

State Budget Update

**Kyle I. Jen, Deputy Director
House Fiscal Agency**

**Representative Genetski
Allegan County Local Officials Conference
June 21, 2013**



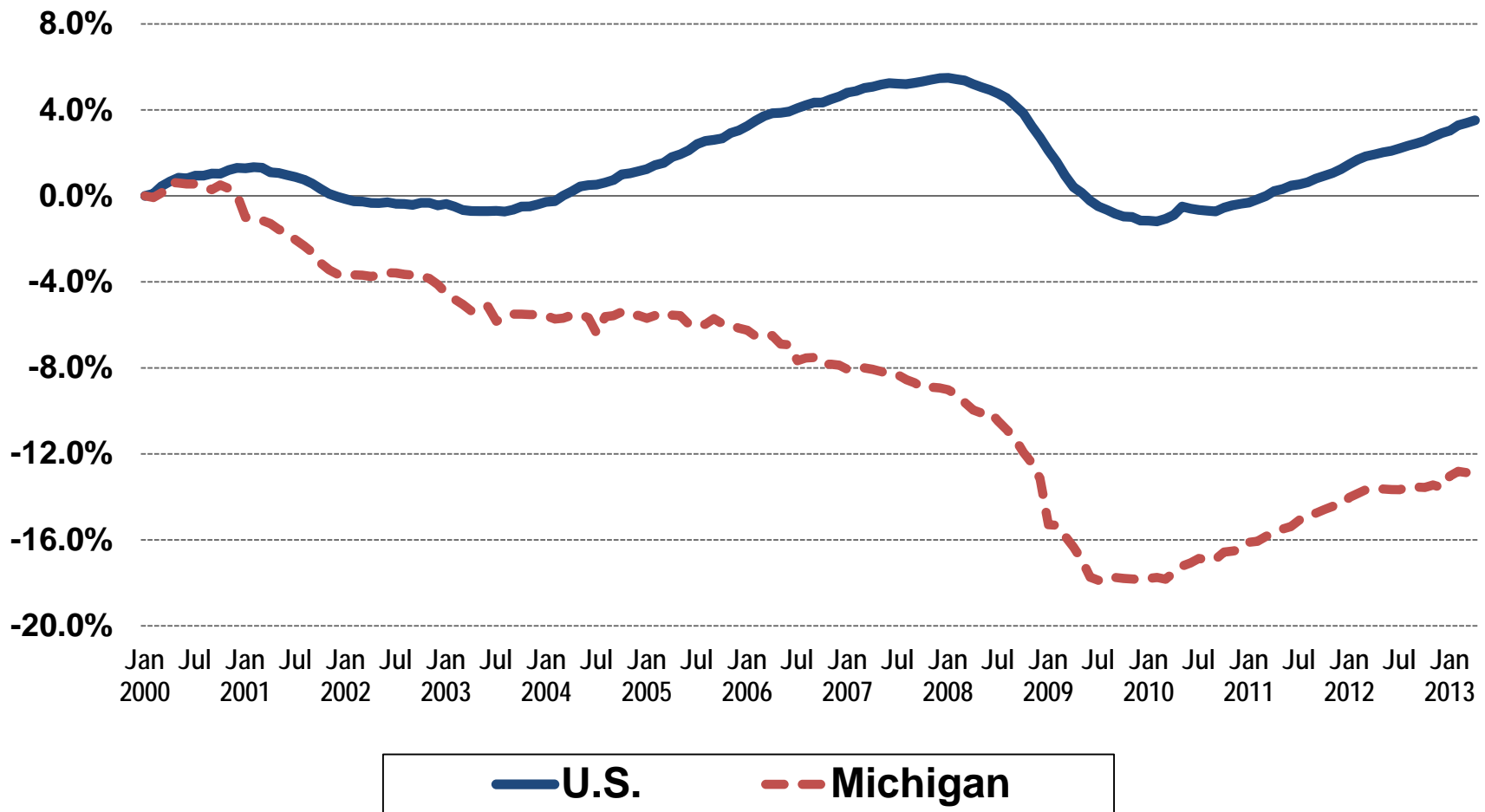
Presentation Topics

- Economic Trends
- Long-Term Budget Trends
- FY 2014 State Budget
- Outstanding Budget Issues

Economic Trends

Percent Change in Total Non-Farm Employment

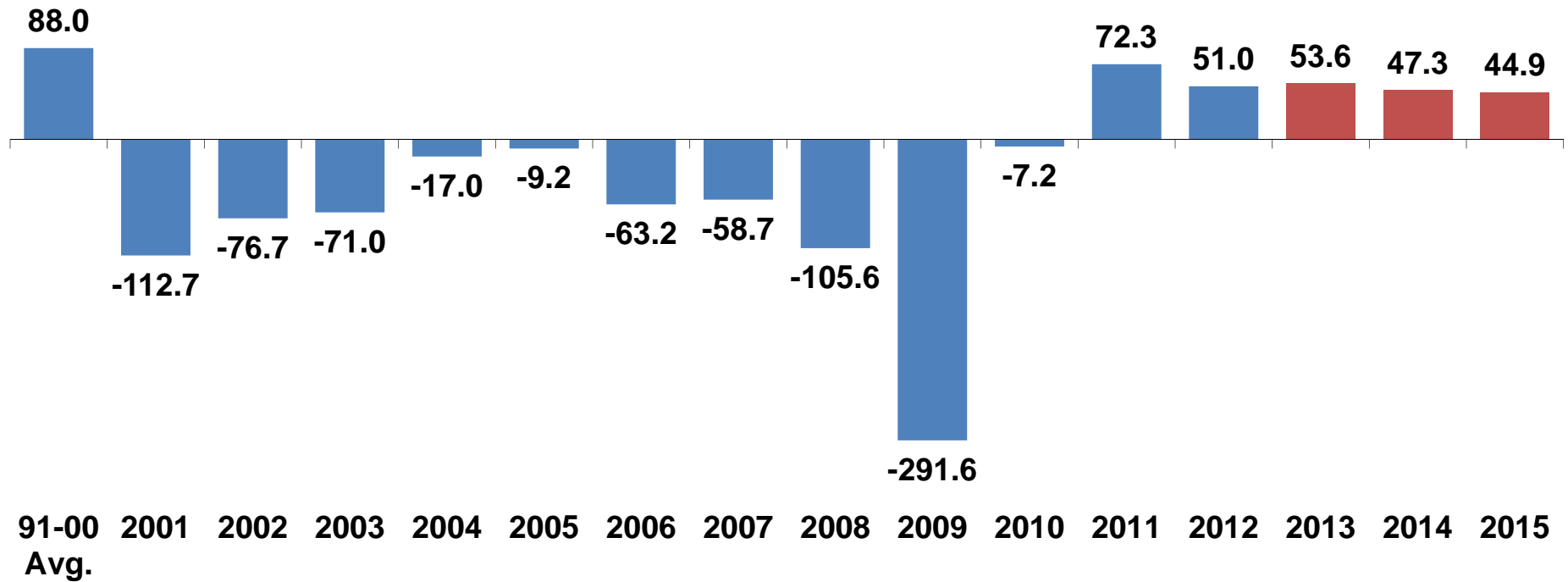
January 2000 through April 2013



Source: U.S. Department of Labor, Bureau of Labor Statistics

Michigan Job Gains Expected

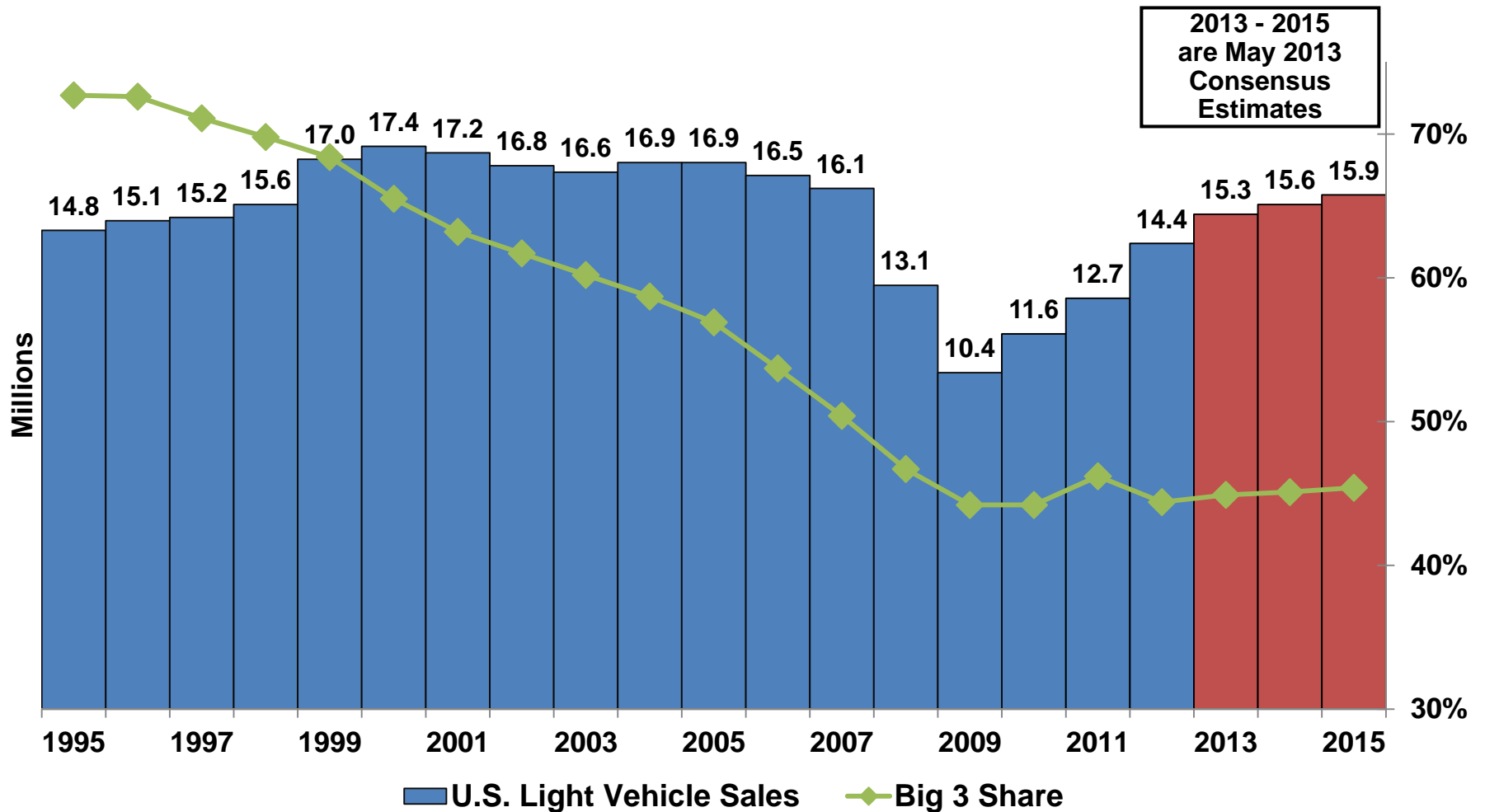
Change in Michigan Wage and Salary Employment (in Thousands)



