



Budget Briefing: State Budget Overview

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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 2023-24 is October 1, 2023 through September 30, 2024.

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.

Lapses: 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.

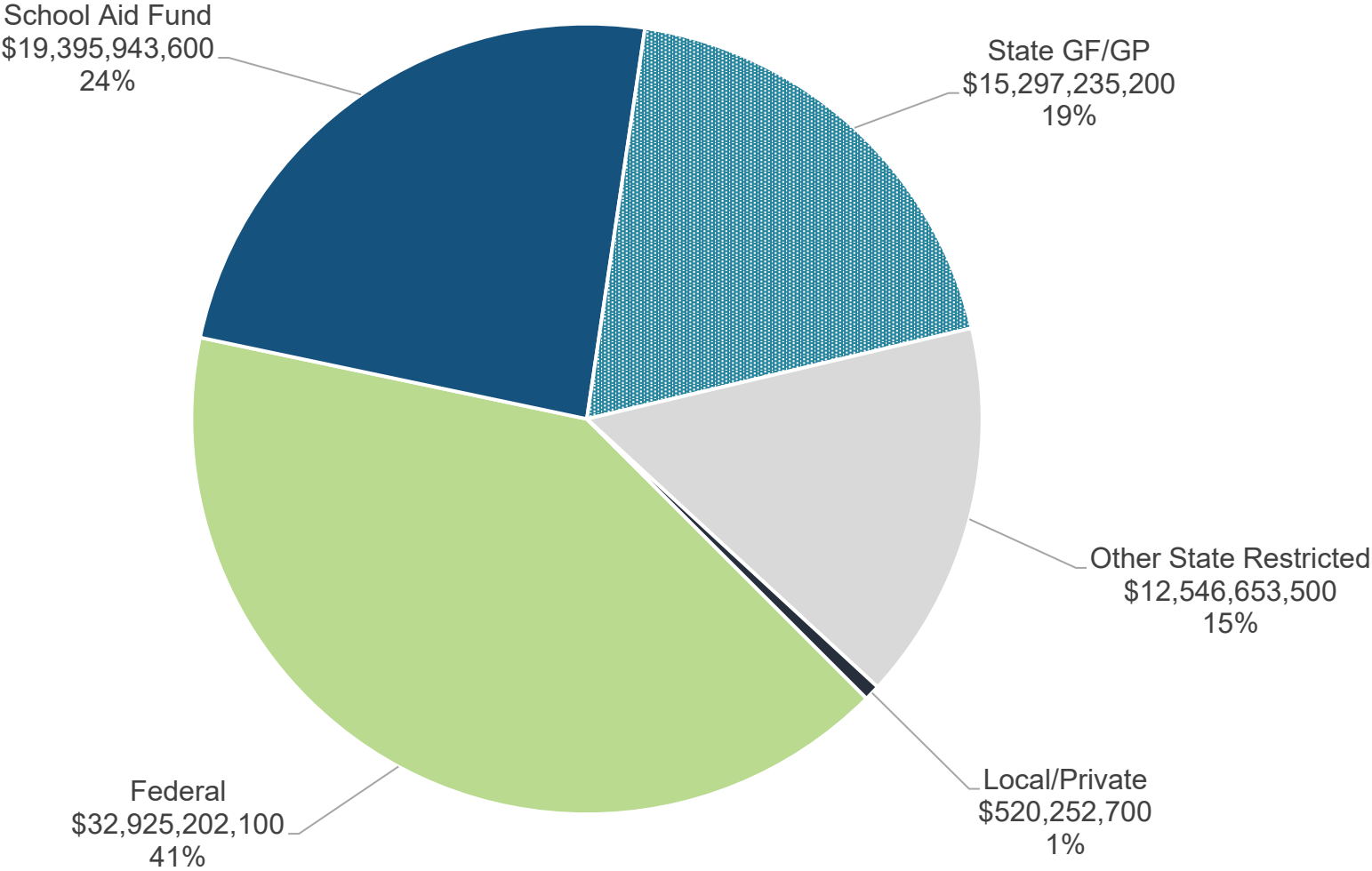
Note: Unless otherwise indicated, historical budget figures in this presentation have not been adjusted for inflation.

FY 2023-24 State Budget

Fund Source	Funding	Description
Gross Appropriations	\$81,941,620,800	Total spending authority from all revenue sources
Interdepartmental Grants (IDG) Revenue	1,256,333,700	Funds received by one state department from another state department, usually for services provided
Adjusted Gross Appropriations	\$80,685,287,100	Gross appropriations excluding IDGs; avoids double counting when adding appropriation amounts across budget areas
Federal Revenue	32,925,202,100	Federal grant or matching revenue; generally dedicated to specific programs or purposes
Local Revenue	297,032,700	Revenue received from local units of government for state services
Private Revenue	223,220,000	Revenue from individuals and private entities, including payments for services, grants, and other contributions
State Restricted Revenue	31,942,597,100	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	\$15,297,235,200	Unrestricted revenue from taxes and other sources available to fund basic state programs and other purposes determined by the Legislature

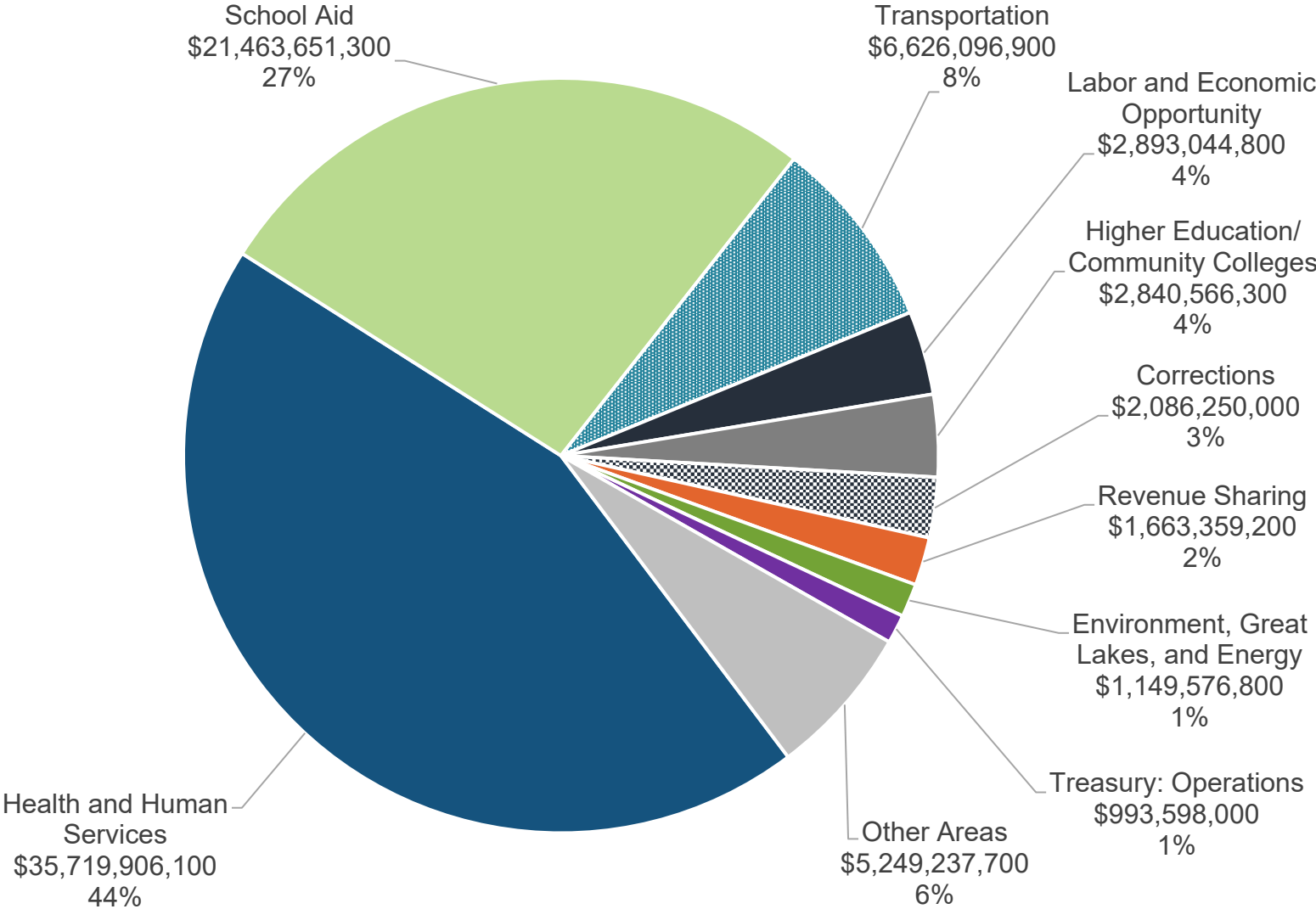
FY 2023-24 Fund Sources

Discretionary GF/GP funds make up 19% of the **\$80.7 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 43%.



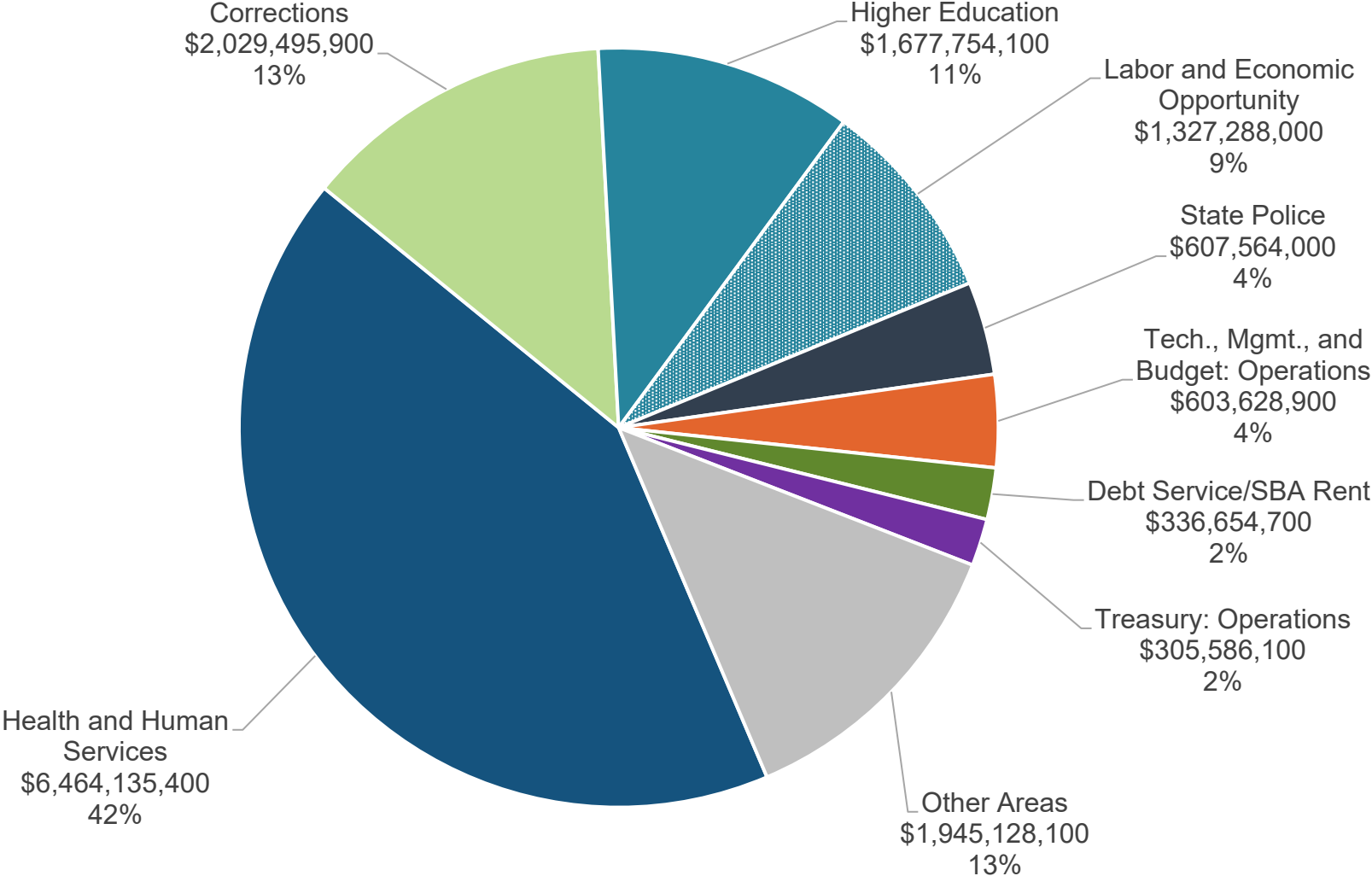
FY 2023-24 Adjusted Gross Appropriations

Large portions of the **\$80.7 billion** state budget consist of payments to health care providers, school districts, universities and colleges, and local units of government.



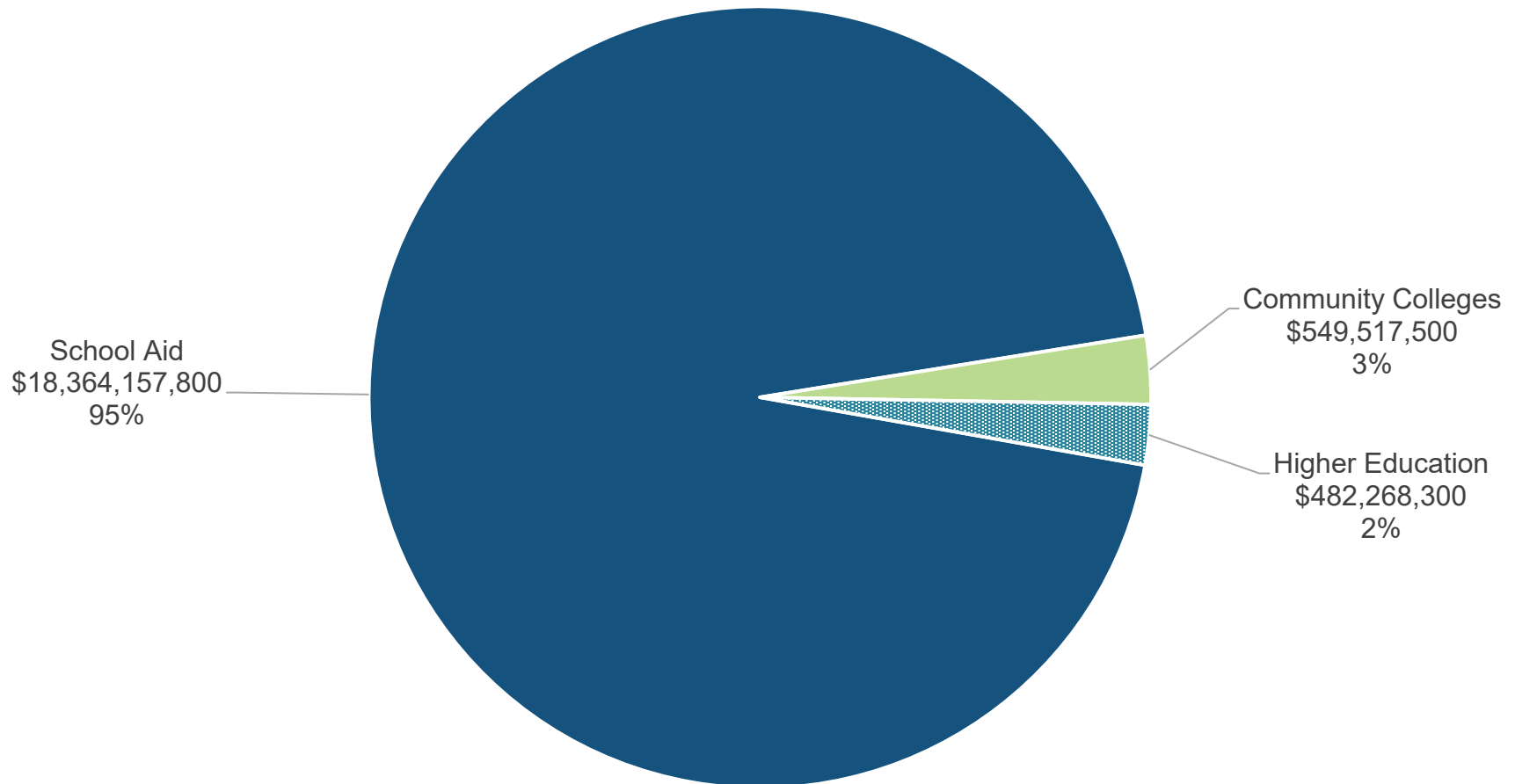
FY 2023-24 GF/GP Appropriations

75% of the \$15.3 billion GF/GP budget is appropriated for health and human services, public safety, education, and debt service. The remaining 13% provides funding for 13 state departments, the Judiciary, the Legislature, and the Executive Office.



