

FY 2019-20 Executive Budget Overview

**Mary Ann Cleary, Director
House Fiscal Agency**

**House Appropriations Committee
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Revenues

**January 2019 Consensus Revenue Estimating Conference (CREC)
revenue estimates:**

(Dollars in Millions)

	FY 2018-19	FY 2019-20	FY 2020-21
GF/GP	\$10,700.2	\$10,717.8	\$10,852.6
SAF	\$13,550.5	\$13,926.7	\$14,264.4

Proposed Revenue Adjustments

General Fund and School Aid Fund Revenue:

- Elimination of the income tax transfer to the Michigan Transportation Fund.
- New revenue from a 6% tax on pass-through income of non-C corporations (S corporations, LLCs, partnerships, etc.).
- Reduction in income tax revenue from changes to public pensions and private retirement income (private pensions, IRAs, 401ks, etc.).
- Reduction in revenue resulting from Earned Income Tax Credit (EITC) increasing from 6% to 12% of the federal EITC over 2 years.

Transportation Revenue:

- 45 cent increase in motor fuels, from 26.3 cents per gallon to 71.3 cents, phased in over 12 months in three 15-cent increments.

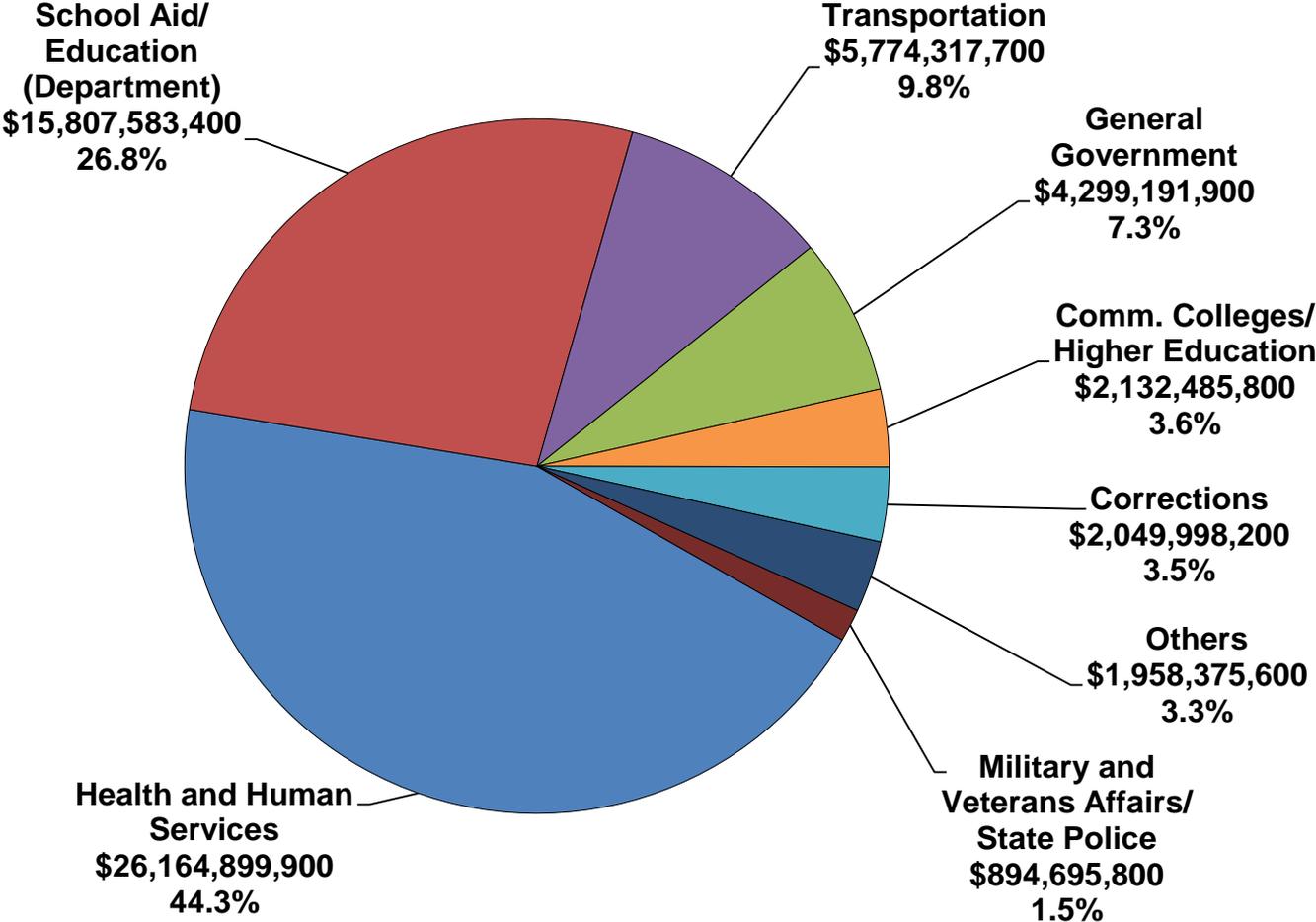
Proposed Revenue Adjustments

(Dollars in Millions)

	<u>FY 2019-20</u>	<u>FY 2020-21</u>
GF/GP and SAF REVENUE ADJUSTMENTS		
Eliminate Income Tax Earmark for Roads	\$468.0	\$600.0
Repeal Retirement/Pension Tax	(258.8)	(355.4)
Pass-Through Entity Tax	202.5	280.1
Earned Income Tax Credit Expansion	(76.0)	(114.0)
TOTAL GF/GP and SAF REVENUE ADJUSTMENTS	<u>\$335.7</u>	<u>\$410.7</u>
TRANSPORTATION REVENUE ADJUSTMENTS		
Fuel Tax Increase 45 Cents	\$1,263.7	\$2,504.1
Eliminate Income Tax Earmark for Roads	<u>(\$468.0)</u>	<u>(\$600.0)</u>
TOTAL TRANSPORTATION REVENUE ADJUSTMENTS	<u>\$795.7</u>	<u>\$1,904.1</u>