Average Agency Forecasts

Source: Joint Presentation – Consensus Conference May 2013

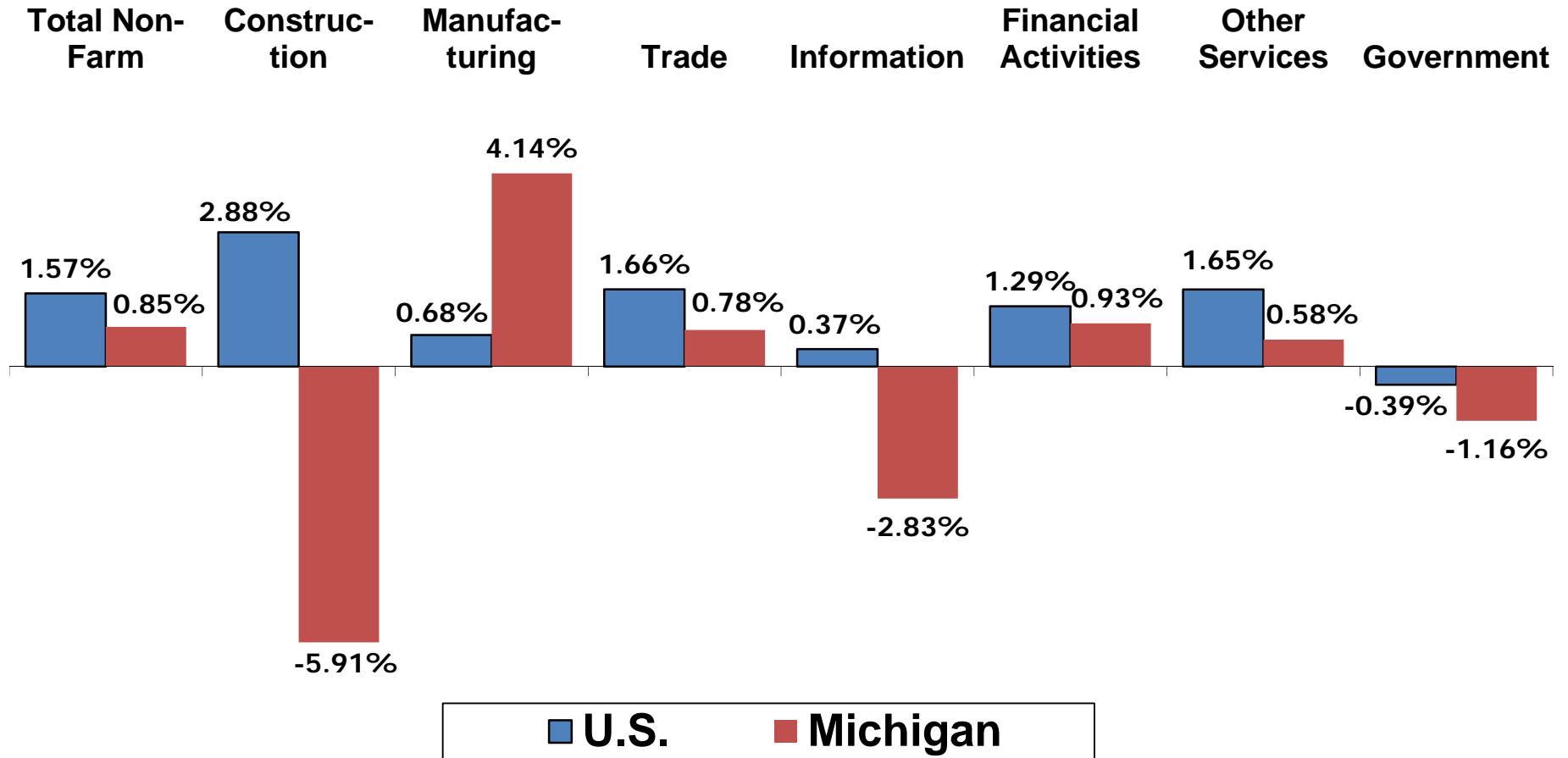
Sales Up; Big 3 Market Share Stabilizes



Source: *Automotive News* and May 2013 Consensus Estimates

Percent Change in Employment

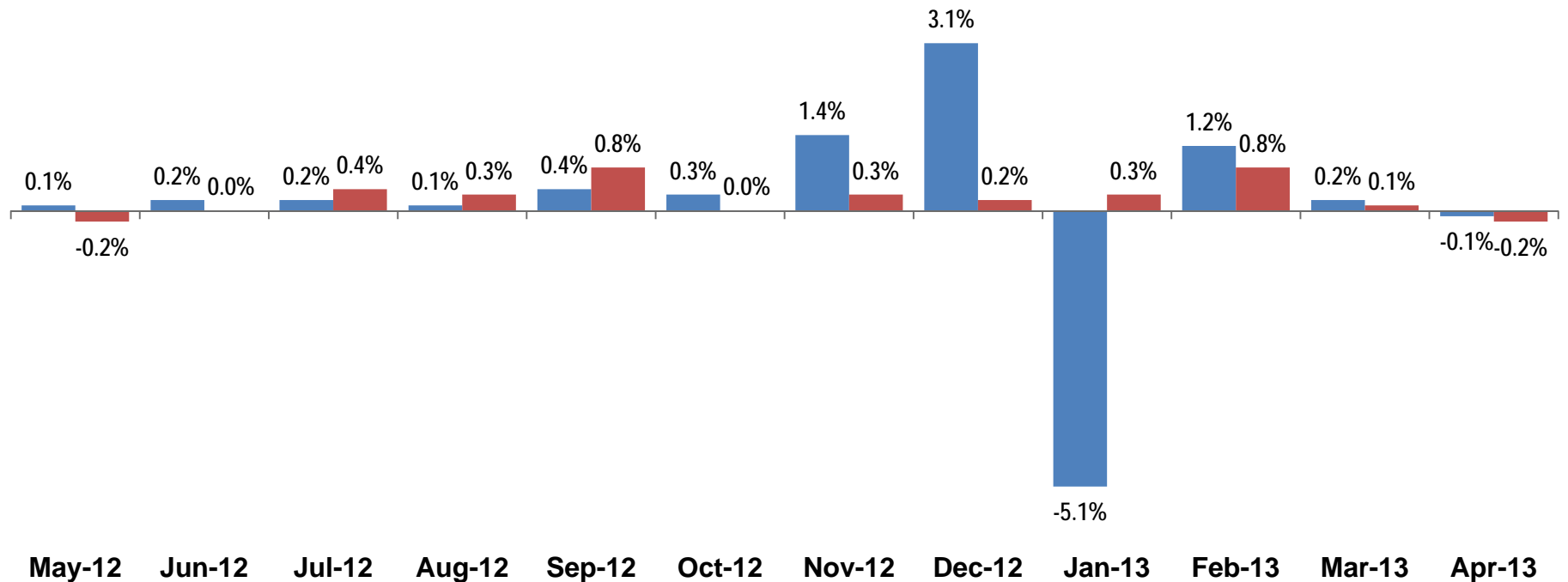
April 2012 Through April 2013



Source: U.S. Department of Labor, Bureau of Labor Statistics

Disposable Personal Income and Consumer Spending

Percent Change from Preceding Month



■ Disposable Personal Income

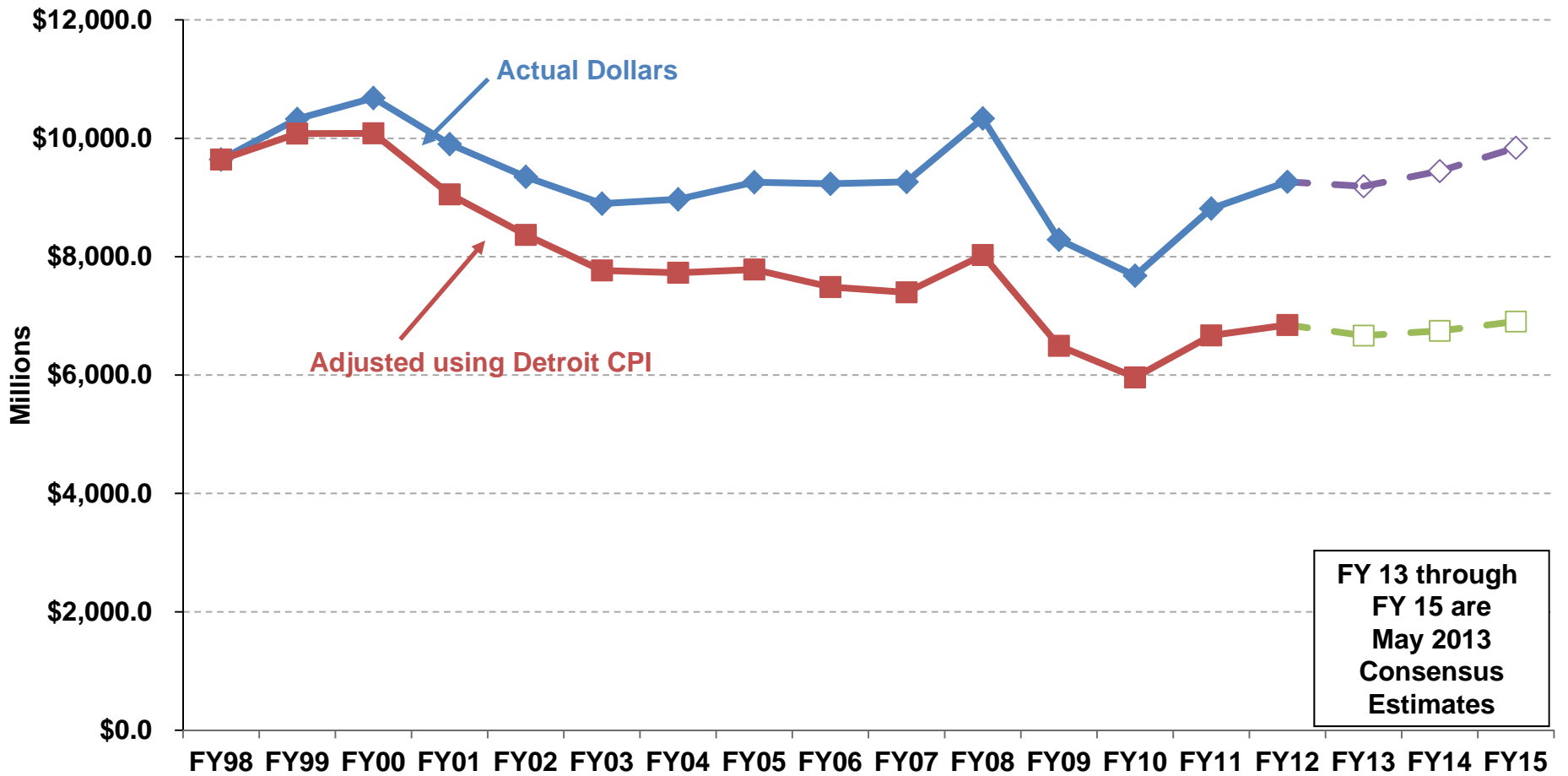
■ Consumer Spending

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Long-Term Budget Trends

GF/GP Net Revenue

Total GF/GP revenue is well below FY 2000 and 2008 peaks in nominal terms and has fallen 33.1% since FY 2000 in inflation-adjusted terms.

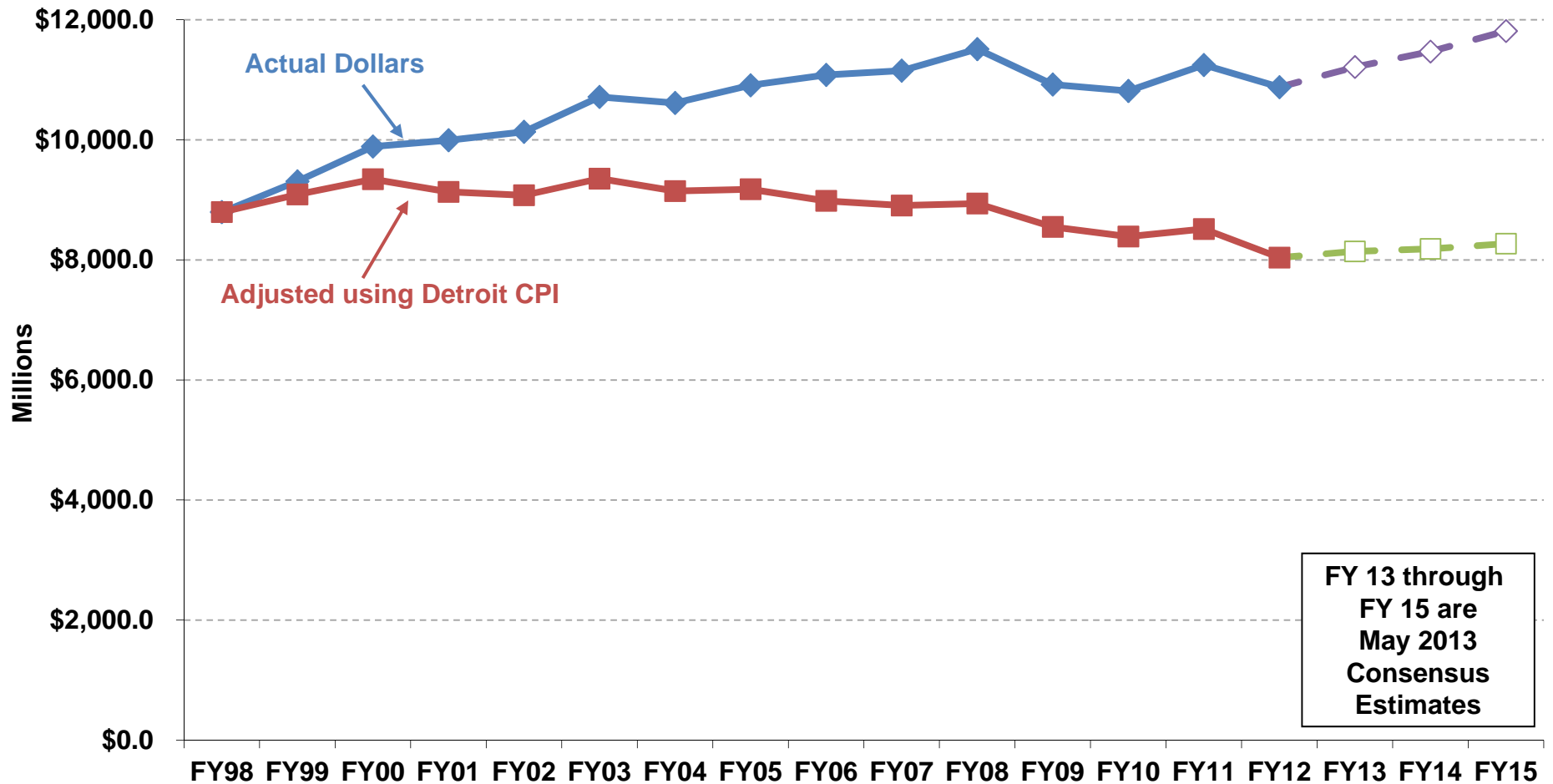


FY 13 through
FY 15 are
May 2013
Consensus
Estimates

Note: For consistency, revenue figures for years prior to FY 2010-11 have been adjusted to include sales tax revenue previously designated for statutory revenue sharing.

