



Background Briefing

STATE BUDGET OVERVIEW

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January 2014

The fiscal information in this background briefing is based on data through January 10, 2014.

State Appropriation Fund Source Definitions

- 1. Federal Funds:** Federal grant or matchable revenue dedicated to specific programs.
- 2. Local/Private Funds:** Revenue received from local units of government and private, non-governmental entities for specific purposes.
- 3. State Restricted Funds:** Revenue dedicated to specific funds created in state statute or the state constitution for restricted purposes. Largest such fund is the School Aid Fund. Includes most fee revenue.
- 4. General Fund/General Purpose (GF/GP):** Unrestricted General Fund revenue available for basic governmental or other discretionary purposes.

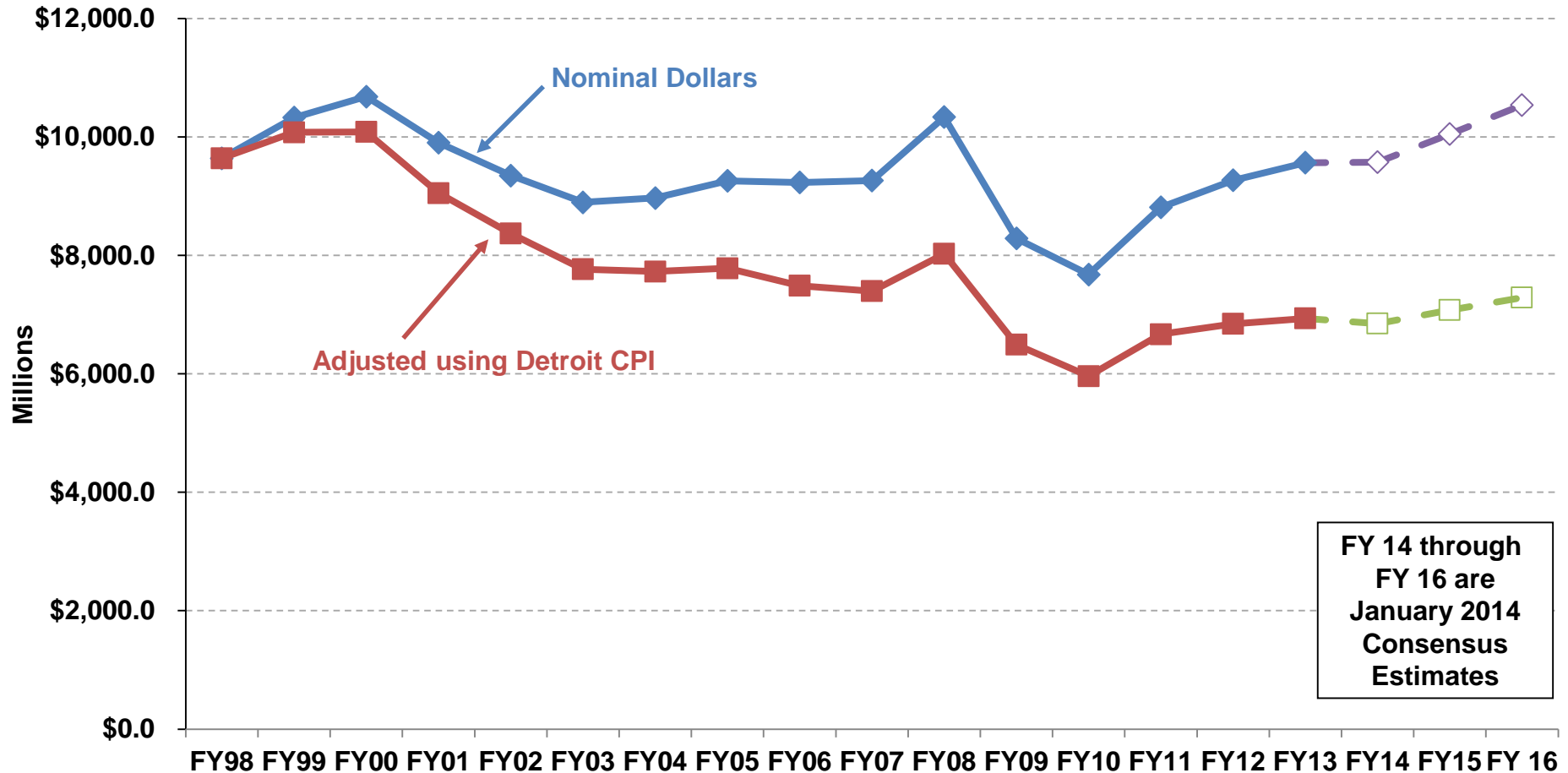
State Source Appropriations: Appropriations from state-level revenue sources: State Restricted plus GF/GP.

Adjusted Gross Appropriations: Total state appropriations from all fund sources (1-4 above). Excludes funds appropriated twice in state budget through interdepartmental grants (IDGS) or intradepartmental transfers (IDTs).

LONG-TERM BUDGET TRENDS

GF/GP Net Revenue

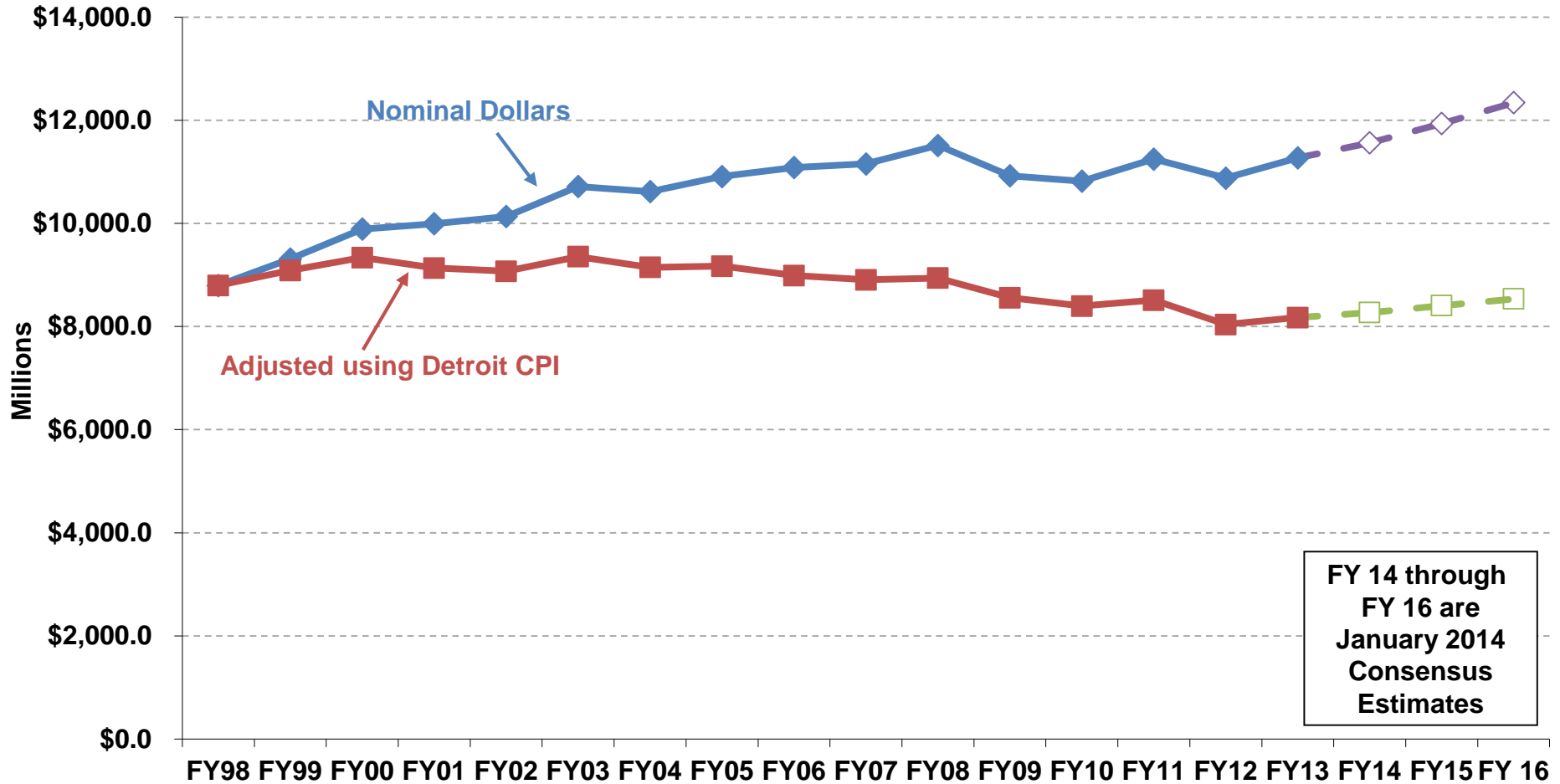
FY 2014 GF/GP revenue is well below FY 2000 and 2008 peaks in nominal (unadjusted) terms and has fallen 32% since FY 2000 in inflation-adjusted terms.



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

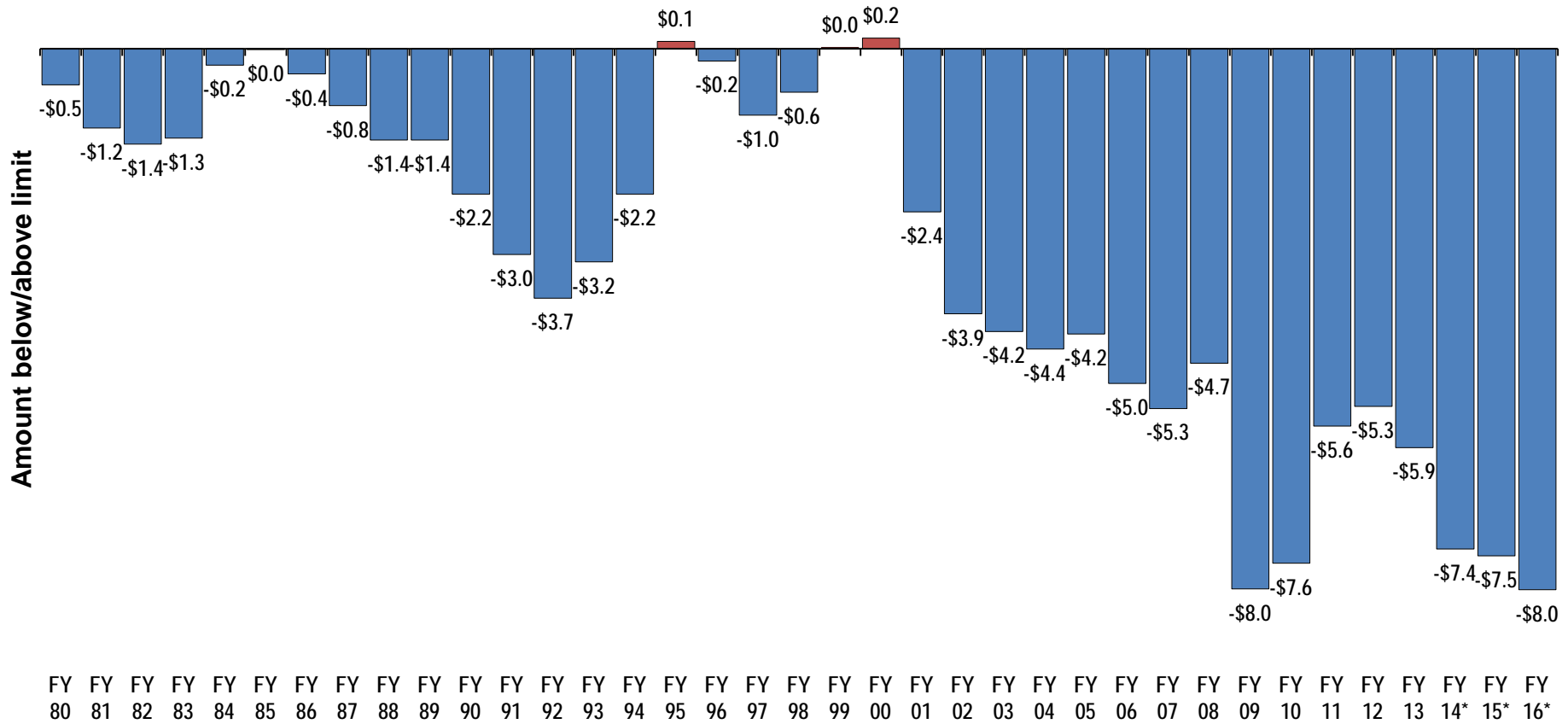
FY 2014 SAF revenue is at roughly the FY 2008 level in nominal terms and has fallen 11% since FY 2000 in inflation-adjusted terms.