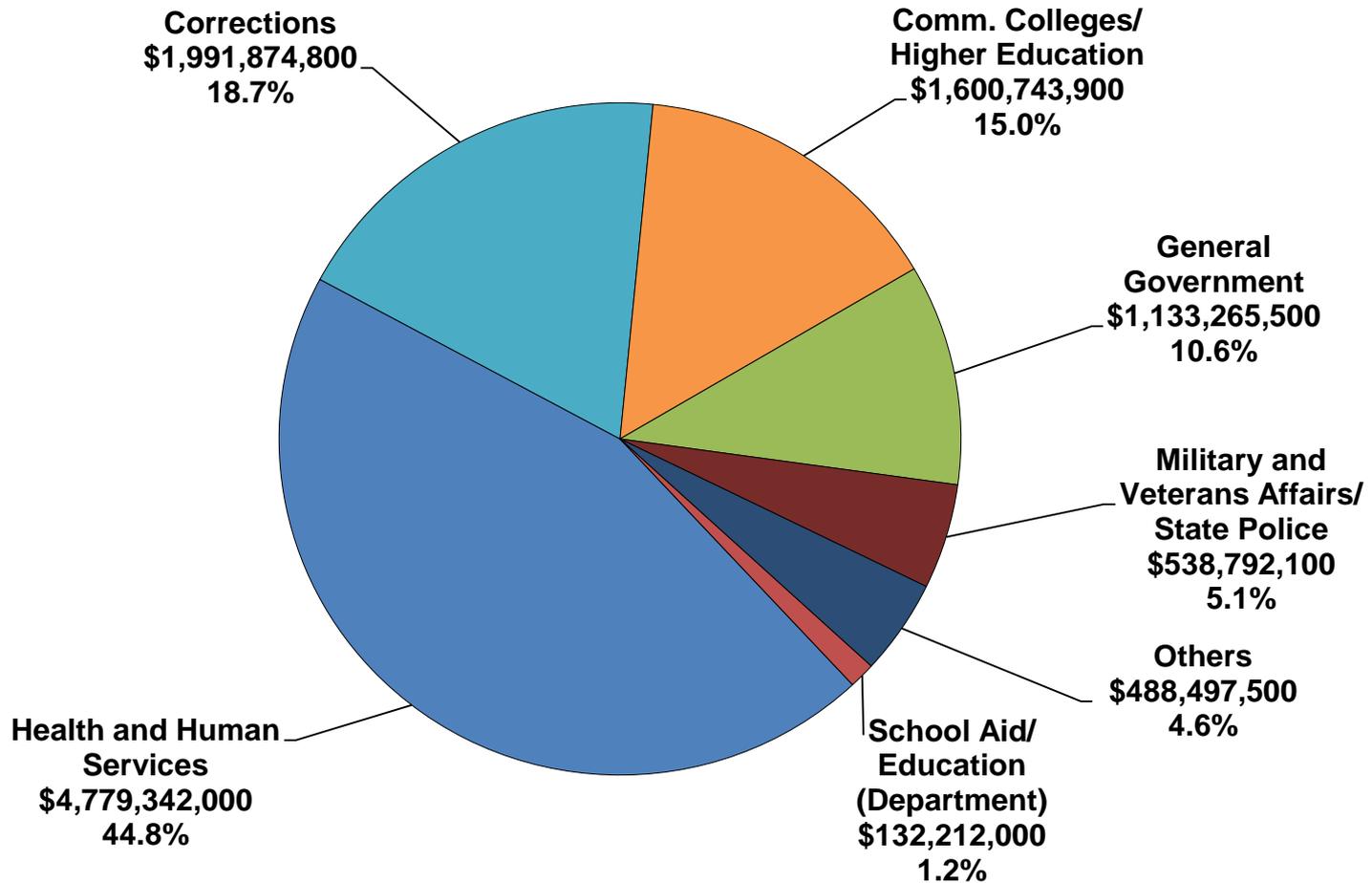
FY 2019-20 Executive Recommendation

Adjusted Gross = \$59,081,548,300



FY 2019-20 Executive Recommendation

General Fund/General Purpose (GF/GP) = \$10,664,727,800



FY 2019-20 Executive Budget Appropriation Changes

(Dollars in Millions)

	Year-to-Date	Executive Rec.	Change	
	<u>FY 2018-19</u>	<u>FY 2019-20</u>	<u>Dollar</u>	<u>Percent</u>
General Fund/General Purpose	\$10,426.9	\$10,664.7	\$237.8	2.3%
State Restricted	<u>23,538.0</u>	<u>24,876.3</u>	<u>1,338.3</u>	5.7%
Total State-Source Appropriations	\$33,964.9	\$35,541.0	\$1,576.1	4.6%
Federal	\$22,871.6	\$23,125.4	\$253.8	1.1%
Local	216.4	251.9	35.5	16.4%
Private	177.0	163.2	(13.8)	(7.8%)
Total Adjusted Gross	\$57,230.0	\$59,081.5	\$1,851.5	3.2%

Numbers may not add due to rounding

GF/GP Appropriations

<u>Department/Budget Area</u>	<u>Year-To-Date FY 2018-19</u>	<u>Exec. Rec. FY 2019-20</u>	<u>Difference FY 2019-20 vs. FY 2018-19</u>	
Agriculture & Rural Development	\$60,835,200	\$57,920,200	(\$2,915,000)	(4.8%)
Attorney General	41,206,800	41,736,300	529,500	1.3%
Capital Outlay	15,000,900	0	(15,000,900)	(100.0%)
Civil Rights	13,022,100	13,195,700	173,600	1.3%
Community Colleges	0	12,948,500	12,948,500	--
Corrections	1,963,841,300	1,991,874,800	28,033,500	1.4%
Education	91,503,600	87,212,000	(4,291,600)	(4.7%)
