



Budget Briefing: Department of State

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Briefing Topics

- Funding Sources
- Appropriations Areas
- Major Budget Topics

Department of State

- The department implements policies of the Secretary of State, an elected official who serves a four-year term of office.
- The department administers programs in four major areas:
 - **Motor vehicle transactions:** Drivers' licenses, titles and registrations for motor vehicles, watercraft, and recreational vehicles
 - **Traffic safety:** Driving tests, license suspensions and revocations
 - **Consumer protection:** Inspection, investigation, licensing, and regulation of automobile dealers and repair facilities
 - **Elections:** Regulation and administration of the state's electoral process, training of local election officials, and campaign finance monitoring

Key Budget Terms

Fiscal Year: The state's fiscal year (FY) runs from October to September. FY 2017-18 is October 1, 2017 through September 30, 2018.

Appropriation: Authority to expend funds. An appropriation is not a mandate to spend. Constitutionally, state funds cannot be expended without an appropriation by the Legislature.

Line Item: Specific appropriation amount in a budget bill which establishes spending authorization for a particular program or function.

Boilerplate: Specific language sections in a budget bill which direct, limit, or restrict line item expenditures, express legislative intent, and/or require reports.

Lapse: Appropriated amounts that are unspent or unobligated at the end of a fiscal year. Appropriations are automatically terminated at the end of a fiscal year unless designated as a multi-year work project under a statutory process. Lapsed funds are available for expenditure in the subsequent fiscal year.

Note: Unless otherwise indicated, historical budget figures in this presentation have not been adjusted for inflation.