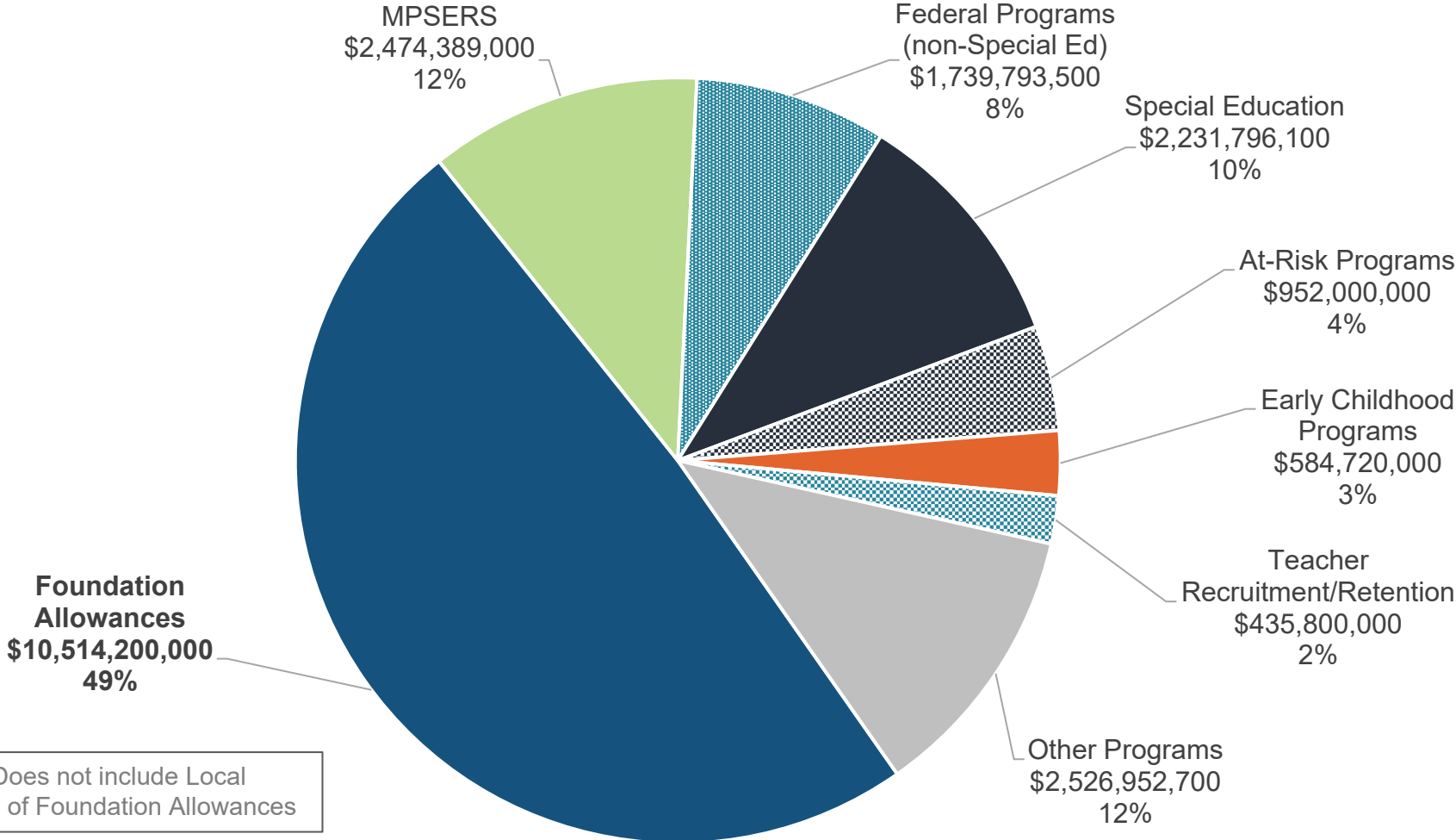
School Aid Budget Share of Total School Aid Fund (SAF) Appropriations

School Aid Fund (SAF) appropriations totaling **\$19.4 billion** are primarily for K-12 school districts. The School Aid budget represents **95%** of the state's SAF appropriations for FY 2023-24.



FY 2023-24 School Aid Appropriations

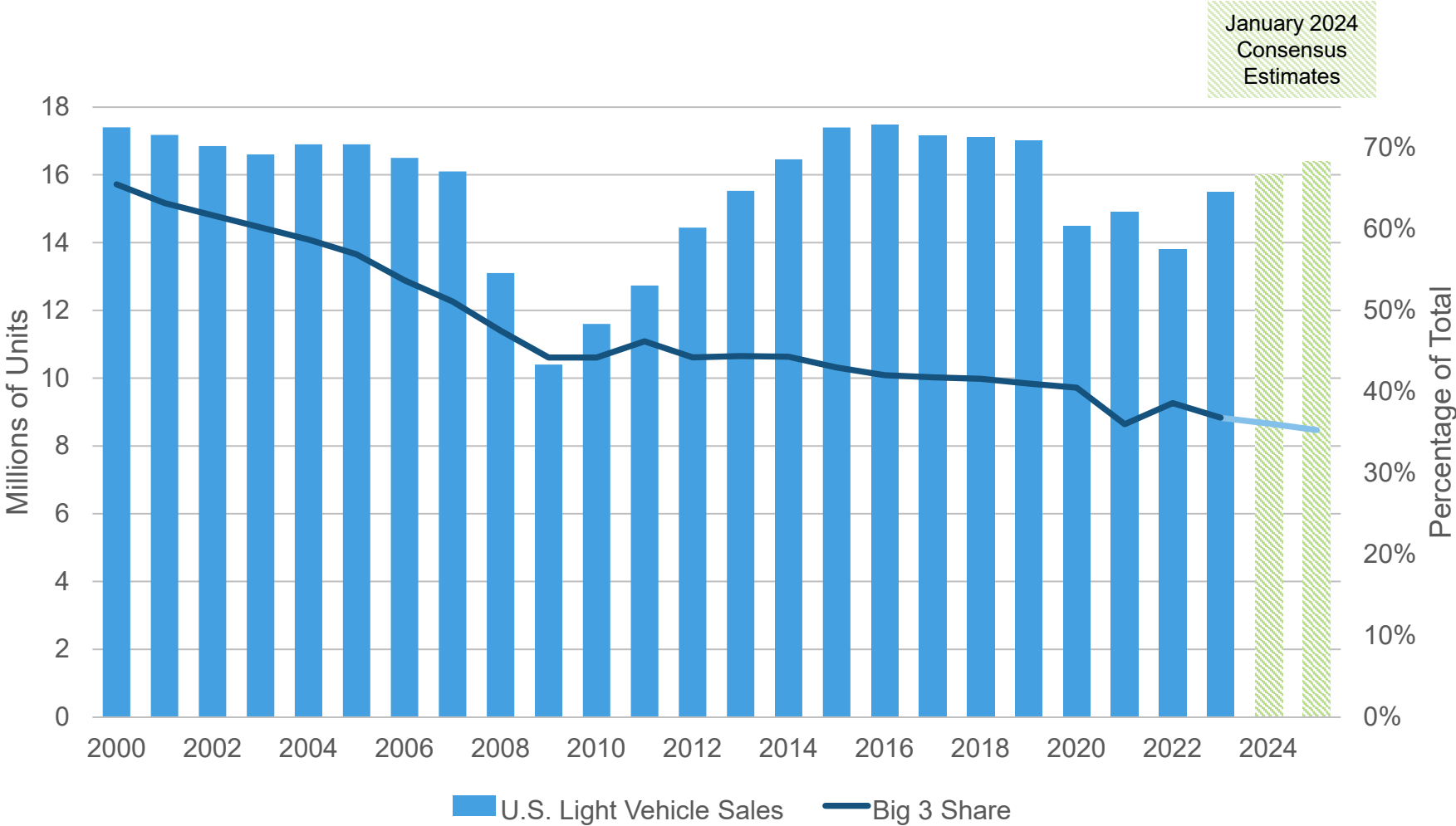
About **49%** of the **\$21.5 billion** School Aid budget supports per-pupil foundation allowances used for school district general operations.



Economic Trends

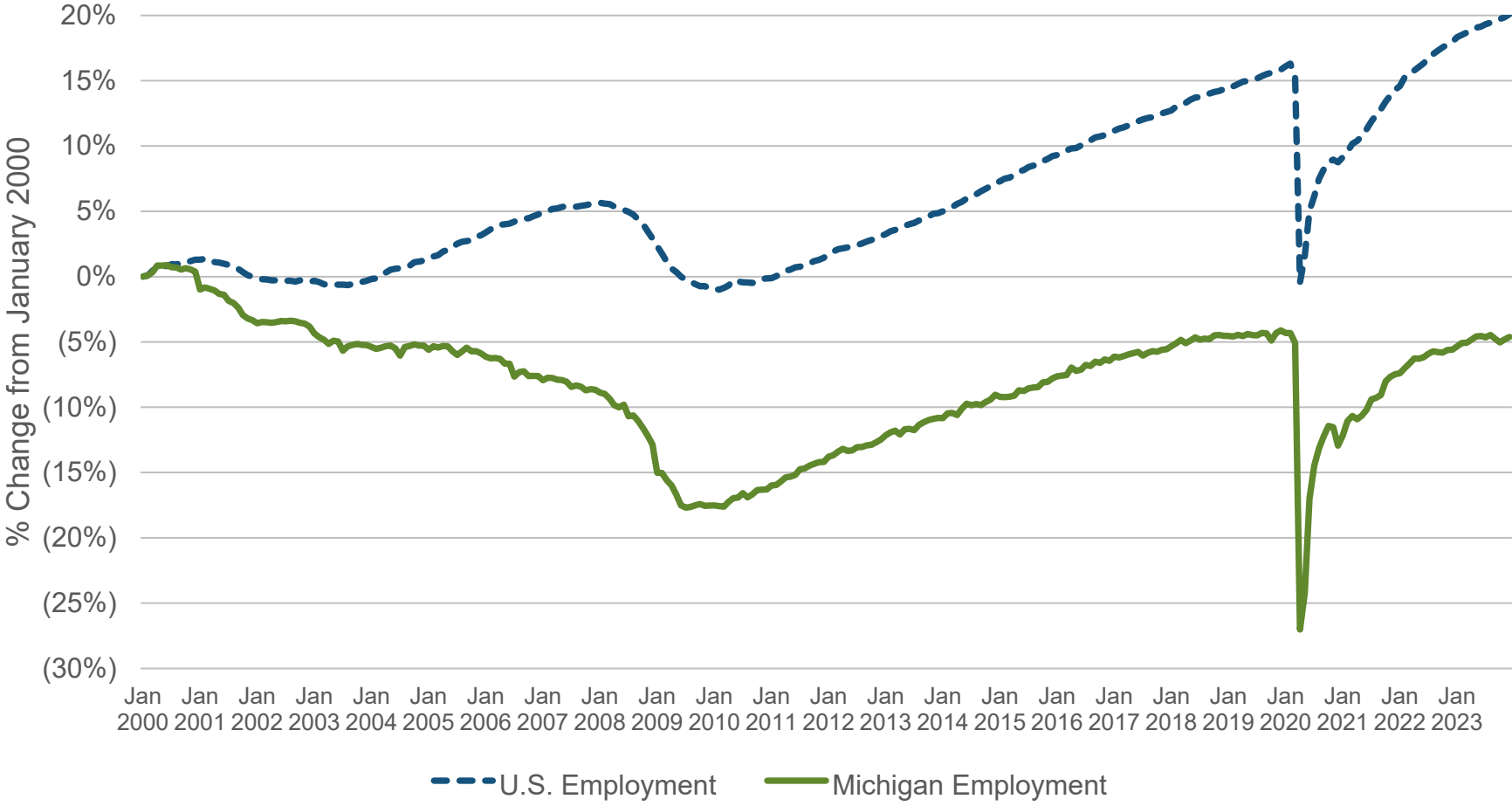
Light Vehicle Sales

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.



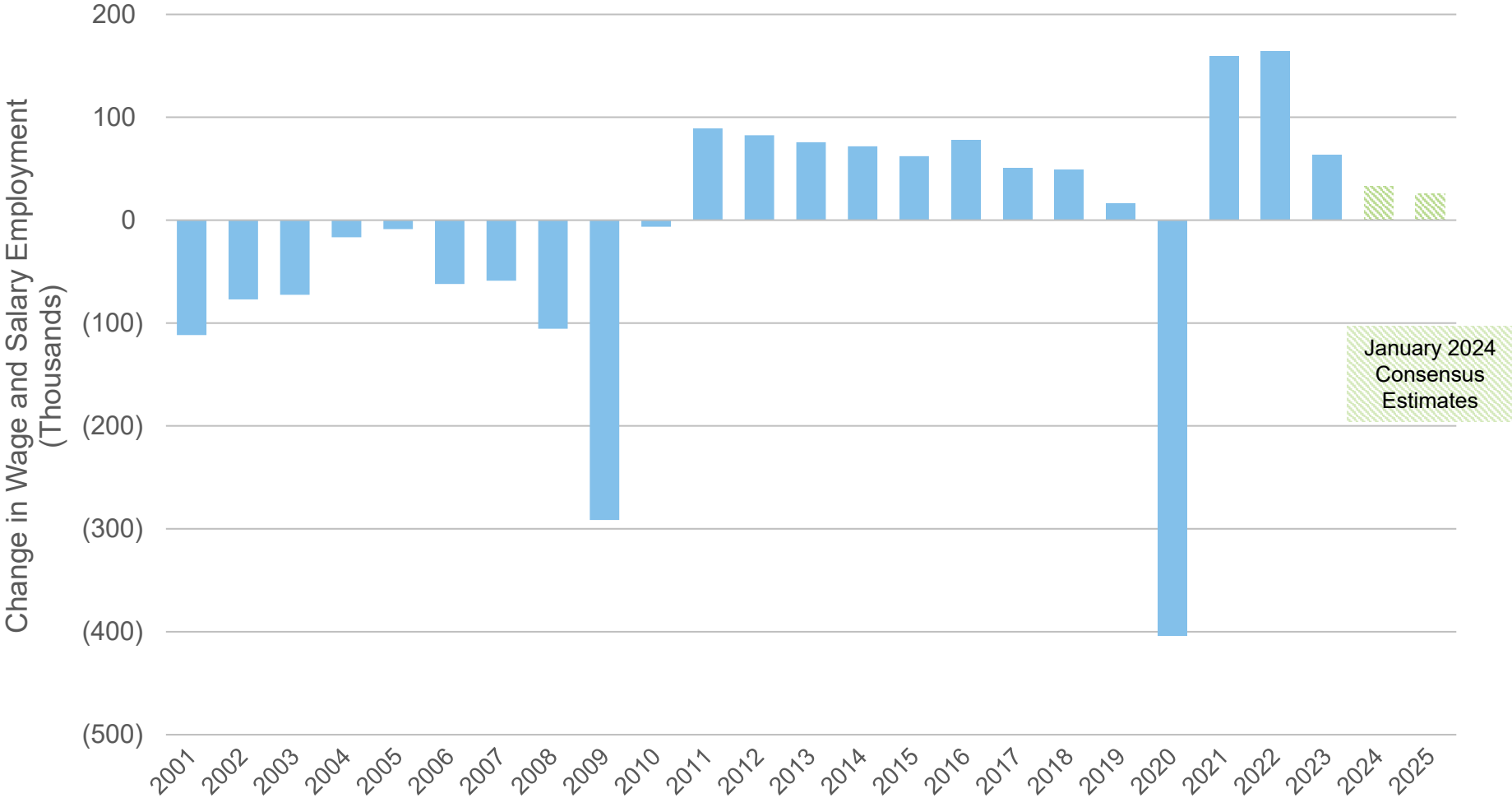
Employment Change Since 2000

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, employment recovered rapidly through the end of 2021 and well into 2022 before leveling off.



