



Budget Briefing: State Budget Overview

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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.

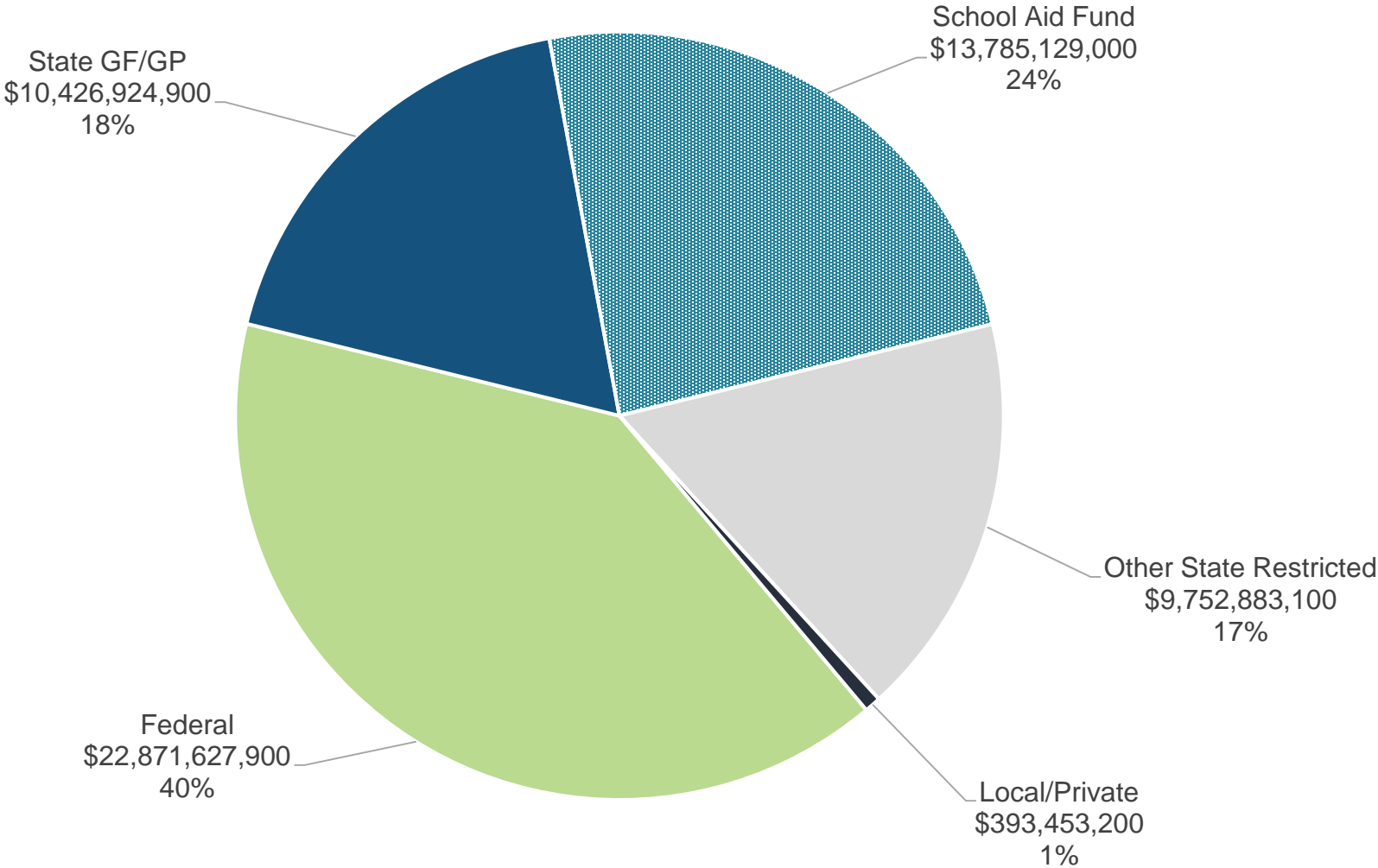
Note: Unless otherwise indicated, historical budget figures in this presentation have not been adjusted for inflation.

FY 2018-19 State Budget

Fund Source	Funding	Description
Gross Appropriations	\$58,148,209,800	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	\$57,230,018,100	Gross appropriations excluding IDGs; avoids double counting when adding appropriation amounts across budget areas
Federal Revenue	22,871,627,900	Federal grant or matching revenue; generally dedicated to specific programs or purposes
Local Revenue	216,426,800	Revenue received from local units of government for state services
Private Revenue	177,026,400	Revenue from individuals and private entities, including payments for services, grants, and other contributions
State Restricted Revenue	23,538,012,100	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	\$10,426,924,900	Unrestricted revenue from taxes and other sources available to fund basic state programs and other purposes determined by the Legislature

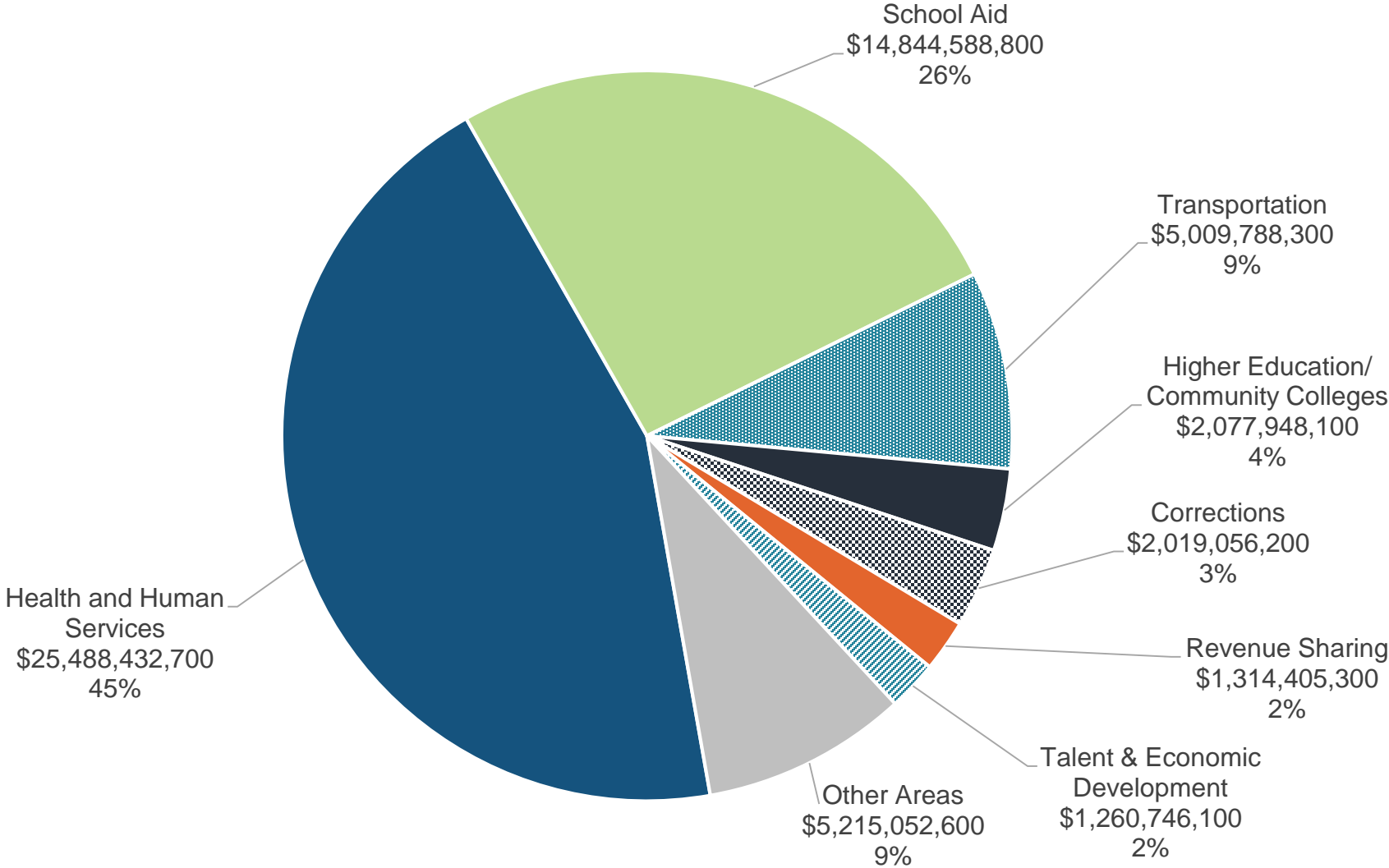
FY 2018-19 Fund Sources

Discretionary GF/GP funds make up 18% of the **\$57.2 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%.



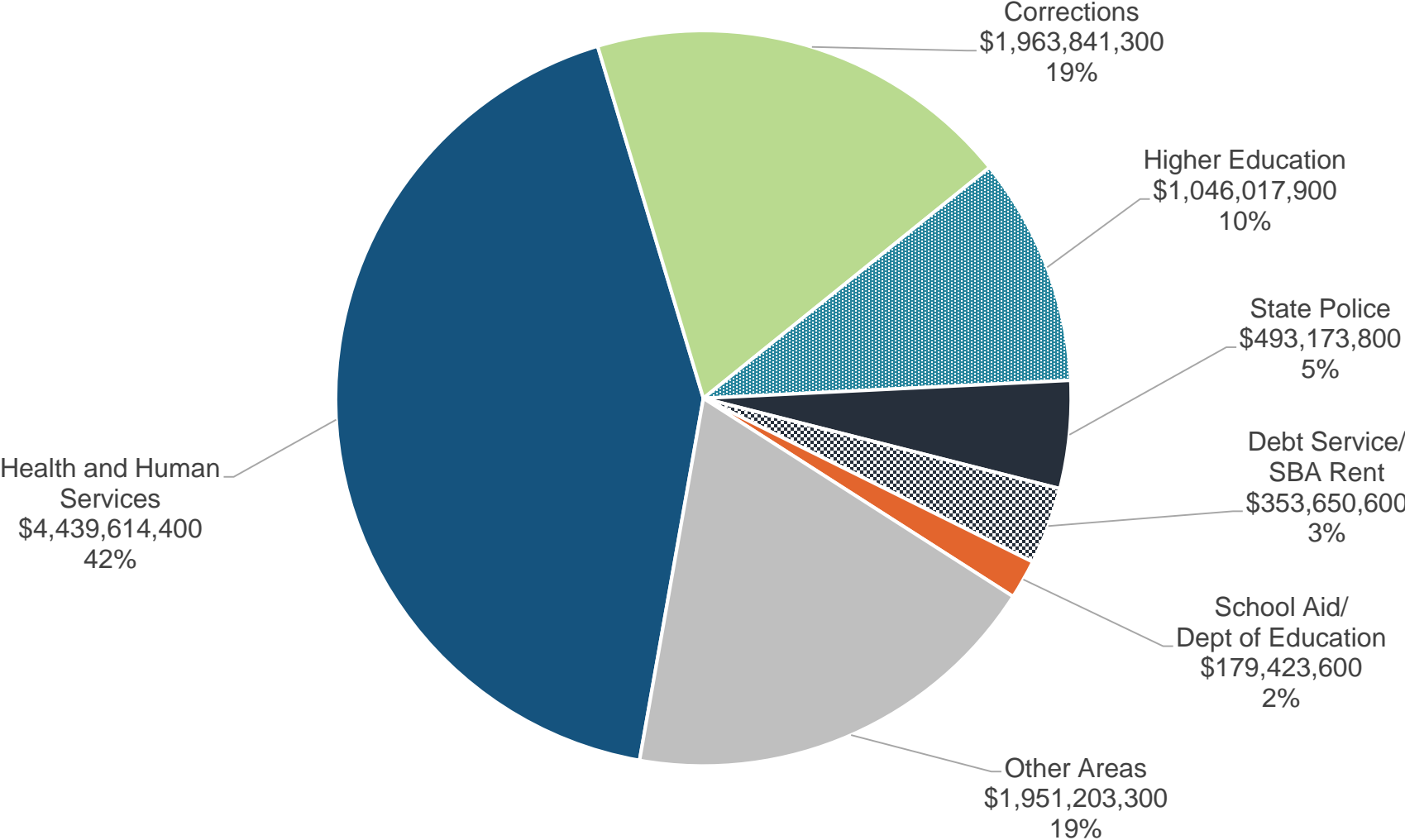
FY 2018-19 Adjusted Gross Appropriations

Large portions of the **\$57.2 billion** state budget consist of payments to health care providers, school districts, universities and colleges, and local units of government.



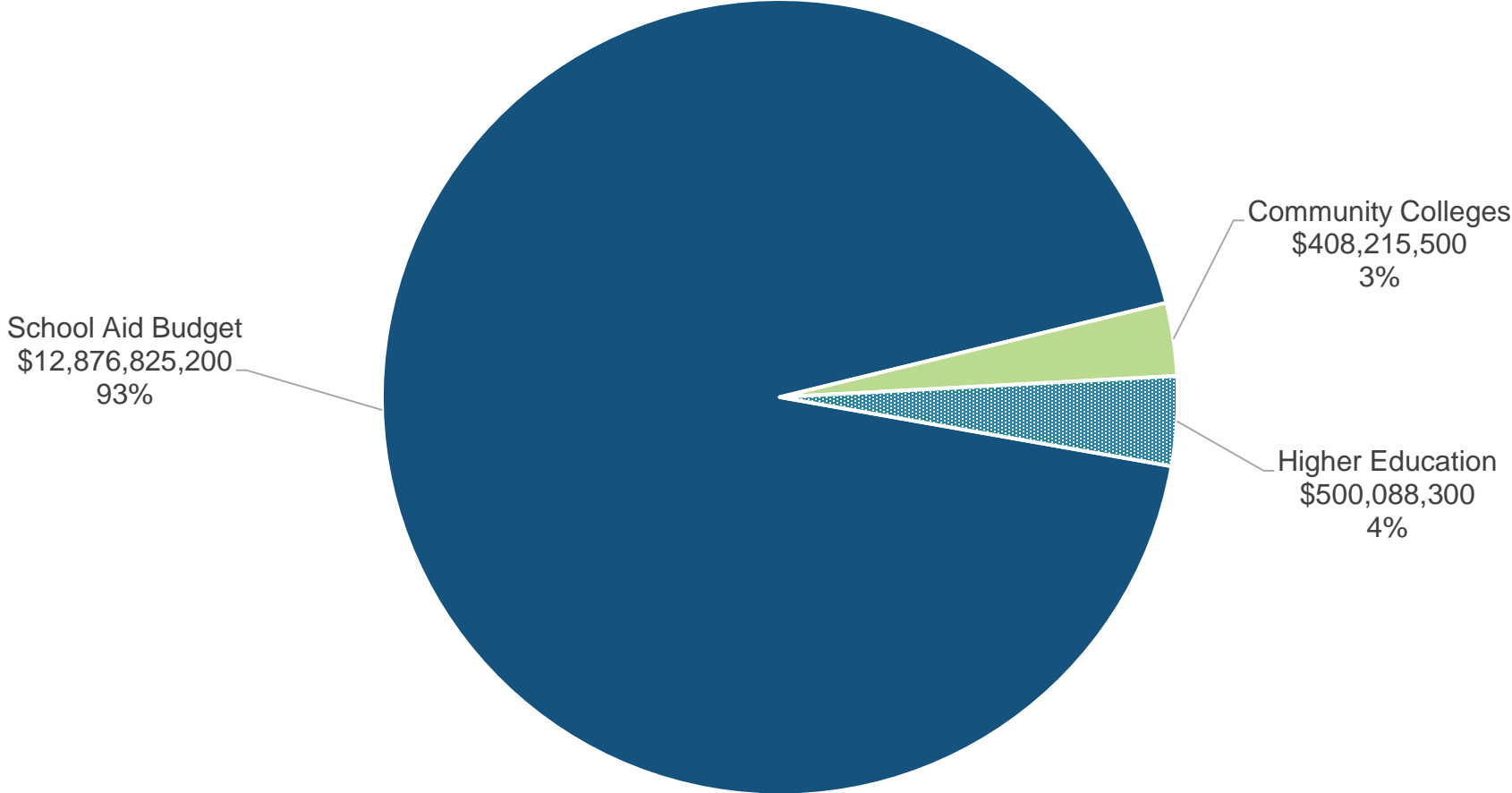
FY 2018-19 GF/GP Appropriations

81% of the **\$10.4 billion** GF/GP budget is appropriated for health and human services, public safety, education, and debt service. The remaining 19% provides funding for 13 state departments, the Judiciary, the Legislature, and the Executive Office.