School Aid Fund Net Revenue

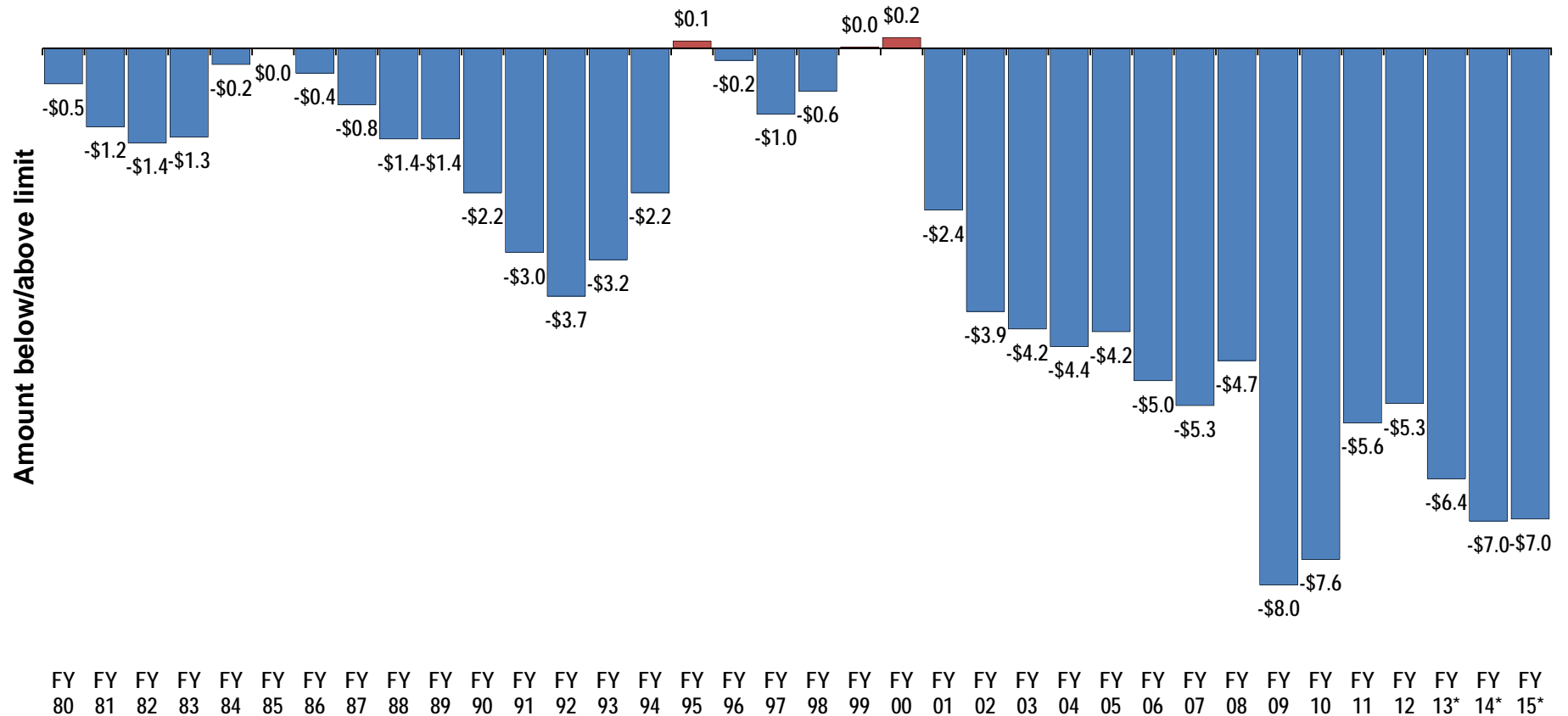
Total SAF is at roughly the FY 2008 level in nominal terms and has fallen 12.4% since FY 2000 in inflation-adjusted terms.



FY 13 through
FY 15 are
May 2013
Consensus
Estimates

Constitutional Revenue Limit (Billions of Dollars)

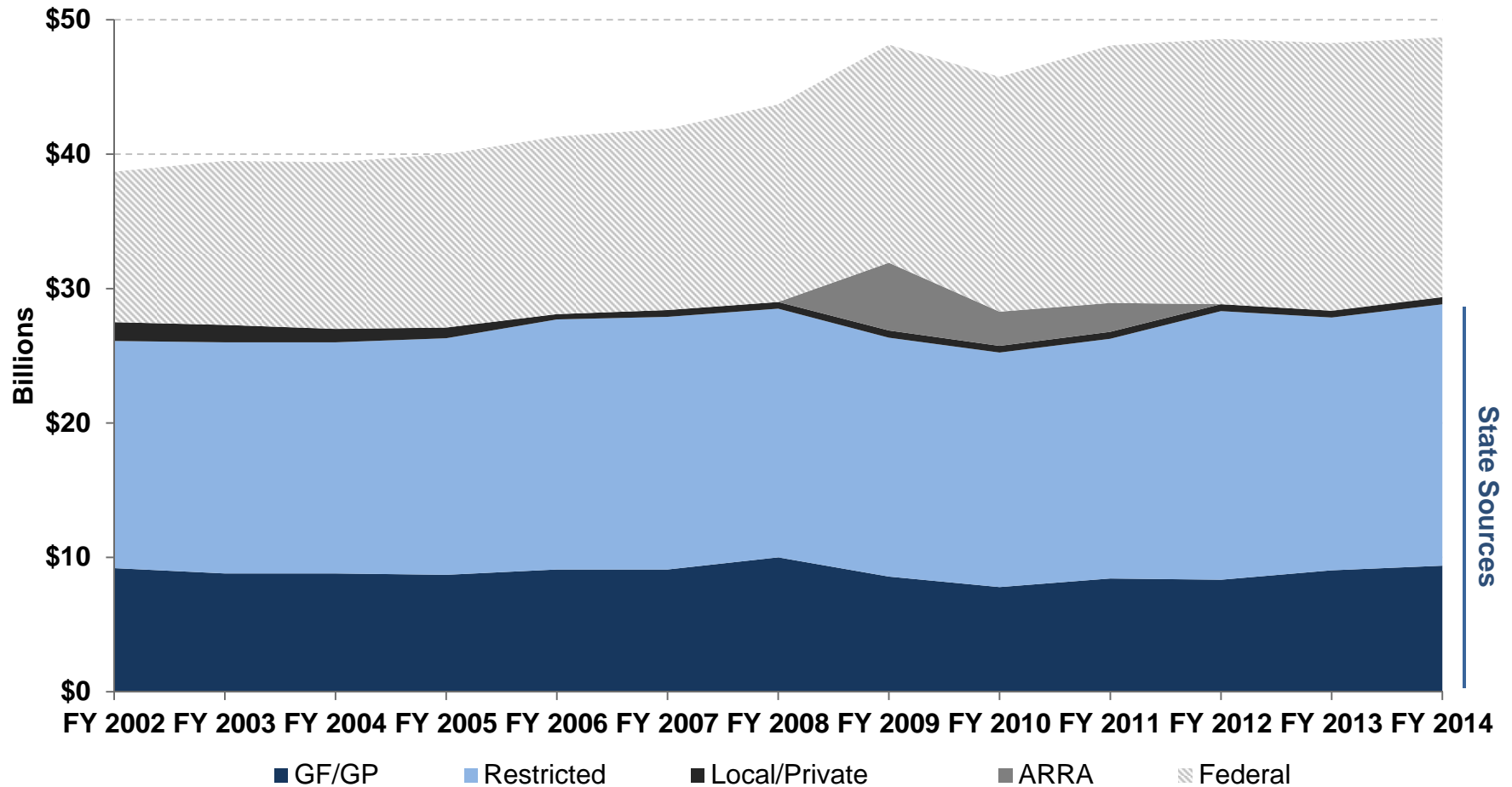
As a percentage of state personal income, total state tax and other revenue collections have fallen by about \$7 billion since FY 2000.



*May Consensus Estimates

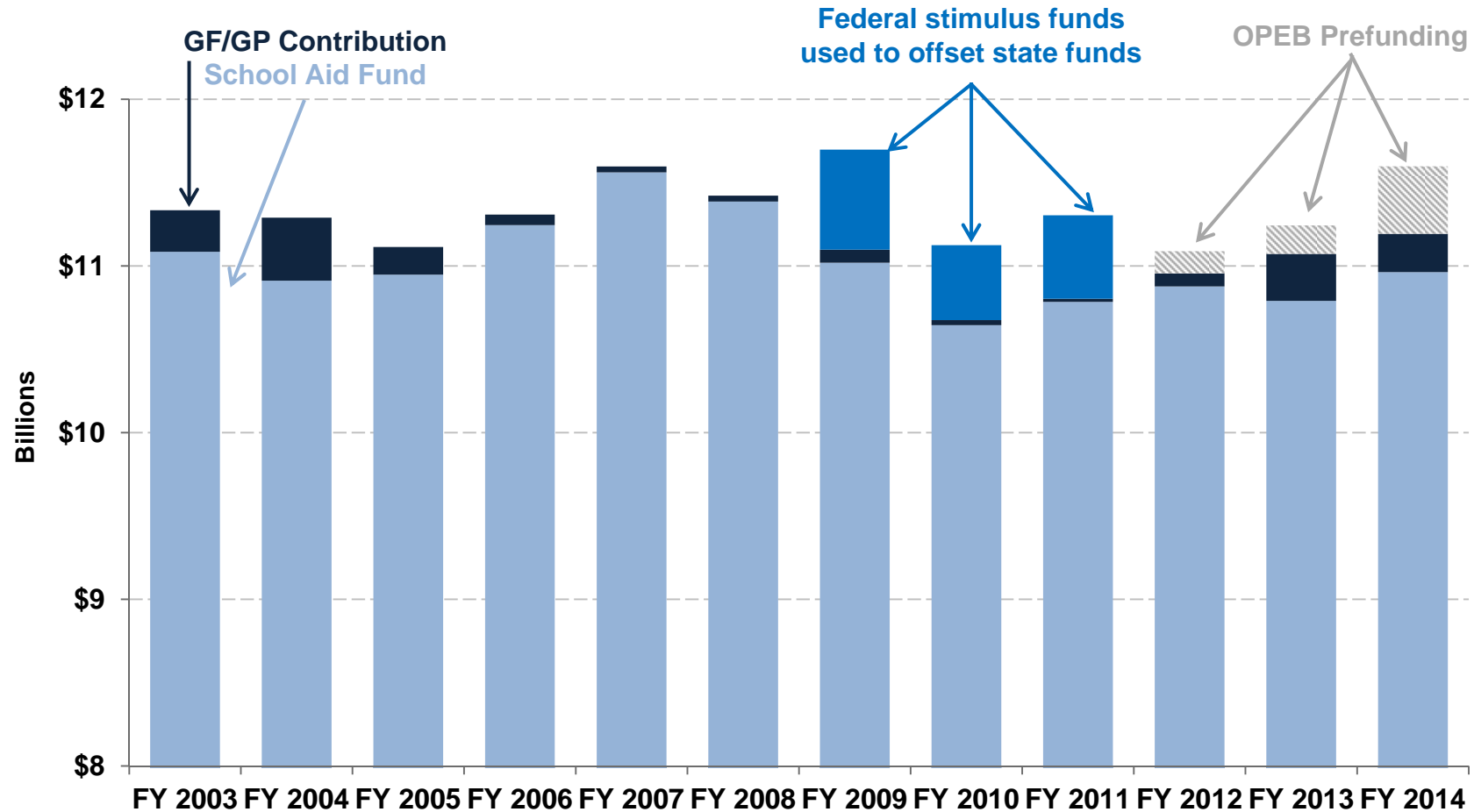
Total State Appropriations

Removing federal funds, total appropriations funded from state revenue sources (GF/GP plus restricted) have grown by only 0.8% per year since FY 2002.