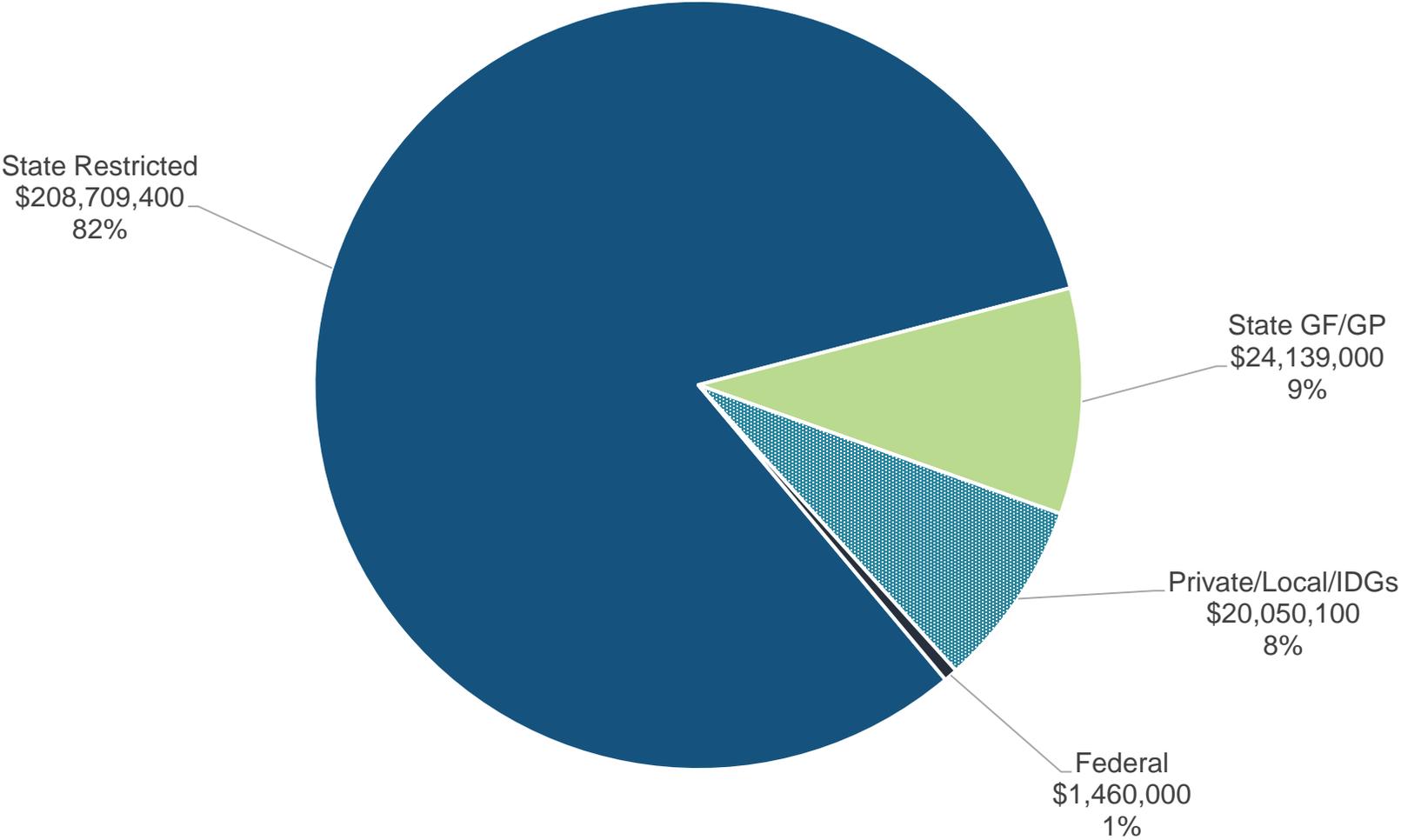
Funding Sources

FY 2017-18 Department of State Budget

Fund Source	Funding	Description
Gross Appropriations	\$254,358,500	Total spending authority from all revenue sources
Interdepartmental Grants (IDG) Revenue	20,000,000	Funds received by one state department from another state department, usually for services provided
Adjusted Gross Appropriations	\$234,358,500	Gross appropriations excluding IDGs; avoids double counting when adding appropriation amounts across budget areas
Federal Revenue	1,460,000	Federal grant or matching revenue; generally dedicated to specific programs or purposes
Local Revenue	0	Revenue received from local units of government for state services
Private Revenue	50,100	Revenue from individuals and private entities, including payments for services, grants, and other contributions
State Restricted Revenue	208,709,400	State revenue restricted by the State Constitution, state statute, or outside restriction that is available only for specified purposes; includes most fee revenue
State General Fund/General Purpose (GF/GP) Revenue	\$24,139,000	Unrestricted revenue from taxes and other sources available to fund basic state programs and other purposes determined by the Legislature

