



# Budget Briefing: State Budget Overview

Mary Ann Cleary, Director

Bethany Wicksall, Deputy Director

August 2017

# Briefing Topics

- Appropriations Overview
- Economic Trends
- Revenue Trends
- Budget Trends
- Major FY 2017-18 Budget Changes
- Budget Outlook
- Budget Process

# Appropriations Overview

# 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.

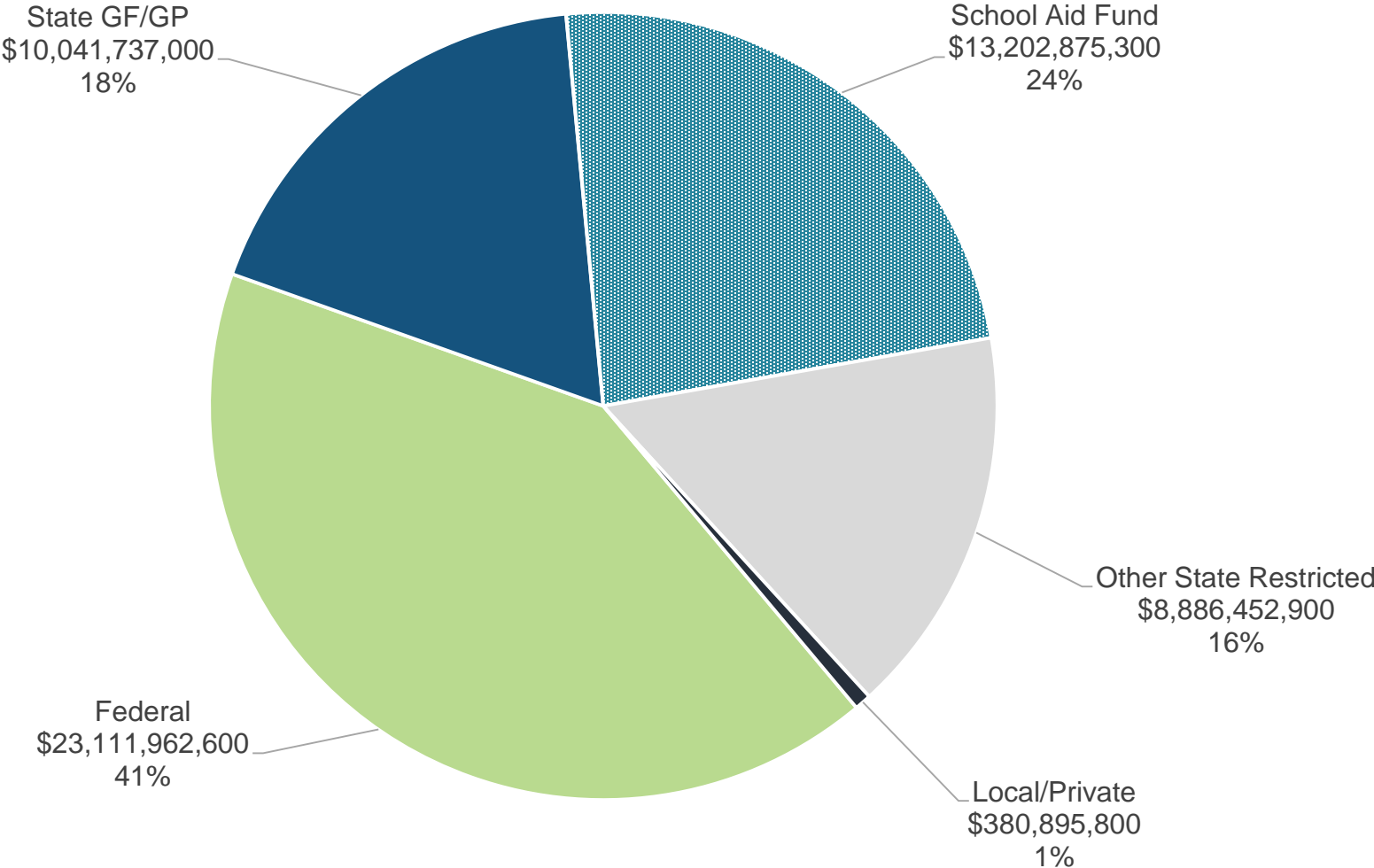
Note: Unless otherwise indicated, historical budget figures in this presentation have not been adjusted for inflation.

# FY 2017-18 State Budget

Fund Source	Funding	Description
Gross Appropriations	\$56,504,157,300	Total spending authority from all revenue sources
Interdepartmental Grants (IDG) Revenue	880,233,700	Funds received by one state department from another state department, usually for services provided
Adjusted Gross Appropriations	\$55,623,923,600	Gross appropriations excluding IDGs; avoids double counting when adding appropriation amounts across budget areas
Federal Revenue	23,111,962,600	Federal grant or matching revenue; generally dedicated to specific programs or purposes
Local Revenue	212,638,500	Revenue received from local units of government for state services
Private Revenue	168,257,300	Revenue from individuals and private entities, including payments for services, grants, and other contributions
State Restricted Revenue	22,089,328,200	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	\$10,041,737,000	Unrestricted revenue from taxes and other sources available to fund basic state programs and other purposes determined by the Legislature

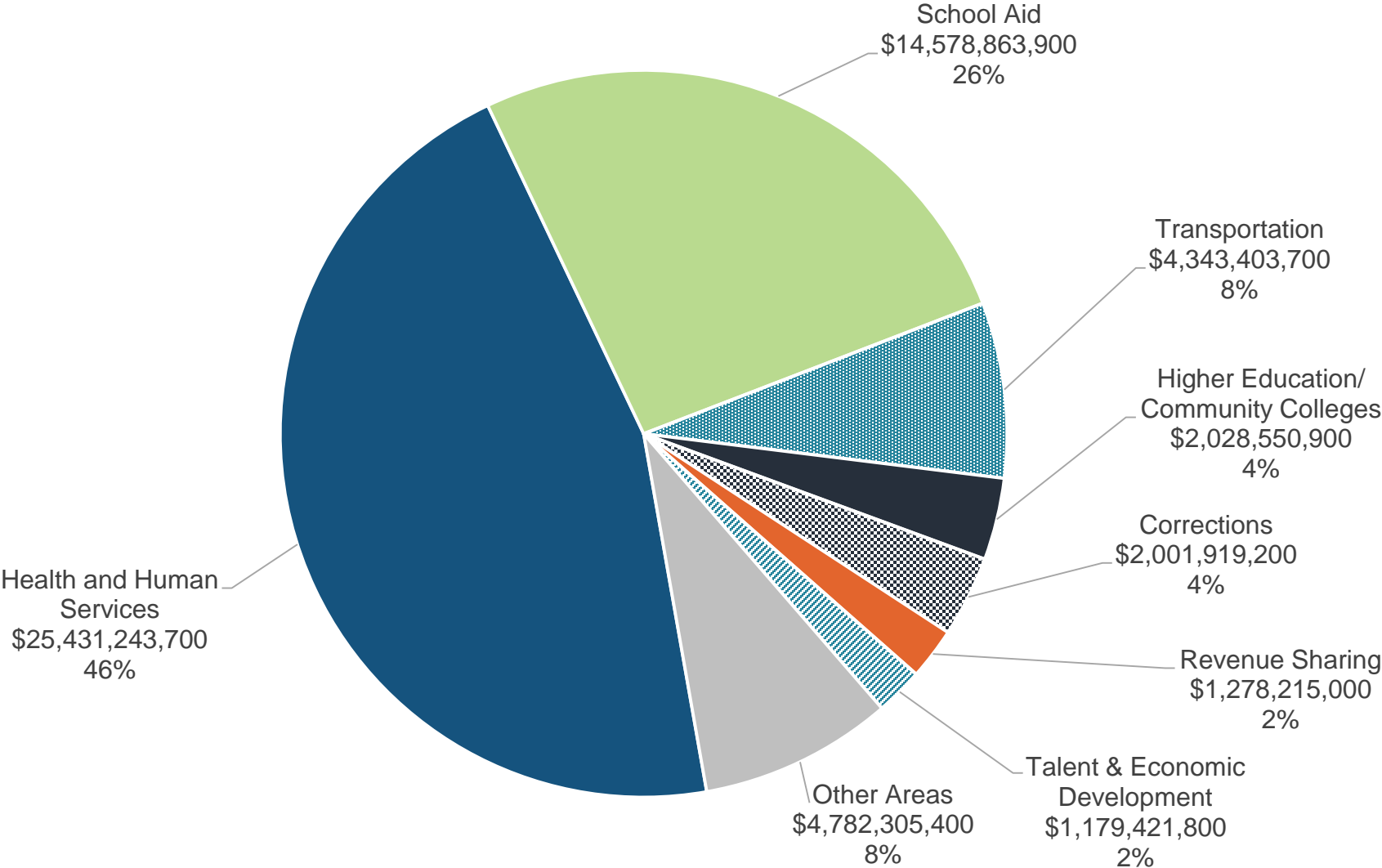
# FY 2017-18 Fund Sources

Discretionary GF/GP funds make up less than 18% of the **\$55.6 billion** state budget (adjusted gross). Including the School Aid Fund, which must be used for K-12 or postsecondary education, brings the percentage up to 42%.



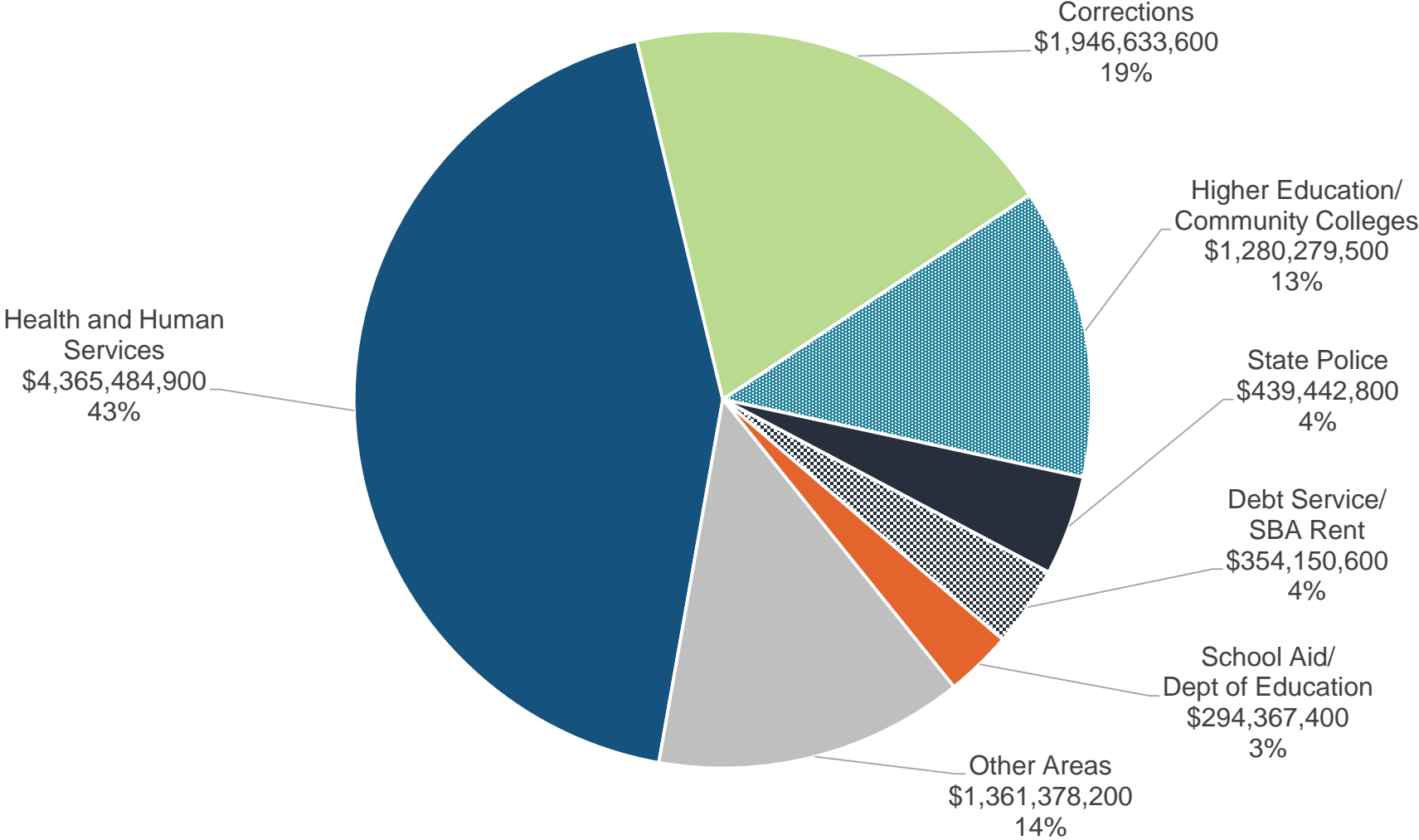
# FY 2017-18 Adjusted Gross Appropriations

Large portions of the **\$55.6 billion** state budget consist of payments to health care providers, school districts, universities and colleges, and local units of government.



# FY 2017-18 GF/GP Appropriations

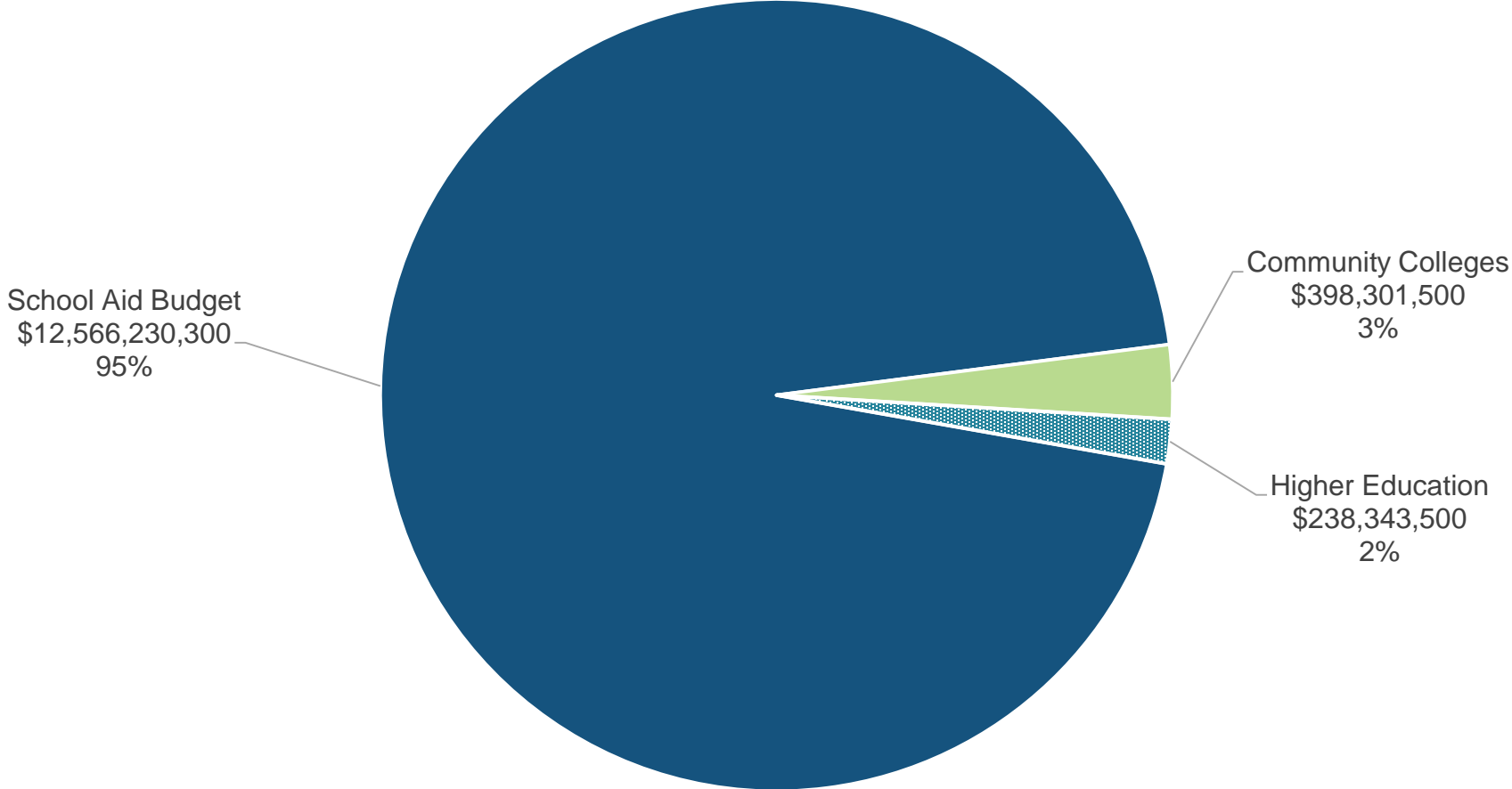
86% of the **\$10.0 billion** GF/GP budget is appropriated for health and human services, public safety, education, and debt service. The remaining 14% provides funding for 13 state departments, the Judiciary, the Legislature, and the Executive Office.





