FY 2018-19 Executive Budget Overview

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House Appropriations Committee
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HOUSE FISCAL AGENCY

Revenues

January 2018 Consensus Revenue Estimating Conference (CREC) revenue estimates:

(Dollars in Millions)

	FY 2017-18	FY 2018-19	FY 2019-20
GF/GP	$10,307.7	$10,339.6	$10,413.5
SAF	$13,084.5	$13,464.0	$13,822.7

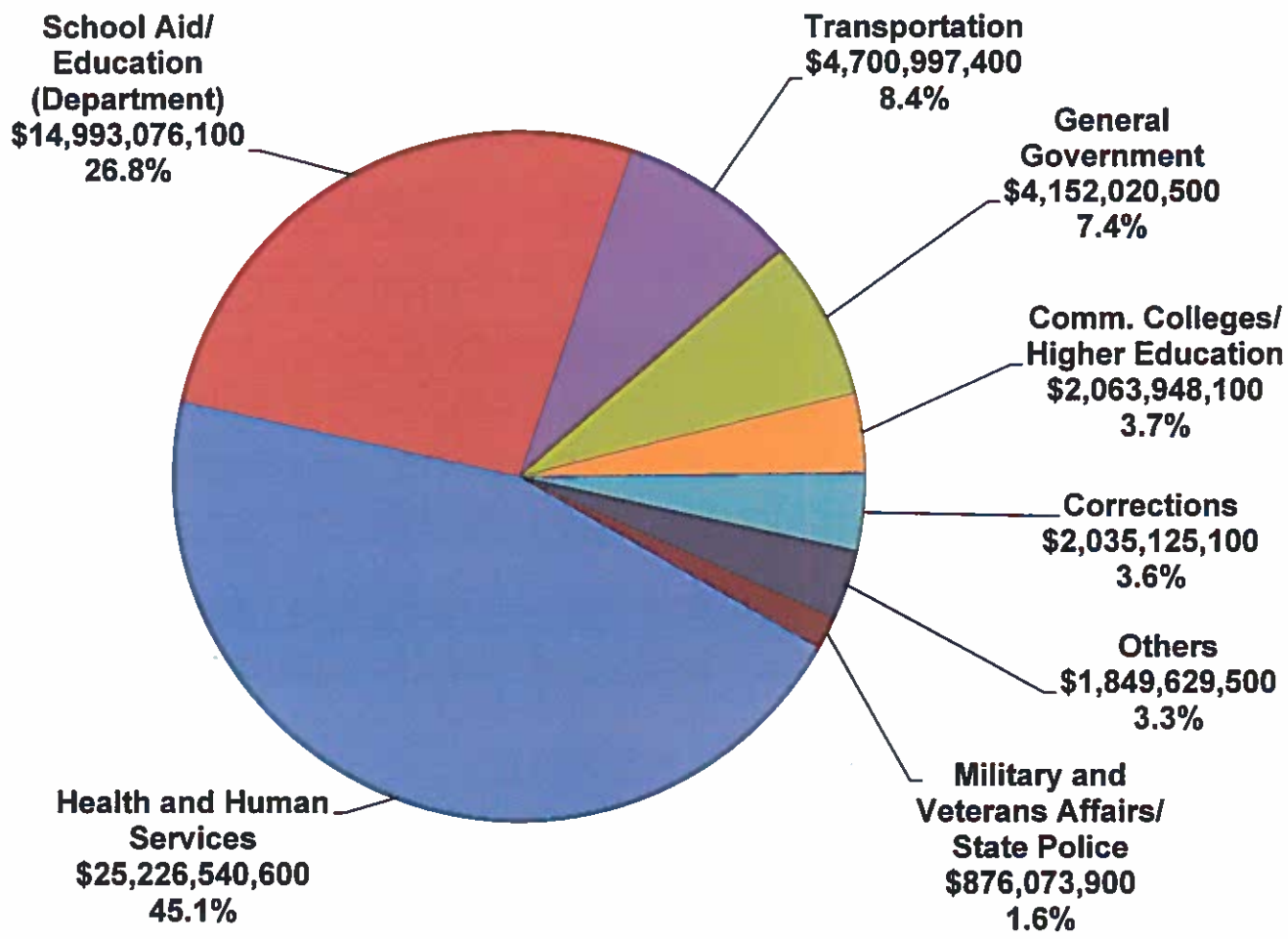
Revenues

Executive recommends additional revenue:

