



Budget Briefing: State Budget Overview

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Briefing Topics

- Appropriations Overview
- Economic Trends
- Long-Term Revenue Trends
- Long-Term Budget Trends
- Major FY 2016-17 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 2016-17 is October 1, 2016 through September 30, 2017.

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.

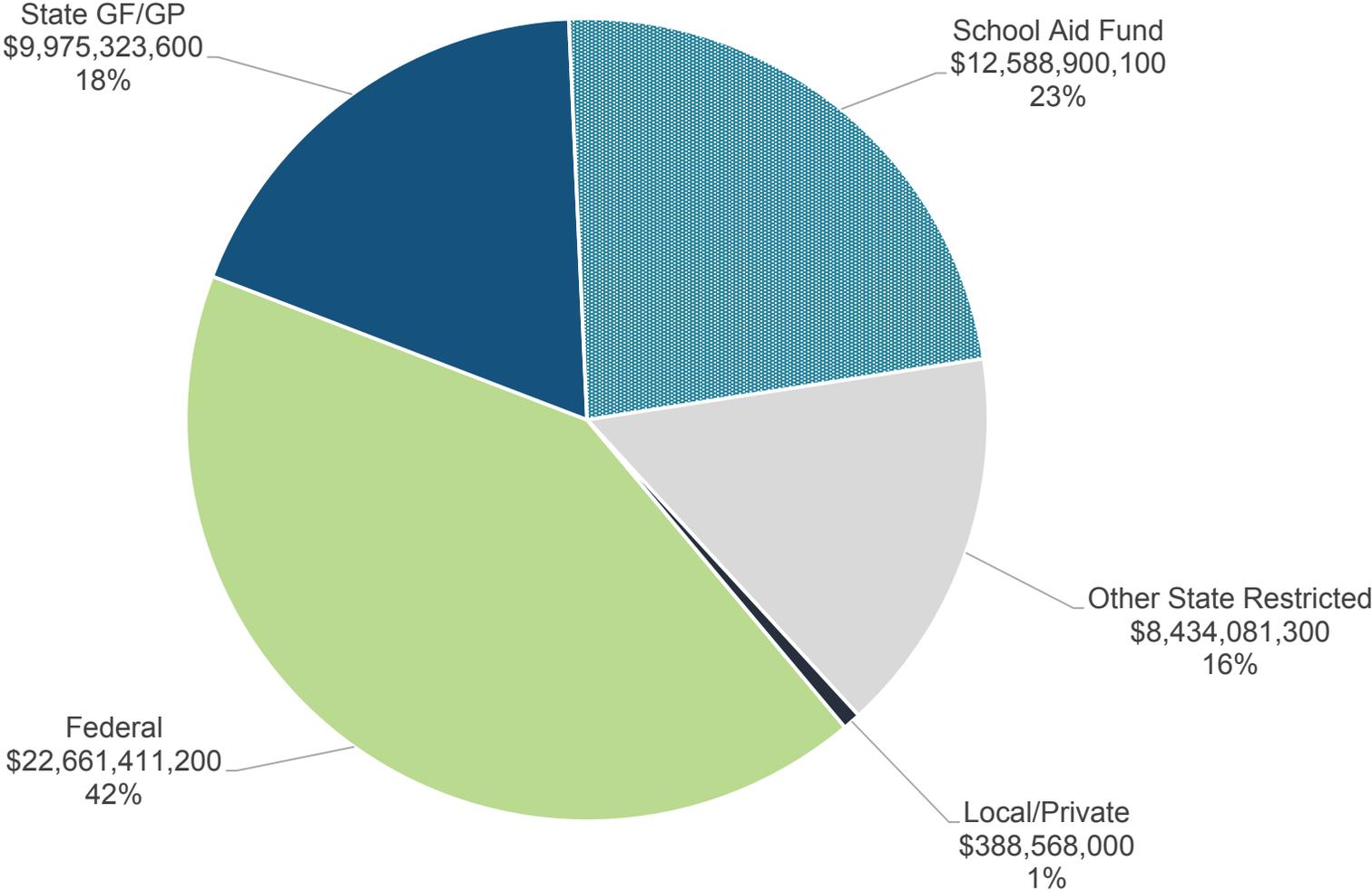
Note: Unless otherwise indicated, historical budget figures in this presentation have not been adjusted for inflation.

