



Budget Briefing: State Budget Overview

Mary Ann Cleary, Director

Kevin Koorstra, Deputy Director

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Briefing Topics

- Appropriations Overview
- Economic Trends
- Revenue Trends
- Budget Trends
- Budget Outlook
- Budget Process

Appropriations Overview

Key Budget Terms

Fiscal Year: The state's fiscal year (FY) runs from October to September. FY 2020-21 is October 1, 2020 through September 30, 2021.

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 that establishes spending authorization for a particular program or function in a budget bill.

Boilerplate: Specific language sections in a budget bill that 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.

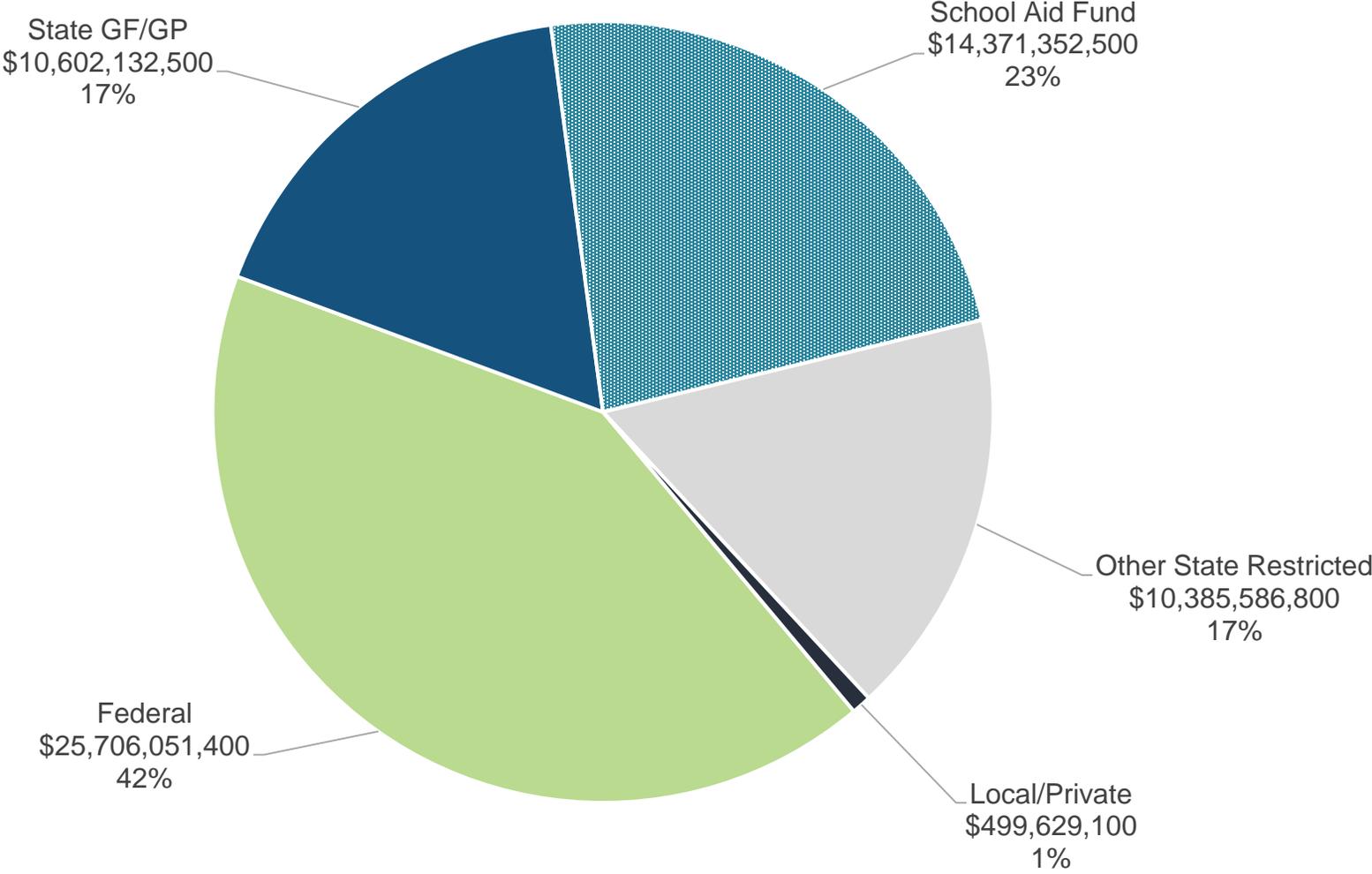
Note: Unless otherwise indicated, historical budget figures in this presentation have not been adjusted for inflation.

FY 2020-21 State Budget

Fund Source	Funding	Description
Gross Appropriations	\$62,759,877,600	Total spending authority from all revenue sources
Interdepartmental Grants (IDG) Revenue	1,195,125,300	Funds received by one state department from another state department, usually for services provided
Adjusted Gross Appropriations	\$61,564,752,300	Gross appropriations excluding IDGs; avoids double counting when adding appropriation amounts across budget areas
Federal Revenue	25,706,051,400	Federal grant or matching revenue; generally dedicated to specific programs or purposes
Local Revenue	296,550,400	Revenue received from local units of government for state services
Private Revenue	203,078,700	Revenue from individuals and private entities, including payments for services, grants, and other contributions
State Restricted Revenue	24,756,939,300	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	\$10,602,132,500	Unrestricted revenue from taxes and other sources available to fund basic state programs and other purposes determined by the Legislature

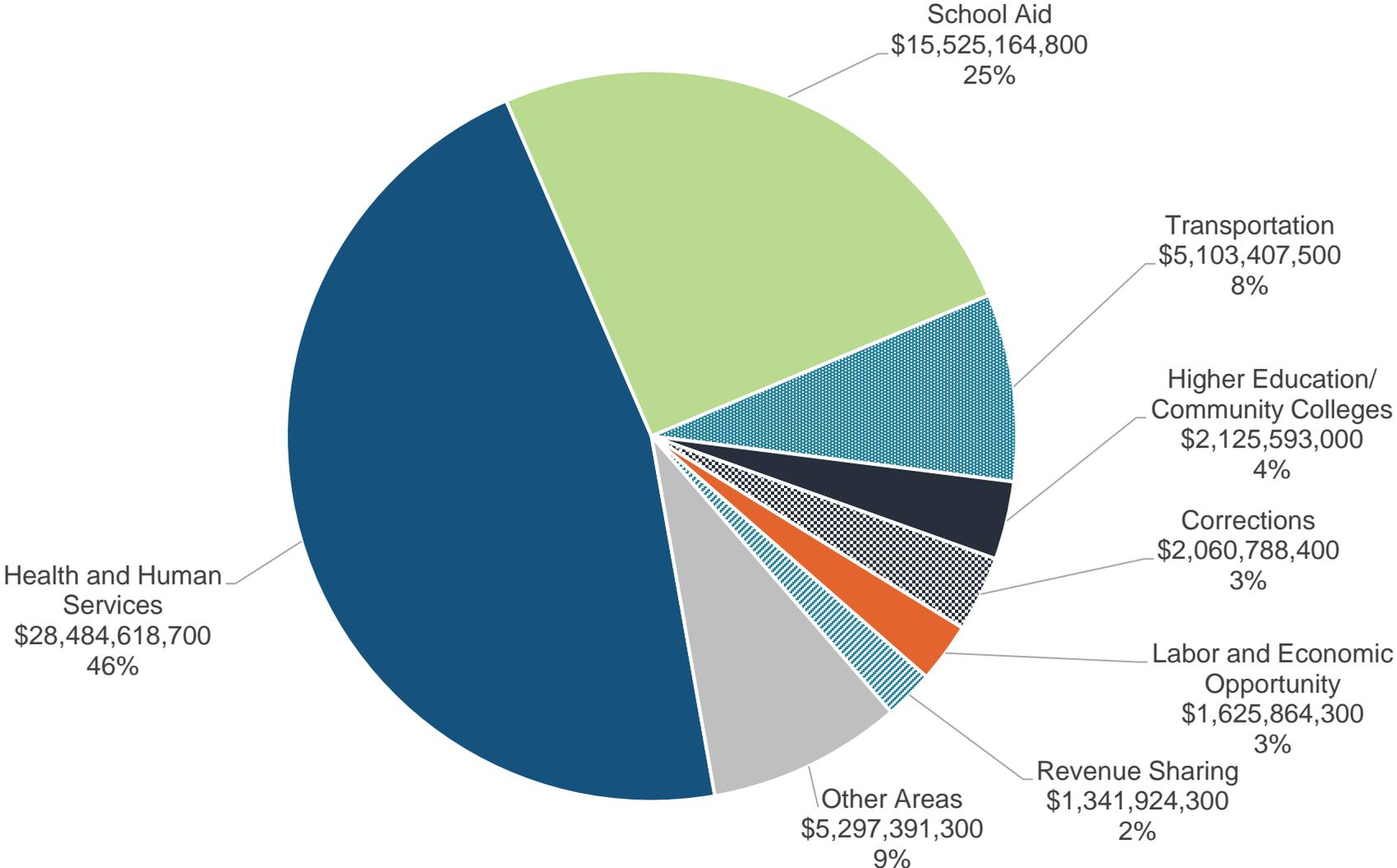
FY 2020-21 Fund Sources

Discretionary GF/GP funds make up 17% of the **\$61.6 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 40%.



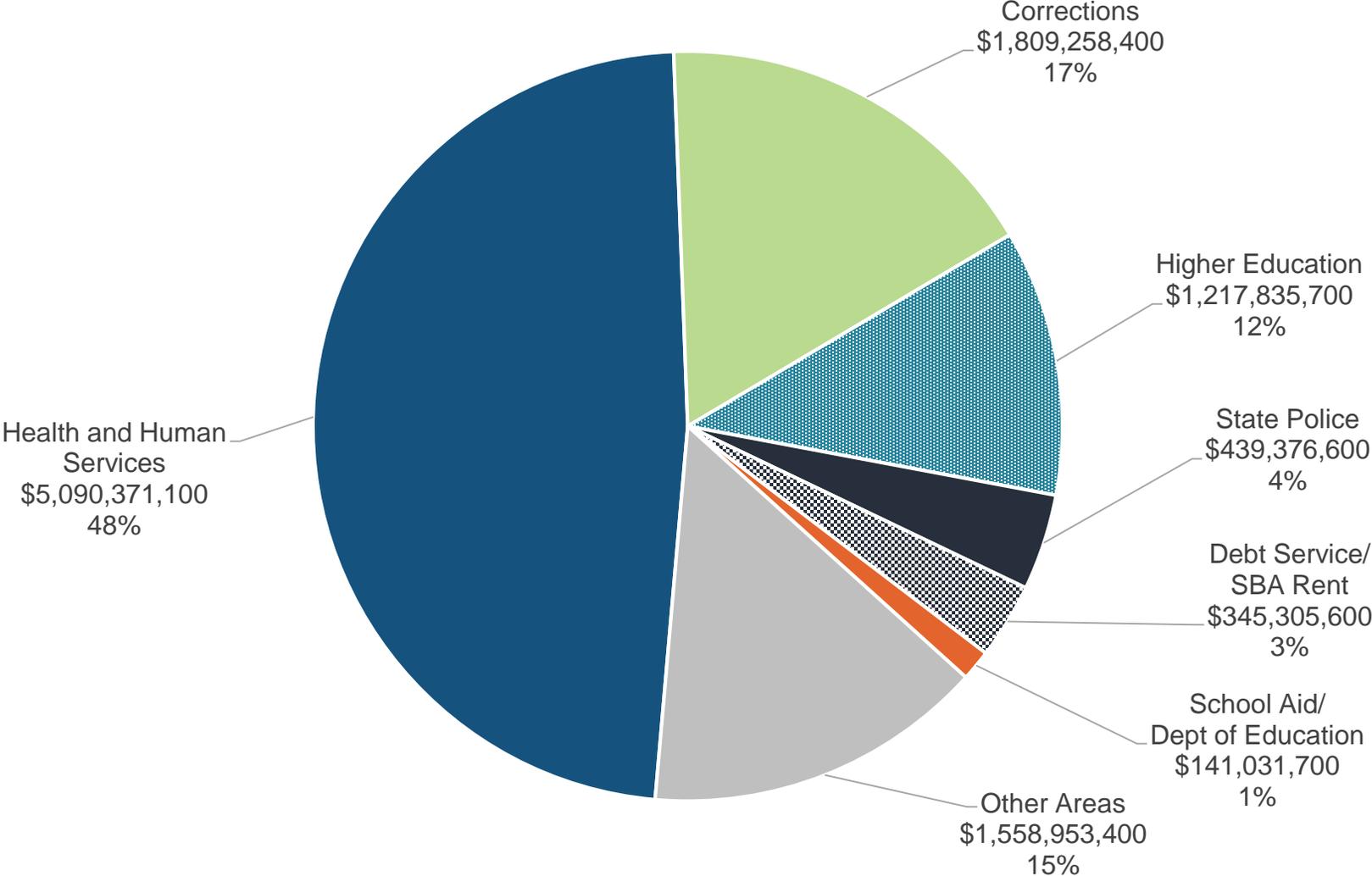
FY 2020-21 Adjusted Gross Appropriations

Large portions of the **\$61.6 billion** state budget consist of payments to health care providers, school districts, universities and colleges, and local units of government.



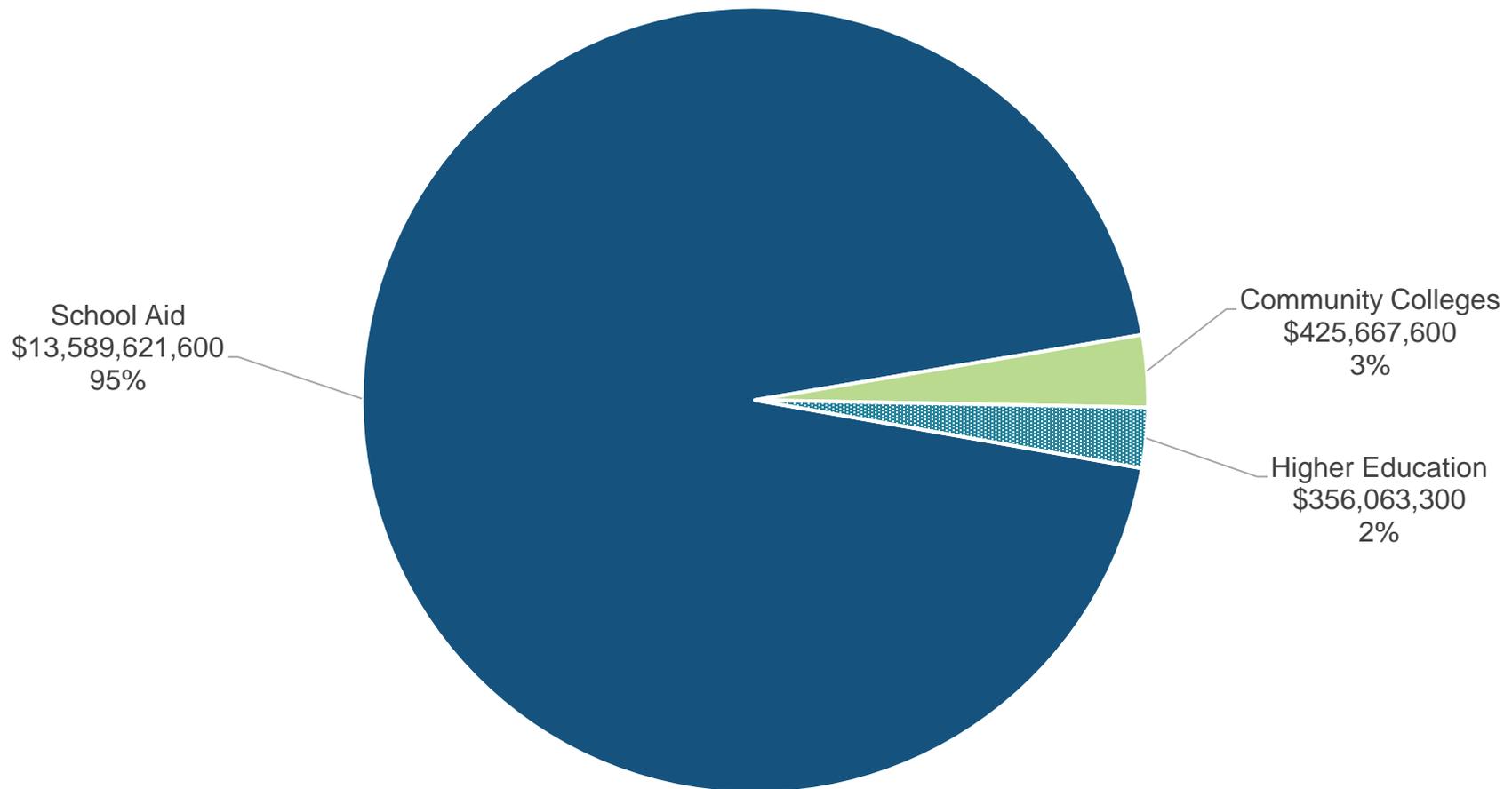
FY 2020-21 GF/GP Appropriations

85% of the **\$10.6 billion** GF/GP budget is appropriated for health and human services, public safety, education, and debt service. The remaining 15% provides funding for 13 state departments, the Judiciary, the Legislature, and the Executive Office.