Constitutional Revenue Limit

(Billions of Dollars)

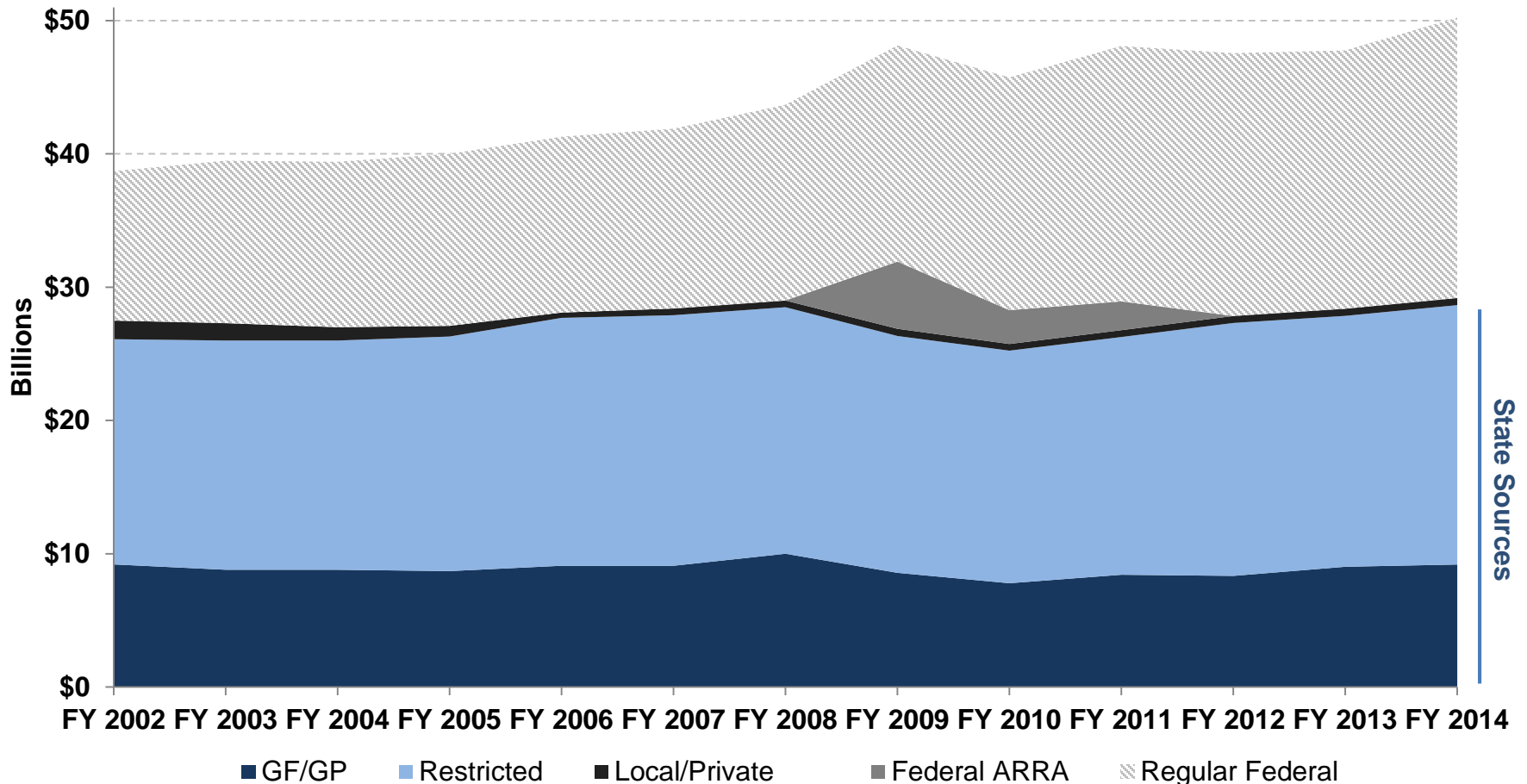
Total state tax and other revenue are \$7 to \$8 billion lower than the limit set in the state constitution (9.49% of state personal income).



*January Consensus Estimates

Total State Appropriations

Total appropriations from state revenue sources (GF/GP plus restricted) have grown by only 0.5% per year since FY 2002 (not adjusted for inflation). Growth in the total state budget has been driven by increases in available federal funds.

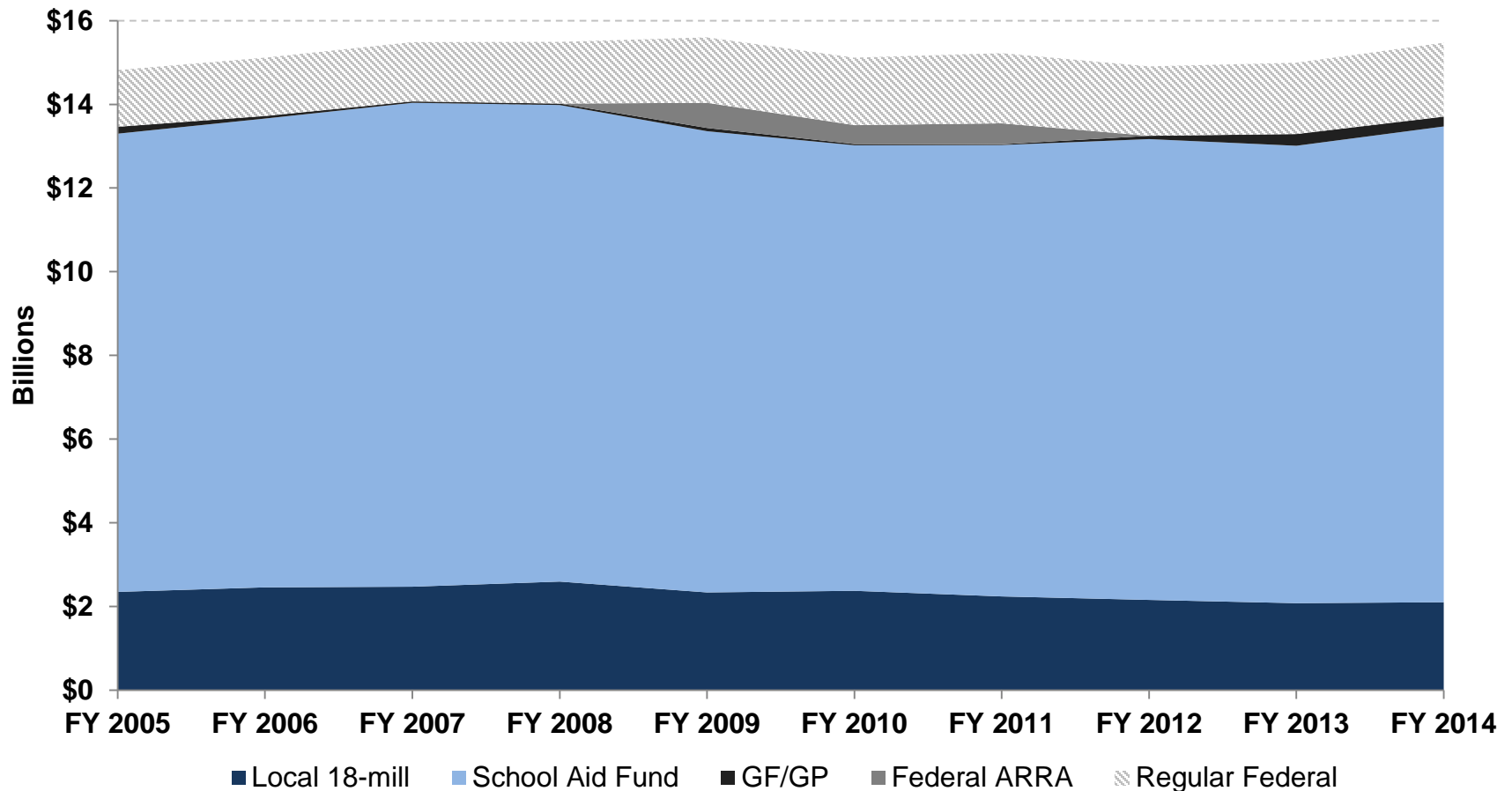


ARRA: Federal American Recovery and Reinvestment Act of 2009

School Aid Funding

Local 18-mill Levy and State Appropriations

Excluding federal funds dedicated for specific purposes, total FY 2013-14 funding for schools is at the same level as FY 2005-06 (not adjusted for inflation).