Environmental Quality	58,546,500	53,793,000	(4,753,500)	(8.1%)
Executive Office	6,980,100	7,114,300	134,200	1.9%
Health and Human Services	4,439,614,400	4,779,342,000	339,727,600	7.7%
Higher Education	1,046,017,900	1,587,795,400	541,777,500	51.8%
Insurance & Financial Services	550,000	150,000	(400,000)	(72.7%)
Judiciary	196,079,500	201,142,200	5,062,700	2.6%
Legislative Auditor General	17,105,800	17,105,800	0	0.0%
Legislature	181,718,200	162,968,200	(18,750,000)	(10.3%)
Licensing & Regulatory Affairs	135,845,300	124,268,100	(11,577,200)	(8.5%)
Military & Veterans Affairs	75,912,400	70,284,900	(5,627,500)	(7.4%)
Natural Resources	77,241,800	51,224,000	(26,017,800)	(33.7%)
School Aid	87,920,000	45,000,000	(42,920,000)	(48.8%)
State	18,466,300	22,967,500	4,501,200	24.4%
State Police	493,173,800	468,507,200	(24,666,600)	(5.0%)
Talent and Economic Devel. (MSF)	286,546,300	144,908,300	(141,638,000)	(49.4%)
Tech., Mgmt. & Budget: Operations	305,473,900	257,872,000	(47,601,900)	(15.6%)
Tech., Mgmt. & Budget: SBA Rent	246,570,600	246,570,600	0	0.0%
Transportation	356,790,900	0	(356,790,900)	(100.0%)
Treasury: Operations	103,881,300	114,491,800	10,610,500	10.2%
Treasury: Debt Service	107,080,000	104,335,000	(2,745,000)	(2.6%)
Treasury: Revenue Sharing	0	0	0	--
TOTAL	\$10,426,924,900	\$10,664,727,800	\$237,802,900	2.3%