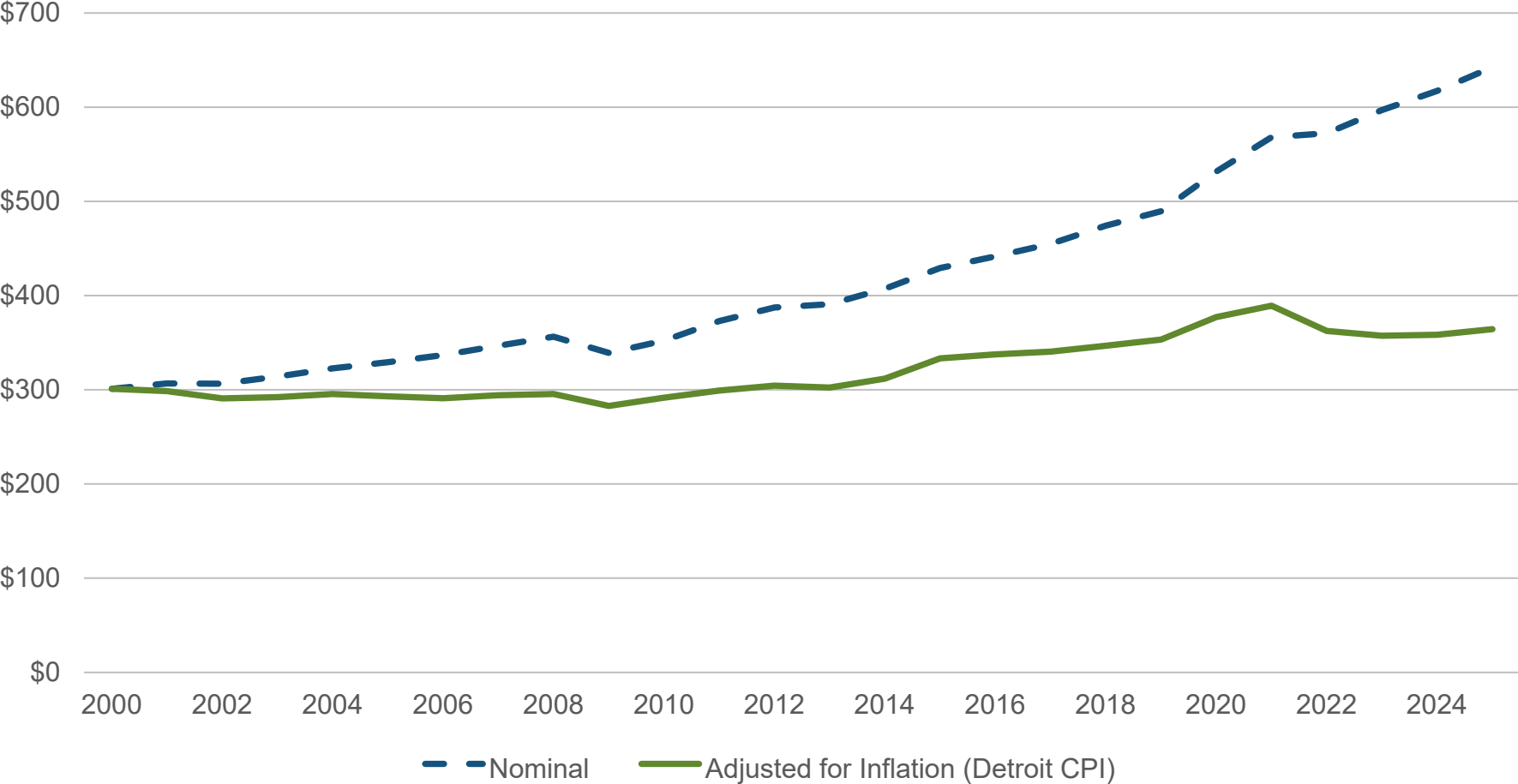
Michigan Employment Changes

After nine years of generally declining job growth, employment decreased significantly in 2020 due to the pandemic. The prediction is for all of the job losses to be recovered by the end of 2024.



Michigan Personal Income

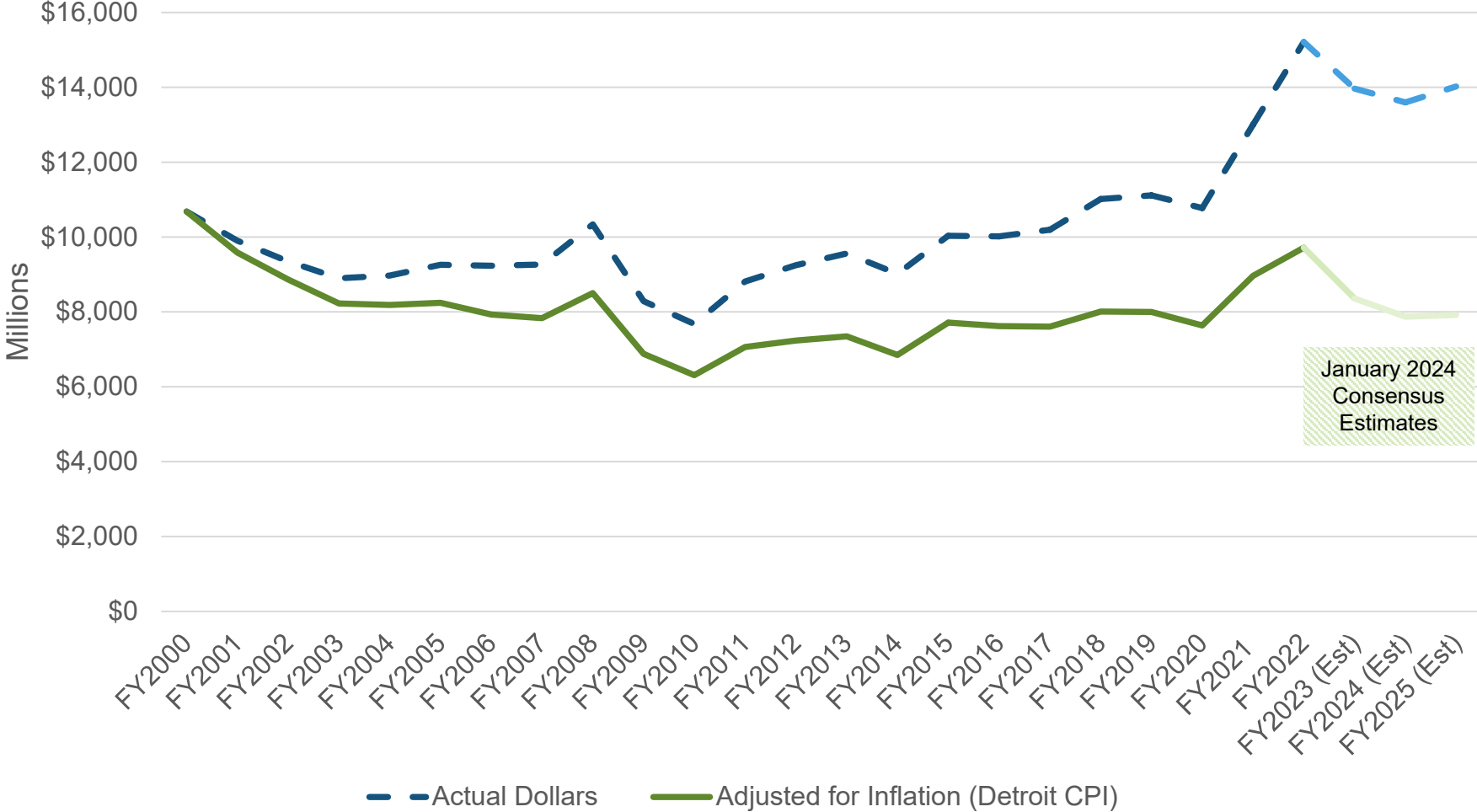
In nominal terms, total personal income in Michigan has risen roughly 90% between 2000 and 2022. In inflation-adjusted terms, however, personal income was essentially flat through 2013 before rising slowly in recent years.



Revenue Trends

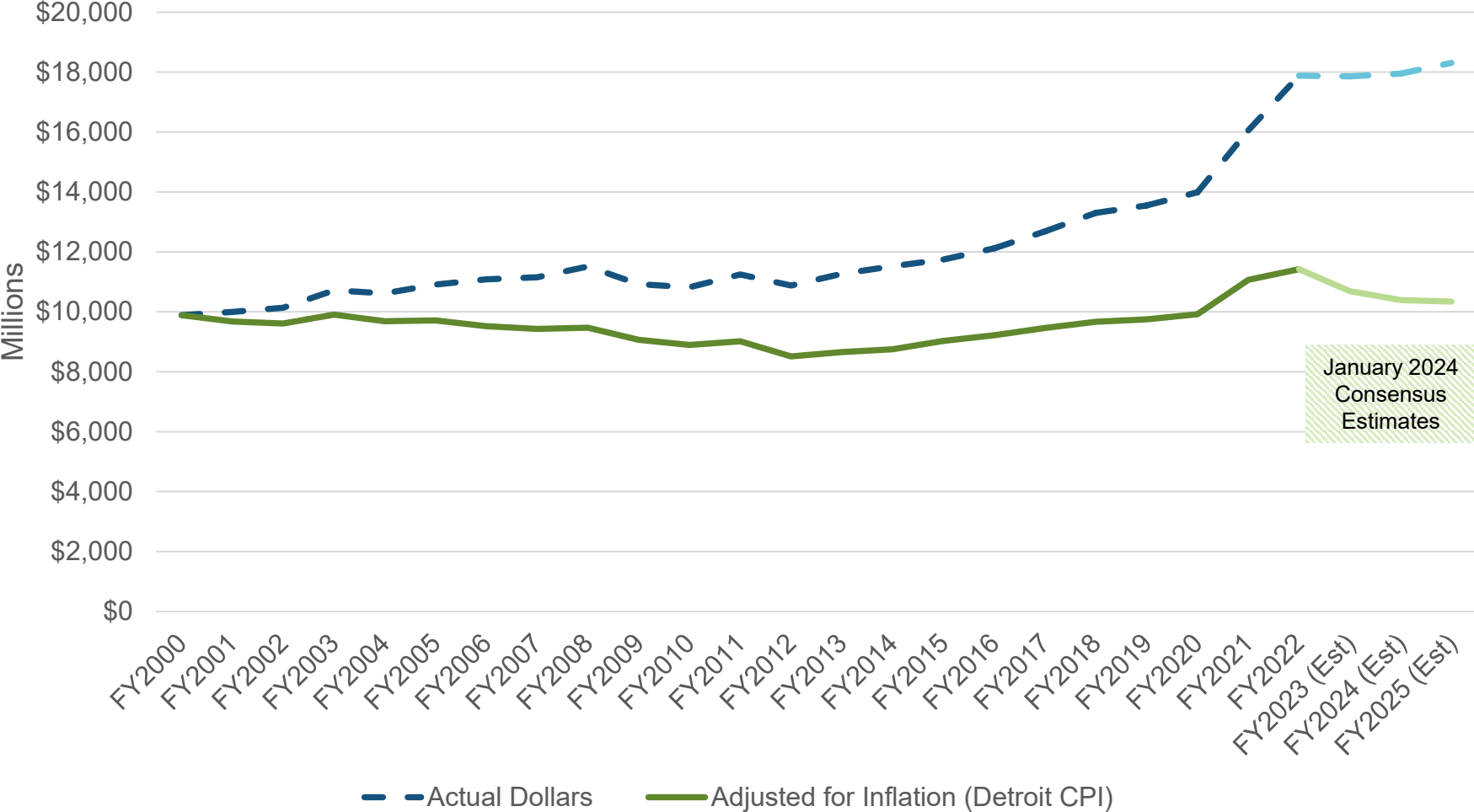
GF/GP Revenue

Nominal GF/GP revenue is expected to exceed \$14.0 billion in FY 2024-25. When adjusted for inflation, however, GF/GP revenue is estimated to be 25.8% below the FY 1999-00 level.



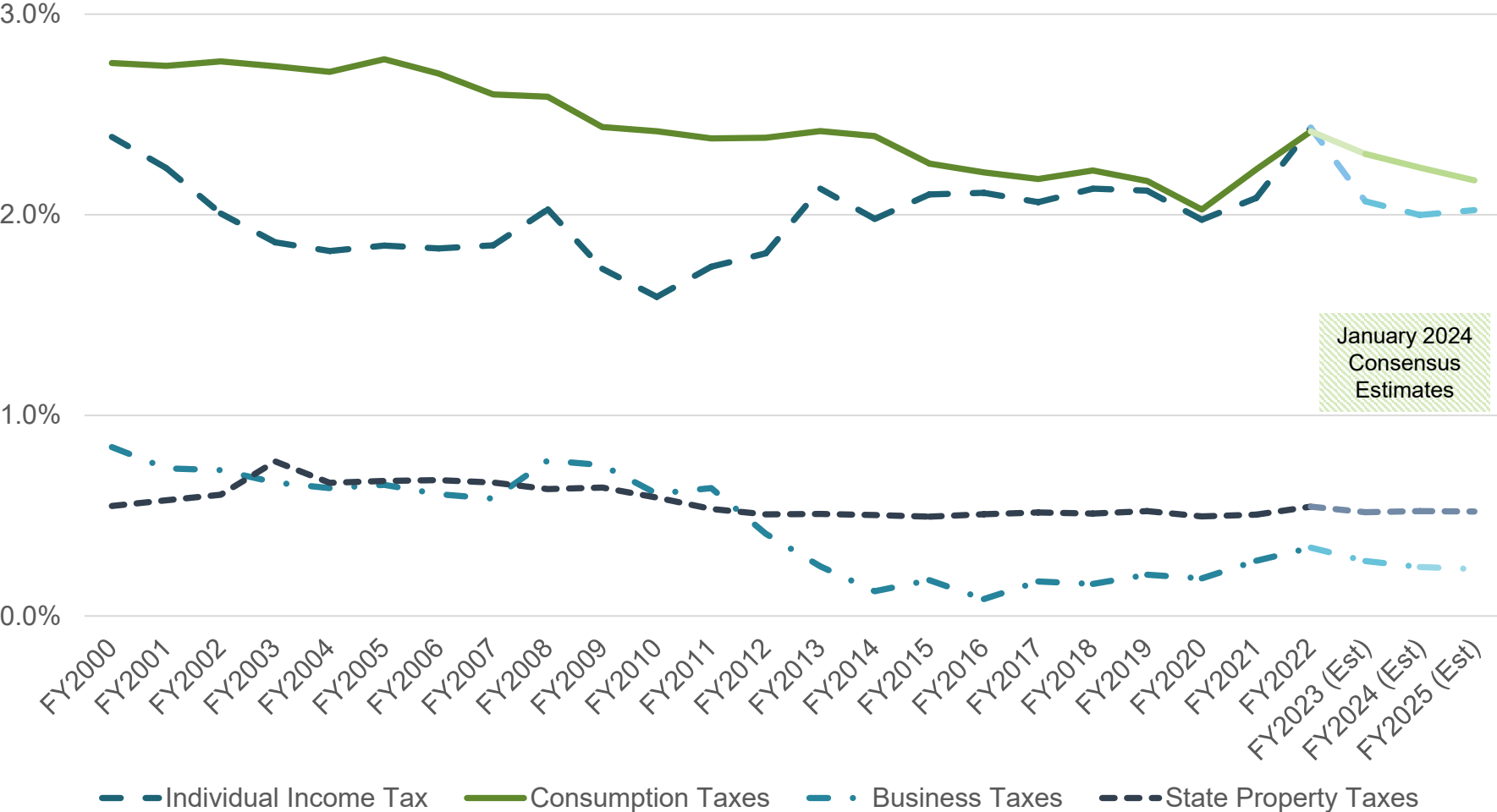
School Aid Fund Revenue

Nominal SAF revenue has grown steadily since FY 2011-12. In inflation-adjusted terms, however, SAF revenue remained below the FY 1999-00 level until FY 2020-21.



