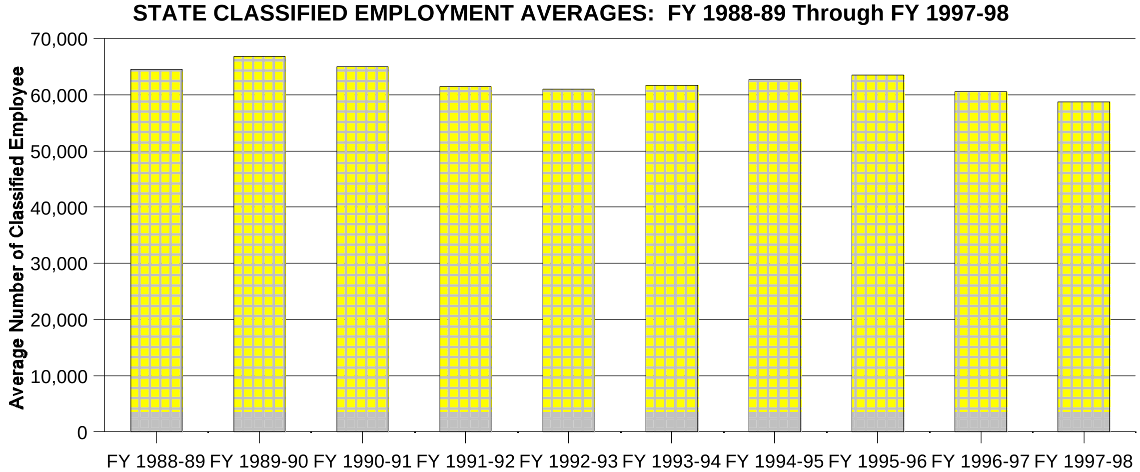
Chart 6 highlights the statewide average number of classified employees over the past ten fiscal years.

Contractual Employees

A variety of day-to-day state services are provided by employees working outside of the classified service through personal services contracts. These contractual employees are considered state employees and are paid through the state payroll system. In most cases, departments hire contractual employees to fulfill duties that are either temporary in nature or that are so specialized or unique in character that they cannot be efficiently provided through the classified service. Article XI, Section 5 of the *Michigan Constitution* requires the Department of Civil Service to approve all disbursements of funds for personal services contracts.

CHART 8

STATE CLASSIFIED EMPLOYMENT AVERAGES: FY 1988-89 Through FY 1997-98



State-Administered Retirement Systems

Al Valenzio, Associate Director

There are five retirement systems which the State of Michigan administers and to which it contributes. They are as follows:

Michigan Public School Employees Retirement System (MPSERS)
Michigan State Employees Retirement System (SERS)
Michigan State Police Retirement System (SPRS)
Michigan Judges Retirement System (JRS)
Michigan Legislative Retirement System (LRS)

A brief description of each system and relevant fiscal data follows. Information has been obtained from the respective systems' annual reports dated September 30, 1997, which are the most recent available.

Table 23

RETIREMENT STATISTICAL AND FINANCIAL DATA - 1997

System	Active Members	Retirees/ Beneficiaries	* Benefit Payments	Average Annual Pension Allowance	Employer Contributions	Net System Assets (Market Value: 9/30/96)	** % Funded
MPSERS	295,691	111,842	$1,656,442,198	$12,263	$904,165,262	$30,131,149,276	101
SERS	55,434	36,123	509,645,026	11,656	410,231,627	8,910,915,262	92
SPRS	2,090	2,018	54,267,511	22,080	51,851,630	934,049,773	89
JRS	609	512	13,953,170	27,744	1,592,853	319,673,450	118
LRS	146	214	6,351,831	21,577	2,499,600	152,297,097	109
Totals	**353,970**	**150,709**	**$2,240,659,736**	**N/A**	**$1,370,340,972**	**$40,448,084,858**	**N/A**

*Includes health insurance costs.
**Does not include pre-funded insurance costs.