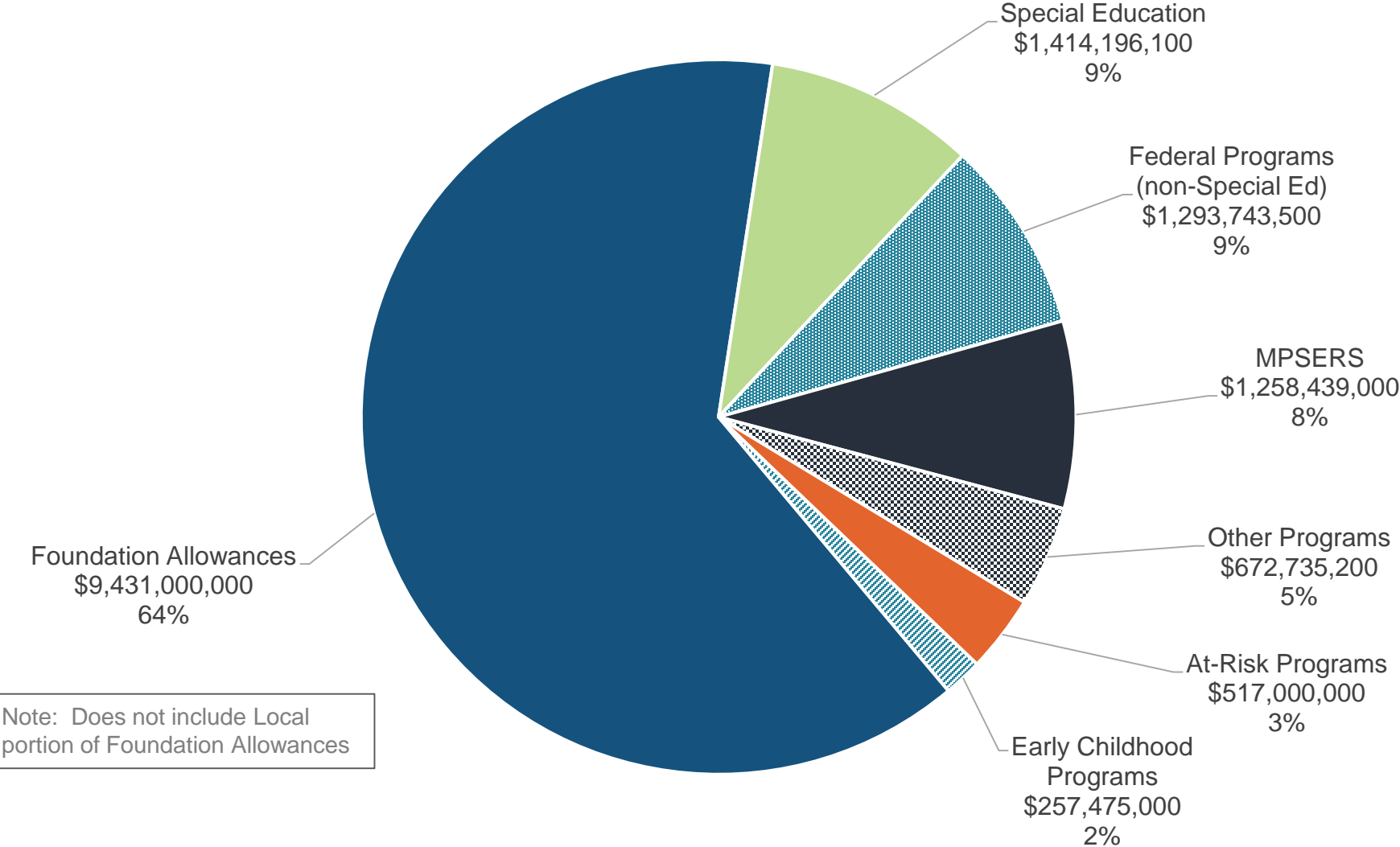
FY 2018-19 School Aid Fund Appropriations

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

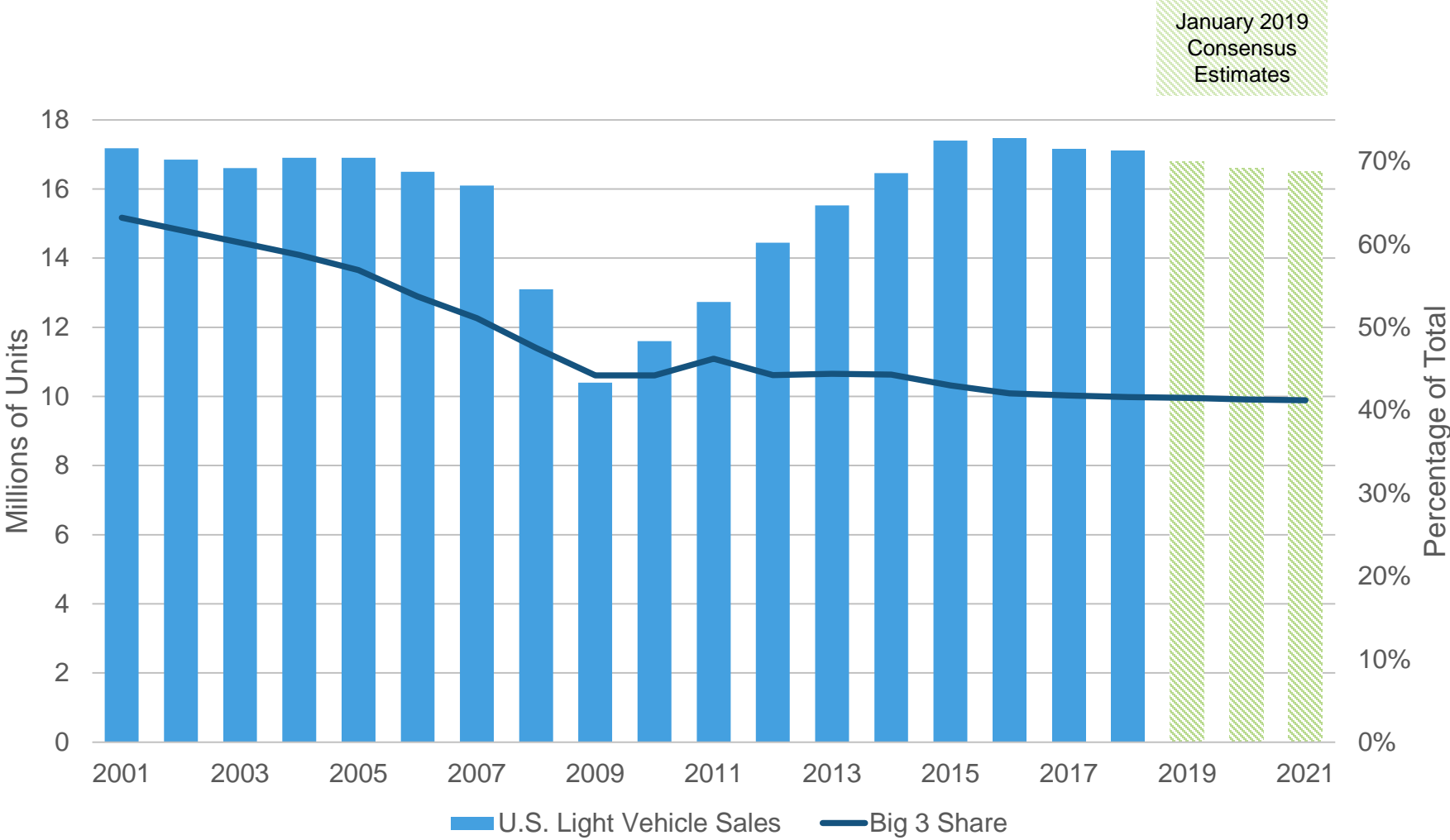
About two-thirds of the \$14.8 billion School Aid budget supports per pupil foundation allowances used for school district general operations.



Economic Trends

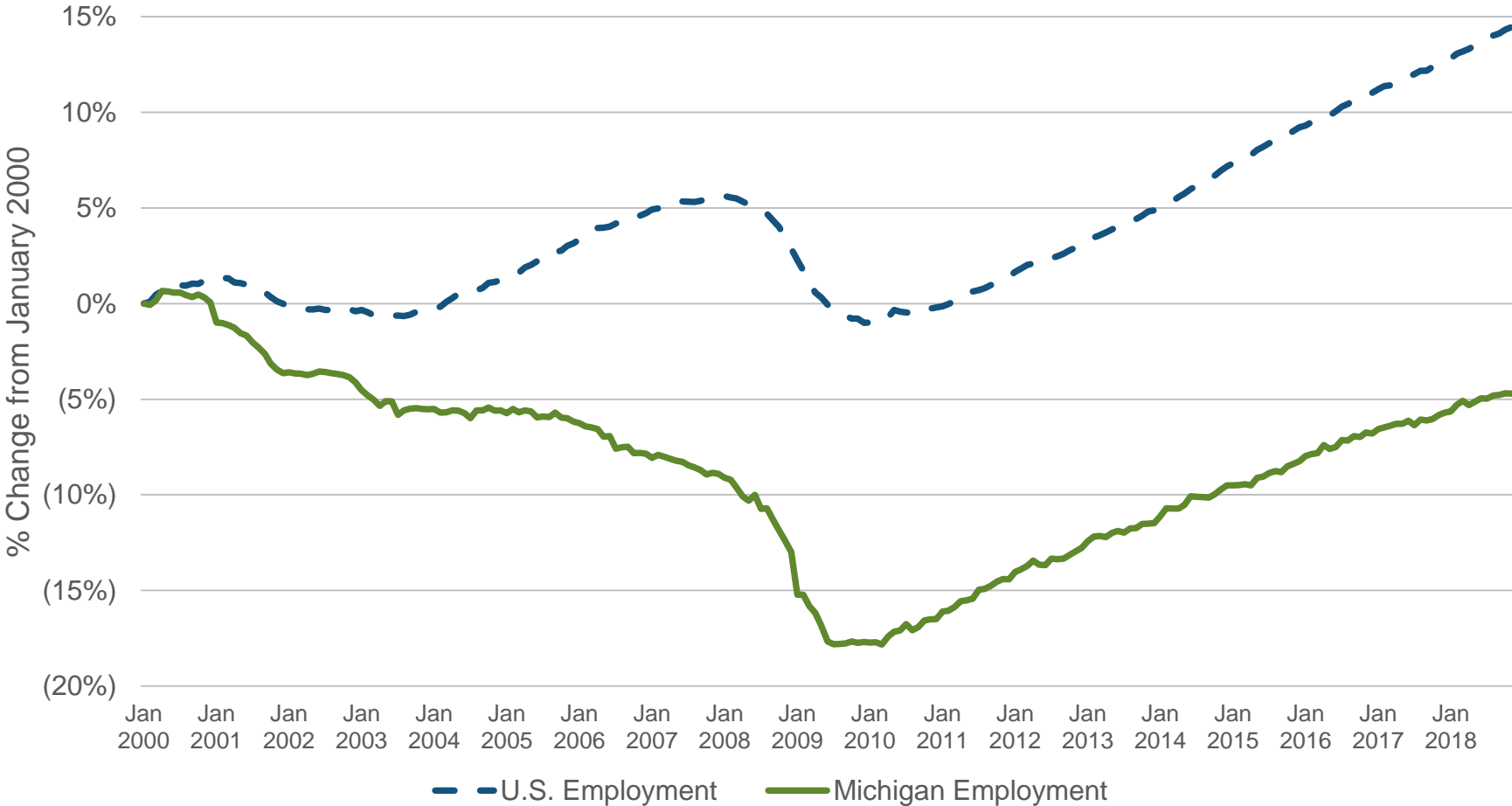
Light Vehicle Sales

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



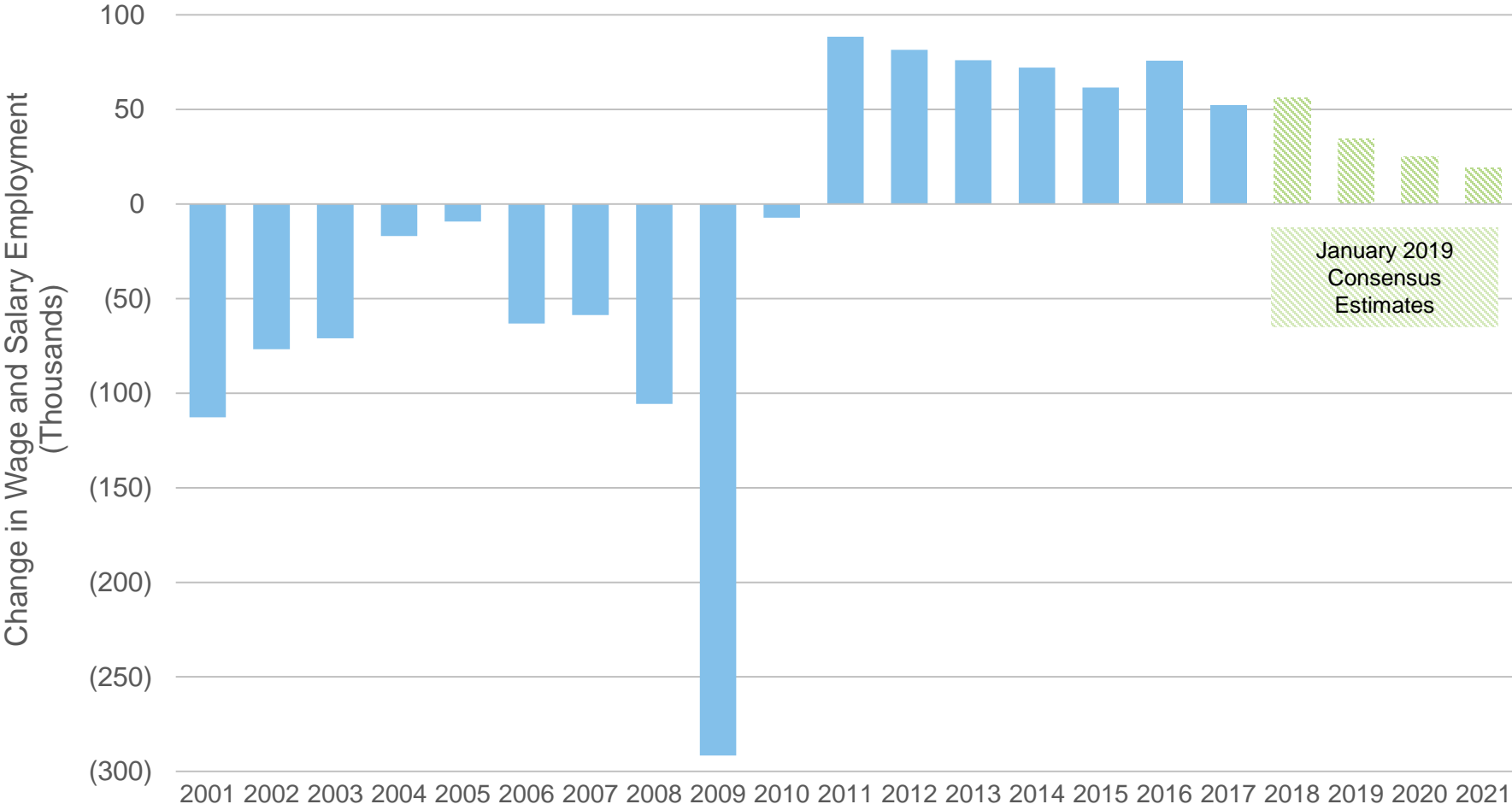
Employment Change Since 2000

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.