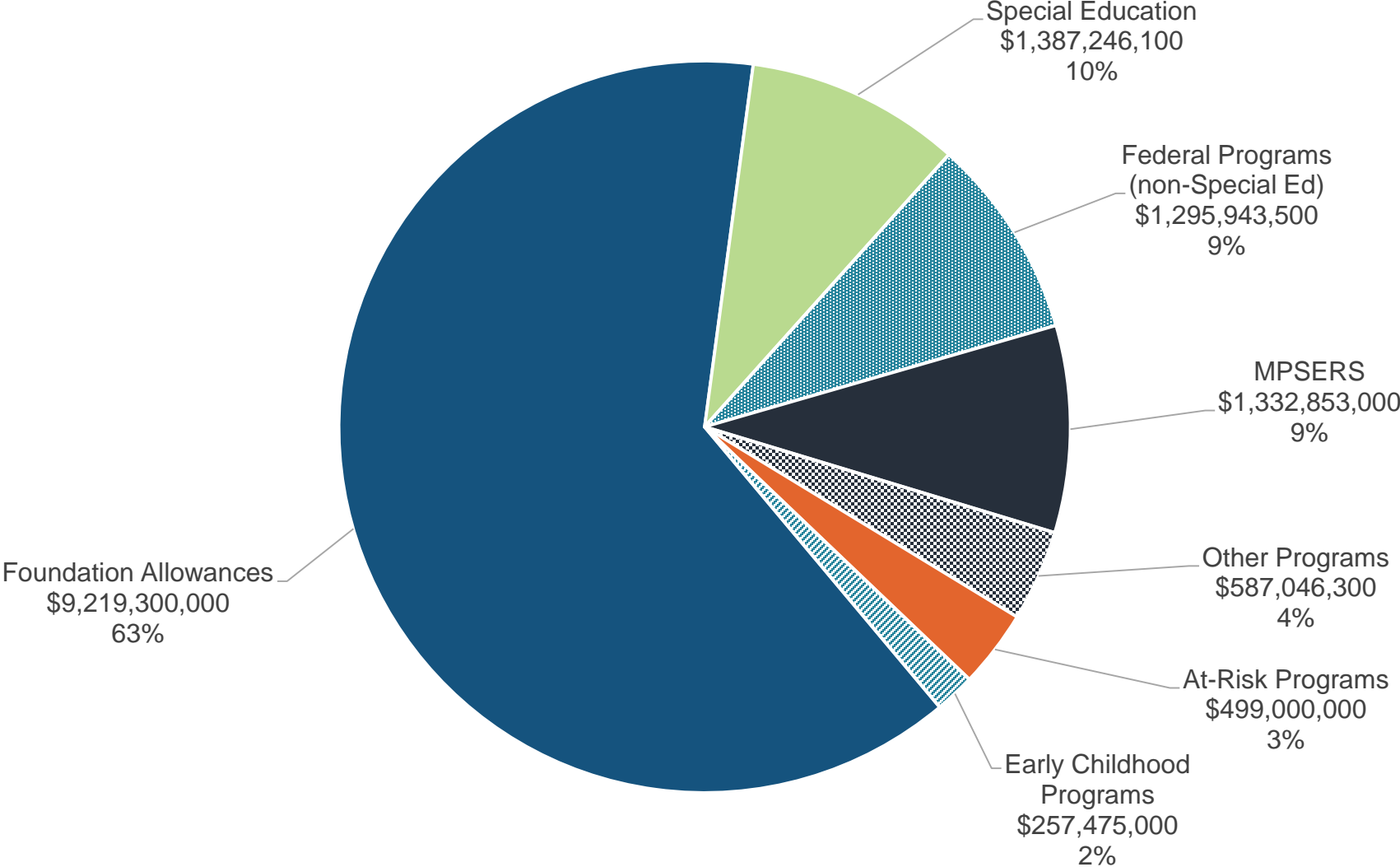
# FY 2017-18 School Aid Fund Appropriations

School Aid Fund (SAF) appropriations totaling **\$12.6 billion** are primarily for K-12 school districts and other school aid purposes. In recent years, however, a portion of SAF funds have been used in place of GF/GP funds for community colleges and public universities.



# FY 2017-18 School Aid Appropriations

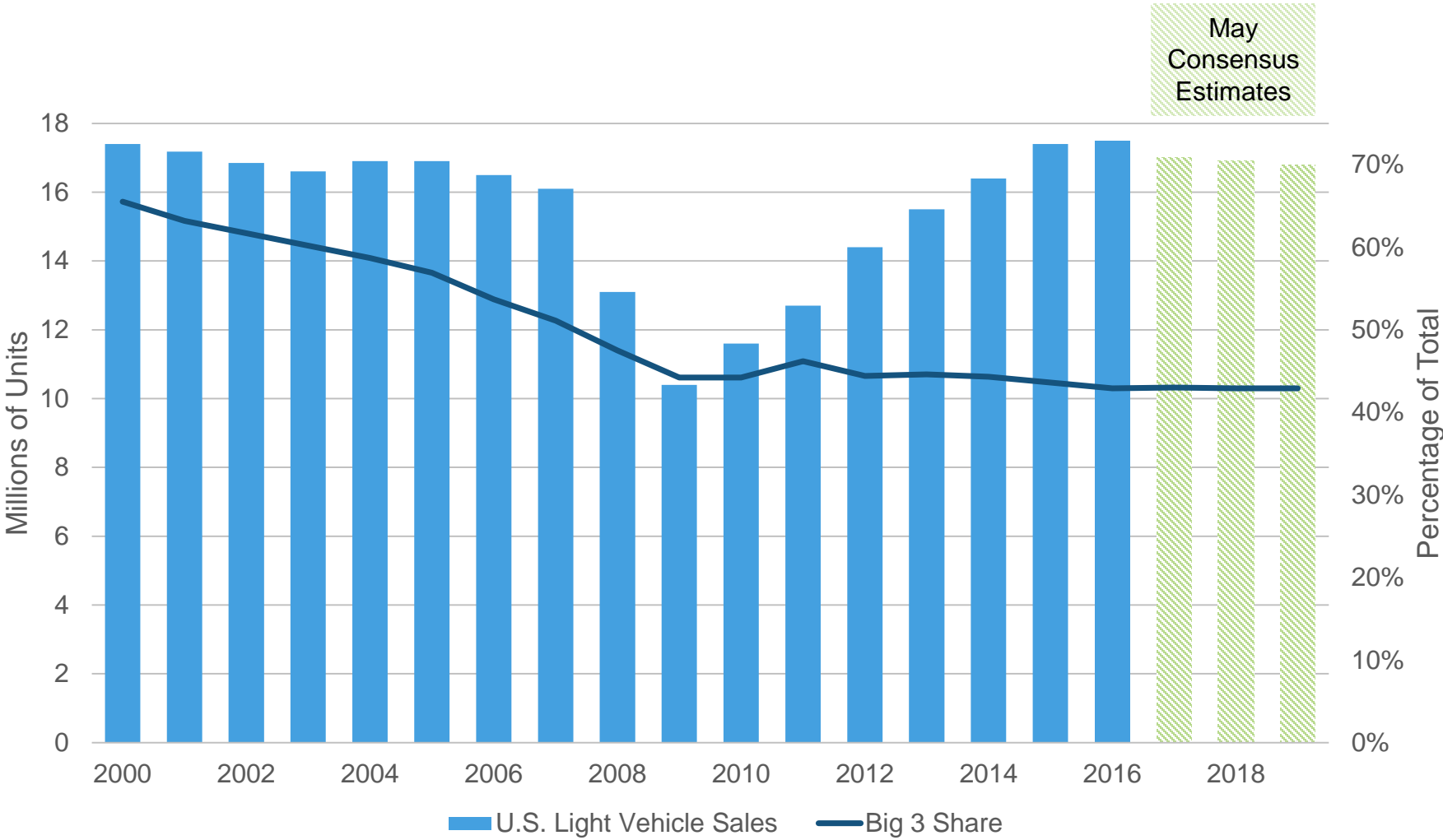
About two-thirds of the **\$14.6 billion** School Aid budget (including federal funds) supports per pupil foundation allowances used for school district general operations.



# Economic Trends

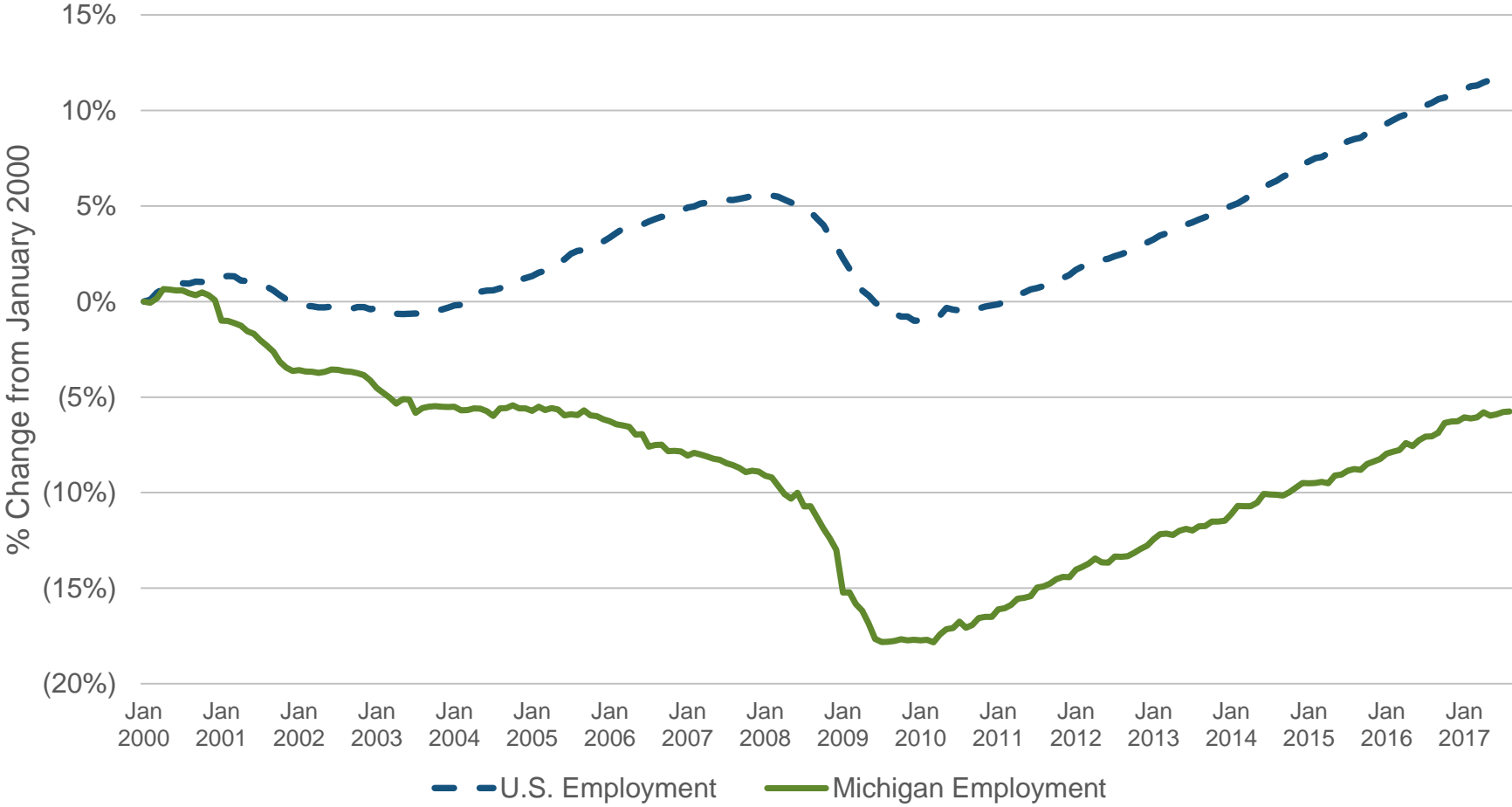
# Light Vehicle Sales

With the share produced by domestic automakers having stabilized, vehicle sales have increased to record levels. Sales levels, however, are now expected to plateau.



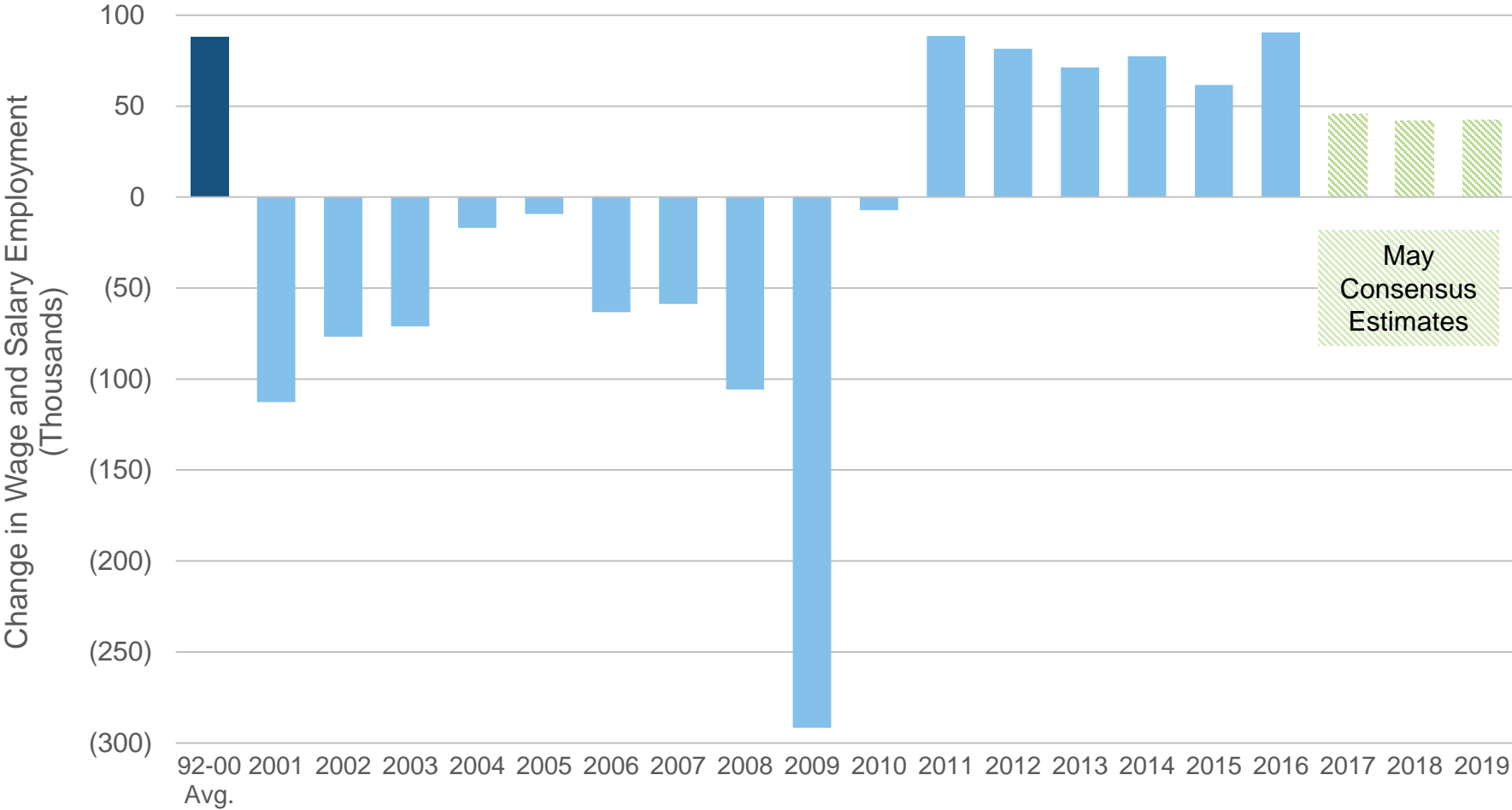
# Employment Change Since 2000

Following a decade of protracted state-level job losses, Michigan employment rebounded sharply following the great recession and has grown at about the same rate as national employment since 2012.