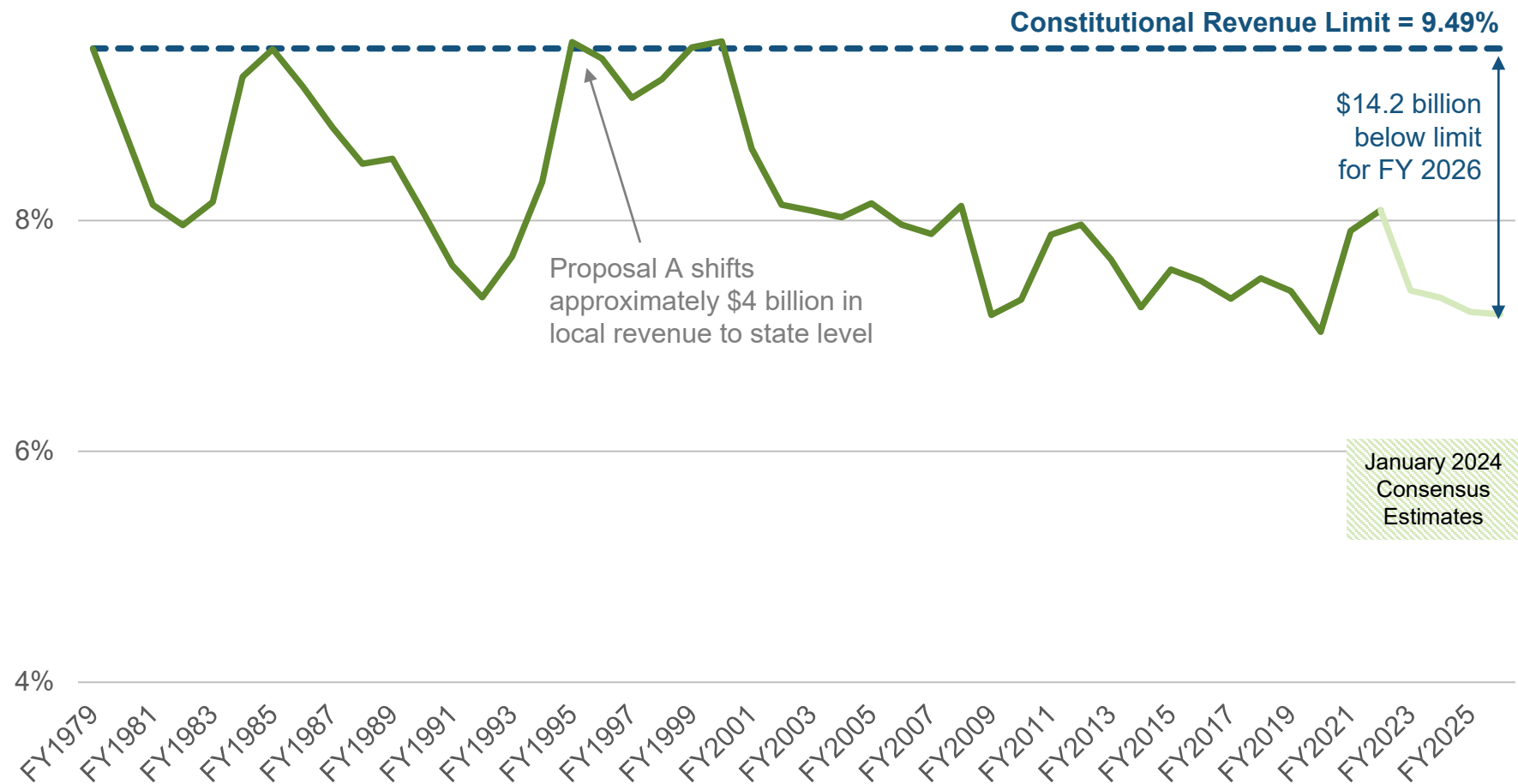
Major State Taxes as a Percentage of Michigan Personal Income

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

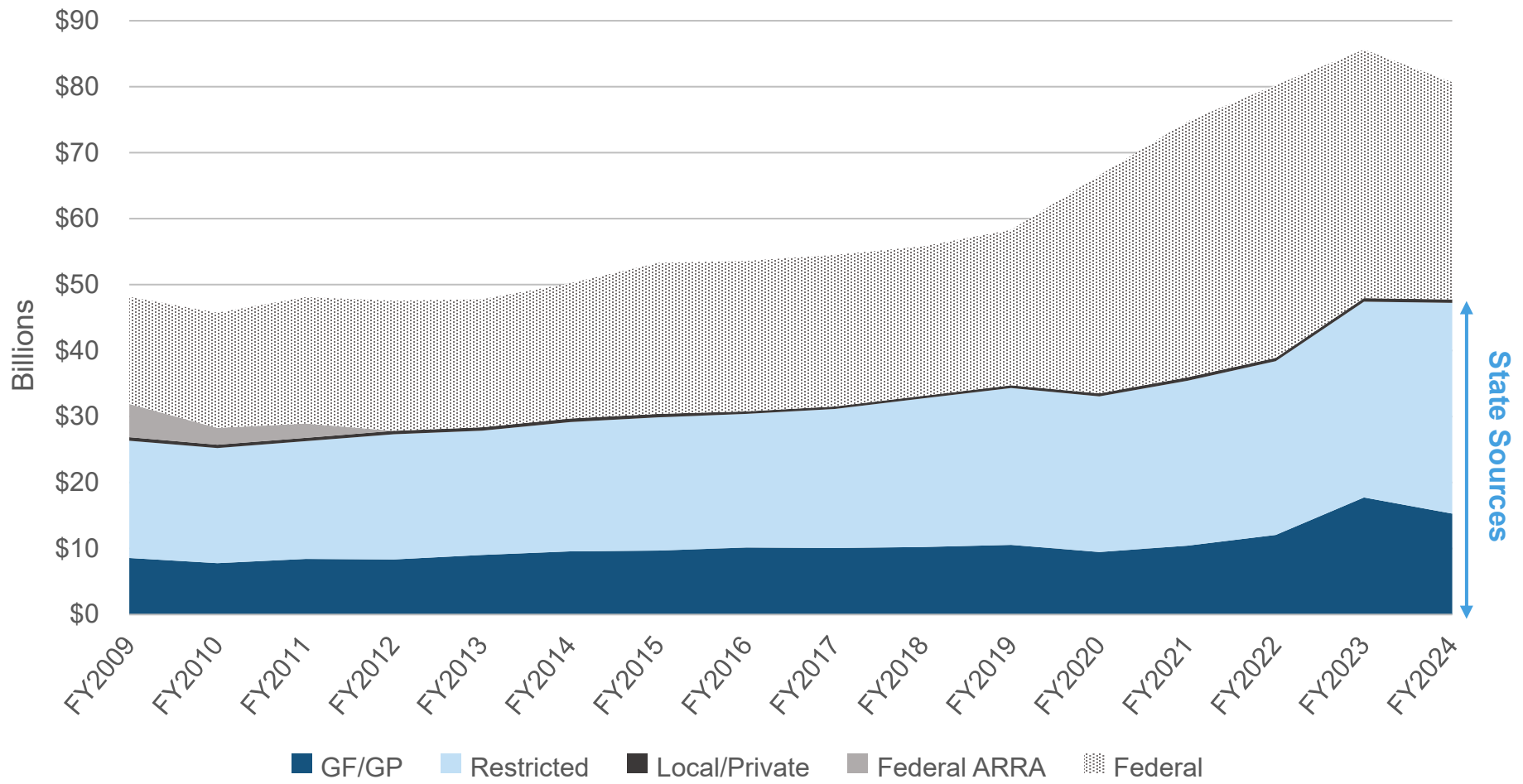
Michigan’s constitution was amended in 1978 to set a limit on total state revenue (including all taxes and fees) equal to 9.49% of personal income. For FY 2025-26, the state is projected to be **\$14.2 billion** below that limit.



Budget Trends

Total State Budget History

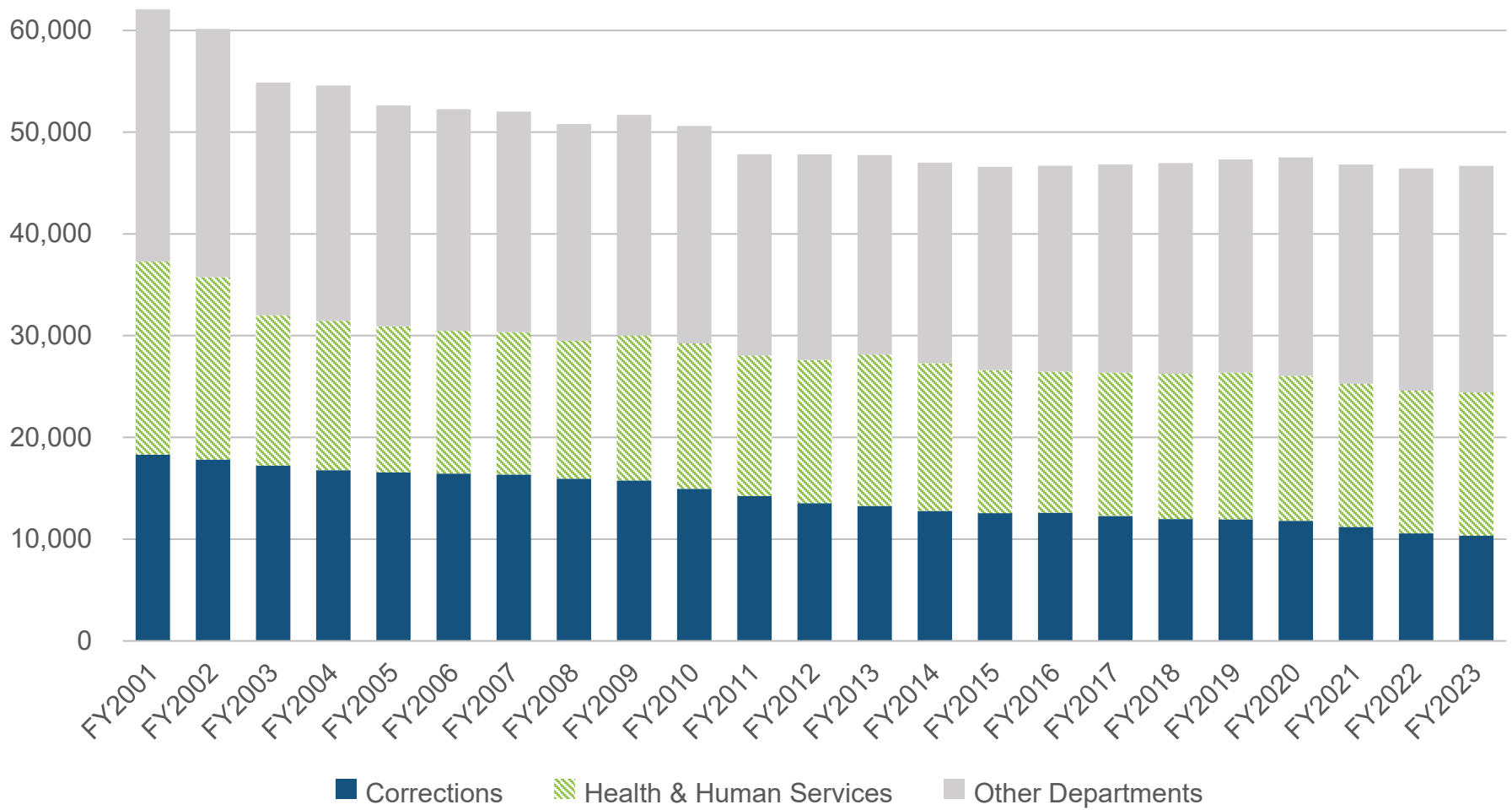
Total state budget growth of 68% since FY 2009 has been driven by both growth in federal and state funds for Medicaid expansion and federal stimulus funding in response to the coronavirus pandemic.



ARRA: Federal American Recovery and Reinvestment Act of 2009

Total Classified State Employees

The total number of state employees has declined by about **15,380 (33%)** since FY 2001.