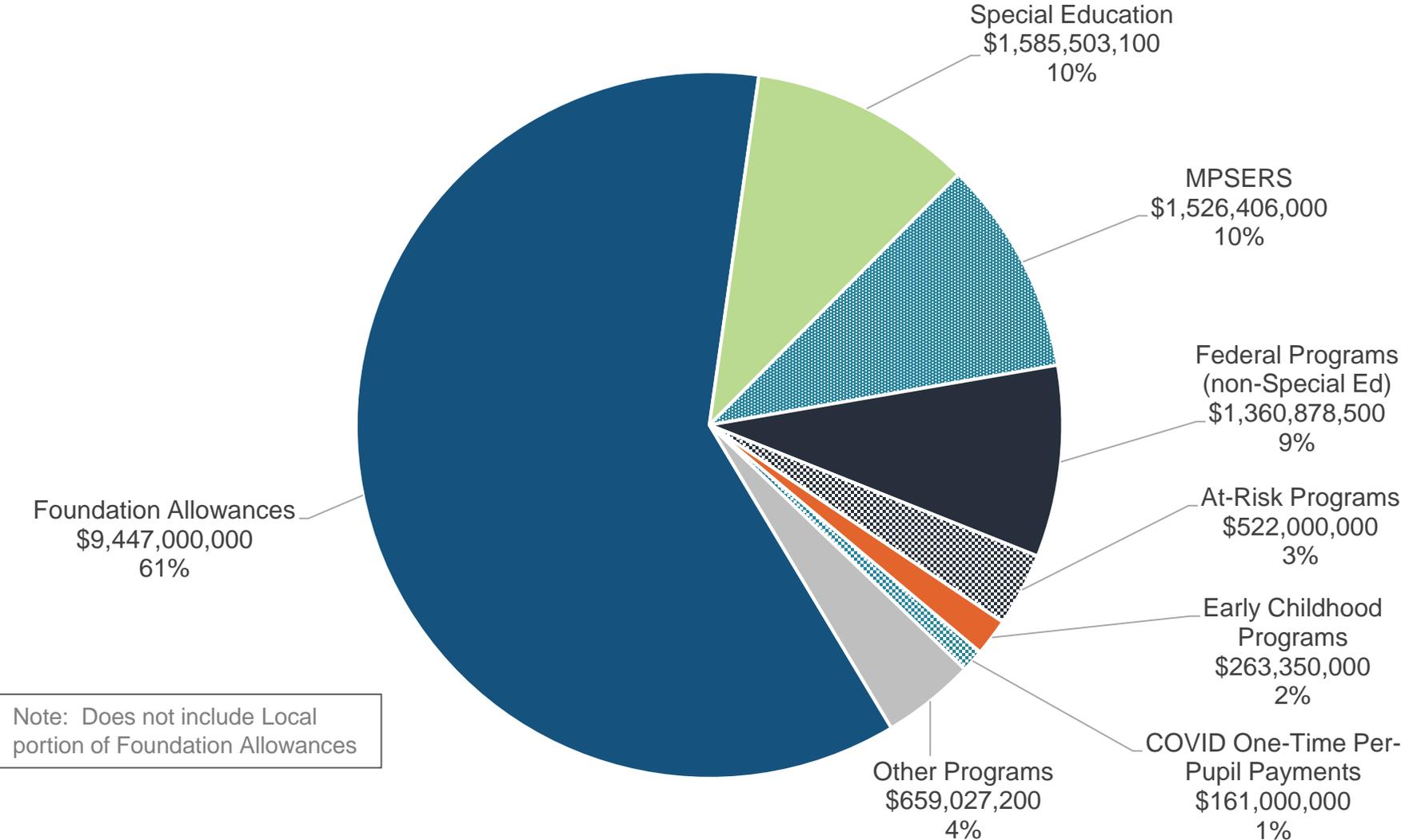
School Aid Budget Share of Total School Aid Fund (SAF) Appropriations

School Aid Fund (SAF) appropriations totaling **\$14.4 billion** are primarily for K-12 school districts. The School Aid budget represents **95%** of the state's SAF appropriations for FY 2020-21.



FY 2020-21 School Aid Appropriations

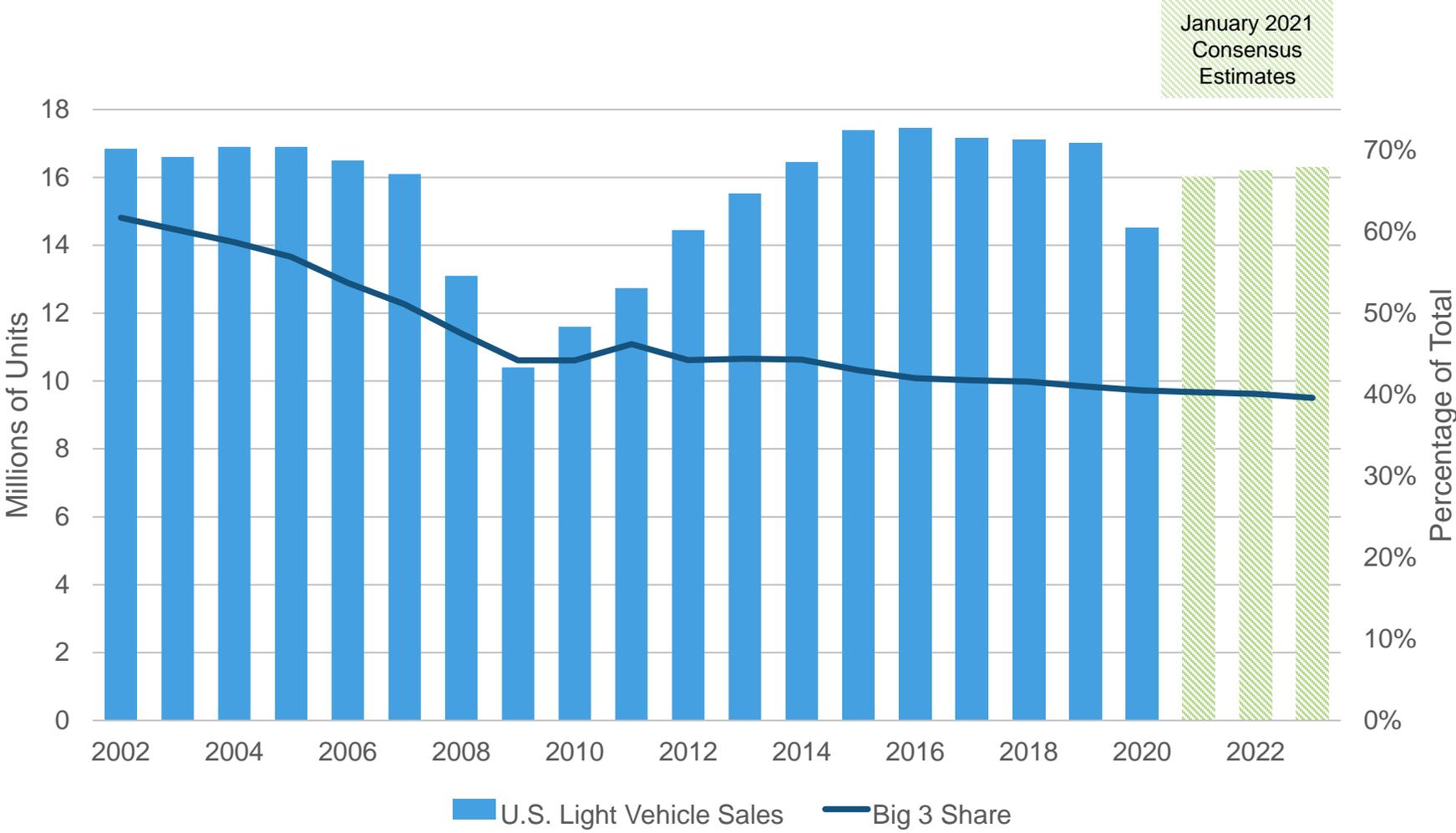
About two-thirds of the **\$15.5 billion** School Aid budget supports per pupil foundation allowances used for school district general operations.



Economic Trends

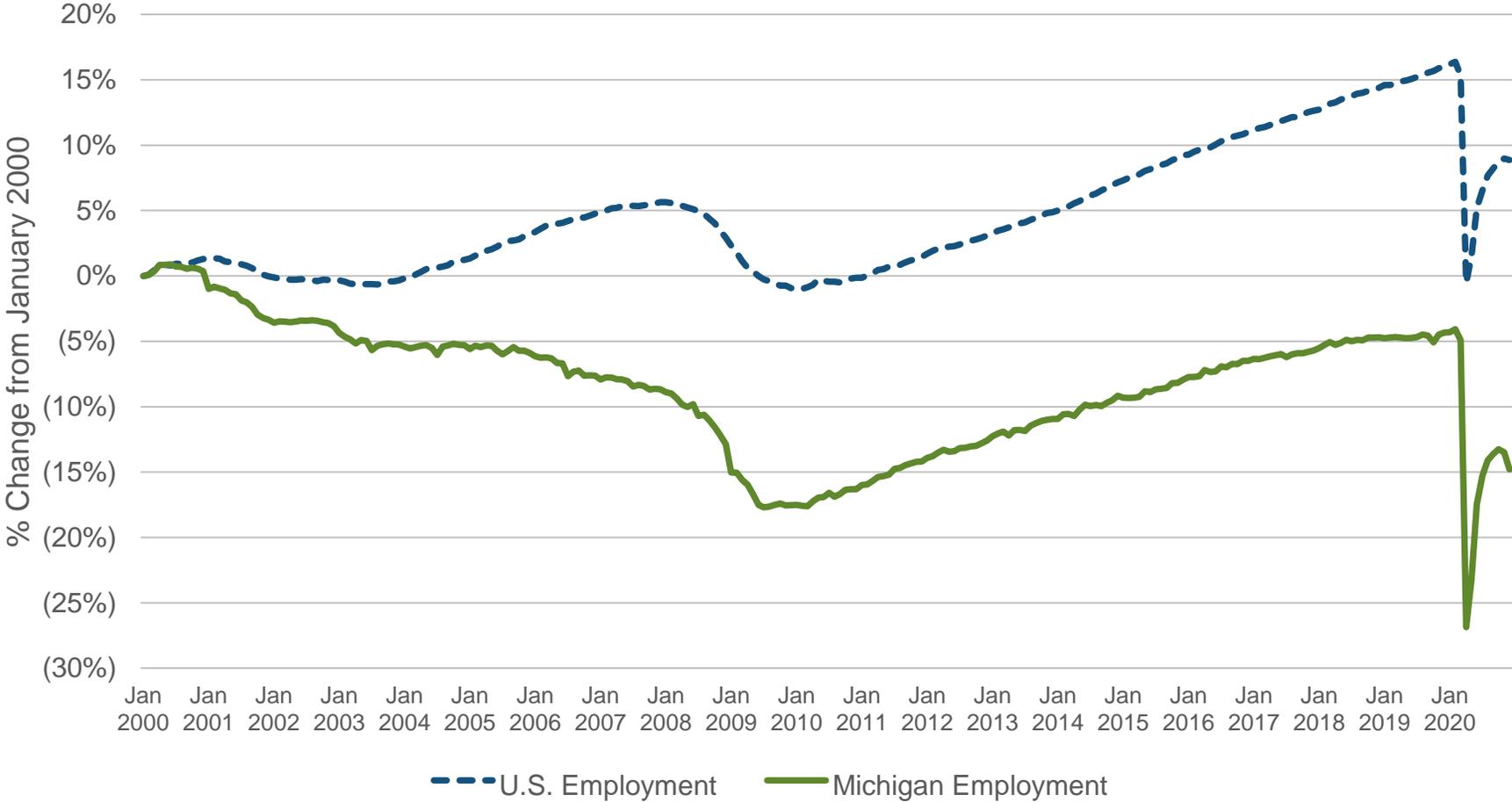
Light Vehicle Sales

With the share produced by domestic automakers having stabilized, vehicle sales increased to record levels. Sales levels, which plummeted due to the pandemic, are expected to increase over the forecast, but will remain below pre-pandemic levels.



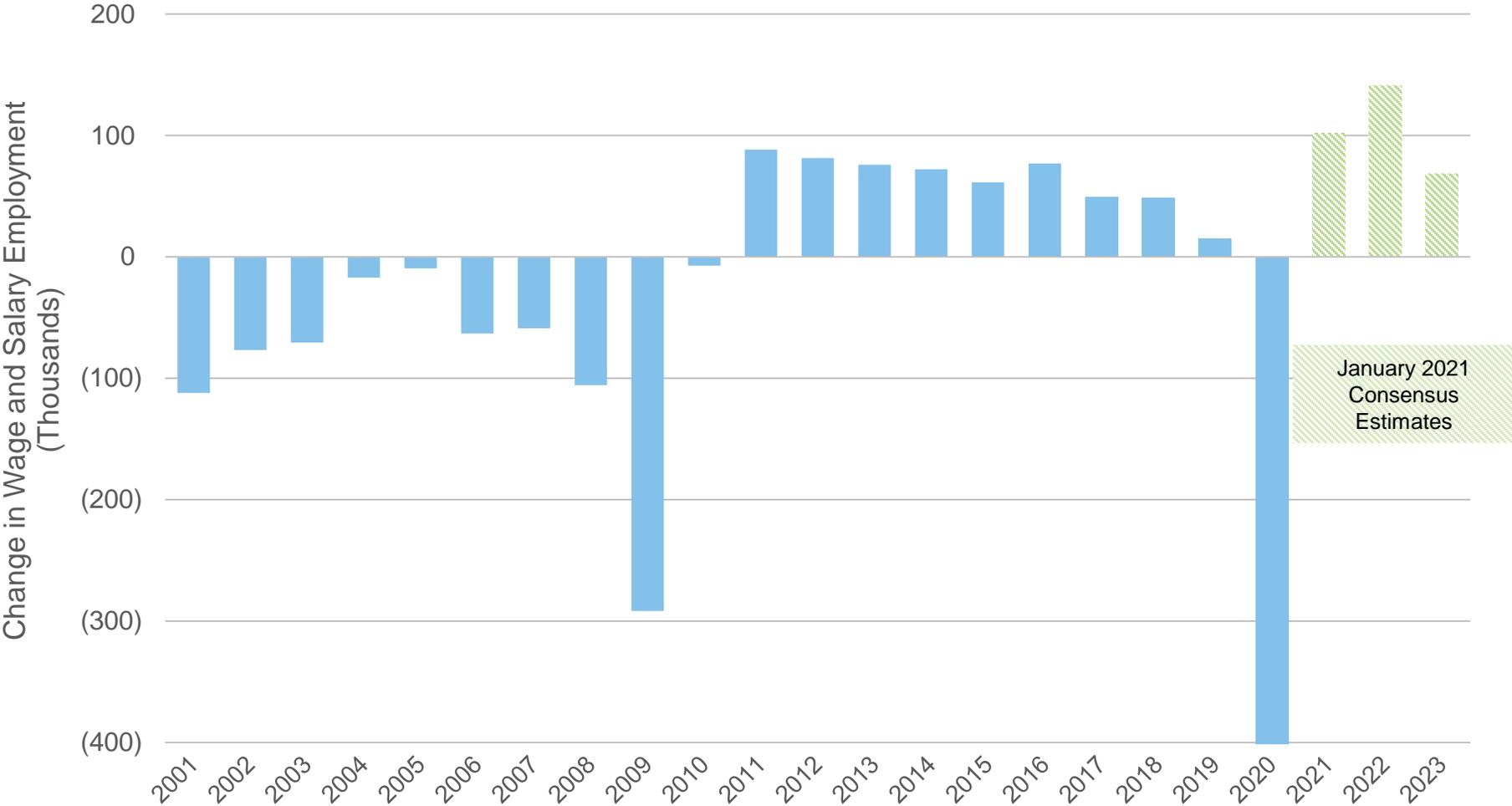
Employment Change Since 2000

Following a decade of protracted state-level job losses, Michigan employment rebounded sharply following the great recession and grew at about the same rate as national employment through 2019. After a sharp drop due to the pandemic, almost half the job losses had been regained by the end of 2020.