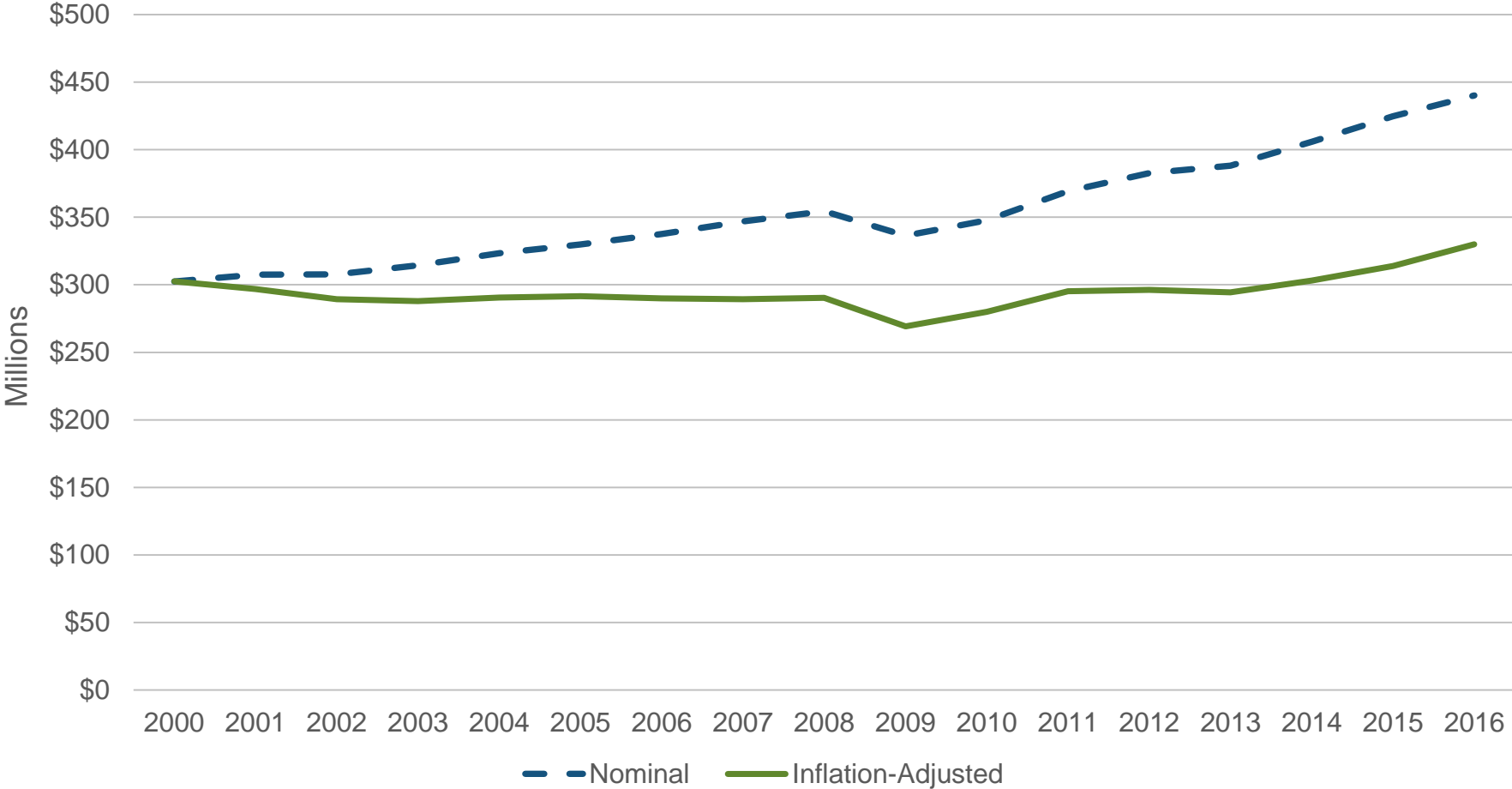
# Michigan Employment Changes

Job growth is projected to continue, but at more moderate levels as the state's unemployment rate has now declined to about 5 percent.



# Michigan Personal Income

In nominal terms, total personal income in Michigan has risen roughly 46% since 2000. In inflation-adjusted terms, however, personal income has been flat, up until the last three years.

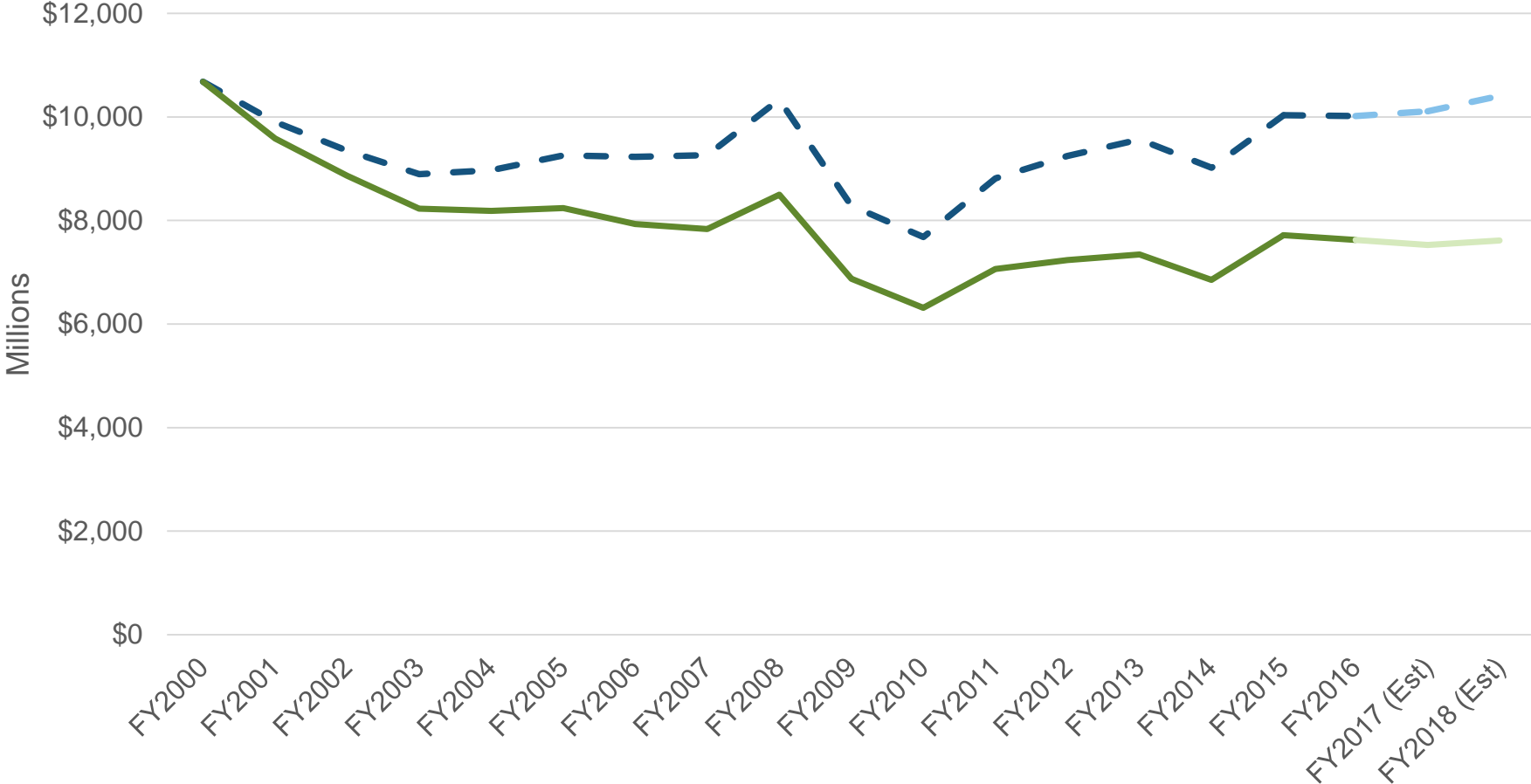


# Revenue Trends



# GF/GP Revenue

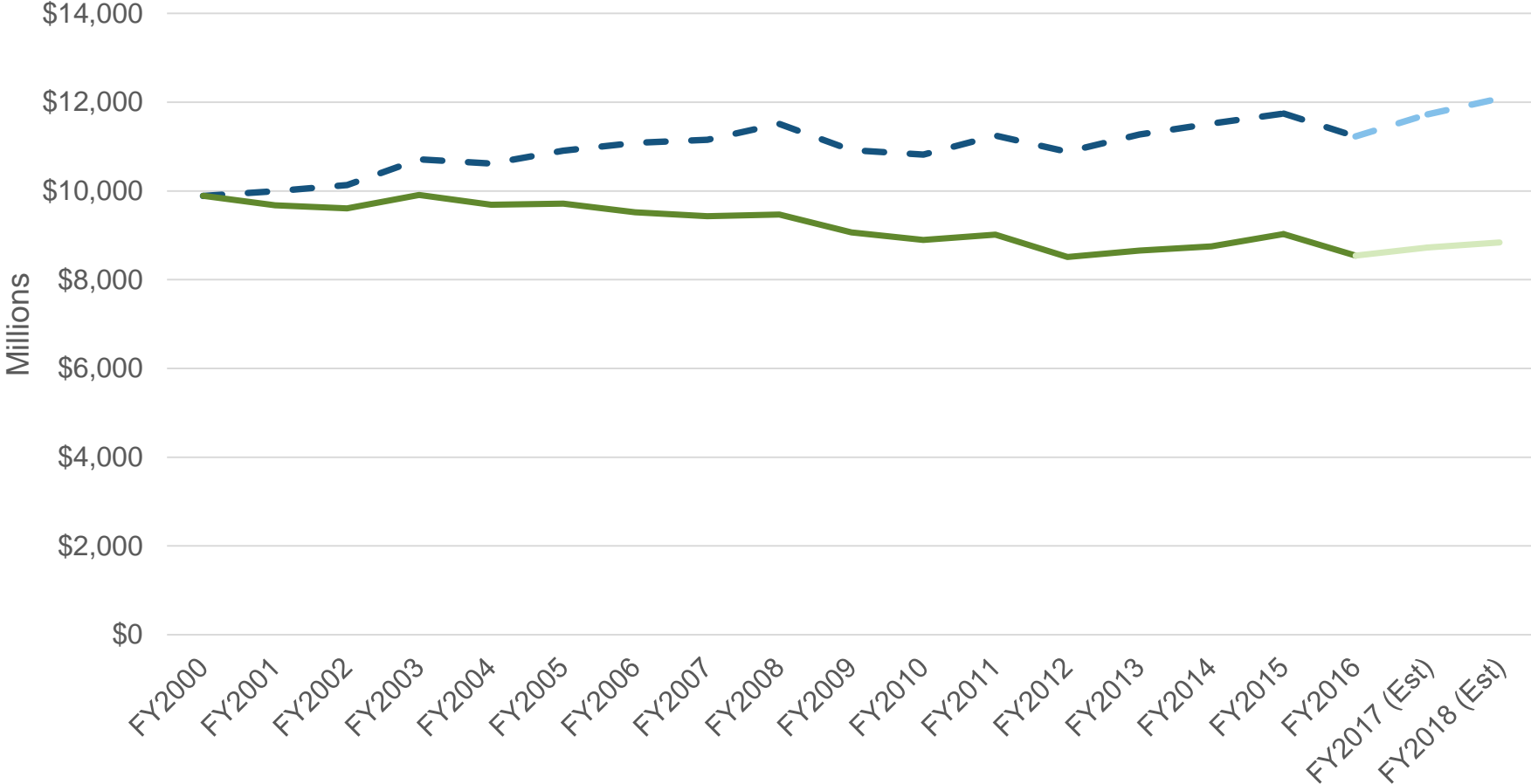
Nominal GF/GP revenue is expected to exceed \$10.4 billion in FY 2017-18. When adjusted for inflation, however, GF/GP revenue is estimated to be 28.7% below the FY 1999-00 level.



— Actual Dollars    
 — Adjusted for Inflation (Detroit CPI)
 May 2017  
Consensus  
Estimates

# School Aid Fund Revenue

Nominal SAF revenue has generally grown since FY 2011-12. In inflation-adjusted terms, however, FY 2017-18 revenue is estimated to be 10.6% below the FY 1999-00 level.



— Actual Dollars     
 — Adjusted for Inflation (Detroit CPI)
 May 2017  
Consensus  
Estimates

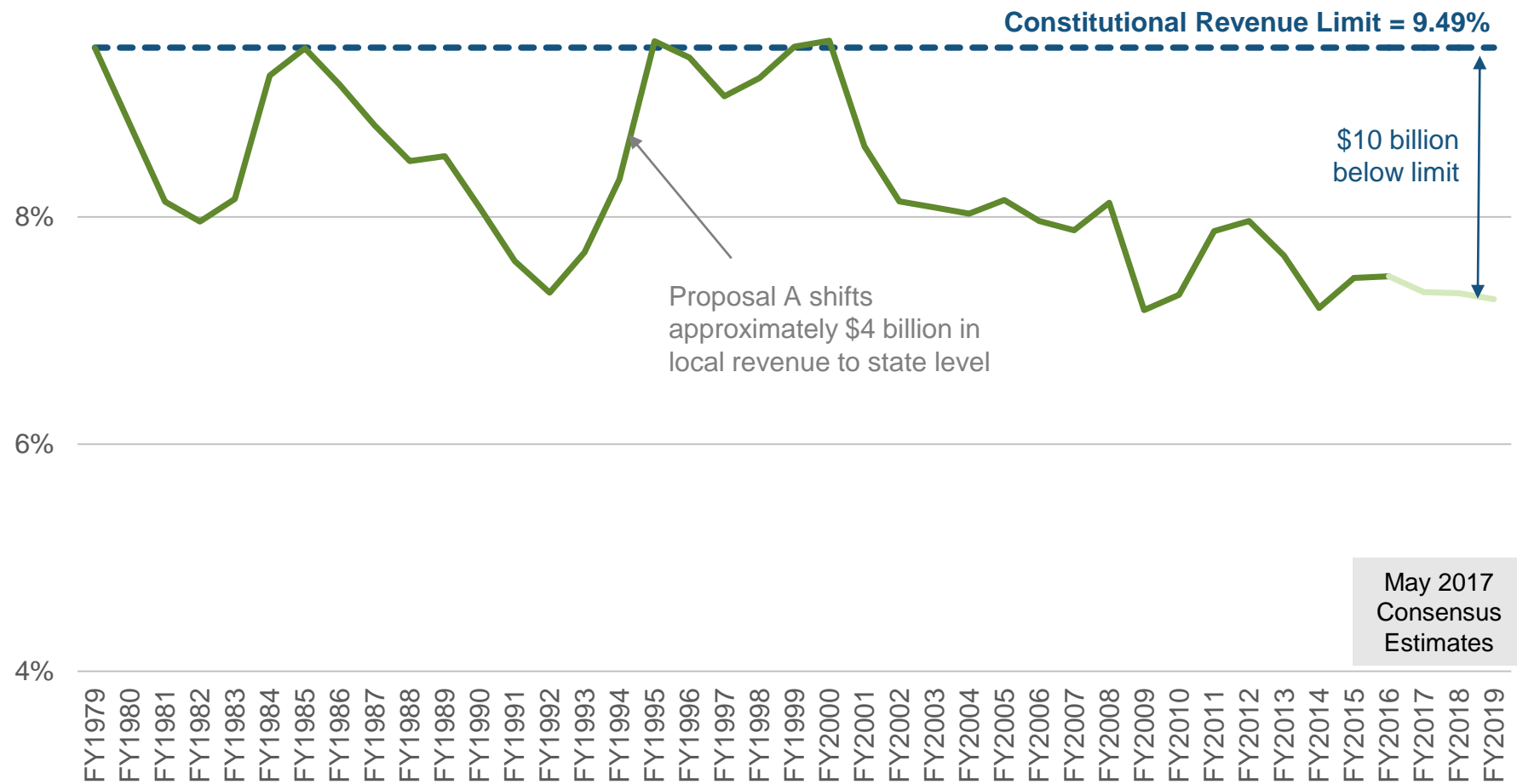
# Major State Taxes as a Percentage of Michigan Personal Income

Recent growth in state revenue has been driven by the income tax. Other major state taxes have declined as a percentage of state personal income as a result of economic trends or tax policy decisions.