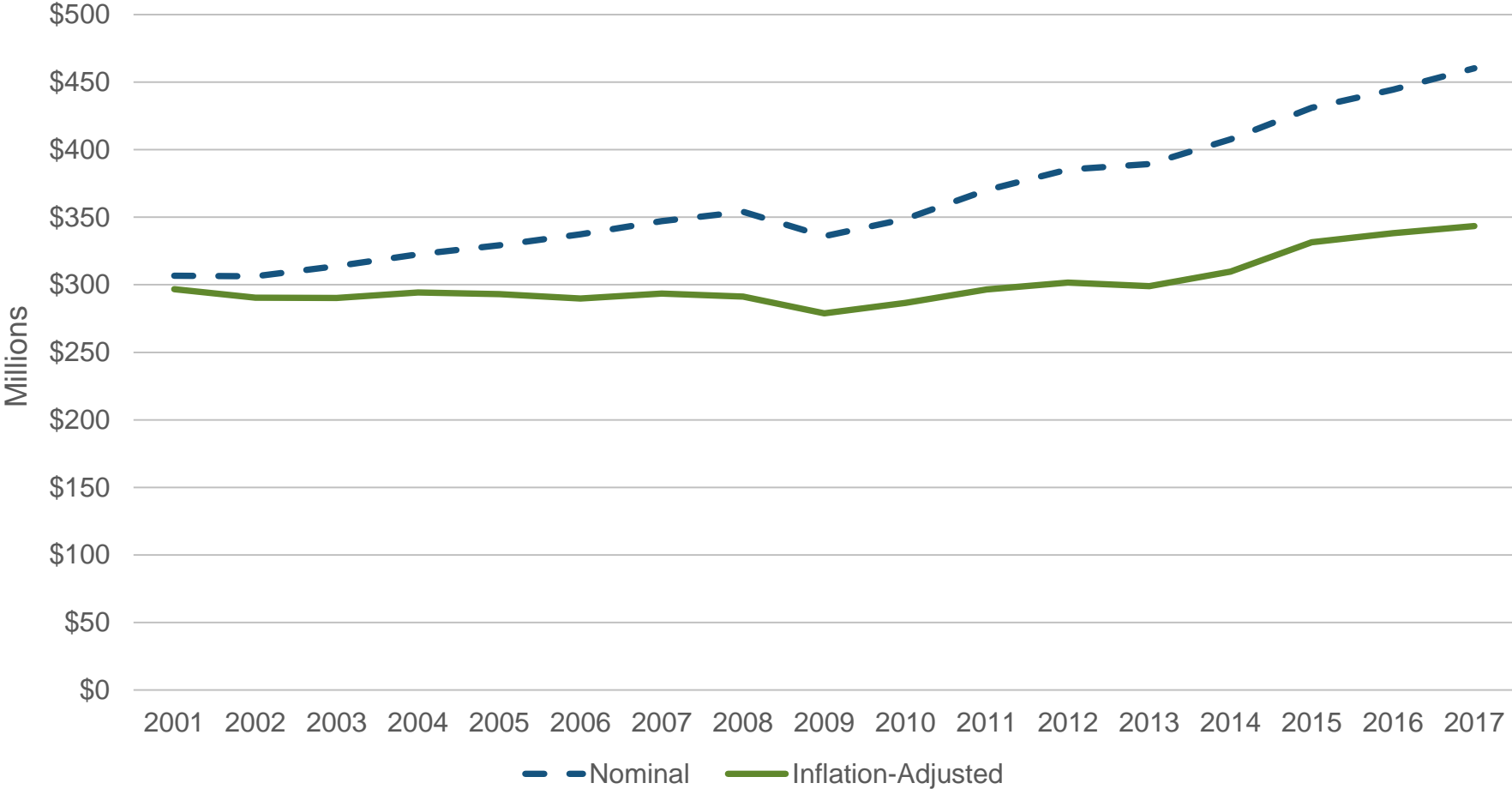
Michigan Employment Changes

Job growth is projected to continue, albeit with very small increases when compared to recent years, as the state’s unemployment rate is expected to decline to 3.9 percent.



Michigan Personal Income

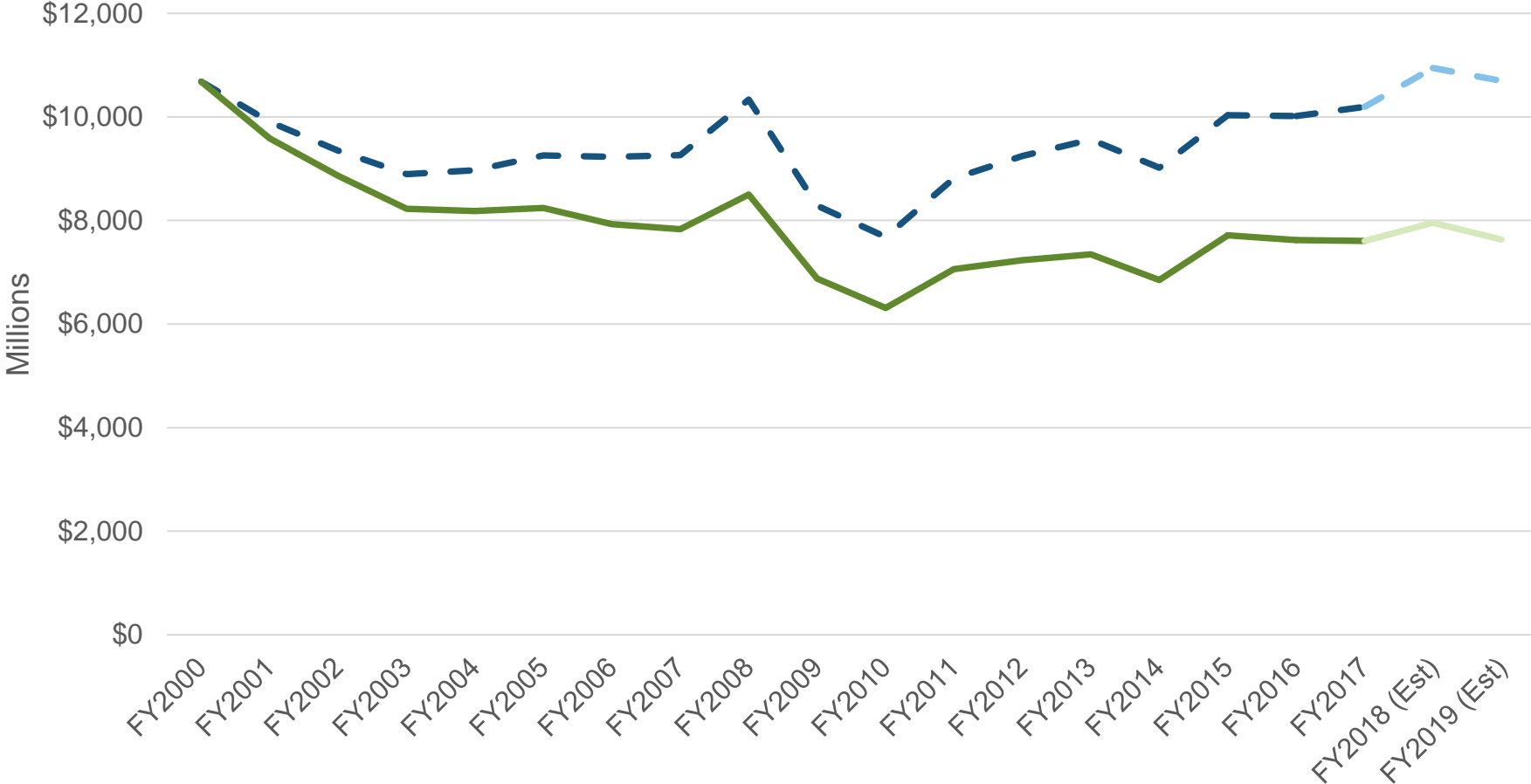
In nominal terms, total personal income in Michigan has risen roughly 52% since 2000. In inflation-adjusted terms, however, personal income has been flat, up until the last four years.



Revenue Trends

GF/GP Revenue

Nominal GF/GP revenue is expected to exceed \$10.7 billion in FY 2018-19. When adjusted for inflation, however, GF/GP revenue is estimated to be 29.9% below the FY 1999-00 level.

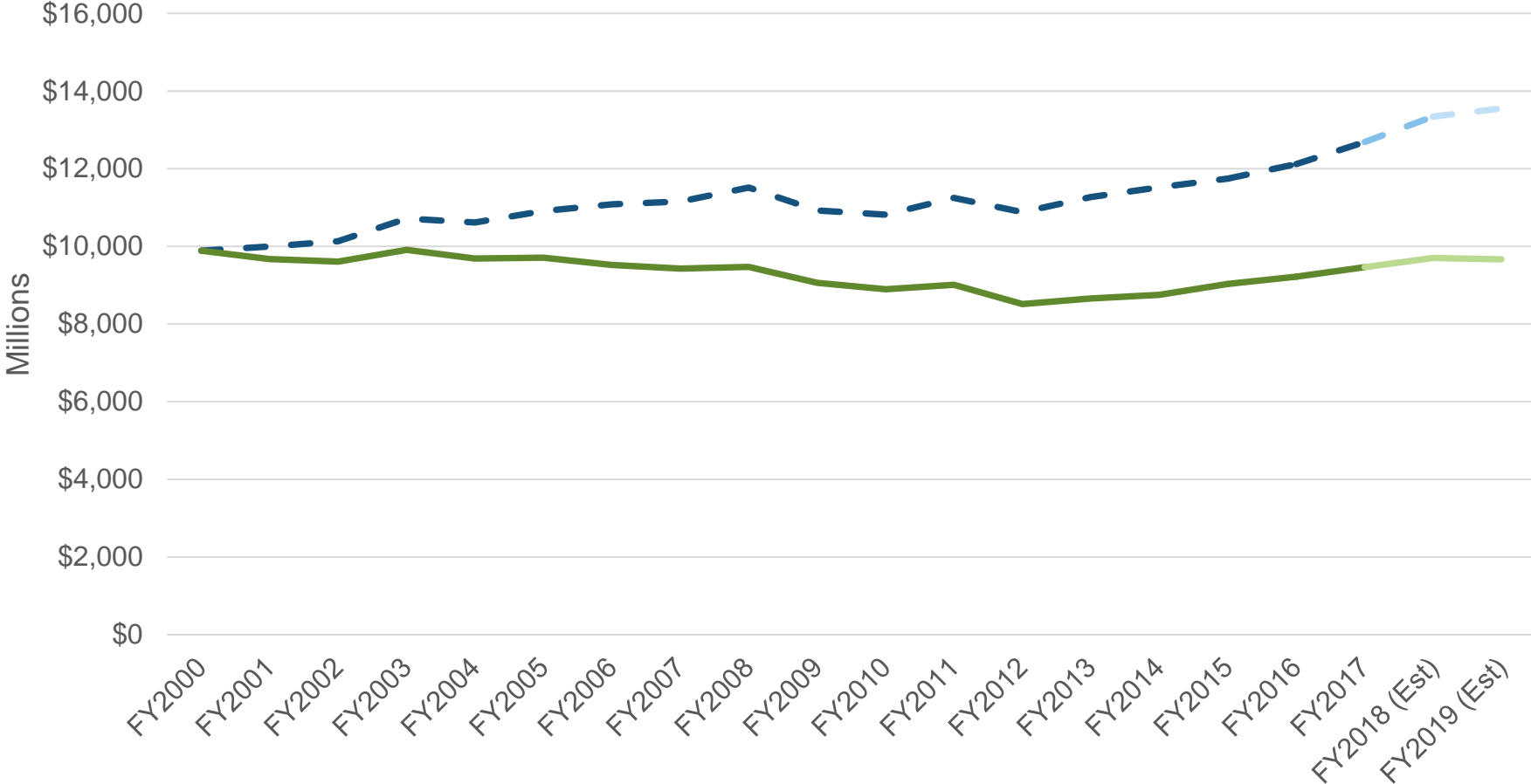


— Actual Dollars — Adjusted for Inflation (Detroit CPI)

January 2019
Consensus
Estimates

School Aid Fund Revenue

Nominal SAF revenue has grown steadily since FY 2011-12. In inflation-adjusted terms, however, FY 2018-19 revenue is estimated to be 2.2% below the FY 1999-00 level.