Road Funding Comparison

(Dollars in Millions)

	<u>Current Law FY 2019-20</u>	<u>Proposed FY 2019-20</u>	<u>Current Law FY 2020-21</u>	<u>Proposed FY 2020-21</u>
Michigan Transportation Fund (MTF)				
Income Tax Earmark	\$468.0	\$0.0	\$600.0	\$0.0
Vehicle Registration/Fuel Taxes	2,905.2	2,906.2	2,960.8	2,960.8
Additional MTF Revenue	0.0	325.0	0.0	327.3
MTF Total	\$3,373.2	\$3,231.2	\$3,560.8	\$3,288.1
Fixing Michigan Roads Fund (FMRF)				
FMRF Revenue	--	\$917.5	--	\$2,137.0
Recreation Improvement Fund (DNR)	--	21.2	--	42.0
NET ROAD FUNDING	\$3,373.2	\$4,170.0	\$3,560.8	\$5,467.1
NET IMPACT	--	\$796.8	--	\$1,906.3

Fixing Michigan Roads Fund Distribution

(Dollars in Millions)

	<u>FY 2019-20</u>	<u>FY 2020-21</u>
FIXING MICHIGAN ROADS FUND (FMRF)		
Functional Classification of Roads	\$834.9	\$1,944.7
Local Bridge Programs	36.7	85.5
Local Rural Economic Corridors	18.4	42.7
Multi-Modal Innovation Projects	27.5	64.1
TOTAL FMRF DISTRIBUTION	<u>\$917.5</u>	<u>\$2,137.0</u>

Fund Shifts

Executive budget recommendation includes the following fund shifts:

- \$500.2 million SAF reduction in Higher Education budget backfilled with GF/GP.
- \$25.9 million Contingent Fund, Penalty and Interest Account reduction in Department of Talent and Economic Development backfilled with GF/GP.

School Aid Fund Allocations

Major proposed School Aid and Higher Education funding changes include:

- \$235.0 million SAF for increases to district foundation allowances ranging from \$120 to \$180 per pupil based on 1.5x formula (percentages range from 1.4% to 2.3%).
- \$120.0 million SAF to increase reimbursement for districts' special education costs by 4.0%.
- \$102.0 million SAF increase for academically at-risk and economically disadvantaged students.
- \$85.0 million SAF increase to the Great Start Readiness Program for school readiness preschool programs.
- \$55.0 million SAF increase to districts for students participating in career and technical education programs.
- \$24.5 million SAF increase (for a total of \$31.5 million) to increase the number of literacy coaches.
- \$22.0 million SAF reduction to reduce cyber school foundation allowances to 80% of the minimum foundation allowance.
- \$43.7 million GF/GP for a 3.0% increase in public university operations.
- \$9.7 million GF/GP for a 3.0% increase in community college operations.