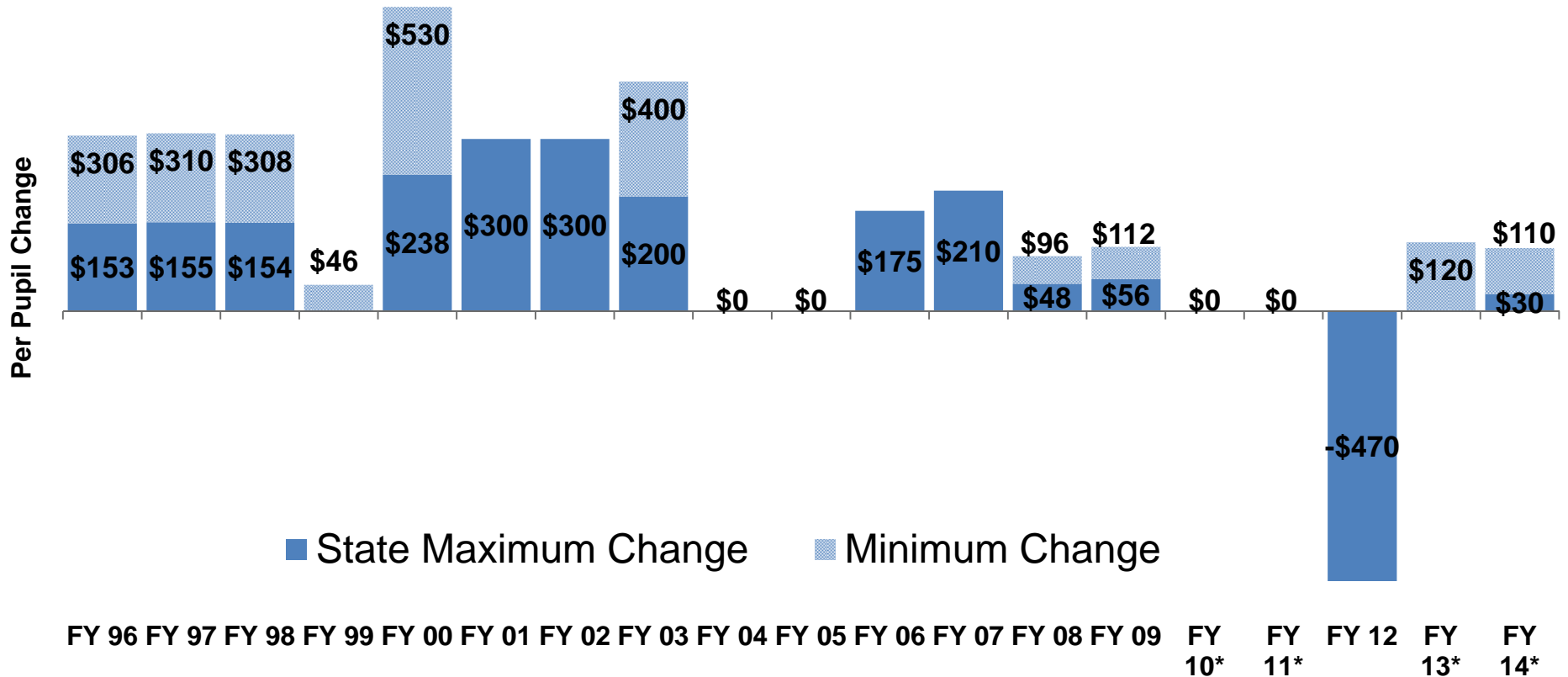
School Aid Appropriations

Excluding funding added to pay down retirement liabilities, appropriations for School Aid have been reduced by \$404 million since FY 2007 at the previous peak excluding Federal Stimulus funds.



NOTE: Beginning in FY 2009, state funds increased by about \$350 million to replace local revenue due to personal property tax reductions.

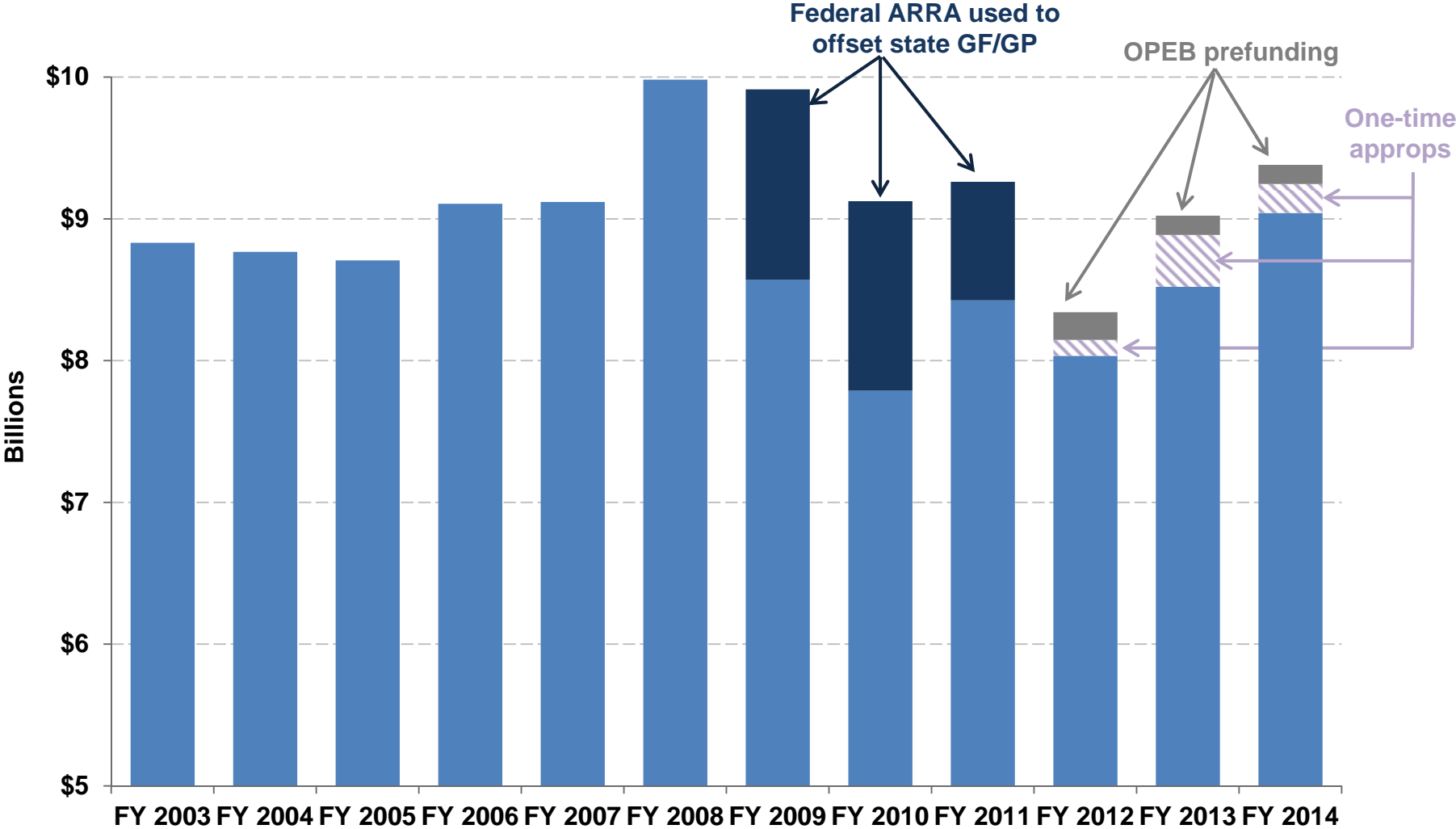
Per Pupil Foundation Allowances Increases/Decreases



- *Notes:*
1. FY 2010 school district funding was reduced \$154 per pupil and FY 2011 funding was reduced an additional \$16 per pupil.
 2. FY 2013 districts with a foundation allowance below \$6,966 received an equity payment of up to \$120 per pupil.
 3. In FY 14 foundation increases ranged from \$30-\$60, and then districts with a foundation allowance below \$7,026 also received an equity payment of up to \$50 per pupil.

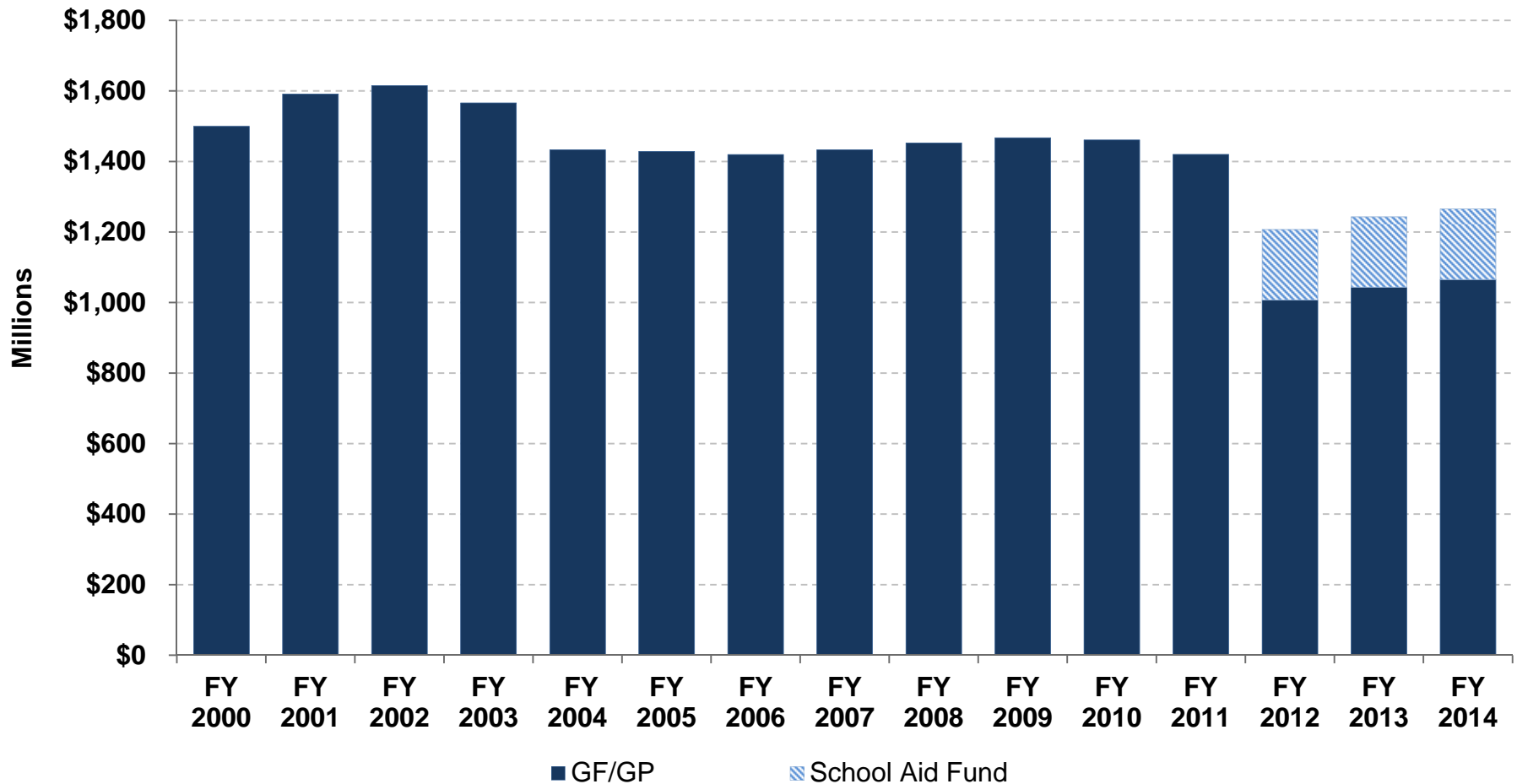
GF/GP Appropriations

The ongoing base GF/GP budget is \$940 million lower than in FY 2008, when adjusted for funding added to pay down retirement liabilities.



