



# Budget Briefing: State Budget Overview

Mary Ann Cleary, Director

Bethany Wicksall, Deputy Director

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# Briefing Topics

- Appropriations Overview
- Economic Trends
- Revenue Trends
- Budget Trends
- Major FY 2018-19 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 2018-19 is October 1, 2018 through September 30, 2019.

**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.

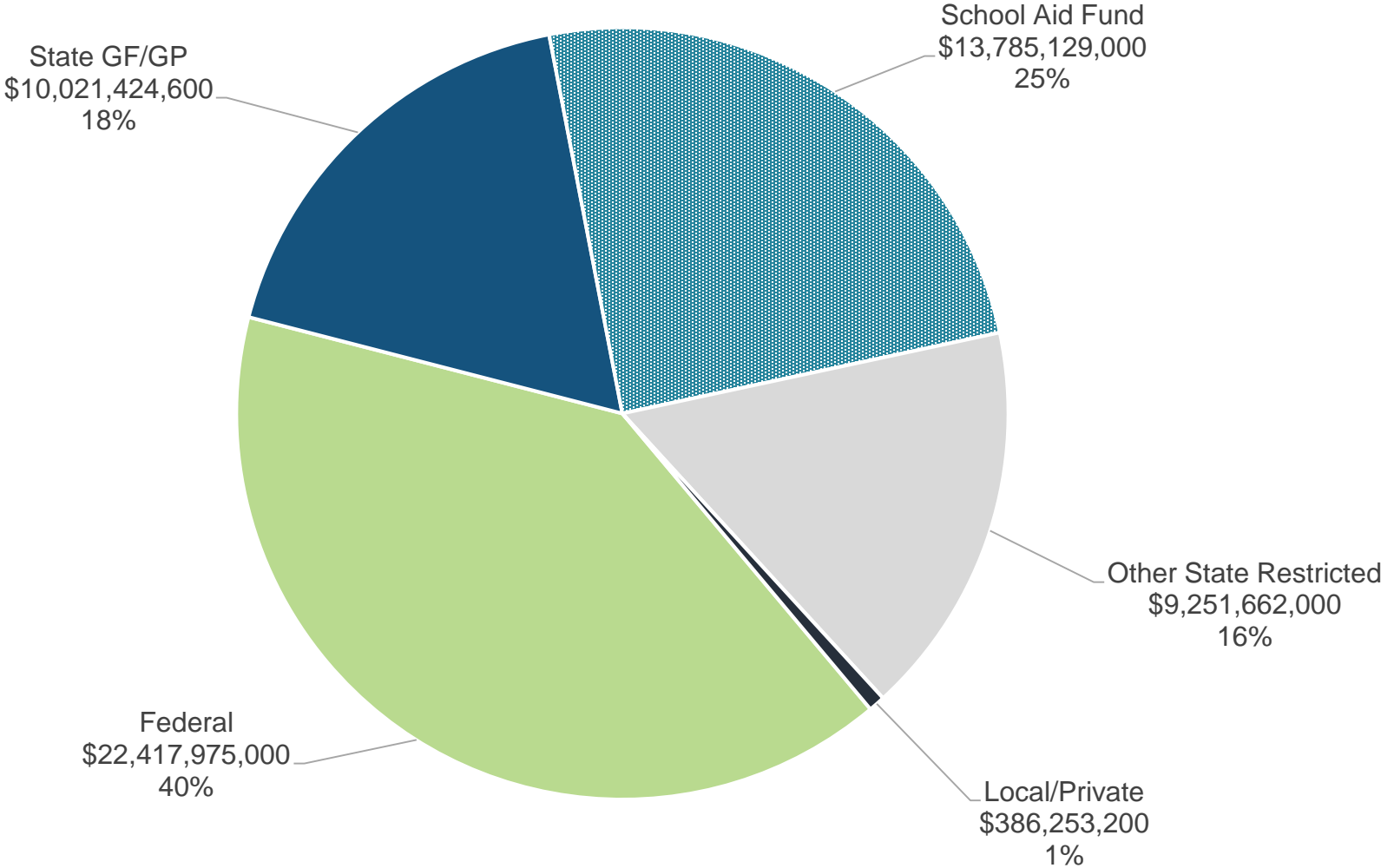
Note: Unless otherwise indicated, historical budget figures in this presentation have not been adjusted for inflation.

# FY 2018-19 State Budget

Fund Source	Funding	Description
Gross Appropriations	\$56,780,635,500	Total spending authority from all revenue sources
Interdepartmental Grants (IDG) Revenue	918,191,700	Funds received by one state department from another state department, usually for services provided
Adjusted Gross Appropriations	\$55,862,443,800	Gross appropriations excluding IDGs; avoids double counting when adding appropriation amounts across budget areas
Federal Revenue	22,417,975,000	Federal grant or matching revenue; generally dedicated to specific programs or purposes
Local Revenue	216,226,800	Revenue received from local units of government for state services
Private Revenue	170,026,400	Revenue from individuals and private entities, including payments for services, grants, and other contributions
State Restricted Revenue	23,036,791,000	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	\$10,021,424,600	Unrestricted revenue from taxes and other sources available to fund basic state programs and other purposes determined by the Legislature

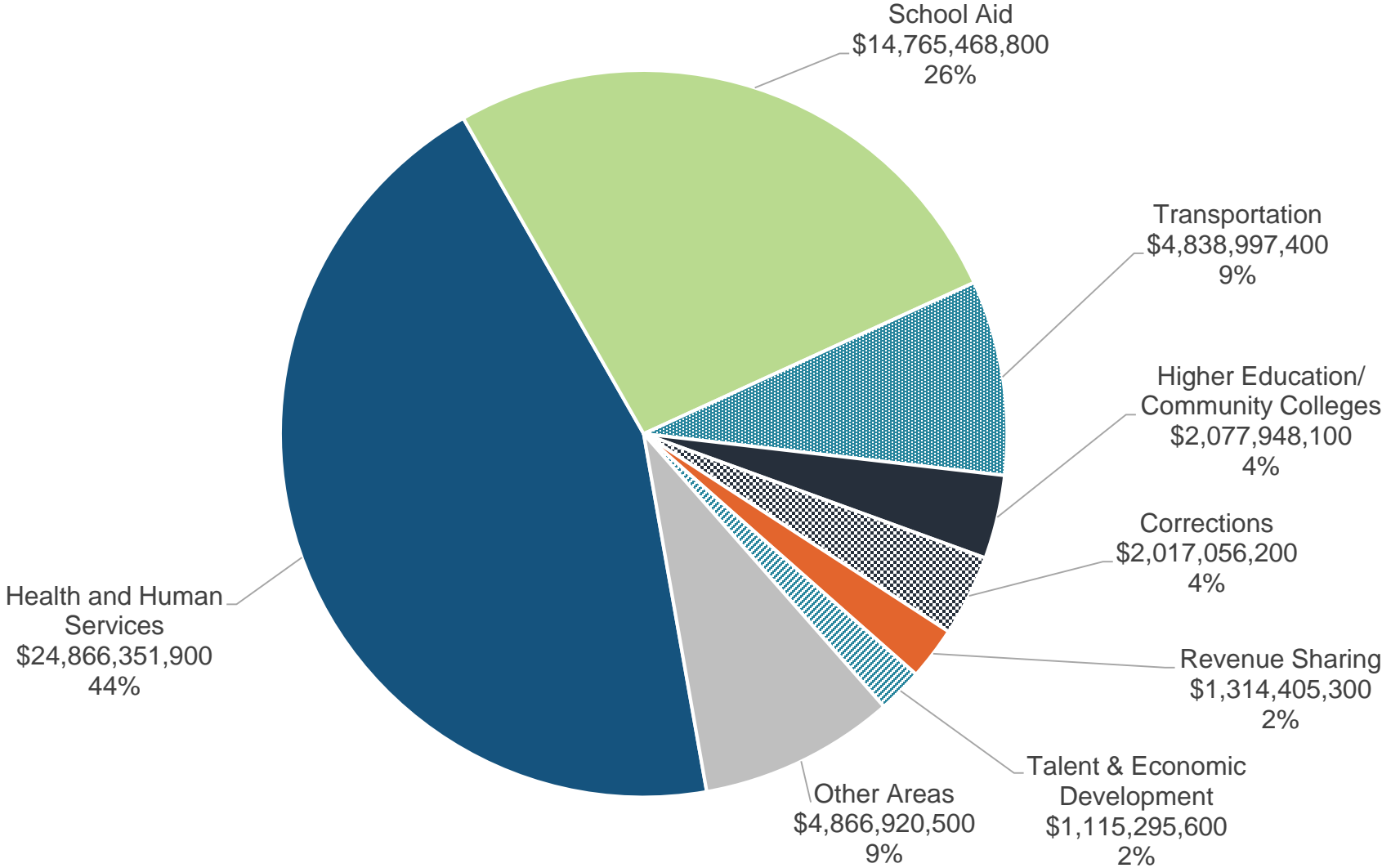
# FY 2018-19 Fund Sources

Discretionary GF/GP funds make up 18% of the **\$55.9 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 43%.



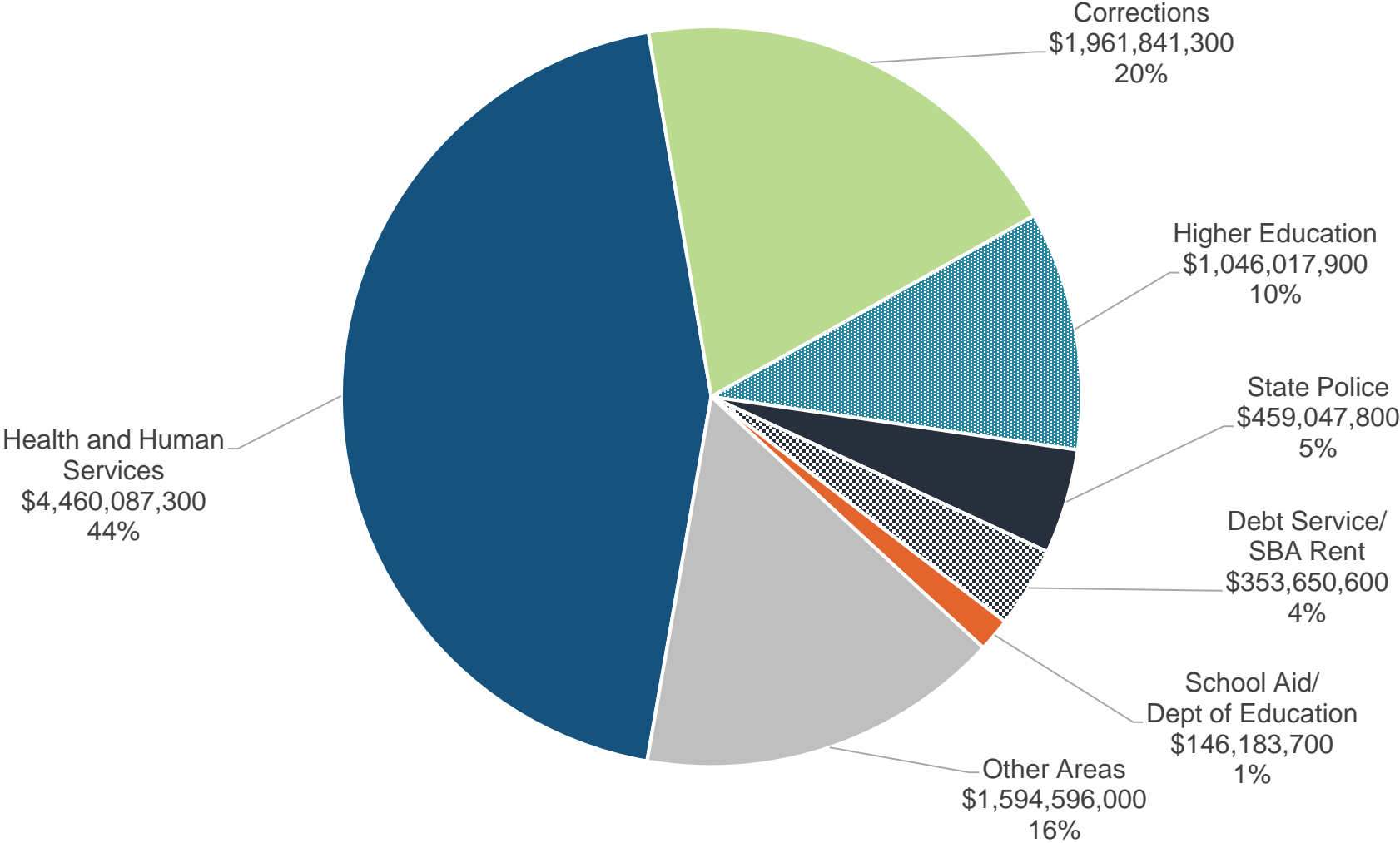
# FY 2018-19 Adjusted Gross Appropriations

Large portions of the **\$55.9 billion** state budget consist of payments to health care providers, school districts, universities and colleges, and local units of government.