MPSERS

The Michigan Public School Employees Retirement System (PSERS) is operated by the Office of Retirement Systems (ORS), which is within the Department of Management and Budget (DMB). Public Act 300 of 1980, as amended, is the governing statute. Investment services are provided through the State Treasurer. Statute provides that administration of the system is accomplished through a nine-member board.

Members of the system include employees in all K-12 public school districts, intermediate school districts, some charter schools, public community colleges, and certain non-teaching employees of seven State universities.

A Basic Plan member may retire at age 55 with at least 30 years of service credit, or at age 60 with at least 10 years of service credit. The member's annual pension equals 1.5% of the member's final average compensation times the number of years of credited service. Final average compensation for a Basic Plan member is a period of 60 consecutive months yielding the highest total wages. The Basic Plan is a non-contributory system.

The Member Investment Plan (MIP) is a contributory system which offers additional pension benefits not available under the Basic Plan. Under MIP, a member may retire at any age with 30 years of service or, under certain conditions, at age 60 with at least five years. The pension benefit calculation is the same as the Basic Plan except that the final average compensation is based on 36 consecutive months. However, a MIP retiree will receive annual post-retirement adjustments of 3% (non-compounded).

Health insurance covering medical, hearing, dental, and vision is provided on a cost-sharing basis to all retirees and beneficiaries. A significant portion of the premium is paid by MPSERS, depending upon the amount of service time.

SERS

Tier I - Defined Benefit Program

The Michigan Tier I State Employees Retirement System (SERS) is operated by the Office of Retirement Systems (ORS), which is within the Department of Management and Budget (DMB). Public Act 240 of 1943, as amended, is the governing statute. The plan is administered by a nine-member board. Investment services are provided through the State Treasurer.

Members of the SERS-Tier I include all non-elected State employees and officials serving in all three branches of State government hired before March 31, 1997. Michigan State Police command and enlisted personnel are exempt from this system. The SERS-Tier I plan is a non-contributory plan and is now a closed system due to enactment of the Tier II plan.

A member may retire, with full benefits, at age 55 with at least 30 years of service credit or at age 60 with at least ten years. Corrections officers and conservation officers may elect retirement at any age with 25 years of service or at age 56 with at least 10 years. Also, employees of State mental health facilities that close are eligible for certain early retirement programs.

The normal annual pension equals 1.5% of the member's final average compensation times the number of years of credited service. The final average compensation is a period of 36 consecutive months yielding the member's highest total wages. Persons retiring since October 1988 receive annual 3%

COLA payments; however, it is not compounded and is capped at $300 per year.

Health insurance, hospitalization, master medical, dental, and vision are provided on a cost-sharing basis to all retirees and beneficiaries. Until age 65, 5% of the premium is paid by the pension recipient. At age 65, Medicare provides the primary health insurance coverage.

Tier II-Defined Contribution Program

Public Act 487 of 1996 mandates that all non-elected employees and officials hired on or after March 31, 1997 are enrolled in the SERS Defined Contribution Retirement Plan (also known as the Tier II plan). This plan is administered by the State Treasurer in conjunction with the SERS Board of Directors. The new plan will operate similar to a 401 (k) and, in fact, is considered an extension of the State's existing deferred compensation plan. The Tier II plan is the primary pension plan for all new State employees.

Under the new plan, the State (employer) will make bi-weekly base contributions of 4% of each members' salary. An individual may also elect to make contributions to his/her account which the State will match up to 3%. Each member will be responsible for account investment decisions through various investment options provided by the plan administrator.

A member fully vests in employer contributions after only four years of service. When a member retires (or leaves State service), he/she will have several options regarding the distribution of the account's proceeds. The funds may be made available in a lump sum or as an annuity, transferred to another qualified plan, or remain in the account until some future date.