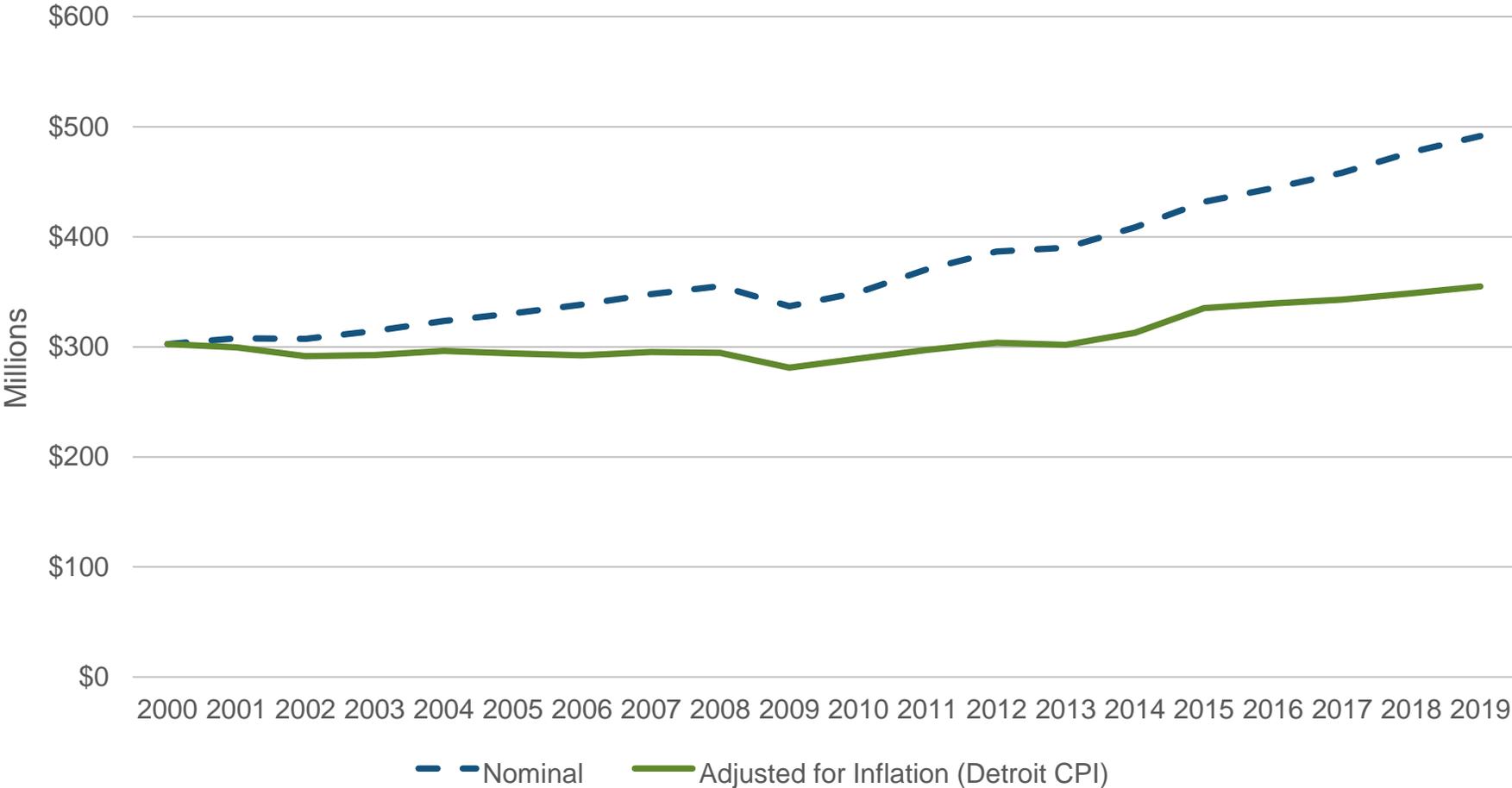
Michigan Employment Changes

After nine years of generally declining job growth, employment decreased significantly in 2020 due to the pandemic. The prediction is for roughly three-fourths of the job losses to be recovered by the end of 2023.



Michigan Personal Income

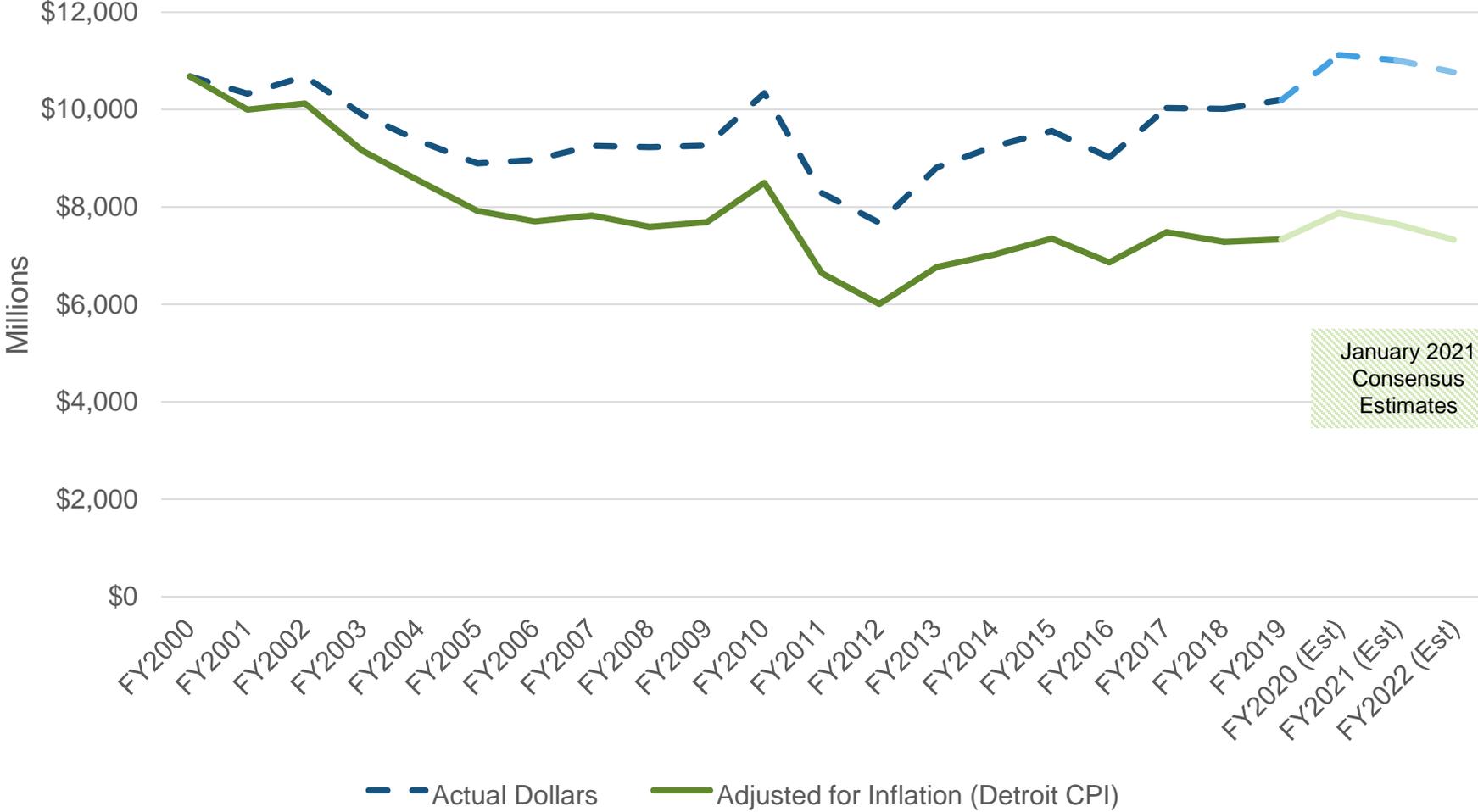
In nominal terms, total personal income in Michigan has rose roughly 62% between 2000 and 2019. In inflation-adjusted terms, however, personal income was essentially flat through 2013 before rising slowly in recent years.



Revenue Trends

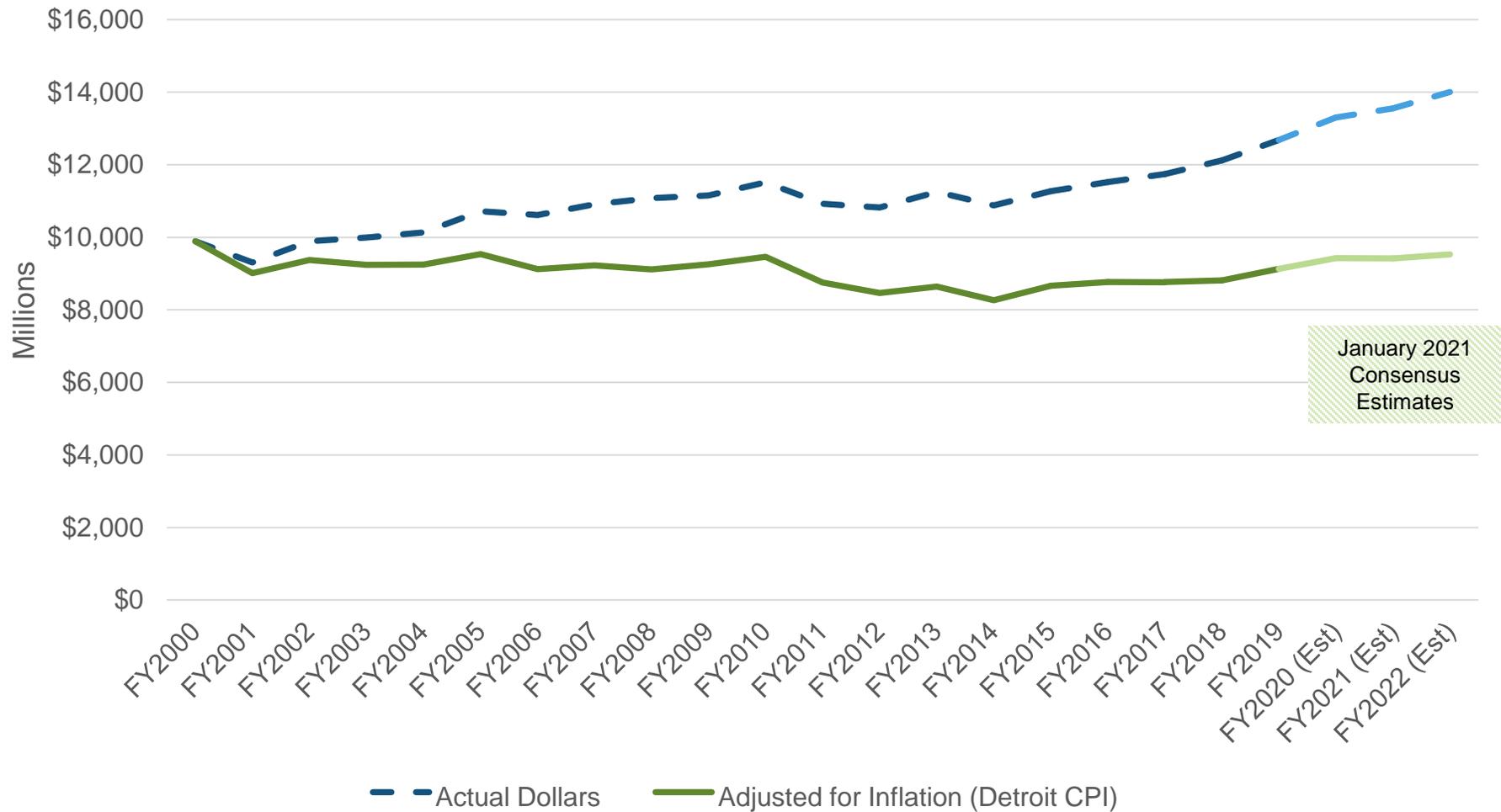
GF/GP Revenue

Nominal GF/GP revenue is expected to approach \$10.8 billion in FY 2021-22. When adjusted for inflation, however, GF/GP revenue is estimated to be 31.4% below the FY 1999-00 level.