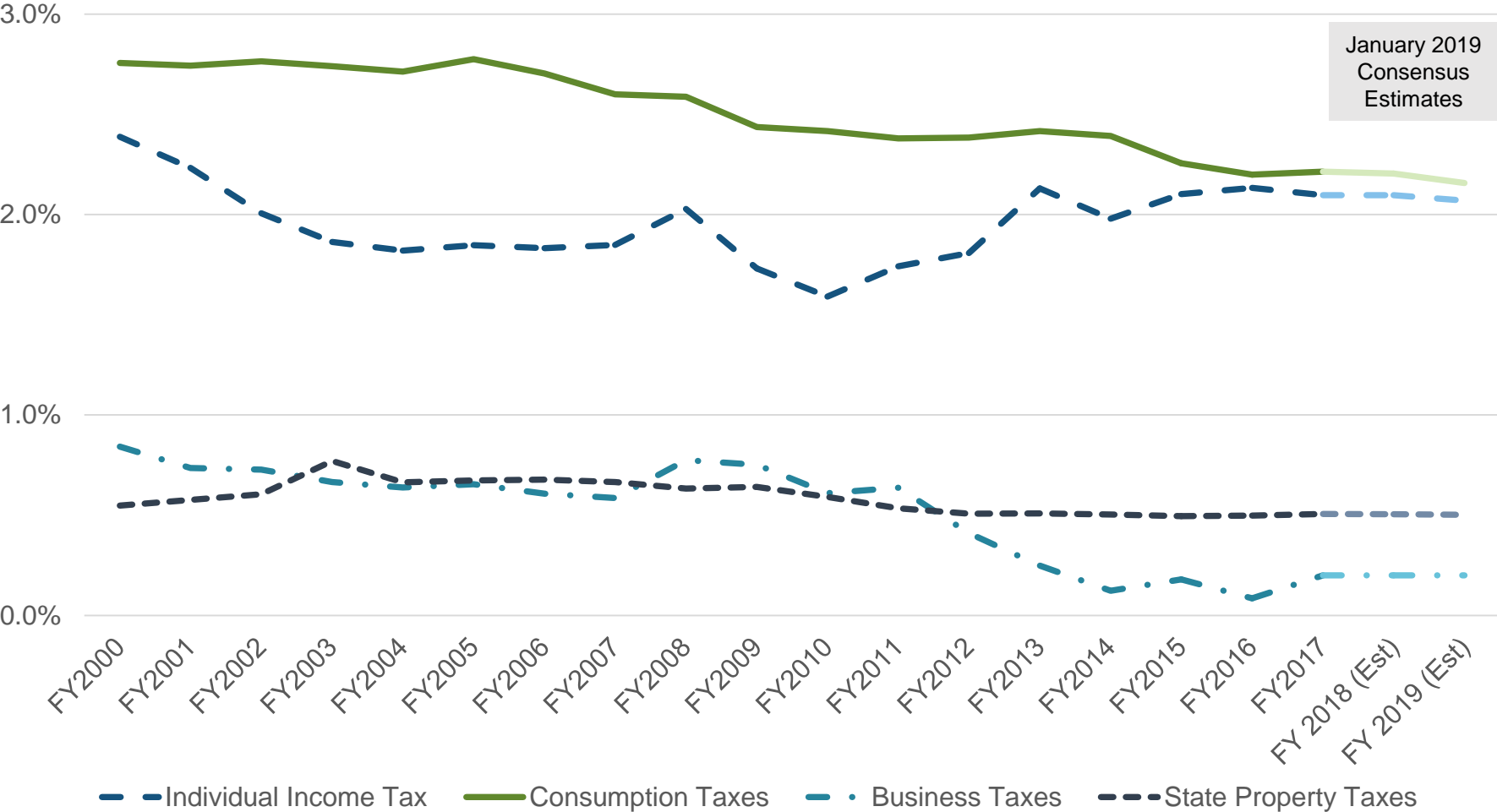


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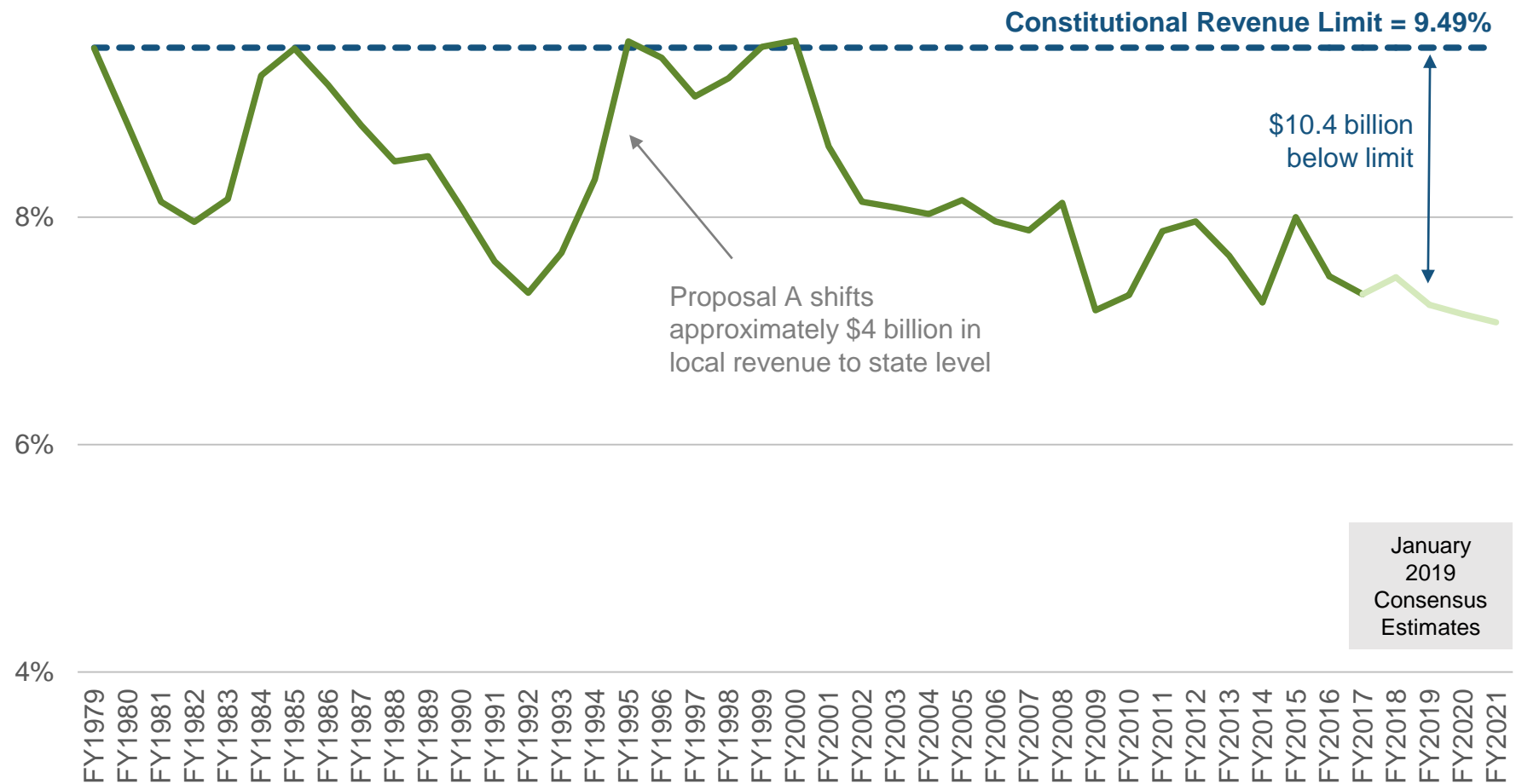
Major State Taxes as a Percentage of Michigan Personal Income

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

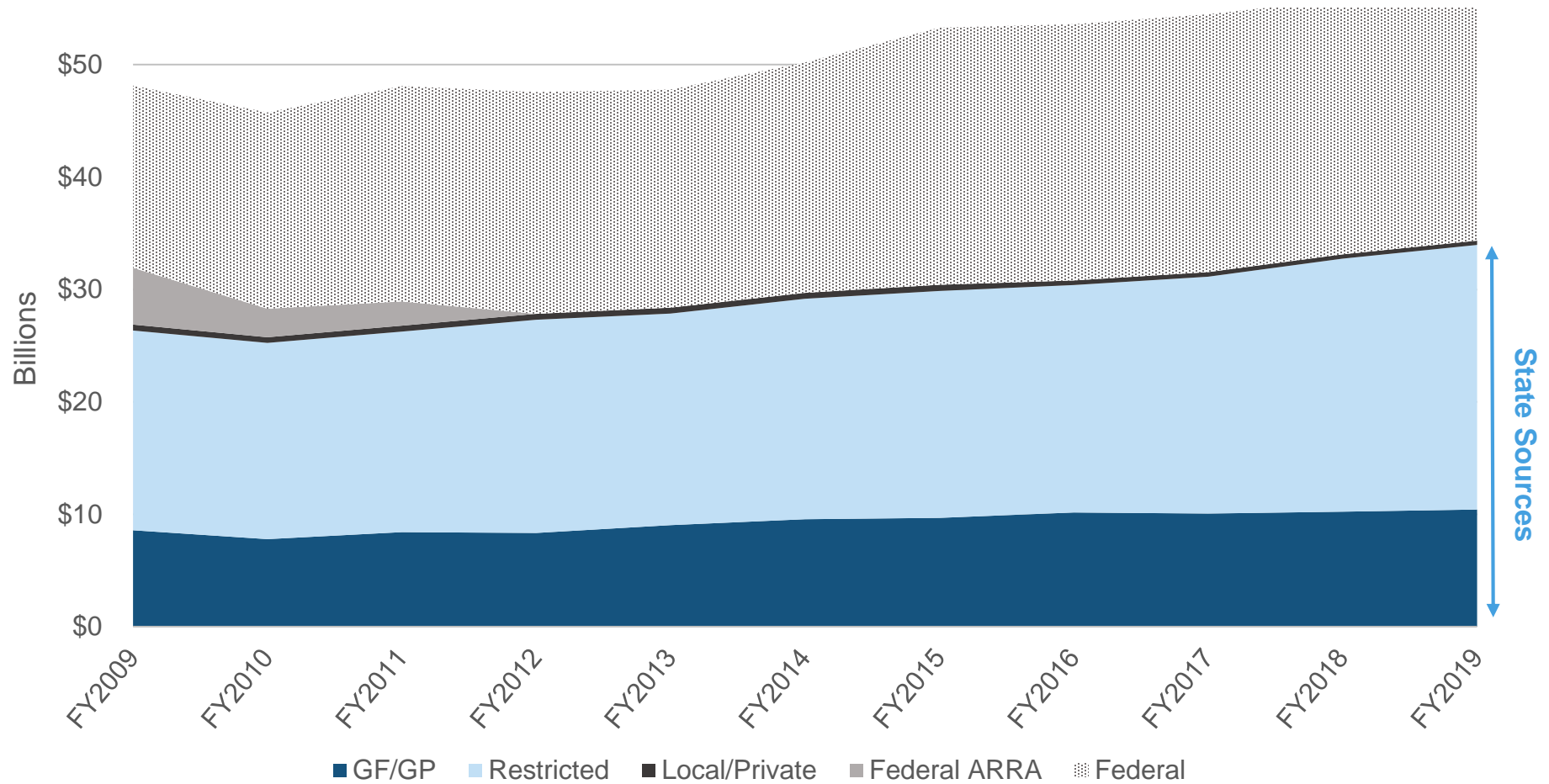
Michigan's constitution was amended in 1978 to set a limit on total state revenue (including all taxes and fees) equal to 9.49% of personal income. For FY 2018-19, the state is projected to be \$10.4 billion below that limit.



Budget Trends

Total State Budget History

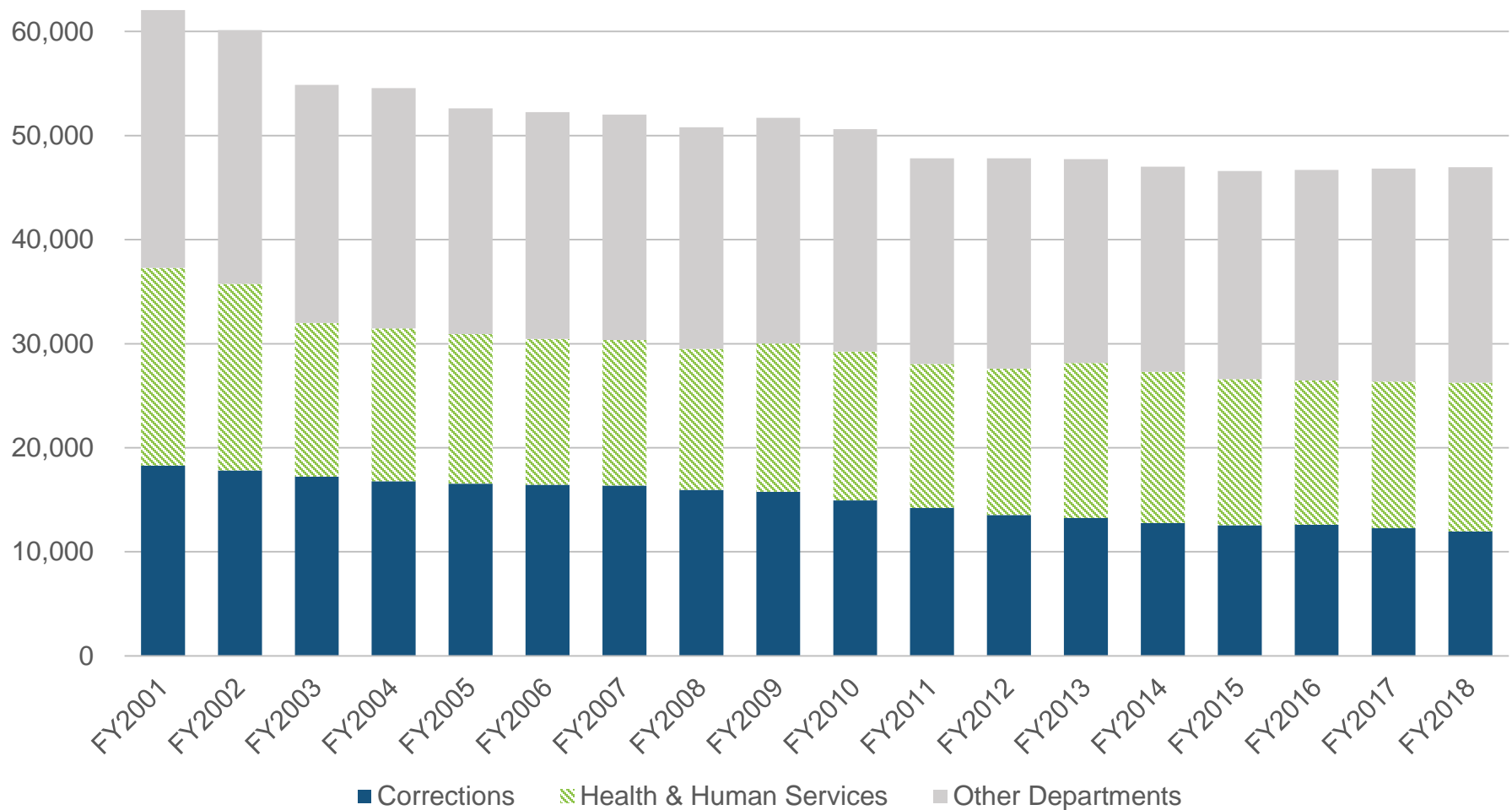
Total state budget growth of 19% since FY 2009 has been driven by both growth in federal funds for Medicaid expansion and increasing state funds since the Great Recession.



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 2001.



Source: Michigan Civil Service Commission, Annual Workforce Report

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**

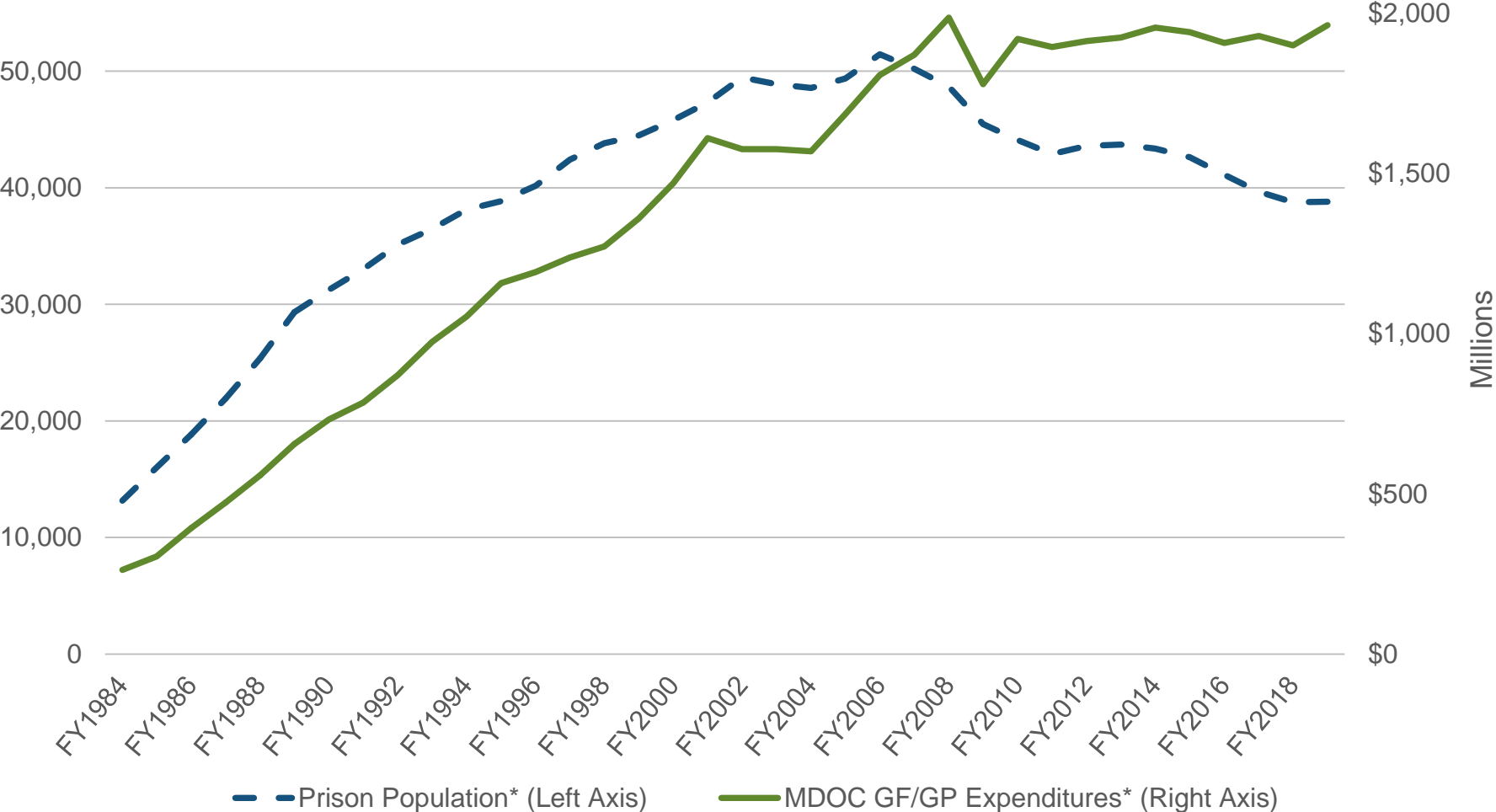
- Employee premium costs are paid on an 80/20 state/employee basis.