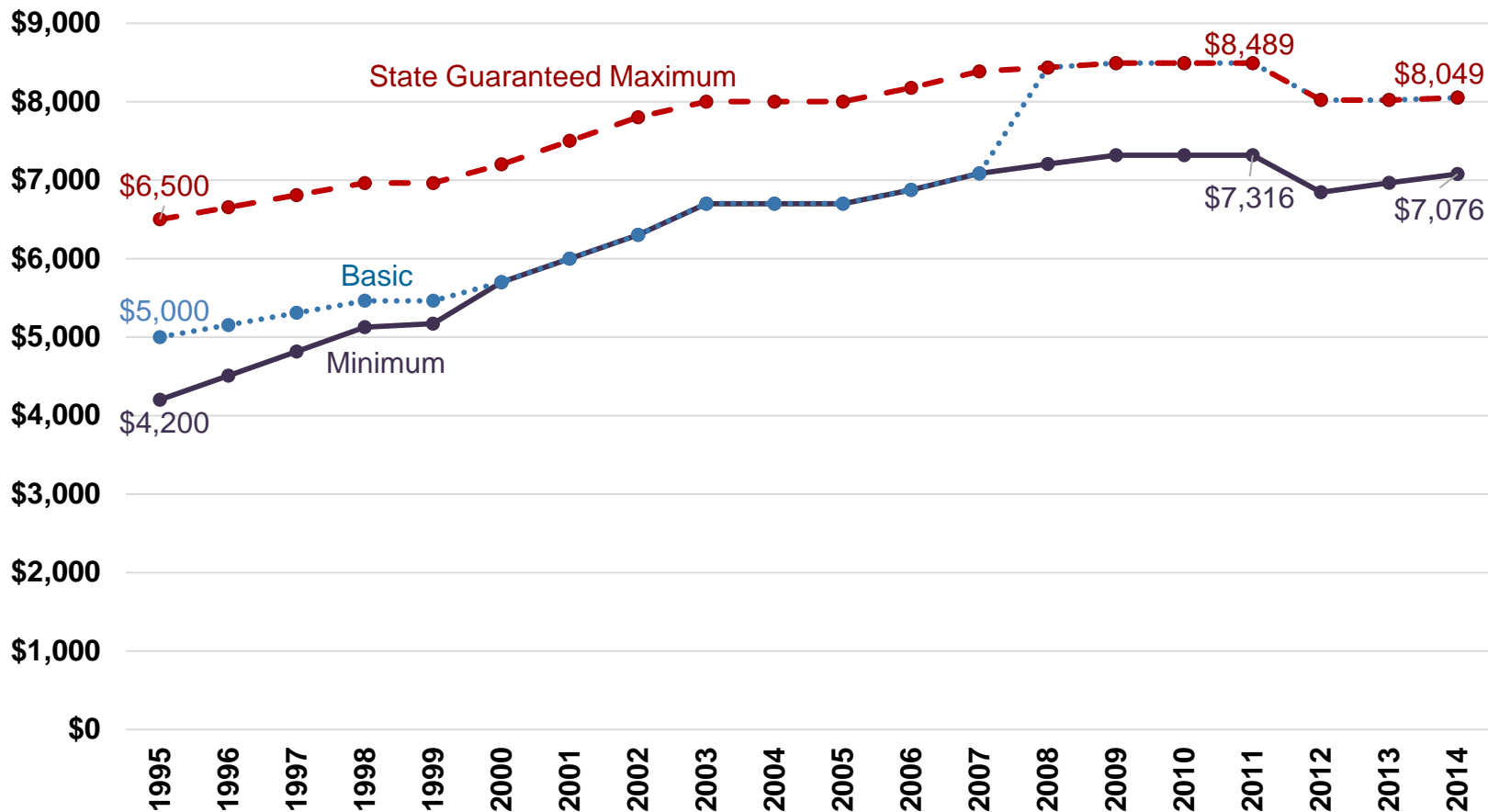


ARRA: Federal American Recovery and Reinvestment Act of 2009

Foundation Allowance History

Growth Since Proposal A

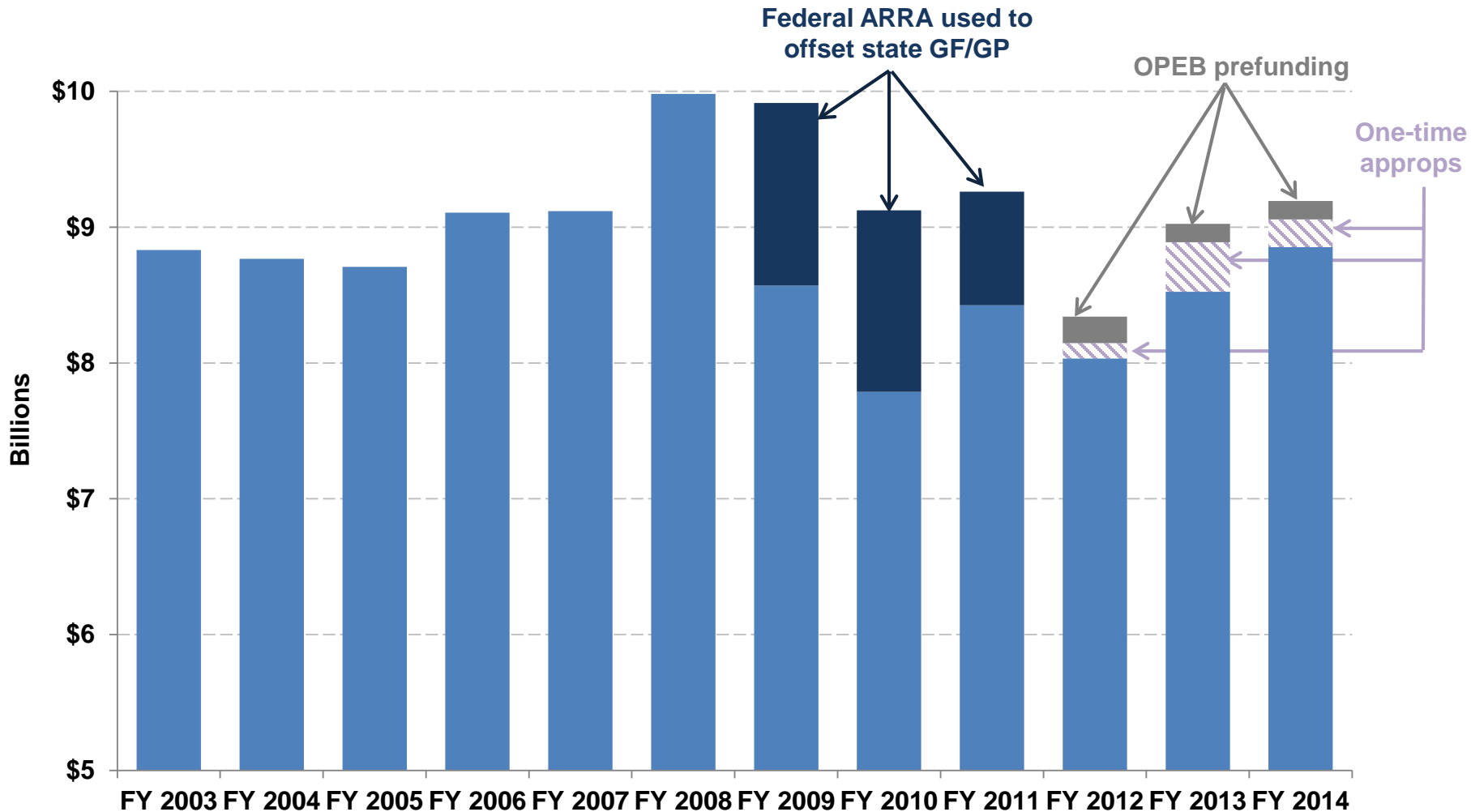
The FY 2014 foundation allowance for schools at the Minimum level is roughly equal to the FY 2007 level. For schools at the State Maximum level, it's roughly equal to the FY 2003 level.



*Does not include the foundation allowances of 37 hold harmless districts that are allowed to collect additional local millage revenue to maintain statutory foundation allowances above the State Guaranteed Maximum.

GF/GP Appropriations

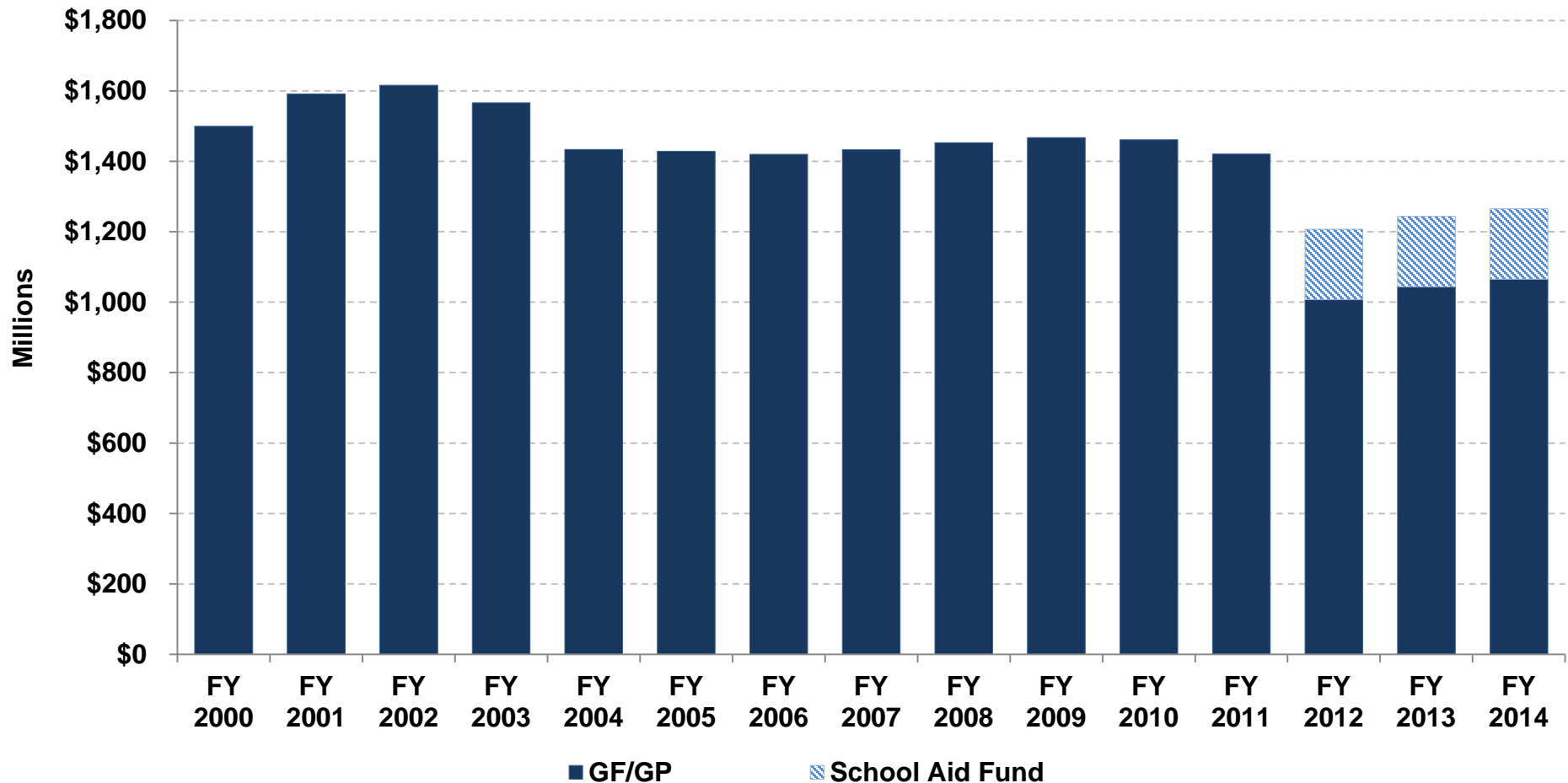
The ongoing base GF/GP budget is \$1.1 billion lower than in FY 2008 and about \$400 million lower than in FY 2011, when adjusted for funding added to pay down retirement liabilities.



ARRA: Federal American Recovery and Reinvestment Act of 2009
OPEB: Other Post Employment Benefits (retiree health)

State Appropriations for Public University Operations

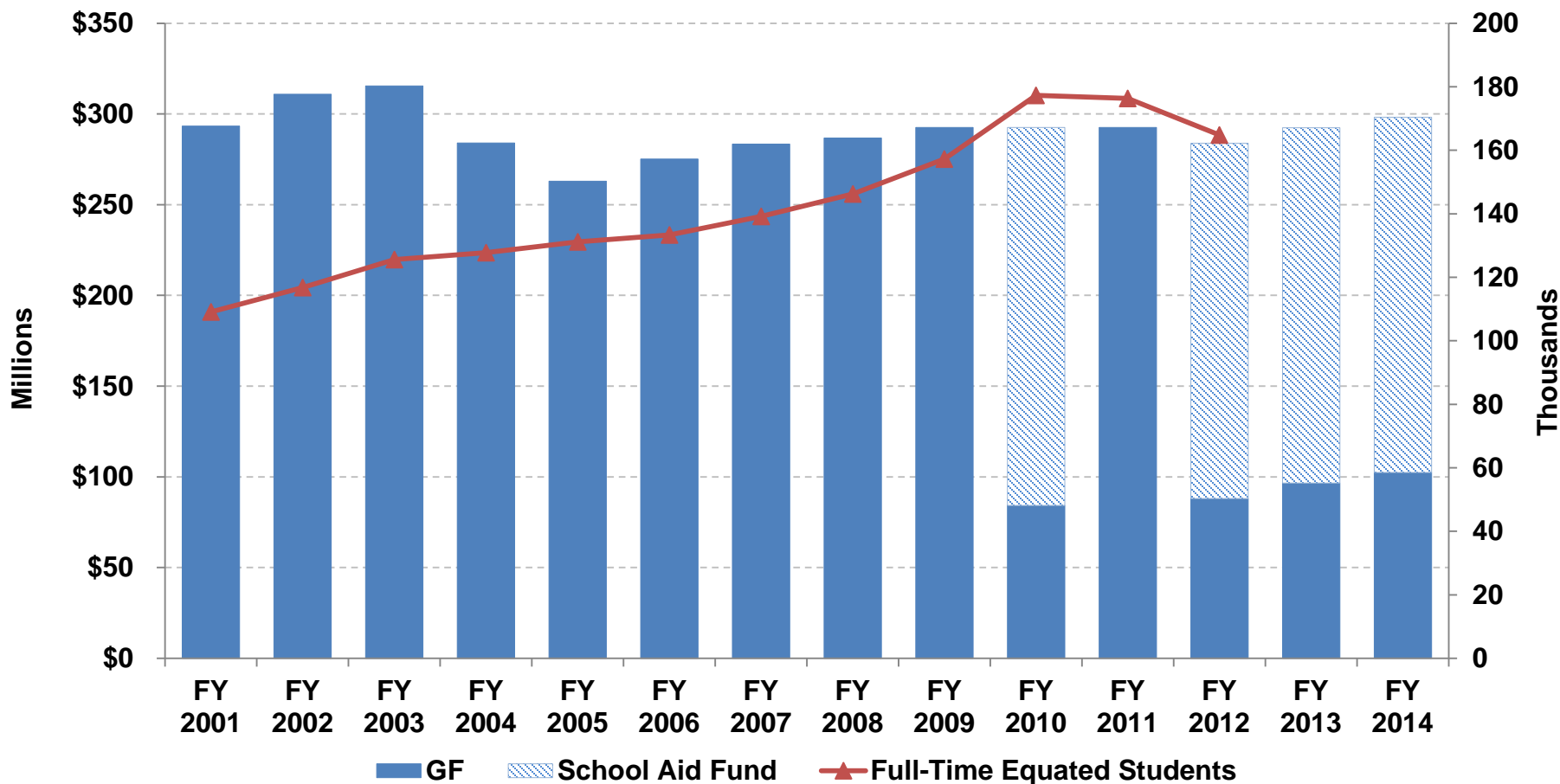
State support for public universities has been reduced by \$350 million (22%) since FY 2002.