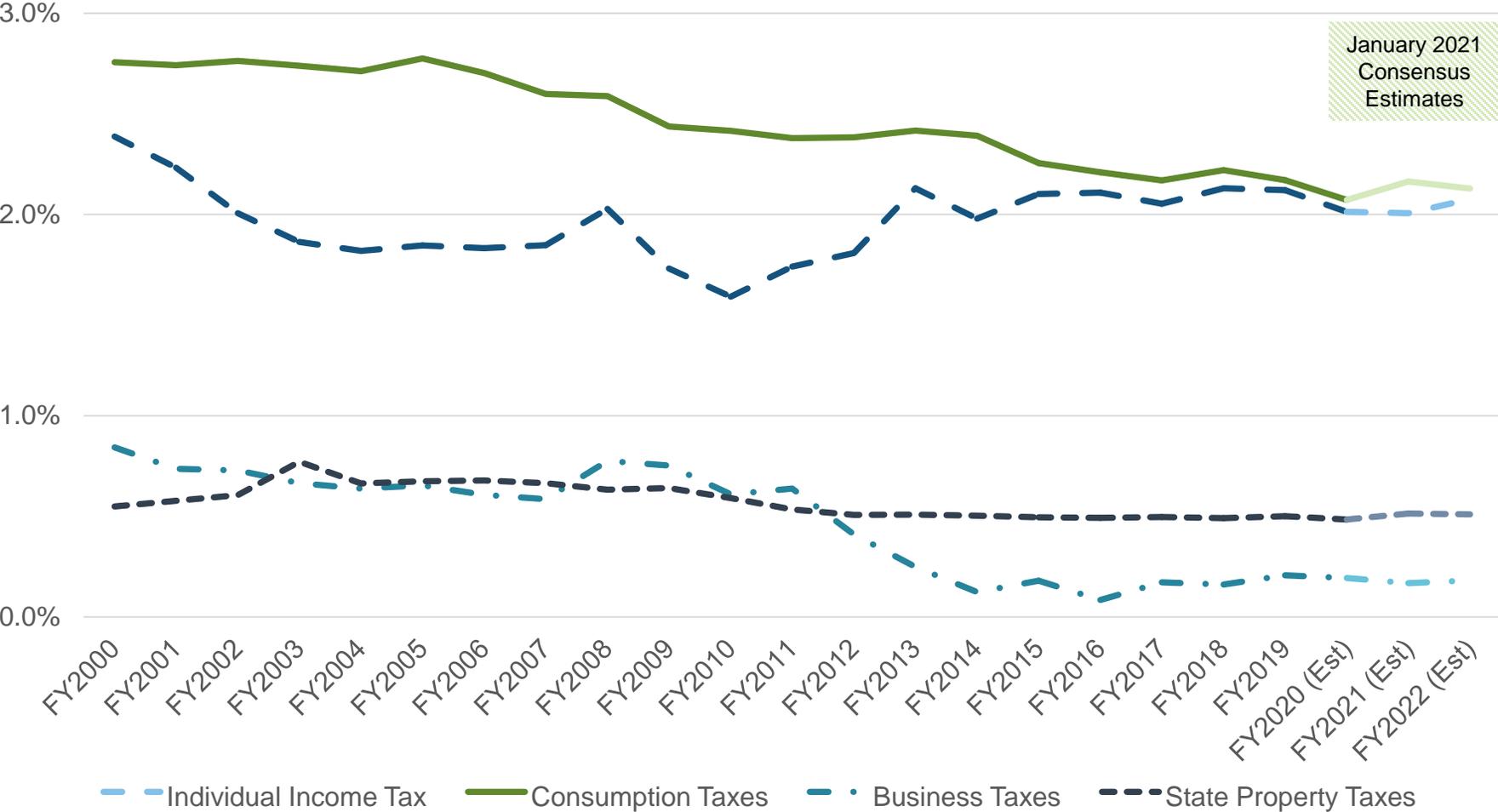
School Aid Fund Revenue

Nominal SAF revenue has grown steadily since FY 2011-12. In inflation-adjusted terms, however, SAF revenue has remained below the FY 1999-00 level.



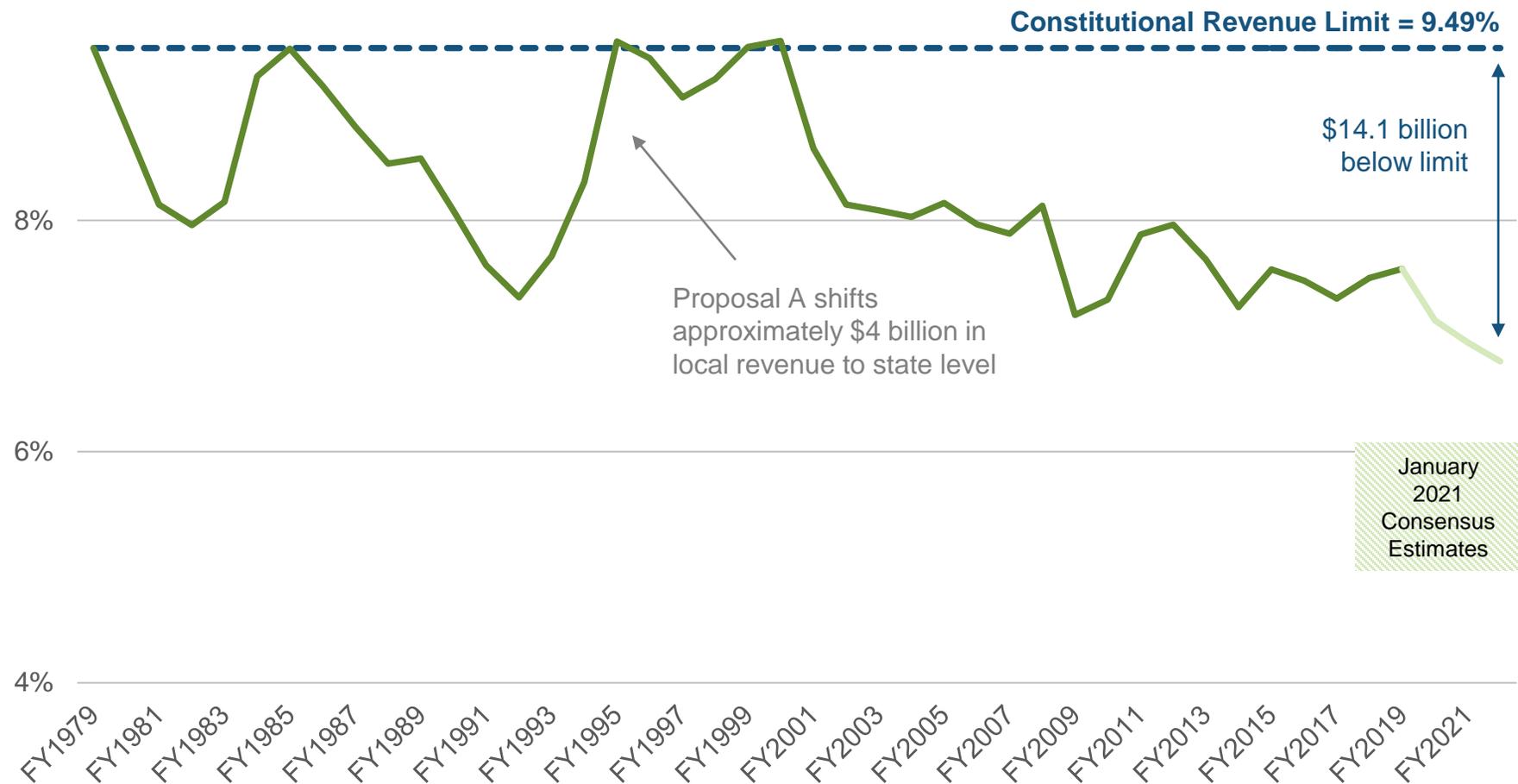
Major State Taxes as a Percentage of Michigan Personal Income

Recent growth in state revenue has been driven by income and consumption taxes. 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

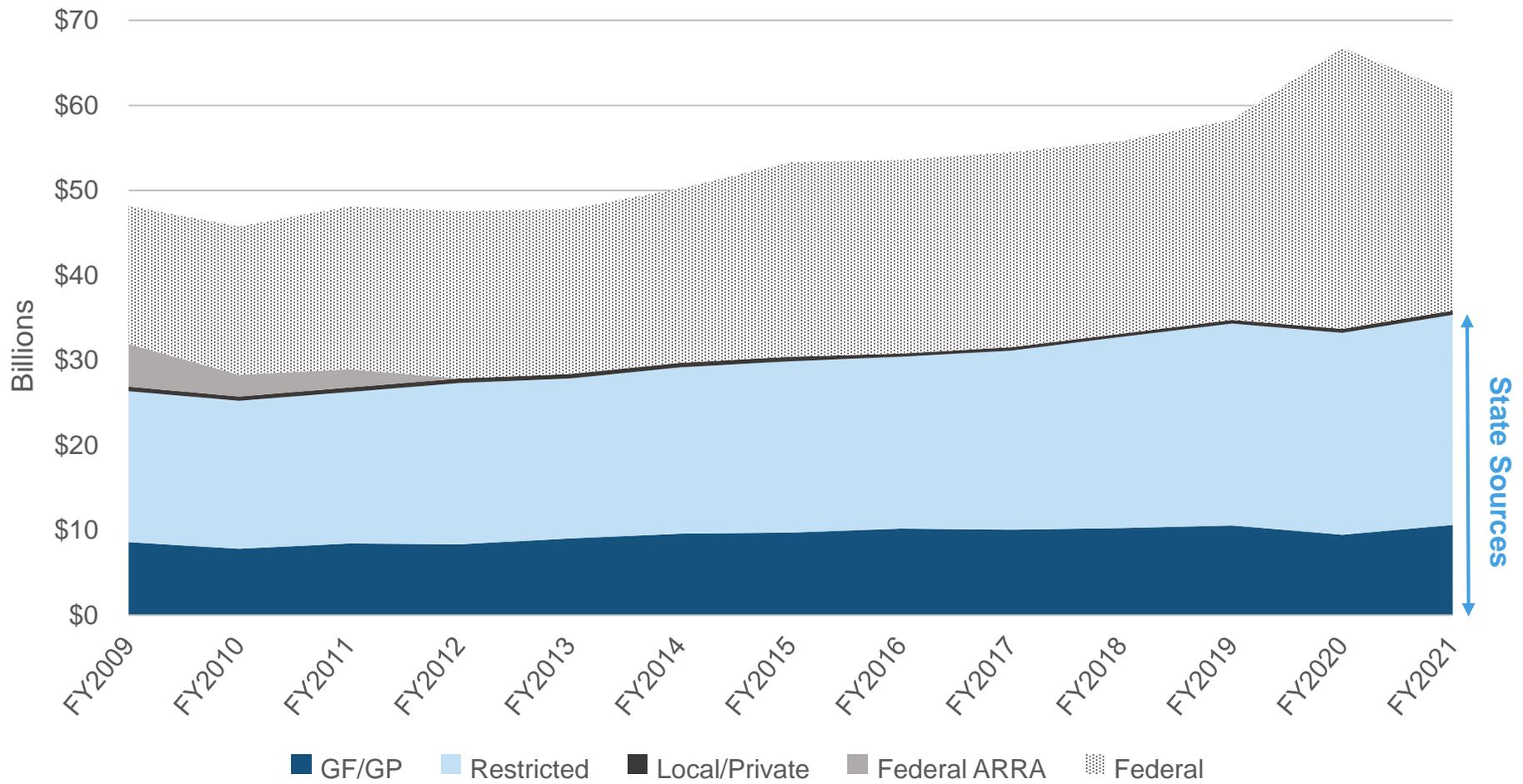
Michigan's constitution was amended in 1978 to set a limit on total state revenue (including all taxes and fees) equal to 9.49% of personal income. For FY 2021-22, the state is projected to be \$14.1 billion below that limit.



Budget Trends

Total State Budget History

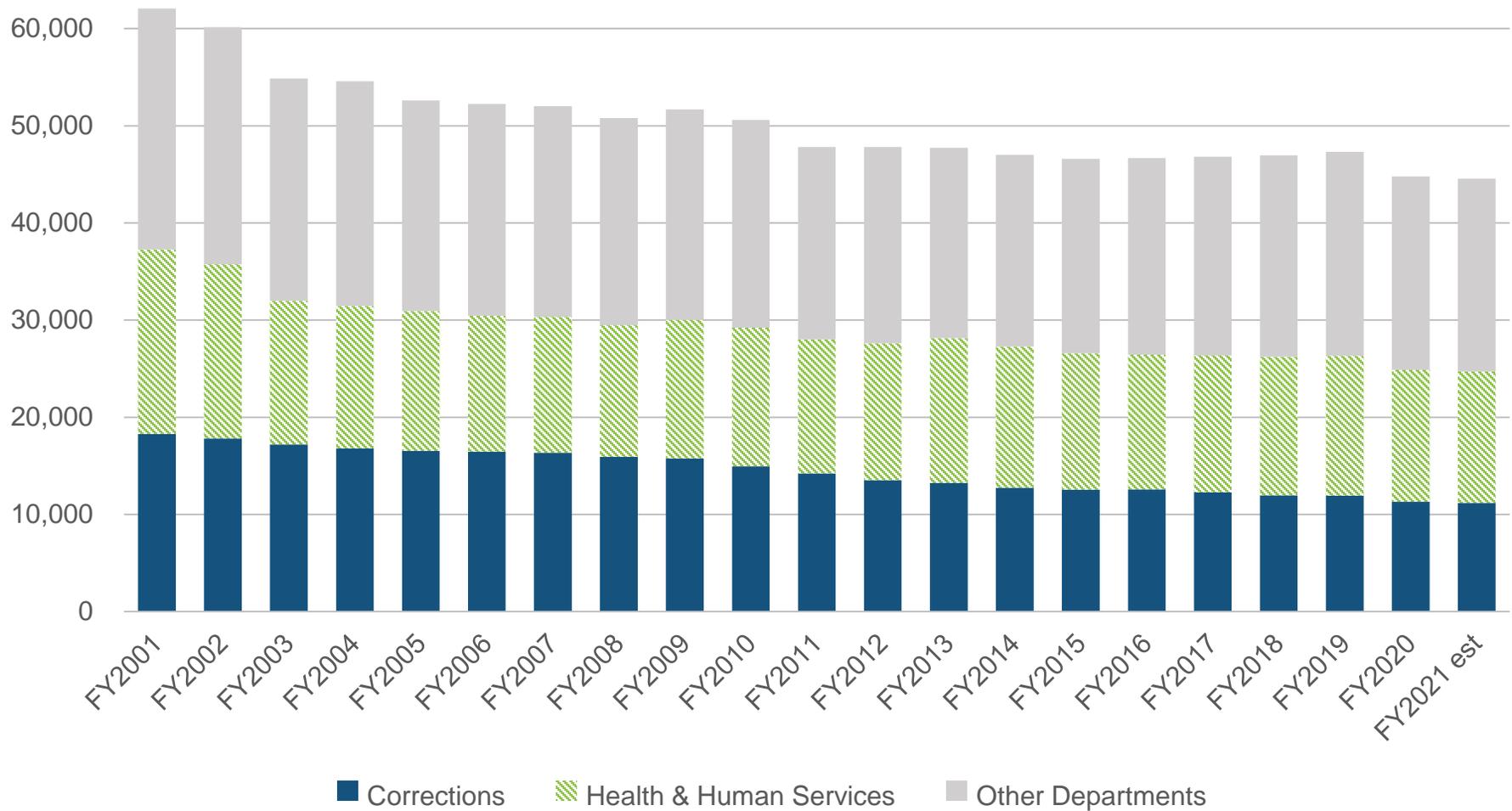
Total state budget growth of 19% since FY 2009 has been driven by both growth in federal and state funds for Medicaid expansion and federal stimulus funding in response to the coronavirus pandemic.



ARRA: Federal American Recovery and Reinvestment Act of 2009

Total Classified State Employees

The total number of state employees has declined by about 17,500 (39%) since FY 2001.