# Total State Revenue as a Percentage of Michigan Personal Income

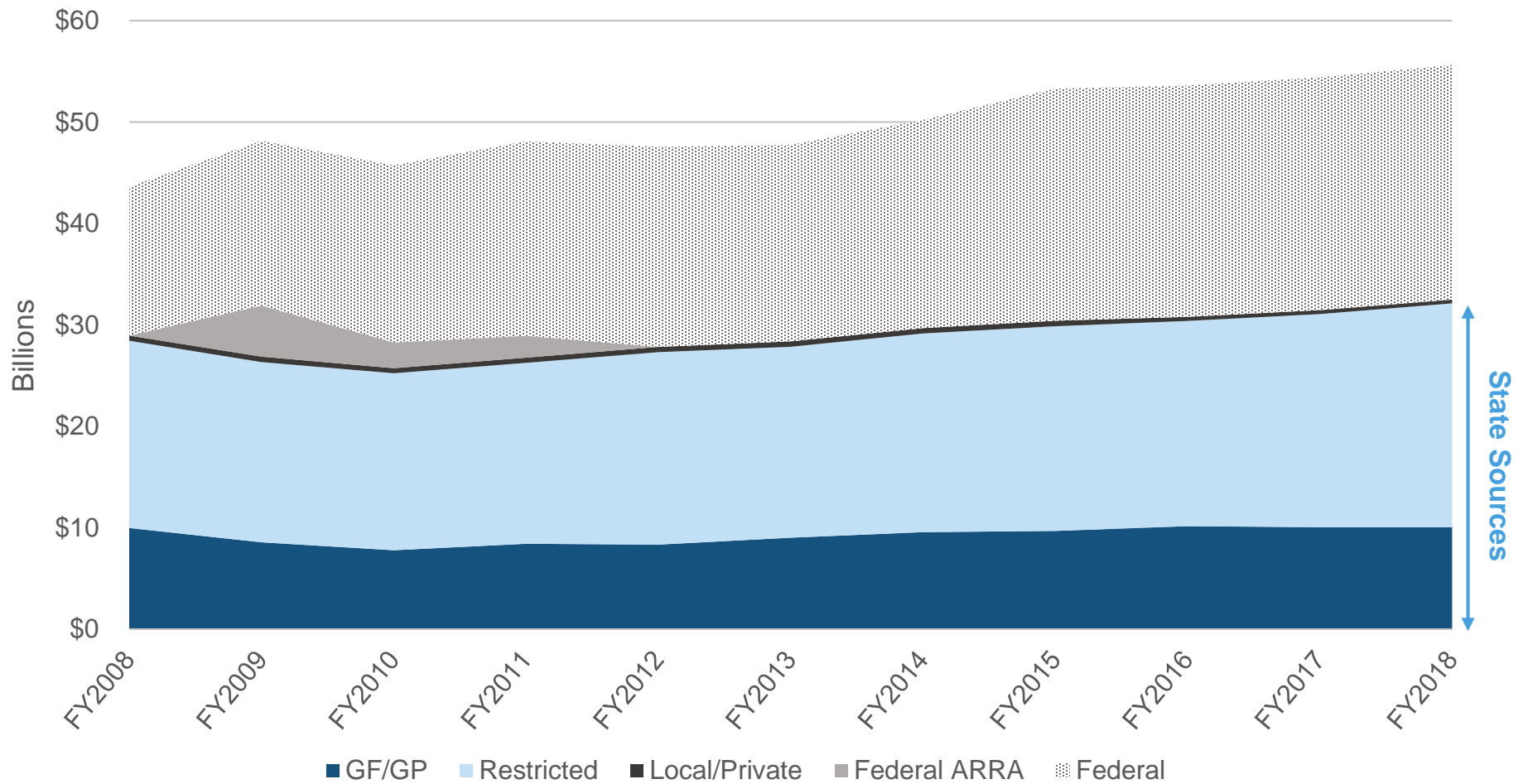
Michigan's constitution was amended in 1978 to set a limit on total state revenue (including all taxes and fees) equal to 9.49% of personal income. For FY 2016-17, the state is projected to be \$10 billion below that limit.



# Budget Trends

# Total State Budget History

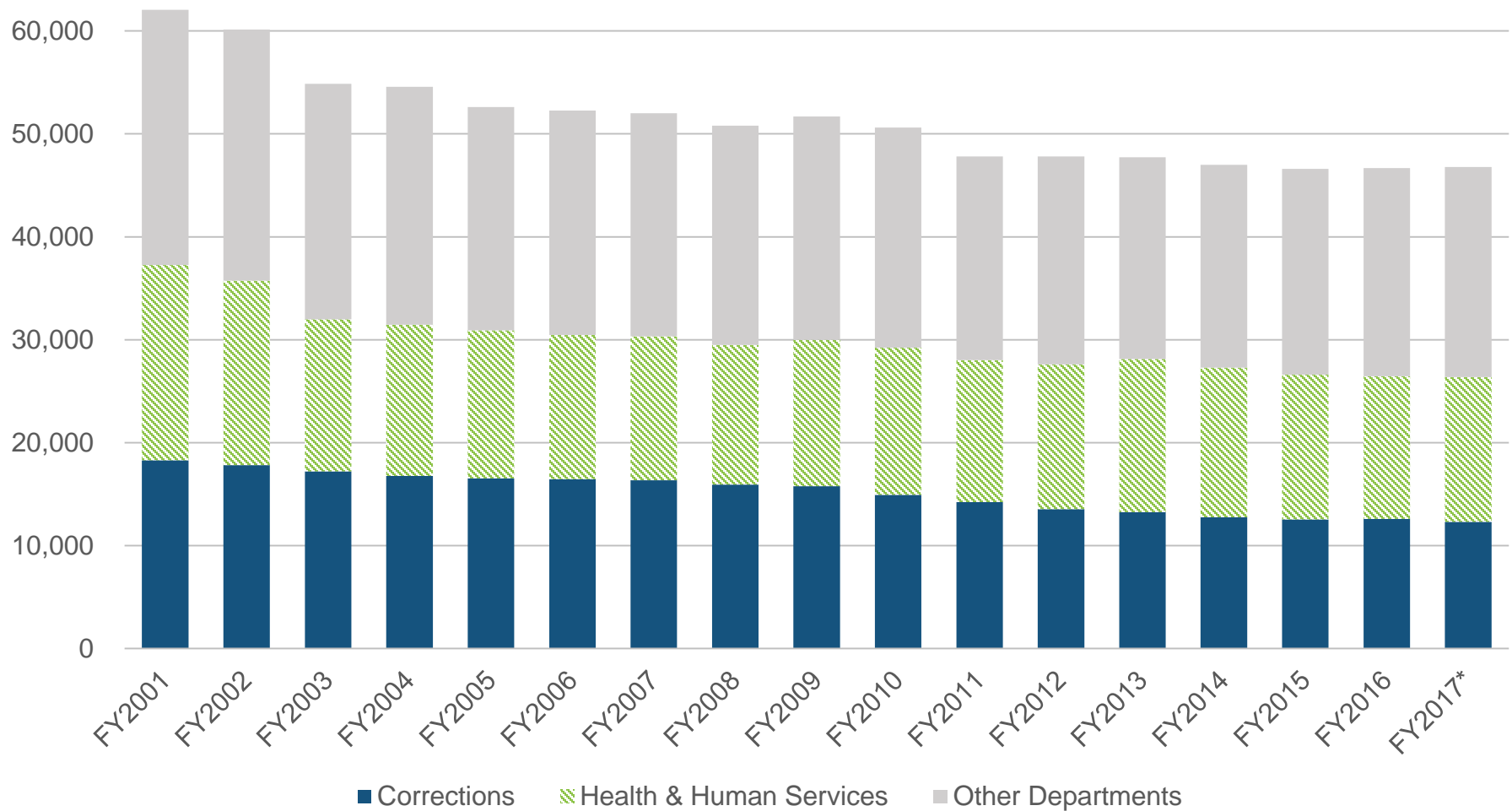
Total state budget growth of 27% since FY 2008 has been driven mainly by increases in available federal funds. State-source appropriations (GF/GP plus restricted) have grown just 13%.



ARRA: Federal American Recovery and Reinvestment Act of 2009

# Total Classified State Employees

The total number of state employees has declined by about 15,000 (25%) since FY 2000-01.



Source: Michigan Civil Service Commission, Annual Workforce Report

\*Through July 1, 2017

# State Employee Compensation-Related Costs

**Estimated FY 2017-18 Total: \$6.0 billion Gross (\$3.1 billion GF/GP)**

- **Salary and Wages: \$3.3 billion**

- Average salary for a full-time state employee has increased from \$49,653 in FY 2005-06 to \$58,360 in FY 2015-16, which equates to growth of 1.6% per year.

- **Health Insurance: \$725 million**

- Employee premium costs are paid on an 80/20 state/employee basis.

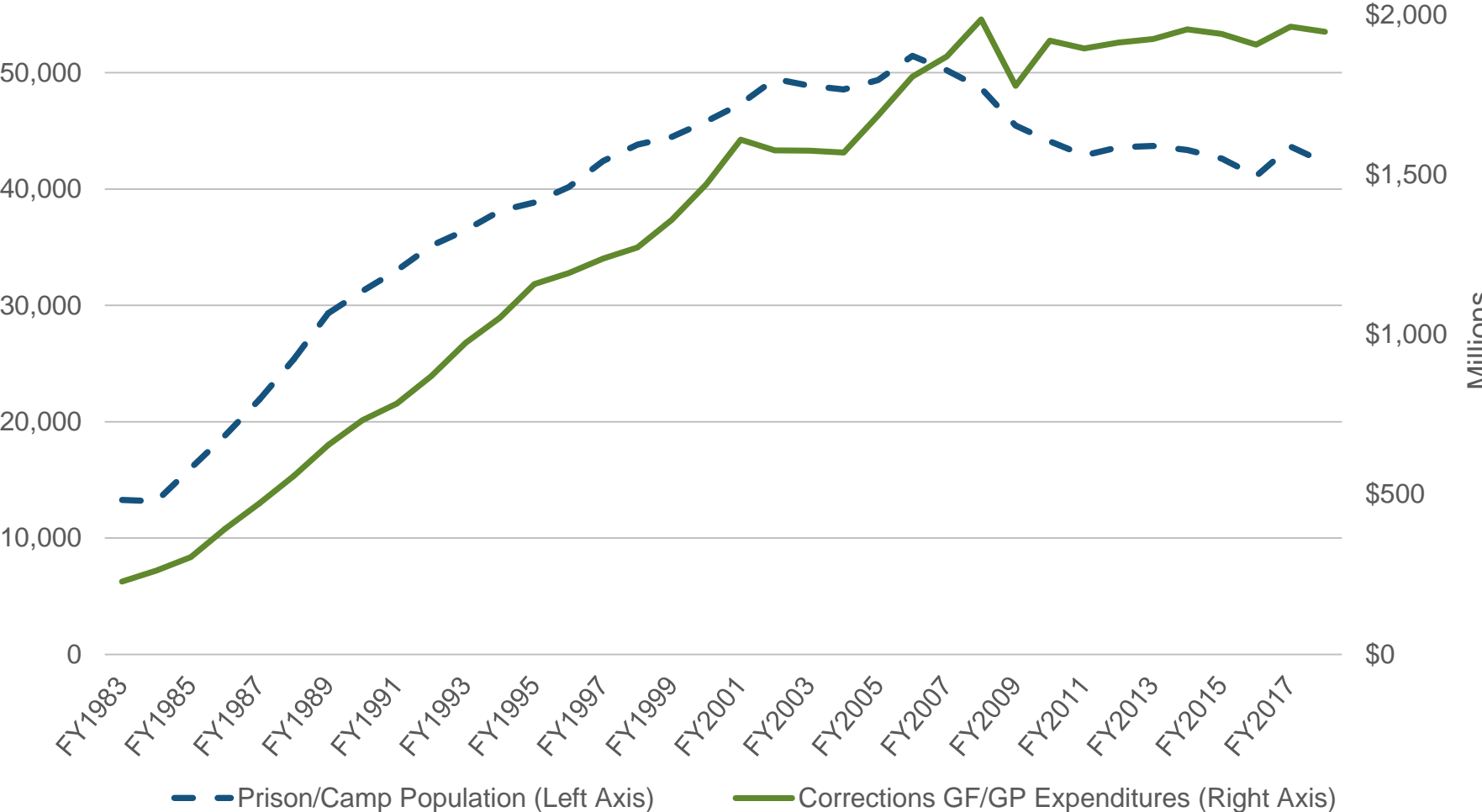
- **Retirement and Other Post Employment Benefits (OPEB): \$1.9 billion**

- Costs have increased substantially in recent years due to unfunded liabilities created primarily by investment losses in 2008. Additionally, the Legislature's decision in 2011 to begin prefunding retiree health care benefits (OPEB) has resulted in short-term cost increases but reduced long-term liabilities.
- Employees hired since 1997 enter a defined contribution (DC, or 401k) retirement plan, rather than a pension plan. Employees in the pension plan now pay 4% of salary into the system. Employees hired since 2012 receive a DC cash benefit in place of retiree health care benefits.



# Corrections Population and Expenditures

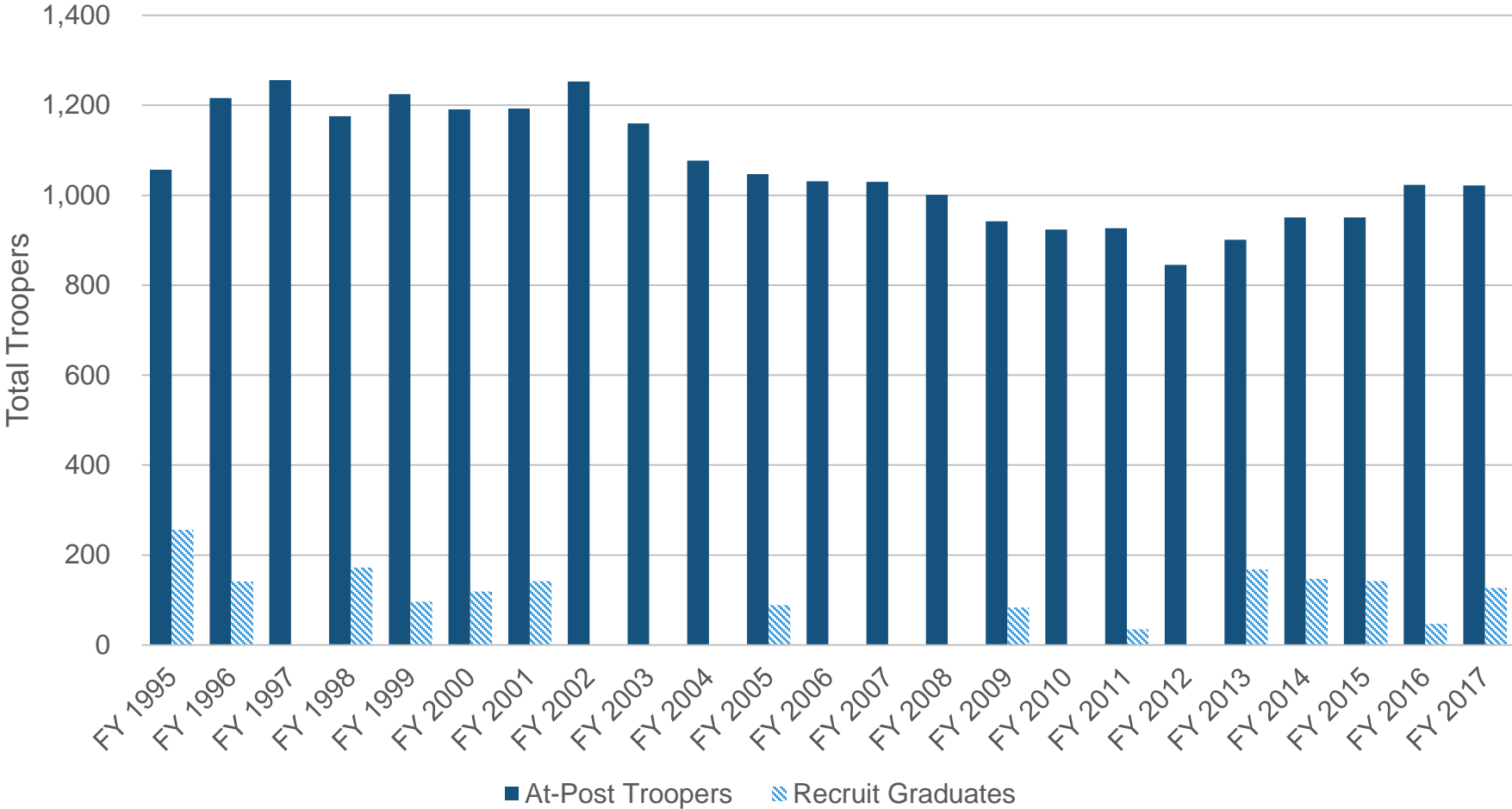
Over the long term, corrections costs have grown consistent with prison population. The Corrections budget would have decreased since FY 2010-11 if not for the increased costs of paying down retirement liabilities.