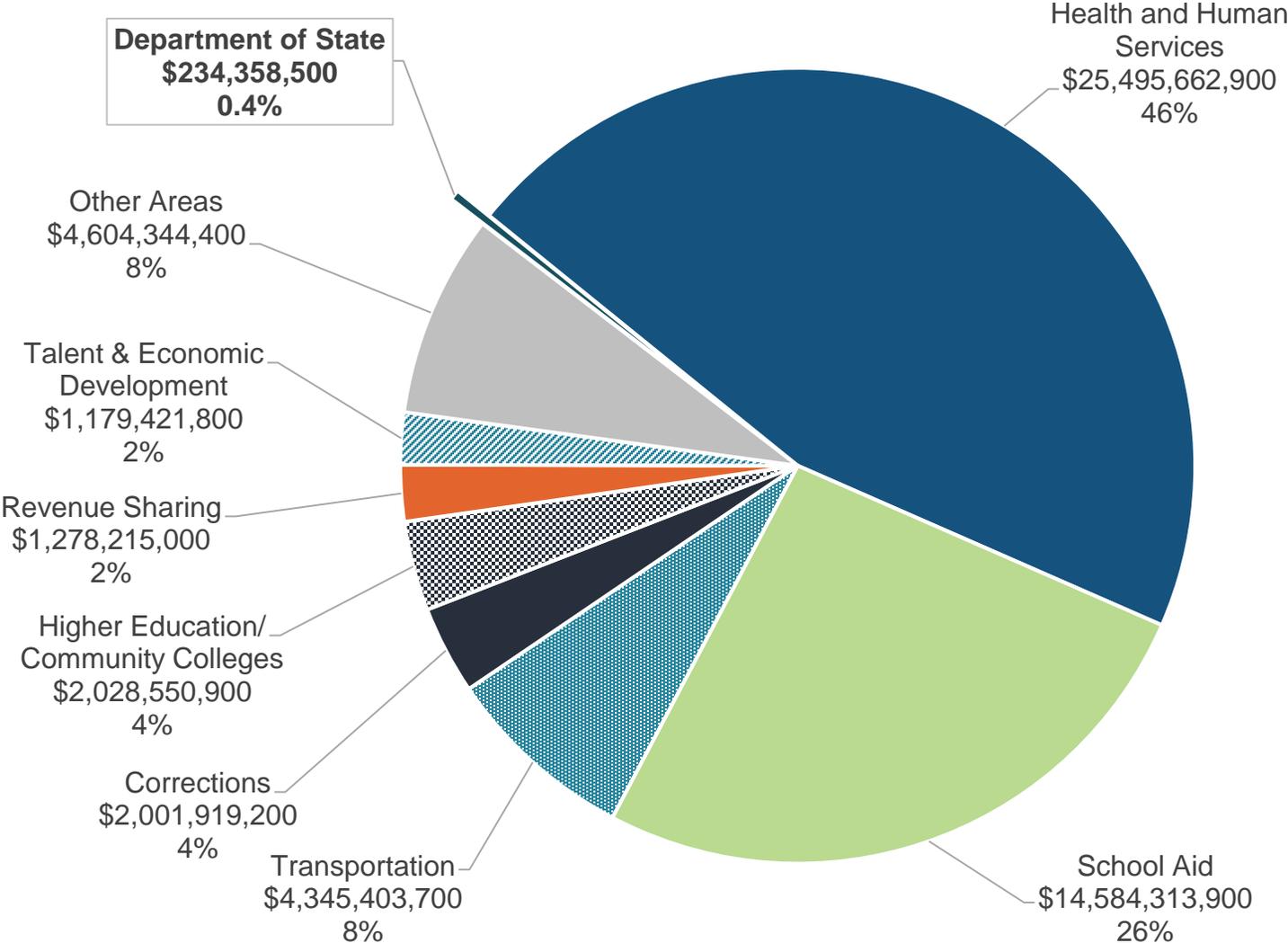
FY 2017-18 Fund Sources

82% of the \$254 million Department of State budget is funded by state restricted revenue, including Transportation Administration Collection (TAC) Fund, Driver fees, and various other transaction fees collected by the department.