MPERS Retirement Changes

Proposed retirement changes included in the Executive recommendation:

- \$90.3 million increase in state share of MPERS unfunded actuarial accrued liability payments to pay for increases in normal costs associated with the assumed rate of return from 8.0% to 7.05% related to the dedicated gains policy.
- \$40.0 million SAF deposit into the MPERS Retirement Obligation Reform Reserve Fund in anticipation of future cost increases related to the retirement experience study.

GF/GP Program Reductions

GF/GP program reductions of \$74.6 million proposed in the Executive recommendation. Major changes includes:

- \$27.3 million Gross (\$10.0 million GF/GP) medical services reductions. (DHHS)
- \$21.6 million Gross (\$4.9 million GF/GP) savings from enhanced auditing capacity in the Office of the Inspector General. (DHHS)
- \$19.9 million Gross (\$5.0 million GF/GP) reduction to medicaid HMO administrative rate tied to pharmacy benefit. (DHHS)
- \$15.3 million Gross (\$5.5 million GF/GP) reduction to nursing facility variable cost reimbursement. (DHHS)

GF/GP Ongoing Allocations

Executive proposes \$133.2 million in program and grant increases. Major GF/GP changes include:

- \$14.9 million increase (including \$5.9 million in one-time funding) for upgrades and maintenance for the Michigan Public Safety Communications System. (DTMB)
- \$13.9 million increase for environmental and public health hazards response. (DHHS)
- \$10.0 million increase for Healthy Michigan Plan work requirements supports. (DHHS)
- \$8.6 million (including \$4.7 million in one-time costs) for a State Police trooper school. (MSP)
- \$5.9 million for a foster care supportive visitation program. (DHHS)
- \$5.0 million to support a licensing agreement with the Microsoft Corporation for its 365 Government G5 product. (DTMB)
- \$4.6 million to implement the redistricting commission as approved by voters in Ballot Proposal 2. (State)

GF/GP One-Time Allocations

Executive recommends \$125.9 million in one-time allocations.

Major GF/GP changes include:

- \$50.0 million for federal Affordable Care Act (ACA) health insurer fee set-aside. (DHHS)
- \$47.0 million Gross (\$11.0 million GF/GP) for continuation of FY 2018-19 IT supplemental funding. (DHHS)
- \$10.5 million to train additional corrections officers to meet projected attrition needs. (MDOC)
- \$10.0 million deposit into the Wrongful Imprisonment Compensation Fund. (Treasury)
- \$7.0 million to continue support of the state health innovation model. (DHHS)
- \$5.0 million for special maintenance projects at state-owned facilities. (DTMB)

Revenue Sharing Allocations

Executive recommendations for local revenue sharing programs include:

- \$27.2 million (3.2%) increase to constitutional revenue sharing based on January 2019 CREC estimates for FY 2019-20.
- \$7.7 million for a 3.0% increase to city, village, and township revenue sharing.
- \$6.6 million for a 3.0% increase to county revenue sharing.

PFAs Funding

Executive includes \$33.2 million GF/GP for PFAS funding:

- Maintains \$8.3 million in DEQ for drinking water infrastructure grants and GIS mapping of contaminated sites and ground water flow.
- \$5.5 million increase (\$24.5 million Gross) in DHHS for laboratory testing, analysis, human exposure assessments, toxicology and response, and local health department response.
- Maintains \$400,000 in MDARD for environmental contamination and response activities.

Flint Drinking Water Funding

FY 2018-19 includes supplemental funding of \$15.0 million GF/GP deposited into the Drinking Water Emergency Fund.

FY 2019-20 includes \$21.3 million Gross for Flint programs:

- \$3.4 million GF/GP increase (\$8.0 million Gross) for assistance to residents exposed to lead. (DHHS)
- Maintains \$5.2 GF/GP million for health care, nutrition, and other services. (DHHS)
- \$4.8 million SAF increase (\$8.1 million Gross) for school nurses, classroom aides, social workers, early intervention services for children 3-5 years of age, and nutritional services. (School Aid)