Source: Michigan Civil Service Commission, Annual Workforce Report

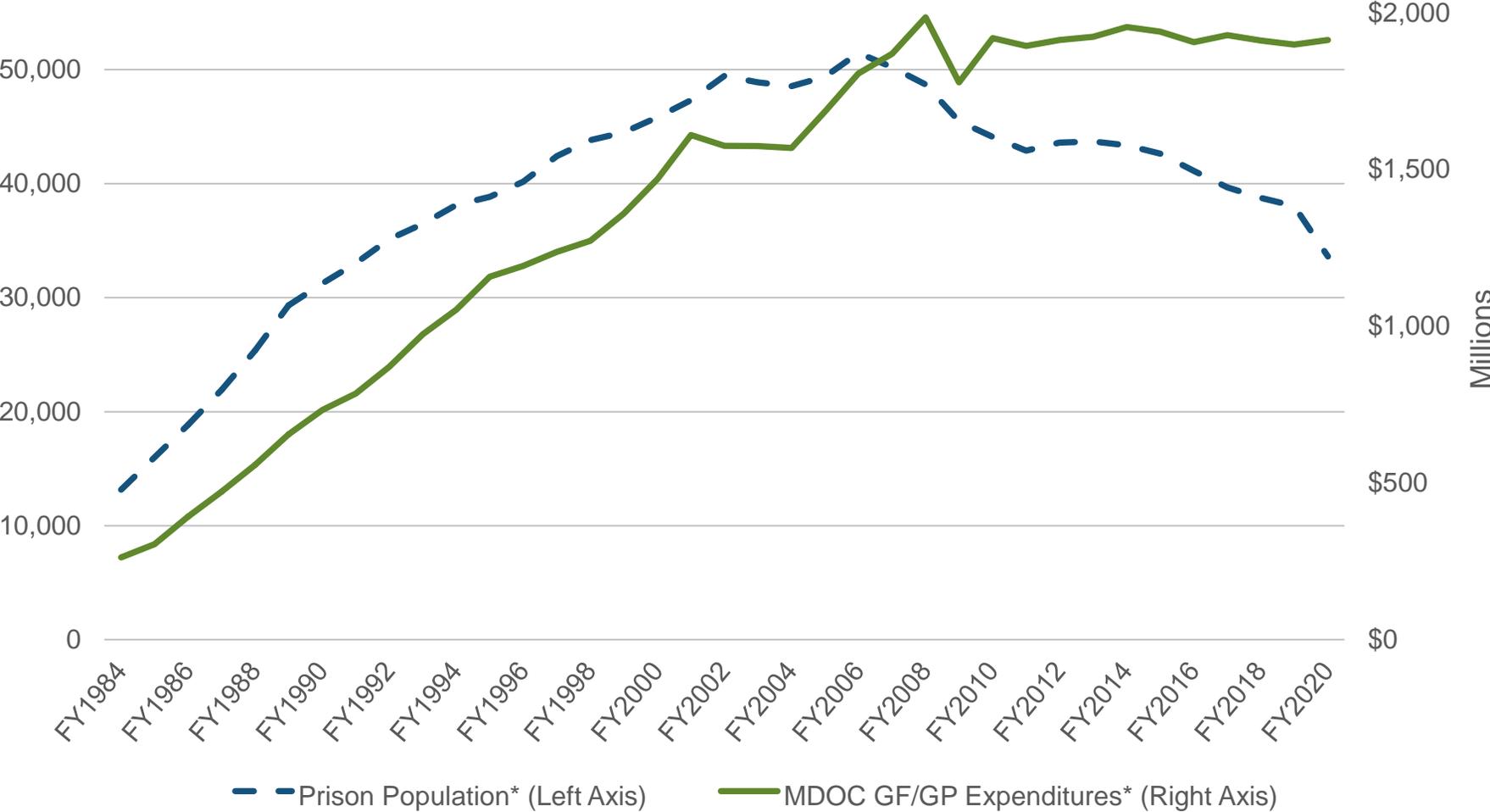
State Employee Compensation-Related Costs

Estimated FY 2020-21 Total: \$6.0 billion Gross (\$3.2 billion GF/GP)

- **Salary and Wages: \$3.5 billion**
 - Average salary for a full-time state employee in 2019 was \$65,452.
- **Health Insurance: \$680.2 million**
 - Employee premium costs are paid on an 80/20 state/employee basis.
- **Retirement and Other Post Employment Benefits (OPEB): \$2.0 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

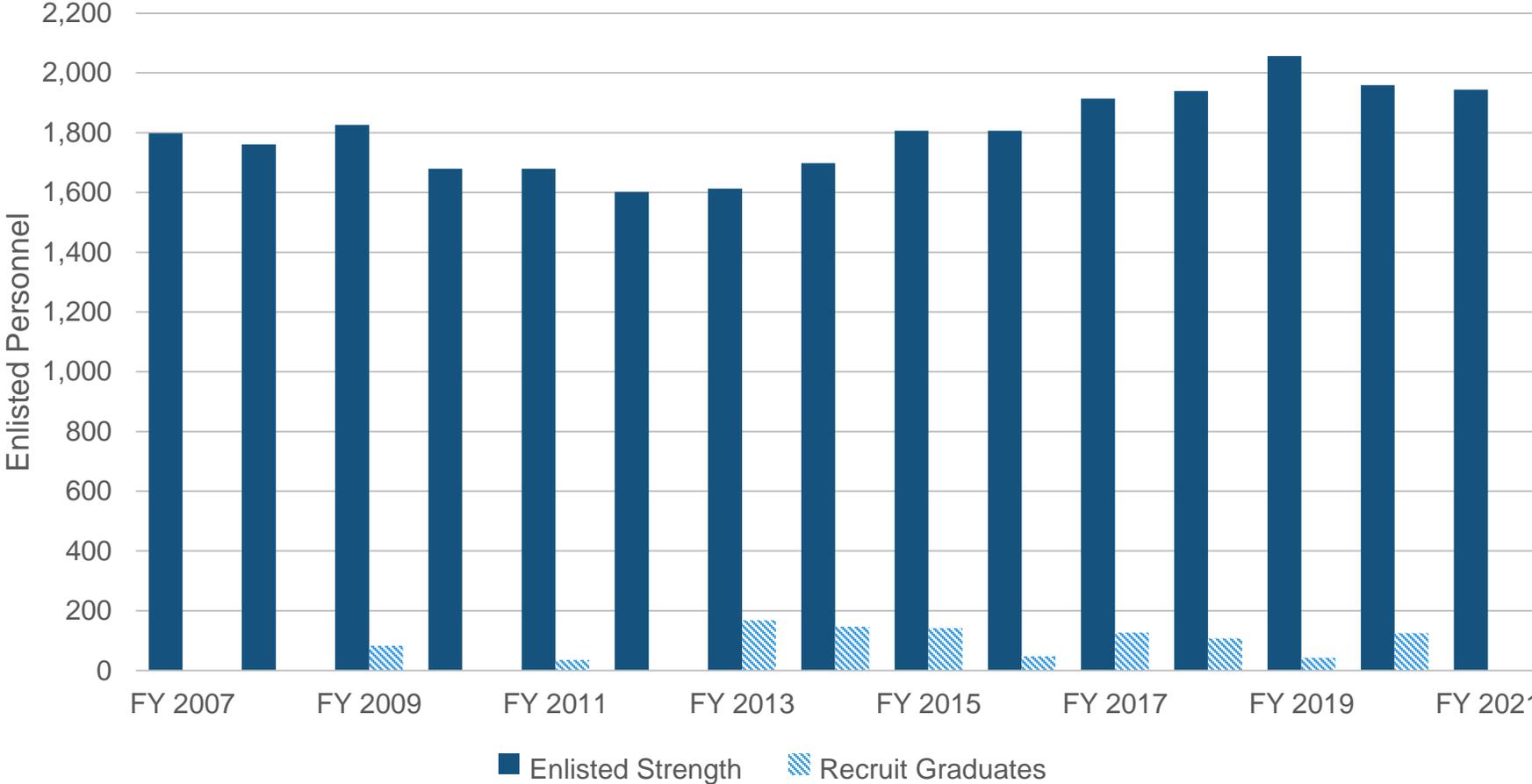
Over the long term, corrections costs have grown consistent with prison population. The Corrections budget would have decreased since FY 2010-11 if not for the increased costs of paying down retirement liabilities.



**2020 and 2021 figures reflect GF/GP and federal Coronavirus Relief Funds and federal disaster assistance funding; 2020 and 2021 figures reflect a reduced prison population related to COVID-19*

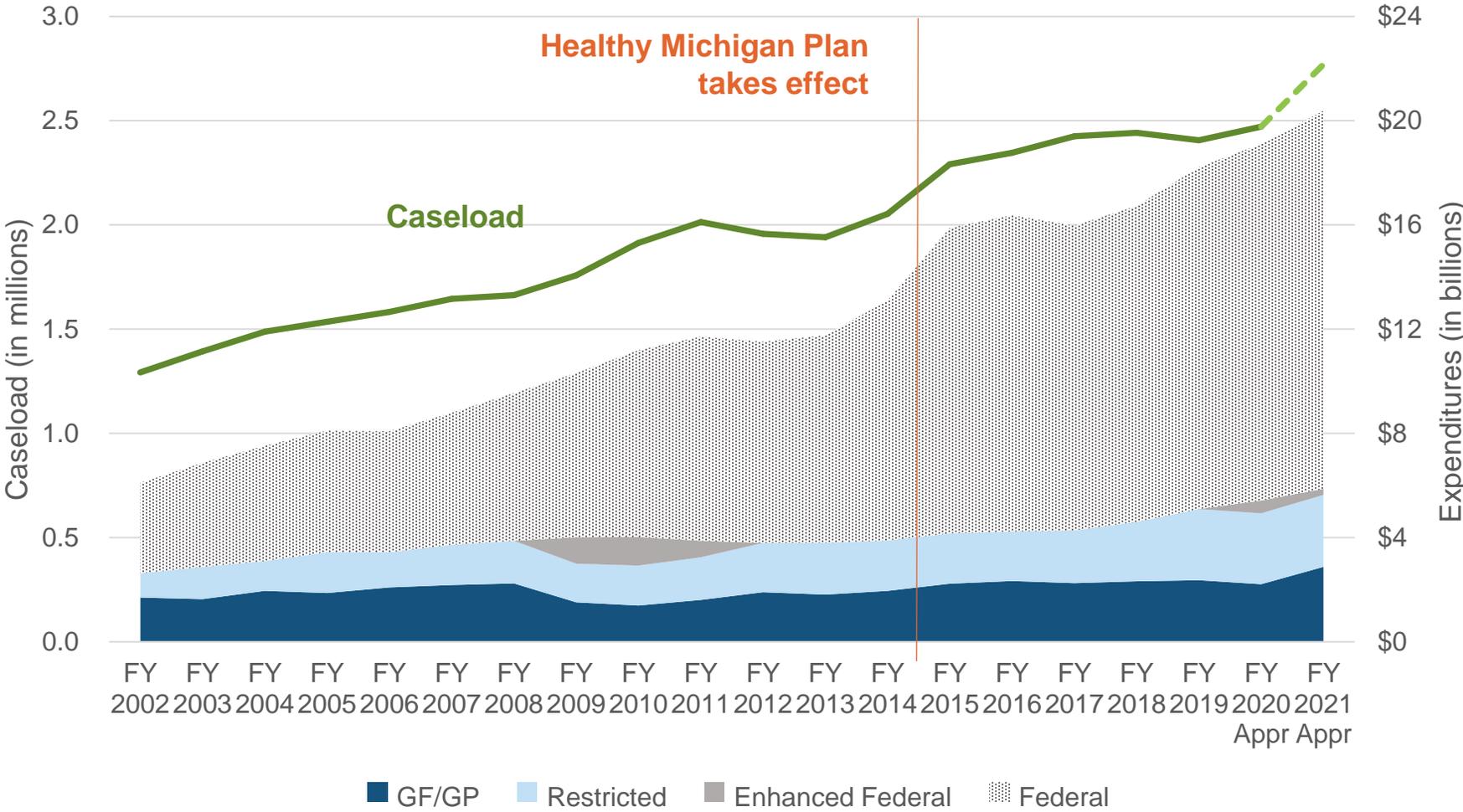
State Police At-Post Trooper Strength

Following years of significant decreases beginning in the Great Recession, enlisted strength has been generally increasing since FY 2013-14. 125 new graduates are projected to join the ranks after graduating recruit schools funded with FY 2019-20 appropriations. The FY 2020-21 budget provides for trooper schools totaling 170 recruits.



Medicaid Expenditures by Fund Source

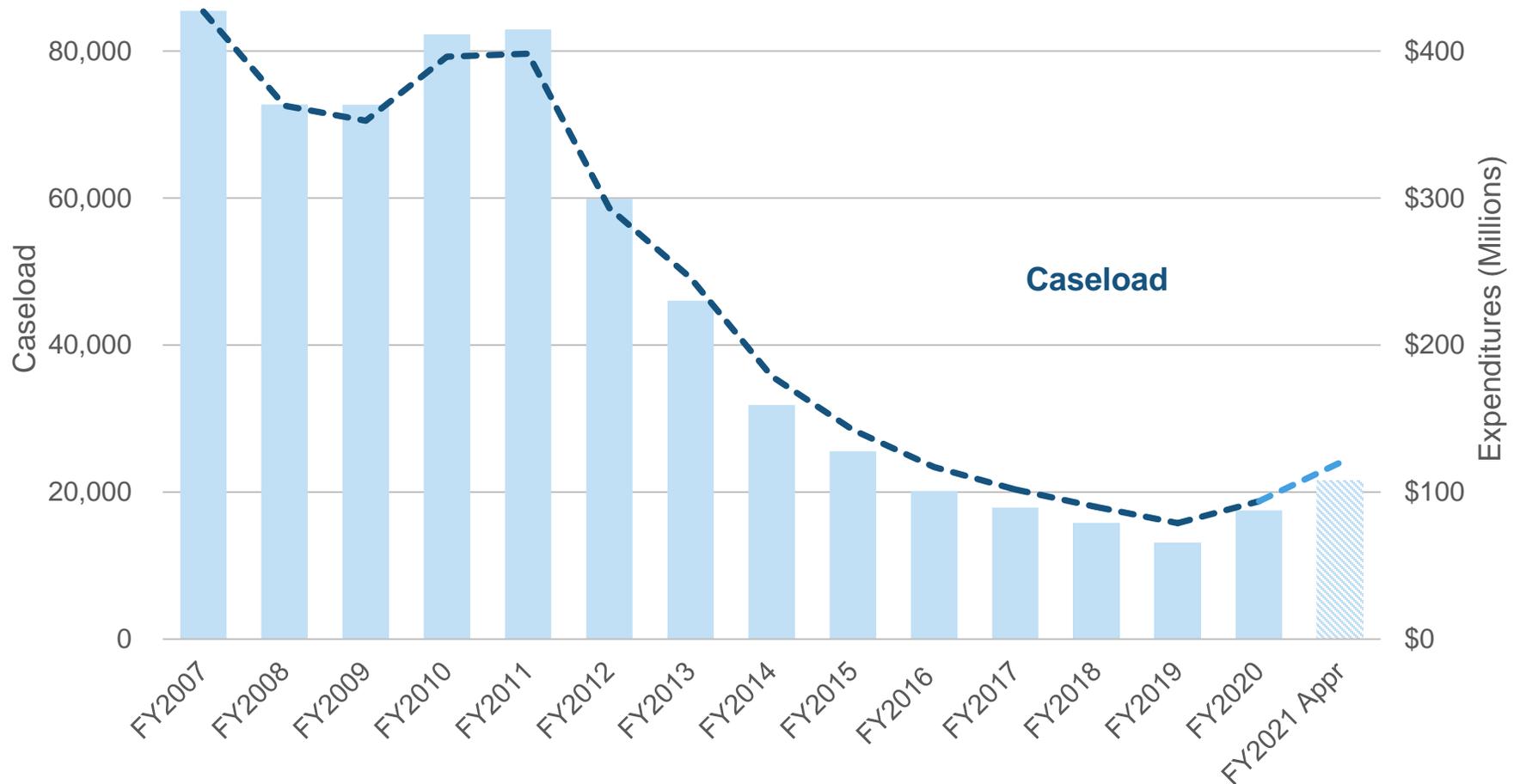
Since FY 2001-02, the state's total Medicaid caseload has doubled and expenditures have tripled due to economic trends, the expansion under the Healthy Michigan Plan, and more recently the coronavirus pandemic.