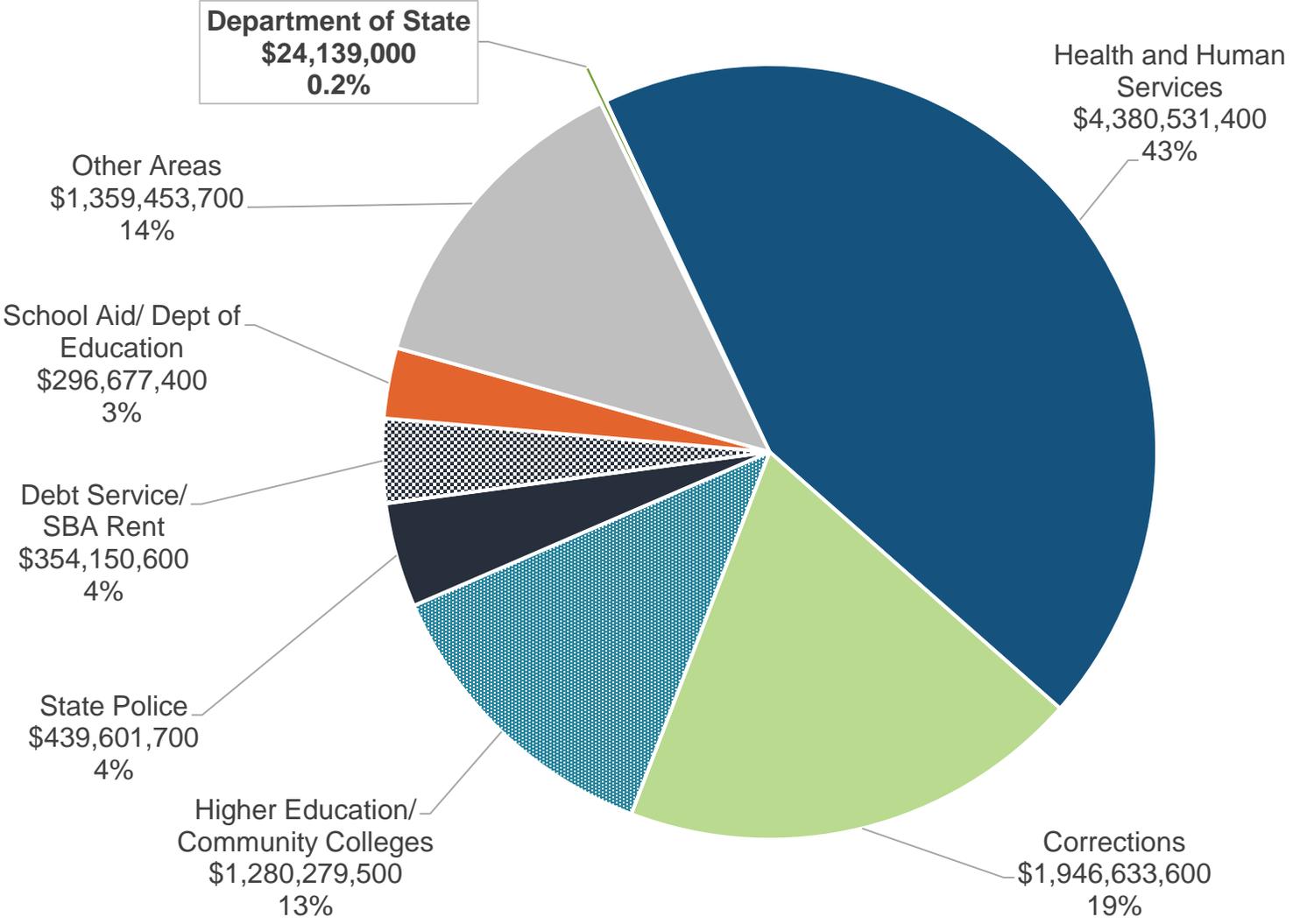
Department of State Share of Total State Budget

The Department of State budget represents 0.4% of the **\$55.8 billion** state budget (adjusted gross) for FY 2017-18.