- $13.0 million permanent redirection Transportation Economic Development Fund (TEDF) to GF/GP starting FY 2018-19.
- Assumes GF/GP reductions from adoption of Executive proposal on Driver Responsibility Fee legislation.
  - ($4.5 million) FY 2017-18
  - ($15.5 million) FY 2018-19
  - ($9.0 million) FY 2019-20
- No income tax changes assumed.

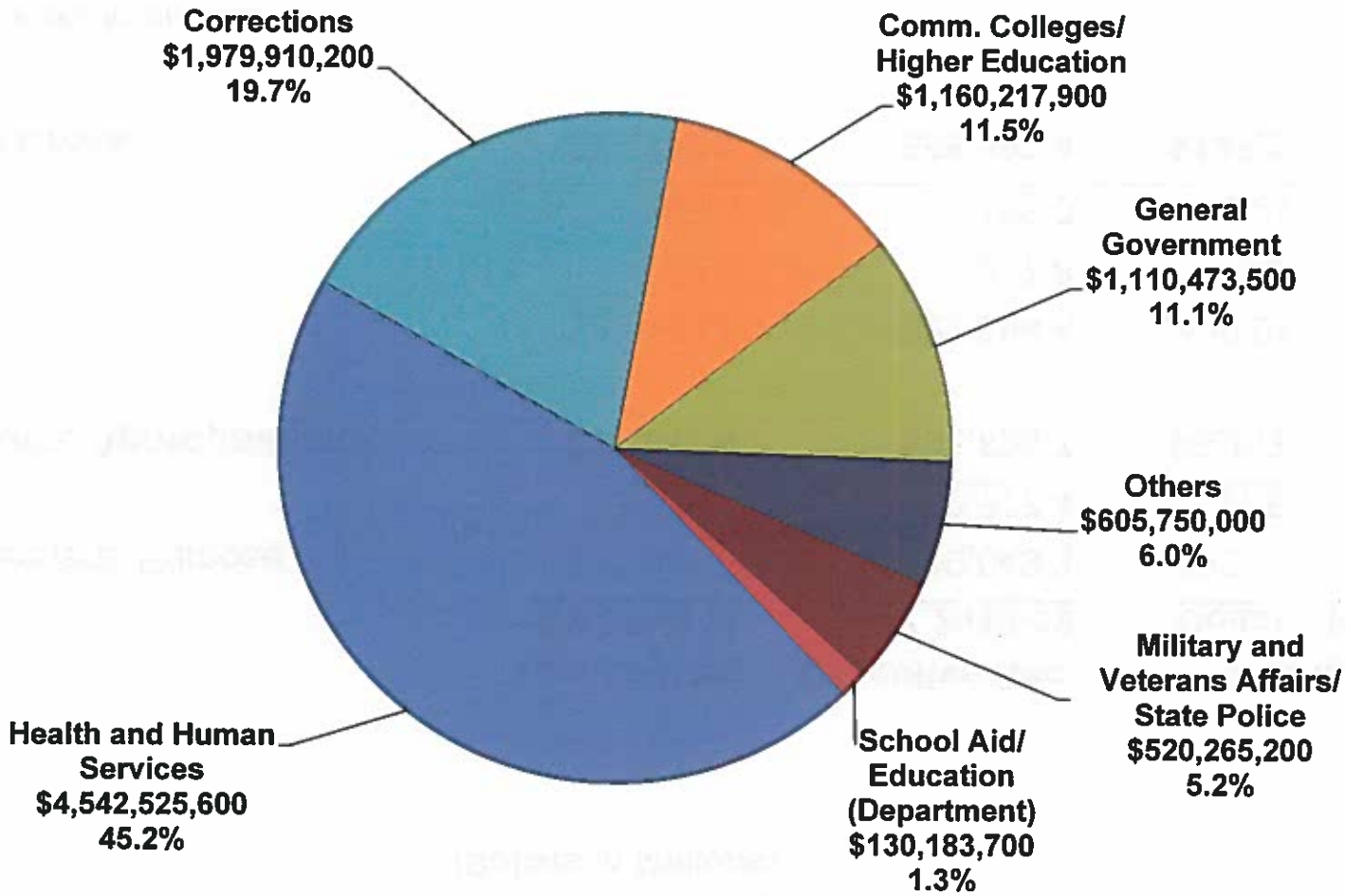
FY 2018-19 Executive Recommendation

Adjusted Gross = $55,897,411,200



FY 2018-19 Executive Recommendation

General Fund/General Purpose (GF/GP) = $10,049,326,100



FY 2018-19 Executive Budget Appropriation Changes

(Dollars in Millions)

	Year-to-Date FY 2017-18	Executive Rec. FY 2018-19	Change Dollar	Change Percent
General Fund/General Purpose	$10,081.5	$10,049.3	($32.1)	(0.3%)
State Restricted	22,136.0	22,777.4	641.5	2.9%
Total State-Source Appropriations	**$32,217.4**	**$32,826.7**	**$609.3**	**1.9%**
Federal	$23,153.9	$22,684.8	($469.0)	(2.0%)
Local	212.6	217.8	5.2	2.4%
Private	168.3	168.0	(0.2)	(0.1%)
Total Adjusted Gross	**$55,752.2**	**$55,897.4**	**$145.2**	**0.3%**

Numbers may not add due to rounding.

FY 2018 and FY 2019 GF/GP Appropriations

Department/Budget Area	Year-To-Date FY 2017-18	Exec. Rec. FY 2018-19	Difference FY 2018-19 vs. FY 2017-18	
Agriculture & Rural Development	$66,251,800	$53,705,200	($12,546,600)	(18.9%)
Attorney General	40,248,600	40,106,800	(141,800)	(0.4%)
Capital Outlay	800	0	(800)	(100.0%)
Civil Rights	13,006,600	13,022,100	15,500	0.1%
Community Colleges	1,025,000	0	(1,025,000)	(100.0%)
Corrections	1,946,633,600	1,979,910,200	33,276,600	1.7%