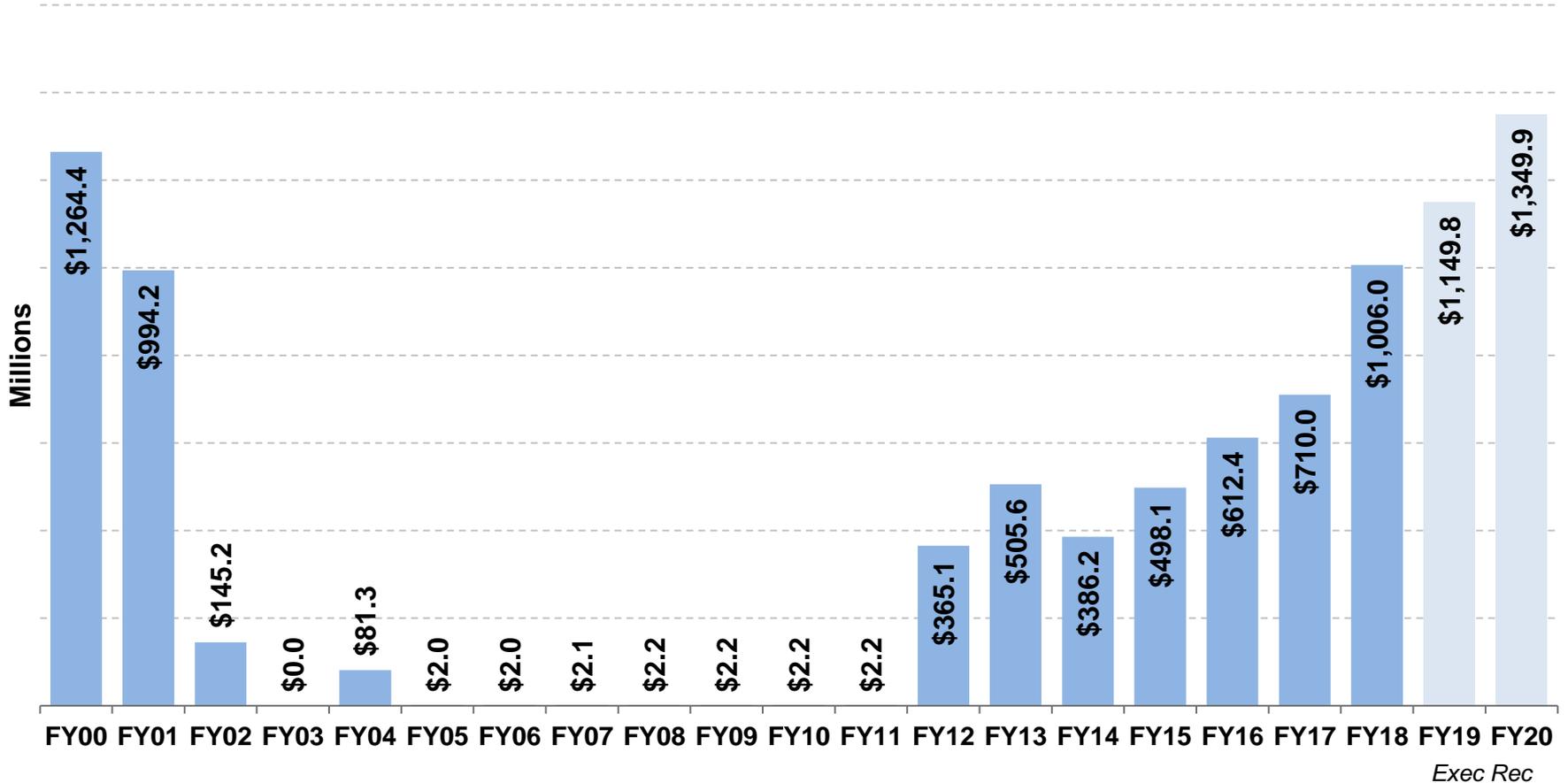
Fee Proposal

The Executive recommendation assumes the elimination of sunsets on various fees in the following budget areas:

- Department of Agriculture and Rural Development
- Department of Environmental Quality
- Department of Health and Human Services
- Department of Licensing and Regulatory Affairs
- Department of State
- Michigan State Police

Budget Stabilization Fund Balance

The Executive Recommendation proposes \$150.0 million BSF deposit for FY 2019-20.



* FY 2019-20 - 25% of unassigned GF/GP fund balance for FY 2018-19 shall be deposited in the BSF.