Community Colleges

Appropriations and Enrollment

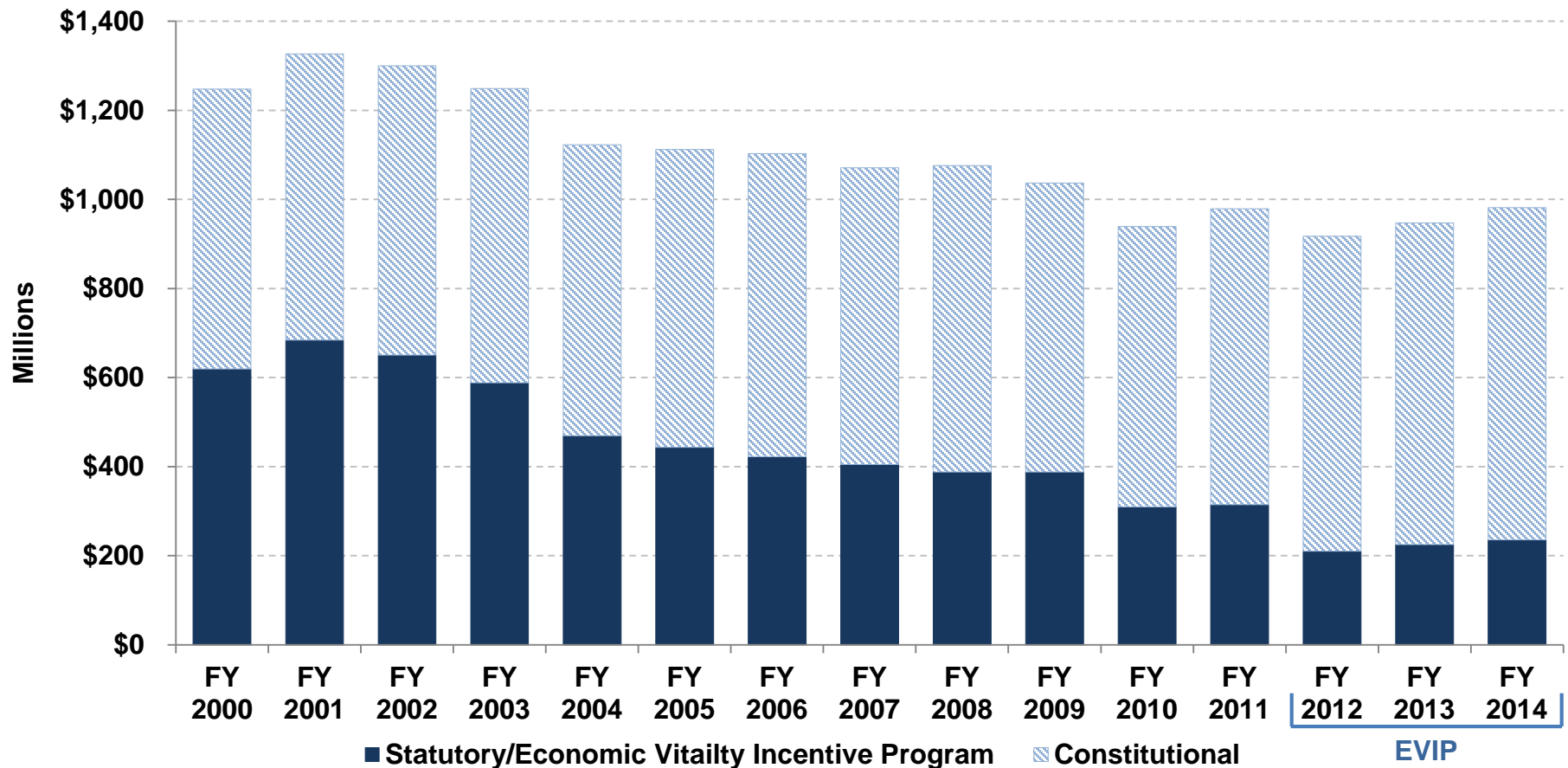
State support for community colleges operations is roughly flat since FY 2001, while total college enrollment has increased by about 50%.



Note: Excludes funding provided in recent years for retirement rate cap; funds flow through to retirement system.

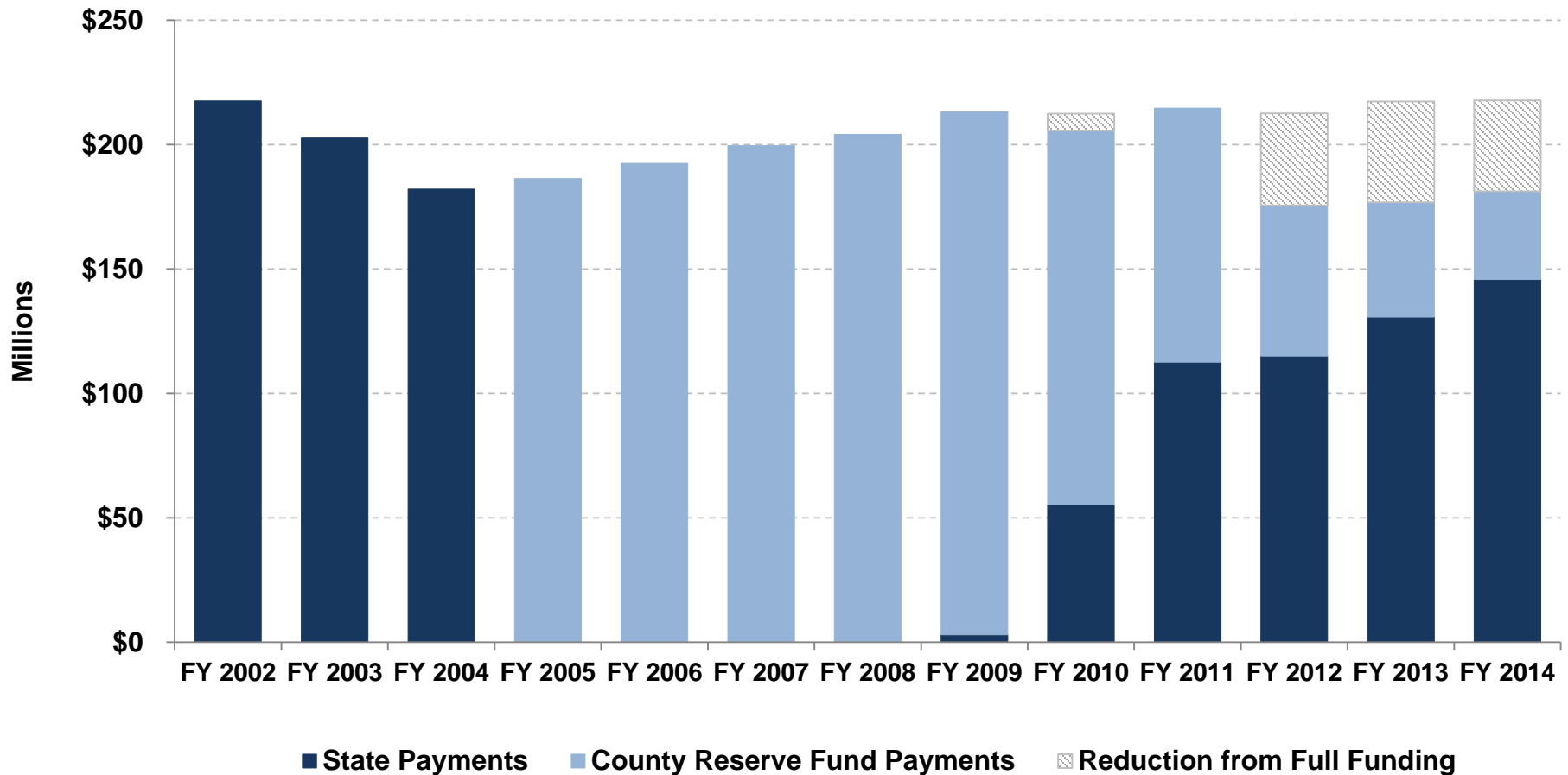
Revenue Sharing to Cities, Villages, and Townships (CVTs)

Statutory revenue sharing payments to CVTs have been reduced by \$448 million (66%) since FY 2001 to help balance the GF/GP budget. Constitutional payments have grown consistent with sale tax revenue growth.



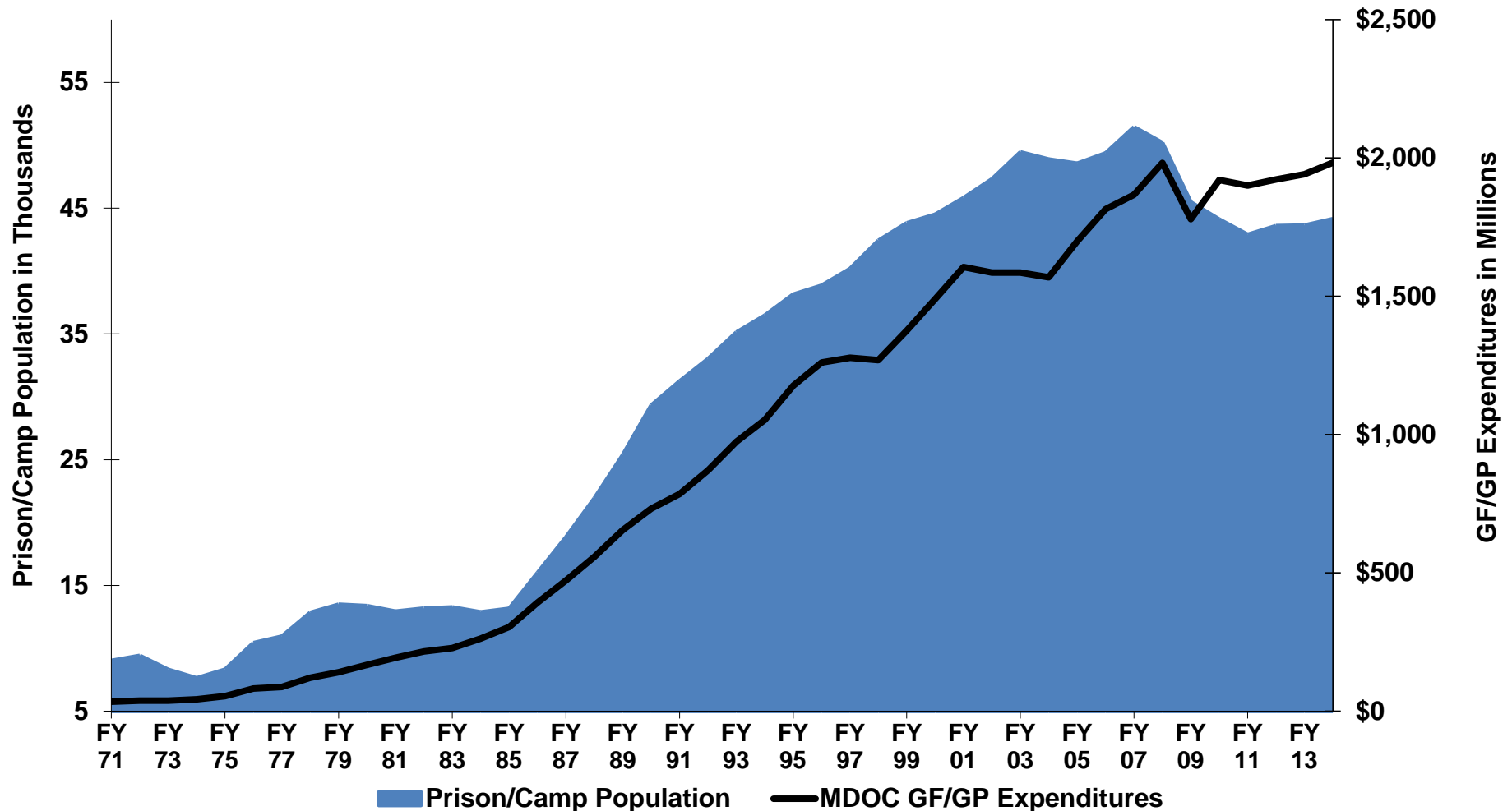
Revenue Sharing to Counties

The reserve fund mechanism allowed for inflationary growth in county payments from FY 2004 to FY 2011, but total funding for counties is now about 20% below full funding.