FY 2016-17 State Budget

Fund Source	Funding	Description
Gross Appropriations	\$54,912,758,000	Total spending authority from all revenue sources
Interdepartmental Grants (IDG) Revenue	864,473,800	Funds received by one state department from another state department, usually for services provided
Adjusted Gross Appropriations	\$54,048,284,200	Gross appropriations excluding IDGs; avoids double counting when adding appropriation amounts across budget areas
Federal Revenue	22,661,411,200	Federal grant or matching revenue; generally dedicated to specific programs or purposes
Local Revenue	216,087,100	Revenue received from local units of government for state services
Private Revenue	172,480,900	Revenue from individuals and private entities, including payments for services, grants, and other contributions
State Restricted Revenue	21,022,981,400	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	\$9,975,323,600	Unrestricted revenue from taxes and other sources available to fund basic state programs and other purposes determined by the Legislature

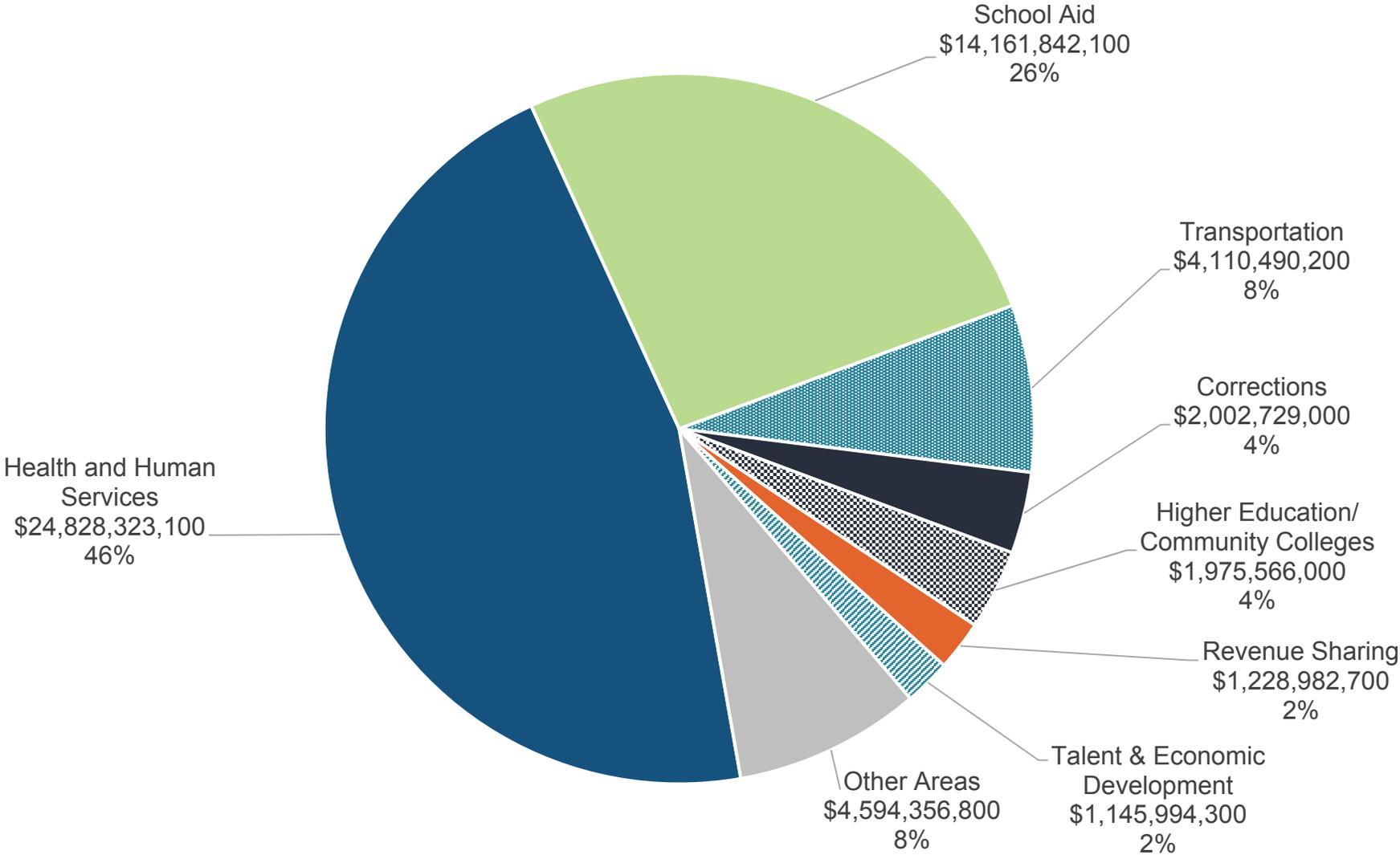
FY 2016-17 Fund Sources

Discretionary GF/GP funds make up less than 20% of the **\$54.0 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 41%.