# FY 2018-19 GF/GP Appropriations

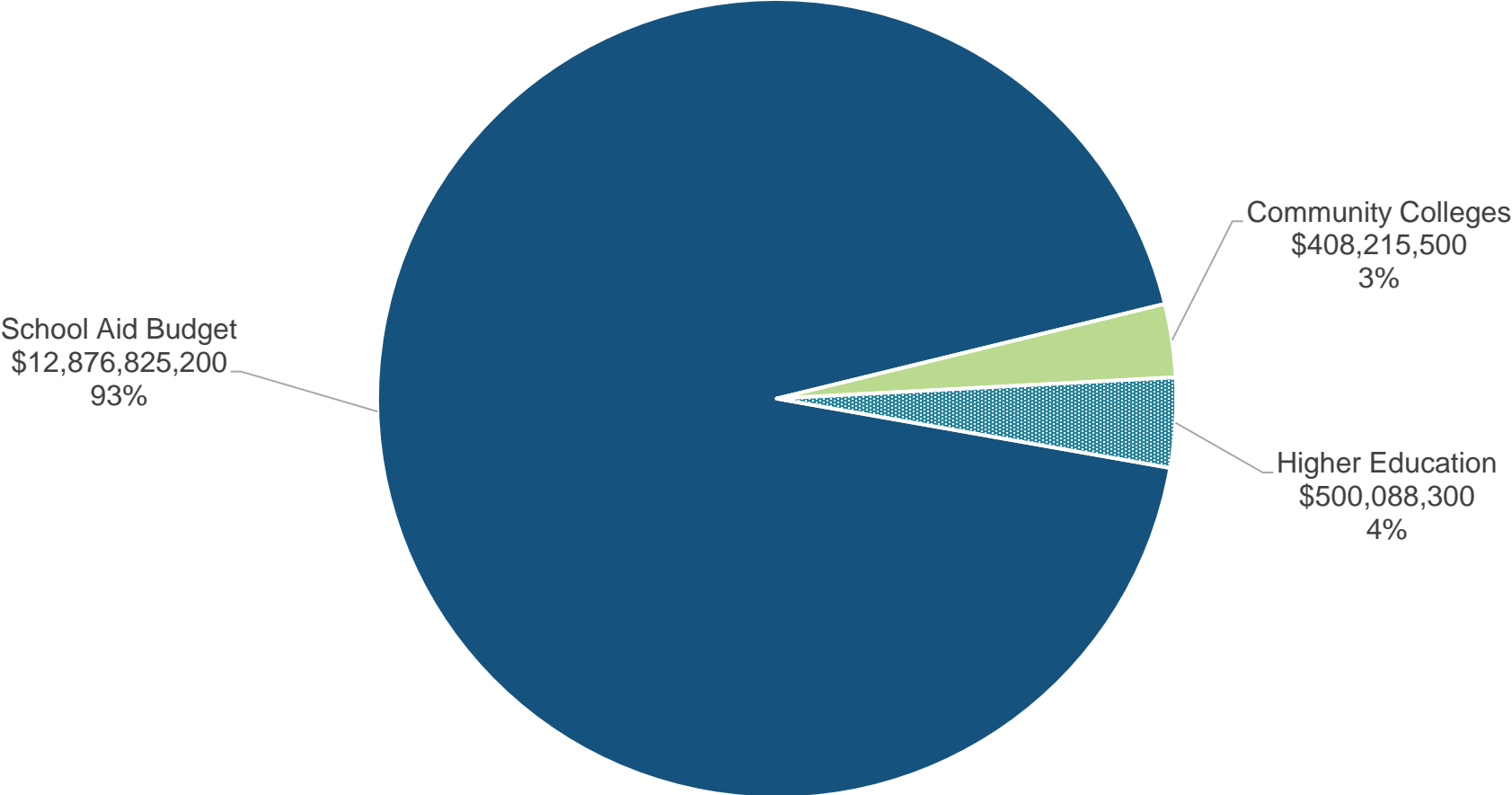
84% of the **\$10.0 billion** GF/GP budget is appropriated for health and human services, public safety, education, and debt service. The remaining 16% provides funding for 13 state departments, the Judiciary, the Legislature, and the Executive Office.





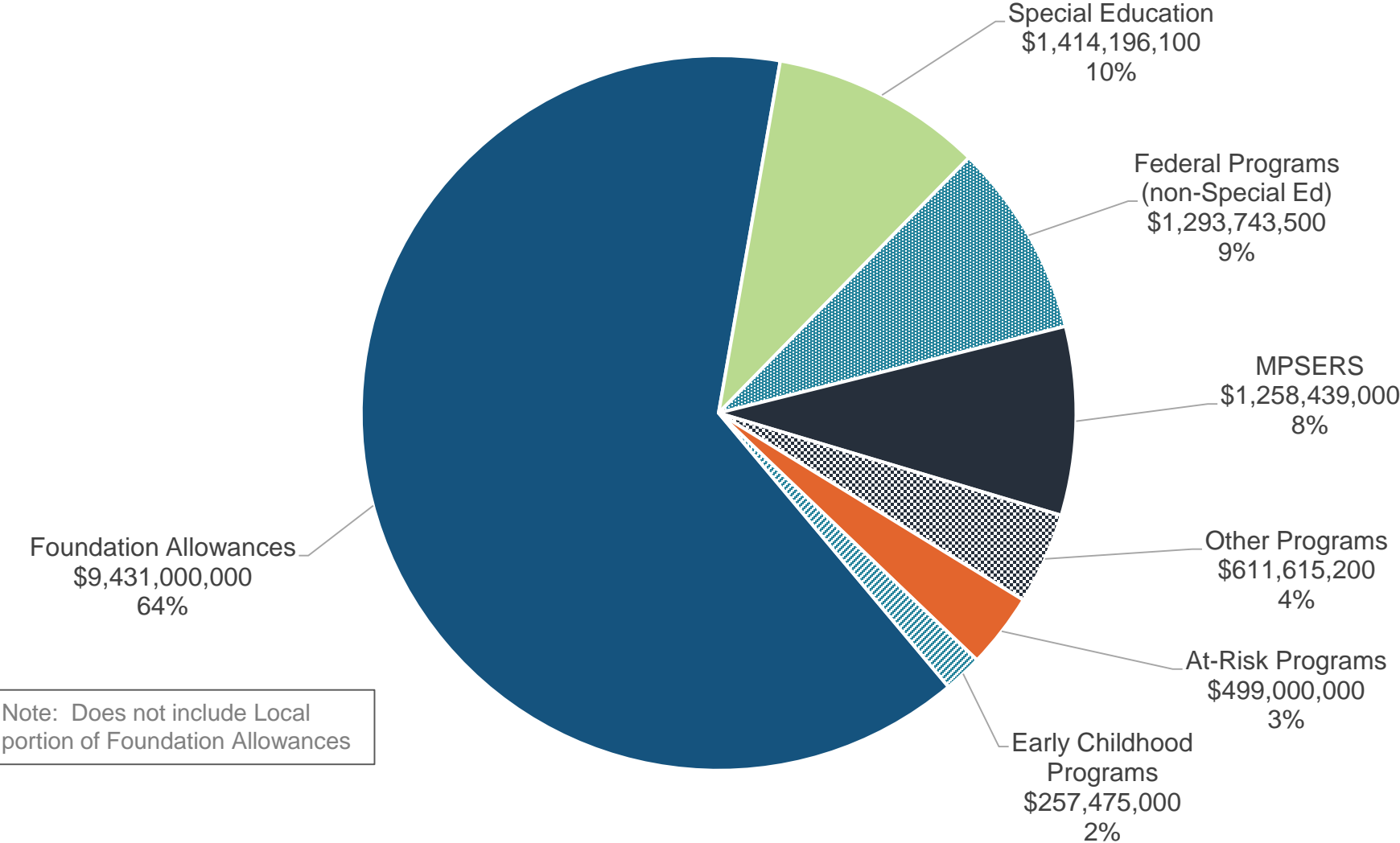
# FY 2018-19 School Aid Fund Appropriations

School Aid Fund (SAF) appropriations totaling **\$13.8 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 2018-19 School Aid Appropriations

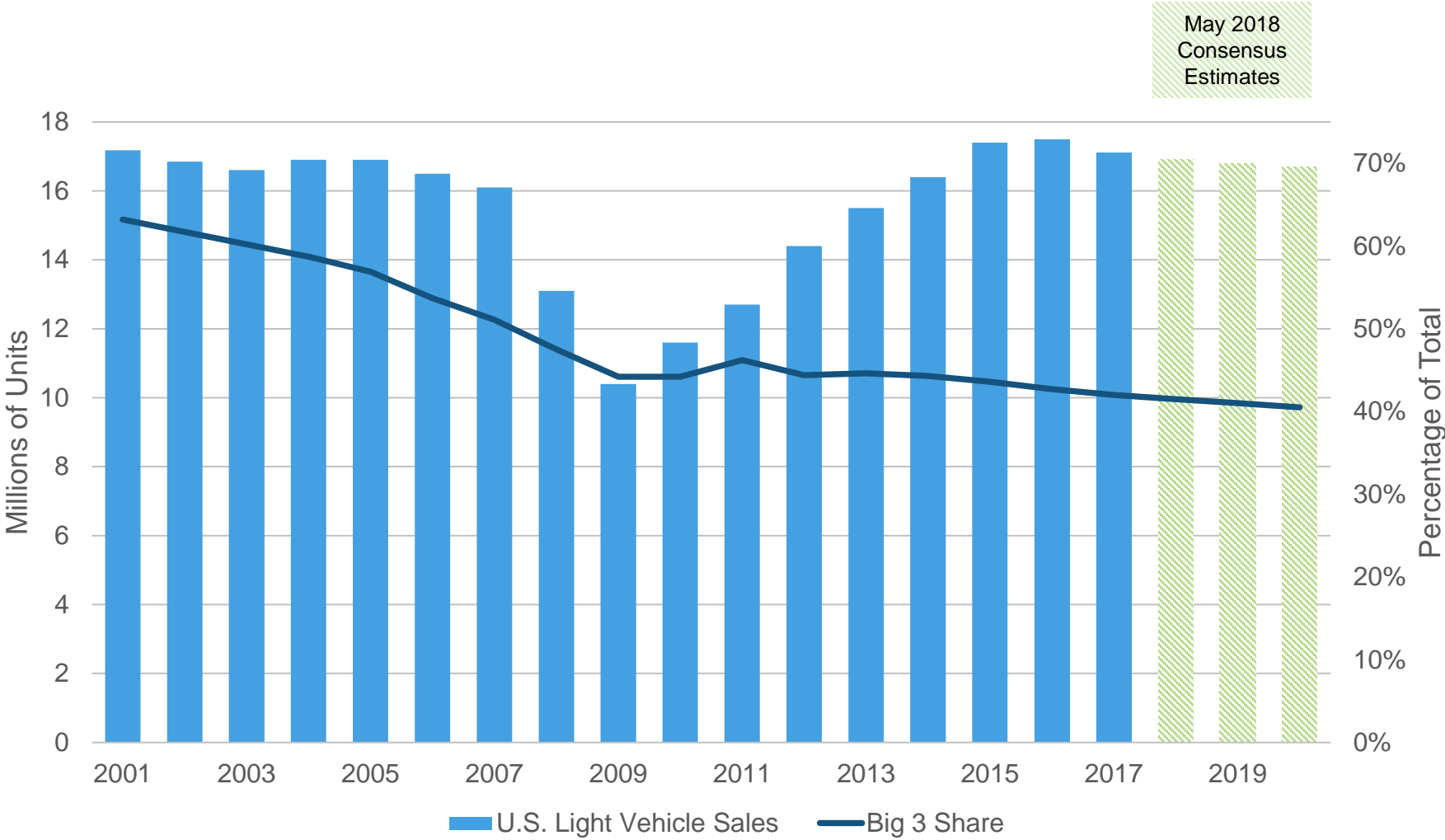
About two-thirds of the **\$14.8 billion** School Aid budget (including federal funds) supports per pupil foundation allowances used for school district general operations.