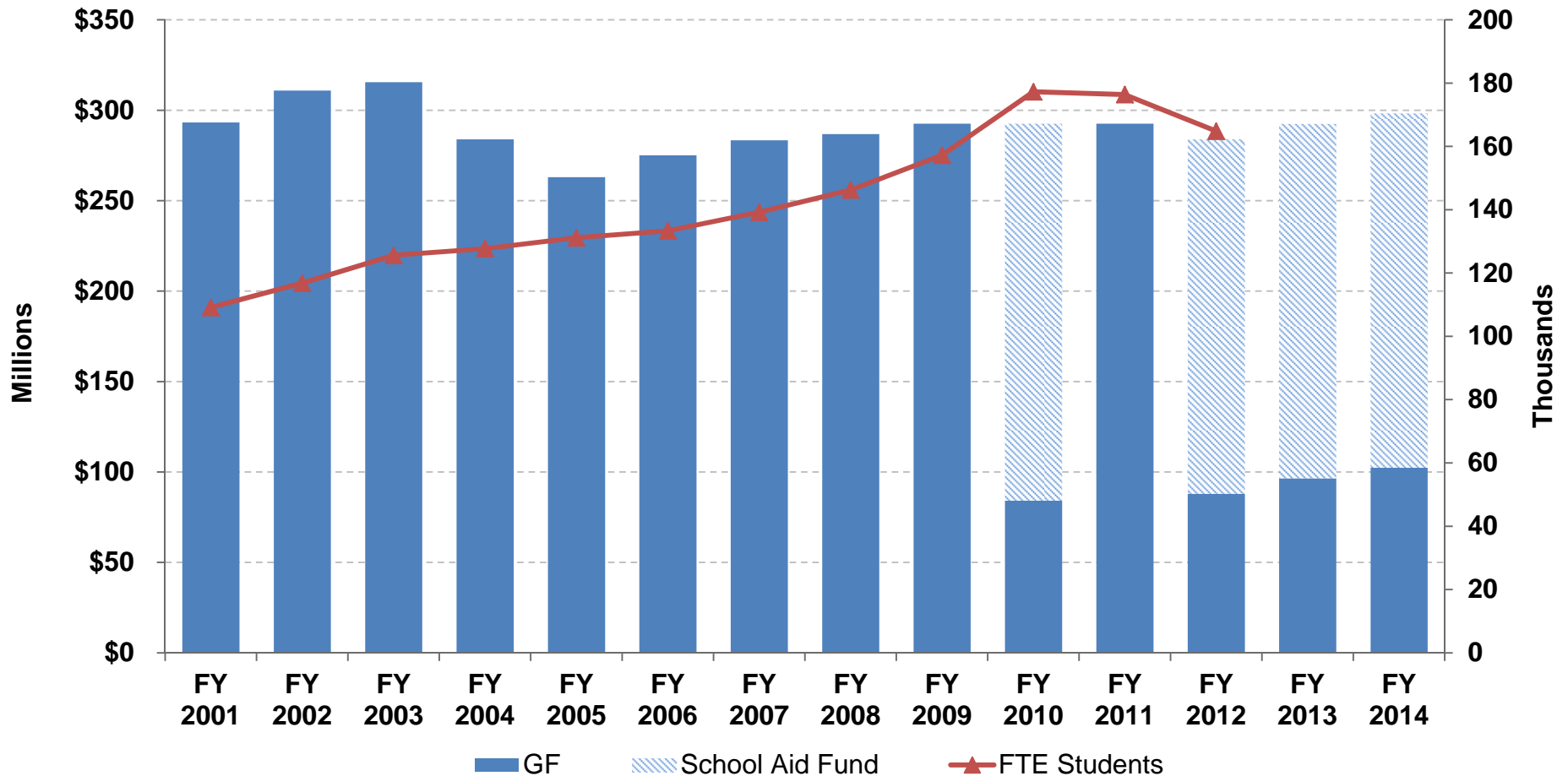
State Appropriations for Public University Operations

State support for public universities has been reduced by \$350 million (22%) since FY 2002 and is still \$155 million (11%) below FY 2011 levels.



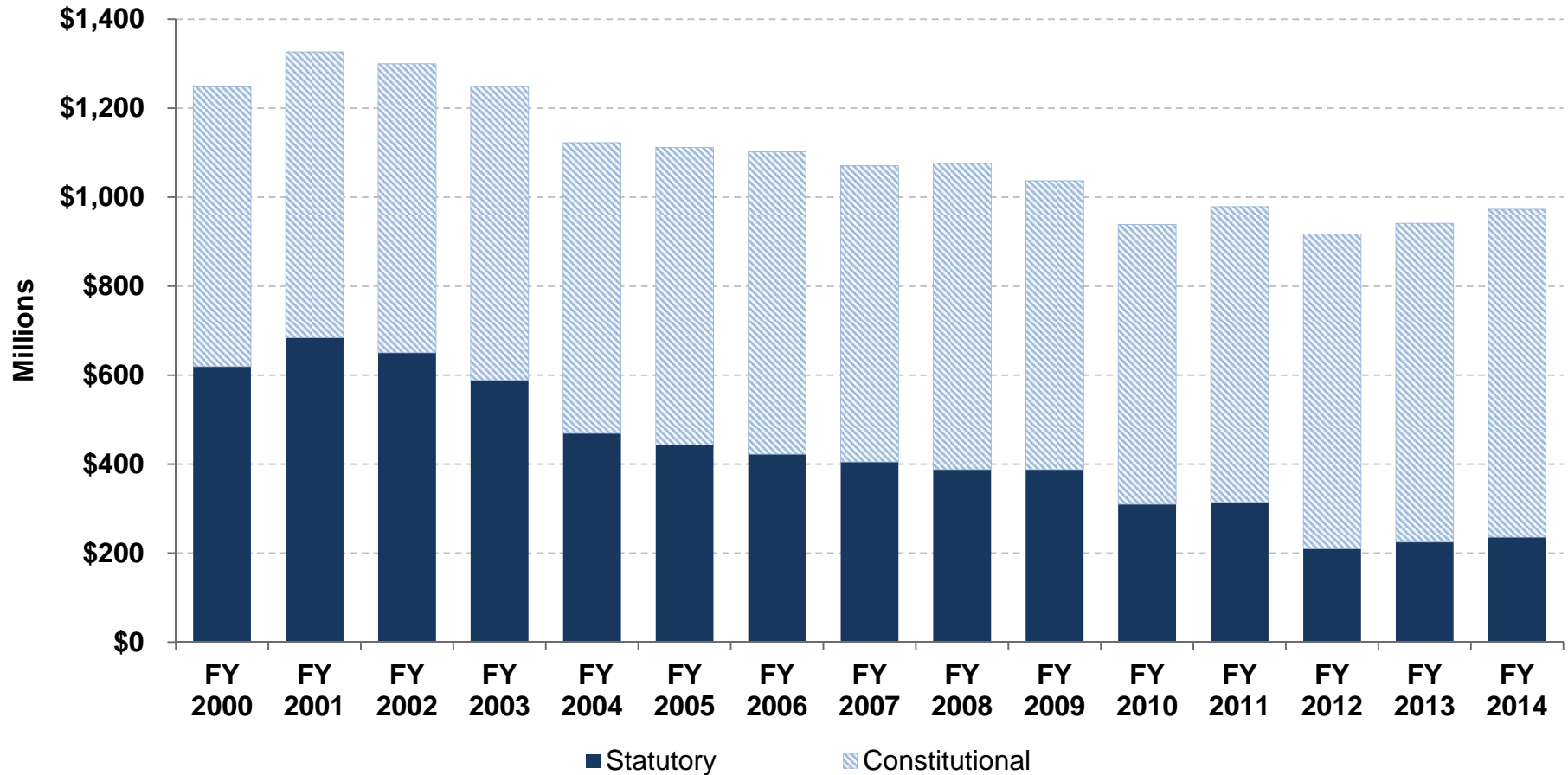
Community Colleges Appropriations and Enrollment

State support for community colleges operations is roughly flat since FY 2001, while total college enrollment has increased by about 50%.

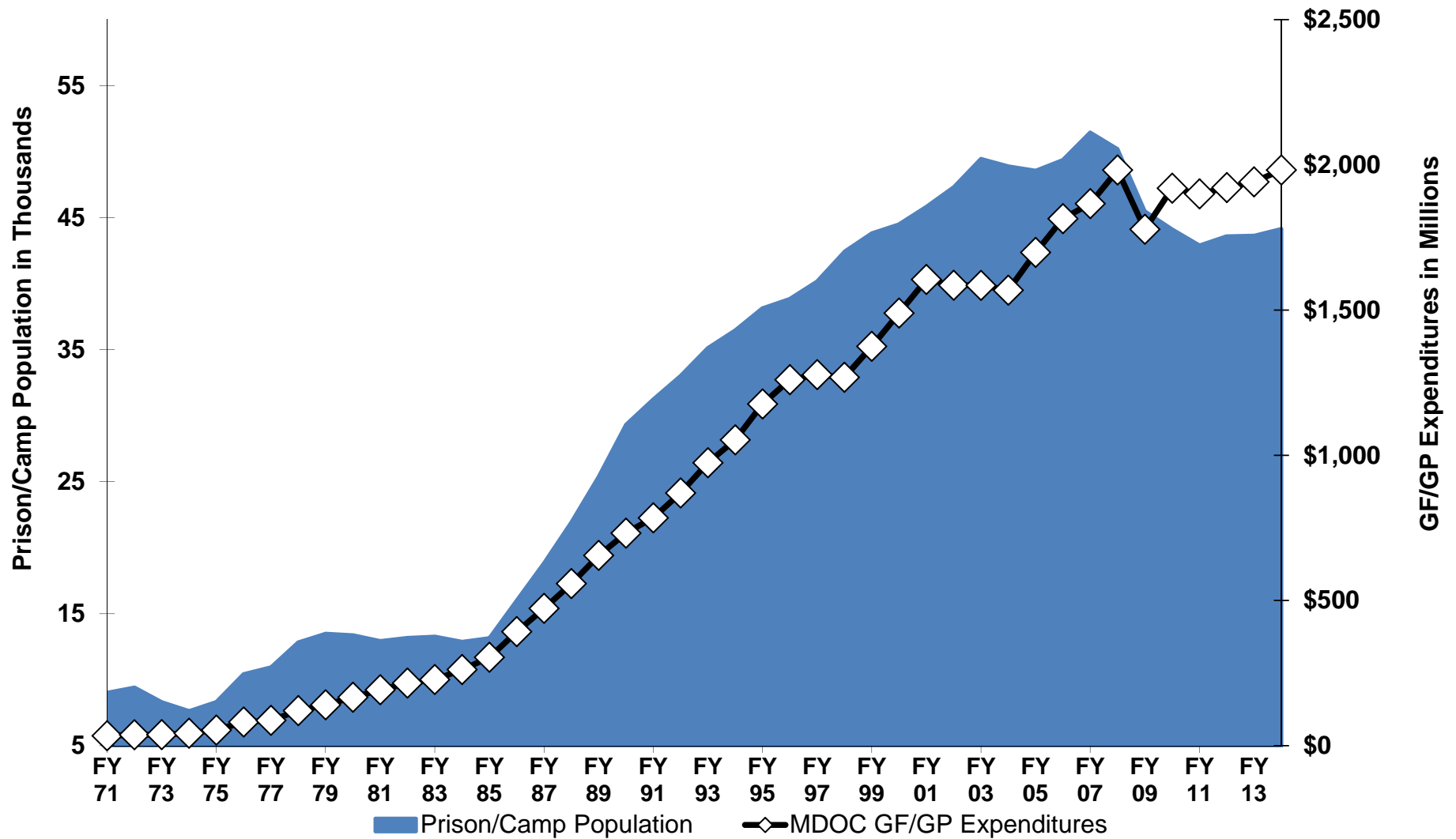


Revenue Sharing to Cities, Villages, and Townships

Statutory revenue sharing payments to CVTs have been reduced by \$448 million (66%) since FY 2001, including \$78 million (25%) over the last three years, to help balance the GF/GP budget.



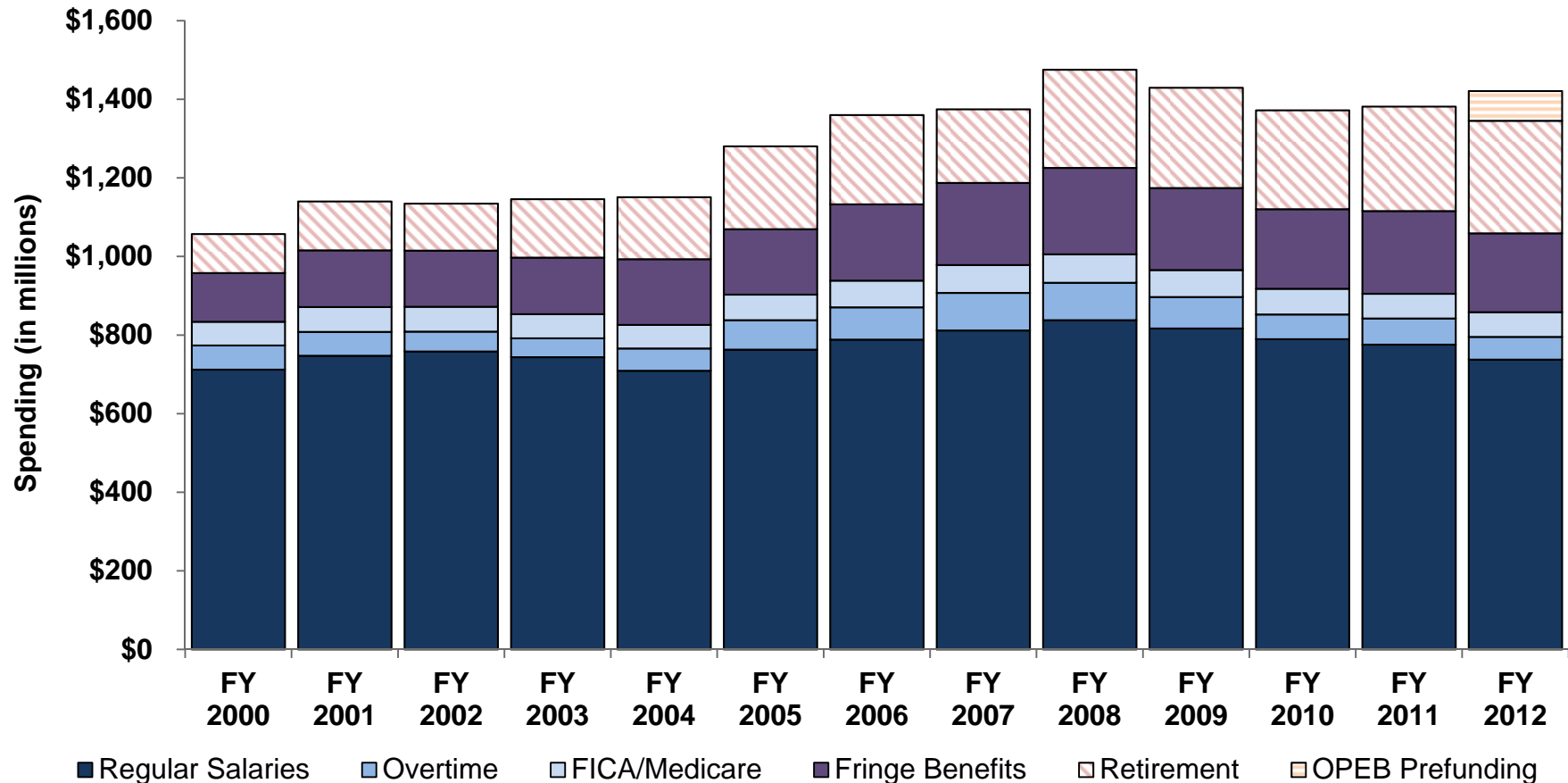
Corrections Budget Increases



Fiscal Year 2008-09 includes GF/GP reductions due to appropriation of federal ARRA funds.