Temporary Enhanced FMAP from American Recovery and Reinvestment Act of 2009 and Families First Coronavirus Response Act of 2020

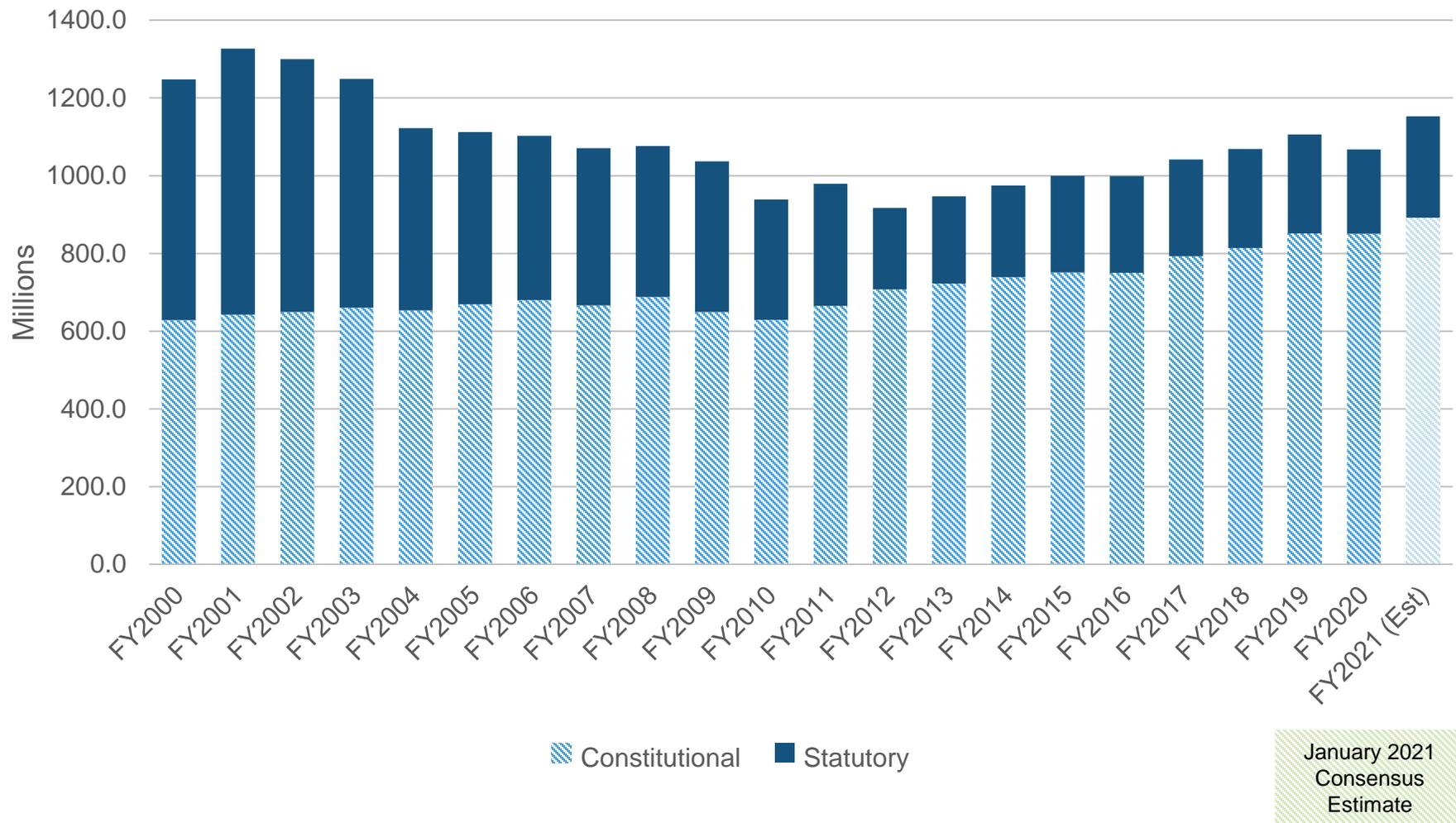
Family Independence Program (FIP) Caseload and Expenditures

Expenditures for FIP have declined markedly (75%) due to both policy changes, including imposition of lifetime time limits, and economic conditions. Recent increase is a result of the coronavirus pandemic.



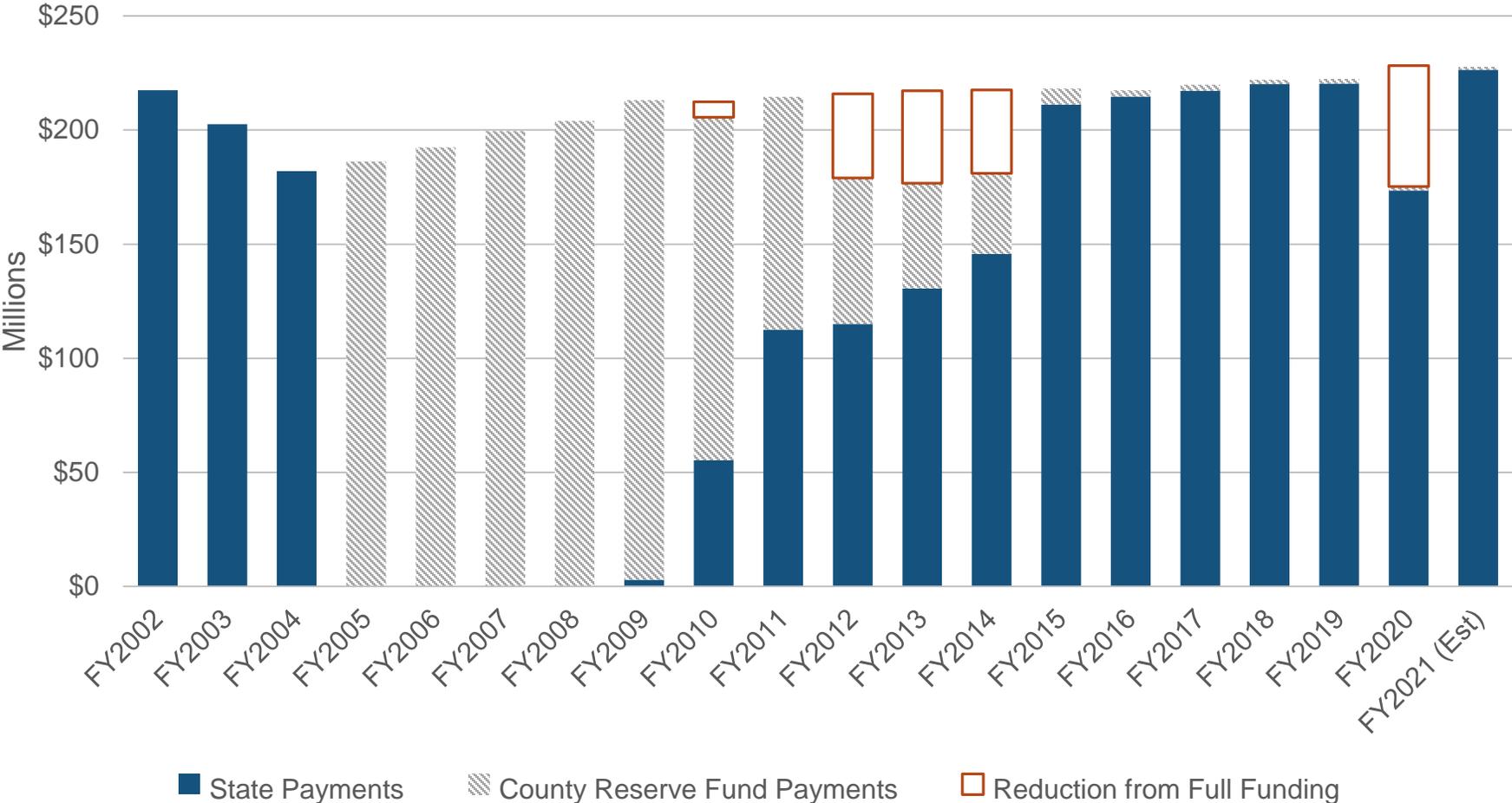
Revenue Sharing to Cities, Villages, and Townships (CVTs)

Per capita constitutional payments to CVTs have grown consistent with sales tax revenue growth. FY 2020-21 discretionary (statutory) payments remain \$423 million below the FY 2000-01 peak.



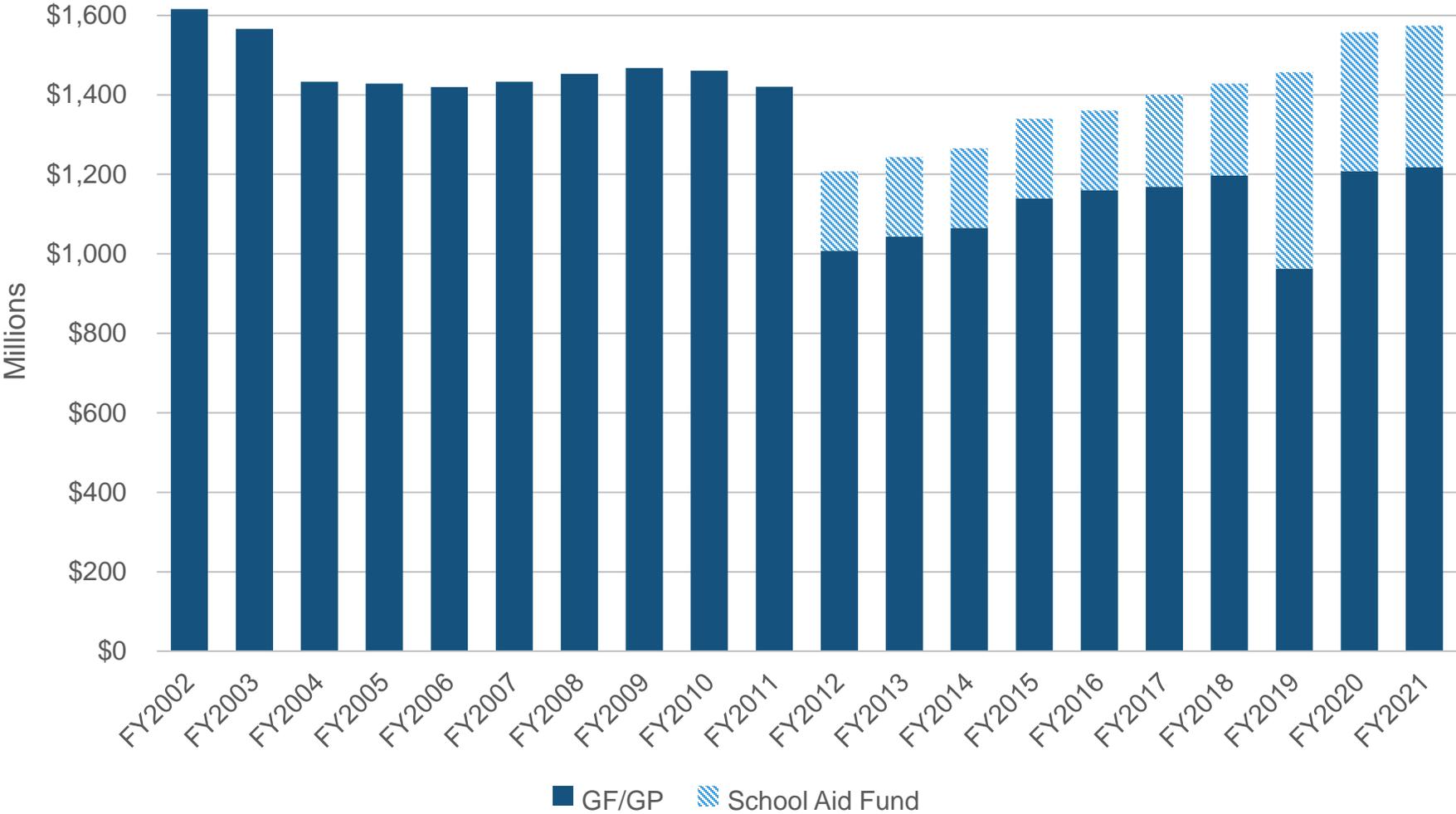
County Revenue Sharing

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.



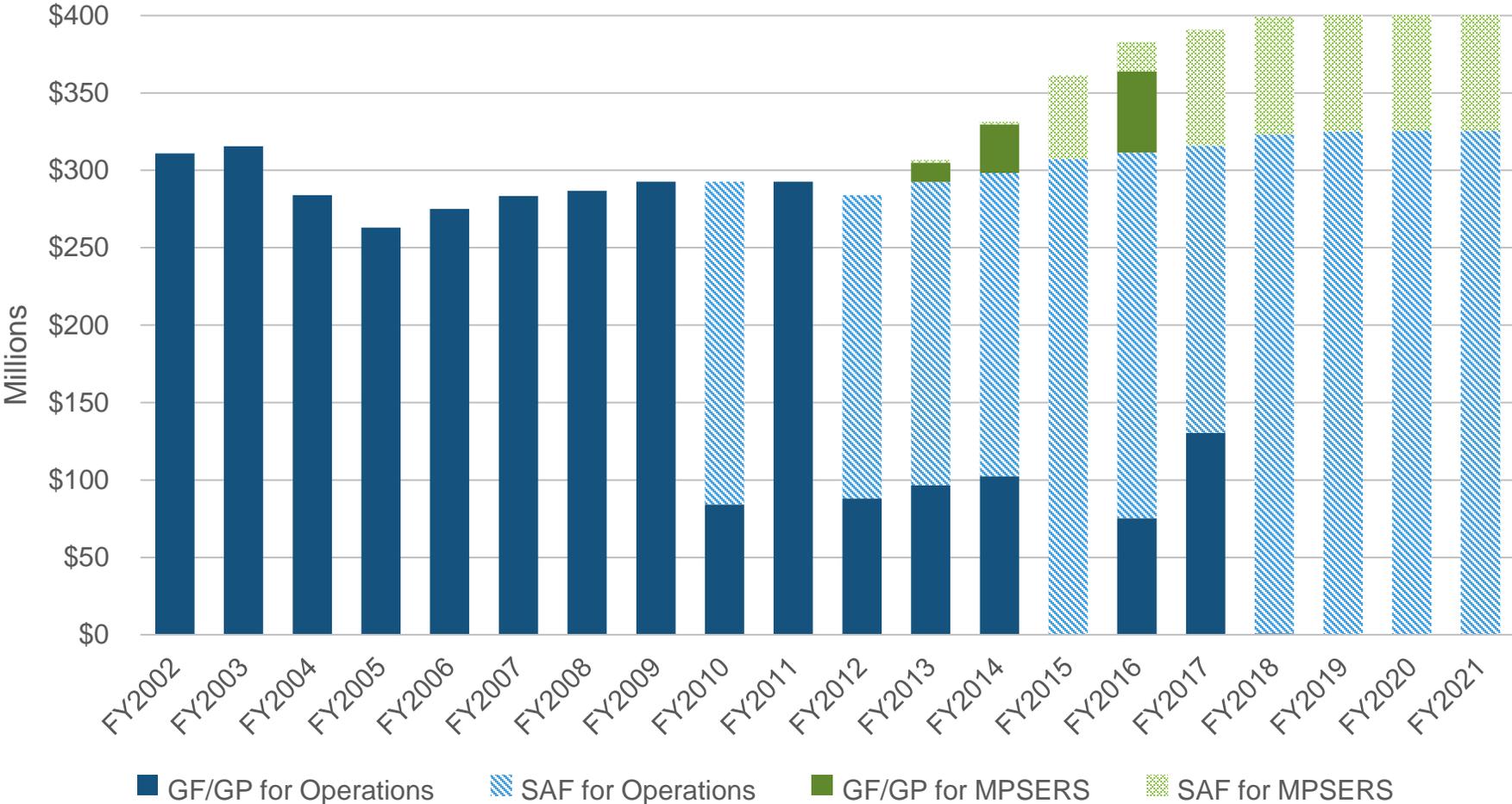
Public University Appropriations

State support for public universities operations has increased by \$366.6 million (30%) since FY 2011-12, but remains \$41.6 million (3%) below the FY 2001-02 peak of \$1.6 billion.