# Economic Trends

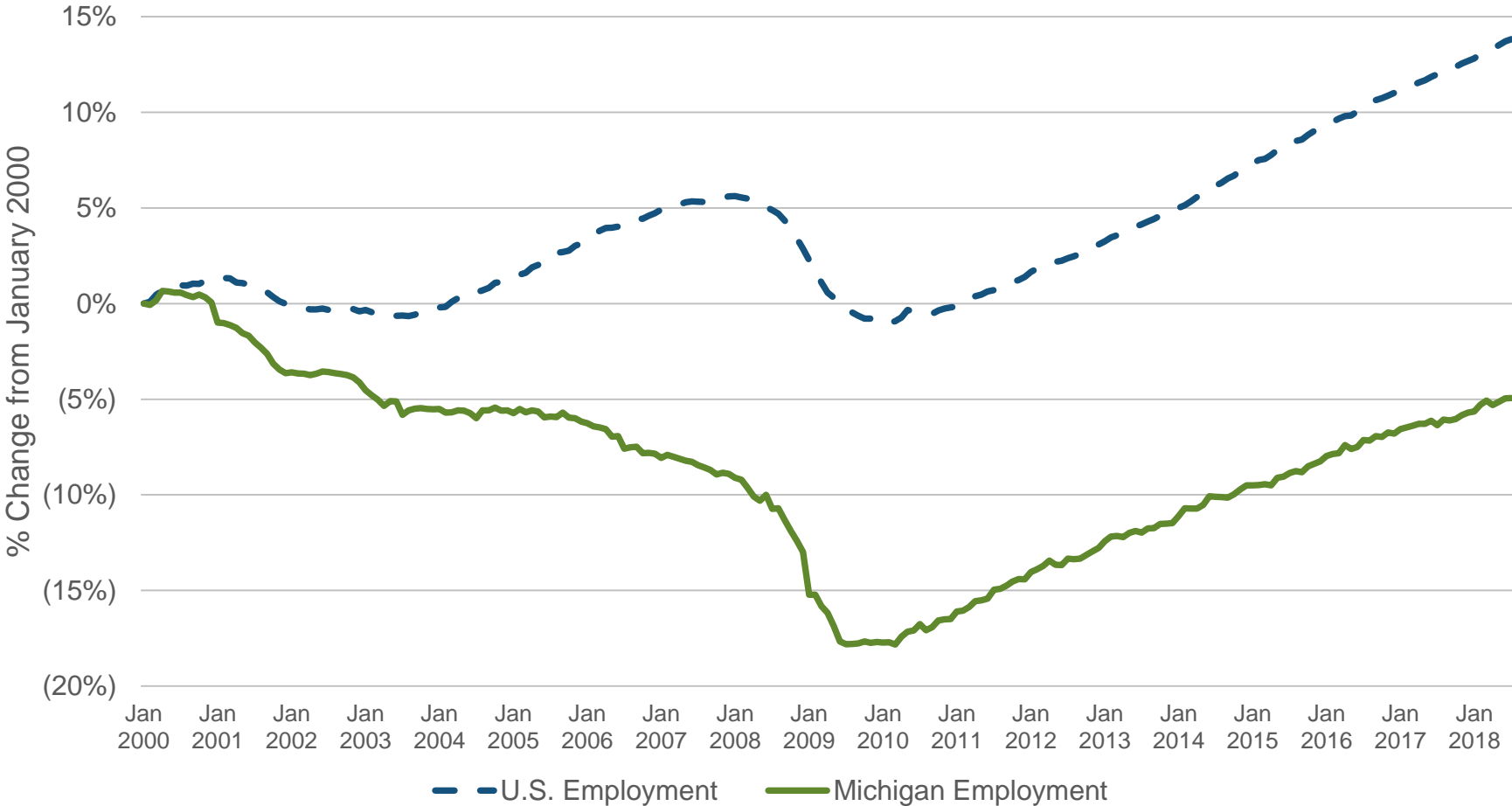
# Light Vehicle Sales

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



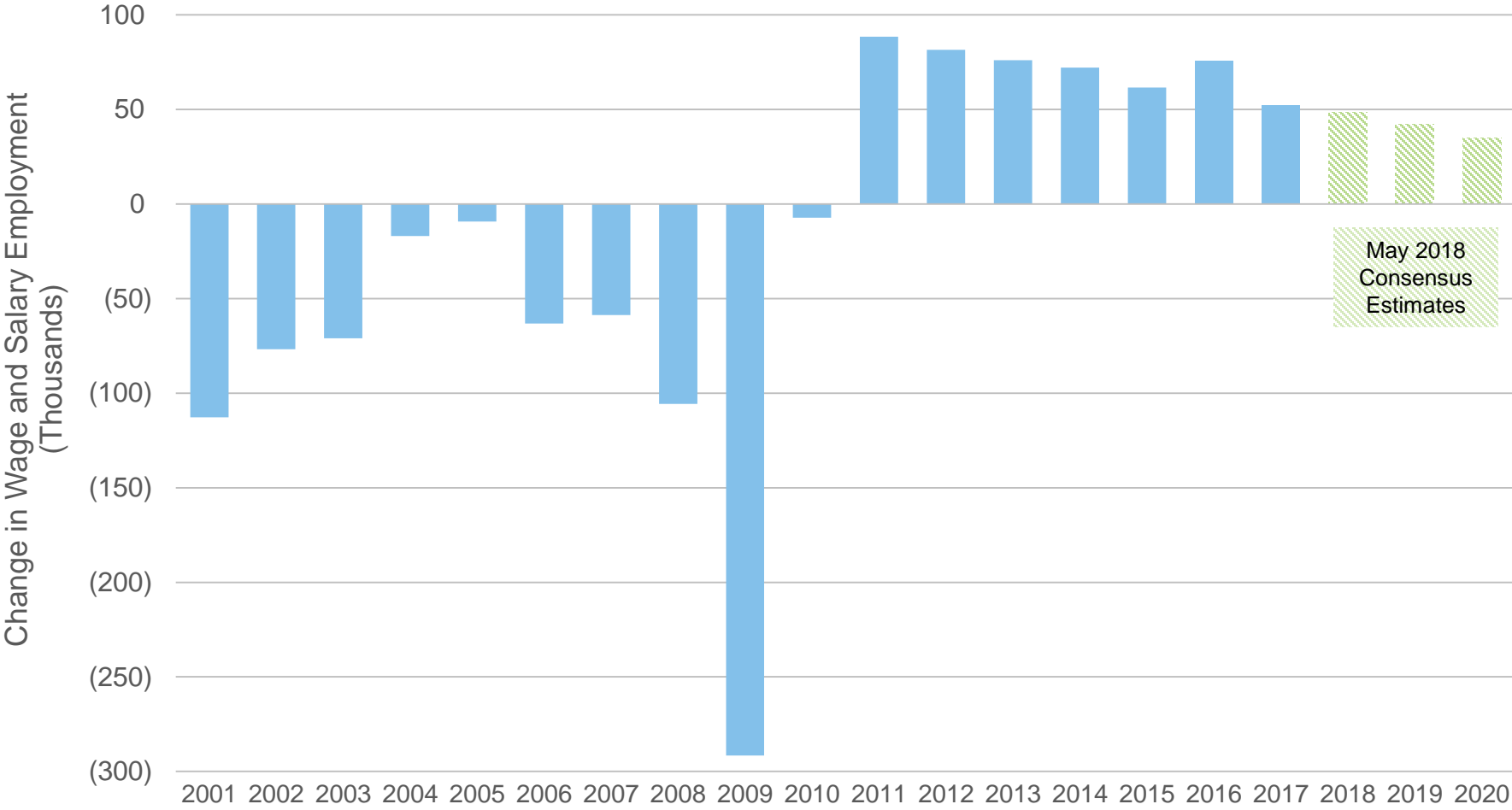
# Employment Change Since 2000

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.



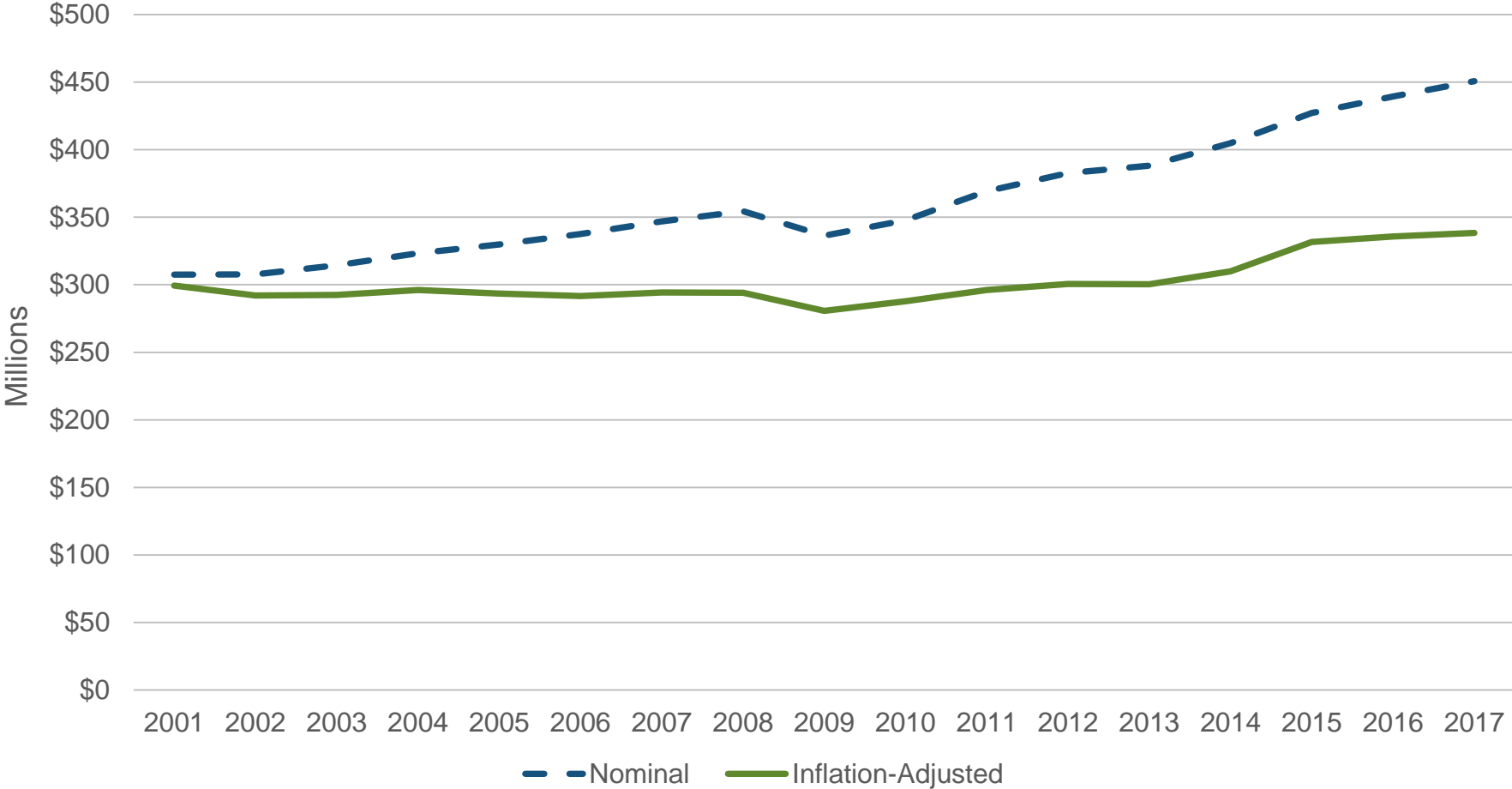
# Michigan Employment Changes

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.

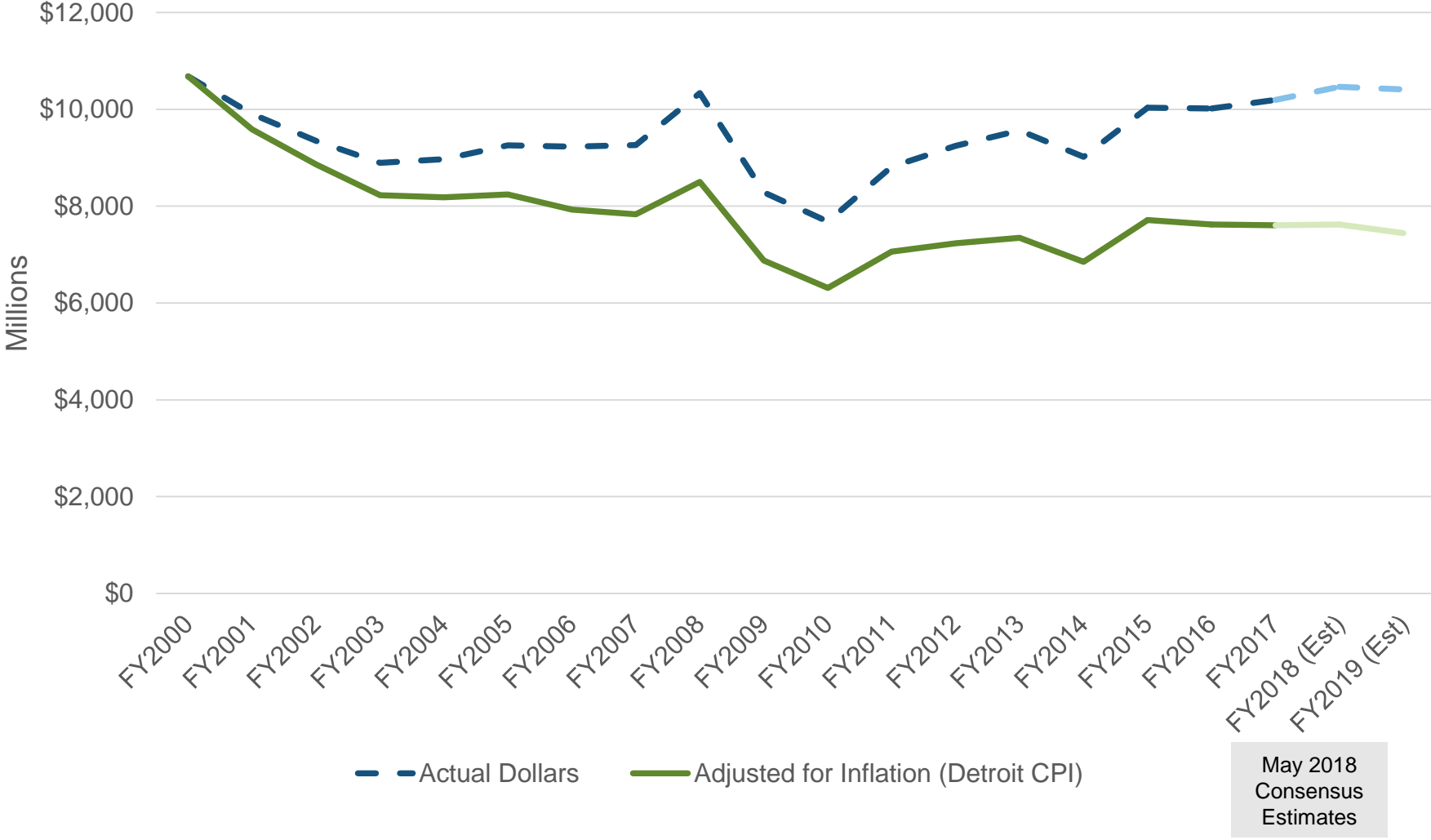


# Revenue Trends



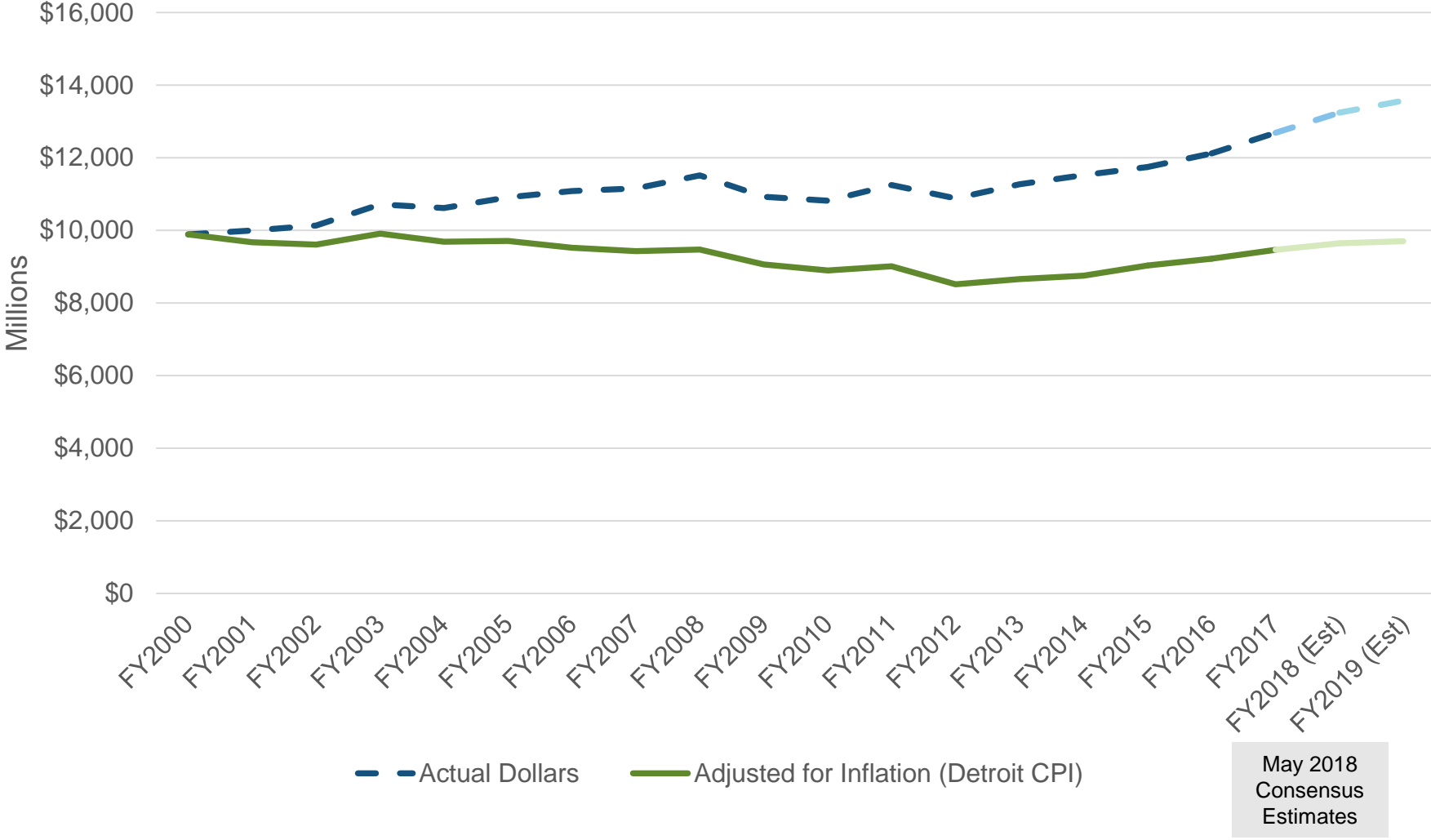
# GF/GP Revenue

Nominal GF/GP revenue is expected to exceed \$10.4 billion in FY 2018-19. When adjusted for inflation, however, GF/GP revenue is estimated to be 30.3% below the FY 1999-00 level.



# School Aid Fund Revenue

Nominal SAF revenue has generally grown since FY 2011-12. In inflation-adjusted terms, however, FY 2018-19 revenue is estimated to be 1.9% below the FY 1999-00 level.