- **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

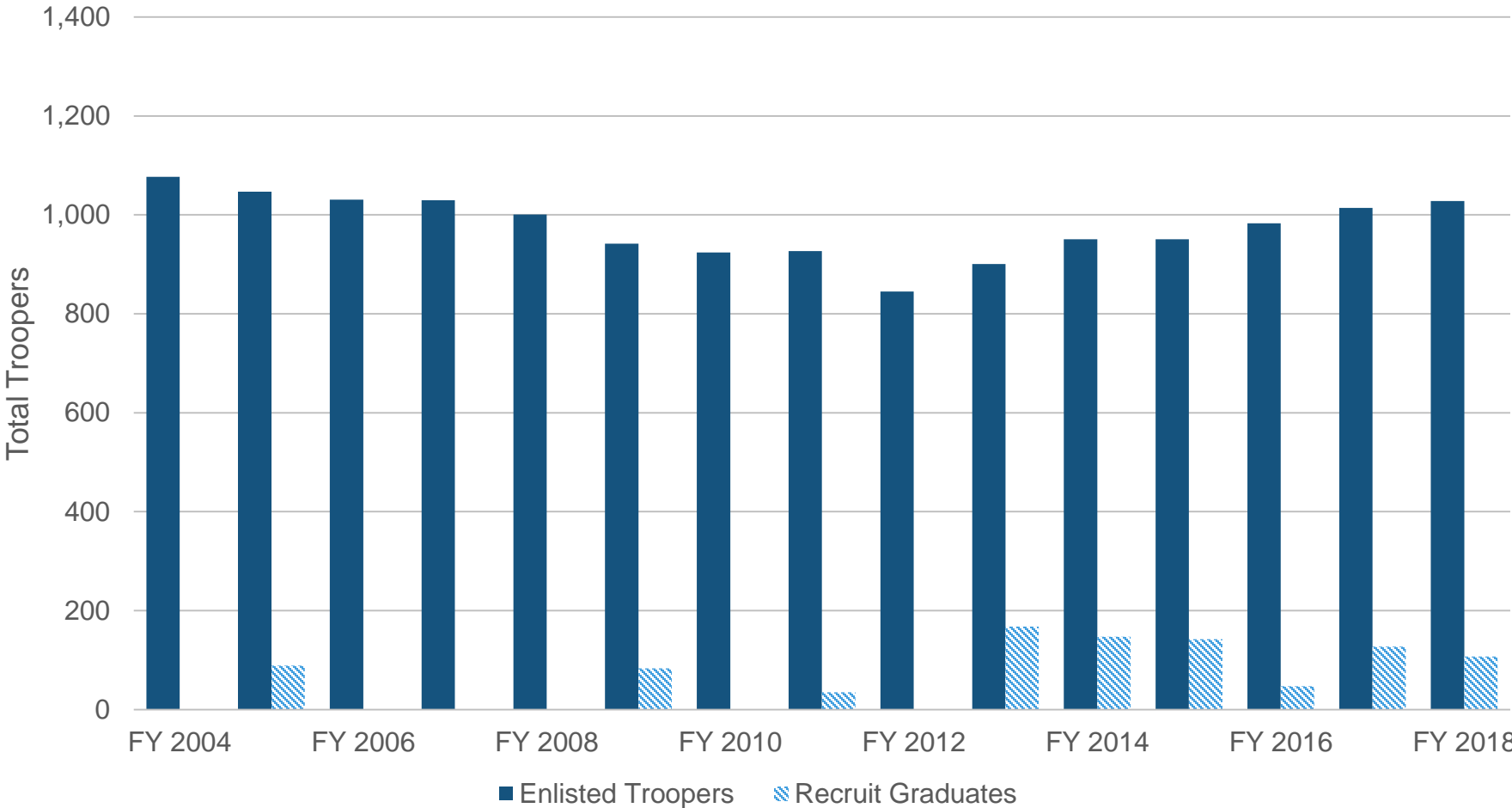
Over the long term, corrections costs have grown consistent with prison population. The Corrections budget would have decreased since FY 2010-11 if not for the increased costs of paying down retirement liabilities.



*2018 data is as of January 10, 2019; 2019 figures are based on year-to-date GF/GP appropriations and budgeted prisoner counts

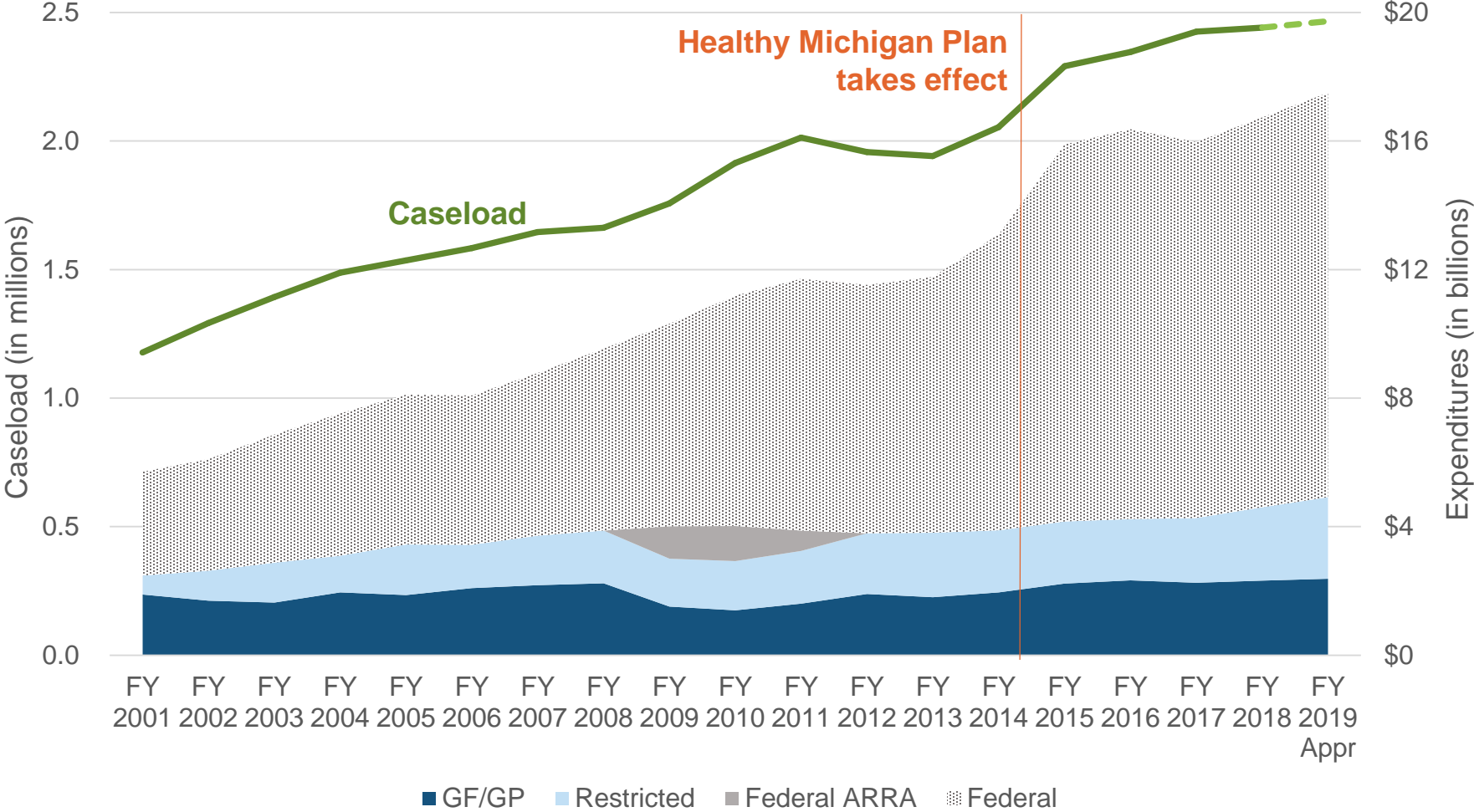
State Police At-Post Trooper Strength

Following several years of decreases from FY 2003-04 through FY 2011-12, FY 2017-18 trooper levels are still below FY 2003-04 levels. An additional 107 new graduates joined the ranks as of July 2018, and the FY 2018-19 budget provides for trooper schools totaling 155 recruits.



Medicaid Expenditures by Fund Source

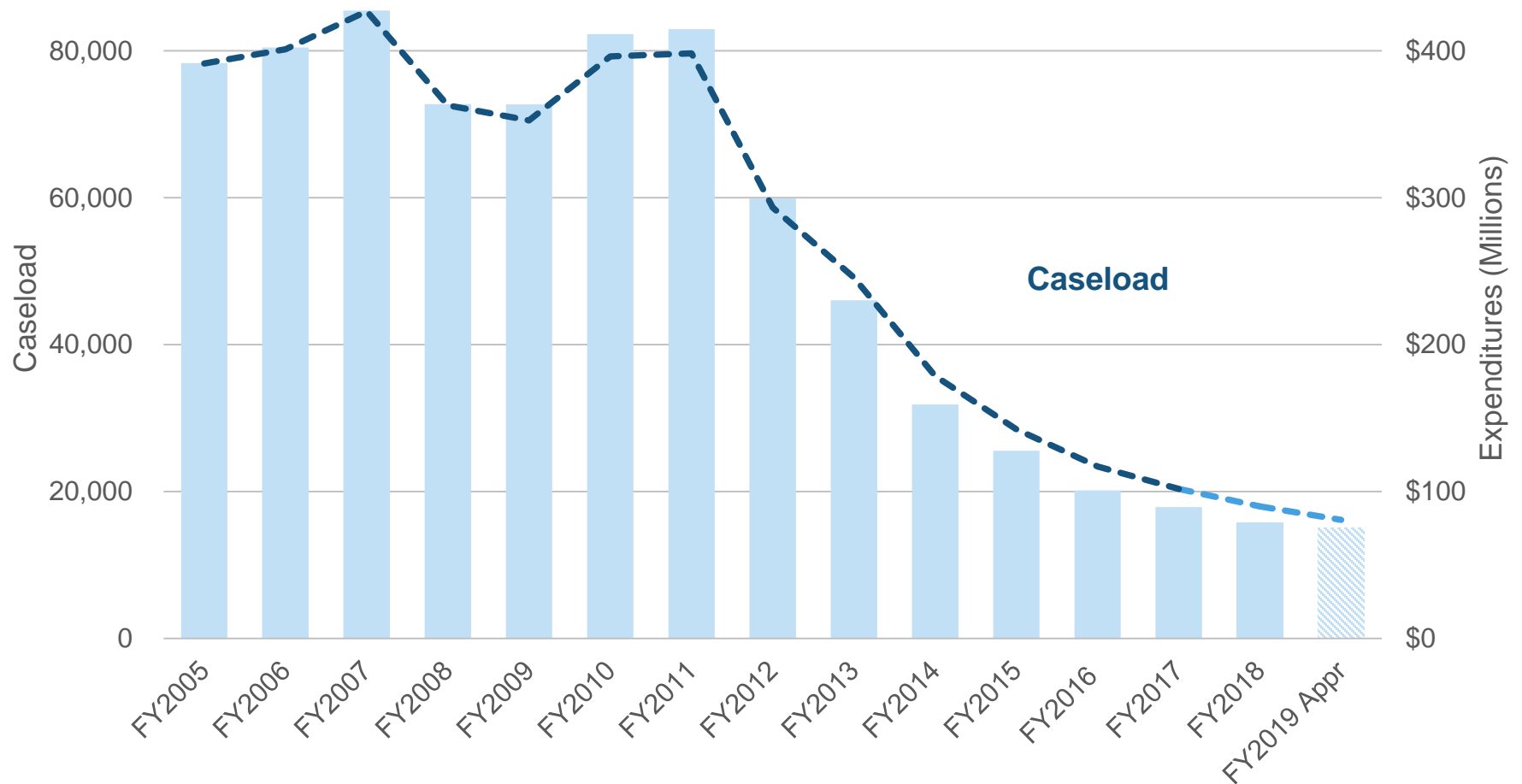
Since FY 2000-01, the state's total Medicaid caseload has doubled and expenditures have tripled due to economic trends and the expansion under the Healthy Michigan Plan. However, GF/GP spending for Medicaid, has only increased by 26%.