Corrections Budget Increases

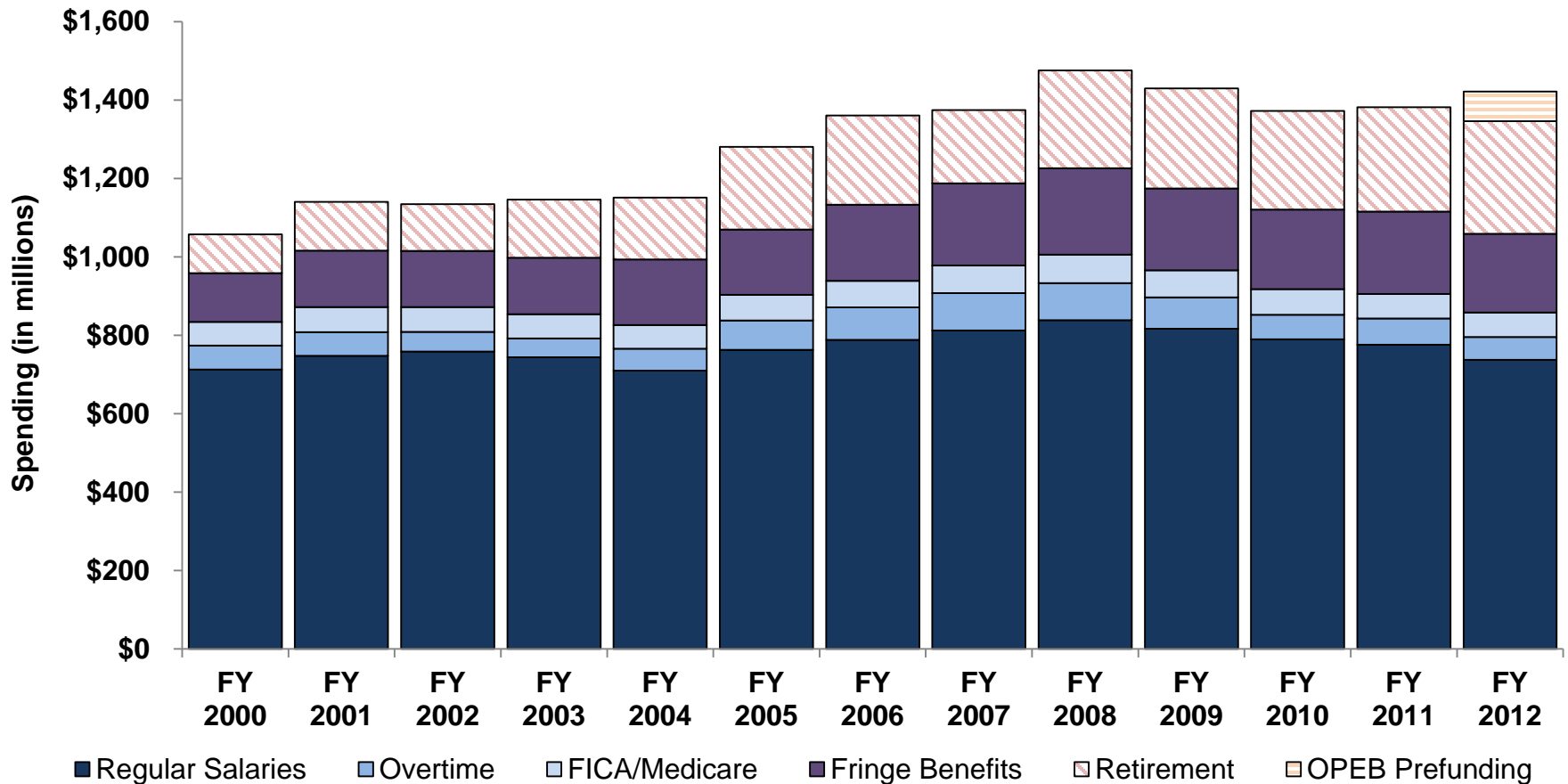
Over the long term, corrections costs have growth consistent with prison population. Increases have moderated in recent years as the population has been reduced.



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

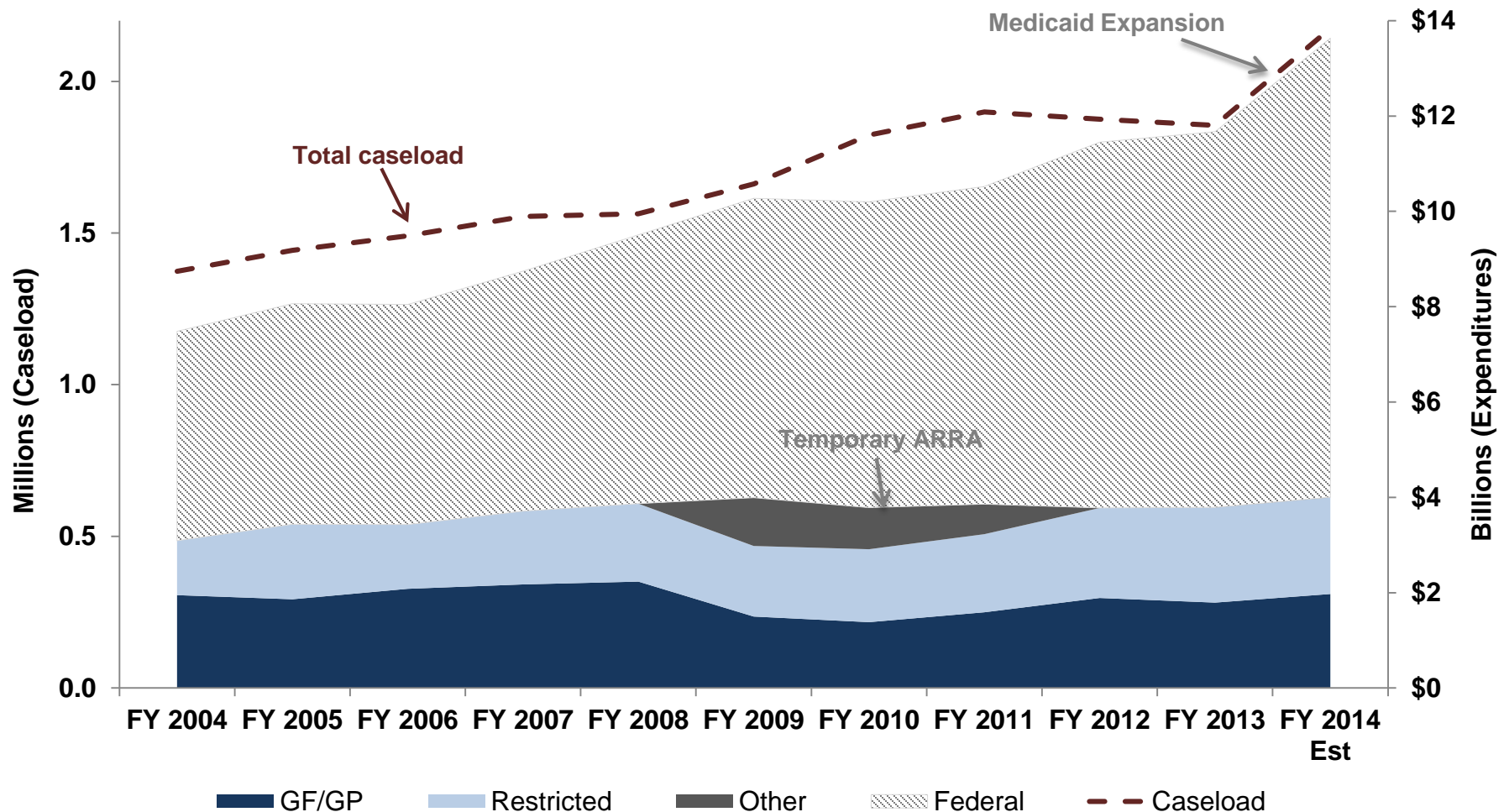
Corrections Personnel Costs

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

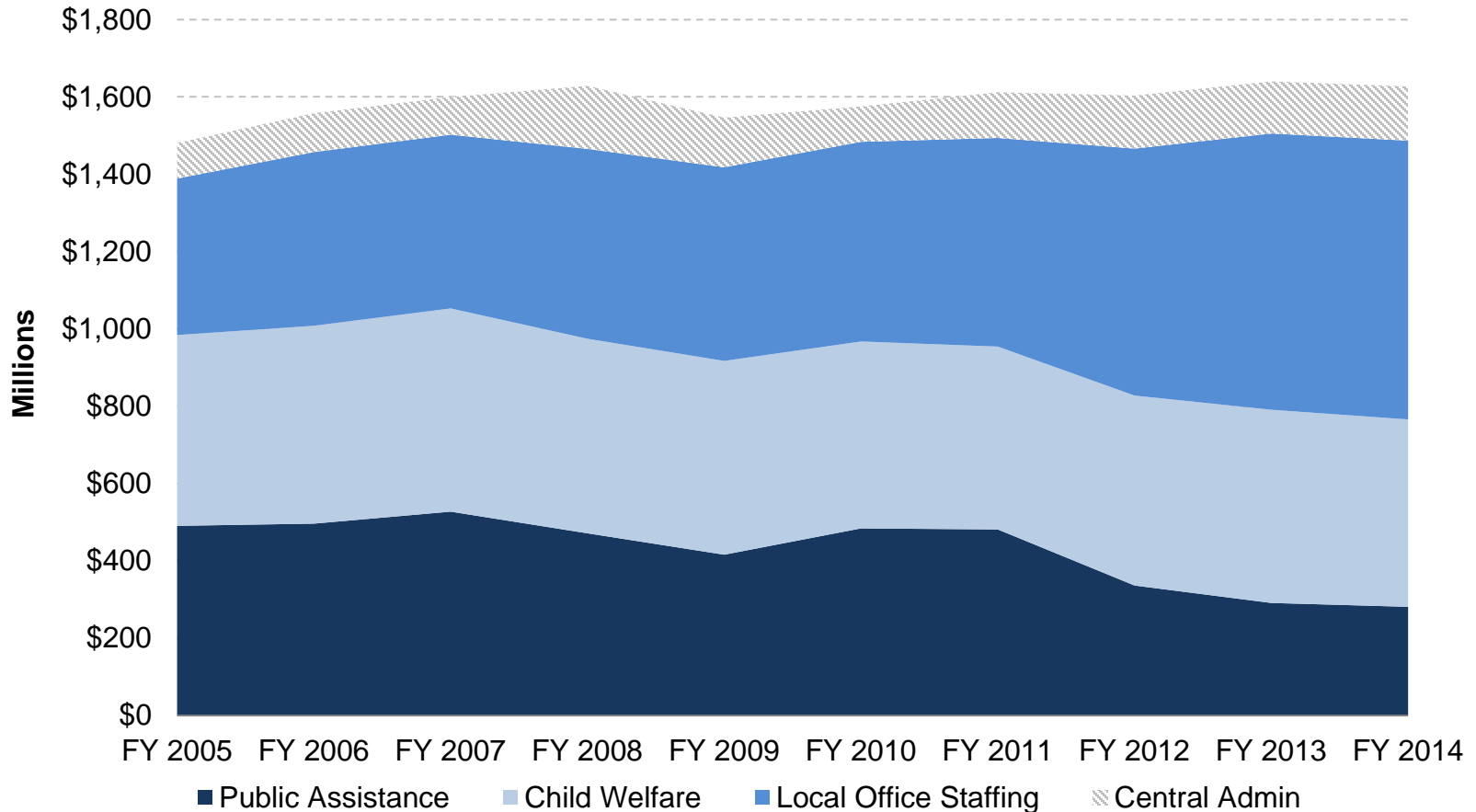
Total Medicaid costs have increased with caseload levels, but costs per enrollee and state match requirements have been relatively flat.



ARRA: Federal American Recovery and Reinvestment Act of 2009

Human Services Funding

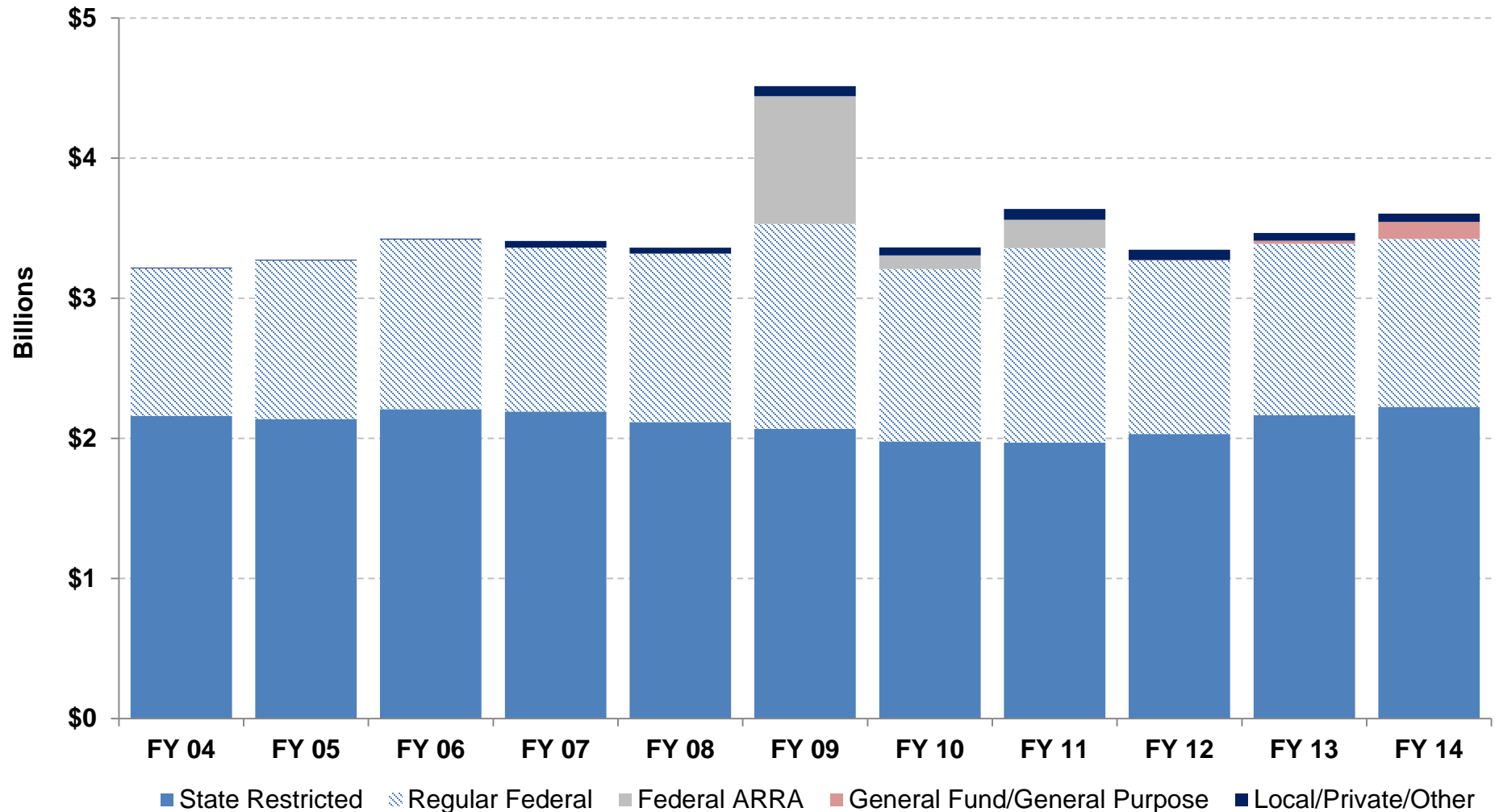
Combined GF/GP and TANF funding for Human Services is roughly flat since FY 2008. Public Assistance has declined, primarily from implementing time limits on cash assistance, while Local Office Staffing has increased due to child welfare settlement staffing enhancements and OPEB prefunding.