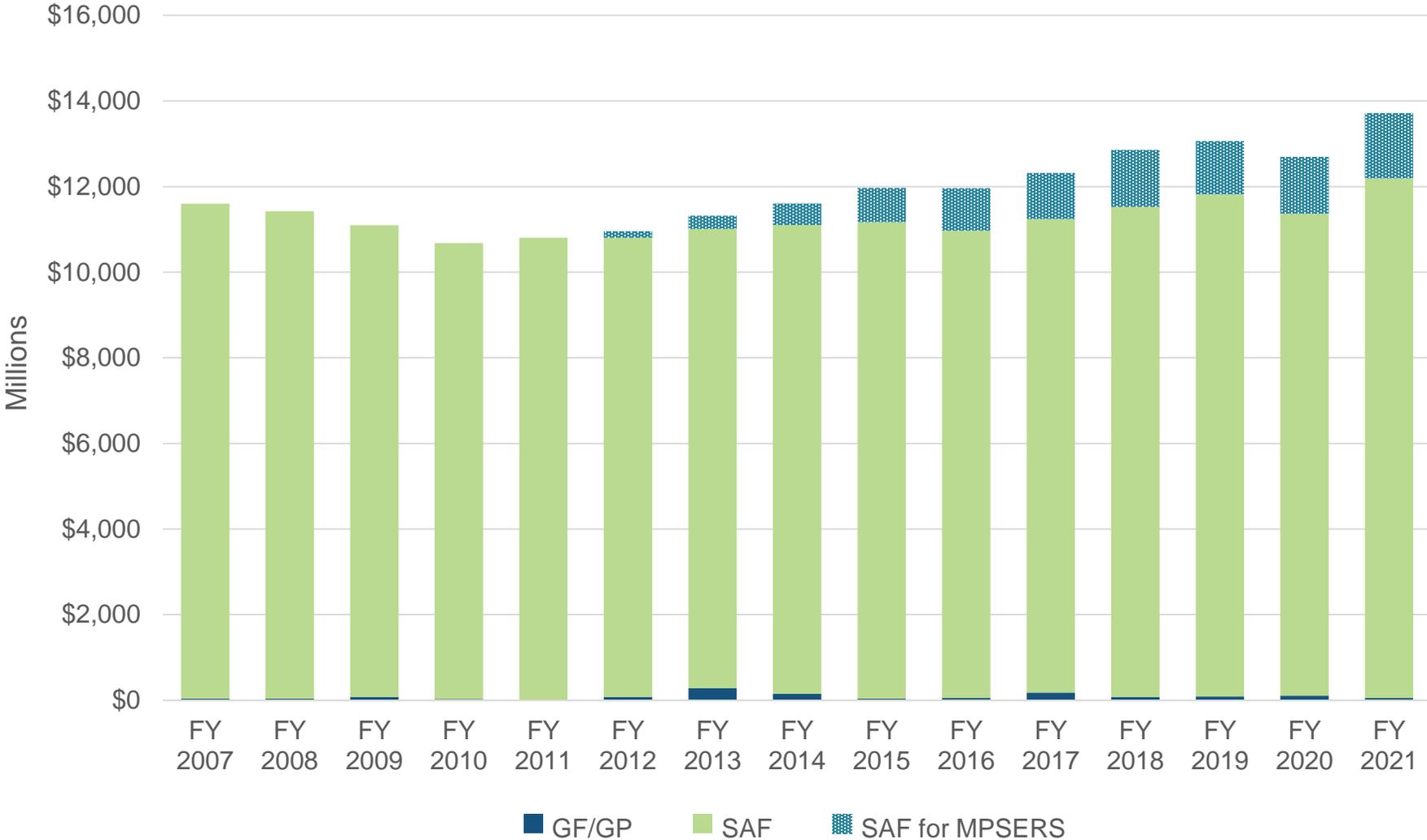
Community College Appropriations

FY 2020-21 state appropriations for community college operations are at their peak of \$325.4 million but have been relatively flat over the last four fiscal years. Increased funds have been allocated in recent years to offset growing retirement costs.



School Aid Funding History – State Funds

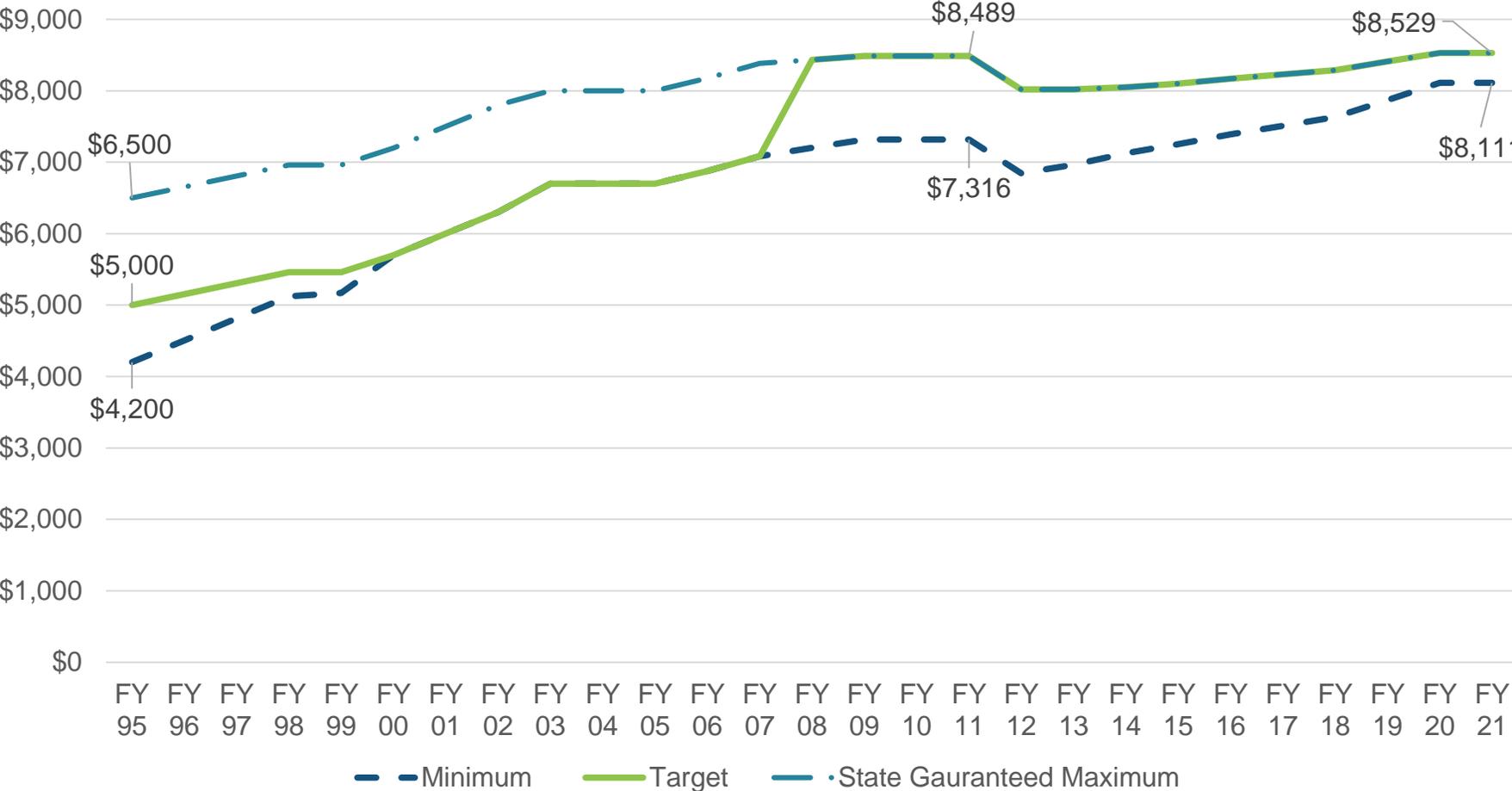
Since FY 2012, **\$1.5 billion** has been added to hold districts harmless from increasing retirement liability costs. Since FY 2007, non-MPSERS funding has increased by **5%**.



Foundation Allowance History

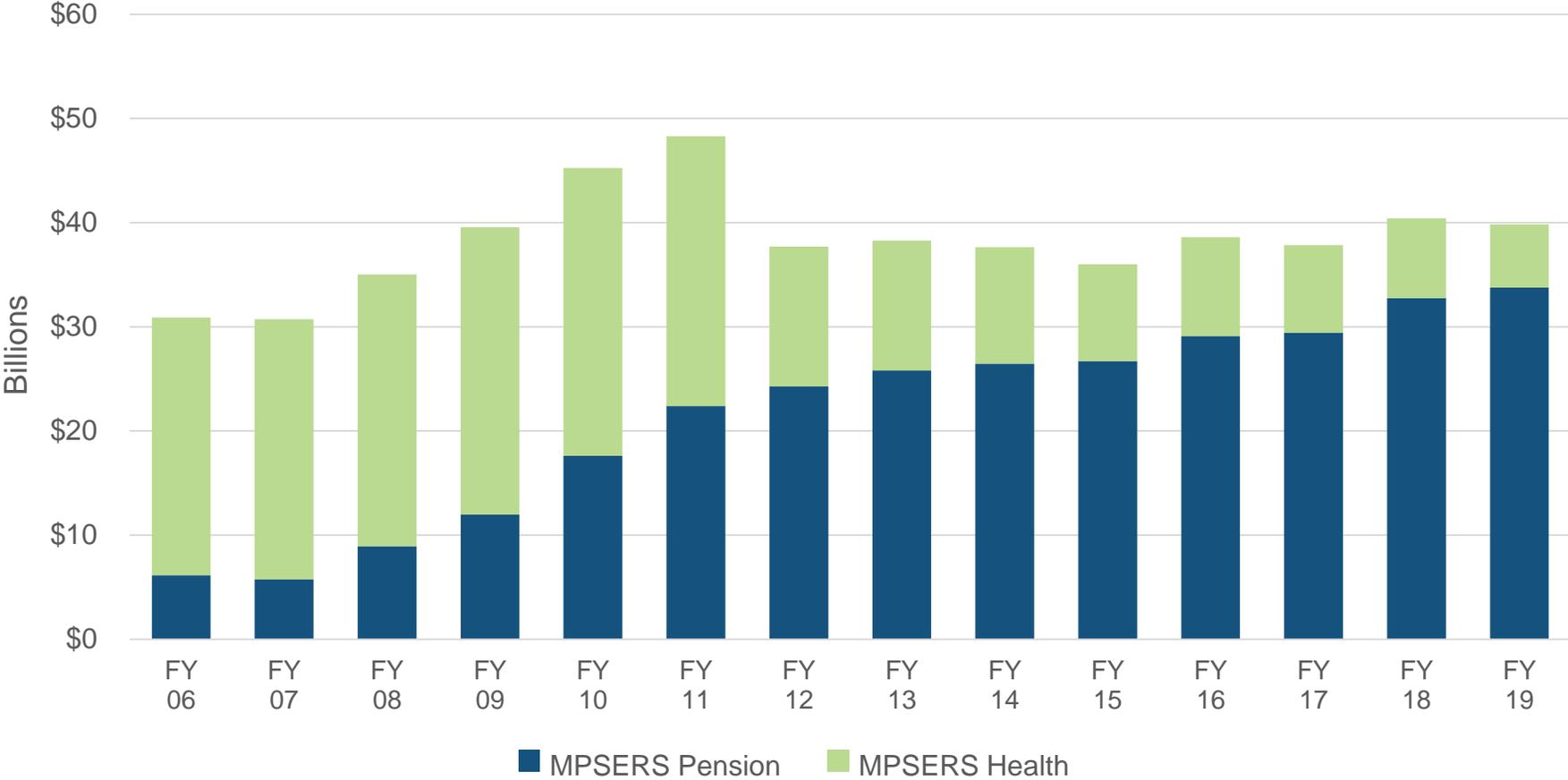
Growth Since Proposal A

The FY 2020-21 foundation allowance for districts at the Minimum level is **\$795** above the previous FY 2010-11 peak. For districts at the State Maximum level, the foundation allowance surpassed the FY 2010-11 peak in FY 2019-20; it is **\$40** above the peak. The “equity gap” between the Minimum and Maximum is down to **\$418** per pupil.



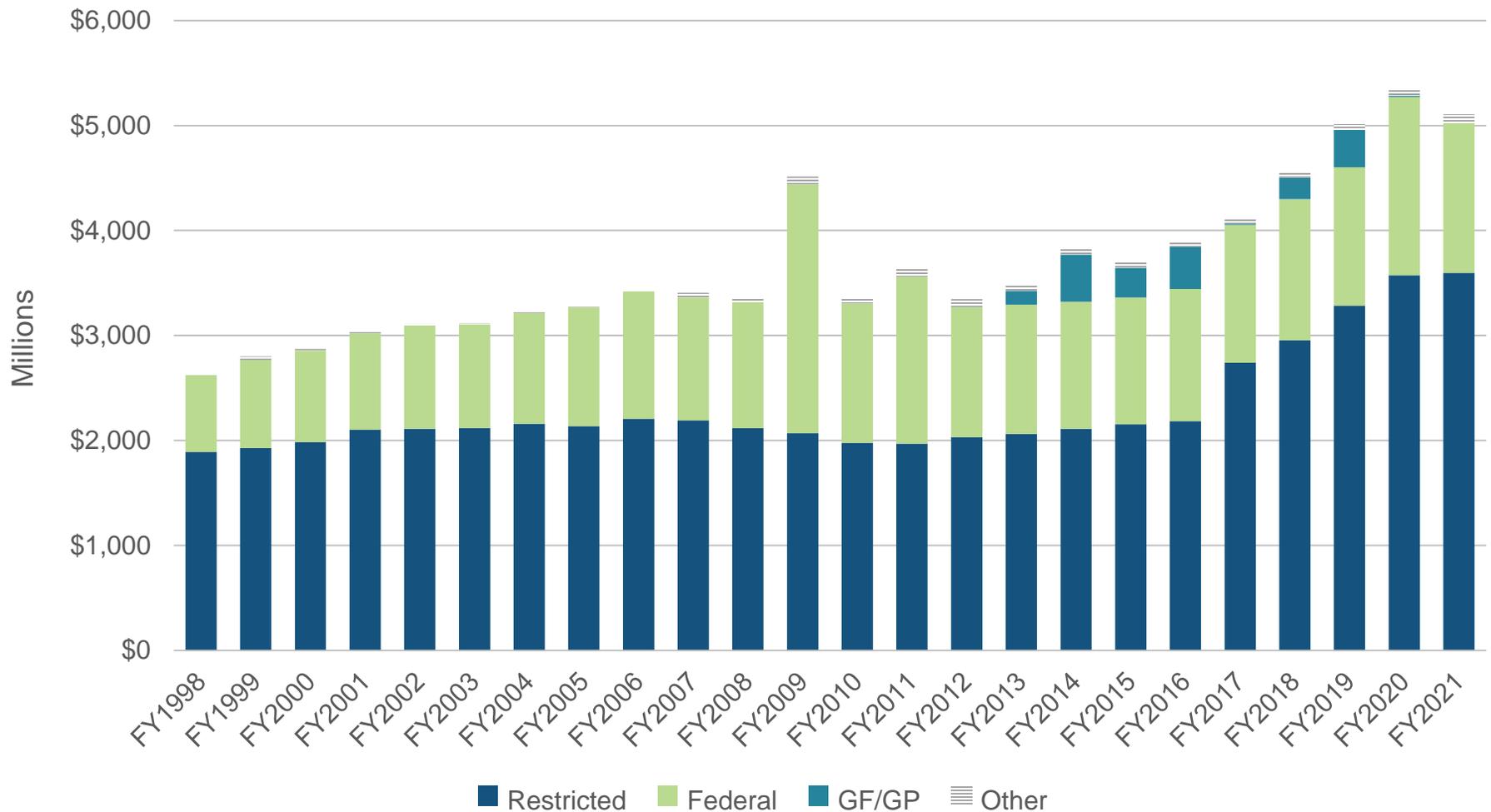
Retirement Liabilities

Total unfunded liabilities for MPSERS declined by **\$10.7 billion** in FY 2011-12 due primarily to the decision to begin prefunding retiree health benefits, but increased by **\$2.6 billion** in FY 2015-16 due to the reduction in the assumed long-term investment rate of return from **8.0%** to **7.5%** and increased by **\$2.6 billion** in FY 2017-18 due to the adoption of the most recent experience study.