\* FY 2017 and FY 2018 based on year-to-date GF/GP appropriations and budgeted prisoner counts

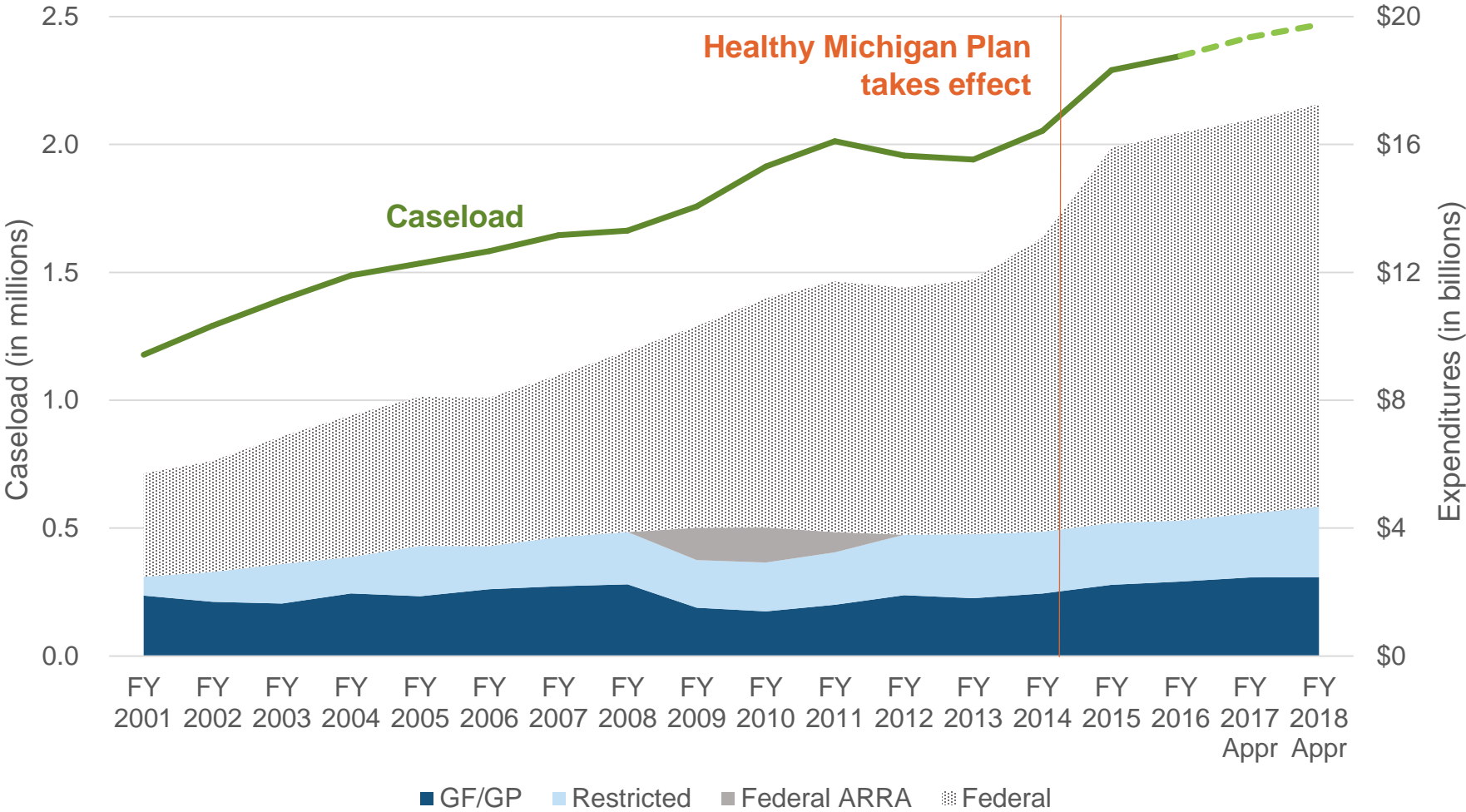
# State Police At-Post Trooper Strength

Total MSP Trooper strength has decreased by approximately 3% between the end of FY 1994-95 and FY 2015-16. As of April 2017, the MSP has 1,022 Troopers at-post with 127 new graduates joining the ranks in FY 2016-17 as of February 2017.



# Medicaid Expenditures by Fund Source

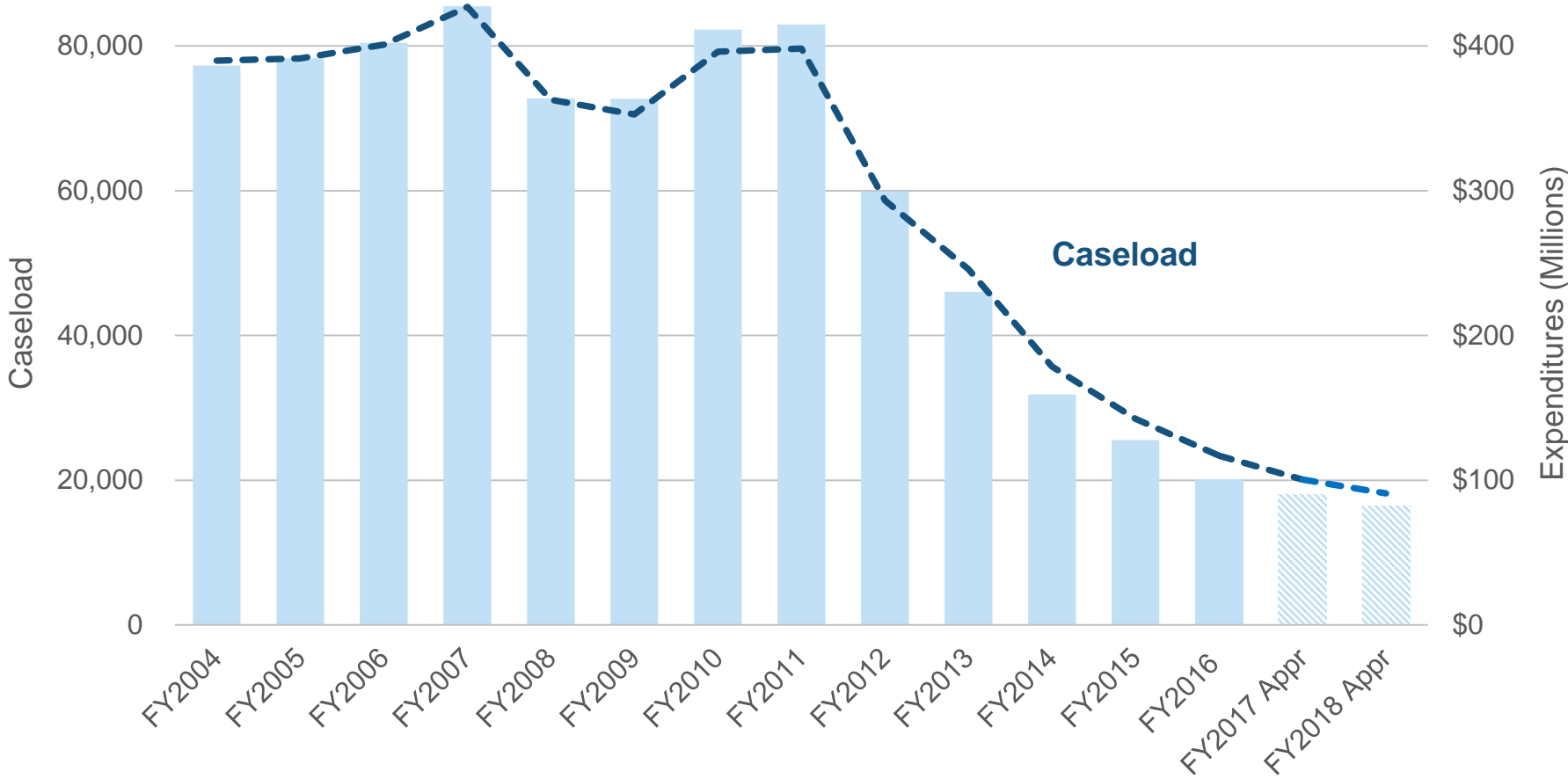
Since FY 2000-01, the state's total Medicaid caseload has doubled and expenditures have tripled due to economic trends and the expansion under the Healthy Michigan Plan. However, GF/GP spending for Medicaid, has only increased by 30%.



ARRA: Federal American Recovery and Reinvestment Act of 2009

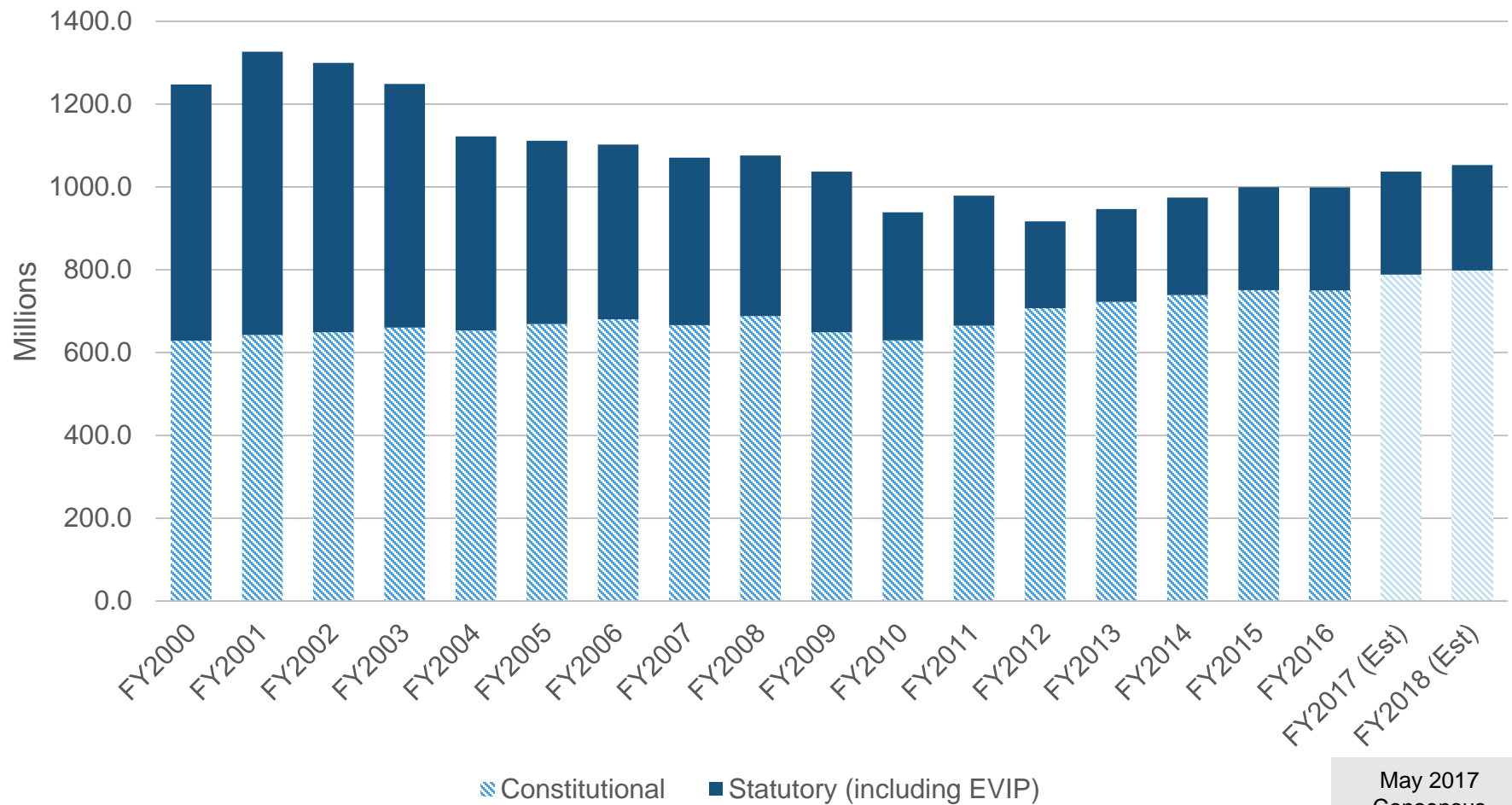
# Family Independence Program (FIP) Expenditures

Expenditures for FIP, Michigan's cash assistance program funded from a combination of state funds and federal TANF block grant funds, have declined markedly due to both economic conditions and policy changes, including imposition of lifetime time limits.