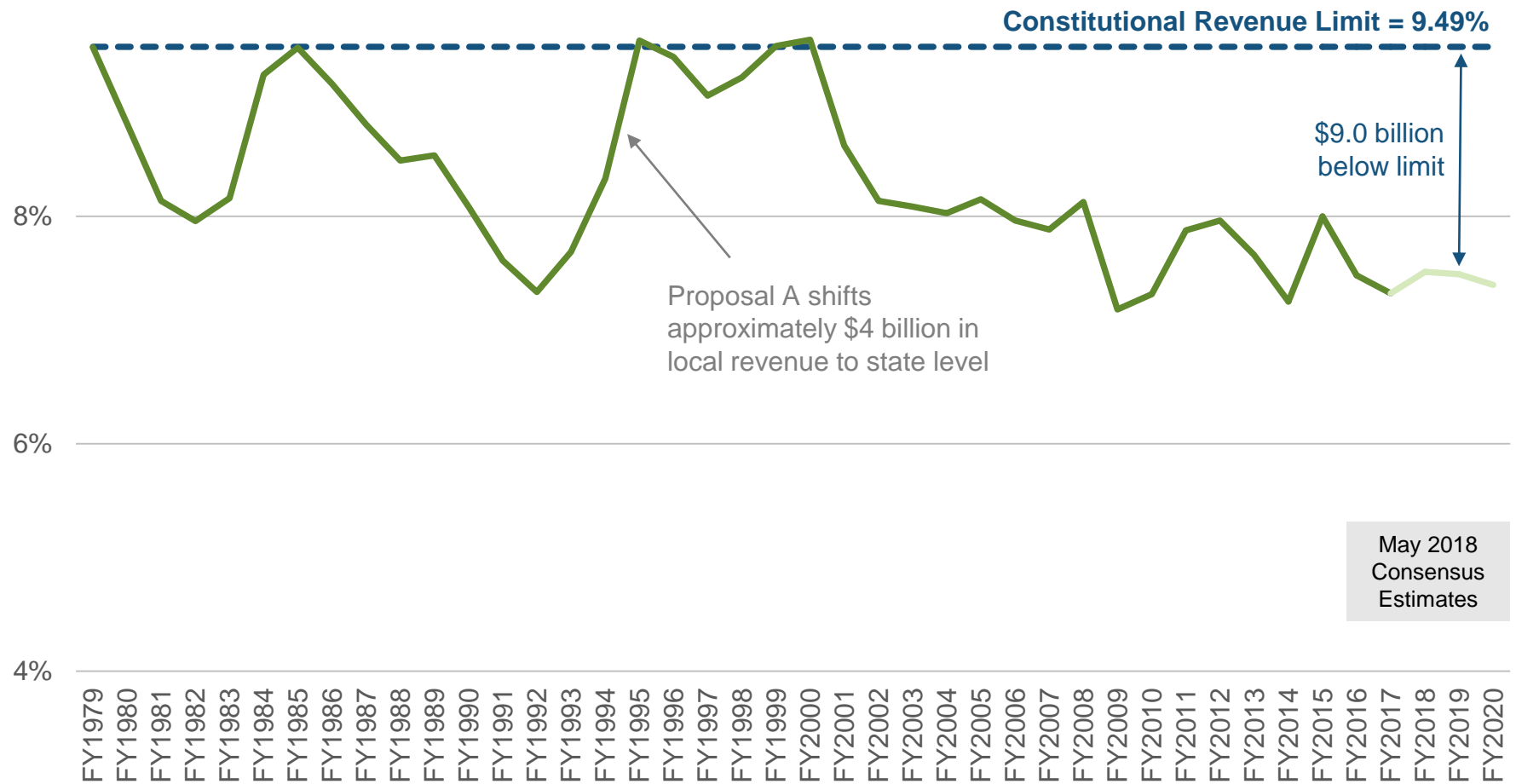
# Major State Taxes as a Percentage of Michigan Personal Income

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

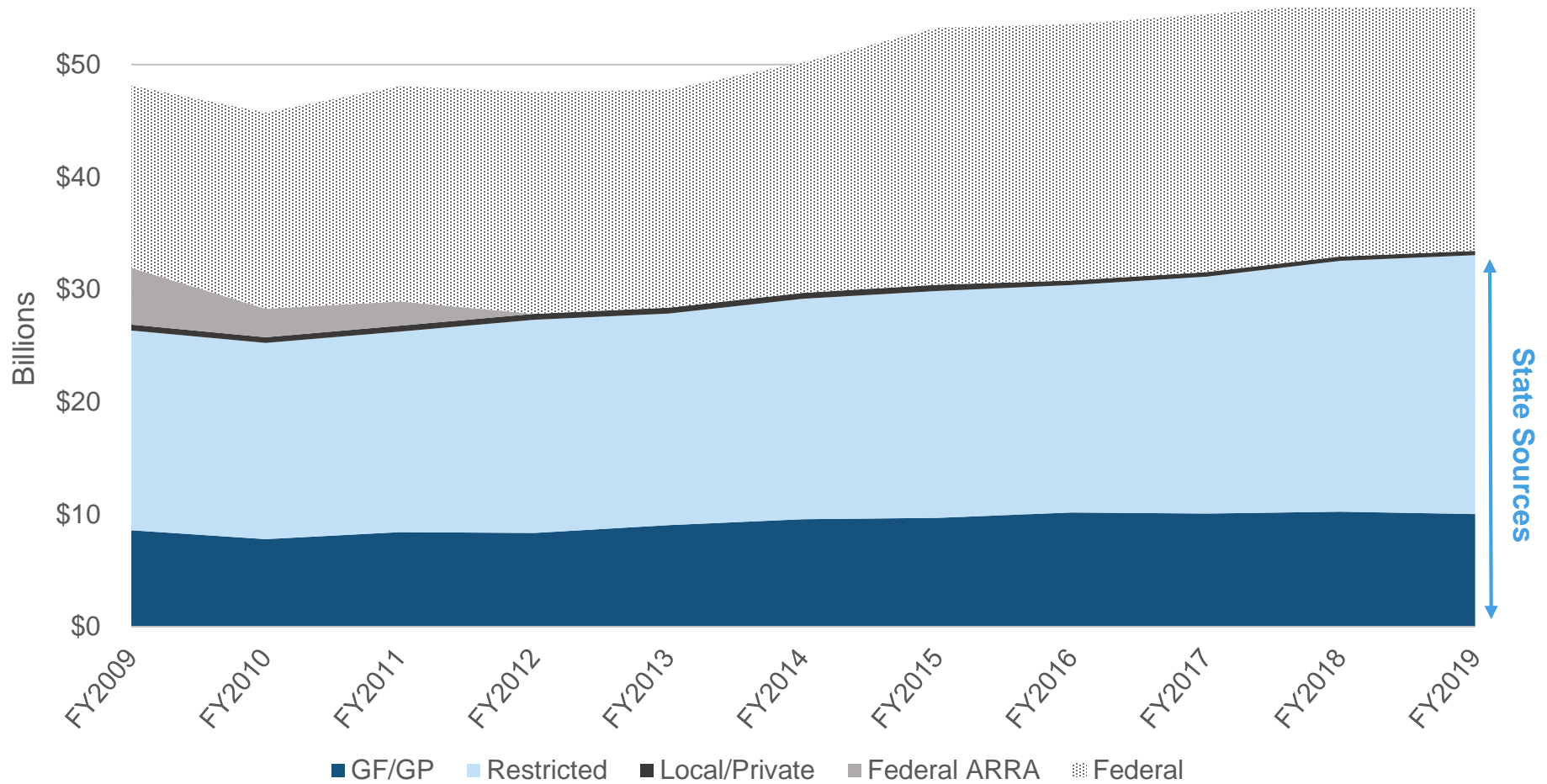
Michigan's constitution was amended in 1978 to set a limit on total state revenue (including all taxes and fees) equal to 9.49% of personal income. For FY 2018-19, the state is projected to be \$9.0 billion below that limit.



# Budget Trends

# Total State Budget History

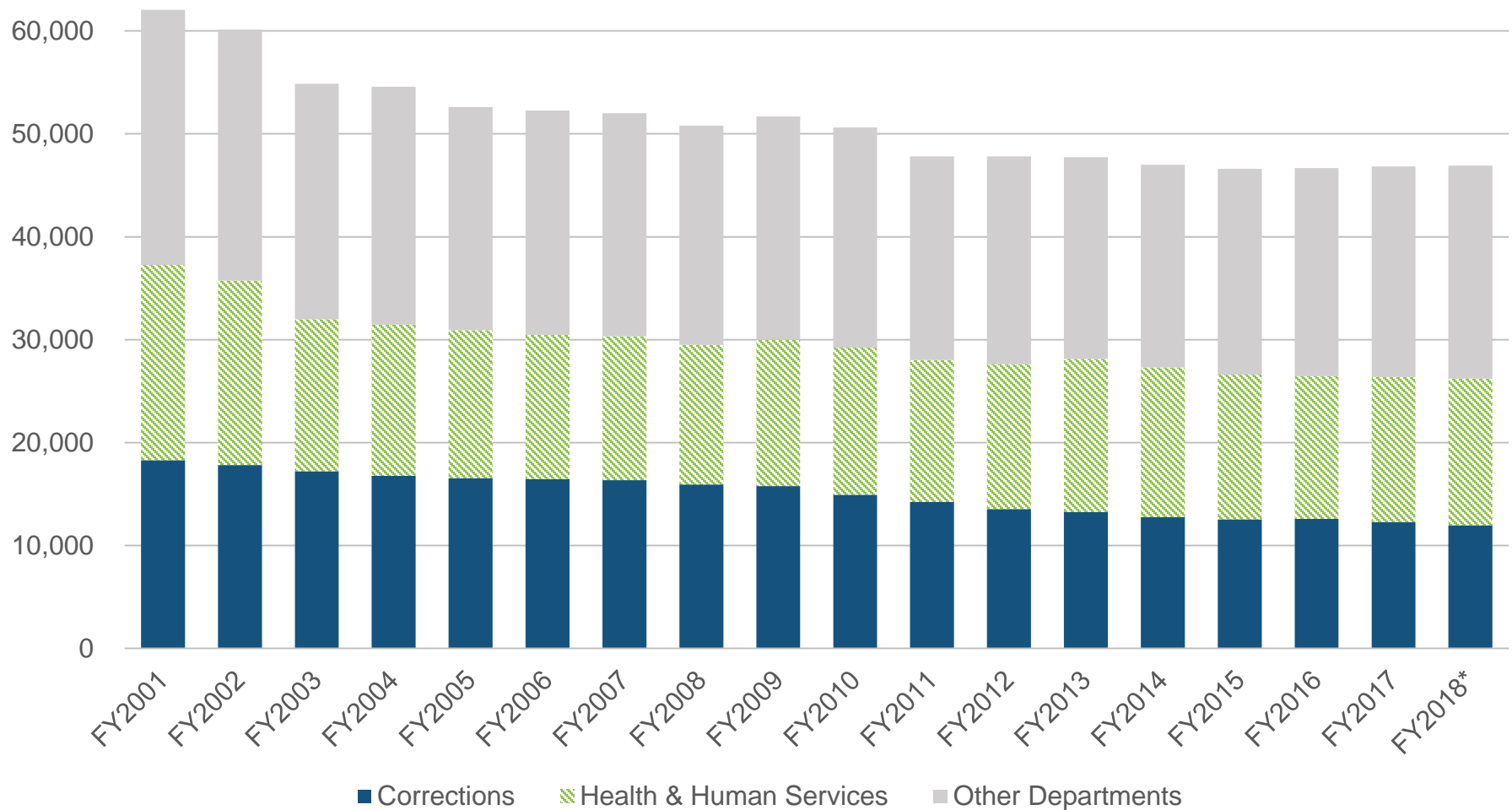
Total state budget growth of 16% since FY 2009 has been driven by both growth in federal funds for Medicaid expansion and increasing state funds since the Great Recession.



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 (24%) since FY 2000-01.



Source: Michigan Civil Service Commission, Annual Workforce Report

\*Through June 30, 2018

# State Employee Compensation-Related Costs

**Estimated FY 2018-19 Total: \$6.0 billion Gross (\$3.1 billion GF/GP)**

- **Salary and Wages: \$3.4 billion**

- Average salary for a full-time state employee has increased from \$53,495 in FY 2007-08 to \$61,680 in FY 2017-18, which equates to growth of 1.4% per year.

- **Health Insurance: \$728.5 million**

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

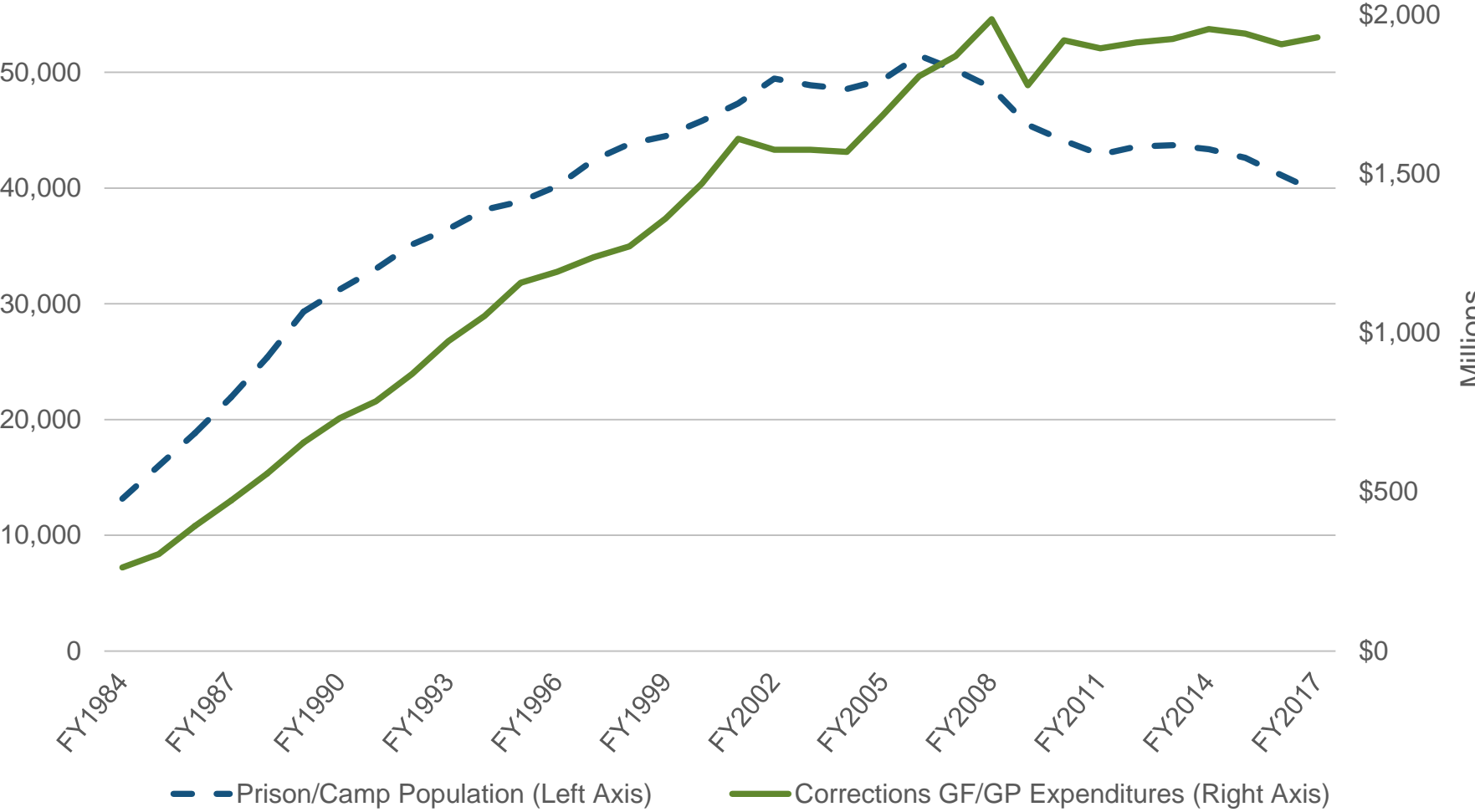
- **Retirement and Other Post Employment Benefits (OPEB): \$1.9 billion**

- 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.