Source: Michigan Civil Service Commission, Annual Workforce Report

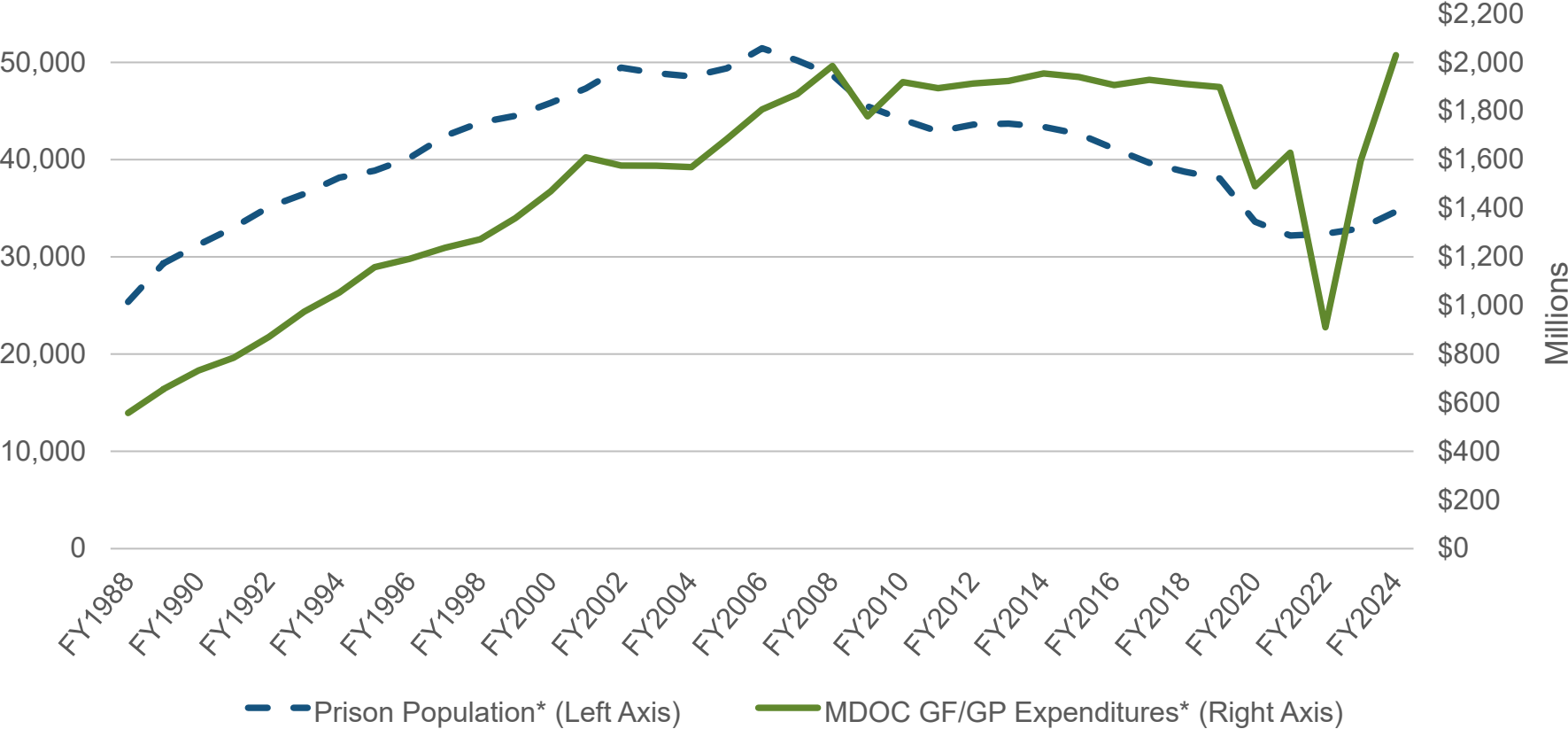
State Employee Compensation-Related Costs

Estimated FY 2023-24 Total: \$6.5 billion Gross (\$3.4 billion GF/GP)

- **Salary and Wages: \$4.0 billion**
 - Average salary for a full-time state employee in 2023 is \$72,821.
- **Health Insurance: \$686.7 million**
 - Employee premium costs are paid on an 80/20 state/employee basis.
- **Retirement and Other Post Employment Benefits (OPEB): \$1.8 billion**
 - While costs increased substantially in recent years due to unfunded liabilities created primarily by investment losses in 2008, they have stabilized over the last 2 years. 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

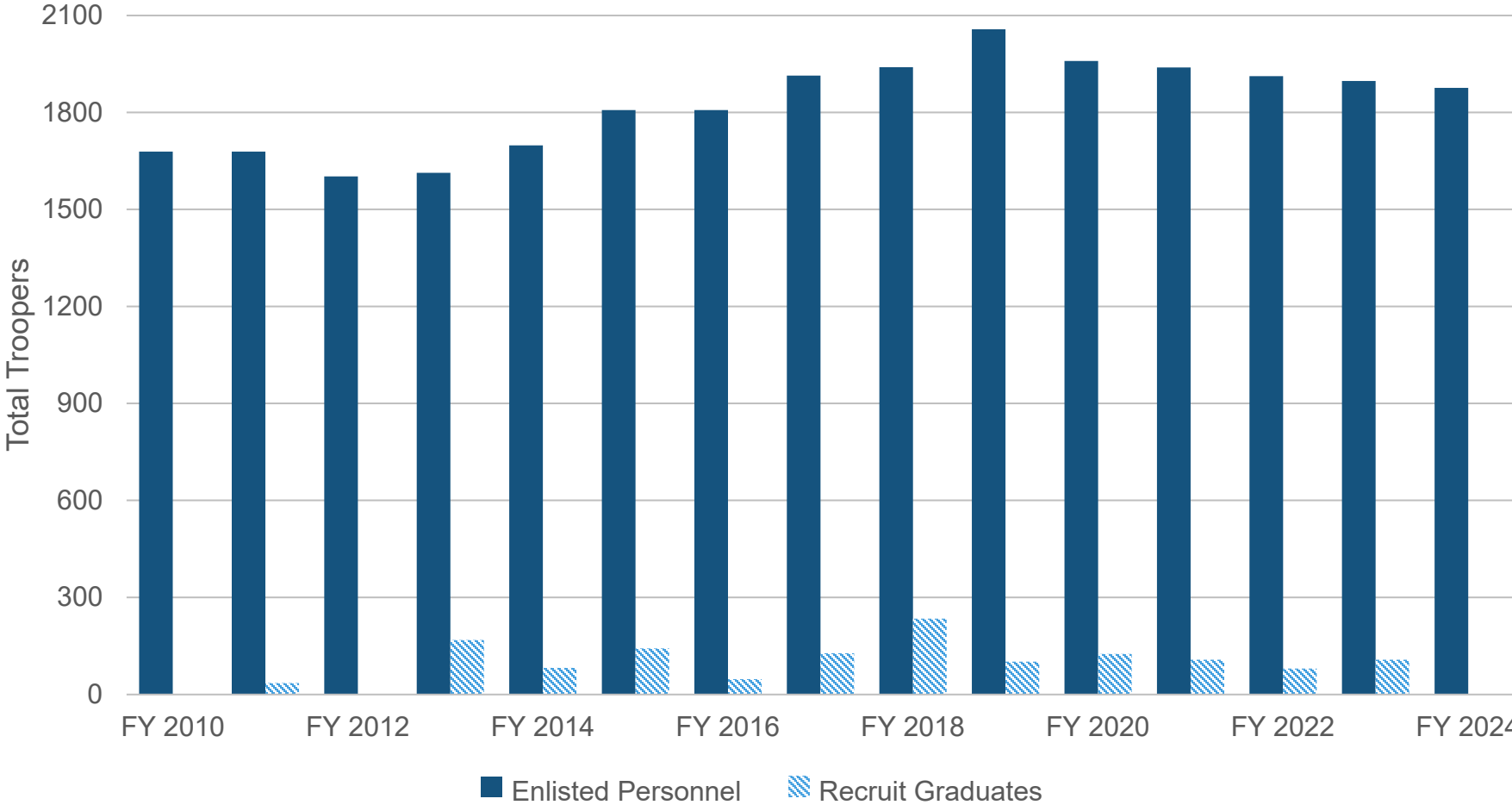
The cost of corrections has grown, though prison population has declined. Roughly **80%** of the Corrections budget supports employee-related costs. Population has declined in recent years because of a decrease in felony dispositions due to the COVID-19 pandemic. Population is expected to increase over the next few years as the state continues to rebound from the pandemic and courts continue to process case backlog.



**2020 through 2023 figures reflect reduced GF/GP due to receipt of federal disaster assistance and Coronavirus relief funding, and a reduced prison population related to COVID-19; 2024 figures are based on year-to-date GF/GP appropriations and an estimated prison population*

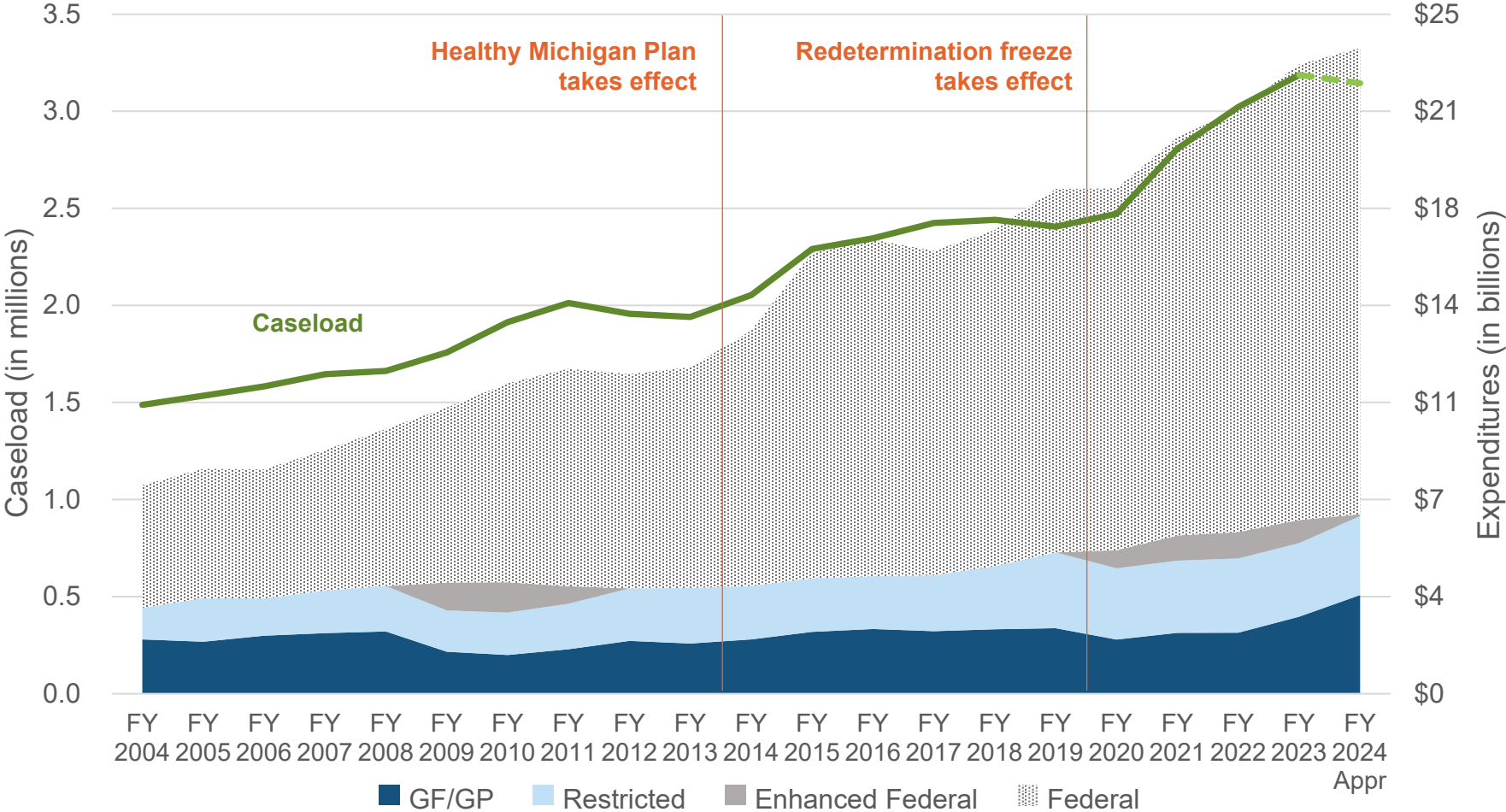
MSP Total Enlisted Strength

Following decreases from FY 2005-06 through FY 2011-12, enlisted strength experienced an increase and stabilization. Additional trooper schools will be conducted in FY 2023-24, with a goal of 50 traditional recruits and 65 attrition recruits.



Medicaid Expenditures by Fund Source

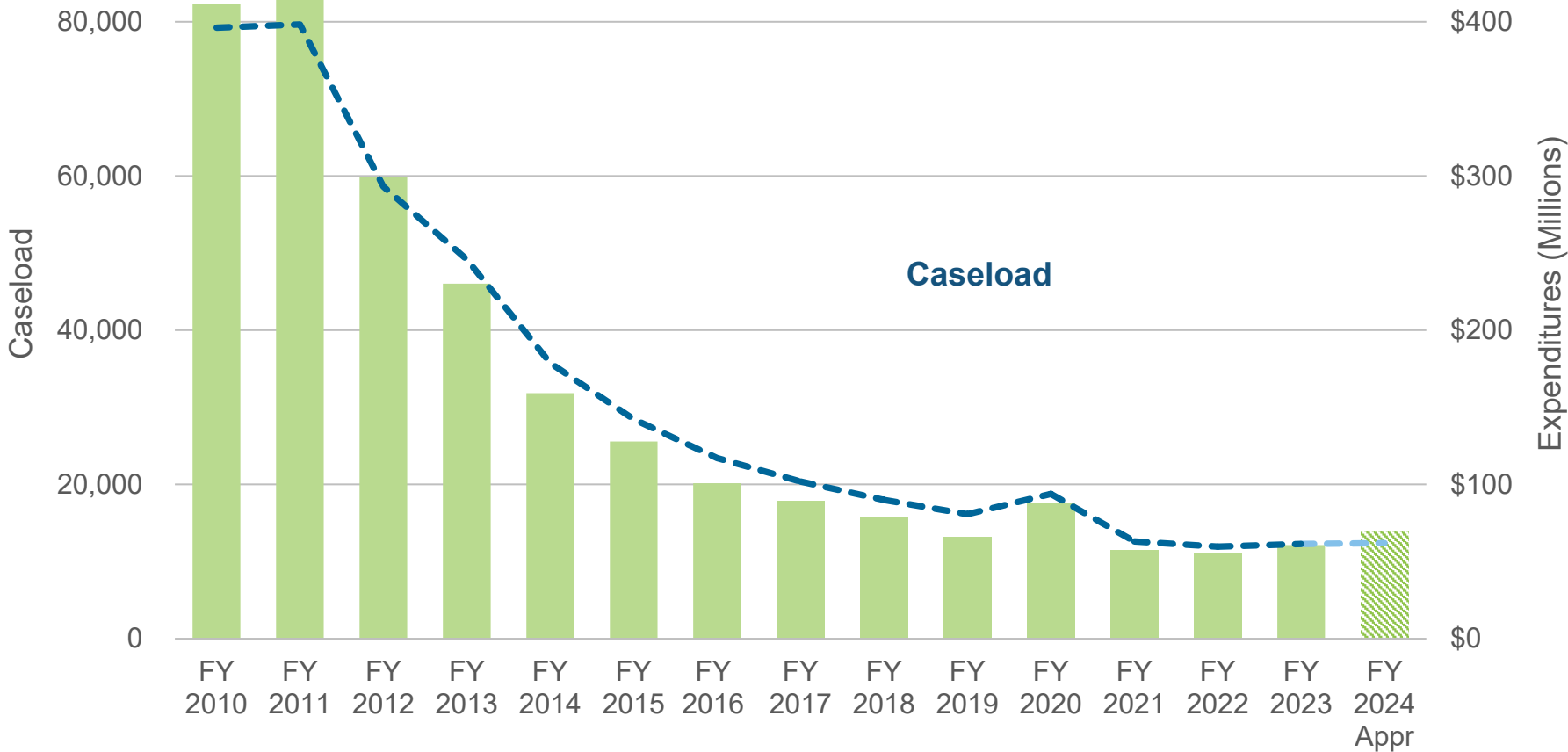
Since FY 2003-04, the state’s total Medicaid caseload has increased by **106%**, expenditures have increased by **210%**, and GF/GP has increased by **82%**, due to economic trends, the expansion under the Healthy Michigan Plan, and more recently the coronavirus pandemic redetermination freeze.