# Revenue Sharing to Cities, Villages, and Townships (CVTs)

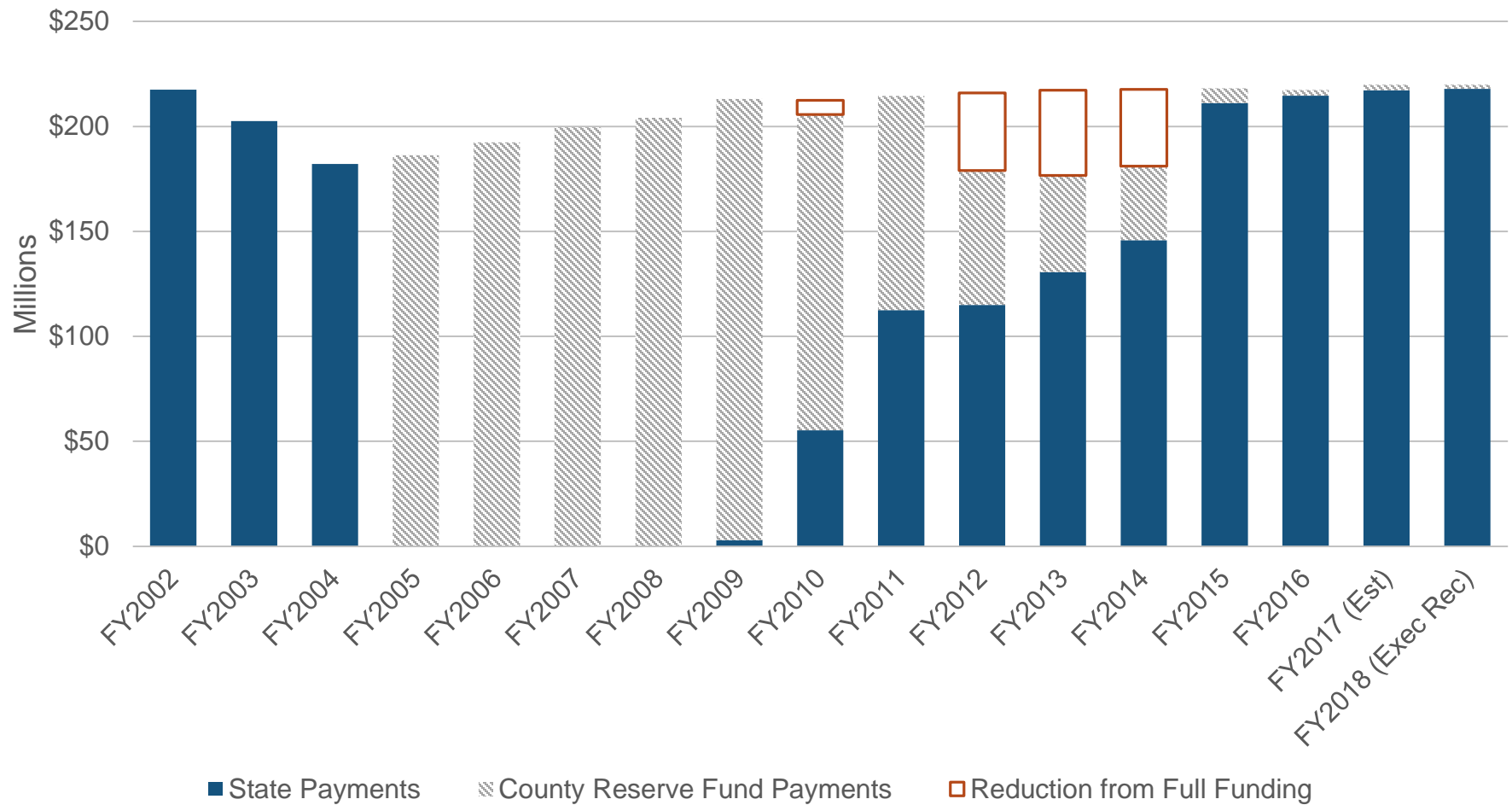
Per-capita constitutional payments to CVTs have grown consistent with sales tax revenue growth. Discretionary (statutory) payments remain \$429 million below the FY 2000-01 peak; reductions have helped balance the GF/GP budget.



May 2017  
Consensus  
Estimates

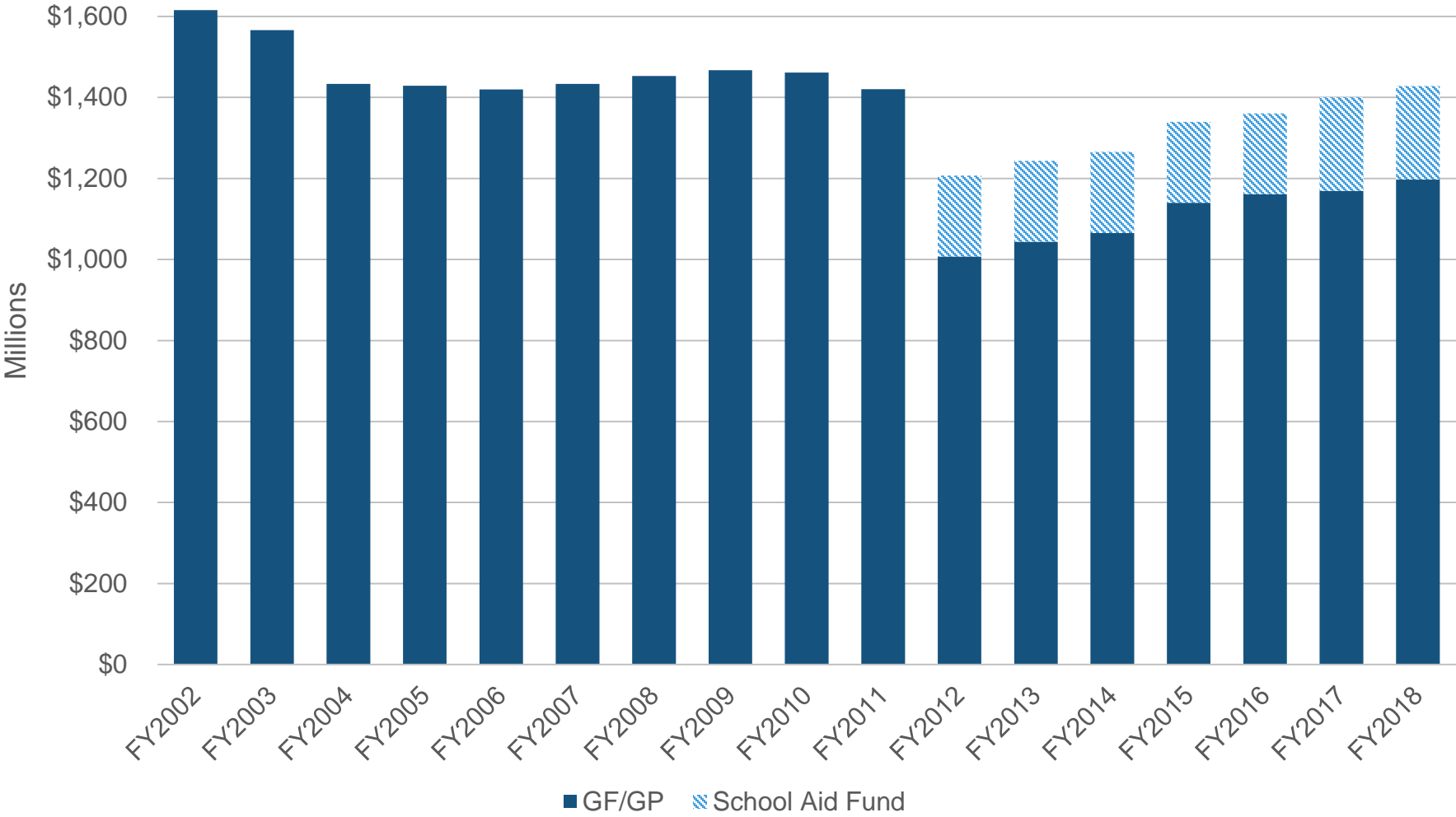
# County Revenue Sharing

Reserve fund payments temporarily replaced state revenue sharing for counties. After a period of underfunding, funding to counties was restored to full funding relative to the reserve fund mechanism beginning with FY 2014-15, and increased above full funding for FY 2016-17 and FY 2017-18. Total funding is at approximately the FY 2001-02 level.



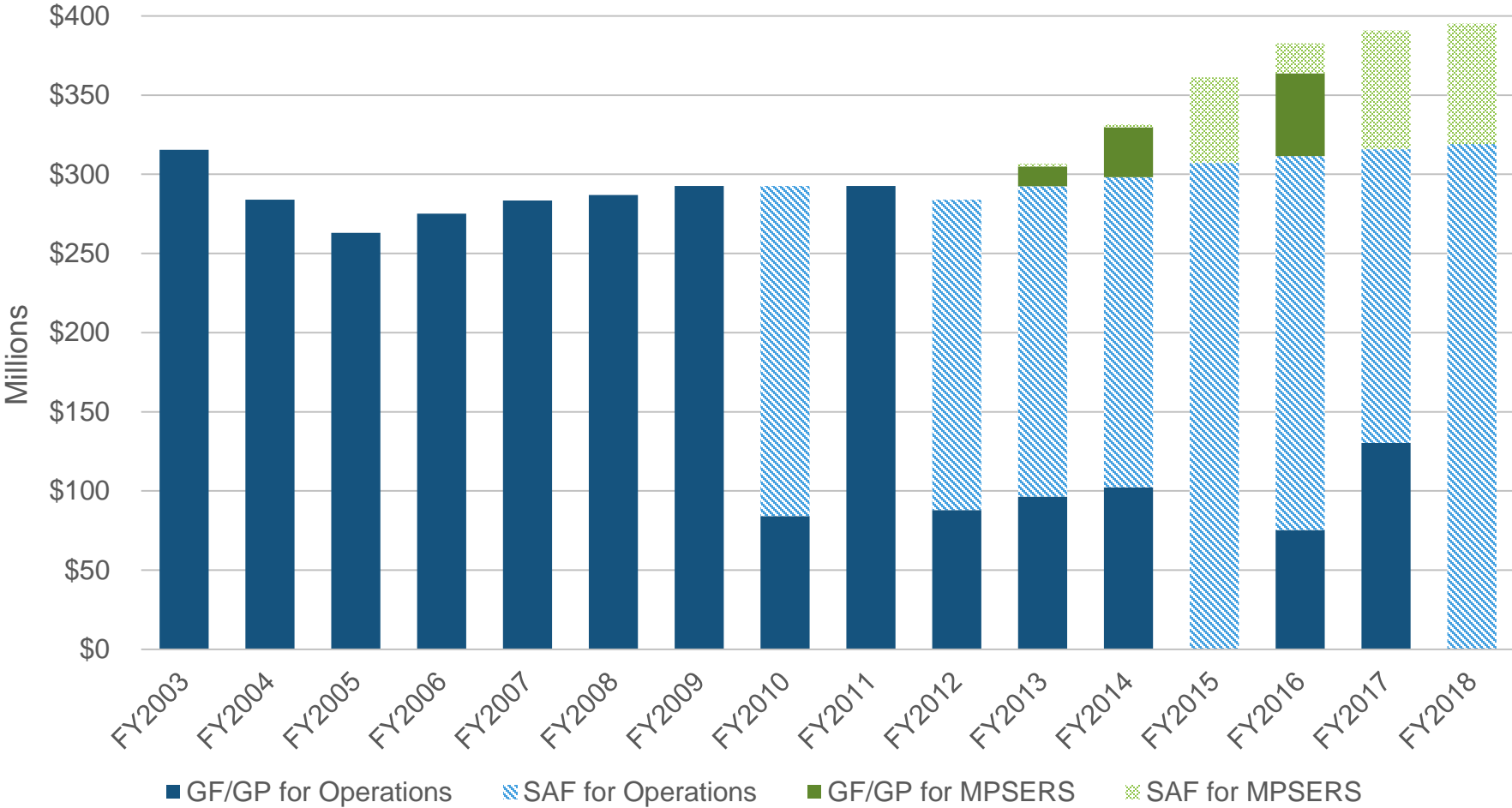
# Public University Operations Appropriations

State support for public universities operations grants has increased by \$221 million (18%) since FY 2011-12, but remains \$187 million (12%) below the FY 2001-02 peak of \$1.6 billion.



# Community College Appropriations

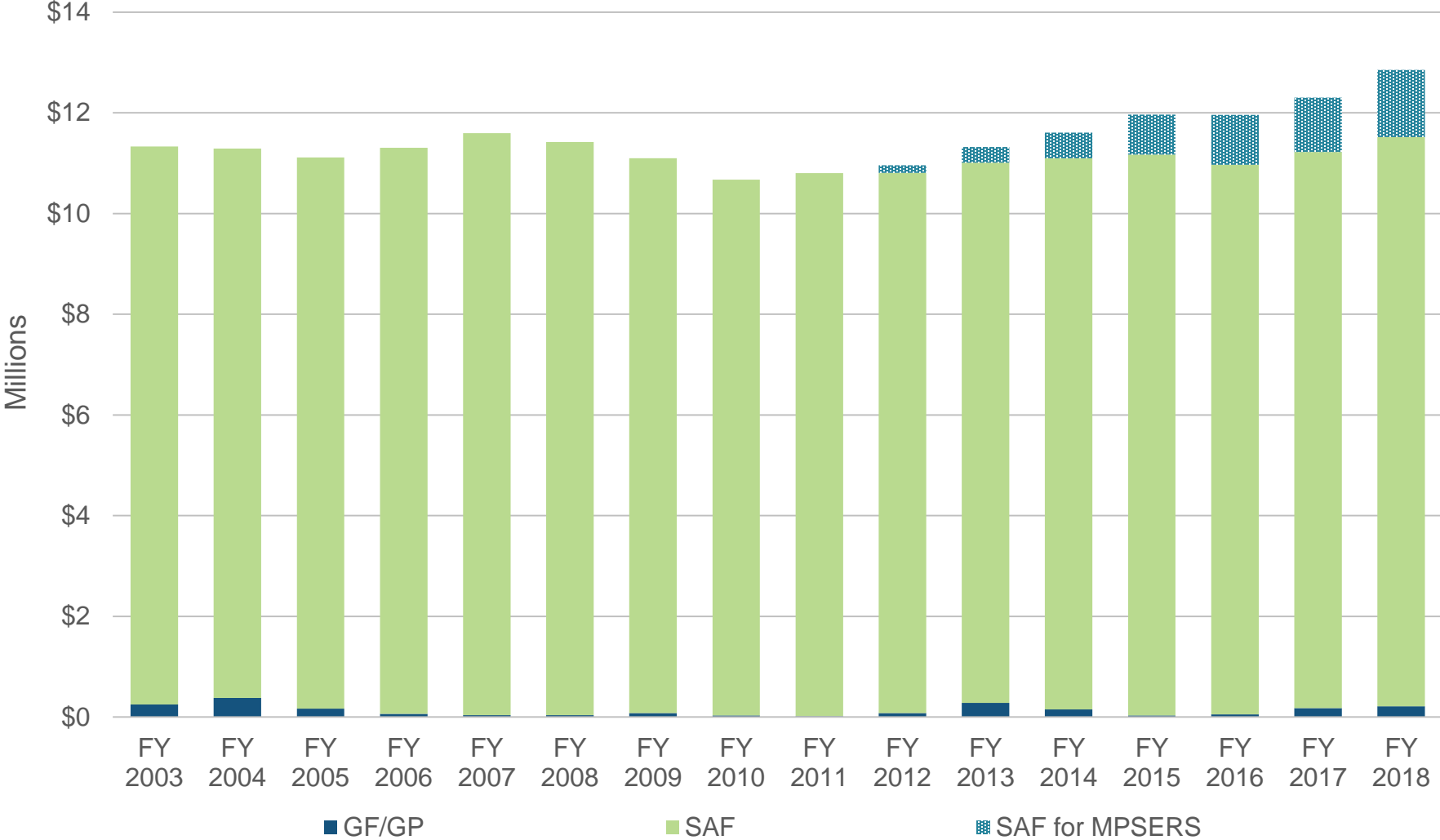
FY 2017-18 state appropriations for community college operations are approximately flat from the FY 2002-03 level. Increased funds have been allocated in recent years to offset growing retirement costs.