Note: Figures exclude one-time funding for low income energy assistance in FY 2013.

Michigan's Transportation Budget

Excluding temporary federal stimulus funds, total funding for transportation purposes has experienced minimal growth over the last decade.

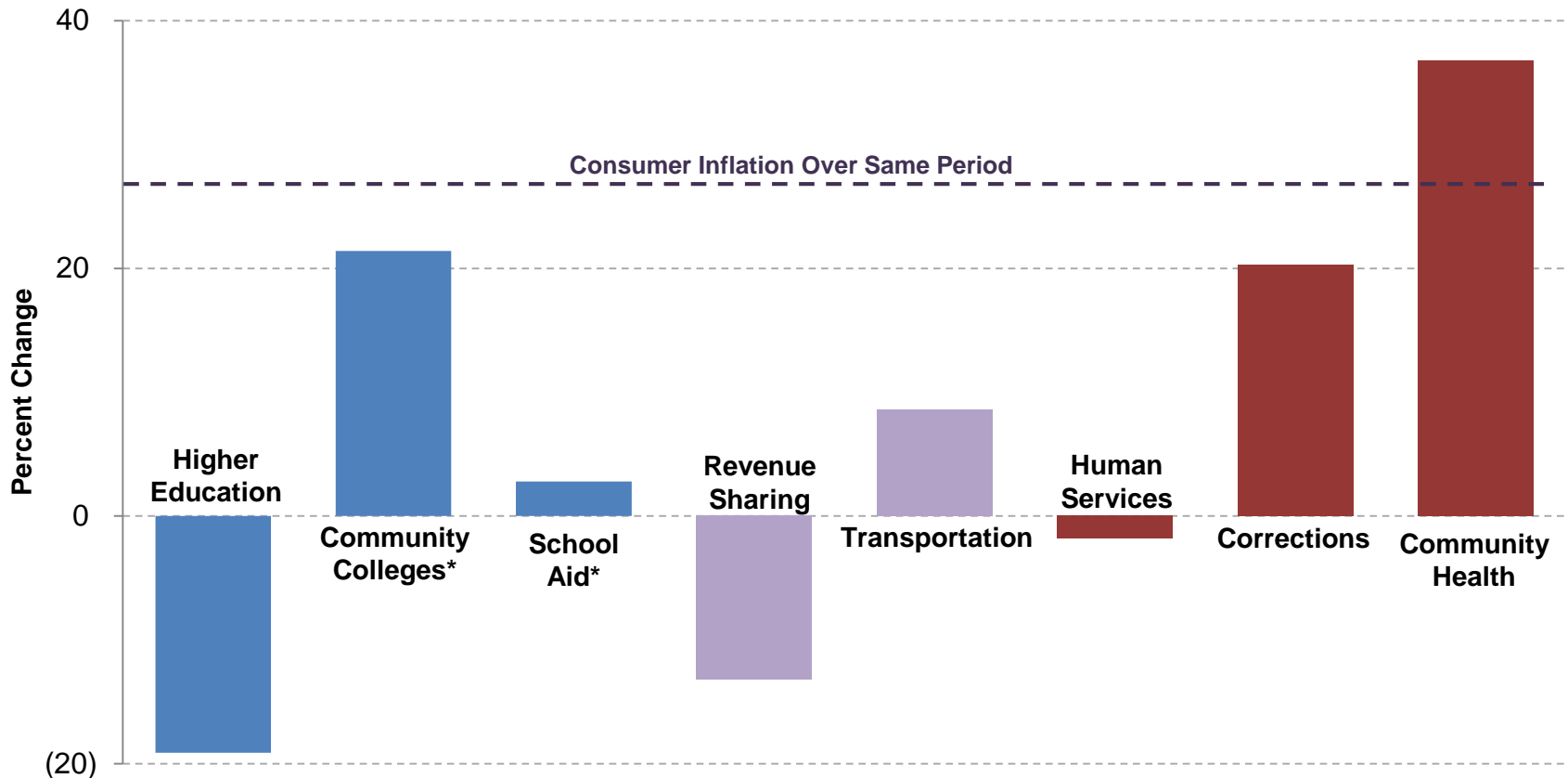


ARRA: Federal American Recovery and Reinvestment Act of 2009

Changes in Major Budget Areas

FY 2004 to FY 2014: State Source Appropriations

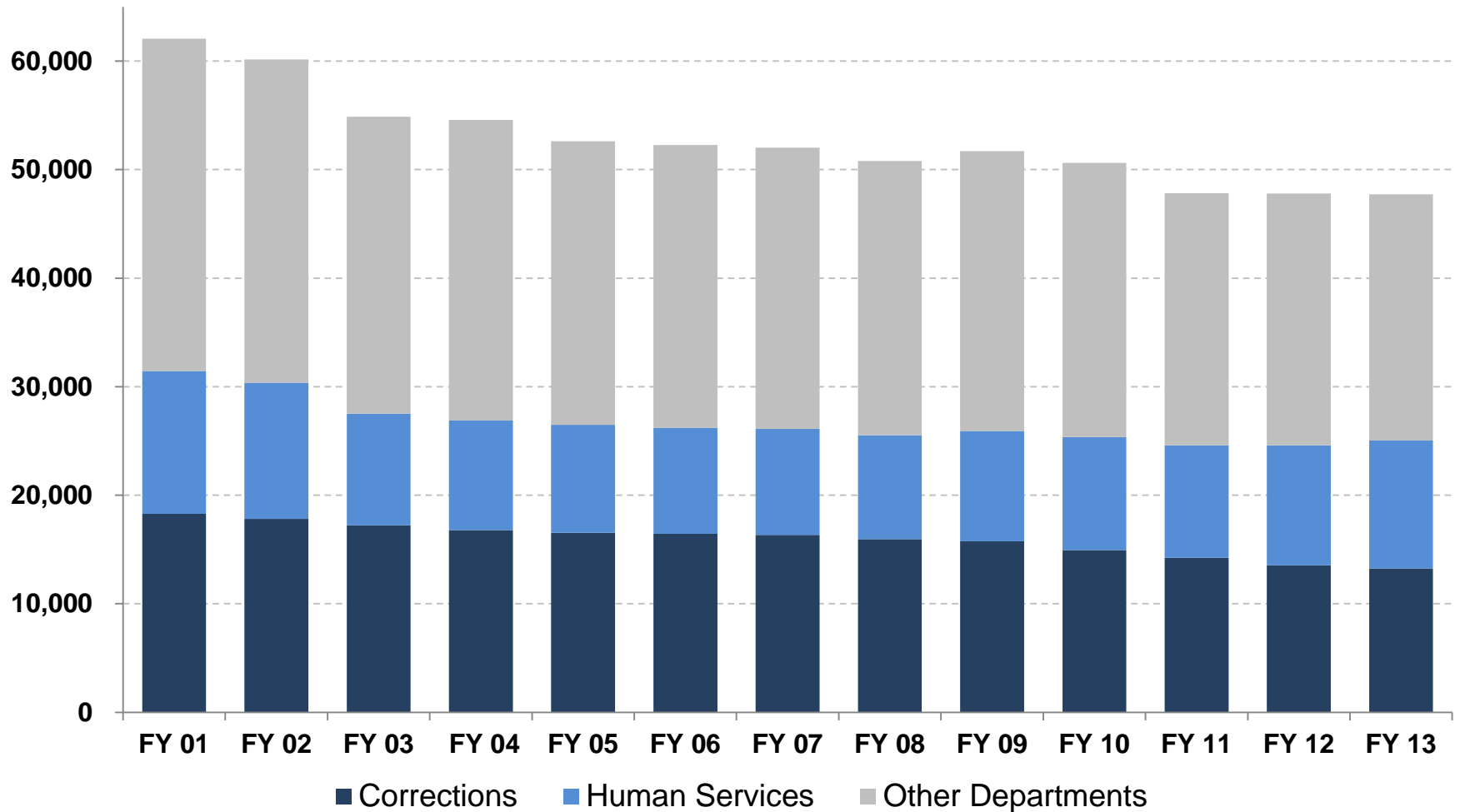
Most areas of the state budget have declined or experienced minimal growth over the last decade—particularly payments to educational institutions and local units.



*Includes recent increases for Michigan Public School Employees' Retirement System (MPERS) rate cap, which are a pass-through to the retirement system.

Total Classified Employees

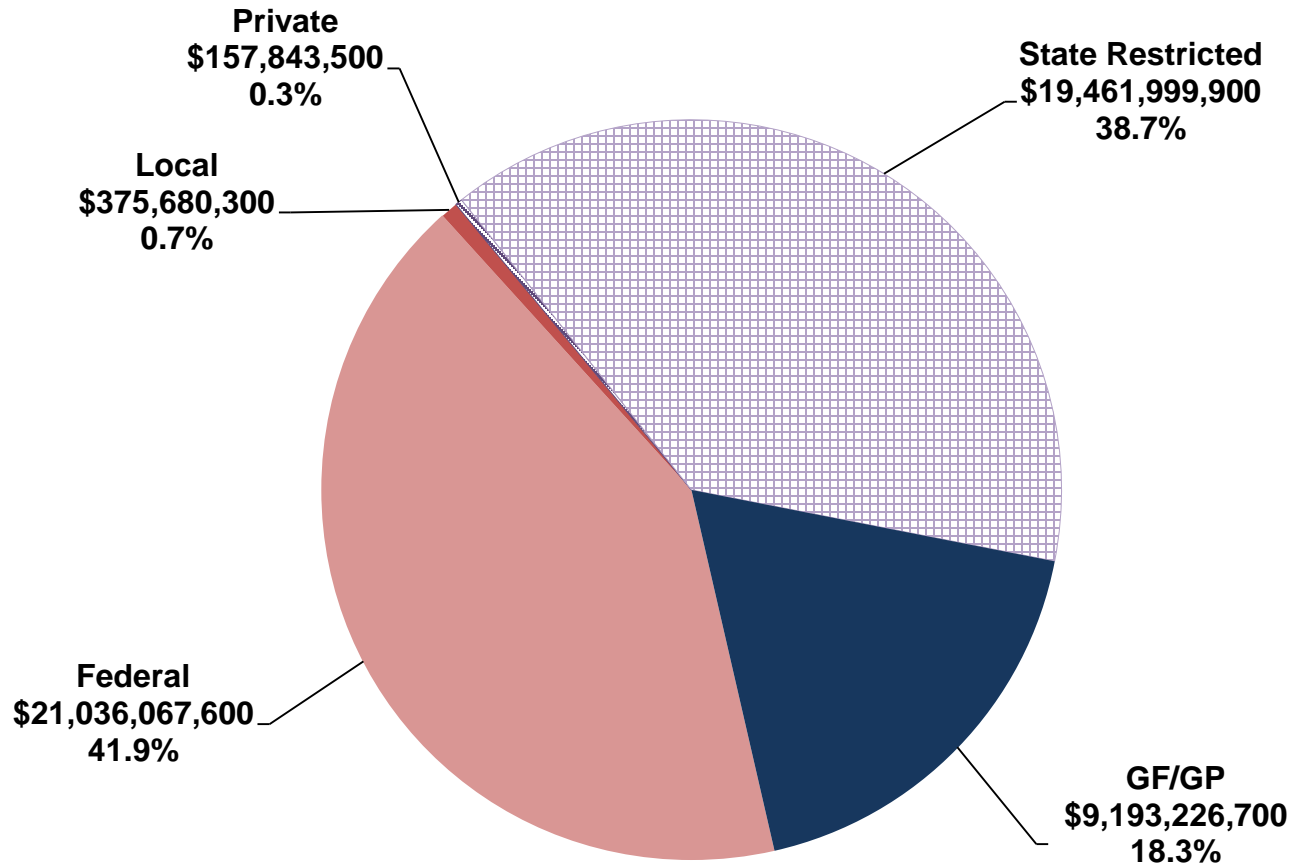
The total number of state employees has declined by about 14,000 (23%) since FY 2001.