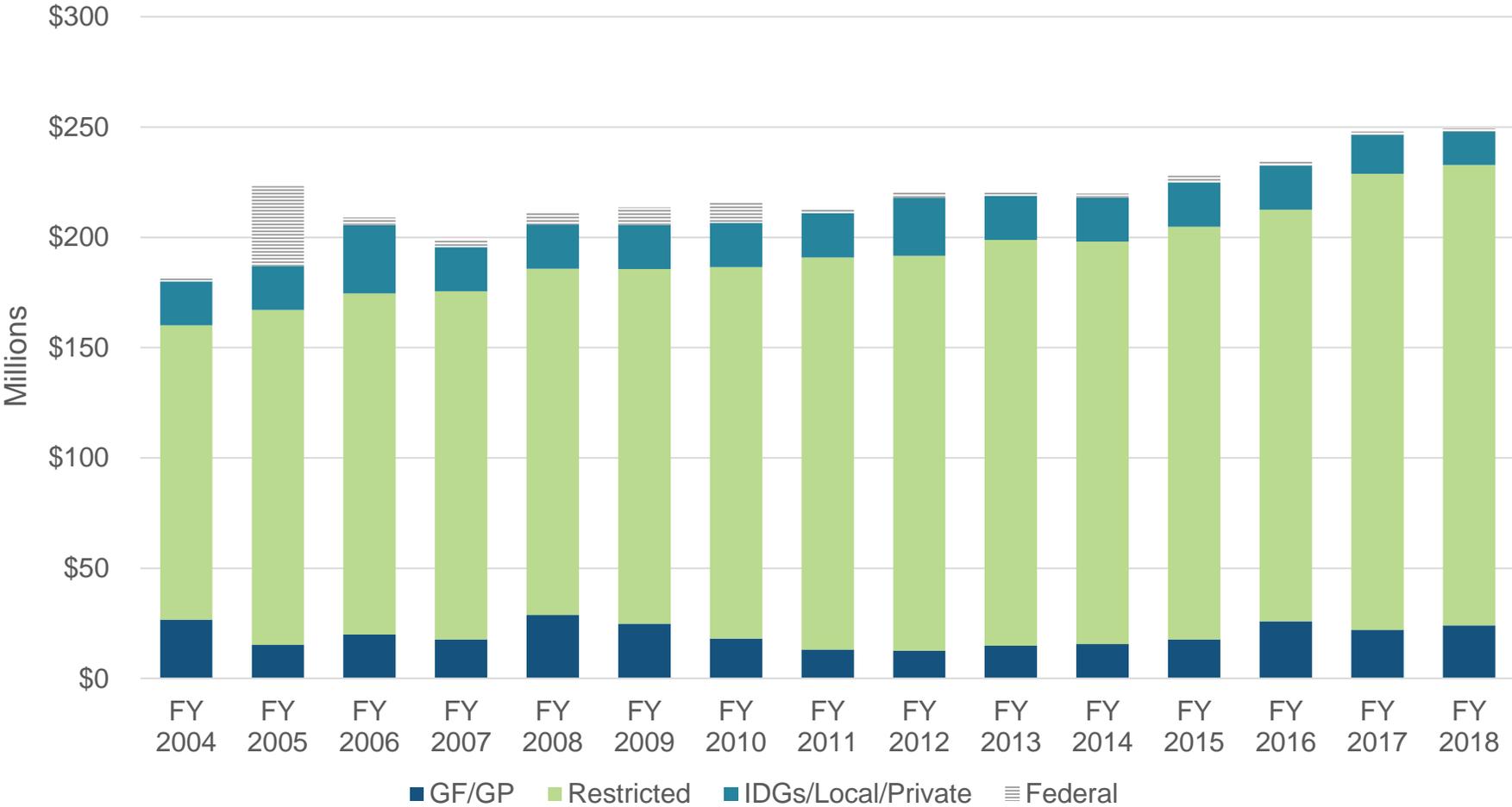
Department of State Share of Total GF/GP Budget

The Department of State budget also represents 0.2% of the state's \$10.1 billion GF/GP budget for FY 2017-18.



Department of State Funding History

Funding for the Department of State has grown by 37% since FY 2003-04, driven mainly by increases in restricted funding. FY 2004-05 shows federal funding spike due to Help America Vote Act (HAVA) funds for voting equipment.



Appropriation Areas

Department of State Appropriation Areas

Departmental Administration and Support: Administrative divisions that perform daily operations within the department. Funds the Secretary of State and other executive staff members.

Legal Services: Conducts regulatory appeal hearings, liaisons with Attorney General and county prosecutors, provides counsel to ensure administrative compliance.

Customer Delivery Services: Includes Branch Operations, records processing, safety programs, and other related services.

Election Regulation: Administrative and regulatory functions of the department in regards to the state's election system.