# School Aid State Funding History

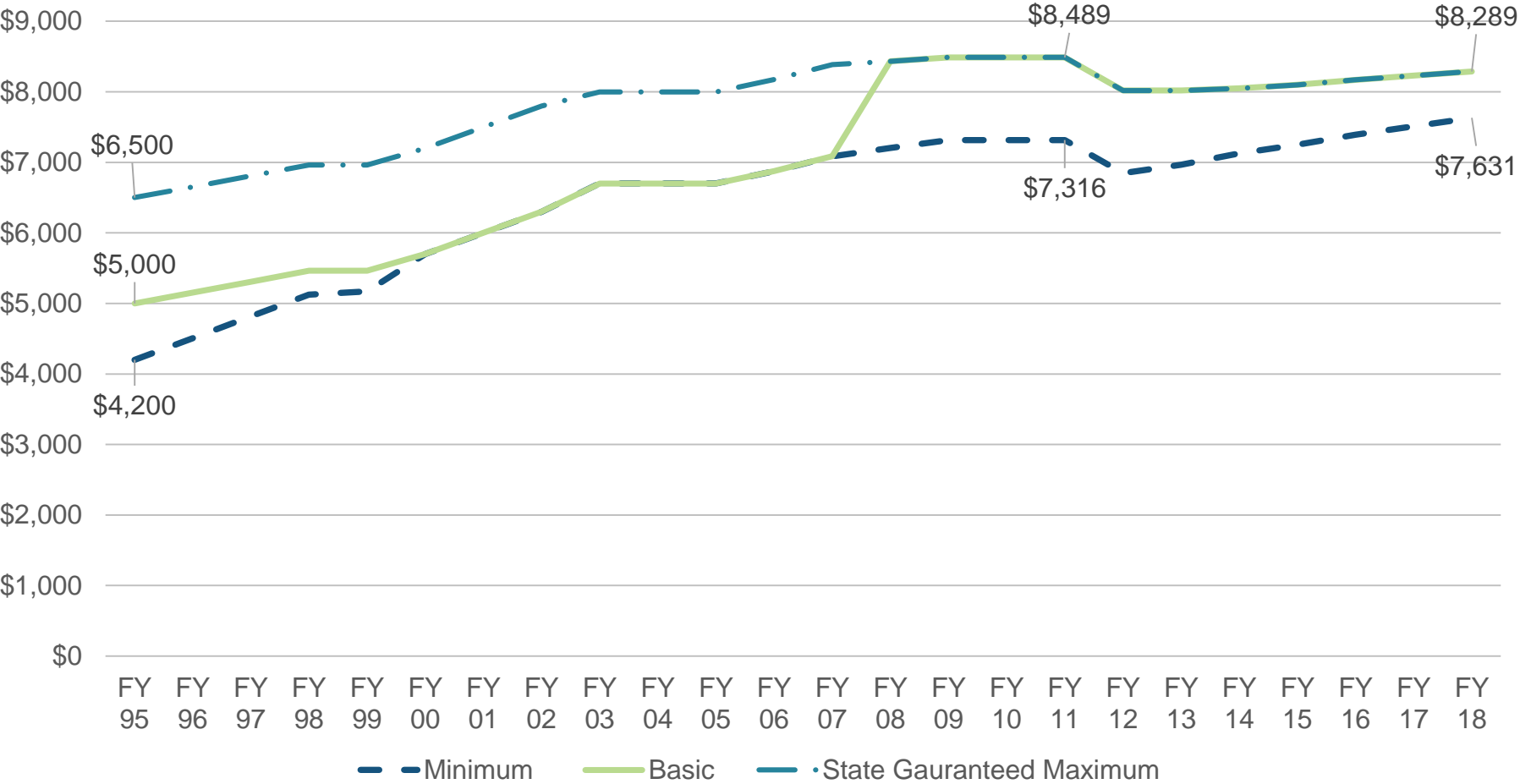
\$1.3 billion has been added to hold districts harmless from increasing retirement liability costs. Total funding for foundation allowances and other operational costs is still below the previous 2007 peak.



# Foundation Allowance History

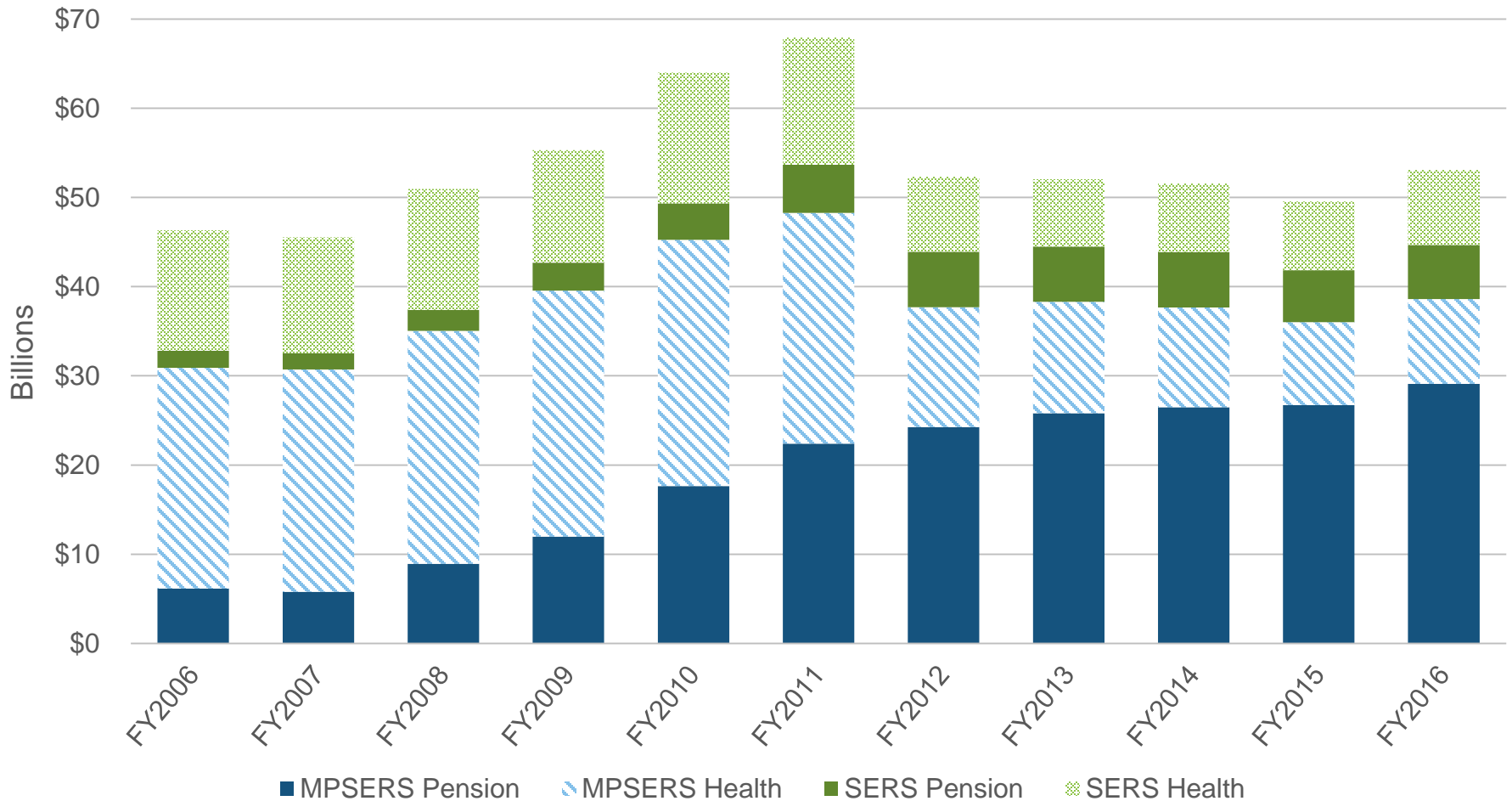
## Growth Since Proposal A

The FY 2017-18 foundation allowance for schools at the Minimum level is \$315 above the previous FY 2010-11 peak. For schools at the State Maximum level, it remains \$200 below the FY 2010-11 peak. The "equity gap" between the two (excluding local hold harmless funds) is down to \$658 per pupil.



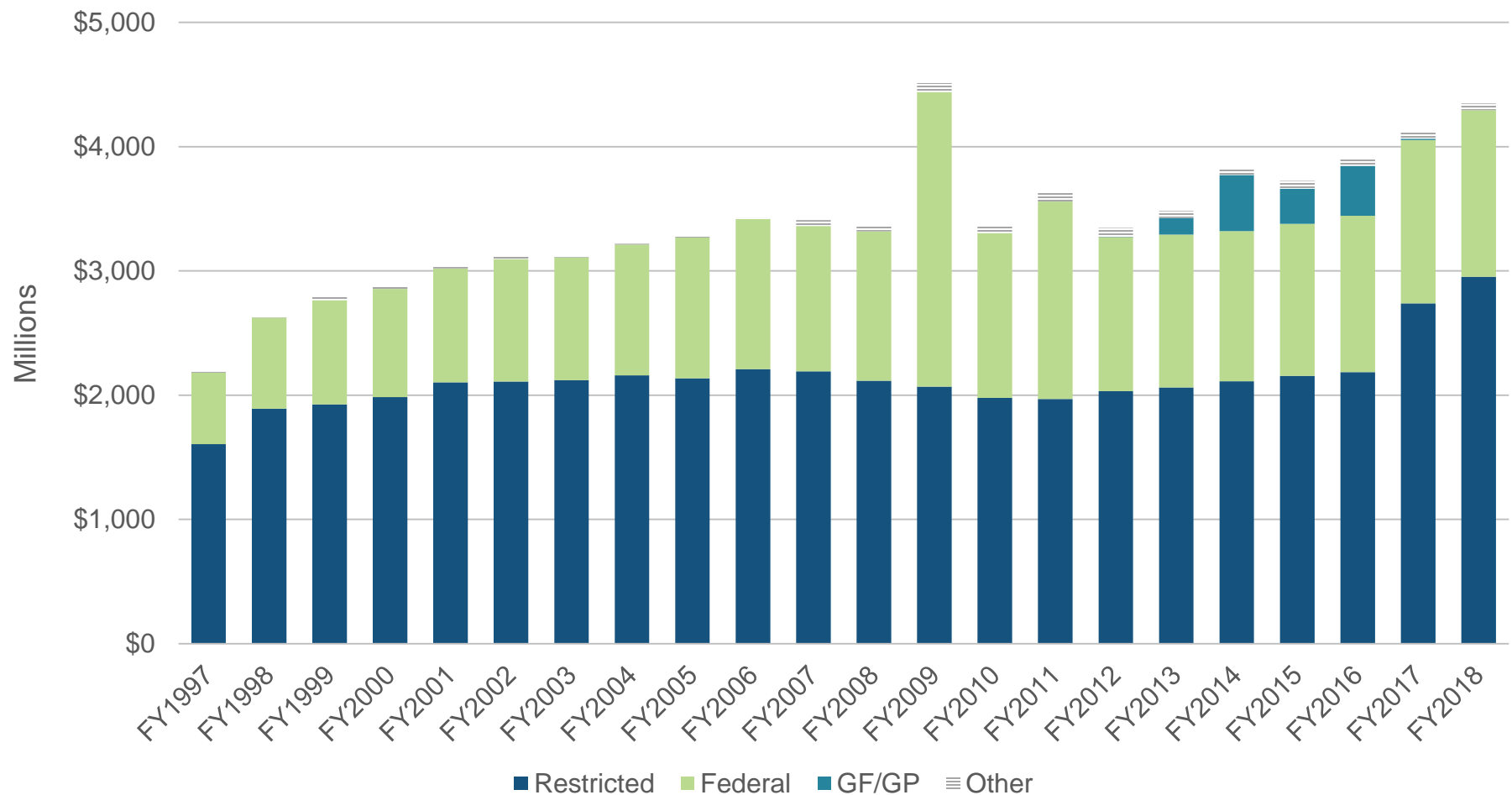
# Retirement Liabilities

Total unfunded liabilities for the school employee (MPERS) and state employee (SERS) retirement systems had declined by \$19 billion since FY 2010-11, due primarily to the decision to begin prefunding retiree health benefits, but grew by \$3.5 million in FY 2015-16 due to the policy change that decreased the assumed rate of return from 8.0% to 7.5%.



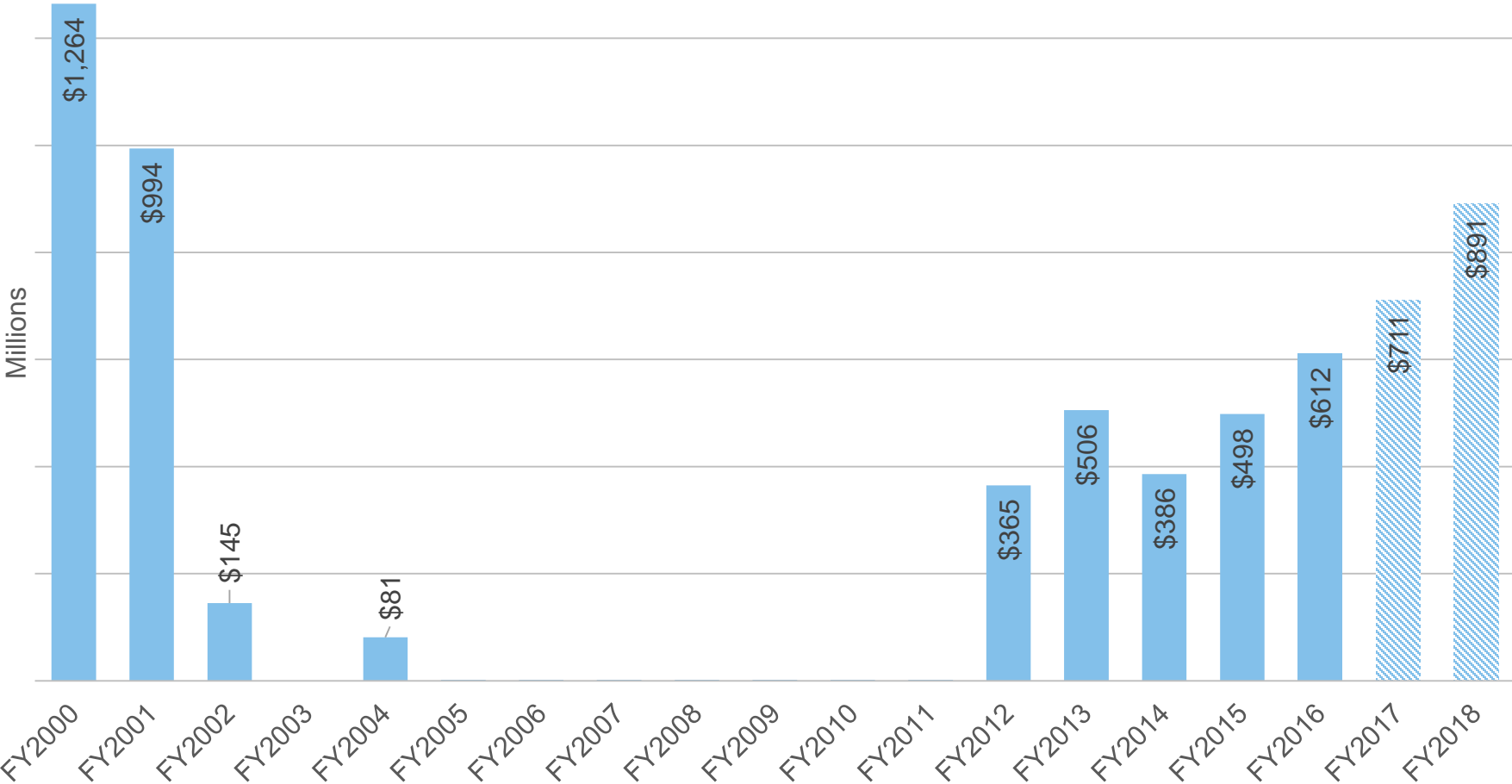
# Transportation Appropriations

Excluding temporary federal ARRA "stimulus" funds in FY 2008-09, total transportation appropriations were relatively flat from FY 1997-98 through FY 2015-16. Increases in FY 2016-17 and FY 2017-18 reflect additional revenue provided through the Road Funding Package passed November 2015, and effective January 1, 2017, as well as anticipated increases in federal aid.