ARRA: Federal American Recovery and Reinvestment Act of 2009

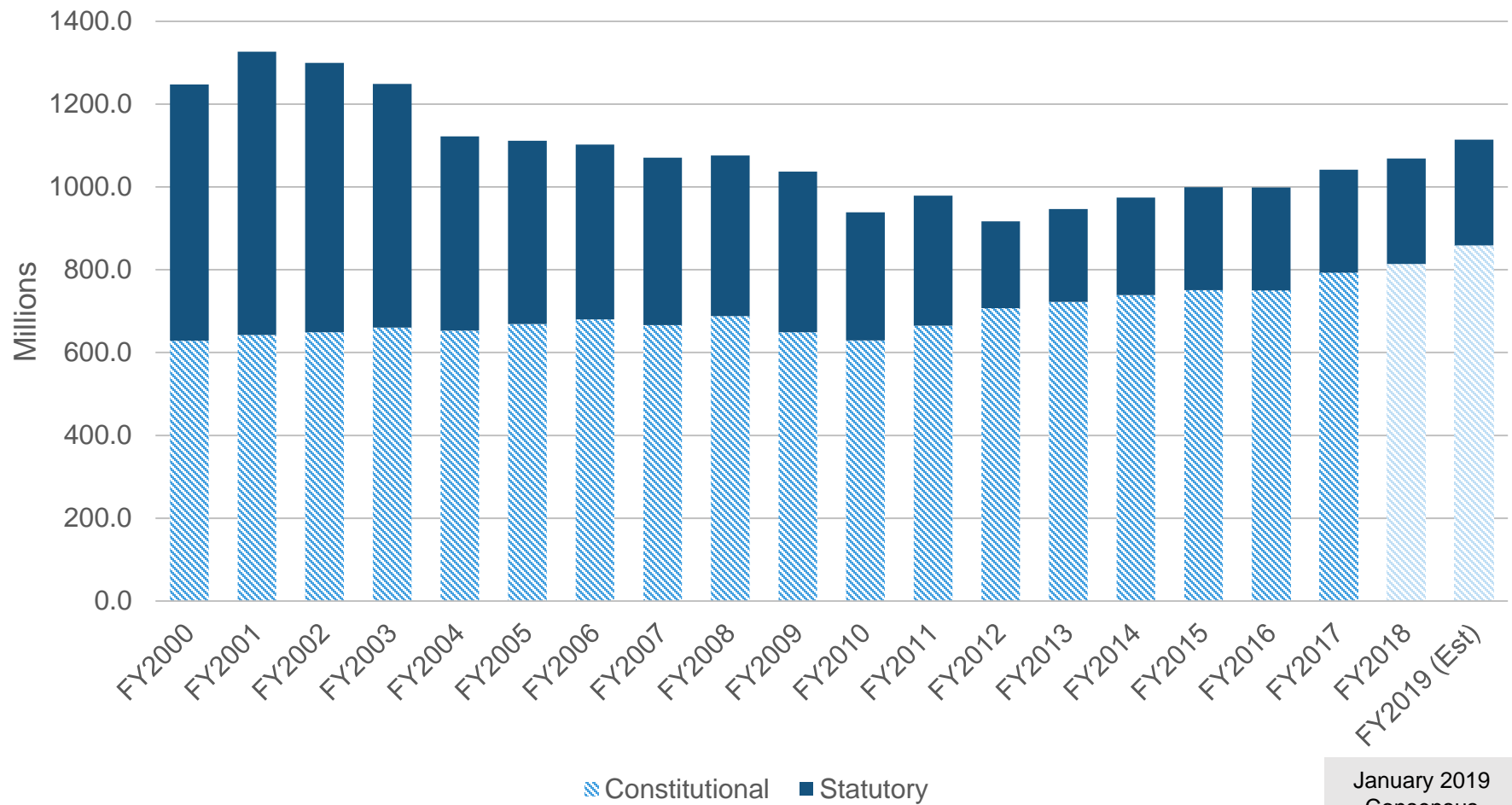
Family Independence Program (FIP) Caseload and Expenditures

Expenditures for FIP have declined markedly (80%) due to both policy changes, including imposition of lifetime time limits, and economic conditions.



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

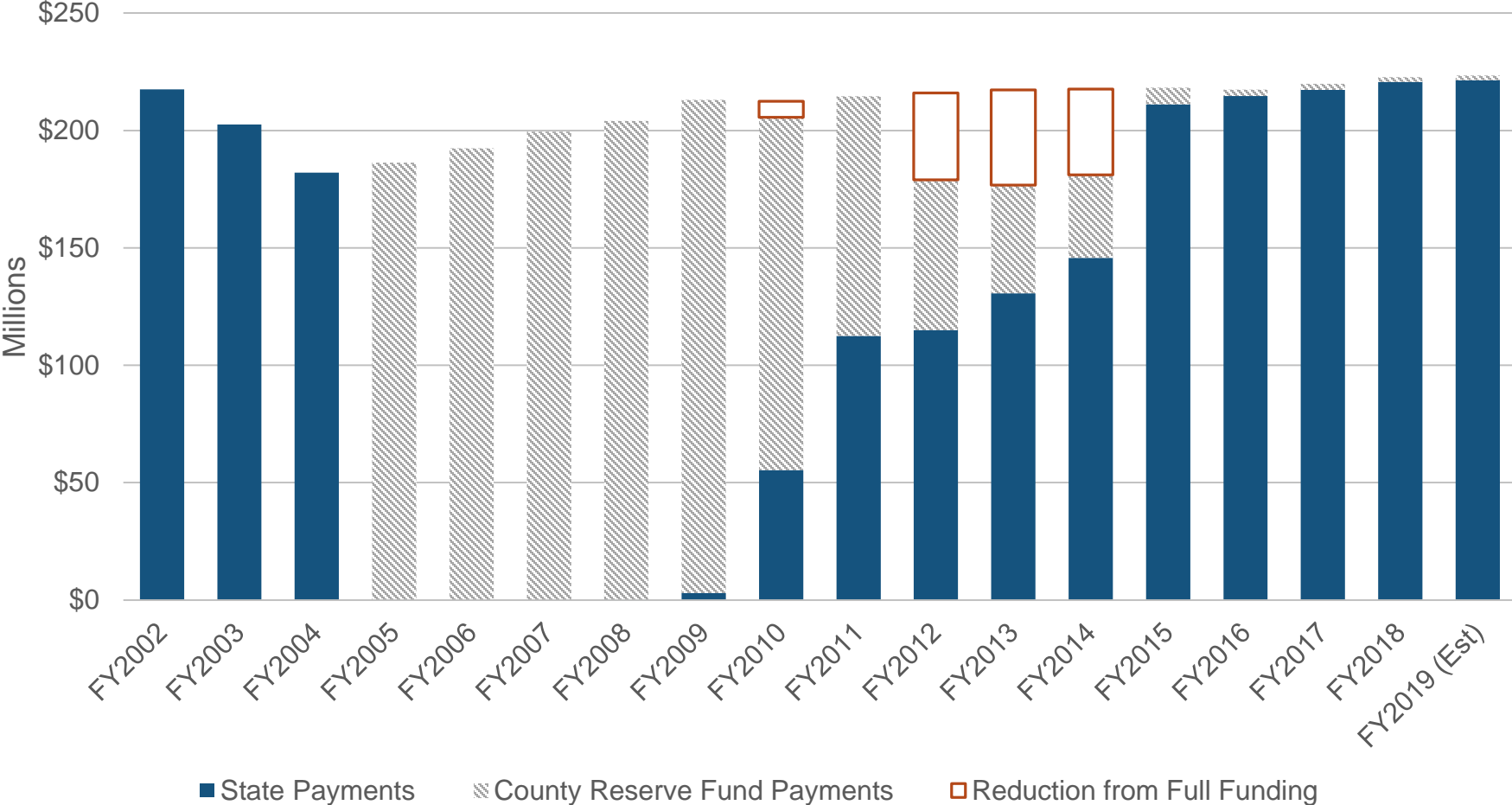
Per capita constitutional payments to CVTs have grown consistent with sales tax revenue growth. Discretionary (statutory) payments remain \$388 million below the FY 2000-01 peak.



January 2019
Consensus
Estimate

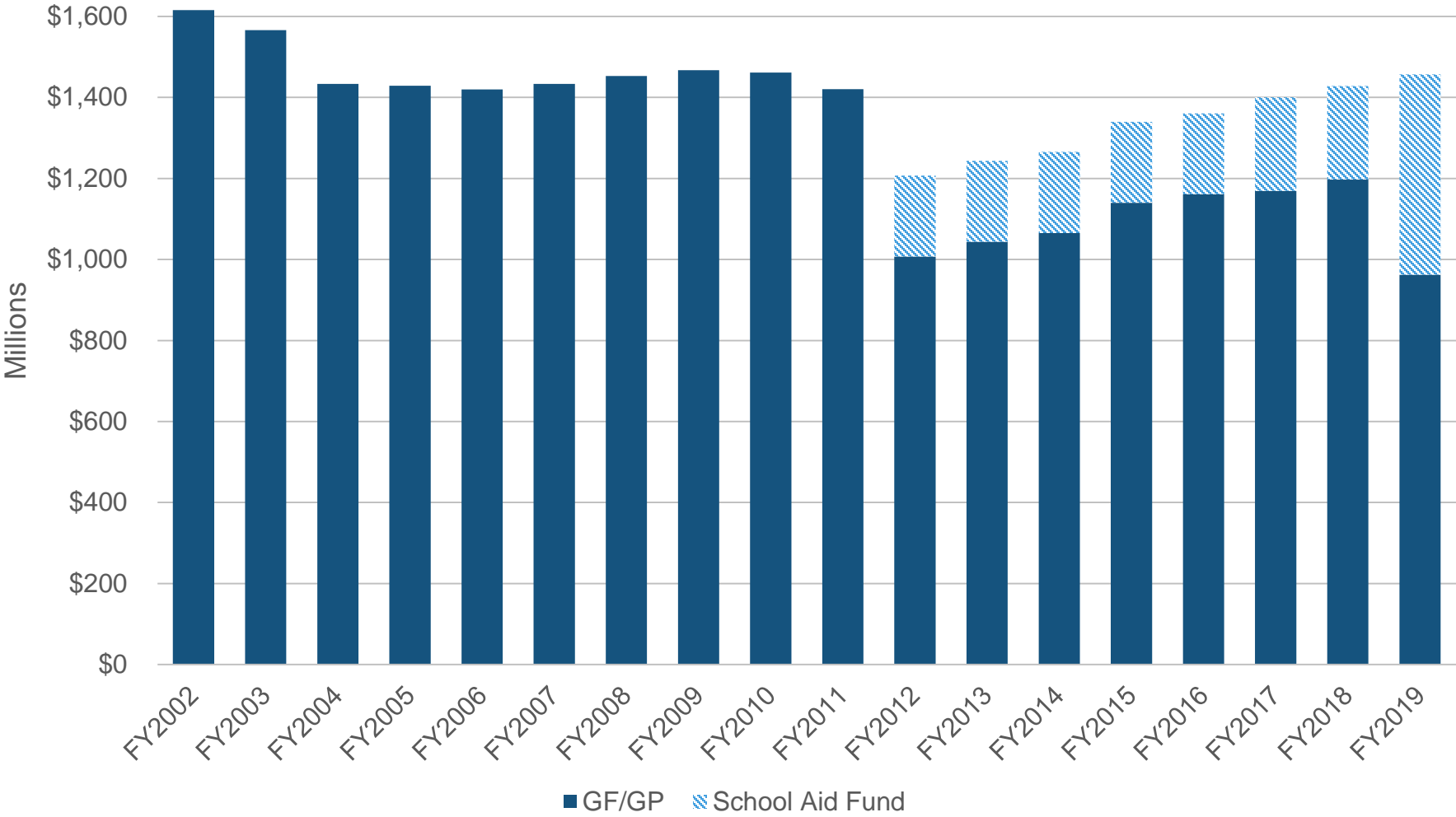
County Revenue Sharing

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.



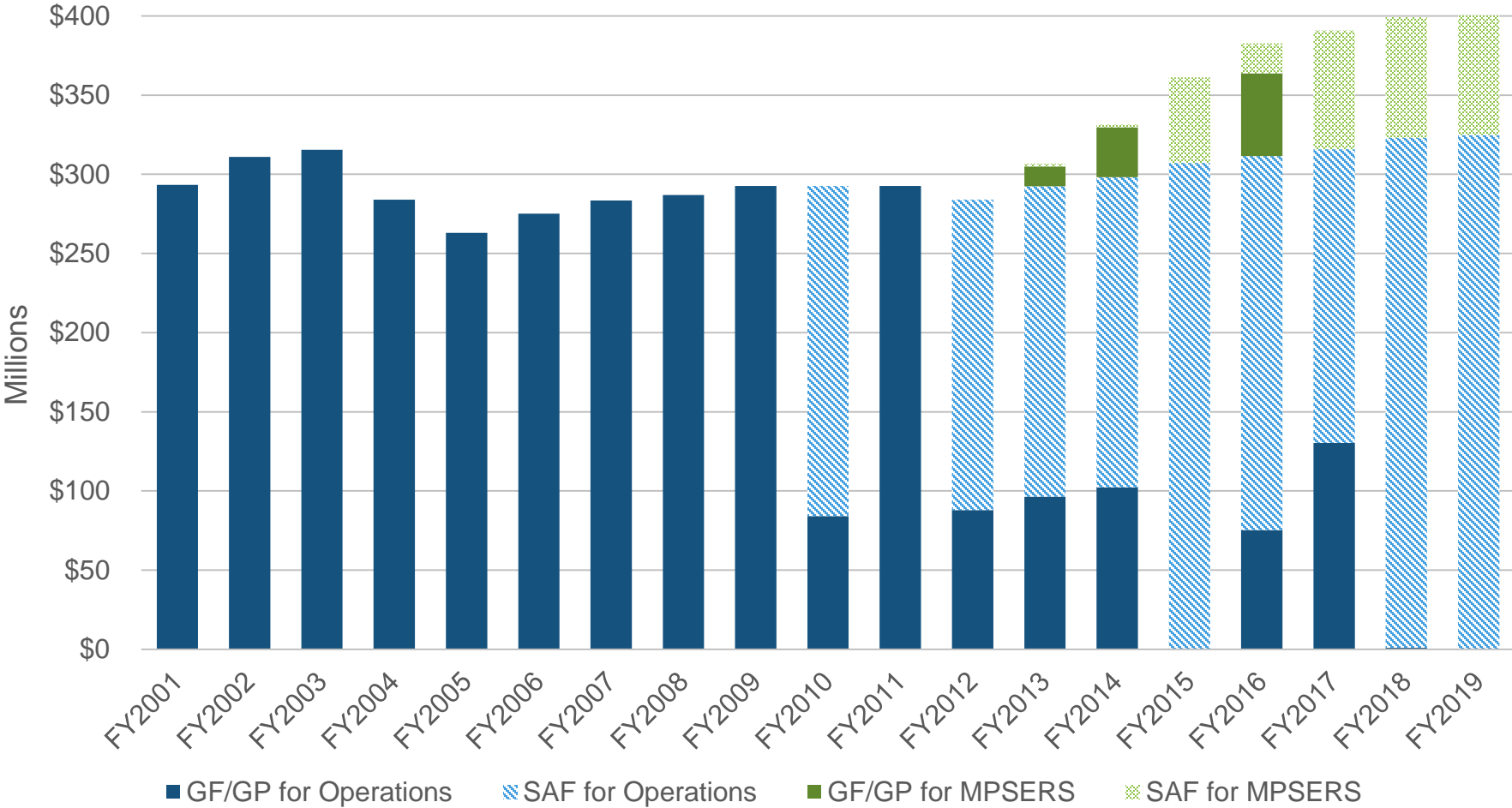
Public University Appropriations

State support for public universities operations has increased by \$249.7 million (21%) since FY 2011-12, but remains \$158.6 million (10%) below the FY 2001-02 peak of \$1.6 billion.