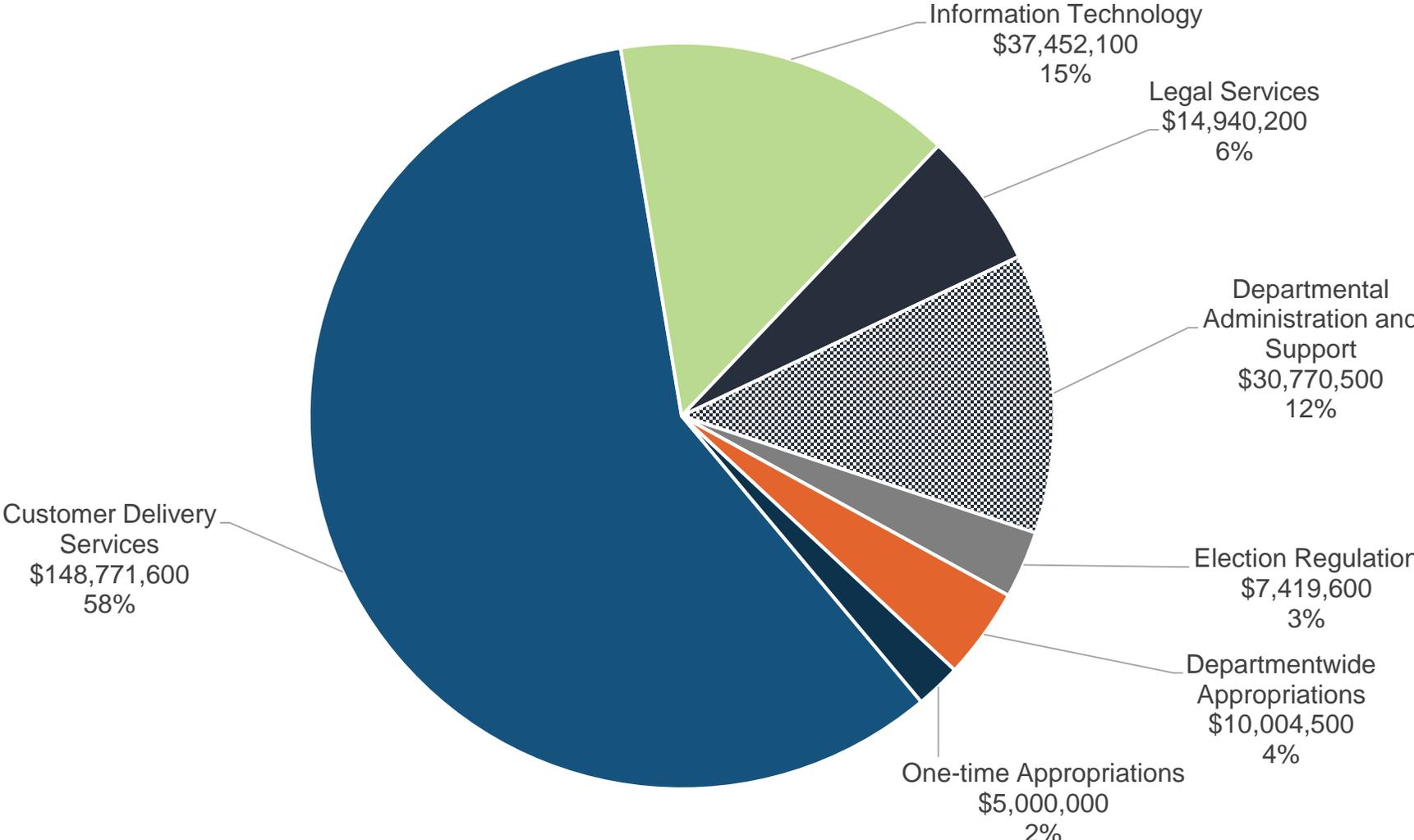
Departmentwide Appropriations: Rent and property management costs, payment of worker's compensation premiums.

Information Technology: IT related services and projects that support department activities; administered by the Department of Technology, Management, and Budget.

One-time Appropriations: \$5.0 million to support the purchase and maintenance of new voting machines throughout the state.