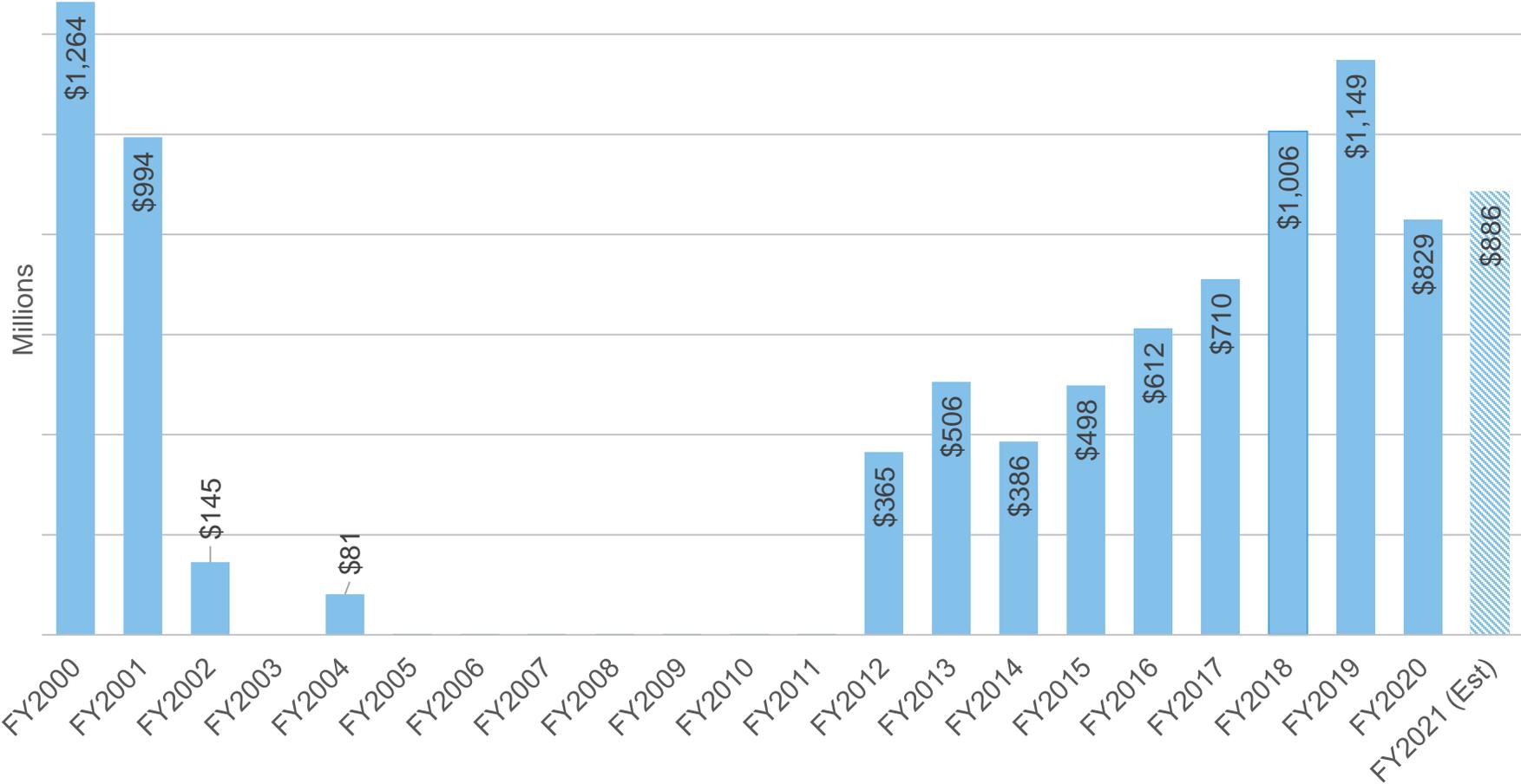
Transportation Appropriations

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.



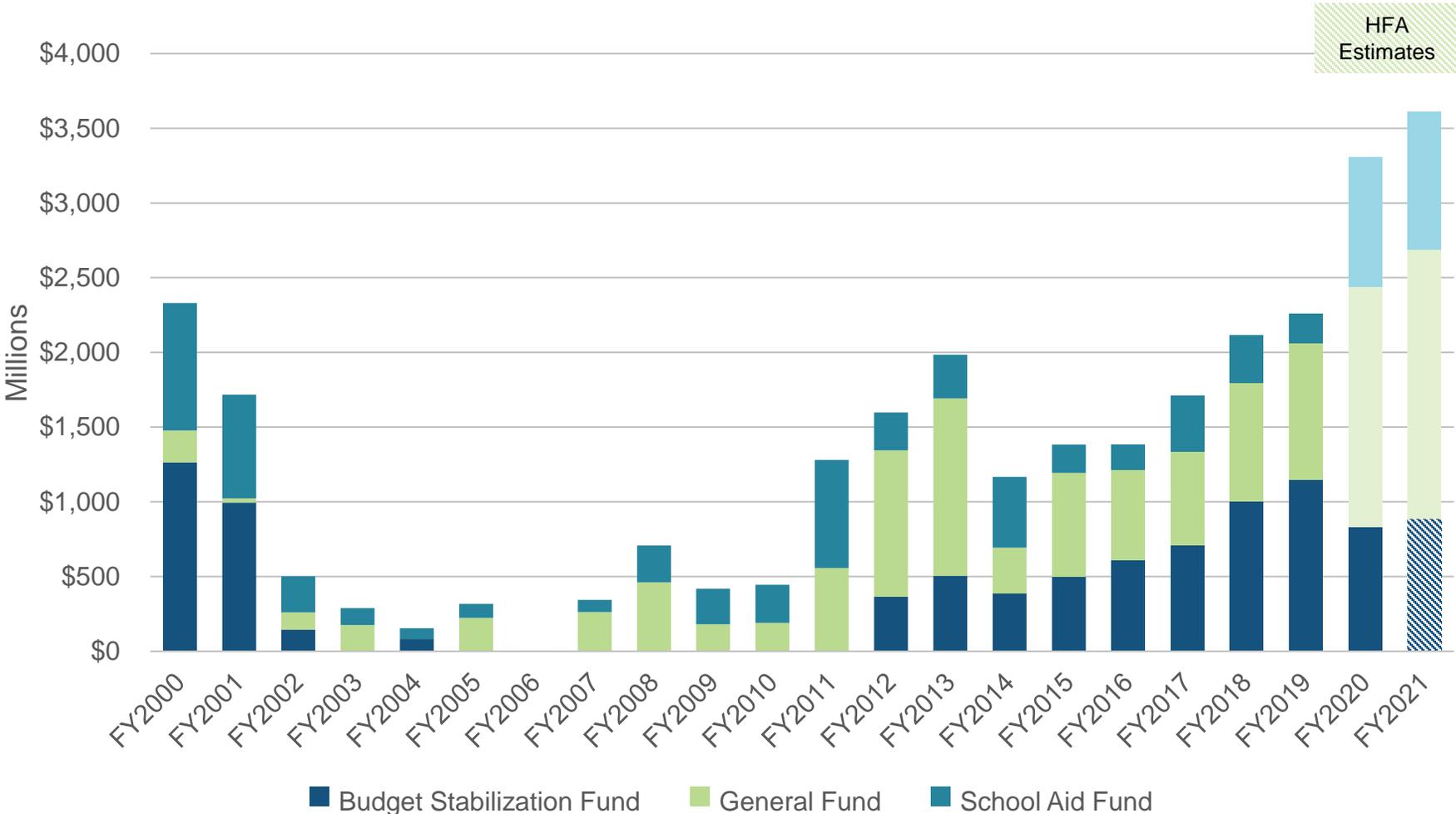
Budget Stabilization Fund Balance

After a \$350 million withdrawal, the balance at the end of FY 2019-20 was approximately \$829 million—about 3.7% of combined GF and SAF appropriations. The balance is expected to grow due to a \$35 million appropriation in FY 2020-21, interest, and annual repayments.



Combined Ending Balances

Large GF and SAF year-end balances accumulated from FY 2010-11 through FY 2020-21 as revenue growth outpaced projections, allowing for substantial one-time expenditures.



Budget Outlook

January Consensus Revenue Estimates

Millions of \$

	FY 2020-21 Estimate	FY 2021-22 Estimate	FY 2022-23 Estimate	FY 2023-24 Trend	FY 2024-25 Trend
GF/GP Revenue	\$10,237.6	\$10,897.1	\$11,167.1	\$11,446.5	\$11,747.6
\$ Change	(\$533.2)	\$659.5	\$270.0	\$279.4	\$301.1
% Change	(5.0%)	6.4%	2.5%	2.5%	2.6%
SAF Revenue	\$14,030.2	\$14,423.7	\$14,730.4	\$15,143.1	\$15,547.1
\$ Change	\$27.8	\$393.6	\$306.7	\$412.7	\$404.0
% Change	0.2%	2.8%	2.1%	2.7%	2.7%

GF/GP Revenue

- Substantial reductions in FY 2020-21 due to declines in economic activity due to the pandemic, individual income tax transfer for road funding, continued Michigan business tax credits, and diversion of use tax revenue for personal property tax reimbursement.
- Strong growth projected for FY 2021-22 as economic activity rebounds, followed by stable growth in subsequent years as the income tax trigger limits general fund revenue.

SAF Revenue

- Minimal growth in FY 2020-21 followed by a rebound in FY 2021-22. Projected revenue increases in FY 2022-23 and beyond based on sales tax, use tax, and individual income tax growth. It should be noted that the income tax trigger has no impact on SAF revenue.

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.
 - Redirected income tax revenue that had been used 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 and each subsequent year: **\$600 million**
- In sum, starting in FY 2020-21, the fully phased in the package:
 - Increases dedicated resources for Transportation purposes by about \$1.2 billion per year.
 - Lowers GF/GP resources by about \$800 million per year.

Medicaid Spending Pressures

Enhanced FMAP

- 6.2% Enhanced FMAP increase does not end on a date certain, but ends after the calendar quarter during which the federal Secretary of Health and Human Services terminates the federal public health emergency declaration. Each additional quarter saves **\$240 million GF/GP**. Current budget assumes 1 quarter of enhanced FMAP.

Caseload Increase

- Includes **\$1,860 million Gross (\$410 million GF/GP)** for an estimated caseload increase of over 400,000 individuals.

Managed Care Savings Assumptions

- Assumes **\$530 million Gross (\$140 million GF/GP)** in various Medicaid managed care savings estimates including, increased pharmaceutical rebates from a single, statewide preferred drug list, risk sharing agreements, increased third party liability collections.

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.

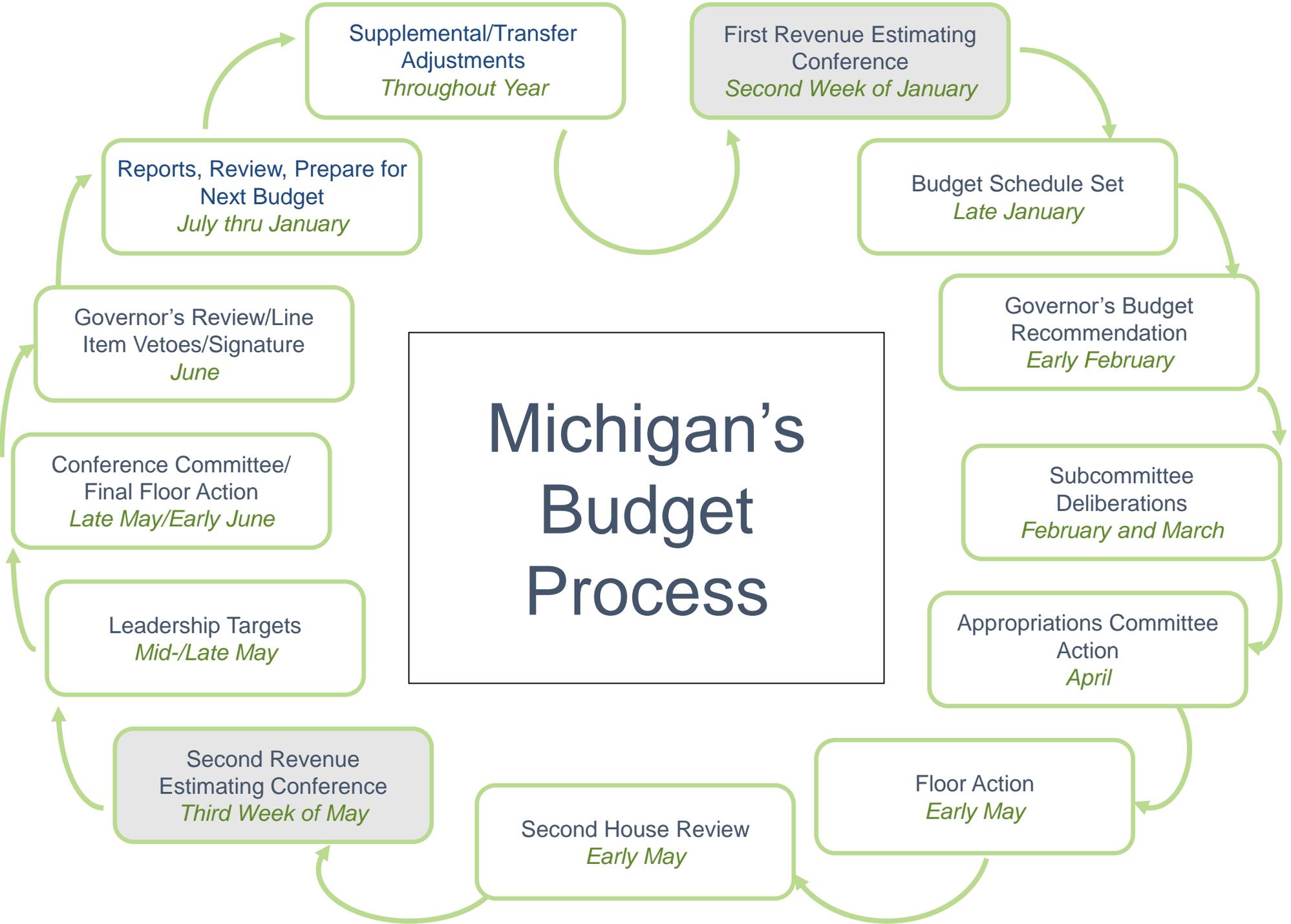
Major School Aid Budget Issues

School Aid

- **\$1.8 billion** in federal funds for education-related purposes under the Coronavirus Response and Relief Supplemental Appropriation (CRRSA) Act is available for appropriation by the legislature
- A foundation allowance increase ranging from **\$100-\$200** would cost approximately **\$245.0 million**
- Baseline costs for **FY 2020-21** are expected to decline by **\$72.4 million** based on declining pupils, growing local property tax values, and rising special education costs
- **FY 2021-22** costs are expected to decline by a total of **\$173.1 million**
 - Baseline cost reduction: **\$78.1 million**
 - Removal of the **FY 2020-21** one-time per-pupil payment: **\$95.0 million**
- The state share of MPSERS UAAL payments for **FY 2021-22** is expected to increase by **\$109.2 million**, due mainly to a reduction in the payroll growth assumption from 3.5% to 3.0%

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/>

Contact Information

Mary Ann Cleary, Director: mcleary@house.mi.gov

Kevin Koorstra, Deputy Director: kkoorstra@house.mi.gov

(517) 373-8080