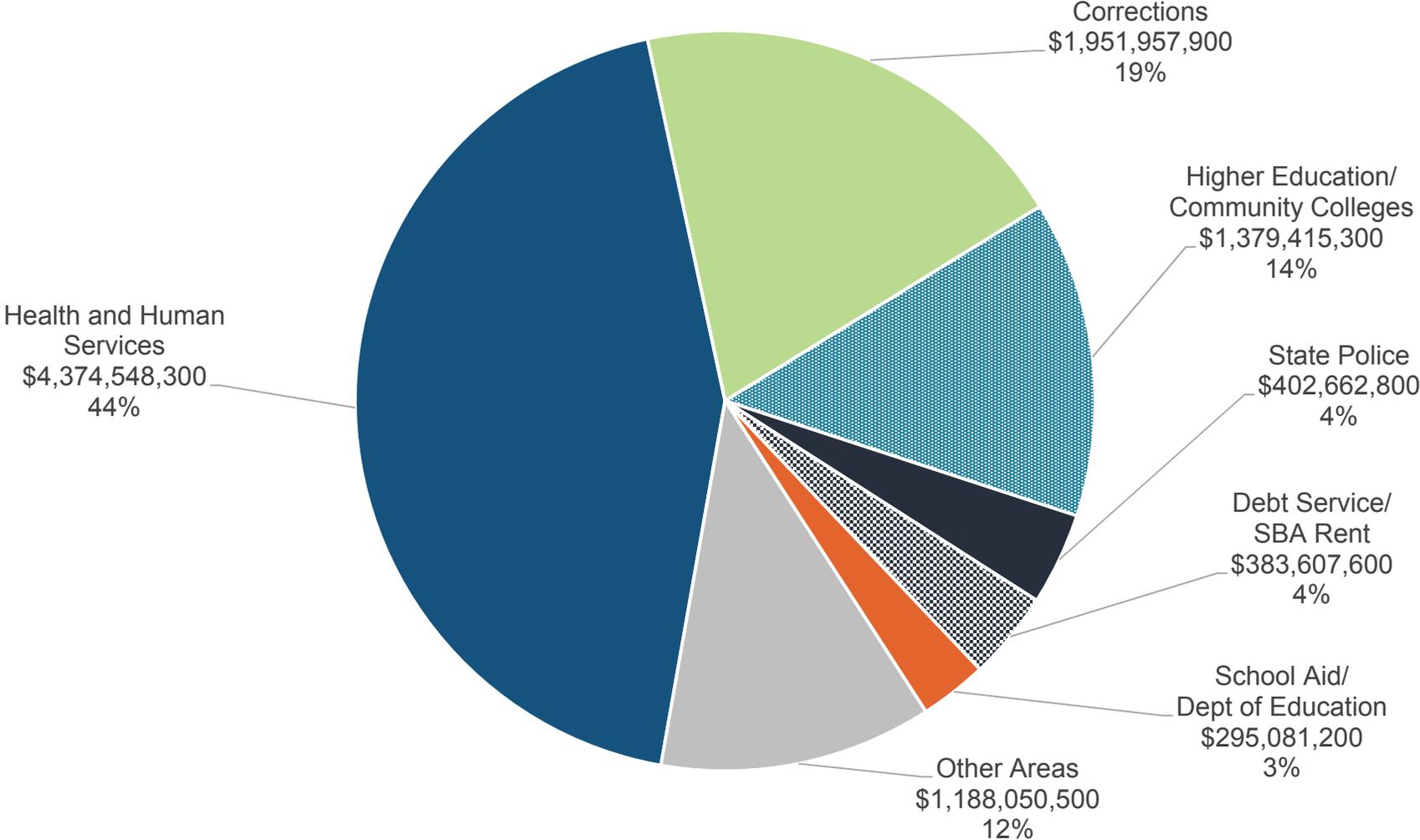
FY 2016-17 Adjusted Gross Appropriations

Large portions of the **\$54.0 billion** state budget consist of payments to health care providers, school districts, universities and colleges, and local units of government.