Education	81,677,400	85,183,700	3,506,300	4.3%
Environmental Quality	63,081,500	46,946,500	(16,135,000)	(25.6%)
Executive Office	6,848,500	6,980,100	131,600	1.9%
Health and Human Services	4,380,531,400	4,542,525,600	161,994,200	3.7%
Higher Education	1,279,254,500	1,160,217,900	(119,036,600)	(9.3%)
Insurance & Financial Services	150,000	150,000	0	0.0%
Judiciary	192,574,400	193,783,700	1,209,300	0.6%
Legislative Auditor General	16,607,600	17,105,800	498,200	3.0%
Legislature	150,597,100	152,487,500	1,890,400	1.3%
Licensing & Regulatory Affairs	44,416,600	88,820,300	44,403,700	100.0%
Military & Veterans Affairs	62,567,500	65,362,400	2,794,900	4.5%
Natural Resources	57,971,100	47,344,300	(10,626,800)	(18.3%)
School Aid	215,000,000	45,000,000	(170,000,000)	(79.1%)
State	24,139,000	18,466,300	(5,672,700)	(23.5%)
State Police	439,601,700	454,902,800	15,301,100	3.5%
Talent and Economic Devel. (MSF)	205,099,400	166,745,800	(38,353,600)	(18.7%)
Tech., Mgmt. & Budget: Operations	333,284,600	221,008,800	(112,275,800)	(33.7%)
Tech., Mgmt. & Budget: SBA Rent	246,570,600	265,757,000	19,186,400	7.8%
Transportation	0	175,000,000	175,000,000	--
Treasury: Operations	98,368,500	101,213,300	2,844,800	2.9%
Treasury: Debt Service	107,580,000	107,580,000	0	0.0%
Treasury: Revenue Sharing	8,379,100	0	(8,379,100)	(100.0%)
TOTAL	**$10,081,466,900**	**$10,049,326,100**	**($32,140,800)**	**(0.3%)**

Supplementals

Executive proposal includes three recommended supplementals totaling $308.3 million Gross ($25.4 million GF/GP) for FY 2017-18:

- Michigan Natural Resources Trust Fund projects of $40.4 million Gross. (Request 2018-4)
- School Aid baseline cost reduction of $11.2 million Gross and a $137.0 million GF/GP reduction backfilled with SAF. (Request 2018-5)
- Departmental appropriation adjustment requests of a negative $337.4 million Gross and a positive ($162.4 million GF/GP). (Requests 2018-2 and 2018-3)
  - $112.1 million GF/GP Capital Outlay – cash payment Capital Restoration Project ($70.0 million) and Grand Rapids and Detroit Veterans Homes ($42.1 million)
  - $29.0 million Gross ($18.0 million GF/GP) Drinking Water Declaration of Emergency
  - $20.0 million Gross ($13.6 million GF/GP) State Broadband Initiative MCAN
  - Negative $526.9 million Gross ($5.1 million GF/GP) DHHS caseload and non-caseload adjustments

GF/GP Program Reductions

Executive proposes $129.4 million in program and grant reductions. Major reduction areas include:

- $46.7 million GF/GP net reduction/savings in various grants and programs in the Health and Human Services budget (DHHS).
- $25.0 million GF/GP ongoing reduction to Information Technology Investment Fund (ITIF) in the Department of Technology, Management, and Budget (DTMB).
- $18.8 million GF/GP savings due to the closure of West Shoreline Correctional Facility in Muskegon.
- $8.0 million GF/GP elimination of the county hold-harmless provision to foster care administrative rates.
- $5.3 million GF/GP ($7.5 million Gross) reduction for Mental Health and Wellness Commission recommendations.

Current Services Baseline and Caseload Adjustments

- Negative $273.5 million Gross and increase of $154.3 million GF/GP for adjustments in Medicaid, Healthy Michigan Plan, and Human Services caseloads. (DHHS)

- $20.0 million GF/GP increase to annualize 2018 trooper school for salary and benefits of the expected 150 new troopers and administrative costs including fleet leasing, equipment, and IT support. (MSP)

GF/GP Ongoing Allocations

Executive proposes $110.7 million in program and grant increases. Major increase areas include:

- $46.0 million GF/GP ($61.3 million Gross) increase for Michigan Indigent Defense Commission grants in the Department of Licensing and Regulatory Affairs (LARA).
- $19.2 million increase for State Building Authority (SBA) rent to cover anticipated debt service obligations associated with capital outlay projects authorized for construction.
- $13.7 million increase in Corrections to change over operation of prison food service from a private provider to state employees.
- $9.9 million (including $6.1 million one-time) for State Police trooper school.

GF/GP One-Time Allocations

Executive recommends $217.6 million in one-time allocations. Major increases include:

- $175.0 million in Transportation to accelerate the income tax earmark to roads.
- $9.2 million for training of new custody staff in the Department of Corrections.

Fund Shifts

GF/GP and SAF Fund Shift

- $120.0 million GF/GP reduction in Higher Education budget backfilled with SAF.
- $33.0 million GF/GP reduction, in addition to the FY 2017-18 shift, in School Aid budget backfilled with SAF.

School Aid Fund Allocations

Major School Aid and Higher Education funding changes include:

- $312.0 million SAF for increases to district foundation allowances ranging from $120 to $240 per pupil based on 2x formula (percentages range from 1.4% to 3.1%).
- $28.6 million SAF for a 2.0% increase in public university operations.
- $68.0 million SAF savings to implement a cap on shared-time pupils.
- $25.0 million reduction to cyber school foundation allowances to 75% of the minimum foundation allowance. Cyber foundation allowance would be $5,903.

MPSER Retirement Changes

Proposed retirement changes included in the Executive recommendation include:

- Eliminates a one-time $200.0 million additional deposit to accelerate the payoff of the 2010 early retirement.
- $74.8 million SAF to increase the state share of the MPSERS UAAL payments.
- $56.7 million SAF to increase state support for the following:
  - Higher employer normal costs resulting from 2nd year of phasing in a reduced assumed rate of return (AROR) from 8.0% to 7.5%.
  - Payment for higher defined contribution and hybrid plan cost required under PA 92 of 2017.