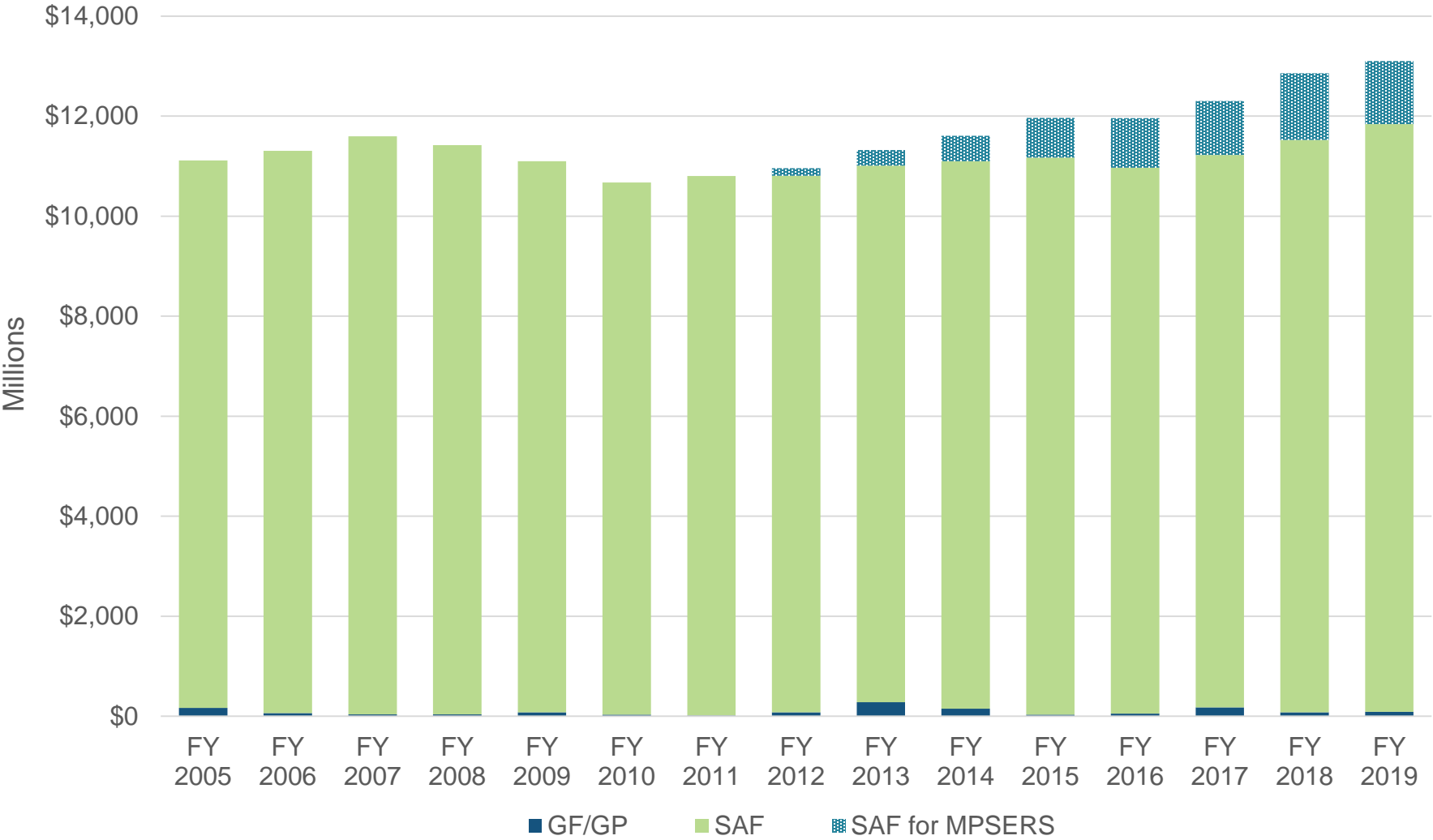
Community College Appropriations

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 Funding History – State Funds

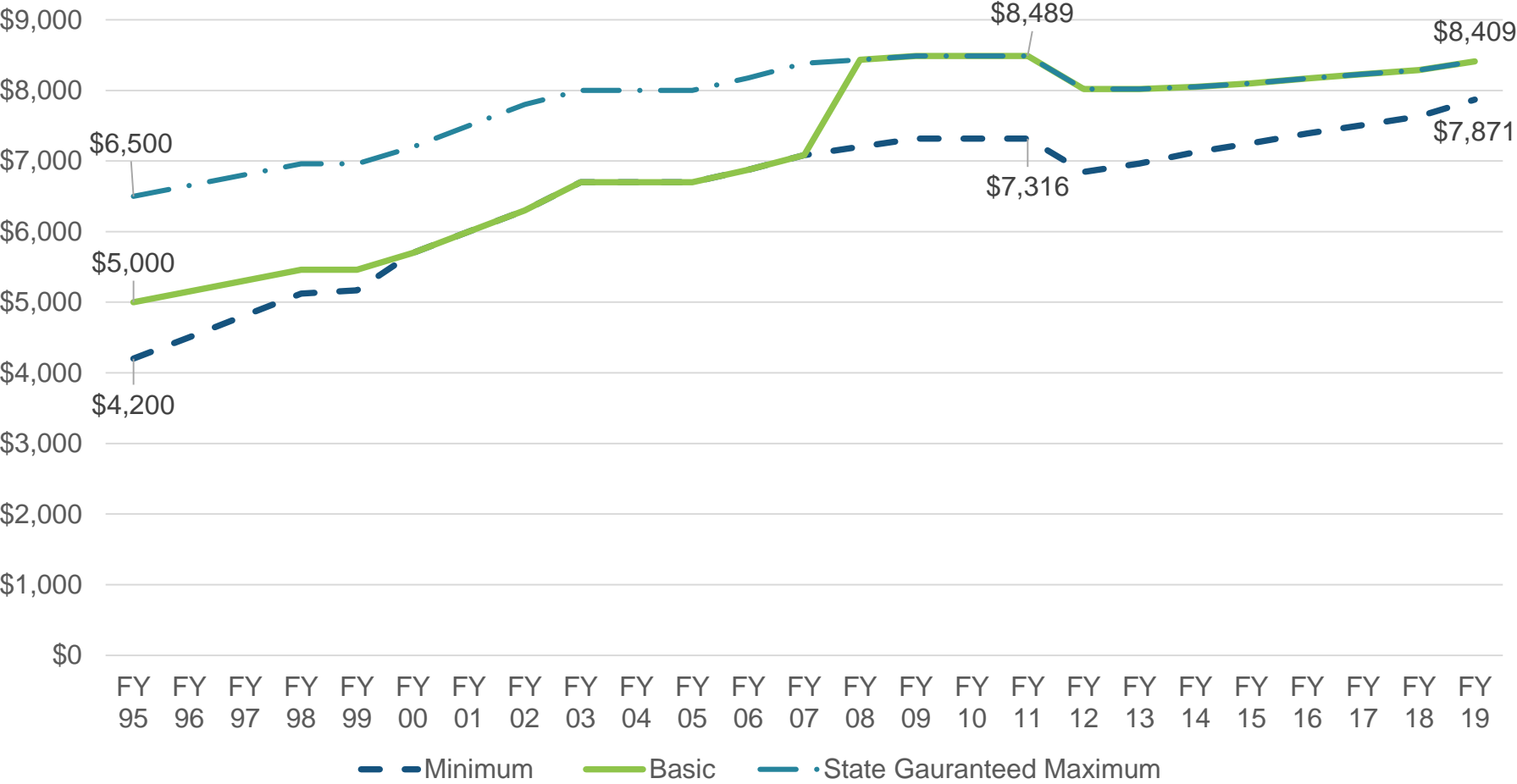
Since FY 2011-12, \$1.3 billion has been added to hold districts harmless from increasing retirement liability costs. Total funding for foundation allowances and other operational costs exceeded the previous FY 2006-07 peak for the first time in FY 2018-19.



Foundation Allowance History

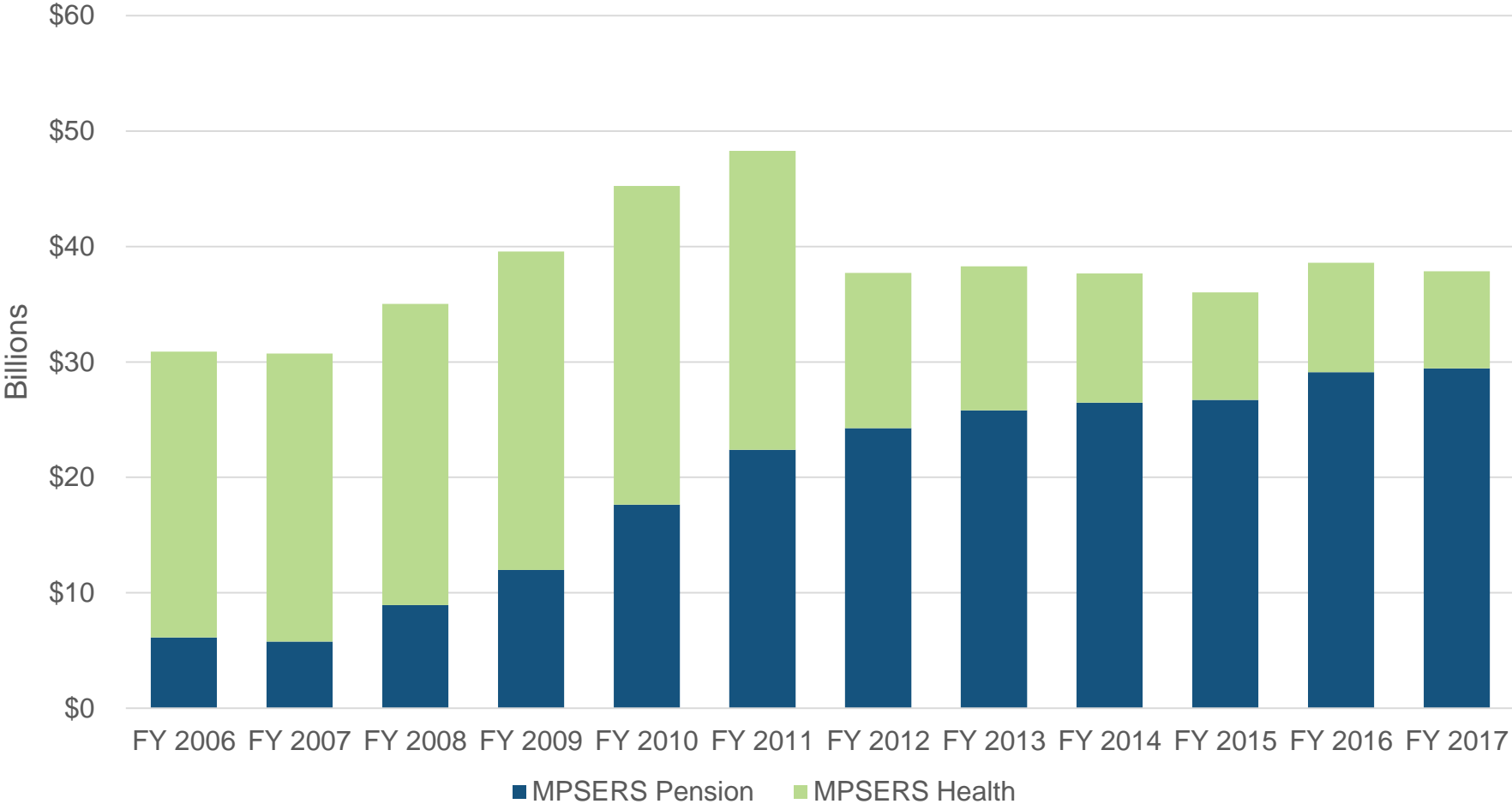
Growth Since Proposal A

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.



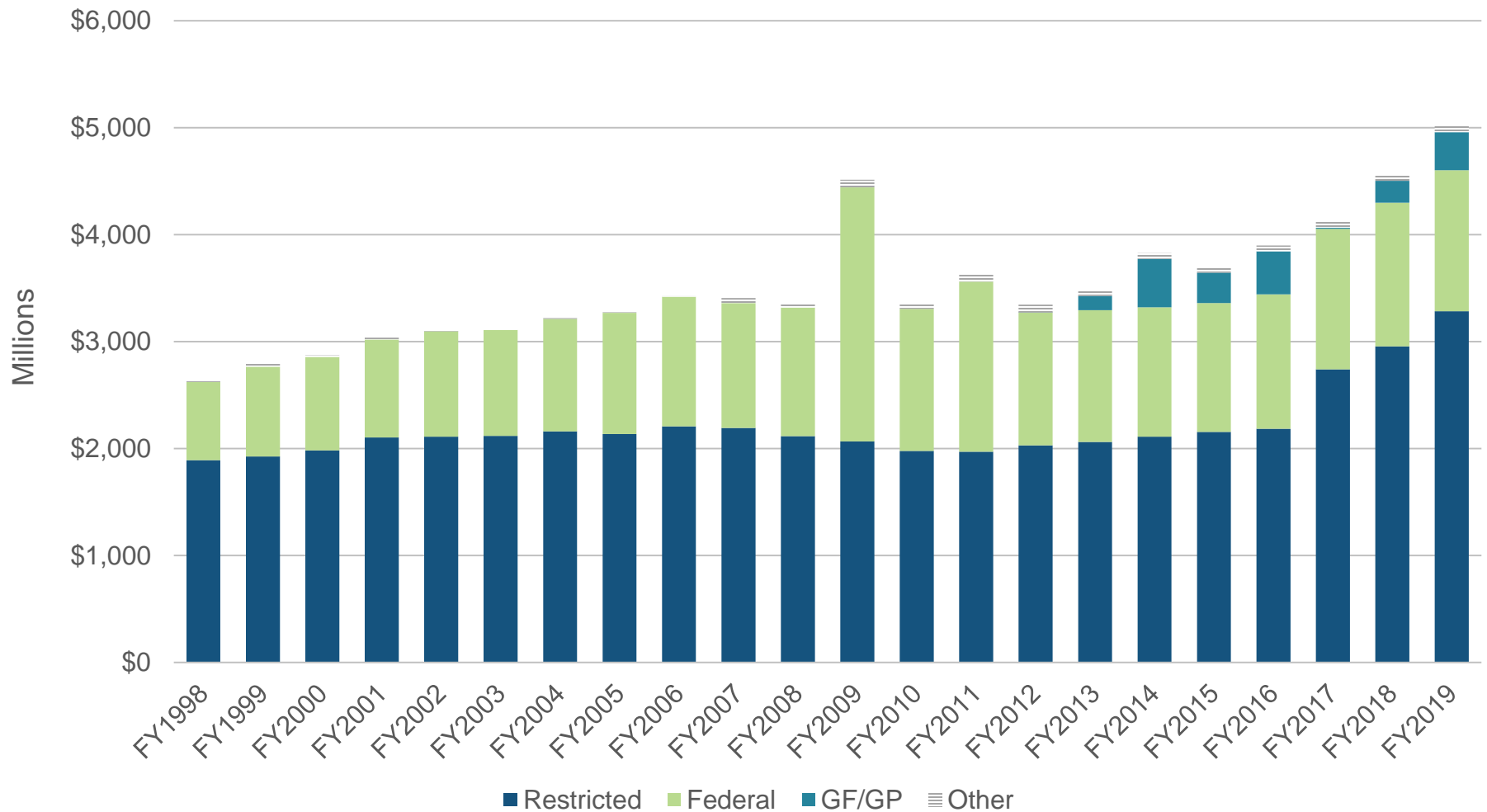
Retirement Liabilities

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%.