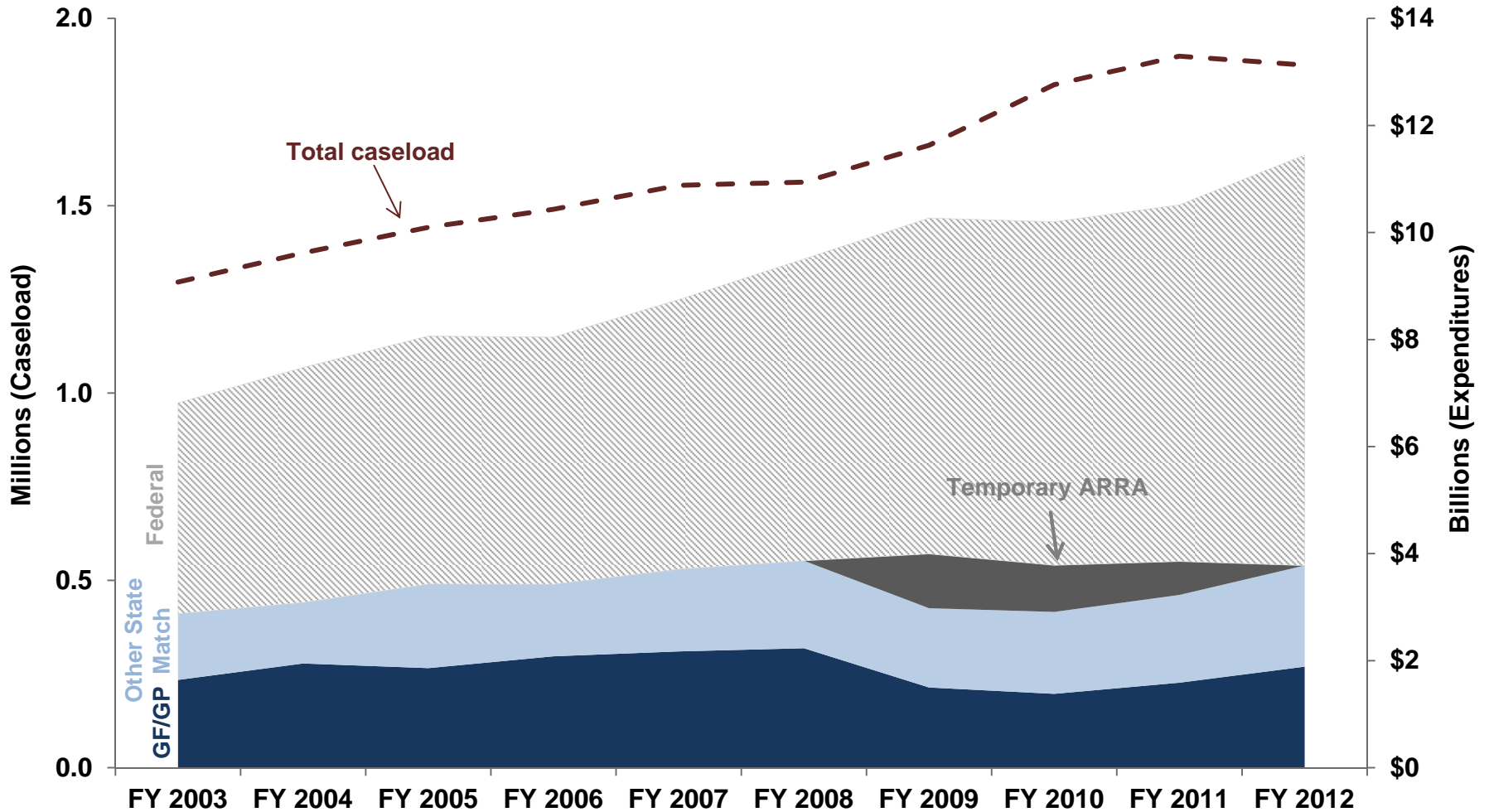
Corrections Personnel Costs

Excluding cost increases associated with paying down retirement liabilities, total Corrections compensation costs have fallen by \$170 million (14%) over four years (FY 2008 to FY 2012).



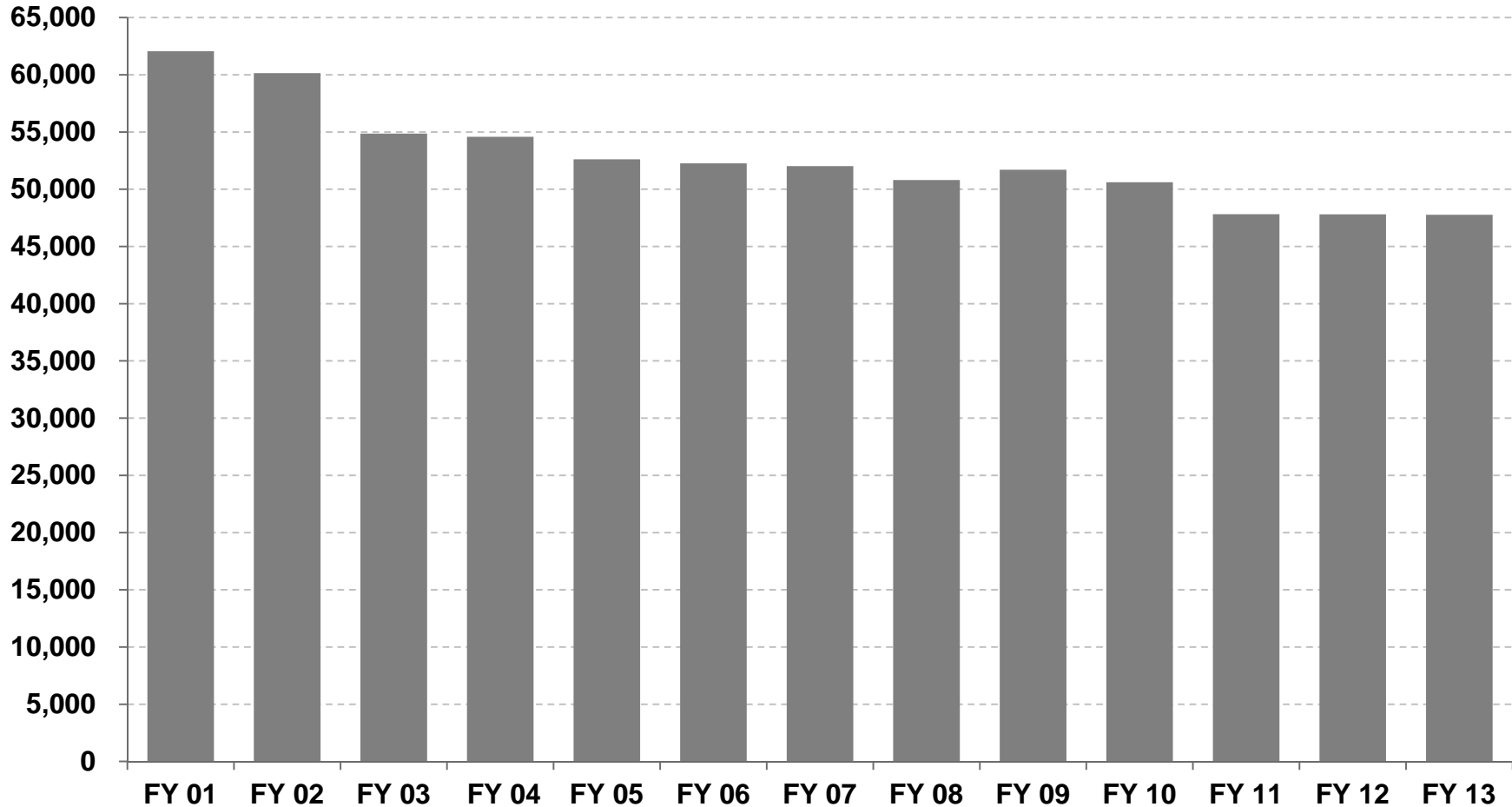
Medicaid Expenditures

Overall Medicaid costs have increased rapidly due to rising caseloads, but GF/GP support has been basically flat for a decade due to increased federal match and the use of special financing mechanisms.

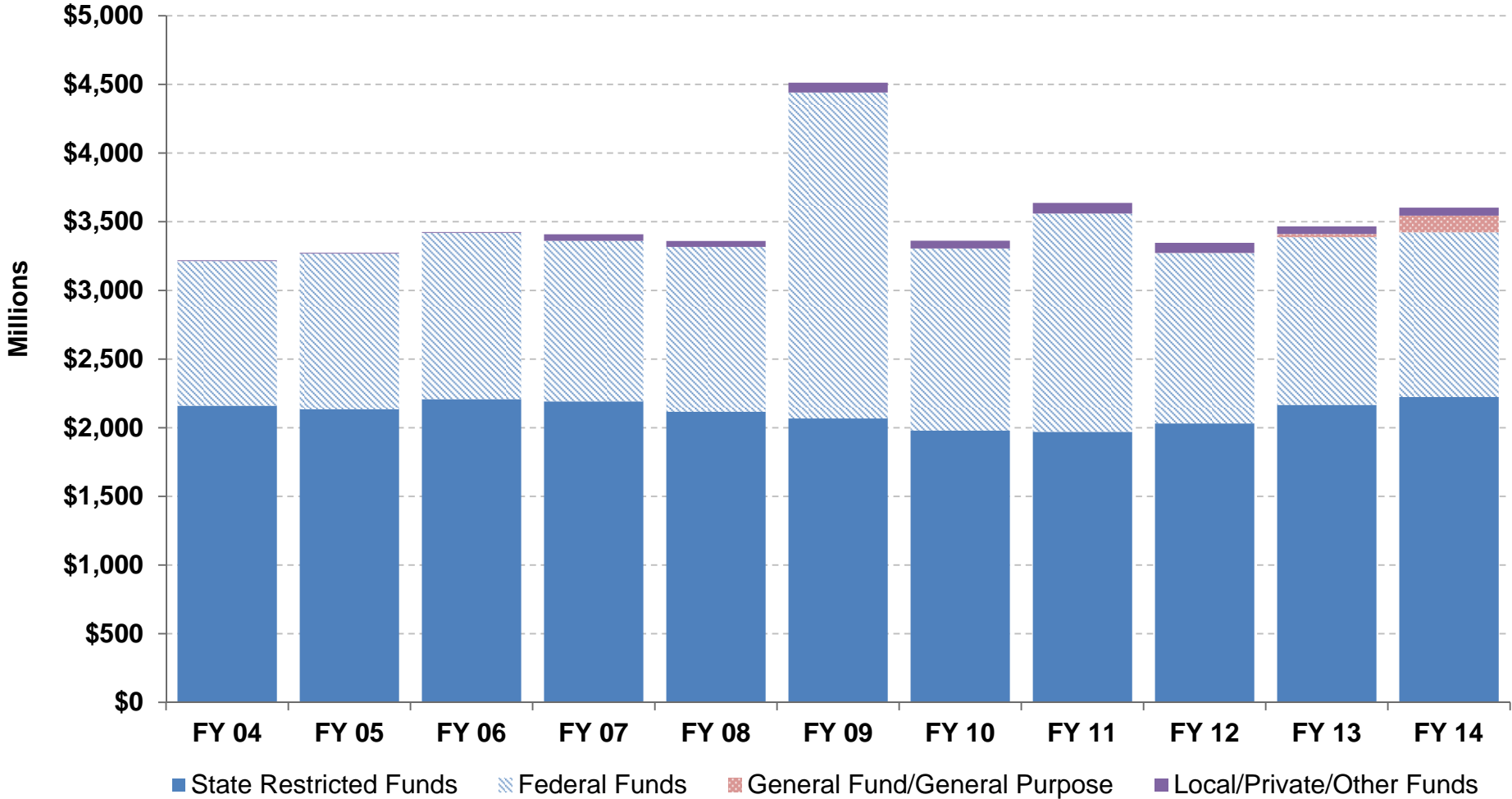


Total Classified Employees

The total number of state employees has declined by 14,000 (23%) since FY 2001.