Revenue Sharing Allocations

Executive recommendations for local revenue sharing programs.

- $34.3 million increase to Constitutional revenue sharing, a 3.1% increase from January 2018 CREC estimate.
- Removes $5.8 million in one-time funds to an additional 101 local units (100 townships and 1 city).
- Removes $6.2 million GF/GP for supplemental city, village, township revenue sharing.
- Net reduction of $1.9 million Gross ($2.2 million GF/GP) for county revenue sharing.

Local Community Stabilization Authority (LCSA)

Executive includes a proposal to redistribute LCSA Tier 3 payments as follows:

- First provide a guaranteed total funding of $15.0 million for Fire Protection grants ($8.5 million is estimated from Driver Responsibility Fees in FY 2018-19).
- Remaining funds distributed to local units of government as follows:
  - To counties (30%), cities (48%), villages (2%), and townships (5%) on a per capita basis with a calculated minimum of $4,500 required to receive a distribution.
  - 15% to the 28 community colleges using their proportionate share of base state appropriations.

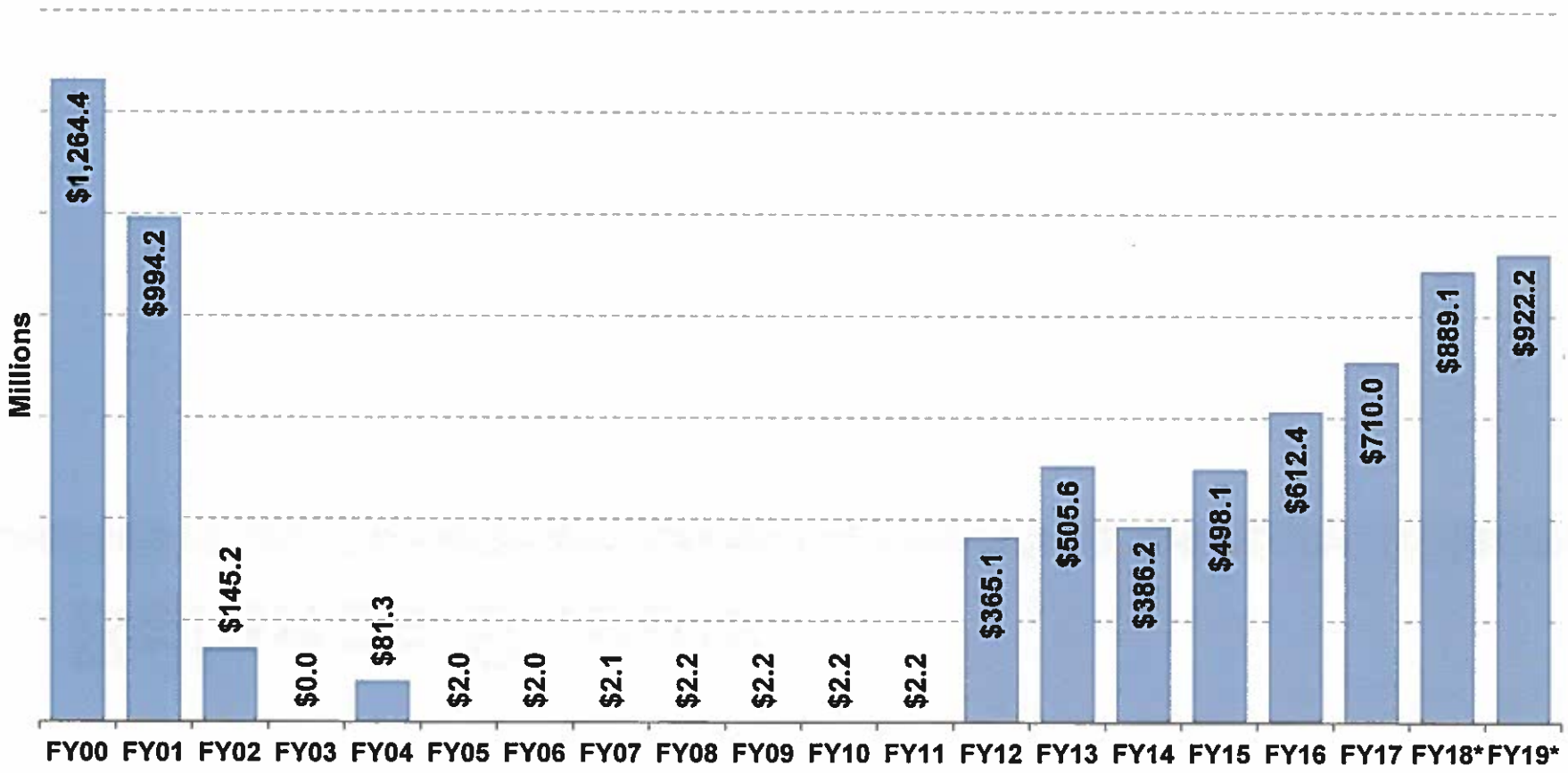
Fee Proposal

The Executive recommendation includes one fee increase in the Department of Environmental Quality:

- $79.0 million additional revenue from an increase ($0.36/ton to $4.75/ton) to the solid waste tipping fee to replace expended Clean Water Initiative bond funds.

Budget Stabilization Fund Balance

The Executive Recommendation proposes $0 BSF deposit for FY 2018-19.



*Exec Rec

Balance Sheets

Executive Recommendation
General Fund Balance Sheet

(Dollars in Millions)

	FY 2017-18	FY 2018-19	FY 2019-20
RESOURCES			
Beginning Balance	$622.5	$191.7	$7.3
Consensus Revenue Estimates: January 2018	10,307.7	10,339.6	10,413.5