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

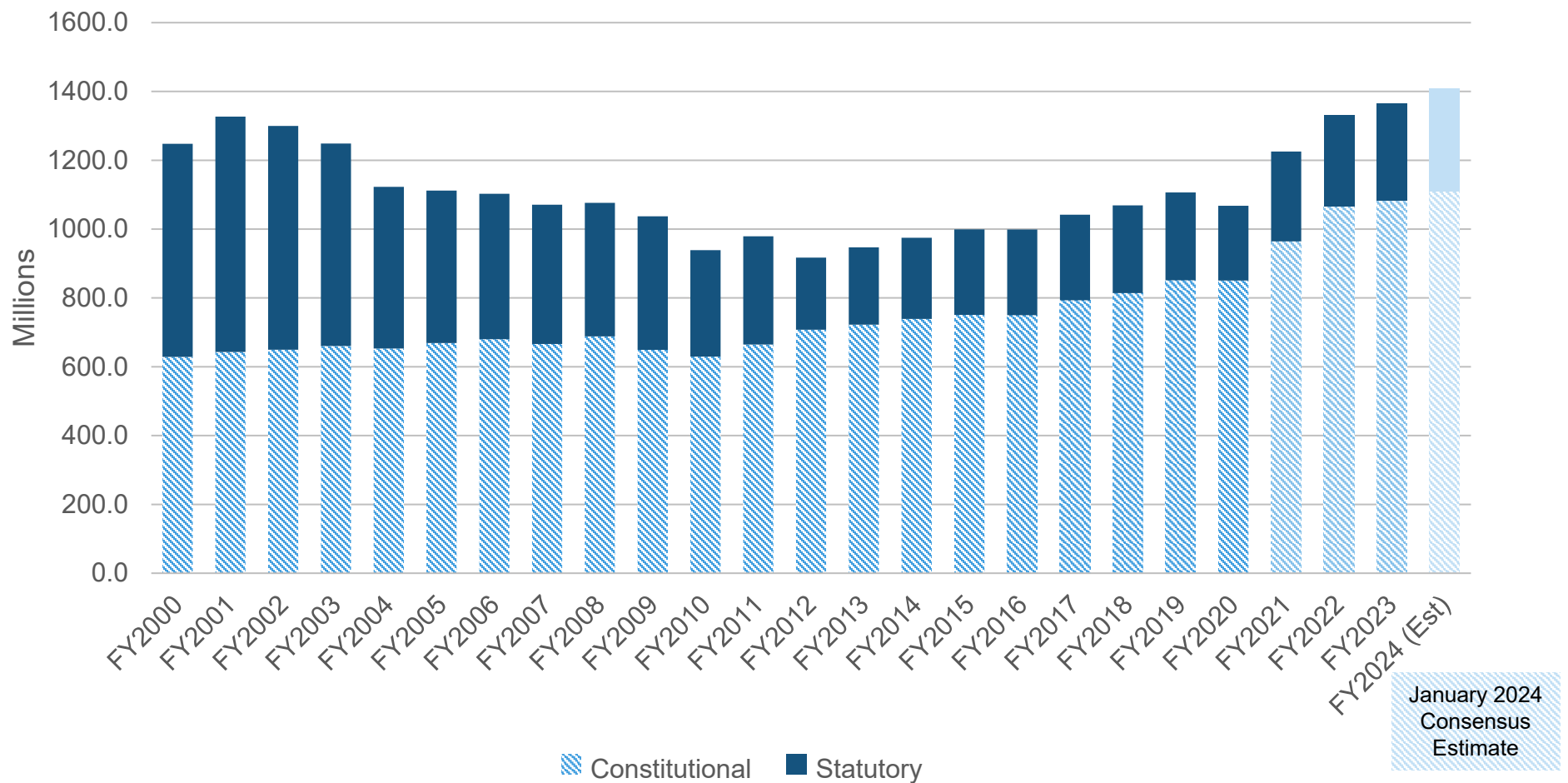
Family Independence Program (FIP) Expenditures

Expenditures for FIP have declined markedly (**66%** in the last decade) due to both policy changes, including imposition of lifetime time limits, and economic conditions. The COVID-19 pandemic resulted in a temporary caseload increase during FY 2020.



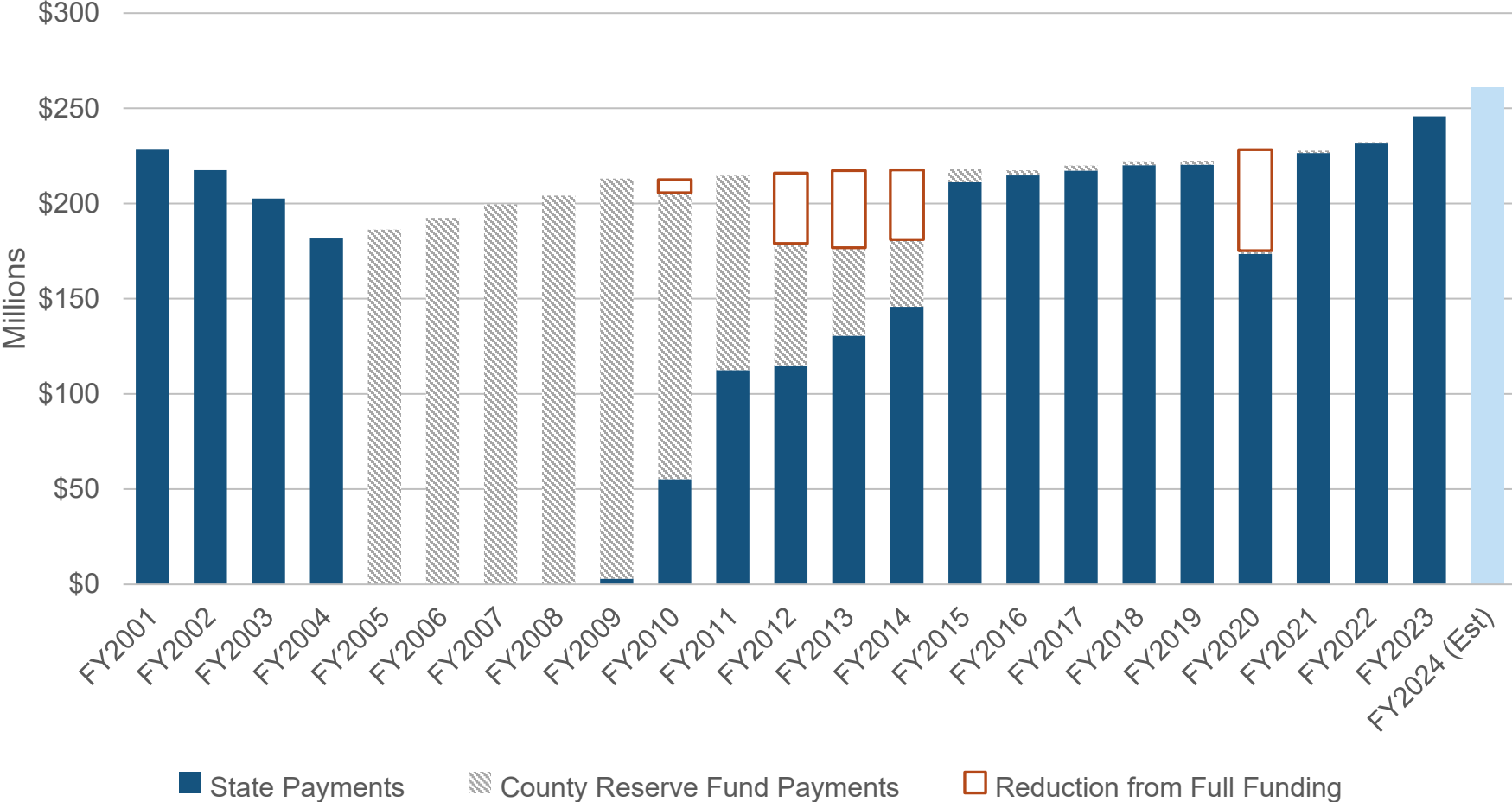
Revenue Sharing to Cities, Villages, and Townships (CVTs)

Per capita constitutional payments to CVTs have grown consistent with sales tax revenue growth. FY 2023-24 discretionary (statutory) payments remain **\$384.9 million** below the FY 2000-01 peak.



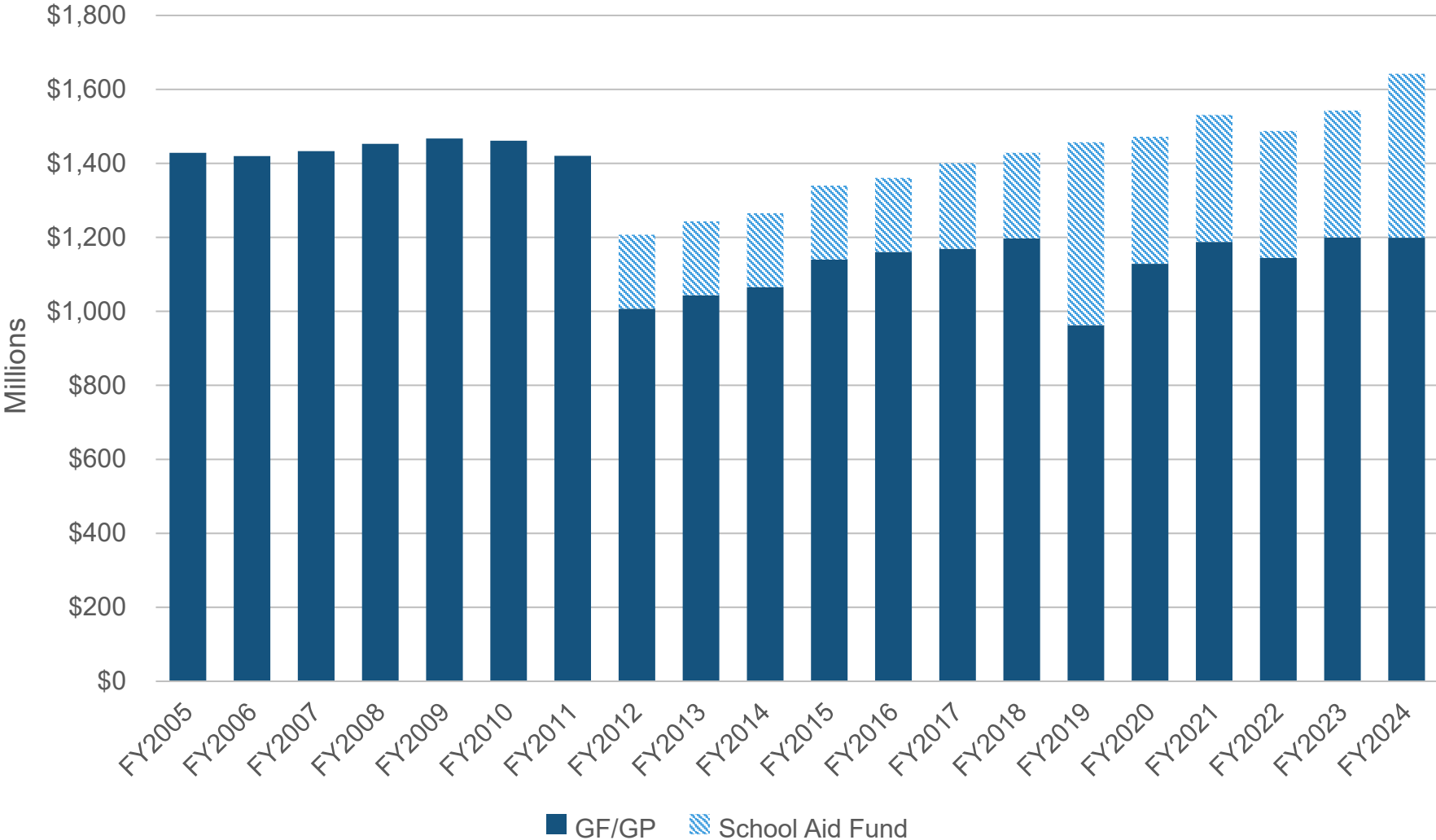
County Revenue Sharing

Reserve fund payments temporarily replaced state revenue sharing for counties. After a period of underfunding, full funding to counties was restored based on the reserve fund mechanism in with FY 2014-15 and increased above full funding beginning in FY 2016-17. For FY 2023-24, total funding is about **\$39.6 million** higher than FY 2000-01.



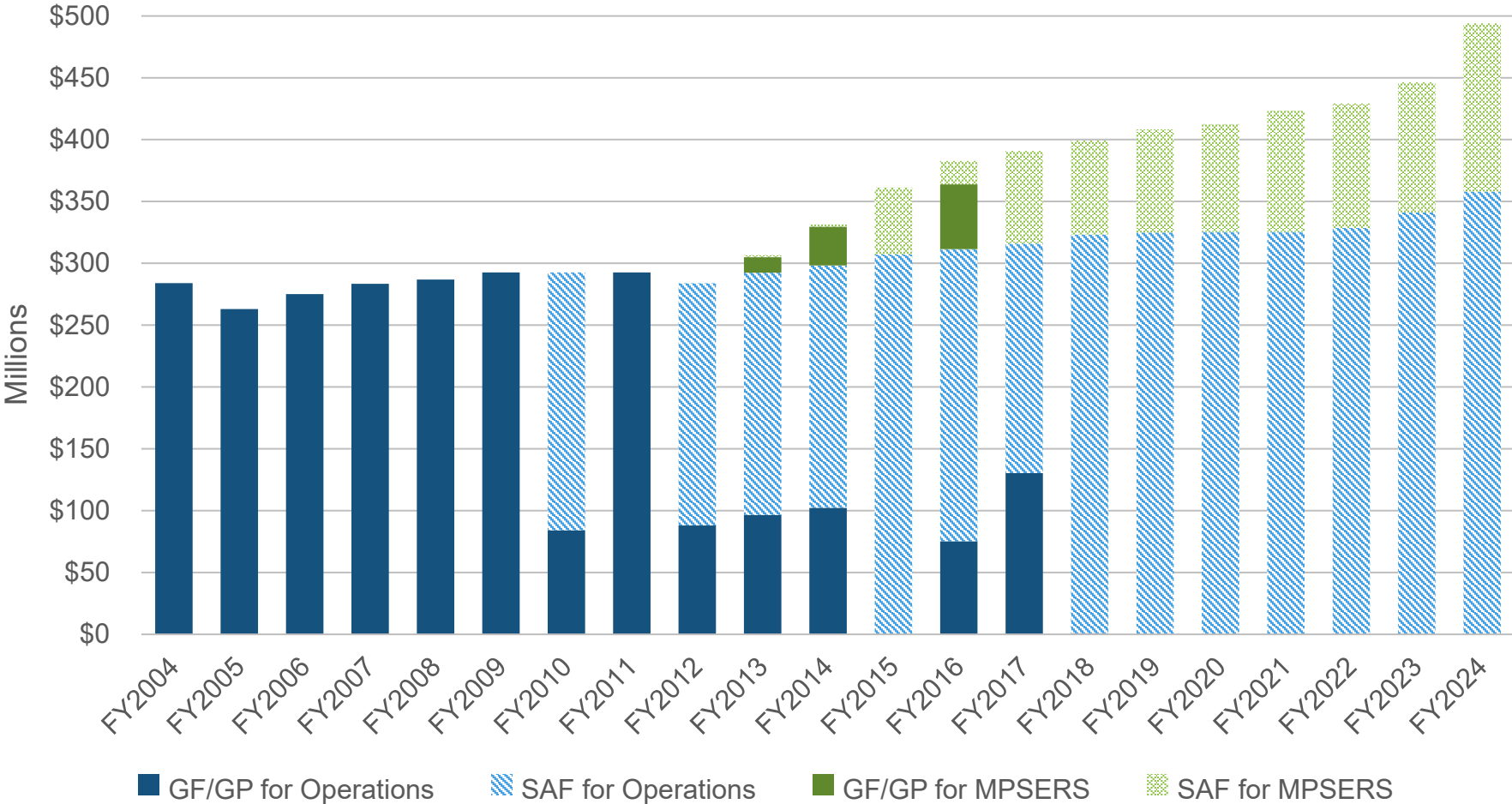
University Operations Grants History

State support for public universities operations has increased by **\$434.8 million (36%)** since FY 2011-12 and hit a new nominal 20-year high of **\$1.64 billion** in FY 2023-24. SAF funding has increased after remaining steady for the past few years.