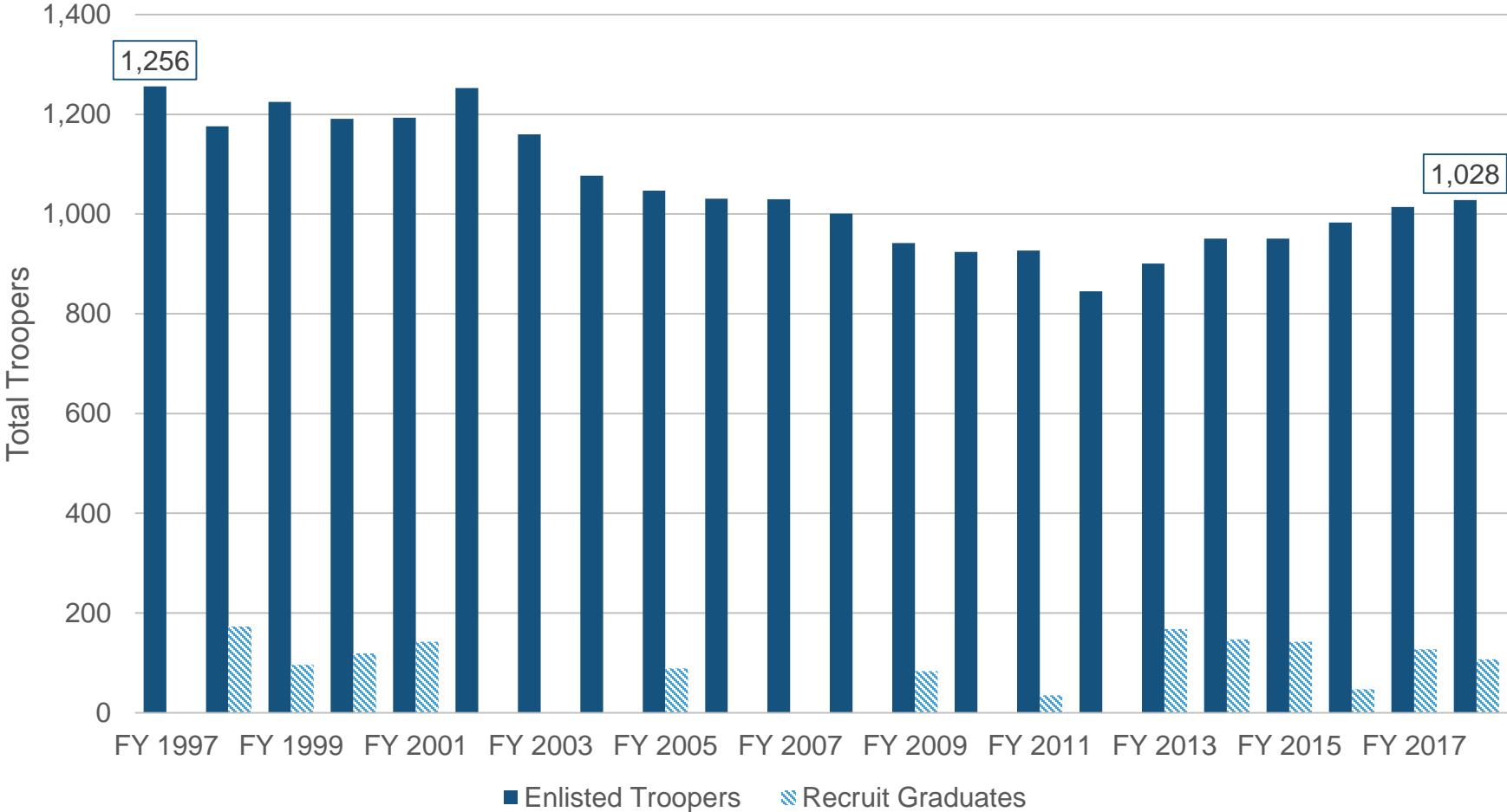
# Corrections Population and Expenditures

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.



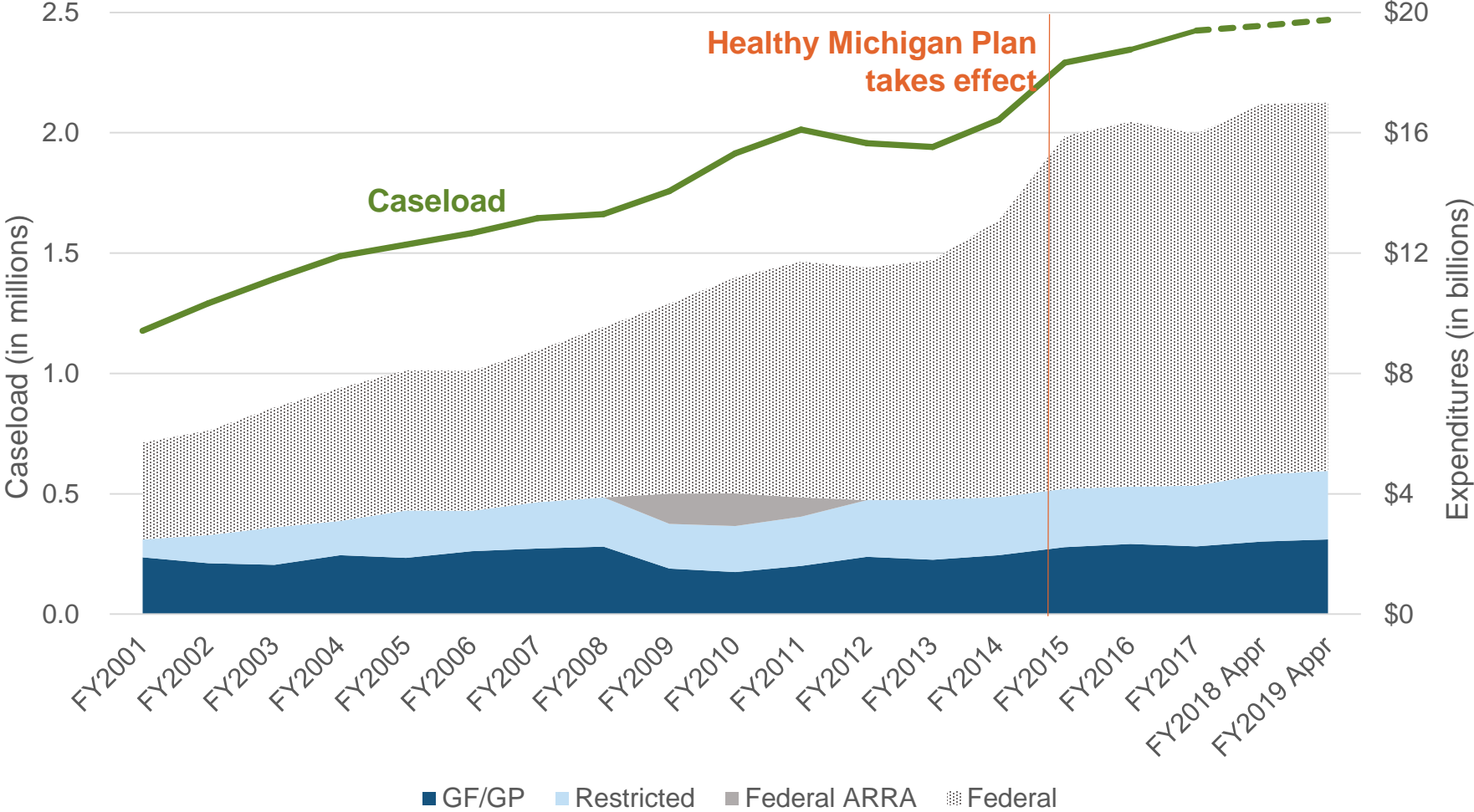
# State Police At-Post Trooper Strength

Despite several years of increases, the FY 2017-18 trooper levels are still below their previous FY 1996-97 peak. An additional 107 new graduates are joining the ranks as of July 2018, and the FY 2018-19 budget provides for trooper schools totaling 155 recruits.



# Medicaid Expenditures by Fund Source

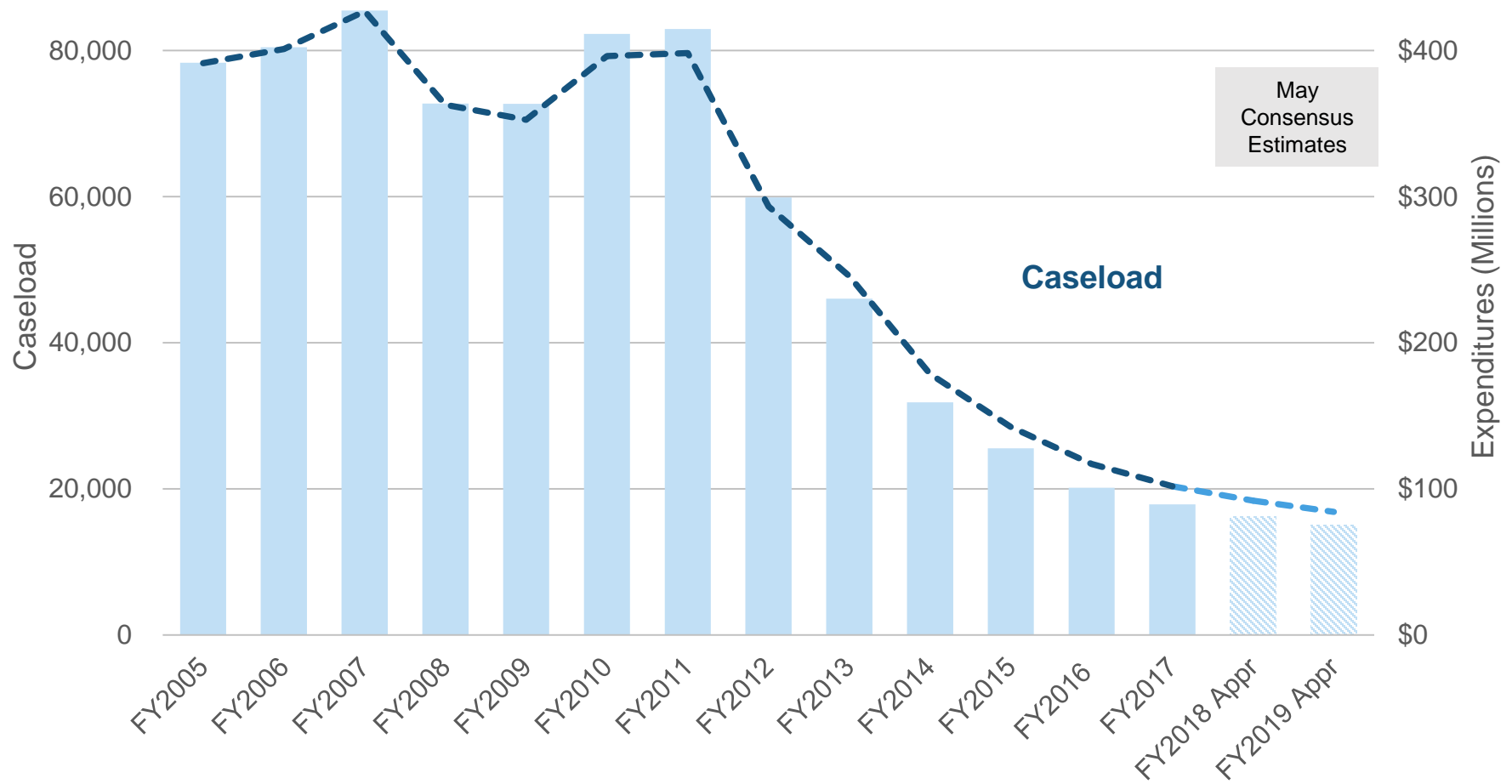
Since, FY 2000-01, the state's total Medicaid caseload has doubled and expenditures have tripled due to economic trends and the expansion under the Healthy Michigan Plan. GF/GP spending for Medicaid, however, has grown just 30% over the same period.