CURRENT STATE BUDGET

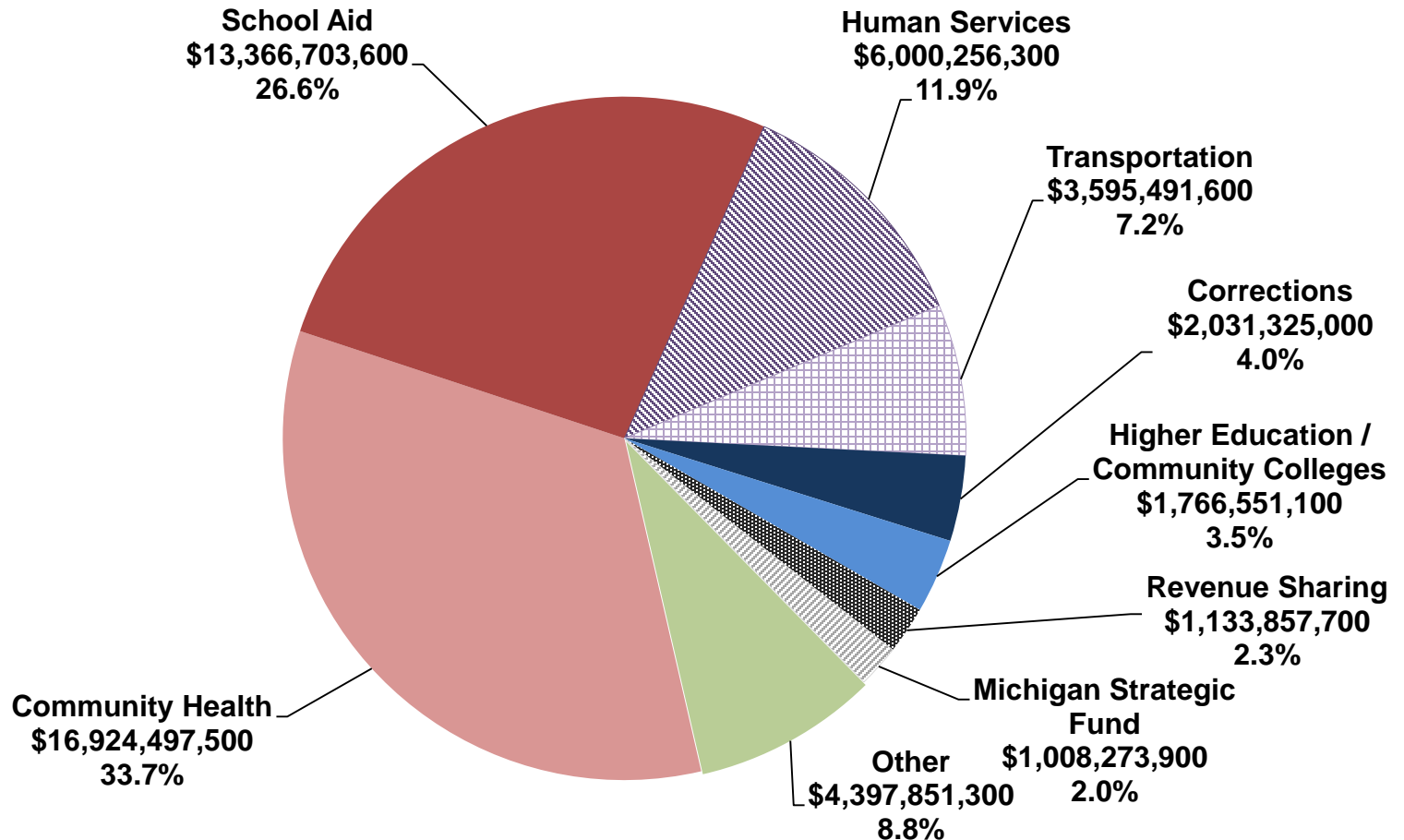
FY 2013-14 State Budget by Source

Over 80% of the \$50.2 billion state budget is funded by federal or restricted sources. State restricted sources can be either constitutional (for example, the School Aid Fund) or statutory in nature.



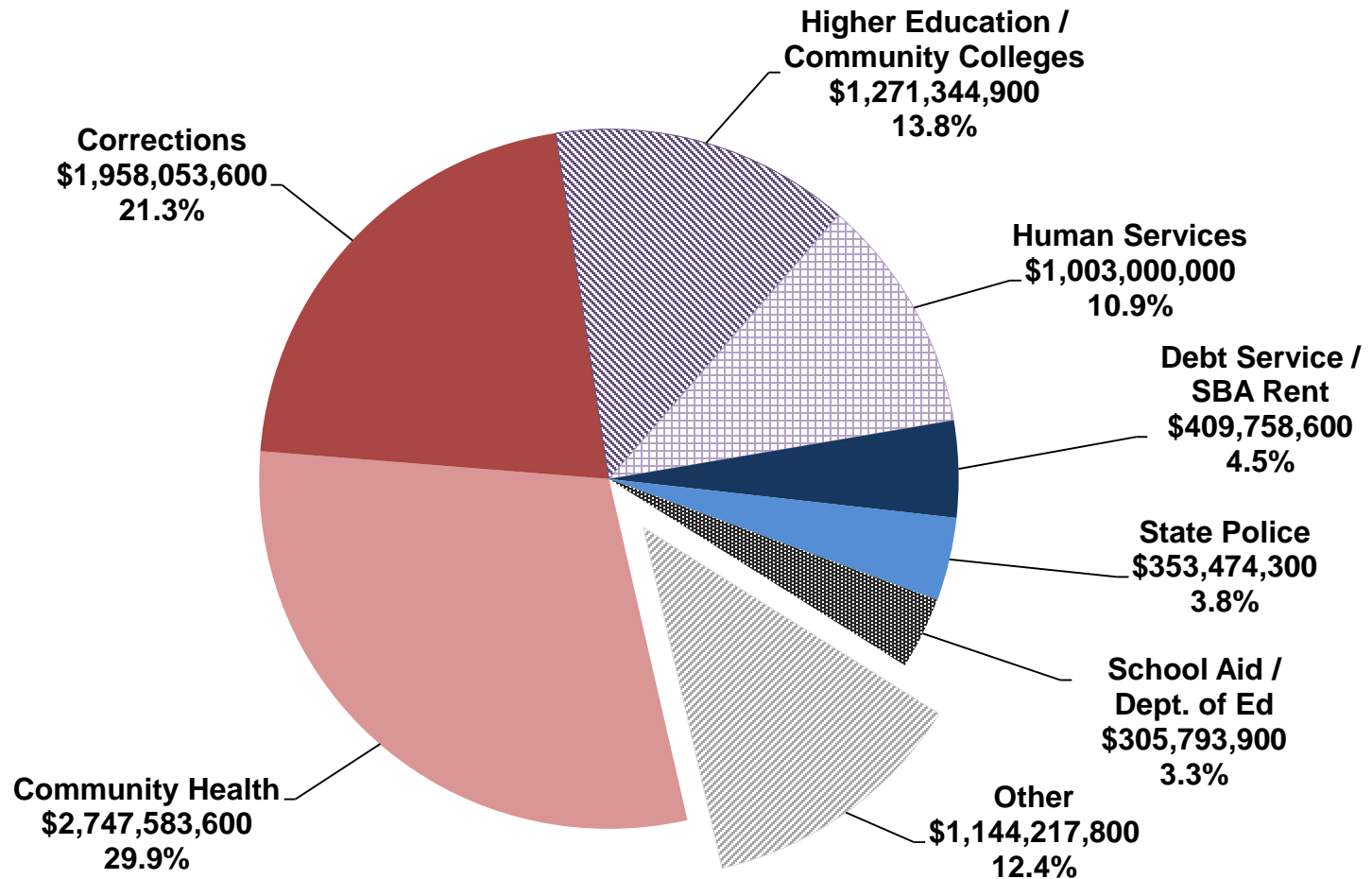
FY 2013-14 Adjusted Gross Appropriations

The largest categories of the \$50.2 billion state budget consist largely of payments to health care providers, school districts, universities and colleges, and local units of government.



FY 2013-14 GF/GP Appropriations

88% of the \$9.2 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.