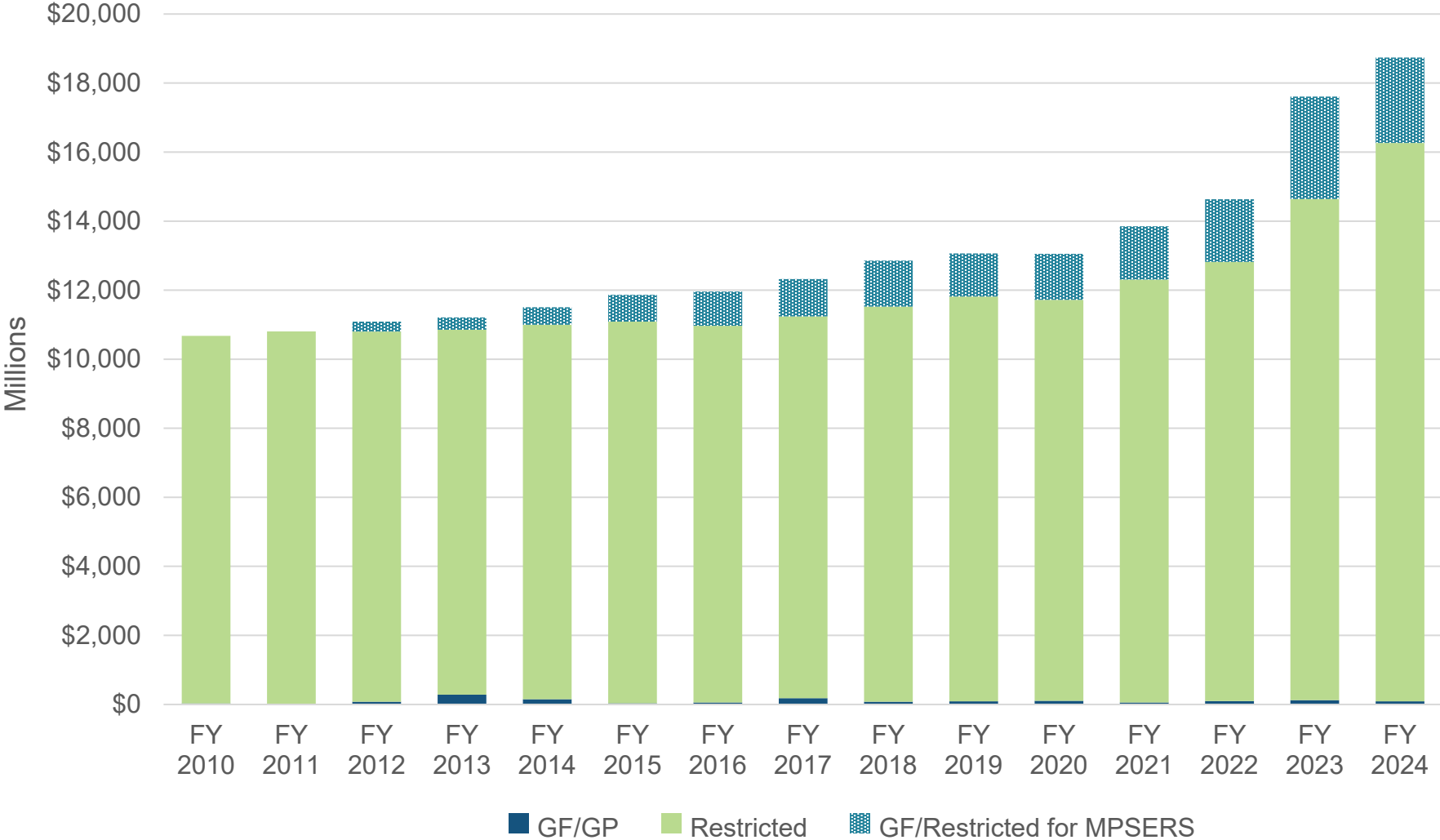
Community College Appropriations

FY 2023-24 state appropriations for community college operations are at their peak of **\$357.9 million**, increasing by 5.0% over the previous fiscal year. Increased funds have been allocated in recent years to offset growing retirement costs.



School Aid Funding History – State Funds

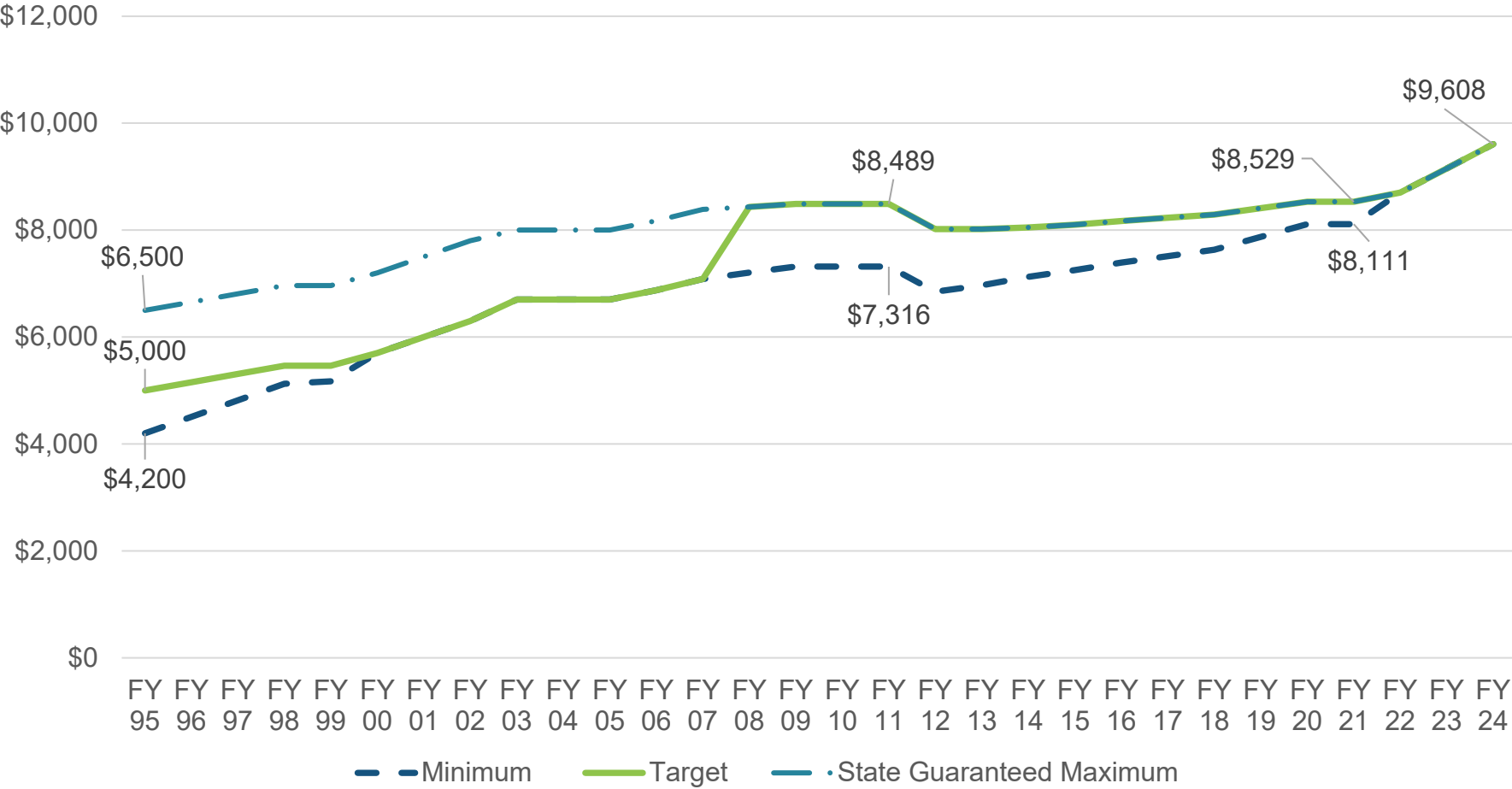
The amount included to hold districts harmless from increasing retirement liability costs is **\$2.4 billion** in FY 2023-24. Since FY 2009-10, non-MPSERS funding has increased by **52%**.



Foundation Allowance History

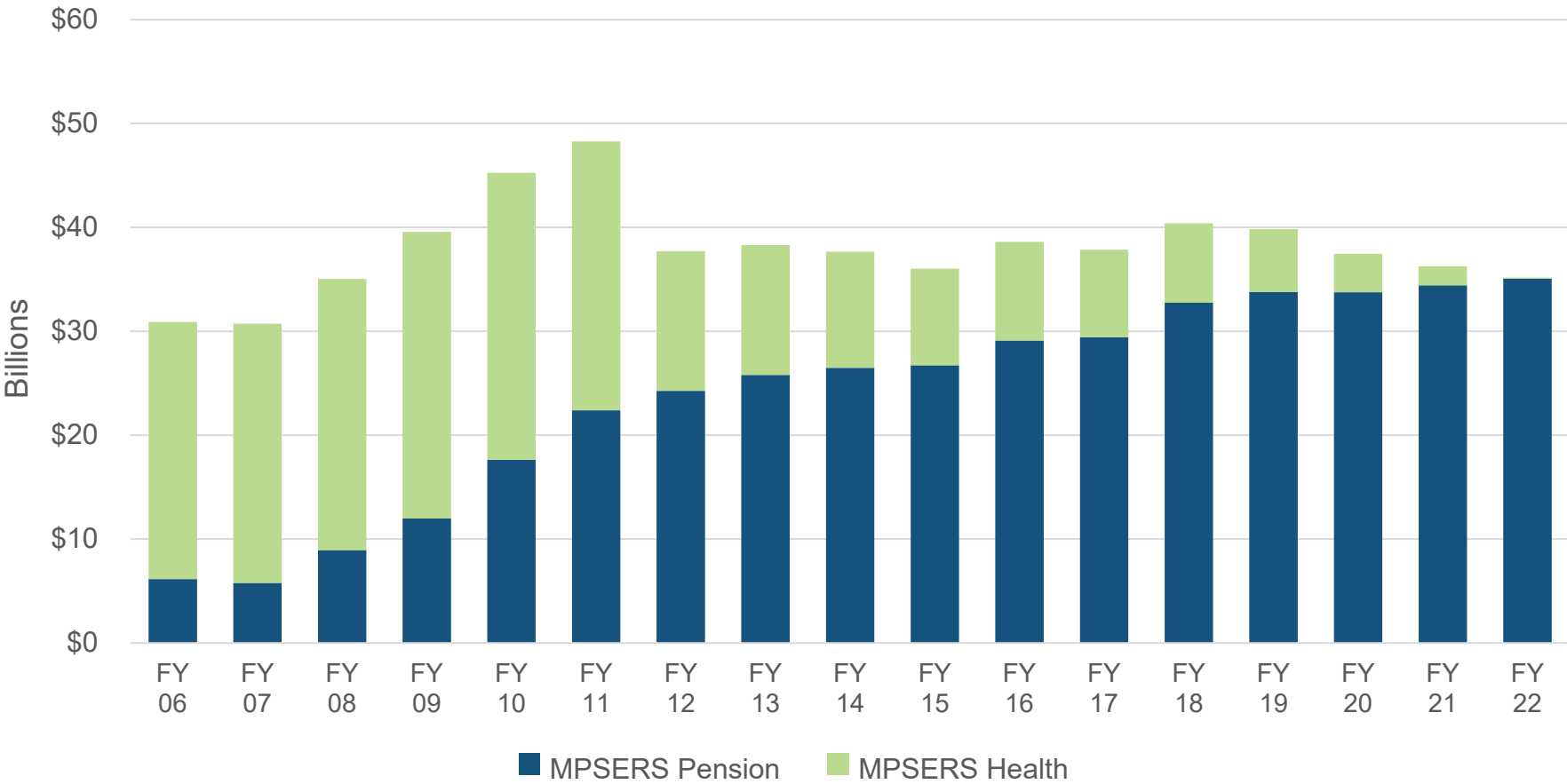
Growth Since Proposal A

The Target is increased by \$458 per pupil to \$9,608 for FY 2023-24.



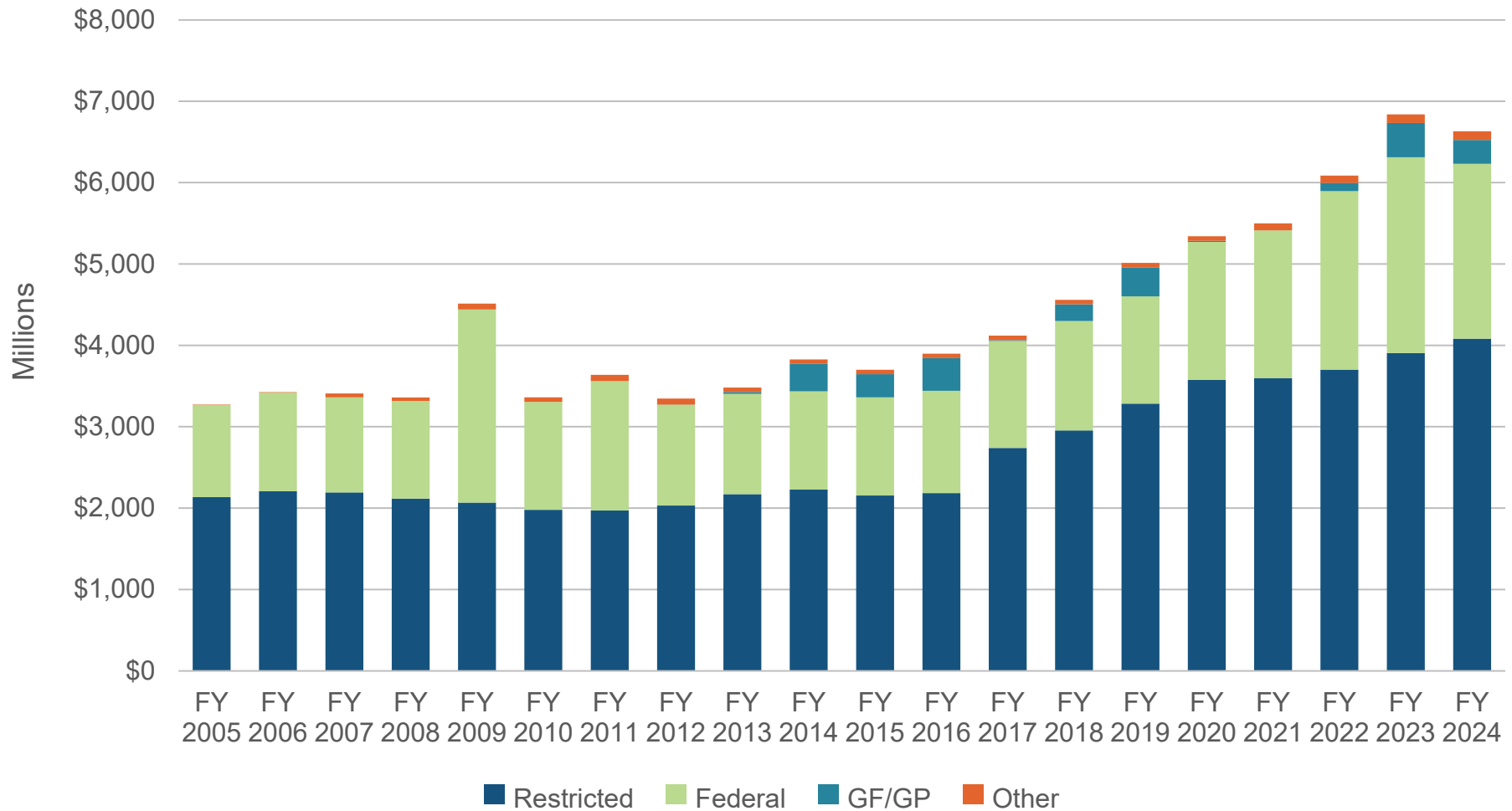
Retirement Liabilities

The decision to begin prefunding retiree health benefits in FY 2011-12 led to declining health liabilities. Liabilities increased by **\$2.6 billion** in FY 2017-18 due to the adoption of the most recent experience study. Reductions in the assumed long-term investment rate of return that began in FY 2015-16 have increased pension liabilities.