ARRA: Federal American Recovery and Reinvestment Act of 2009

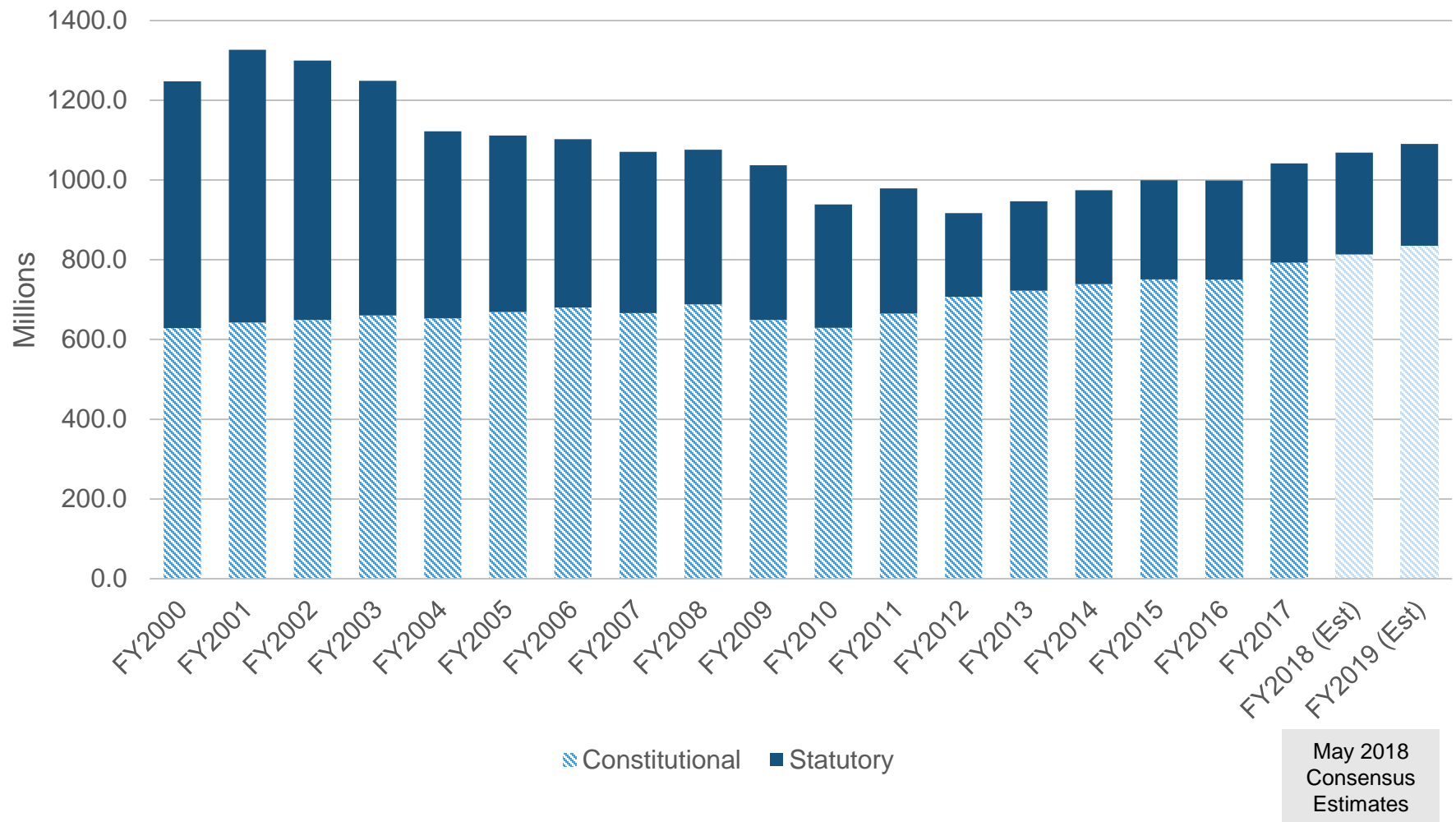
# Family Independence Program (FIP) Caseload and Expenditures

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)

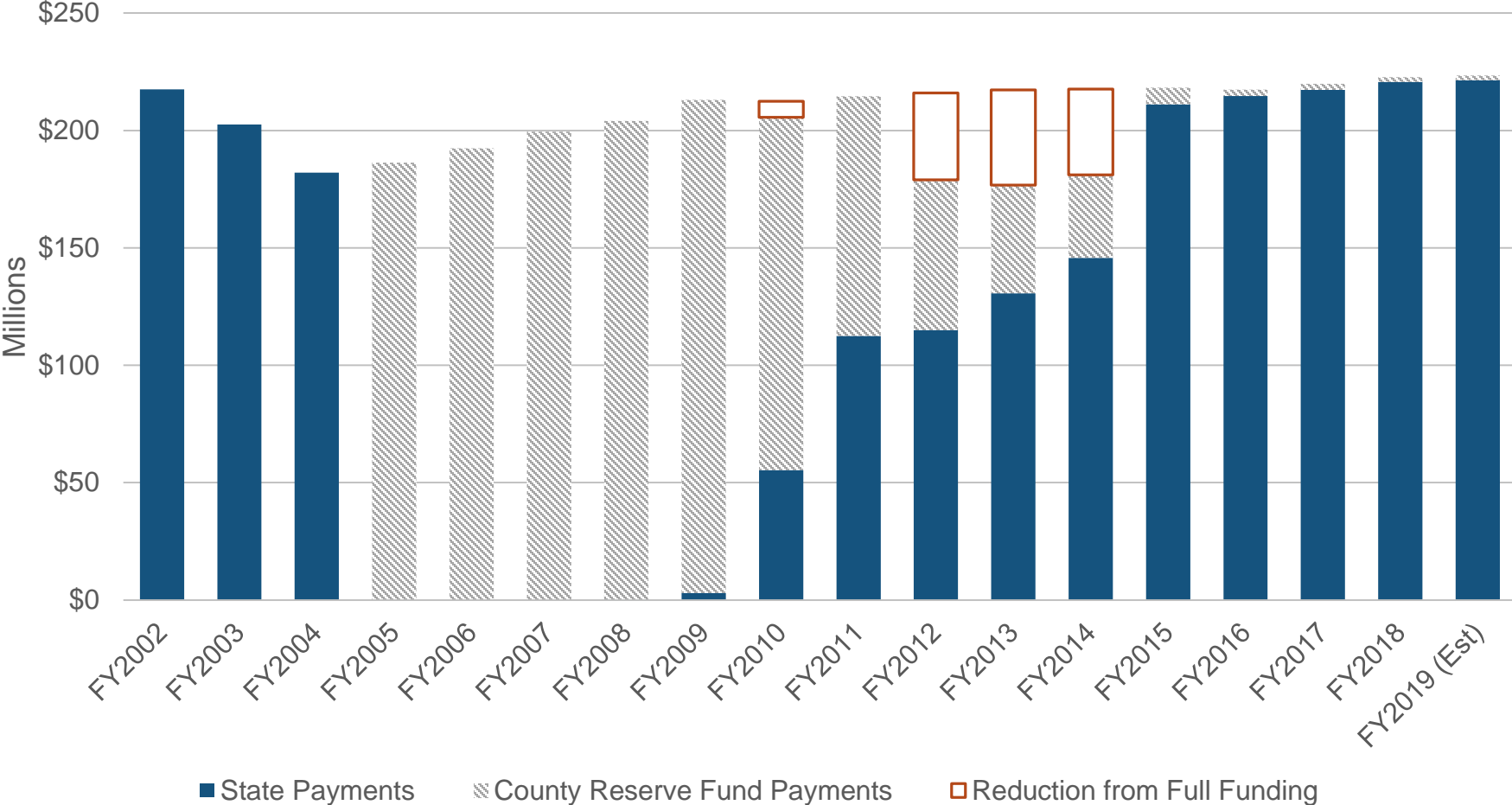
Per-capita constitutional payments to CVTs have grown consistent with sales tax revenue growth. Discretionary (statutory) payments remain \$429 million below the FY 2000-01 peak; reductions have helped balance the GF/GP budget.



May 2018  
Consensus  
Estimates

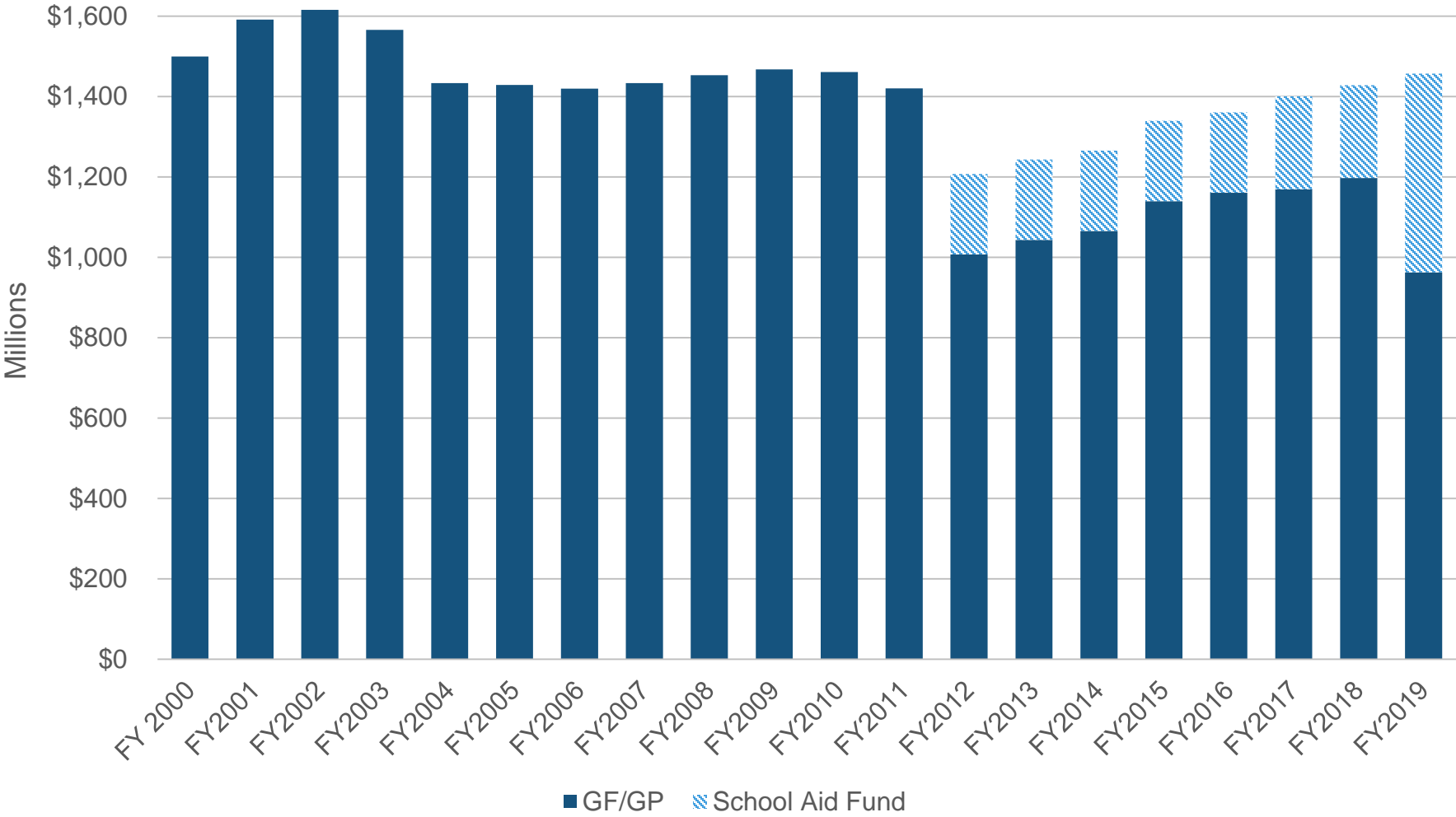
# County Revenue Sharing

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 beginning in FY 2016-17. Total funding is at approximately the FY 2001-02 level.



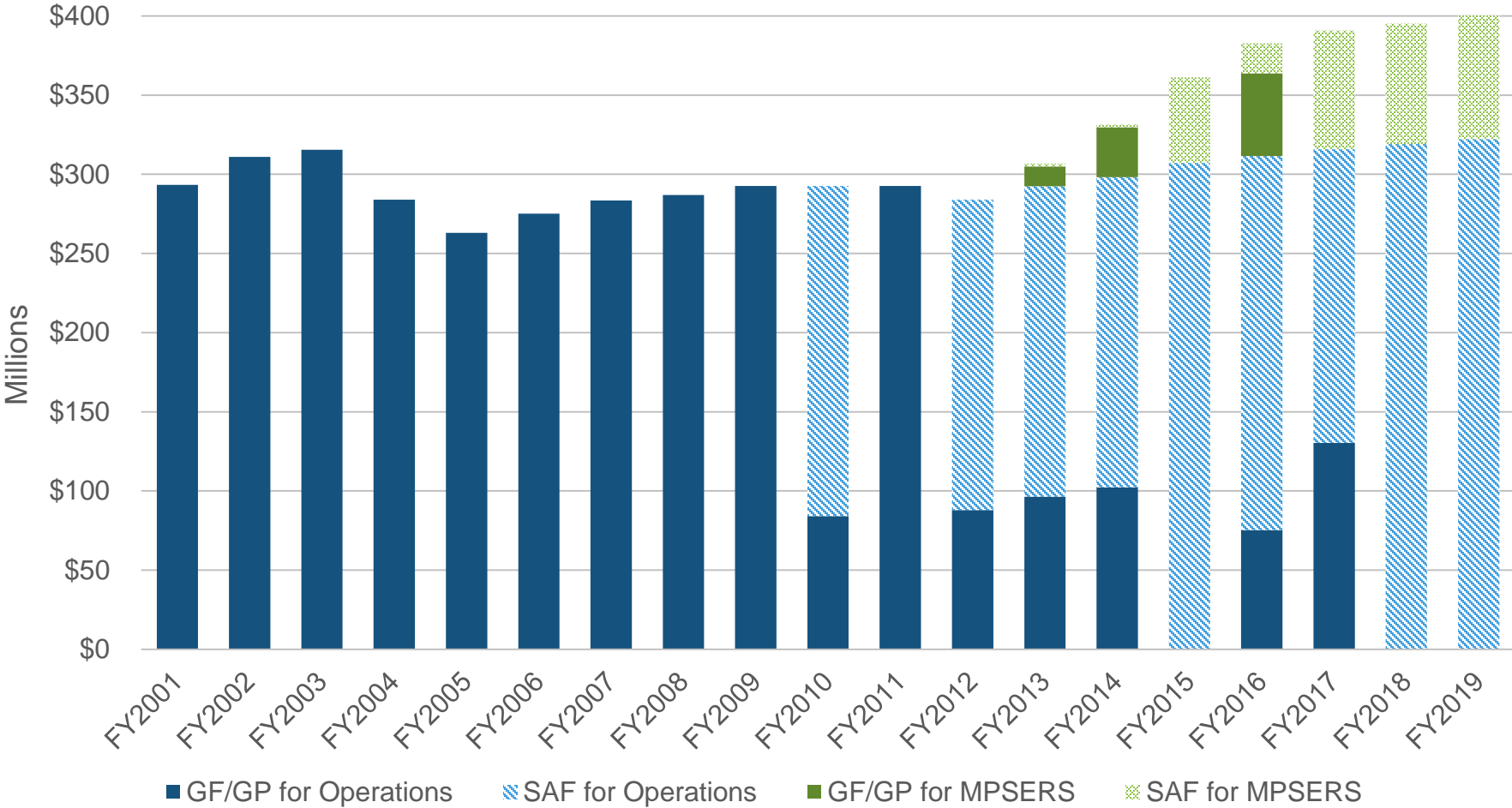
# Public University Appropriations

State support for public universities has increased by \$250 million (21%) since FY 2011-12, but remains \$159 million (10%) below the FY 2001-02 peak.



# Community College Appropriations

FY 2018-19 state appropriations for community college operations are approximately flat from the FY 2002-03 peak. Increased funds have been allocated in recent years to offset growing retirement costs.