Supplementals

The Executive proposal includes two recommended supplementals totaling \$474.7 million Gross (\$175.2 million GF/GP) for FY 2018-19:

- Departmental appropriation adjustment requests of \$354.0 million Gross (\$125.2 million GF/GP) including:
 - \$120.0 million for drinking water protection and innovations initiatives.
 - \$15.0 million deposit into the Flint Drinking Water Reserve Fund.
 - \$10.0 million deposit into Wrongful Imprisonment Compensation Fund.
- School Aid appropriation increase of \$120.7 million Gross (\$50.0 million GF/GP) including:
 - \$61.5 million SAF one-time for hydration stations.
 - \$50.0 million GF/GP deposit into the Talent Investment Fund.
 - \$110.0 million Gross for Michigan Reconnect Program.

Balance Sheets

Executive Recommendation General Fund Balance Sheet

(Dollars in Millions)

	<u>FY 2018-19</u>	<u>FY 2019-20</u>	<u>FY 2020-21</u>
RESOURCES			
Beginning Balance	\$715.2	\$237.5	\$8.3
Consensus Revenue Estimates: January 2019	10,700.2	10,717.8	10,852.6
Eliminate Income Tax Earmark for Roads	--	468.0	600.0
Repeal Retirement/Pension Tax	--	(200.7)	(275.6)
Pass-Through Entity Tax	--	157.0	217.2
Earned Income Tax Credit Expansion	--	(76.0)	(114.0)
Miscellaneous Other Revenue	(6.3)	15.2	0.0
<u>Revenue Sharing</u>	<u>(479.1)</u>	<u>(495.9)</u>	<u>(495.9)</u>
TOTAL RESOURCES	\$10,930.0	\$10,822.9	\$10,792.6
EXPENDITURES			
Enacted Appropriations: Ongoing	\$9,569.7	\$10,493.7	\$10,729.8
Enacted Appropriations: One-time	391.8	125.9	0.0
GF to School Aid	87.9	45.0	45.0
Deposit to Budget Stabilization Fund	100.0	150.0 *	0.0
Enacted Supplementals	377.6	0.0	0.0
Supplemental Request 2019-4	175.2	0.0	0.0
<u>Estimated Book Closing Lapses and Adjustments</u>	<u>(9.6)</u>	<u>0.0</u>	<u>0.0</u>
TOTAL EXPENDITURES	\$10,692.5	\$10,814.6	\$10,774.8
PROJECTED ENDING BALANCE / (SHORTFALL)	\$237.5	\$8.3	\$17.8

* FY 2019-20 - 25% of unassigned GF/GP fund balance for FY 2018-19 shall be deposited in the BSF.

Executive Recommendation School Aid Balance Sheet

(Dollars in Millions)

	<u>FY 2018-19</u>	<u>FY 2019-20</u>	<u>FY 2020-21</u>
RESOURCES			
Beginning Balance	\$317.6	\$40.3	\$3.3
Consensus Revenue Estimates: January 2019	13,550.5	13,926.7	14,264.4
Repeal Retirement/Pension Tax	--	(58.1)	(79.8)
Pass-Through Entity Tax	--	45.5	62.9
Marihuana Sales Tax Adjustments from CREC	--	1.7	5.3
GF/GP Grant	87.9	45.0	45.0
Detroit Public Schools Trust Fund	72.0	72.0	72.0
School Mental Health and Support Services Fund	30.0	0.0	0.0
<u>Federal Aid</u>	<u>1,745.9</u>	<u>1,749.6</u>	<u>1,749.6</u>
TOTAL RESOURCES	\$15,803.9	\$15,822.7	\$16,122.7
EXPENDITURES			
School Aid	\$14,855.3	\$15,371.2	\$15,495.5
SAF Deposit into MPSERS Reserve	0.0	40.0	0.0
Community College	408.2	408.2	419.7
<u>Higher Education</u>	<u>500.1</u>	<u>0.0</u>	<u>0.0</u>
<u>TOTAL EXPENDITURES</u>	<u>\$15,763.6</u>	<u>\$15,819.4</u>	<u>\$15,915.2</u>
PROJECTED ENDING BALANCE / (SHORTFALL)	\$40.3	\$3.3	\$207.5



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