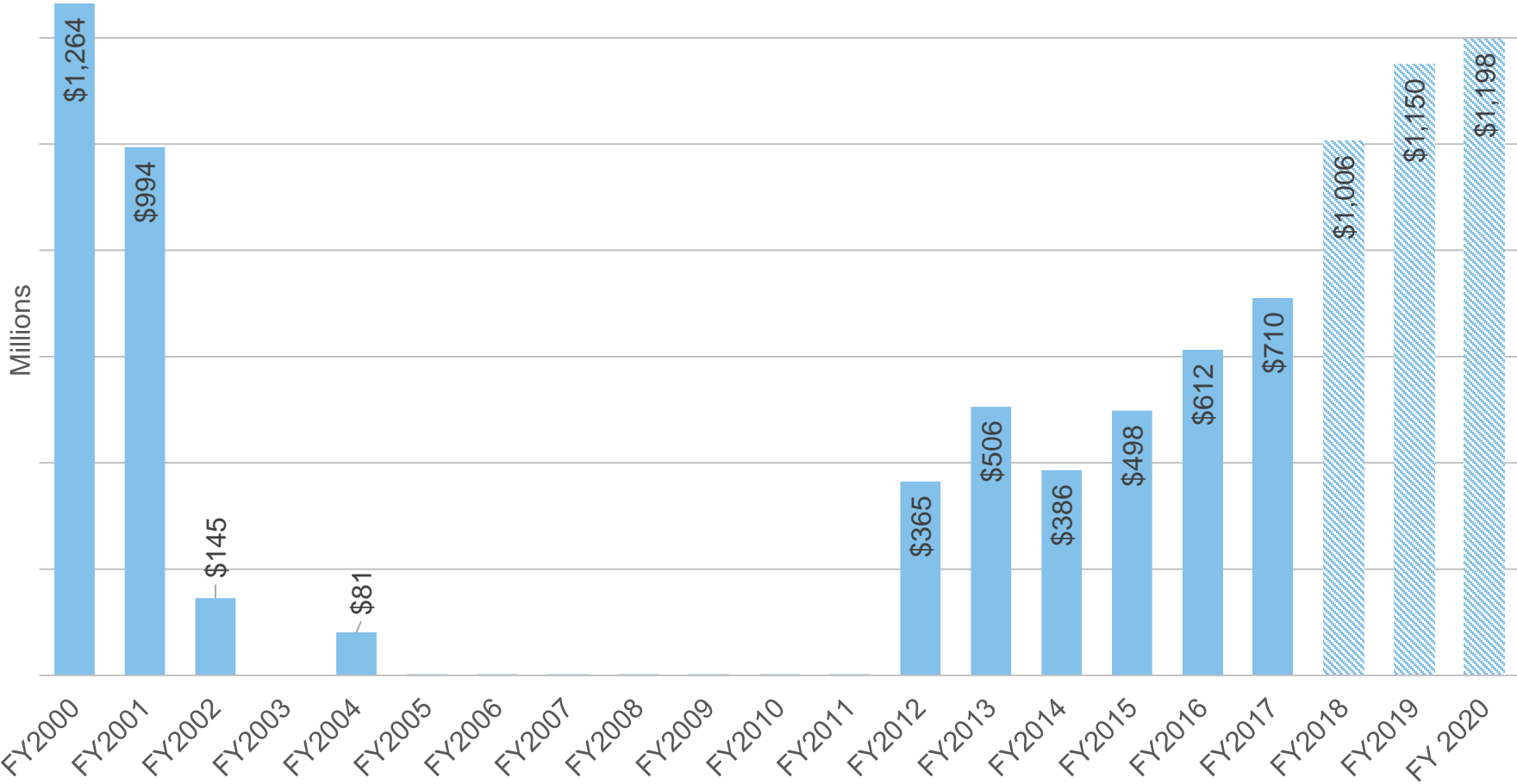
Transportation Appropriations

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 GF/GP support has been added in recent years.



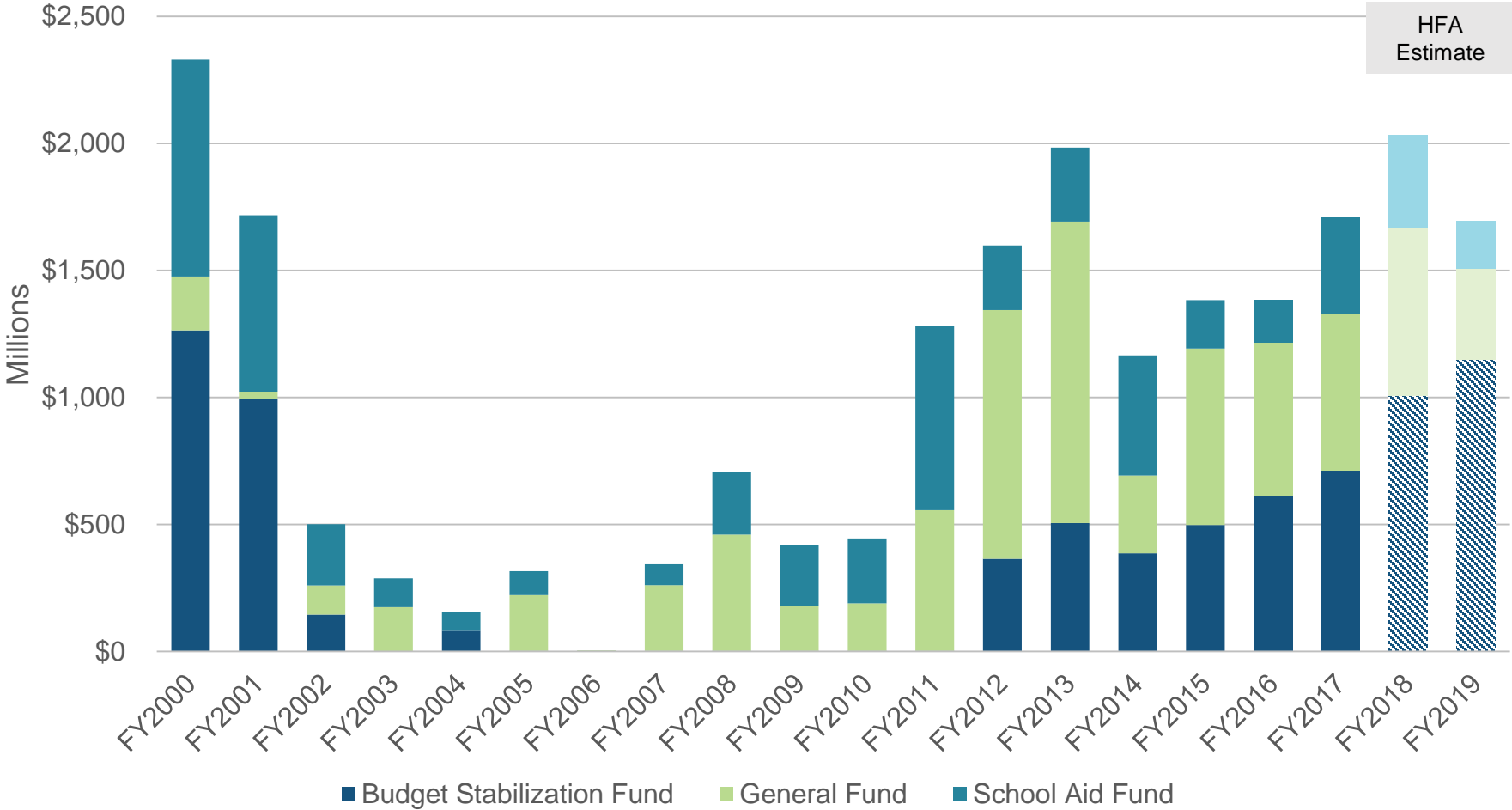
Budget Stabilization Fund Balance

The estimated balance at the end of FY 2018-19 will be approximately \$1.2 billion—about 4.7% of combined GF and SAF appropriations. The balance is also expected to grow in FY 2019-20 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 \$1.2 billion in FY 2018-19.



Major FY 2018-19 Budget Changes

Flint Water Emergency Funding

Total Appropriations for FY 2015-16 through FY 2018-19

\$ in Millions

Category	Gross
Attorney General	\$7.1
Education	36.3
Environmental Quality	179.6
Health and Human Services	78.5
Licensing and Regulatory Affairs	2.2
Military and Veterans Affairs	2.5
Natural Resources	0.3
School Aid	25.1
State Police	13.9
Treasury	73.7
TOTAL	\$419.1

Notes

- 1) Table excludes federal match funds expended by FEMA.
- 2) Excludes deposits into the Disaster and Emergency Contingency Fund which could be expended in Flint.
- 3) Current drinking water emergency reserve fund balance equals \$0.

Major FY 2018-19 GF/GP Program Increases

- **\$84.1 million** for indigent defense reimbursement grants.
- **\$25.0 million** for school safety grants.
- **\$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.
- **\$15.0 million** for additional Child Protective Services (CPS) staff.
- **\$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.
- **\$113.5 million** for Michigan enhancement grants.
- **\$20.0 million** increase to business attraction and community revitalization grants.
- **\$13.6 million** (\$20.0 million Gross) for statewide broadband.
- **\$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 **\$44.9 million** from the final FY 2017-18 level in constitutional revenue sharing payments to cities, villages, and townships based on estimated 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 2nd 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 2018-19 Estimate	FY 2019-20 Estimate	FY 2020-21 Estimate	FY 2021-22 Trend	FY 2022-23 Trend
GF/GP Revenue	\$10,700	\$10,718	\$10,853	\$11,200	\$11,516
\$ Change	(\$245)	\$18	\$135	\$348	\$316
% Change	(2.2%)	0.2%	1.3%	3.2%	2.8%
SAF Revenue	\$13,551	\$13,927	\$14,264	\$14,653	\$15,063
\$ Change	\$211	\$377	\$338	\$389	\$410
% Change	1.6%	2.8%	2.4%	2.7%	2.8%

GF/GP Revenue

- Minimal growth in FY 2019-20 and FY 2020-01 due to individual income tax transfer for road funding, continued Michigan business tax credits, 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 Funding

- 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 **\$206 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 (increased to \$264 million by 2018 PA 588)**
 - FY 2019-20: **\$325 million (increased to \$468 million by 2018 PA 588)**
 - 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 both relative growth in personal income and phase down of enhanced match rate. Projected FY 2019-20 GF/GP funding increase of **\$70 million**.
- Medicaid cost adjustments for medical utilization and inflation are projected to increase 2% annually. Projected FY 2019-20 GF/GP funding increase of **\$60 million**.

Healthy Michigan Plan

- Current state match rate obligation of 7% will increase to 10% on January 1, 2020 requiring additional GF/GP funds of roughly **\$80 million** for a total GF/GP match cost of \$187 million in FY 2019-20.

Medicaid Psychiatric Disproportionate Share Hospital Disallowance

- Possible federal repayment for psychiatric hospital claims made on Medicaid from FY 2000-01 to FY 2008-09 – Total **\$195 million** with repayment over 3-years.

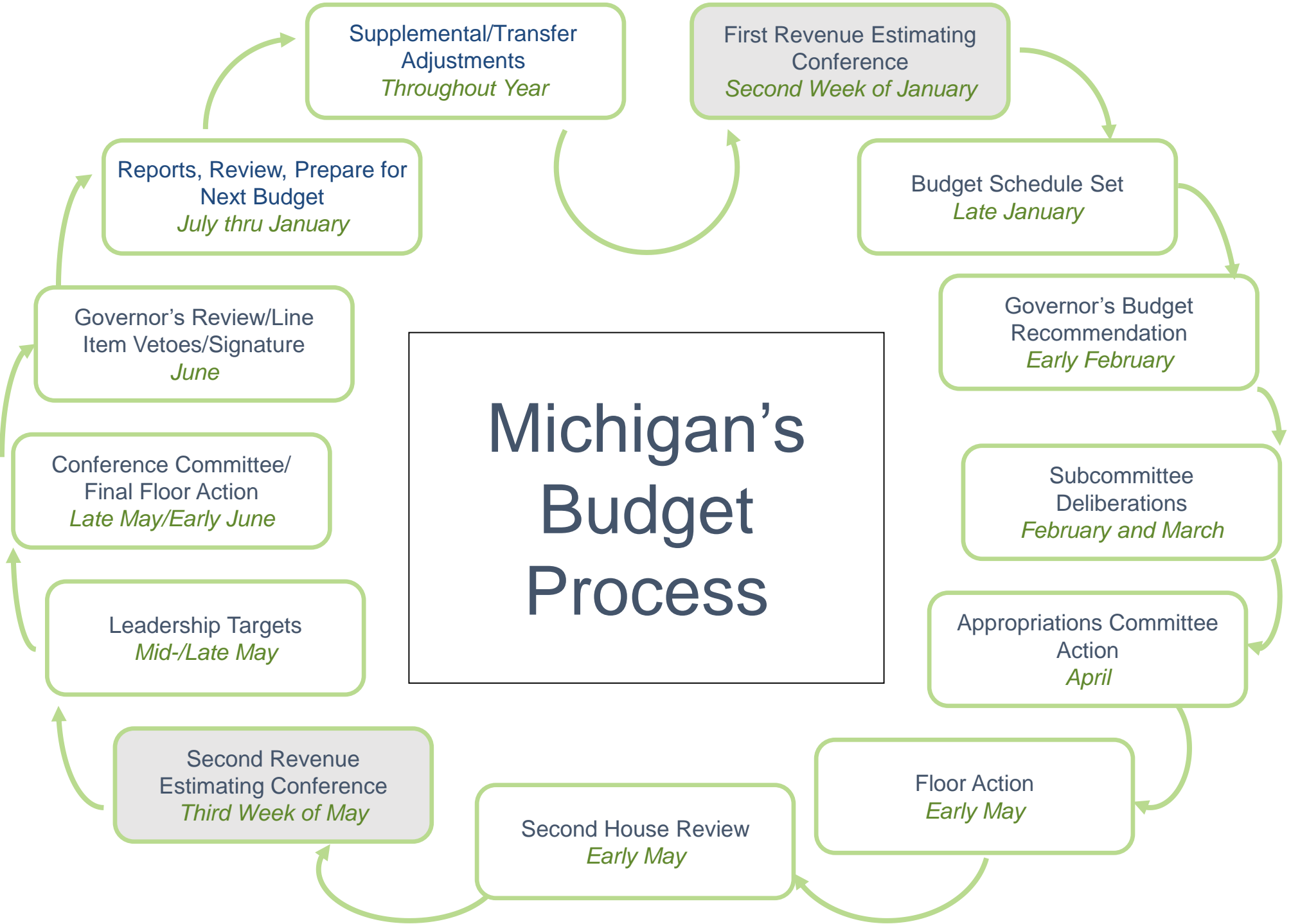
Major School Aid Budget Issues

School Aid

- FY 2018-19 budget relies on **\$363 million** in one-time SAF balance and **\$43 million** in GF/GP funds designated as one-time.
- Baseline costs are expected to decline by **\$94 million** based on declining pupils, growing local property tax values, and rising special education costs.
- MPSERS costs for FY 2019-20 will increase by **\$95 million**, due mainly to use of dedicated gains policy to reduce long-term interest rate assumptions from 7.5% to 7.05%.
- MPSERS experience study revised mortality and other assumptions which will increase FY 2020-21 costs by another **\$236 million**.
- A foundation allowance increase like that adopted for FY 2018-19, ranging from \$120-\$240, would cost approximately **\$304 million**.

Budget Process

Michigan's Budget Process



The House Fiscal Agency (HFA)

- Agency personnel provide **confidential, nonpartisan** expertise to the House Appropriations Committee and all other members of the House on all legislative fiscal matters.
- **Fiscal Analysts**
 - Review the Governor's budget recommendation and assist legislators in developing budget alternatives;
 - Review and prepare budget bills, supplemental appropriations, and certain transfer requests;
 - Provide fiscal impact statements on legislative proposals;
 - Monitor state and national situations that may have budgetary implications;
 - Research and analyze fiscal issues;
 - Prepare reports and documents to assist legislative deliberations; and
 - Prepare special reports at the request of Representatives.
- **Economists**
 - Analyze legislation related to tax and revenue issues;
 - Respond to Representatives' inquiries regarding state tax revenue, revenue sharing, and other economic issues;
 - Monitor state revenue; track state and national economic conditions; and
 - Prepare reports on revenue and other economic issues.
- **Legislative Analysts**
 - Prepare concise, nonpartisan summaries and analyses of bills. Summaries, completed prior to committee deliberations, describe how a bill would change current law, including any fiscal impact. Analyses are prepared for bills reported to the full House from committee and include, with the summary information, a description of the problem being addressed, arguments for and against the bill, and positions of interested organizations.

For more information about the state budget:

HFA website

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

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