Subsidized health insurance coverage will be provided, but on a graduated schedule. The State will pay 90% of the annual premium if a member has at least 30 years of service, but only 30% for one who has 10 years. A minimum of 10 years of service is required in order to receive any subsidy. In each year after ten, the State's contribution increases by 3% until the maximum 90% is reached.

SPRS

The Michigan State Police Retirement System (SPRS) is operated by the Office of Retirement Systems (ORS), which is within the Department of Management and Budget (DMB). Public Act 182 of 1986, as amended, is the governing statute. The plan is administered by a nine-member board. Investment services are provided through the State Treasurer. The SPRS is a non-contributory plan.

Members of the system include all troopers, sergeants, and command officers of the Michigan State Police. A member may retire, with full benefits, after completing 25 years of service. The annual pension allowance equals 60% of the member's final average compensation. The final average compensation is determined by averaging the member's monthly pay during the last 24 months of consecutive service.

All retirees and beneficiaries receive annual post-retirement adjustments of 2%. The increase is not compounded and is capped at $500 per year.

Retirees have the option of continuing their active duty health insurance coverage. The State finances 95% of the premium on an annual cash basis. Vision and dental coverages are also available at a 10% recipient cost basis.

JRS

The Michigan Tier I Judges Retirement System (JRS) is operated by the Office of Retirement Systems (ORS), which is within the Department of Management and Budget. Public Act 234 of 1992, as amended, is the governing statute. The plan is administered by a five-member board. Investment services are provided through the State Treasurer. The JRS is a contributory plan.

Members of the system include all state trial and appellate court judges and justices. Also, the Governor, Lieutenant Governor, Attorney General, Secretary of State, Legislative Auditor General, and State Court Administrator are members.

The Tier I plan is now a closed system due to Public Act 523 of 1996 which established the JRS Defined Contribution plan; newly elected or appointed members on or after March 31, 1997 are enrolled in the new plan. Except for health insurance, the new plan is exactly the same as the SERS-Tier II plan.

A Tier I member may retire, with full benefits, at any age with at least 25 years of service credit, or at age 55 with at least 18 years, or at age 60 with eight years or more.

The annual pension allowance is based upon the State salary for the position at the time of retirement as follows:

- Between eight and 12 years; 3% of salary times years of service; or

- 50% of salary, plus 2.5% for each year over 12, but capped at 60%.

Member contributions to the Tier I plan range from 3.5% to 7% of salary. Appellate court members and State officers contribute 5% of salary (with 2% deposited into a health insurance reserve).

There are no automatic post-retirement adjustments for Tier I members (except for pre-September 1961 retirees), nor is there any health insurance coverage, at State expense, for trial court members. Appellate court members and State officers have the option of continuing their active duty health insurance coverage on a cost-sharing basis. Retirees pay 5% of the premium until age 65, at which time Medicare provides primary health insurance coverage.

LRS

The Michigan Legislative Retirement System (LRS) is contained solely within the Legislative Branch of State government. It is administered by an 11-member Board of Trustees consisting of current and former members of the Legislature. Public Act 261 of 1957, as amended, is the governing statute. Investment services are provided through private investment managers.

Membership in the system is limited to those persons who are elected to the House of Representatives and the State Senate. The LRS is a contributory plan. Legislators who were members of the system prior to December 2, 1994, contribute 9% of salary; those elected since contribute 7%.

The Tier I plan is now a closed system due to Public Act 486 of 1996 which established the LRS Defined Contribution plan. Under this, newly elected or appointed members on or after March 31, 1997 are enrolled in the new plan. Except for health insurance, the new plan is exactly the same as the SERS-Tier II plan.

A Tier I member may retire, with full benefits, at age 55 with at least eight years of service (or five, under certain conditions) or at age 50 if age and service years combine to equal at least 70. The retirement allowance for legislators who were system members prior to December 2, 1994 equals 4% times their highest salary times years of service up to 16. The allowance is increased by 1% for each year over 16, up to 20. For legislators entering the system after 1994, the multiplier is 3%.