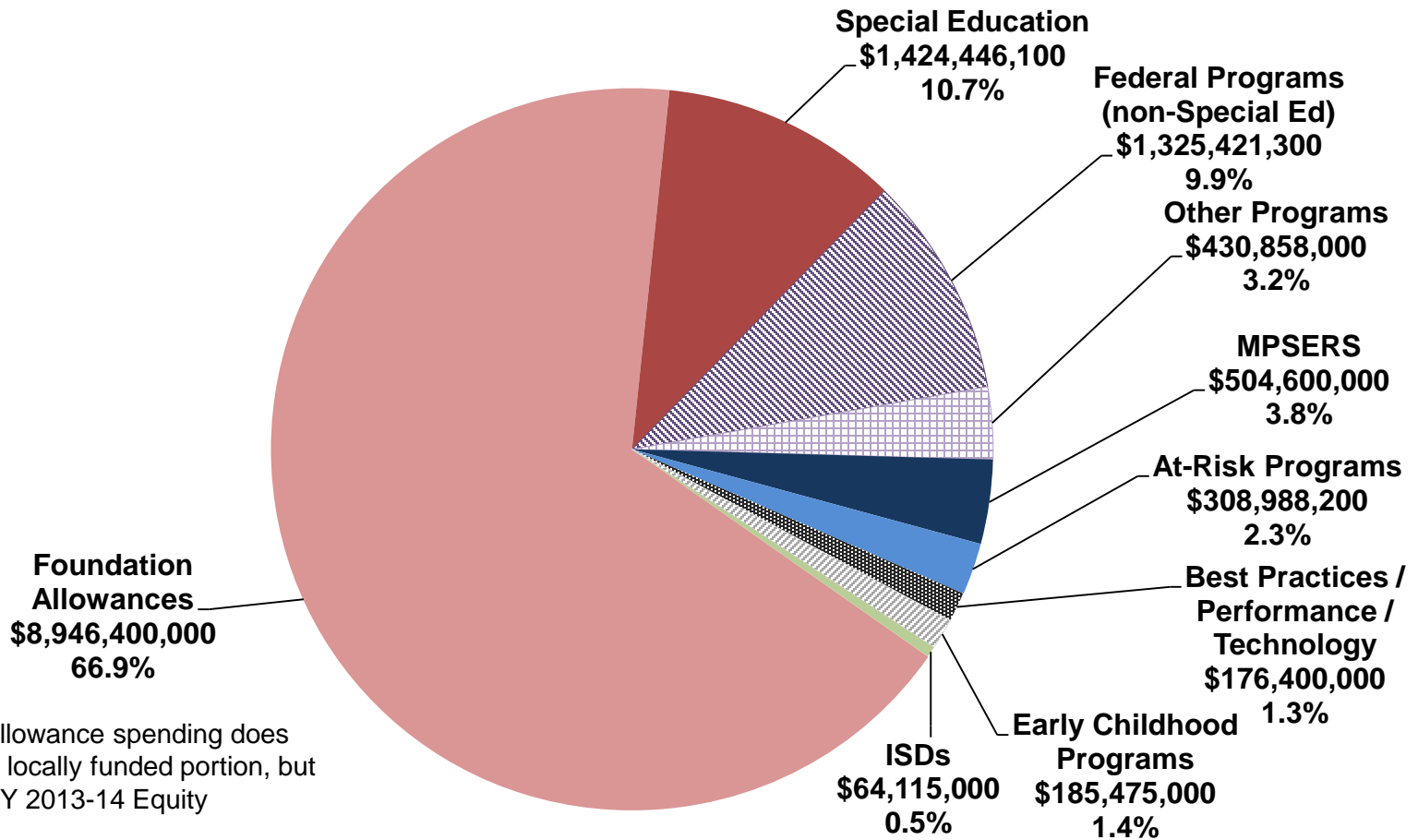
FY 2013-14 State Budget

Millions of \$

| Budget Area | Adjusted Gross | GF/GP | | Budget Area | Adjusted Gross | GF/GP |
|---------------------------|----------------|-----------|--|-----------------------------|-------------------|------------------|
| Community Health | \$16,924.5 | \$2,747.6 | | Judiciary | \$281.1 | \$183.4 |
| School Aid | 13,366.7 | 234.9 | | DTMB: SBA Rent | 258.6 | 258.6 |
| Human Services (Dept. of) | 6,000.3 | 1,003.0 | | DTMB: Operations | 254.6 | 150.2 |
| Transportation | 3,595.5 | 121.3 | | State | 199.5 | 15.3 |
| Corrections | 2,031.3 | 1,958.1 | | Military & Veterans Affairs | 166.1 | 46.5 |
| Higher Education | 1,430.6 | 1,133.0 | | Treasury: Debt Service | 154.2 | 151.2 |
| Treasury: Revenue Sharing | 1,133.9 | 0.0 | | Legislature | 123.8 | 122.3 |
| Treasury: MSF | 1,008.3 | 218.2 | | Agriculture | 79.7 | 40.6 |
| State Police | 581.6 | 353.5 | | Insurance & Fin Services | 74.6 | 11.0 |
| Environmental Quality | 507.8 | 29.1 | | Attorney General | 62.0 | 34.5 |
| Treasury: Operations | 489.1 | 89.8 | | Legislative Auditor General | 15.9 | 13.9 |
| Licensing & Reg Affairs | 488.7 | 25.0 | | Civil Rights | 15.2 | 12.3 |
| Natural Resources | 341.7 | 25.4 | | Executive Office | 5.4 | 5.4 |
| Community Colleges | 336.0 | 138.4 | | | | |
| Education (Dept. of) | 298.4 | 70.9 | | TOTAL | \$50,224.8 | \$9,193.2 |

FY 2013-14 School Aid Appropriations

Recent increases in the \$13.4 billion School Aid budget have been targeted based on specific requirements or purposes: retirement costs, early childhood, best practices, information technology.



* 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.
- **MPERS Retirement Health Care Prefunding Costs** – Up from \$160 million in FY 2012-13 to \$403 million in FY 2013-14 based on rate cap for local districts.
- **MPERS 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.

Major GF/GP Funding Increases Since FY 2011-12

| Funding Item | Millions of \$ |
|--------------------------------------------------------------------------|----------------|
| Community Colleges: Operations (5.1% increase over 2 years) | \$14.4 |
| Community Colleges: Retirement Cost Reimbursement | 31.4 |
| DCH/LARA: Autism Coverage | 17.7 |
| Higher Education: University Operations (4.8% increase over 2 years) | 58.1 |
| State Police: Trooper Recruit Schools | 29.7 |
| MSF: Business Attraction & Community Revitalization (\$95 million total) | 27.5 |
| MSF: Community Ventures/Skilled Trades Training | 19.8 |
| MSF: Film Incentives (\$50 million total) | 25.0 |
| Revenue Sharing: Competitive Assistance (GF/GP impact) | 10.0 |
| Revenue Sharing: Counties (GF/GP impact) | 30.8 |
| Revenue Sharing: EVIP to Cities/Villages/Townships (GF/GP impact) | 25.8 |
| DTMB: Information Technology Development Projects | 47.0 |
| DTMB: Building Maintenance | 28.0 |
| Transportation: One-time Federal Match | 121.3 |

Notes: (1) Includes funding amounts designated as one-time for FY 2013-14.

(2) Some items are full (Community Colleges) or partial (Higher Education/Revenue Sharing) restorations of FY 2011-12 reductions.

State Employee Compensation

FY 2013-14 Total: \$5.6 Billion (Estimated)

Roughly 50% of costs related to state employee compensation are funded by GF/GP revenue; remaining costs are funded by federal and restricted sources. Corrections employees account for roughly 50% of GF/GP compensation costs.

Salary and Wages: \$3.1 billion

- Average state employee salary and wages have increased from \$44,395 in FY 2002-03 to \$55,123 in FY 2012-13, which equates to growth of 2.2% per year.

Health Insurance: \$670 million

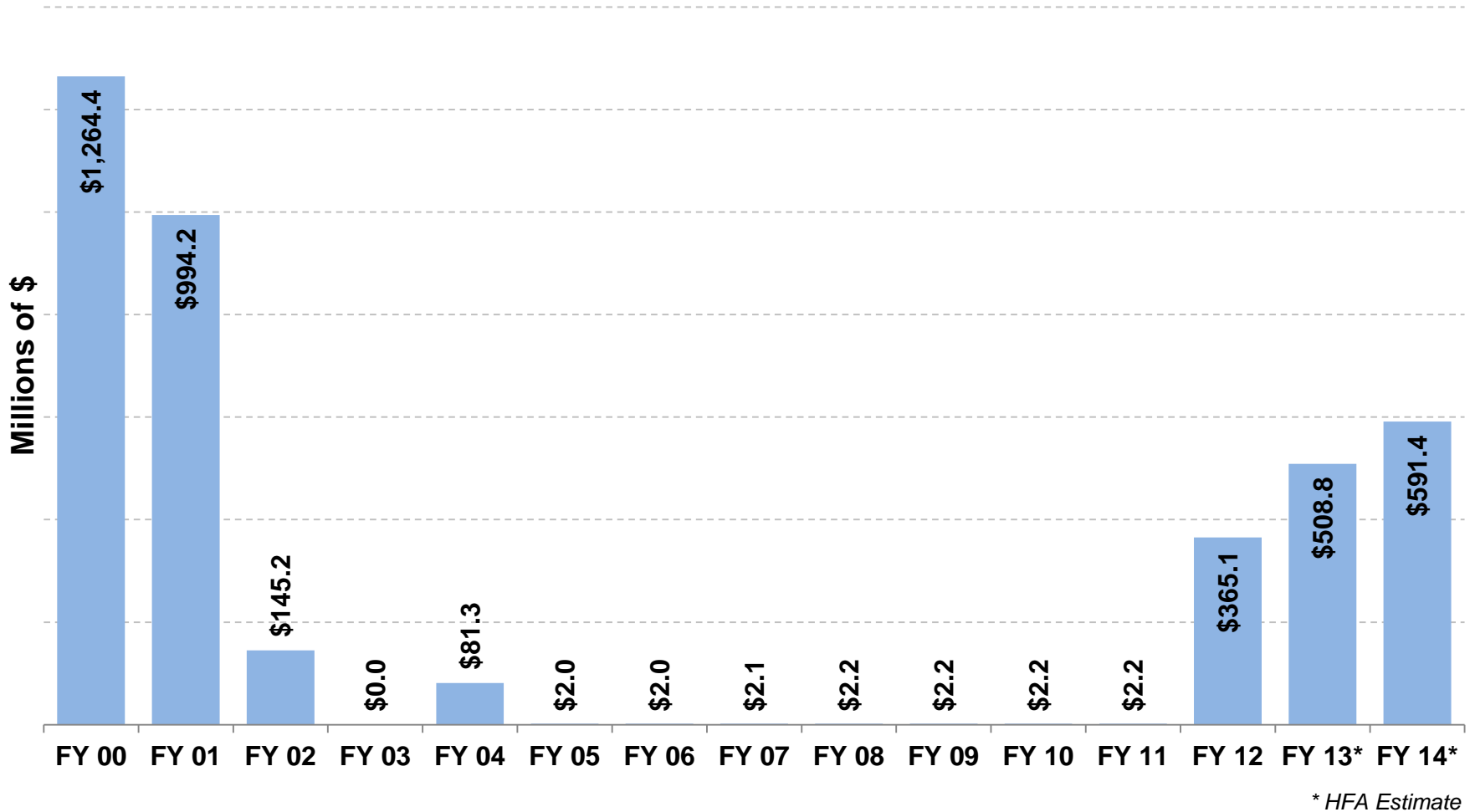
- Employee premium costs are paid on an 80/20 state/employee basis. Employees hired since 2010 pay higher deductibles and copays.

Retirement and Other Post Employment Benefit (OPEB): \$1.8 billion

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

Budget Stabilization Fund Balance

The large BSF balance accumulated during the 1990's was quickly depleted in the early 2000's.
The balance has been partially restored over the last three years.



Major Pending Budget Issues

■ Medicaid Expansion

- Expanded Medicaid to cover persons below 133% of poverty level; projected full-year state General Fund savings of \$275 million in FY 2014-15 as mental health and other costs are shifted to federal funding.
- \$73 million GF/GP needs to be reappropriated in FY 2013-14 budget to account for three-month delay in implementation due to lack of immediate effect.

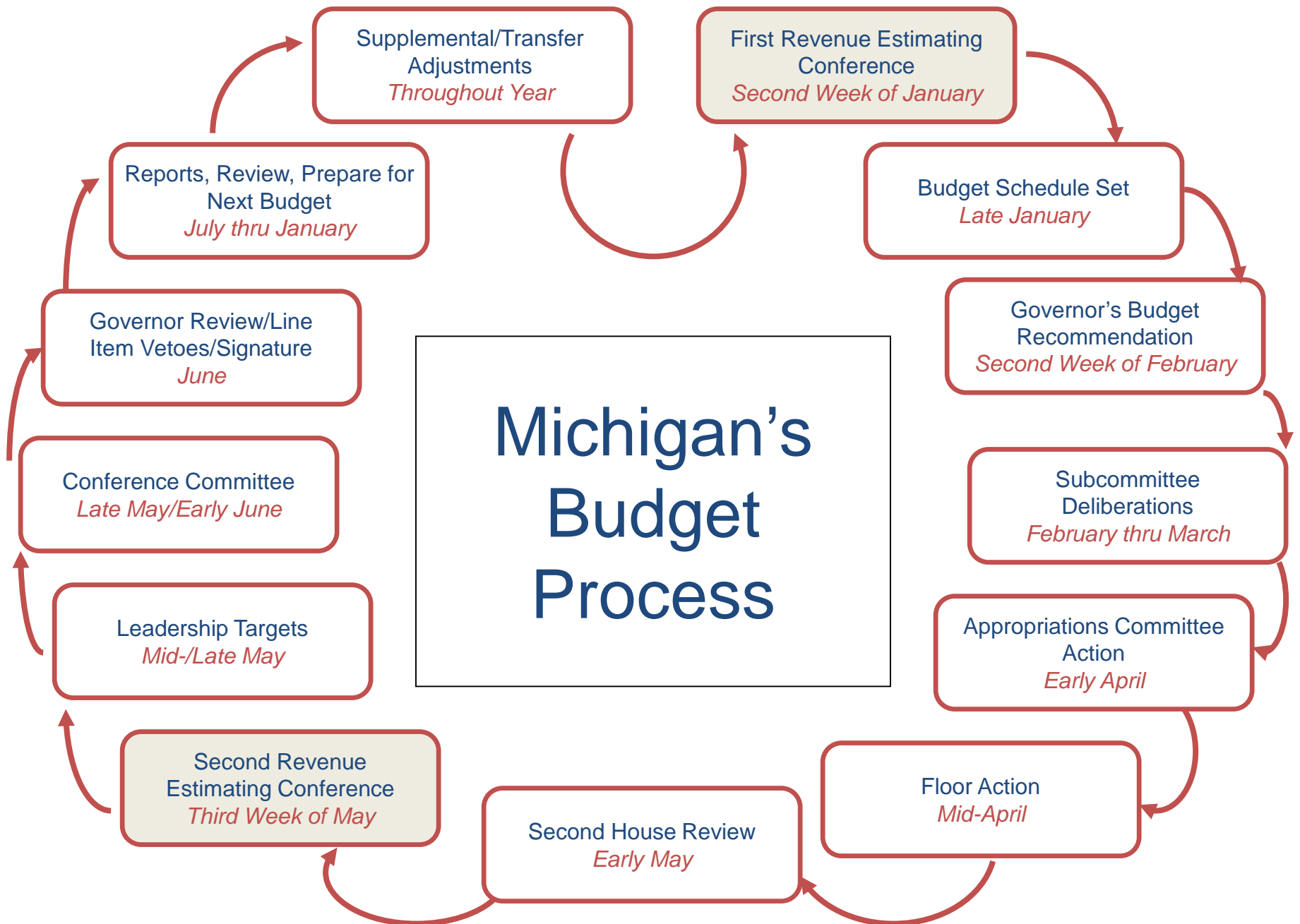
■ Health Insurance Claims Assessment (HICA)

- Permanent action needed to fill annual shortfall of about \$130 million; 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 up to \$350 million in one-time funding.

BUDGET PROCESS



House Fiscal Agency Budget Roles

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

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