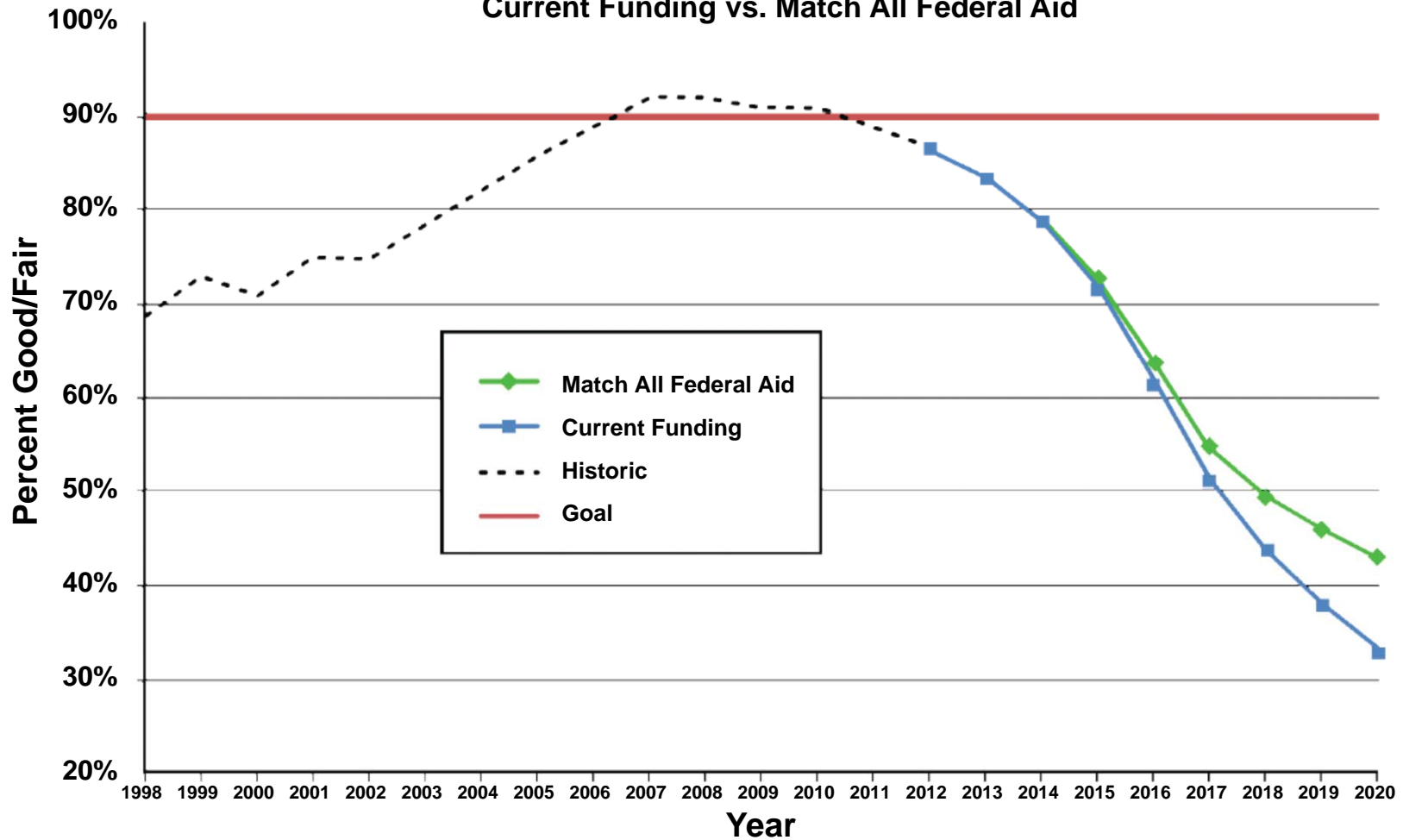
Michigan's Transportation Budget



Note: The increase in federal funds in FYs 2008-09, 2009-10, and 2010-11 was due to funds provided through the America Reinvestment and Recovery Act of 2009 (ARRA).

State Trunkline Pavement Condition Combined Freeway and Non-Freeway

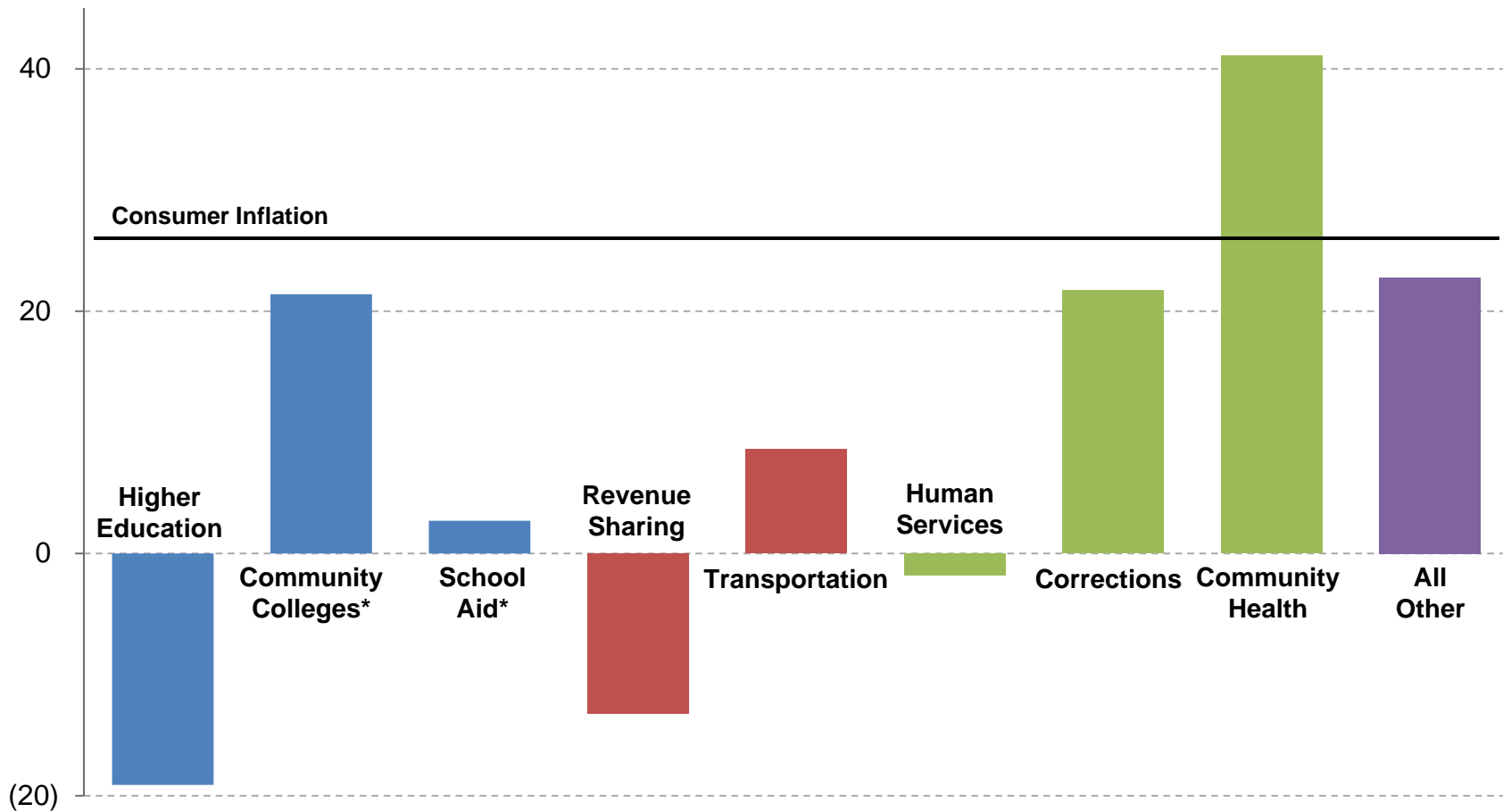
MDOT Historic and Projected RSL Pavement Condition
Current Funding vs. Match All Federal Aid



Source: Michigan Department of Transportation, 2013-2017 Five-Year Transportation Program

State Source Appropriation Changes

% Change: FY 2003-04 to FY 2013-14



*Includes recent increases for MPSERS rate cap, which are a pass-through to the retirement system.

FY 2014 State Budget

May 2013 Consensus Revenue Estimates

(Dollars in Millions)

	FY 2012-13			FY 2013-14				
	Total	\$ Chg from Jan	\$ Chg from FY 12	%Chg from FY 12	Total	\$ Chg from Jan	\$ Chg from FY 13	%Chg from FY 13
School Aid Fund	\$11,213.2	\$85.5	\$334.5	3.1%	\$11,470.1	\$37.6	\$256.9	2.3%
General Fund/ General Purpose (GF/GP)	\$9,189.2	\$396.9	(\$76.0)	(0.8%)	\$9,446.2	\$181.8	\$257.1	2.8%
Total Revenue	\$20,402.3	\$482.4	258.5	1.3%	\$20,916.3	\$219.3	\$514.0	2.5%

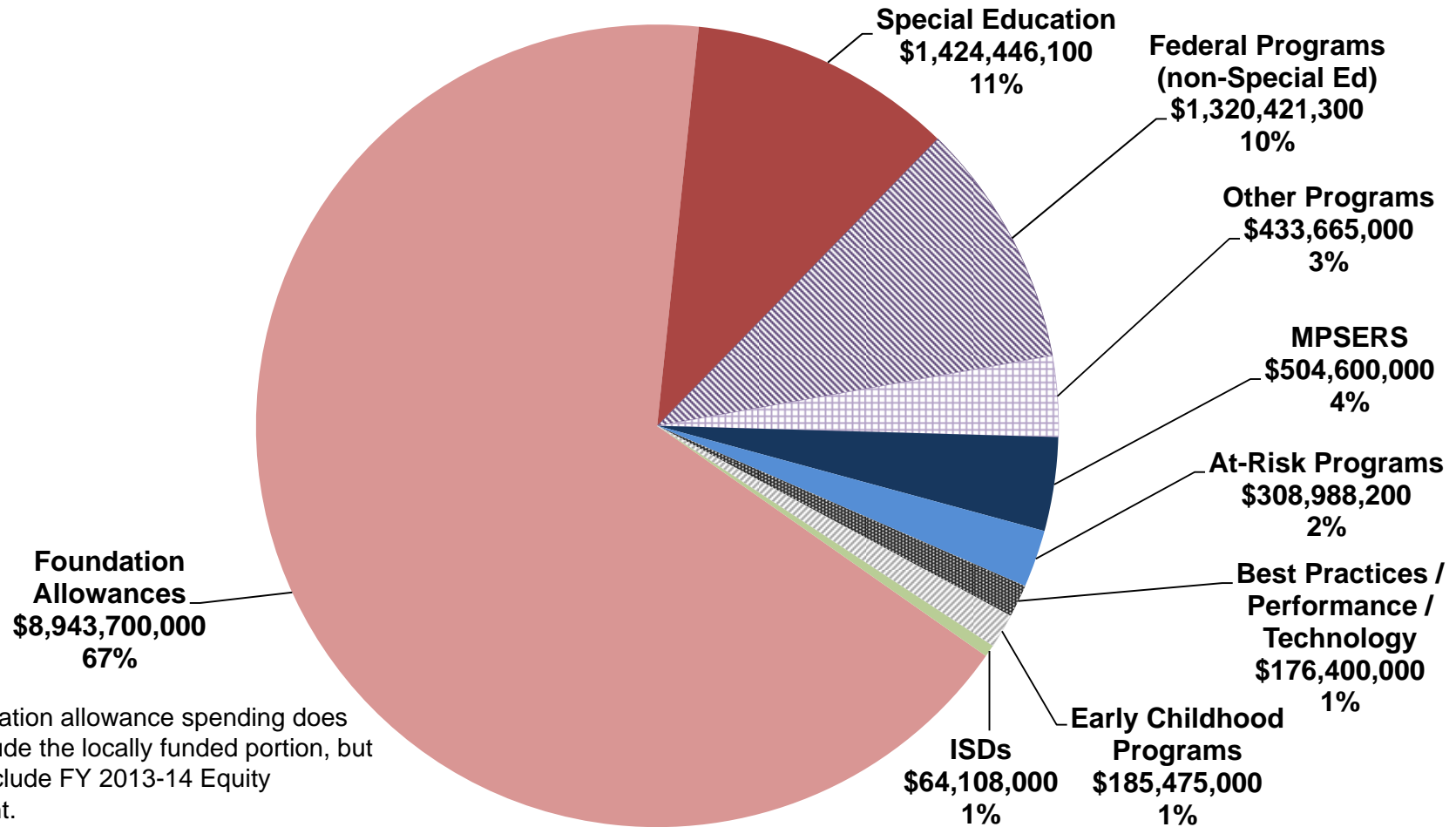
School Aid Balance Sheet

(Dollars in Millions)