Automatic post-retirement adjustments are provided. Legislators who were system members prior to December 2, 1994, will receive an annual pension benefit increase of 4%, compounded. For legislators entering the system after 1994 but before March 31, 1997, the increase will not be compounded. Also, the Tier I plan provides hospital, medical, dental, hearing, and vision insurance coverage for all retirees and dependents.

GLOSSARY
Frequently-Used State Budget Terms

Adjusted Gross Appropriations: Gross appropriations, less interdepartmental grants (IDGs), and intradepartmental transfers (IDTs)

Boilerplate: Language sections contained in an appropriations act which place conditions on line item expenditures, including required reports

Budget Stabilization Fund (BSF): The Countercyclical Economic and Budget Stabilization Fund, sometimes referred to as the "rainy day" fund

Federal Revenues: Federal grant or matchable funding dedicated to specific programs

General Fund/General Purpose (GF/GP): The state's primary operating fund; the portion of the state's General Fund that does not include restricted revenues

Gross Appropriations, Gross: Summation of all applicable line item spending authorizations

Interdepartmental Grant (IDG): Revenue or funds received from another state department (usually for a service the receiving department provides)

Intradepartmental Transfer (IDT): Transfers or funds being provided from one appropriation unit to another in the same department

Lapse: Unspent/unobligated balance remaining in a line item account at the end of the fiscal year that reverts or "lapses" to the state fund from which it was appropriated

Line Items: Specific amounts detailed in an appropriations bill which establish spending authorities for a particular program or function (may be for a single purpose or for multiple purposes)

Local Revenue: Revenues from local units of government

Other State Restricted, or Restricted Funds: State revenue dedicated to a specific fund (other than the General Fund); or revenue earmarked for a specific purpose

***Private Funds**:* Revenues from non-public entities such as rents, royalties or interest payments, payments from hospitals, payments from individuals, and gifts and bequests

School Aid Fund (SAF): The primary funding source for K-12 schools and Intermediate School Districts (ISDs)

Work Project Appropriation: Appropriation made for a specific project which does not lapse at the end of the fiscal year, but continues (under specified conditions) for a number of fiscal years

James J. Haag, Director

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Medicaid . . . . Bill Fairgrieve, Fiscal Analyst
Mental Health/Substance Abuse . . . . Margaret Alston, Fiscal Analyst
Public Health/Aging . . . . Susan Higinbotham, Fiscal Analyst
Corrections . . . . Marilyn Peterson, Fiscal Analyst
Family Independence Agency
Grants/Administration/Staffing . . . . Myron Freeman, Fiscal Analyst
Services/Disability Determination . . . . Erin Black, Fiscal Analyst

GENERAL GOVERNMENT PROGRAMS . . . . Al Valenzio, *Associate Director*
Capital Outlay/Retirement/Supplementals . . . . Al Valenzio, Fiscal Analyst
Auditor General/Executive/Management and Budget/Legislature/
Library of Michigan . . . . Robin Risko, Fiscal Analyst
Attorney General/Civil Rights/Civil Service/State/Lottery/Treasury . . . . Craig Thiel, Fiscal Analyst
Agriculture . . . . Craig Thiel, Fiscal Analyst
Judiciary/Legislative Transfers/Bill Analysis . . . . Tim Aben, Fiscal Analyst
Public Safety (State Police/Military Affairs) . . . . Laurie Cummings, Fiscal Analyst
Natural Resources/Environmental Quality/DNR Trust Fund . . . . Kirk Lindquist, Fiscal Analyst

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Department of Education/Community Colleges . . . . Caven West, Fiscal Analyst
Higher Education . . . . Hank Prince, Fiscal Analyst
School Aid . . . . Mary Ann Cleary, Fiscal Analyst; Kathryn Summers-Coty, Fiscal Analyst
Consumer and Industry Services/Michigan Jobs Commission . . . . . . Robert Schneider, Fiscal Analyst
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