# School Aid State Funding History

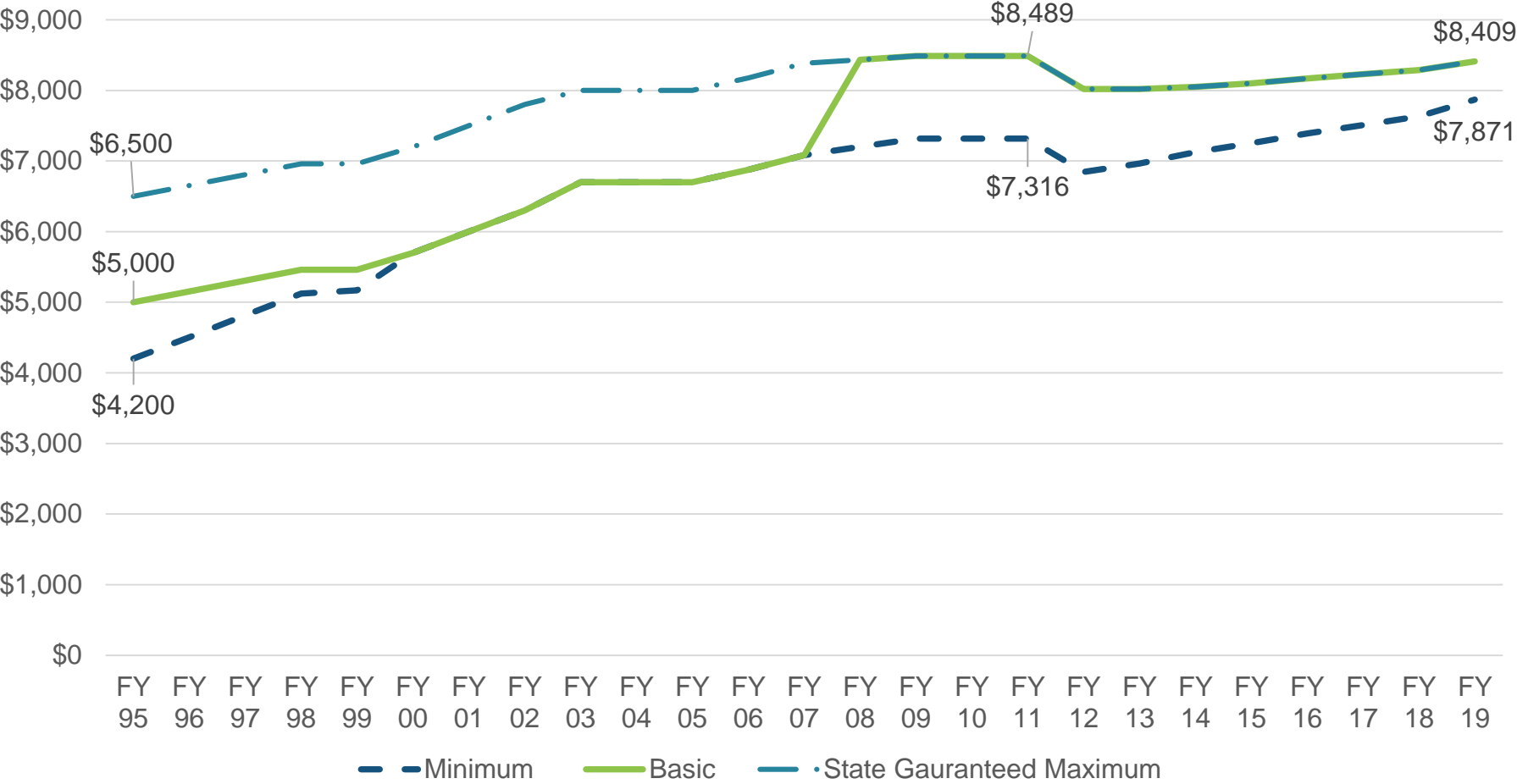
Funding from state funds for the FY 2017-18 budget is 12.4% higher than its previous peak in FY 2006-07 due to funding for increasing retirement liability costs. Total state funding for foundation allowances and other operational costs will exceed the previous 2007 peak for the first time in FY 2018-19.



# Foundation Allowance History

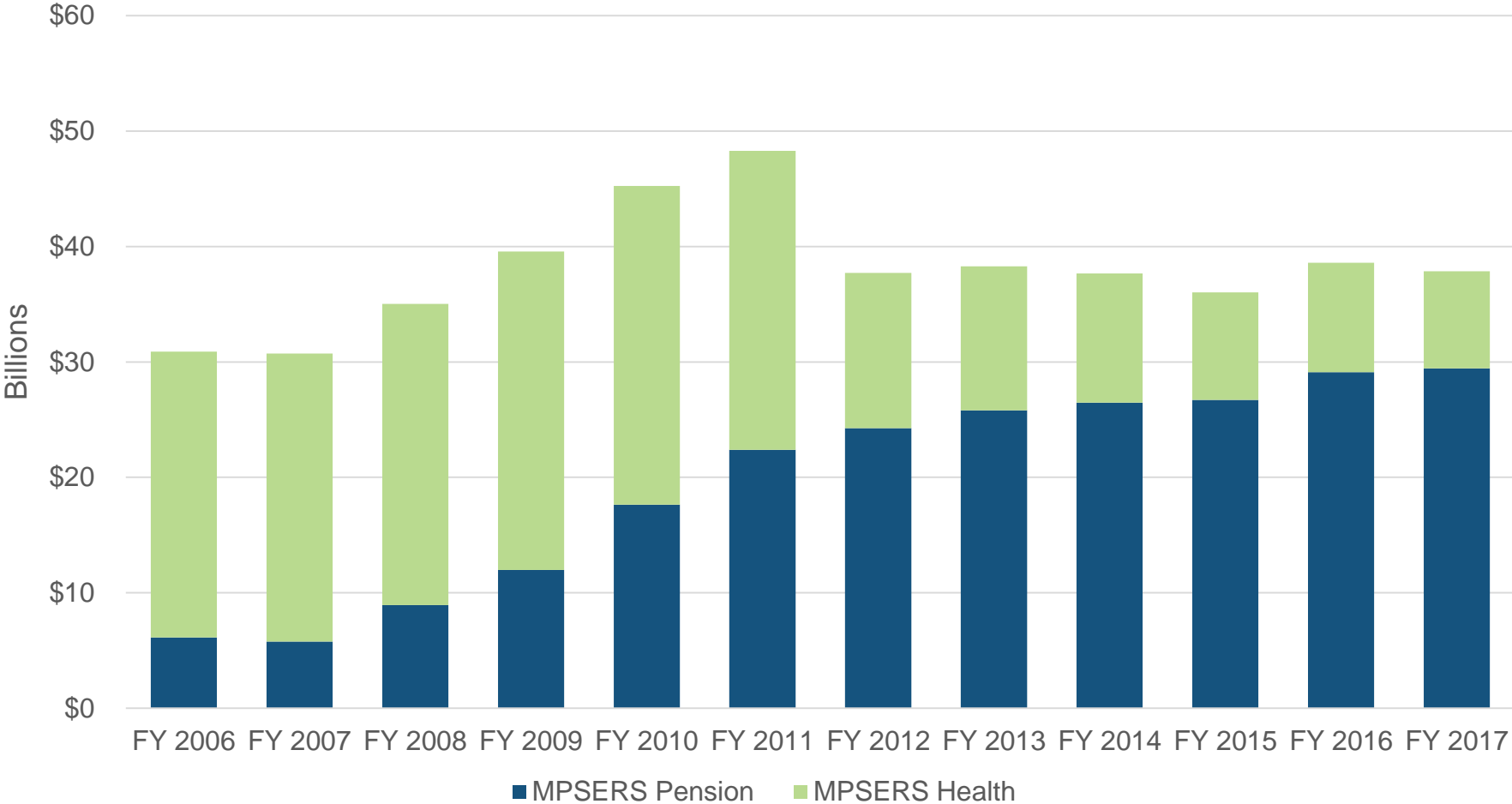
## Growth Since Proposal A

The FY 2018-19 foundation allowance for schools at the Minimum level is \$555 above the previous FY 2010-11 peak. For schools at the State Maximum level, it remains \$80 below the FY 2010-11 peak. The “equity gap” between the two (excluding local hold harmless funds) is down to \$538 per pupil.



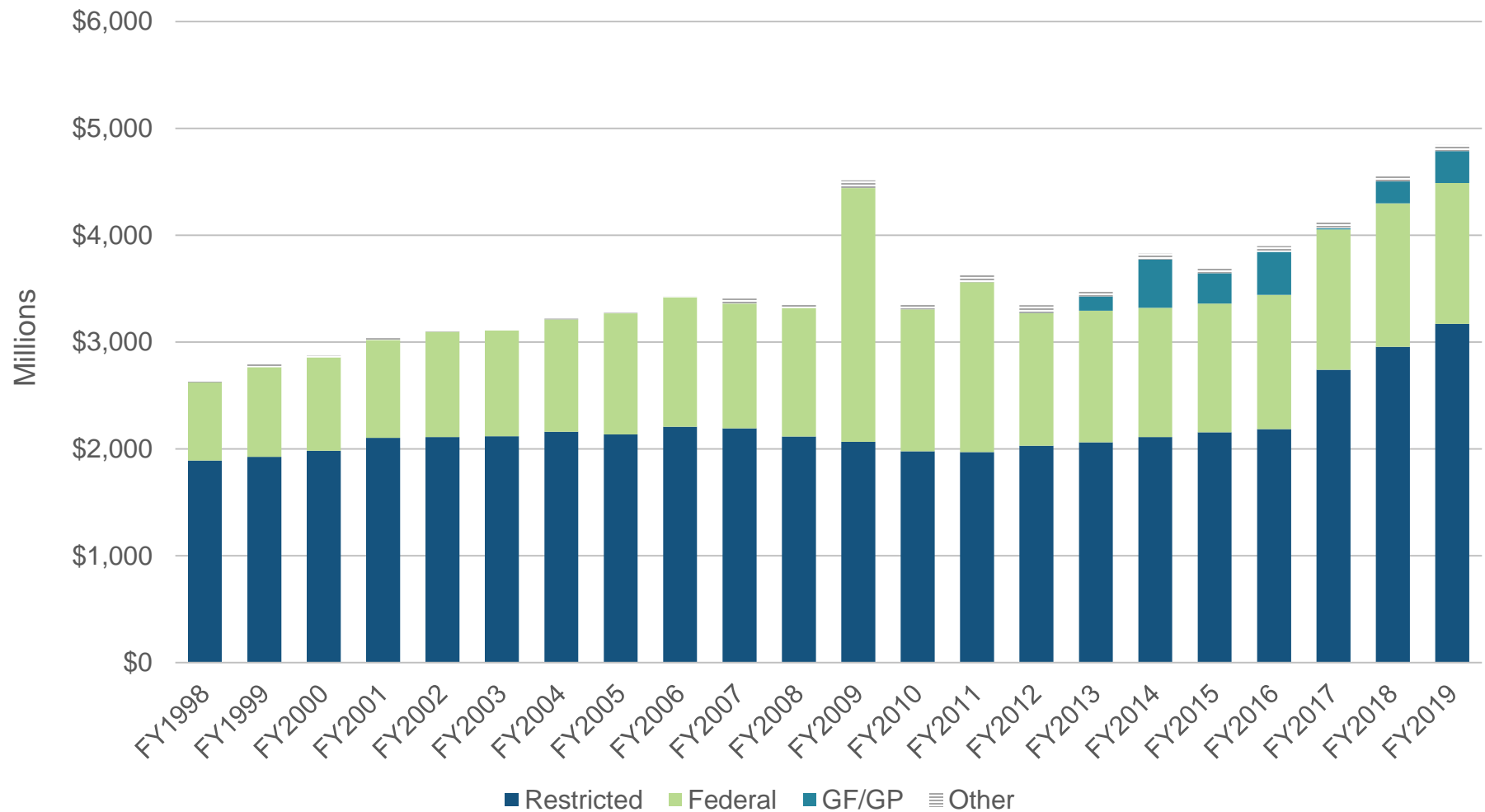
# Retirement Liabilities

Total unfunded liabilities for MPSERS had declined by \$12 billion since FY 2010-11, due primarily to the decision to begin prefunding retiree health benefits and its related accounting assumptions, but increased in FY 2015-16 due to the reduction in the assumed long-term investment rate of return from 8.0% to 7.5%.



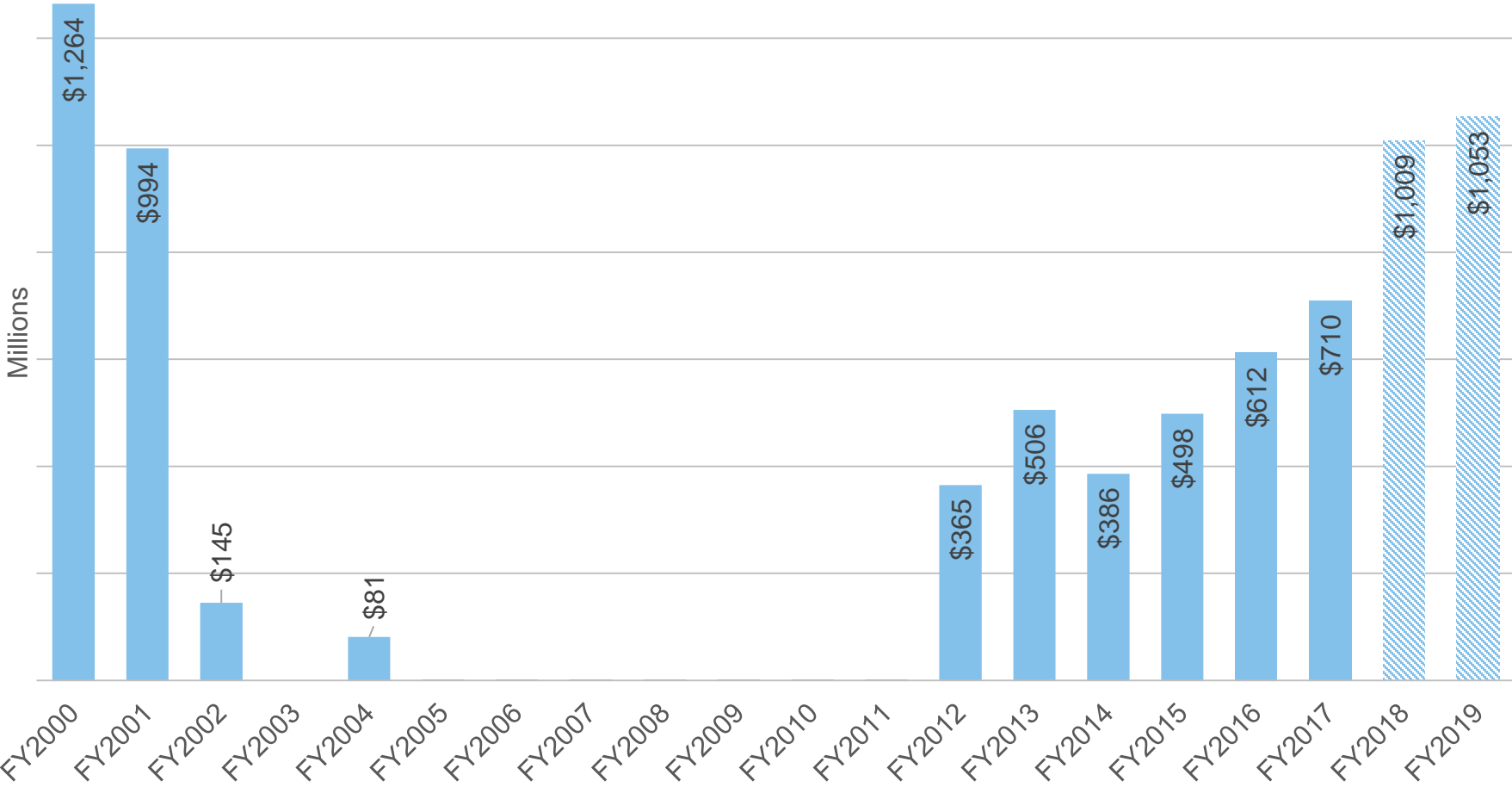
# Transportation Appropriations

Dedicated state funding for transportation purposes was relatively flat until the 2015 Road Funding package began phasing in increased state restricted revenue in FY 2016-17. Additional, but temporary GF/GP support has been added in recent years.