Transportation Appropriations

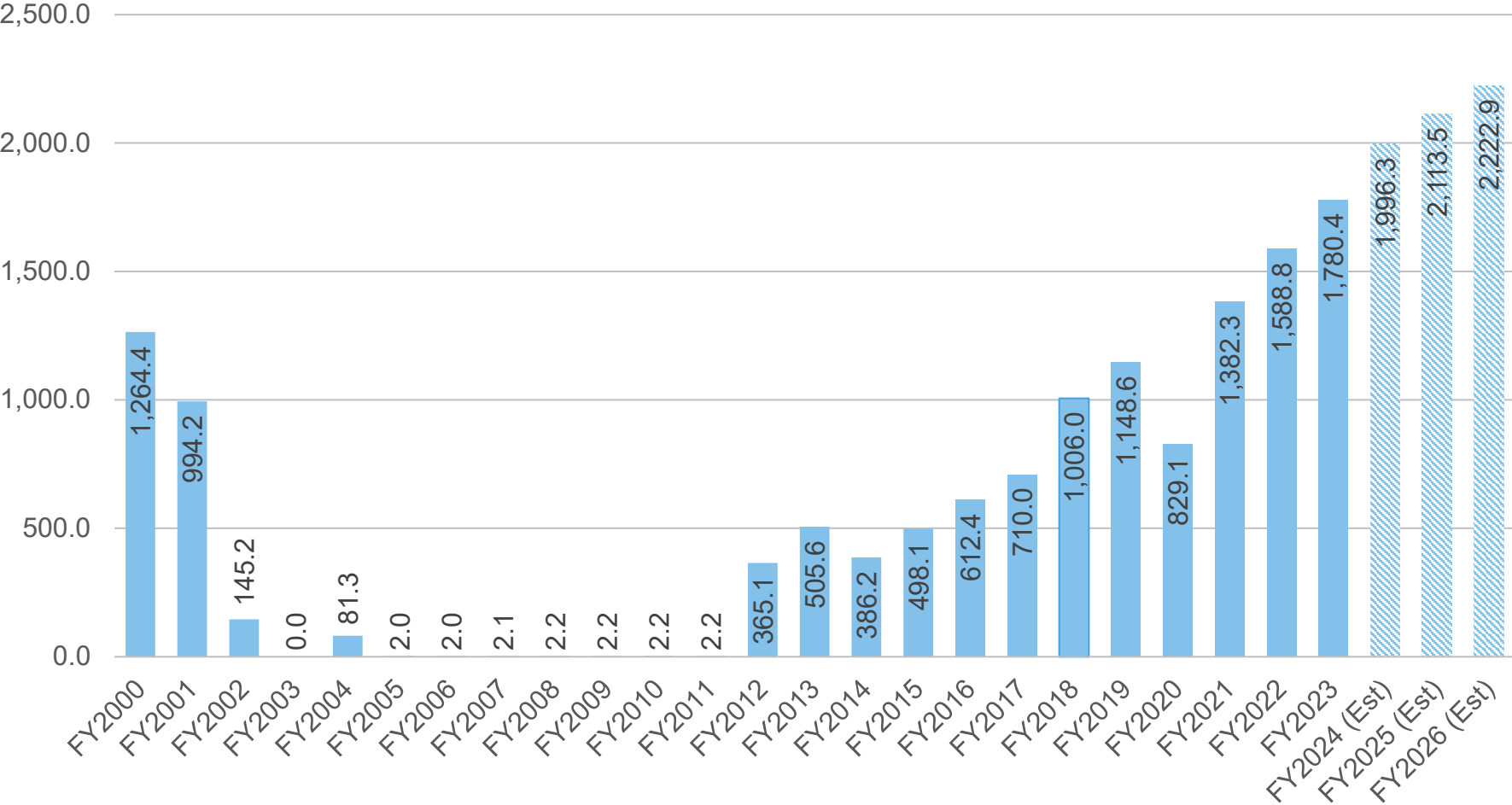
Increases in state restricted funds beginning in FY 2017 reflect implementation of the November 2015 Road Funding Package. Increases in federal funding beginning in FY 2022 reflect the federal infrastructure act known as IIJA.



Note: FY 2008-09 increase in federal funds reflects ARRA “stimulus” program funding.

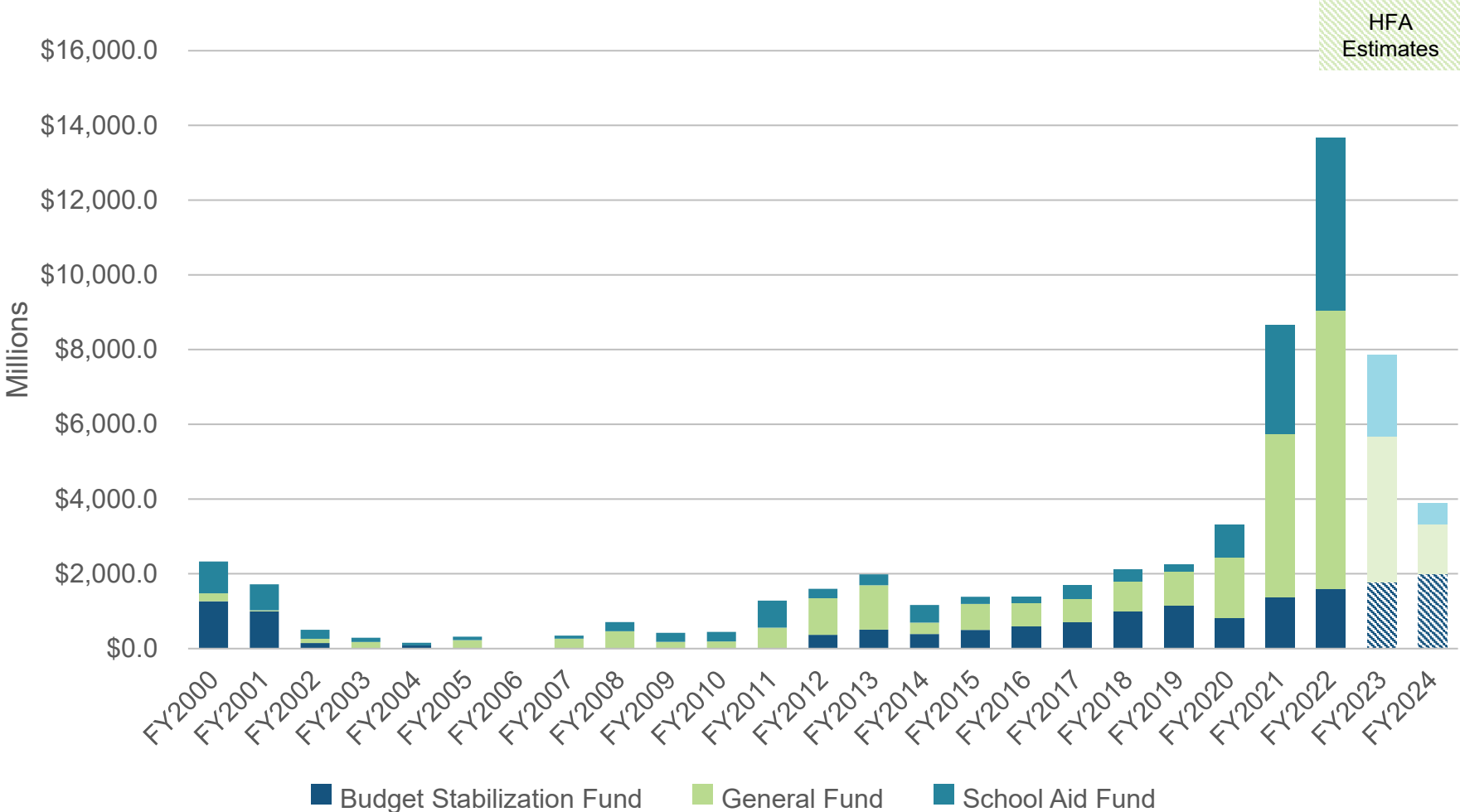
Budget Stabilization Fund Balance

After a \$118 million deposit, the balance at the end of FY 2022-23 was approximately **\$1,780.4 million—about 5.6%** of combined GF and SAF appropriations. The balance is expected to grow due to a \$100.0 million appropriation in FY 2023-24, strong interest earnings due to high interest rate environment, and annual repayments.



Combined Ending Balances

Large GF and SAF year-end balances accumulated from FY 2020-21 through FY 2022-23 as revenue growth outpaced projections and lower state expenditures due to federal stimulus funding in response to the coronavirus pandemic, allowing for substantial one-time expenditures.



Budget Outlook

January Consensus Revenue Estimates

Millions of \$

	FY 2023-24 Estimate	FY 2024-25 Estimate	FY 2025-26 Estimate	FY 2026-27 Trend	FY 2027-28 Trend
GF/GP Revenue	\$13,597.4	\$14,022.2	\$14,707.6	\$15,071.5	\$15,534.4
\$ Change	(\$368.6)	\$424.9	\$685.4	\$363.9	\$462.9
% Change	(2.6%)	3.1%	4.9%	2.5%	3.1%
SAF Revenue	\$17,946.9	\$18,307.0	\$18,706.0	\$19,204.7	\$19,703.6
\$ Change	\$87.6	\$360.0	\$399.0	\$498.7	\$498.9
% Change	0.5%	2.0%	2.2%	2.7%	2.6%

GF/GP Revenue

- Reductions in FY 2023-24 reflect a decline in historically high non-tax revenue (interest earnings), business taxes, and to a lesser extent consumption taxes.
- Modest growth returns in FY 2024-25 as economic activity rebounds, and growth remains moderate throughout the forecast window.

SAF Revenue

- After flat FY 2023-24 revenues, moderate growth returns in FY 2024-25 and subsequent years.

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).
 - Provided for the indexing of motor fuel tax rates beginning January 1, 2022 and each January 1st thereafter. The current motor fuel tax rate, effective January 1, 2024 is 30 cents per gallon for both diesel and gasoline.
 - 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.

GF/GP Medicaid Spending Pressures

Enhanced FMAP Elimination

- The 6.2% Enhanced FMAP increase will begin to phase out. Each additional quarter saves **\$210 million GF/GP**. Current budget does not assume any quarters of Enhanced FMAP, but 2 additional quarters of Enhanced FMAP savings is already known to exist with it phasing down to 5.0% on April 1, 2023, and 2.5% on July 1, 2023. For a total FY 2022-23 GF/GP savings of **\$675 million GF/GP**.

Pandemic Caseload Increase

- Since the start of the pandemic (March 2020), Medicaid cases have increased by 775,000 due to economic factors and the federal prohibition on closing Medicaid cases while the federal public health emergency declaration, and its associated 6.2% enhanced FMAP, are in effect. The additional 775,000 cases cost approximately **\$150 million GF/GP** each quarter, which will gradually reduce beginning April 1, 2023.

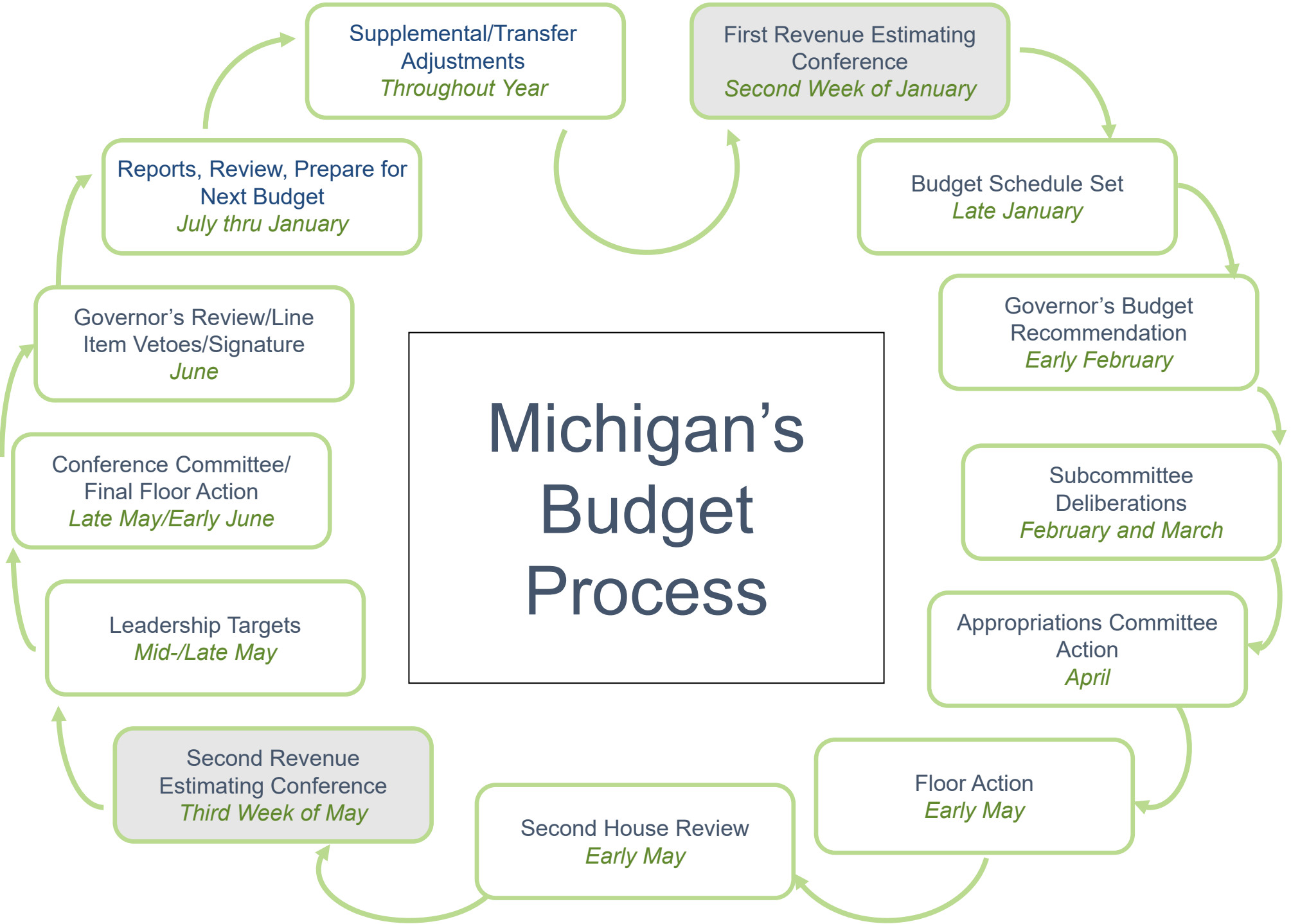
Major School Aid Budget Issues

School Aid

- A **\$100** increase to the Target foundation in **FY 2024-25** would cost approximately **\$136.4 million**; an increase of **\$200** would cost approximately **\$272.6 million**.
- Baseline foundation costs for **FY 2023-24** are expected to decline by **\$72.2 million** based on declining pupils, growing local property tax values, and changing special education costs.
- **FY 2024-25** baseline foundation costs are expected to decline by a total of **\$173.3 million**.
- The state share of MPSERS UAAL payments for **FY 2024-25** is expected to decrease by **\$192.4 million** due to recent deposits beyond the required payments.

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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