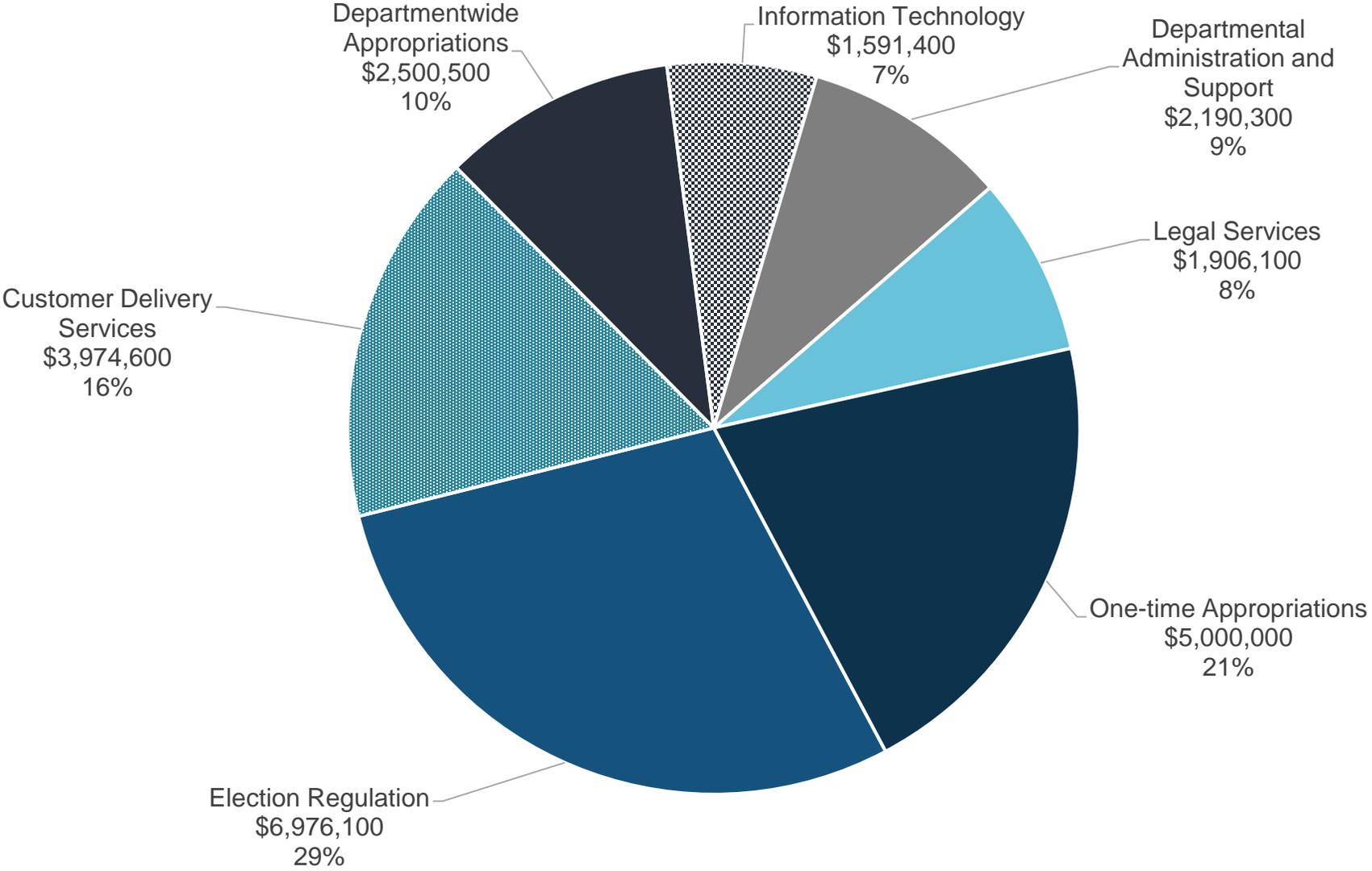
FY 2017-18 Gross Appropriations

58% of the \$254 million Department of State budget supports Customer Delivery Services.



FY 2017-18 GF/GP Appropriations

GF/GP funds (totaling **\$24.1 million**) are mostly spread between Election Regulation, Customer Delivery Services, and a one-time appropriation for voting machines.



Major Budget Topics

Customer Delivery Services Components

- **Branch Operations:** Operates Secretary of State branch offices that issue drivers' licenses; process automobile and recreation vehicle titles and registrations; offer voter registration services; conduct traffic safety programs.
- **Bureau of Driver and Vehicle Programs:** Processes requests for driver and vehicle records; maintains/stores driver and vehicle records; maintains violation, suspension and restriction records; maintains records of financing statements used to protect a security interest in collateral.
- **Motorcycle Safety Education Administration:** Administers motorcycle safety education program and oversight of motorcycle safety courses.
- **Office of Customer Service:** Processes mailed applications for computer-prepared registrations and driver licenses, issues commercial vehicle registrations; receives and maintains Uniform Commercial Code filings.
- **Organ Donor Program:** Collects and transfers organ donation info from licenses and personal ID card applicants to thirds parties; produces promotional materials.
- **License Plates:** Oversees manufacturing and issuing of all license plates, including standard, personalized, fundraising, historical, and veteran/military.