	<u>FY 2012-13</u>	<u>FY 2013-14</u>
REVENUE		
Beginning Balance	\$254.1	\$140.4
School Aid Fund (SAF) Revenue	11,213.2	11,470.1
General Fund/General Purpose (GF/GP)	282.4	230.0
Federal Funds	1,701.0	1,764.4
<u>MPERS Reserve Fund</u>	<u>0.0</u>	<u>156.0</u>
TOTAL REVENUE	\$13,450.7	\$13,760.9
EXPENDITURES		
K-12: FY 13 (YTD) and FY 14 (HB 4228)	\$12,944.7	\$13,361.8
<u>FY 13 Adjustments (HB 4228)</u>	<u>(32.5)</u>	<u>0.0</u>
Subtotal K-12 Expenditures	\$12,912.2	\$13,361.8
Subtotal Postsecondary Expenditures	<u>\$398.1</u>	<u>\$398.1</u>
<u>TOTAL EXPENDITURES</u>	<u>\$13,310.3</u>	<u>\$13,759.9</u>
ESTIMATED ENDING BALANCE	\$140.4	\$1.0
<i>MPERS Reserve Balance</i>	<i>\$174.0</i>	<i>\$18.0</i>
<i>MPERS 3% Health Care Contribution Escrow Fund Balance</i>	<i>\$508.0</i>	<i>\$508.0</i>

School Aid Appropriations

FY 2013-14 School Aid Budget = \$13,361,803,600



* Foundation allowance spending does not include the locally funded portion, but does include FY 2013-14 Equity Payment.

FY 2013-14 School Aid Budget

- **Foundation Allowance** – Provides an increase through the 2x Equity Formula ranging from \$30-\$60 per pupil.
- **Equity Payment** – Up to \$50 per pupil equity payment for Foundation Allowances below \$7,076.
- **MPSERS Retirement Health Care Prefunding Costs** – Up from \$160 million in FY 2012-13 to \$403 million in FY 2013-14.
- **MPSERS Cost Offset** – Reduced from \$155 million to \$100 million, reducing each district's allocation by about 36%.
- **Early Childhood Increases** – \$65 million increase, adds 16,200 half-day slots and increases half-day per diem from \$3,400 to \$3,625.
- **Best Practice Grants** – Maintains \$80 million in grants equal to \$52 per pupil for best practices.
- **Technology Infrastructure Grants** – Maintains \$50 million.

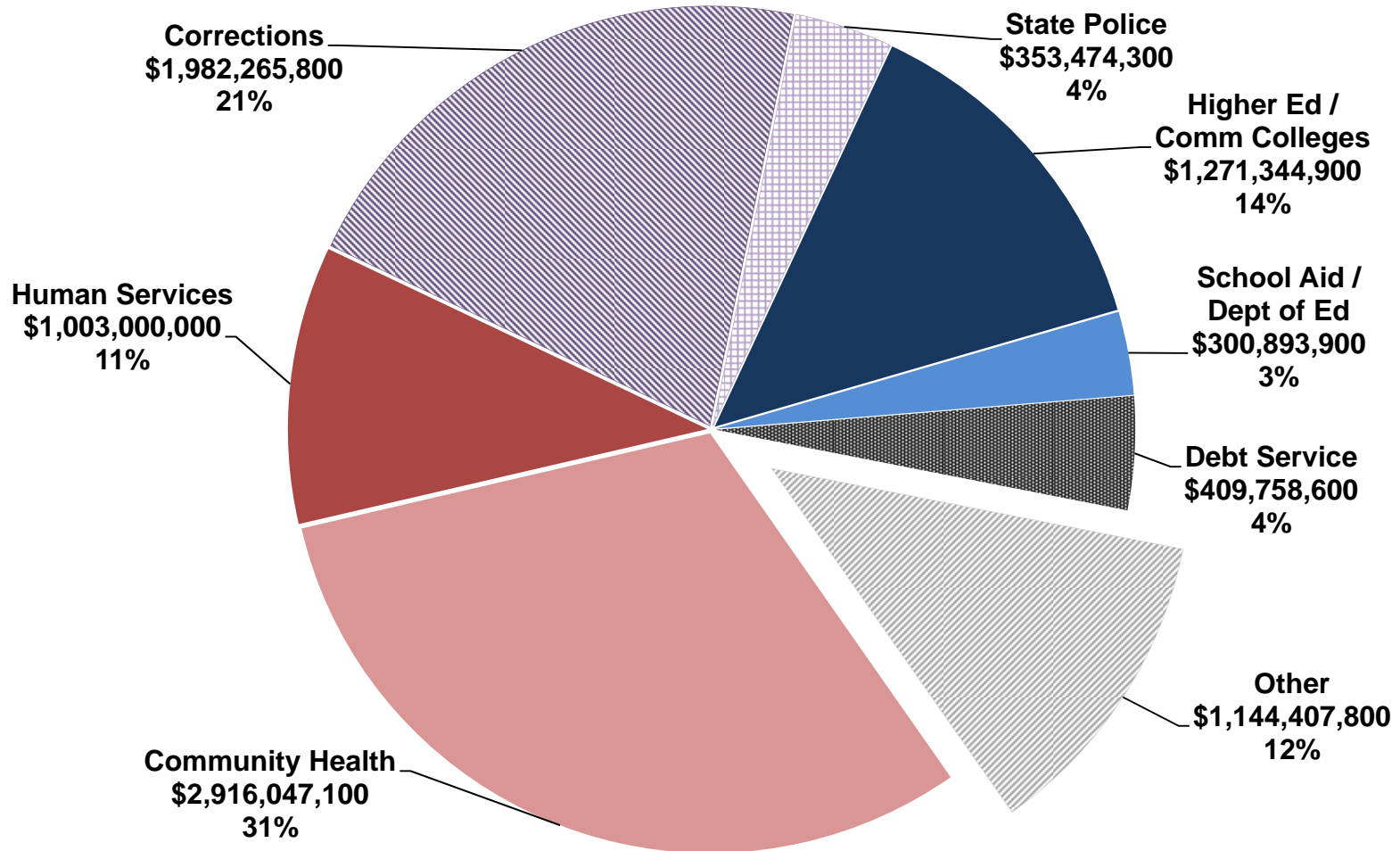
General Fund Balance Sheet

(Dollars in Millions)

	<u>FY 2012-13</u>	<u>FY 2013-14</u>
REVENUE		
Beginning Balance	\$979.2	\$652.8
General Fund/General Purpose Revenue	9,190.4	9,430.2
<u>EVIP / Revenue Sharing</u>	<u>(370.6)</u>	<u>(396.6)</u>
TOTAL REVENUE	\$9,799.0	\$9,686.4
EXPENDITURES		
FY 2013 YTD and FY 2014 (HBs 4228 and 4328)	\$9,036.7	\$9,260.0
Deposit into Budget Stabilization Fund	140.0	75.0
Transportation Match/Road and Risks Reserve	0.0	351.3
<u>Pending Supplemental Adjustments</u>	<u>(30.5)</u>	<u>0.0</u>
<u>TOTAL EXPENDITURES</u>	<u>\$9,146.2</u>	<u>\$9,686.3</u>
ESTIMATED ENDING BALANCE	\$652.8	\$0.1

FY 2013-14 GF/GP Appropriations

88% of the \$9.4 billion GF/GP budget is appropriated for health and human services, public safety, education, and debt service. The remaining 12% provides funding for 11 state departments, the Michigan Strategic Fund, and the Legislature, Judiciary, and Executive Office.

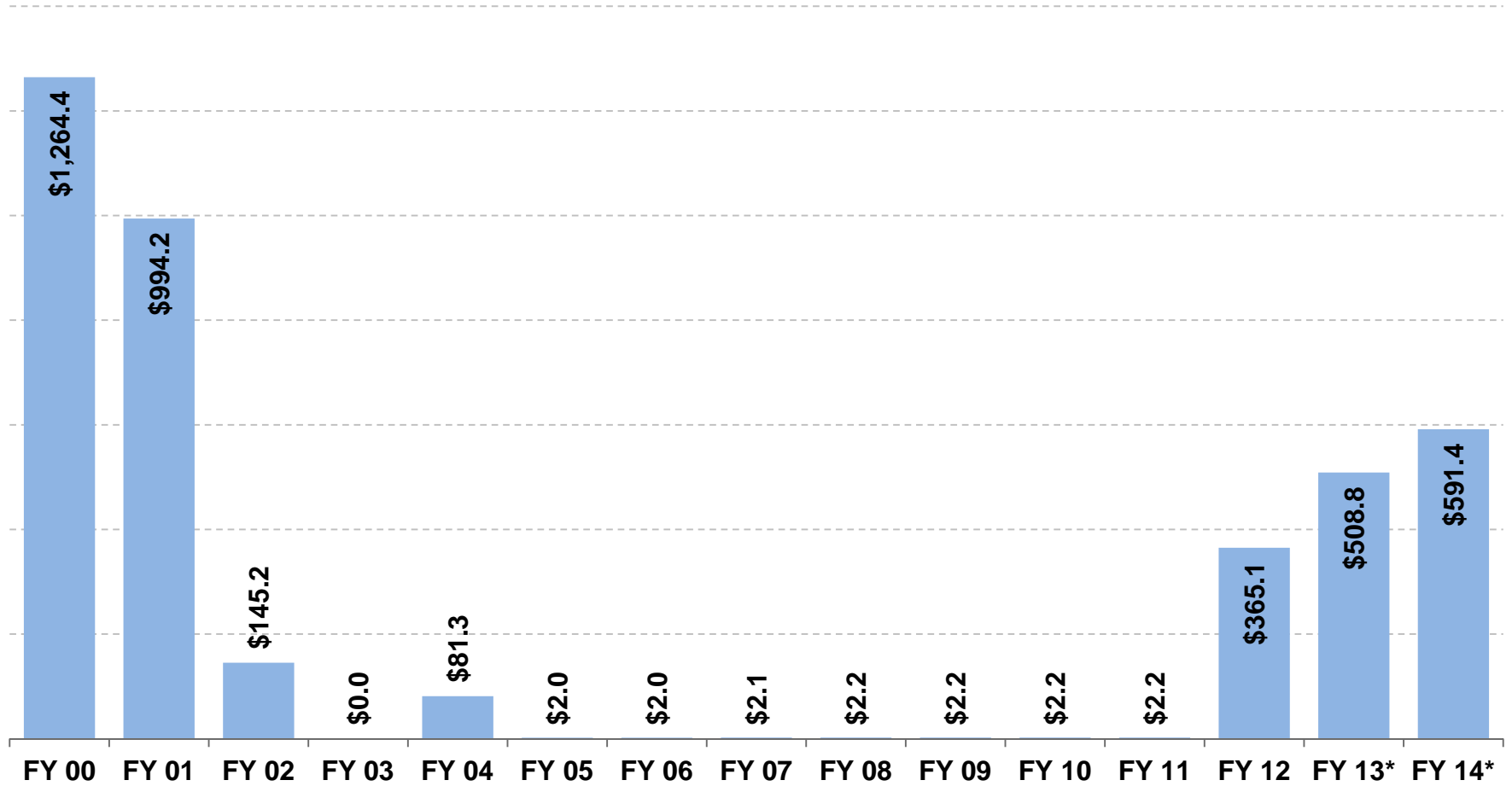


Where did the additional GF/GP revenue added at May Consensus go?

Budget Item	Millions of \$
Allocated for Transportation Match or Reserve	\$351.0
Replace Medicaid Expansion Savings Assumed in Exec Rec	103.0
Increase Film Incentives from \$25m to \$50m	25.0
Increase County and Local Revenue Sharing	16.0
Increased Department of Human Services Costs	12.0
Reserve for Individual Tax/Fee Relief	20.0
Other FY 2013-14 increases (approximate)	33.0
Total	\$560.0

Budget Stabilization Fund Balance

Millions of Dollars



* HFA Estimate

FY 2013-14 Major Outstanding Issues

- **Medicaid Expansion**

- Expand Medicaid to cover persons below 133% of poverty level – projected state General Fund savings of \$206 million in FY 2013-14

- **Health Insurance Claims Assessment (HICA)**

- Action needed to fill \$130 million annual shortfall; full \$400 million assumed in FY 2013-14 budget

- **Transportation Funding**

- Governor has proposed \$1.2 billion in new ongoing funding for roads & bridges; FY 2013-14 budget includes \$350 million in one-time funding



www.house.mi.gov/hfa