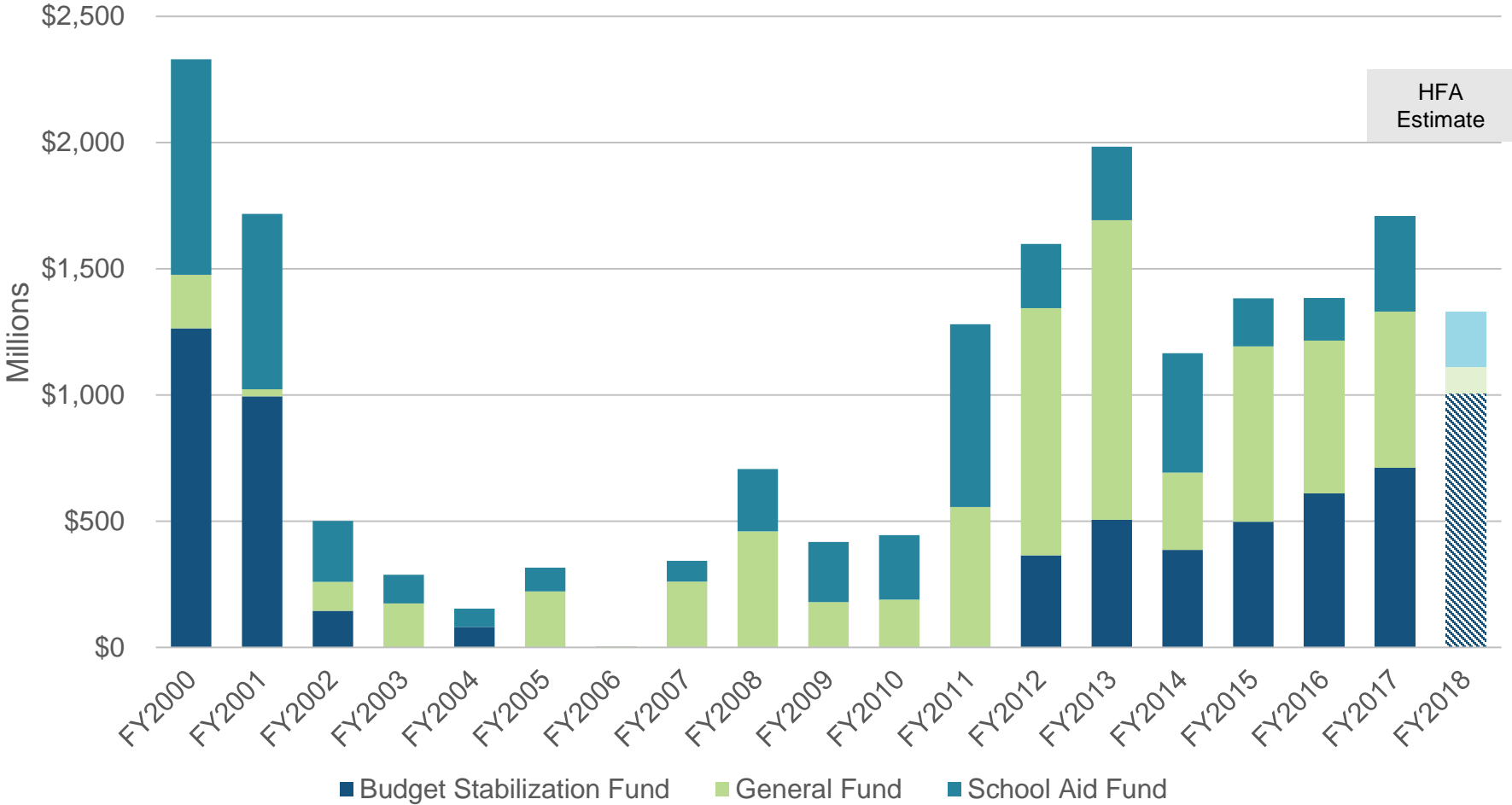
# Budget Stabilization Fund Balance

The estimated balance at the end of FY 2017-18 will be approximately \$1.0 billion—about 4.4% of combined GF and SAF appropriations. There is no additional appropriation for FY 2018-19, but the balance is expected to grow due to interest and annual repayments.



# Combined Ending Balances

Large GF and SAF year-end balances accumulated from FY 2010-11 through FY 2017-18 as revenue growth outpaced projections, allowing for substantial one-time expenditures. Deposits into the BSF starting in FY 2011-12 have brought the balance to \$1.0 billion in FY 2017-18.



# Major FY 2018-19 Budget Changes

# Flint Water Emergency Funding

Total Appropriations for FY 2015-16 through FY 2018-19  
\$ in Millions

Category	Gross	GF/GP
Physical, Social, & Educational Well Being	\$76.1	\$52.9
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	40.3	22.4
Reserves (available for transfer in FY 2018-19)	68.0	53.9
<b>TOTAL</b>	<b>\$436.3</b>	<b>\$248.6</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 deposits into the state Disaster and Emergency Contingency Fund which could be expended in Flint.
- 3) Current reserve balance as of August 2018 equals \$6.1 million.



# Major FY 2018-19 GF/GP Program Increases

- **\$84.1 million** for indigent defense reimbursement grants.
- **\$25.0 million** for environmental cleanup.
- **\$20.3 million** for annualization costs associated with the 2018 State Police trooper school.
- **\$16.0 million** for payments to unlicensed relative foster care providers.
- **\$14.7 million** GF/GP (\$41.4 million Gross) for the expansion of the all-inclusive care for the elderly program.
- **\$13.2 million** for transition of prison food service from private to state run.
- **\$11.9 million** (\$7.8 million one-time) for a 2019 State Police trooper school.

# Major One-Time Allocations of GF/GP Funding for FY 2018-19

- **\$300.0 million** for roads allocated through PA 51 formula to the State, county road commissions, and cities and villages.
- **\$5.5 million** for non-Medicaid mental health services hold-harmless payment.
- **\$5.0 million** for a medical resident loan repayment program.

# FY 2018-19 Revenue Sharing Changes

- An estimated increase of **\$21.5 million** from the adjusted FY 2017-18 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.
- Continued **\$6.2 million** (one-time) supplemental payments to CVTs to receive a payment under Section 952.
- **\$116,000** (one-time) supplemental payments to CVTs that received payments under Section 950(2) of 2009 PA 128 between \$1,000 and \$4,500.
- **\$5.3 million** increase for payments to counties to provide full funding to three additional counties that will have exhausted their reserve funds in FY 2018-19, a 2.0% increase above full funding, and an additional \$1.0 million designated as supplemental revenue sharing.

# Major FY 2018-19 School Aid Budget Changes

- Overall School Aid budget increased by **\$181.2 million or 1.2%**.
- **Foundation Allowances** – Includes **\$312.0 million** for Foundation Allowance increases ranging from \$120-\$240 per pupil using the 2x formula.
- **Foundation Allowance Costs** – Includes **\$100.3 million** in state savings from declining pupils and increased local school operating revenues.
- **MPSERS Liabilities**– Provides **\$111.1 million** increase (bringing total to **\$1.0 billion**) for the increased costs associated with the reduction in the long-term investment rate of return assumptions from 8.0% to 7.5%. This is the 2<sup>nd</sup> of a 2-year phase-in.
- **MPSERS New Plan Costs** – Provides **\$14.5 million** increase (bringing total to **\$37.6 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.
- **MPSERS One-Time Payment** - Section 147c (2) – Eliminates **\$200.0 million** from a one-time added payment in FY 2017-18.
- **Special Education** - Includes **\$32.0 million** in special education reimbursement cost increases, approximately 3.3%

# Budget Outlook

# May Consensus Revenue Estimates

Millions of \$

	FY 2017-18 Estimate	FY 2018-19 Estimate	FY 2019-20 Estimate	FY 2020-21 Trend	FY 2021-22 Trend
<b>GF/GP Revenue</b>	<b>\$10,464</b>	<b>\$10,412</b>	<b>\$10,519</b>	<b>\$10,591</b>	<b>\$10,961</b>
\$ Change	\$268.1	(\$52)	\$107	\$72	\$370
% Change	2.6%	(0.5%)	1.0%	0.7%	3.5%
<b>SAF Revenue</b>	<b>\$13,244</b>	<b>\$13,574</b>	<b>\$13,901</b>	<b>\$14,290</b>	<b>\$14,691</b>
\$ Change	\$559	\$330	\$326	\$389	\$401
% Change	4.4%	2.5%	2.4%	2.8%	2.8%

## GF/GP Revenue

- Minimal growth in FY 2018-19 through FY 2020-01 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.
- Stronger growth projected for FY 2021-22 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 did the following:
  - Increased 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).
  - Increased vehicle registration taxes by 20% beginning January 1, 2017 (raises roughly \$200 million per year).
  - Increased Homestead Property Tax Credit by altering various parameters: creates estimated GF/GP loss of about **\$200 million** per year beginning in FY 2018-19.
  - Diverts 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

- Michigan's federal match rate has begun to decline due to relative growth in personal income. Projected FY 2018-19 GF/GP funding increase of **\$37 million**.
- Specialty drug costs: About \$300 million Gross (**\$110 million** GF/GP) has been added to the budget for new Hepatitis C and Cystic Fibrosis treatments. Other specialty drugs expected to be approved by FDA in near future.

## Healthy Michigan Plan

- State match rate obligation of 5% began January 1, 2017 costing about **\$110 million** and will increase to 10% by FY 2020-21 requiring additional GF/GP funds of roughly **\$200 million** per year. Savings from the state's assessment on hospitals is offsetting a portion of these costs.
- 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.



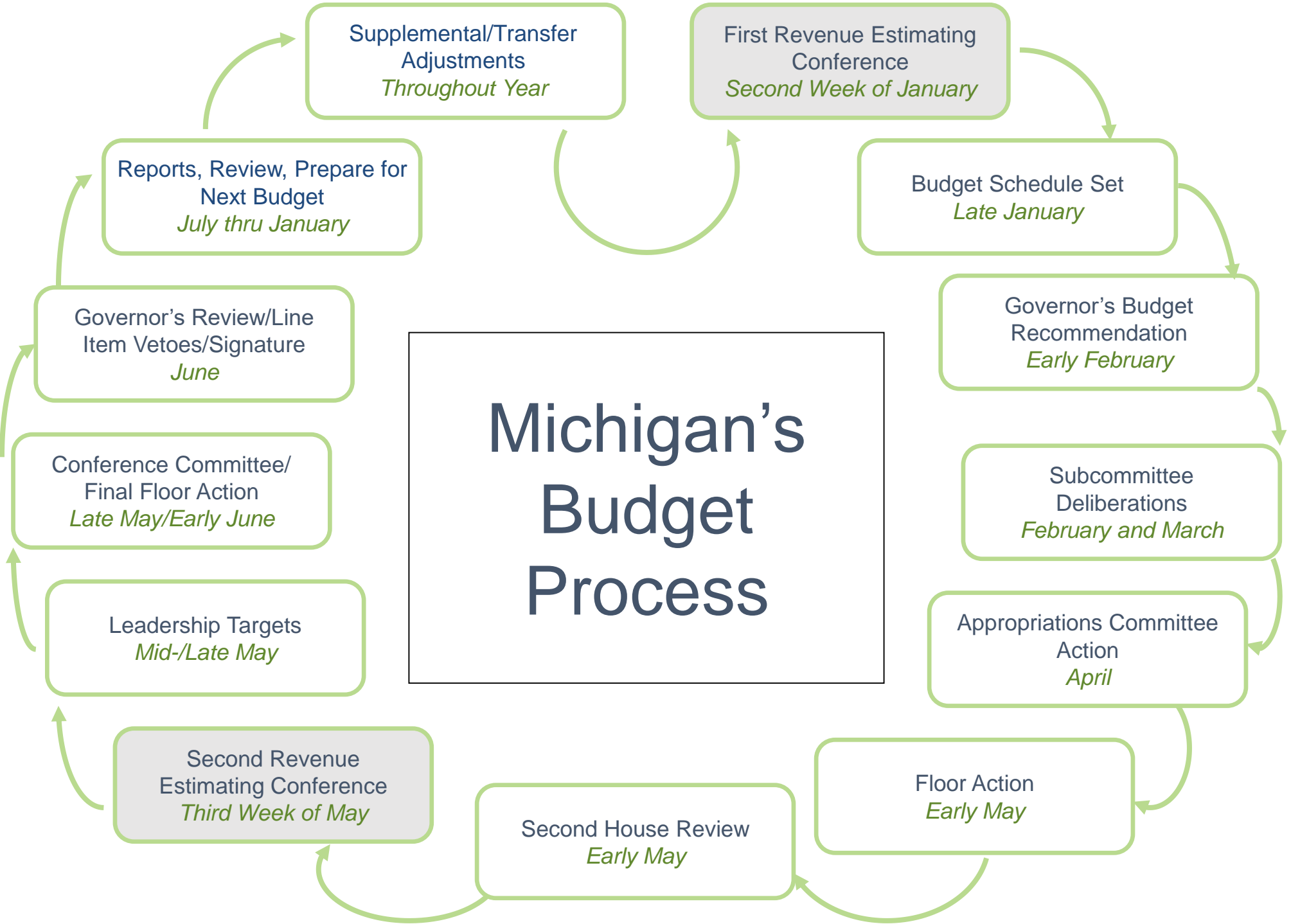
# Major School Aid Budget Issues

## School Aid

- FY 2017-18 budget relies on **\$218 million** in one-time SAF balance and **\$15 million** in GF/GP funds designated as one-time.
- MPSERS use of dedicated gains policy to reduce long-term interest rate assumptions from 7.5% to 7.05% will increase costs in FY 2019-20.
- MPSERS next experience study is expected to update mortality tables which is likely to have significant cost impact by FY 2020-21.

# 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