Fundraising License Plates

- Fundraising plates are created through the legislative process.
- Once a bill authorizing a fundraising plate becomes a public act, the sponsoring organization pays a start-up fee for the cost of producing the plate. This cost is determined by the department taking the average plate production cost over the past three previous years. For FY 2016-17, this raises the start-up cost by approximately \$85,000. This is in accordance with recently enacted HB 5447.
- Motorists pay \$35 in addition to the annual registration fee:
 - \$10 for administration (plate production/distribution)
 - \$25 donated to the sponsoring cause
 - Annual renewal is \$10 (donated to the sponsoring cause)
- Fundraising plates created after January 2007 must meet certain sales goals or may be discontinued
 - 2,000 plates sold in the first year offered
 - 500 plates in each subsequent year for 5 years
 - 500 plates every 2 years following the 5 year period

Election Regulation Components

○ **Bureau of Elections**

- Enforces Michigan election statutes, election law, and Campaign Finance Act
- Provides training to local election officials and staff support to Board of State Canvassers
- Reviews campaign statements, register lobbyists/lobbyist agents, maintain lobbying expenditure reports

○ **Qualified Voter File**

- Maintains statewide voter registration database to prevent record duplication
- Places qualified voters in their correct city or township of residence
- Tracks voter jurisdiction moves

○ **County Clerk Education and Training**

- Training on election processes and workers, and notary responsibilities for clerks and their staff

Election Regulation Components

- **Help America Vote Act**

- Federal funds to improve election administration and replace voting equipment statewide

- **Office of the Great Seal**

- Keeps the state's official Great Seal and affixes to all official documents
- Appoints all notary publics
- Processes gubernatorial extraditions and warrants
- Serves as repository for official municipal incorporations and boundary changes, executive orders and appointments, officials' oaths of office, deeds to state-owned lands, public acts, and administrative rules

New Voting Machines

- The voting machines and optical scanning systems are reaching the end of useful life after more than 10 years of service.
- The department has saved funds through work projects to help cover some of the costs to counties for voting machine replacements.
- The Department has contracted with three vendors from which counties can select new machines: ES&S, Dominion Voting Systems, and Hart InterCivic.
- The following table shows the estimated Federal/State cost coverage and average county costs by vendor with \$40 million assumed available in Federal/State Funds.

	ES&S	Dominion	Hart InterCivic
Total Approved Contract Spend	\$37,458,875	\$48,829,121	\$56,682,585
Federal/State Cost Coverage	100%	82%	71%
Avg. County Cost Yrs. 1-5*	\$0	\$82,985	\$158,445
Avg. County Annual Cost Yrs. 6-10**	\$24,595	\$38,012	\$45,469

* Does not account for potential recent bid adjustments at the state or local levels.

** Costs vary according what Election Management System software is selected by the county.

Business Application Modernization & Legacy Mainframe Replacement

- The department signed the Business Application Modernization contract with Hewlett-Packard to update department computer systems in 2005.
- Some system upgrades were made, such as ExpressSOS, but HP did not fully upgrade all department and branch software. Various complications and lengthy delays plagued each upgrade.
- The department terminated the BAM contract with HP for cause in August 2015. The department also filed a lawsuit against HP for breach of duties in October 2015, with HP counter-filing a lawsuit against the state.
- FY 2016-17 and 2017-18: The department allocated \$14.1 million in restricted funding, through a \$2.00 increase in record look-up fee, for a new department legacy mainframe replacement system.
- Anticipated completion of new upgraded system in 2018/2019, with payment to the vendor made upon delivery.
- In April 2017 the department was awarded a \$13 million settlement from its lawsuit.

For more information about the Department of State budget:

HFA Resources

<http://www.house.mi.gov/hfa/GeneralGovernment.asp>

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