Sales Tax on the Difference (SB 94 / SB 95)	0.0	(0.3)	(0.7)
TEDF Target Industries – Redirect to GF	0.0	13.0	13.0
Venture Michigan Fund Tax Vouchers	0.0	0.0	(19.2)
Driver Responsibility Fee (Executive Proposal)	(4.5)	(15.5)	(9.0)
Lawsuit Settlement Proceeds Fund	(6.4)	(5.8)	0.0
Revenue Sharing: Ongoing	(465.9)	(466.2)	(466.2)
Revenue Sharing: One-time	(5.8)	0.0	0.0
TOTAL RESOURCES	$10,447.6	$10,056.6	$9,938.7
EXPENDITURES			
Enacted Appropriations: Ongoing	$9,746.2	$9,831.7	$9,958.4
Enacted Appropriations: One-time	334.3	217.6	0.0
Baseline Adjustments	0.0	0.0	200.0
Deposit to Budget Stabilization Fund	150.0	0.0 *	0.0
Supplemental Request 2018-3 and 2018-5	25.4	0.0	0.0
TOTAL EXPENDITURES	$10,255.9	$10,049.3	$10,158.4
PROJECTED ENDING BALANCE / (SHORTFALL)	$191.7	$7.3	($219.7)

* FY 2018-19 - 25% of unassigned GF/GP fund balance for FY 2017-18 shall be deposited in the BSF.

Executive Recommendation
School Aid Balance Sheet

(Dollars in Millions)

	FY 2017-18	FY 2018-19	FY 2019-20
RESOURCES			
Beginning Balance	$377.4	$97.0	$6.0
Consensus Revenue Estimates: January 2018	13,084.5	13,464.0	13,822.7
Sales Tax on the Difference (SB 94 / SB 95)	(0.2)	(2.0)	(4.2)
Michigan Venture Fund Tax Vouchers	0.0	0.0	(6.0)
GF/GP Grant	78.0	45.0	45.0
Detroit Public Schools Trust Fund	72.0	72.0	72.0
MPSERS Retirement Obligation Reform Reserve	23.1	31.9	0.0
Federal Aid	1,726.9	1,724.7	1,719.7
TOTAL RESOURCES	$15,361.7	$15,432.6	$15,655.2
EXPENDITURES			
School Aid	$14,573.1	$14,636.0	$14,630.6
SAF Deposit into MPSERS Reserve	55.0	0.0	0.0
Community College	398.3	405.0	407.7
Higher Education	238.3	385.6	386.6
TOTAL EXPENDITURES	$15,264.7	$15,426.6	$15,424.9
PROJECTED ENDING BALANCE / (SHORTFALL)	$97.0	$6.0	$230.3

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