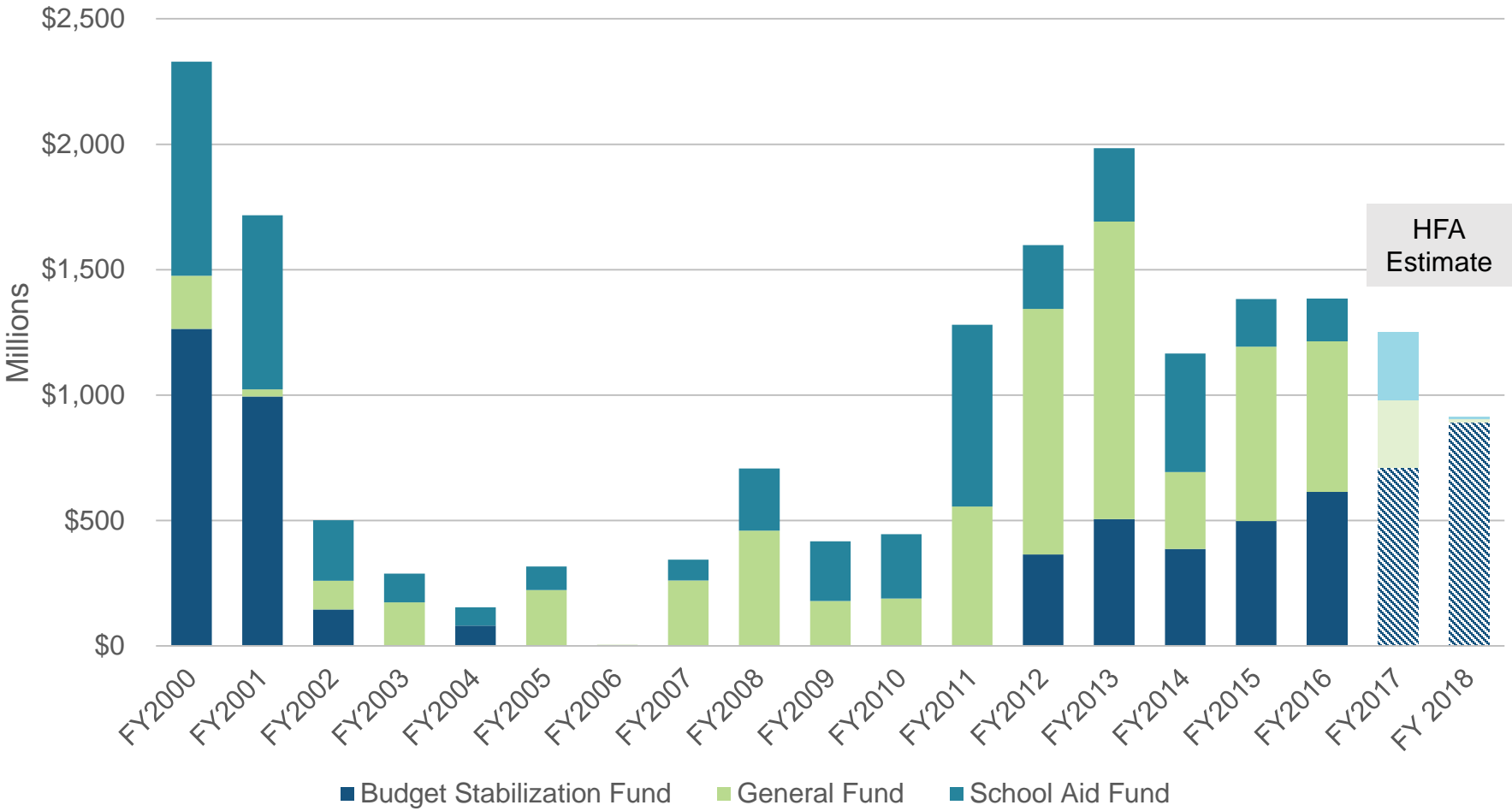
# Budget Stabilization Fund Balance

As of FY 2015-16, the rainy day fund balance has been restored to about half of the previous peak level. A \$75.0 million deposit in addition to the \$17.5 million to repay the FY 2013-14 withdrawal for the City of Detroit will be made in FY 2016-17. FY 2016-17 and FY 2017-18 are based the enacted budgets for each year.



# Combined Ending Balances

Large year-end balances accumulated from FY 2010-11 through FY 2017-18 as revenue growth outpaced projections, allowing for substantial one-time expenditures.



# Major FY 2017-18 Budget Changes

# Flint Water Emergency Funding

Totals for FY 2015-16, FY 2016-17, and FY 2017-18

\$ in Millions

Category	Gross	GF/GP
Physical, Social, & Educational Well Being	\$66.1	\$43.0
Safe Drinking Water	171.0	63.2
Water Bill Relief	42.8	42.8
Food and Nutrition	31.4	11.1
Emergency Response Operations	6.7	2.4
Other	14.1	1.4
Reserves (available for transfer in FY 2016-17)	68.0	53.9
<b>TOTAL</b>	<b>\$400.1</b>	<b>\$217.8</b>

## Notes

- 1) Table includes \$4.5 million GF/GP for Medicaid waiver costs in FY 2015-16, but excludes FY 2016-17 and FY 2017-18 GF/GP costs and all federal match funds.
- 2) Table excludes federal match funds expended by FEMA, as well as \$10 million deposited into the state Disaster and Emergency Contingency Fund which could be expended in Flint.
- 3) FY 2016-17 appropriations were based on half-year costs only, with reserve funds available for second half of year.



# FY 2017-18 Deposits into Reserve Funds

- **\$150 million** Budget Stabilization Fund
- **\$35 million** Michigan Infrastructure Fund
- **\$25 million** Drinking Water Declaration of Emergency Reserve Fund
- **\$5 million** Disaster and Emergency Contingency Fund

# Major FY 2017-18 GF/GP Program Increases

- **\$32.5 million** GF/GP (\$55.8 million Gross) increase for statewide IT projects.
- **\$28.0 million** for a 2.0% increase in public university operations.
- **\$14.2 million** GF/GP (\$45.0 million Gross) to provide a \$0.50 per hour increase in wages for direct care workers providing Medicaid behavioral health services.
- **\$12.7 million** (\$9.3 million one-time) for a State Police trooper school.
- **\$11.0 million** increase for tuition grants and competitive scholarships at Michigan universities.
- **\$8.4 million** GF/GP (\$19.4 million Gross) to increase the reimbursement rate for childcare providers delivering services through the Child Development and Care (CDC) program.
- **\$8.9 million** GF/GP (\$14.2 million Gross) for increases in administrative per diem rates to private foster care agencies and residential service providers.
- **\$8.1 million** GF/GP (\$11.3 million Gross) increase to hire 95 additional adult services workers.
- **\$4.9 million** GF/GP (\$7.2 million Gross) increase for additional 72 staff workers at state hospitals and centers.

# Major One-Time Allocations of GF/GP Funding for FY 2017-18

- **\$12.0 million** for state parks repair and maintenance and trail development.
- **\$11.0 million** for Going Pro program (formerly skilled trades training).
- **\$5.0 million** for talent marketing to attract out-of-state talent to Michigan.

# FY 2017-18 Revenue Sharing Changes

- An estimated increase of **\$9.8 million** from the adjusted FY 2016-17 level in constitutional revenue sharing payments to cities, villages, and townships based on sales tax collections.
- Continued **\$5.8 million** (one-time) discretionary revenue sharing payments to cities, villages, and townships (CVTs) for the expanded pool of 101 local units.
- **\$6.2 million** (one-time) supplemental payments to CVTs to receive a payment under Section 952.
- **\$2.8 million** increase for payments to counties to provide full funding to two additional counties who will have exhausted their reserve funds in FY 2017-18 and a 2.0% increase above full funding.

# Major FY 2017-18 School Aid Budget Changes

- **\$153.3 million** for increases to district foundation allowances ranging from \$60 to \$120 per pupil based on the 2x formula (percent increases range from 1.1% to 1.6%).
- **\$120.0 million** increase to school districts for at-risk students in addition to expanding the number of eligible students and the number of eligible districts.
- **\$11.0 million** to provide an additional \$50 per pupil for each high school student in grades 9 to 12.
- **\$6.4 million** (one-time) for career and technical education (CTE) equipment upgrades.
- **MPSERS-related Costs –**
  - **\$200.0 million** in a one-time added payment toward the cost of the 2010 early retirement incentive. The payment is expected to reduce the amortization period by 2 years, making the final year FY 2019-20.
  - **\$49.0 million** to reimburse MPSERS employers for the increased normal costs associated with the reduction in the long-term investment rate of return assumptions from 8.0% to 7.5%. This is the first of a 2-year phase-in.
  - **\$23.1 million** to reimburse MPSERS employers for the increased normal costs associated with both the new Hybrid plan and the new Defined Contribution (DC or 401k plan) enacted under PA 92 of 2017.

# Budget Outlook

# May Consensus Revenue Estimates

Millions of \$

	FY 2015-16 Final	FY 2016-17 Estimate	FY 2017-18 Estimate	FY 2018-19 Estimate	FY 2019-20 Trend	FY 2020-21 Trend
<b>GF/GP Revenue</b>	<b>\$10,015</b>	<b>\$10,111</b>	<b>\$10,409</b>	<b>\$10,490</b>	<b>\$10,639</b>	<b>\$10,753</b>
\$ Change	(\$19)	\$96	\$297	\$81	\$149	\$214
% Change	(0.2%)	1.0%	2.9%	0.8%	1.4%	1.1%
<b>SAF Revenue</b>	<b>\$12,119</b>	<b>\$12,610</b>	<b>\$12,971</b>	<b>\$13,331</b>	<b>\$13,704</b>	<b>\$14,088</b>
\$ Change	\$372	\$491	\$361	\$360	\$373	\$384
% Change	3.2%	4.1%	2.9%	2.8%	2.8%	2.8%

## GF/GP Revenue

- Minimal growth in FY 2018-19 due to individual income tax transfer for road funding, continued Michigan business tax credits, sluggish corporate income tax growth, and diversion of use tax revenue for personal property tax reimbursement.
- Moderate growth projected for FY 2019-20 and FY 2020-21 despite increased individual income tax transfer for road funding.

## SAF Revenue

- Moderate growth projected for the next several years based on sales tax and individual income tax growth.

# Transportation Package

- Transportation package enacted in 2015 will:
  - Increase motor fuel taxes from 15 cents per gallon (for diesel) and 19 cents per gallon (for gasoline) to 26.3 cents per gallon on January 1, 2017 (raises roughly \$400 million per year).
  - Increase vehicle registration taxes by 20% beginning January 1, 2017 (raises roughly \$200 million per year).
  - Increase Homestead Property Tax Credit by altering various parameters: creates estimated GF/GP loss of about **\$200 million** per year beginning in FY 2018-19.
  - Divert income tax revenue currently allocated as GF/GP funds to transportation purposes beginning in FY 2018-19.
    - FY 2018-19: **\$150 million**
    - FY 2019-20: **\$325 million**
    - FY 2020-21: **\$600 million**
- In sum, when the fully phased in the package will:
  - Increase dedicated resources for Transportation purposes by about \$1.2 billion per year.
  - Lower GF/GP resources by about \$800 million per year.



# Medicaid Spending Pressures

## Traditional Medicaid Program

- Traditional Medicaid caseload, utilization, and inflation costs, on average, increase 2.5% annually, requiring about **\$120 million** GF/GP per year.
- Michigan's federal match rate has begun to decline due to relative growth in personal income, resulting in additional GF/GP costs of about **\$40 million** per year.
- FY 2017-18 budget relies on **\$70 million** in restricted revenue fund balances, which will have to be offset primarily with GF/GP in future fiscal years.

## Healthy Michigan Plan

- FY 2017-18 state GF/GP match costs for expanded Medicaid program totals **\$85 million**.
- State match rate will increase to 10% over the next three years, requiring additional GF/GP funds of roughly **\$160 million**.
- Discontinuing expanded program and shifting mental health, prison health care, and other costs back to state would cost **\$250 to \$300 million** per year. Current statute requires discontinuation of program when state costs exceed savings.

# Other State Budget Pressures

## School Aid

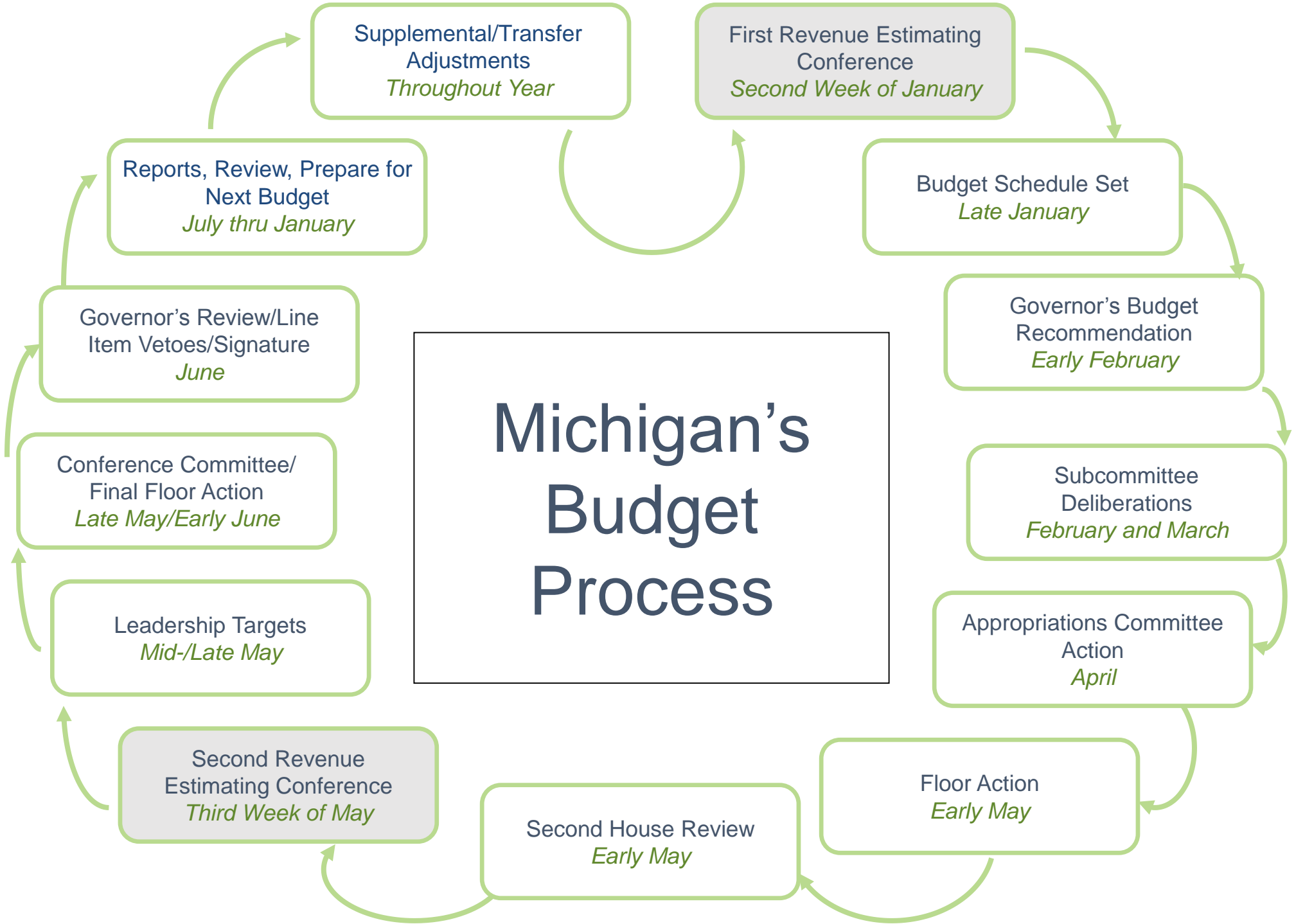
- FY 2016-17 budget relies on **\$65 million** in one-time SAF balance and **\$69 million** in GF/GP funds designated as one-time.
- MPSERS 2<sup>nd</sup> year of recognizing the reduction in long-term interest rate assumptions from 8% to 7.5% will cost another **\$150 million** in FY 2018-19.
- MPSERS next experience study is expected to update mortality tables which is likely to have significant cost impact by FY 2020-21.

## Budget Stabilization Fund

- Estimated FY 2017-18 balance of **\$891 million** equates to 3.8% of combined annual General Fund and School Aid Fund revenue. Statutory cap is 10%, or \$2.3 billion.
- Based on statutory formula and projected economic growth from May 2016 consensus revenue estimating conference, no deposit would be required for FY 2017-18.

# Budget Process

# Michigan's Budget Process



# House Fiscal Agency Budget Roles

- **Analytical**
  - Prepare budget documents providing both summary-level and detailed information on proposed budget changes under Executive Budget and subsequent legislative versions
  - Assist in development of alternative budget proposals; facilitate legislative decision making
  - Gather objective information and analyze data related to specific budget issues of interest to legislators
  - Provide analyses of non-appropriations bills, including estimated fiscal impacts on state and local governments
- **Procedural**
  - Post meeting notices; clerk subcommittee meetings; prepare meeting agendas/minutes
- **Technical**
  - Prepare substitute appropriation bills based on legislative decision making
  - Prepare amendments proposed during subcommittee, committee, and floor debate
  - Prepare supplemental appropriations bills and legislative transfer documents
- **All tasks are completed in compliance with statutory requirements for nonpartisanship and confidentiality.**

# For more information about the state budget:

## HFA website

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

## Contact Information

Mary Ann Cleary, Director: [mcleary@house.mi.gov](mailto:mcleary@house.mi.gov)

Bethany Wicksall, Deputy Director: [bwicksall@house.mi.gov](mailto:bwicksall@house.mi.gov)

(517) 373-8080