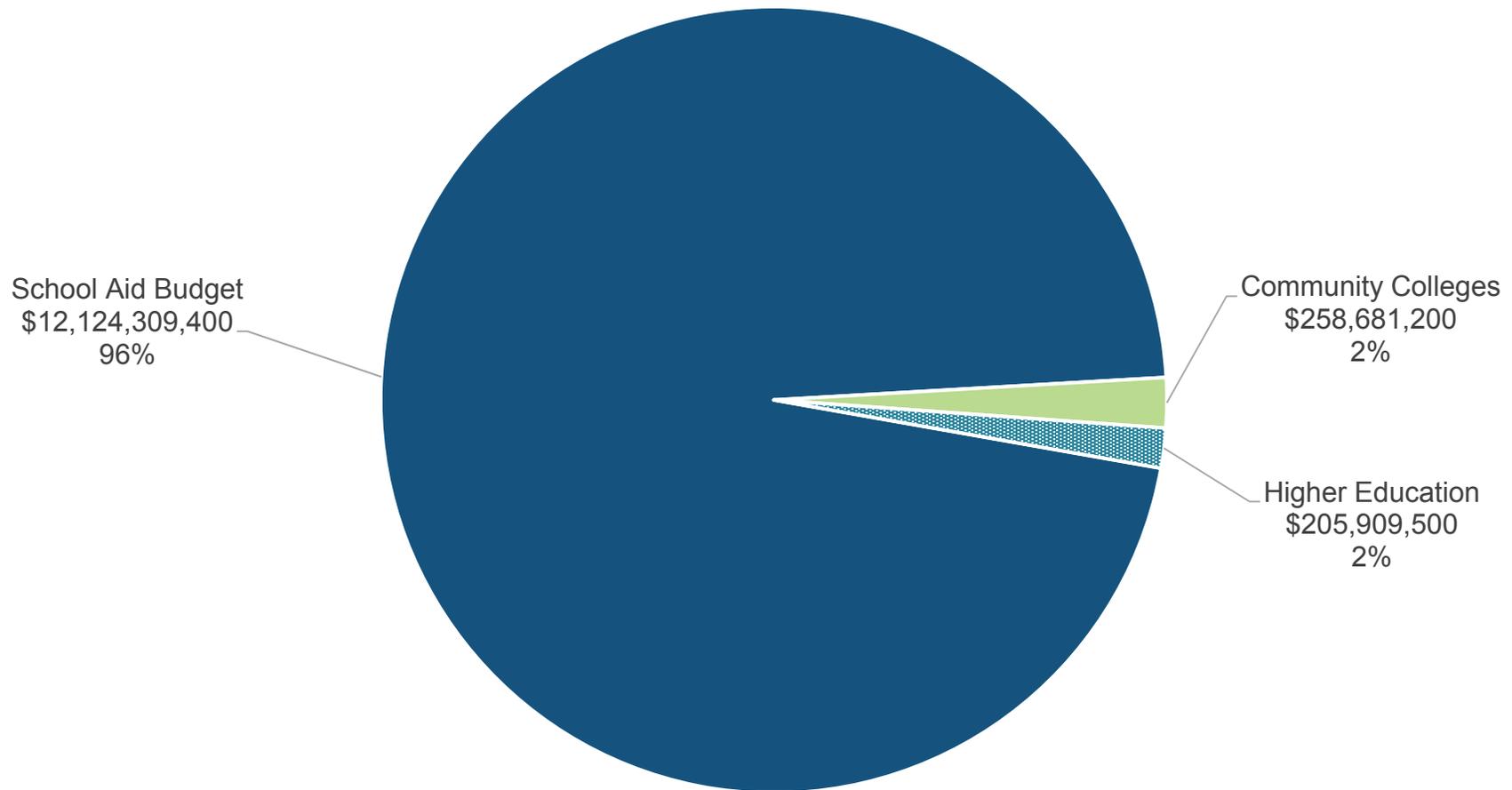
FY 2016-17 GF/GP Appropriations

88% of the **\$10.0 billion** GF/GP budget is appropriated for health and human services, public safety, education, and debt service. The remaining 12% provides funding for 13 state departments, the Judiciary, the Legislature, and the Executive Office.



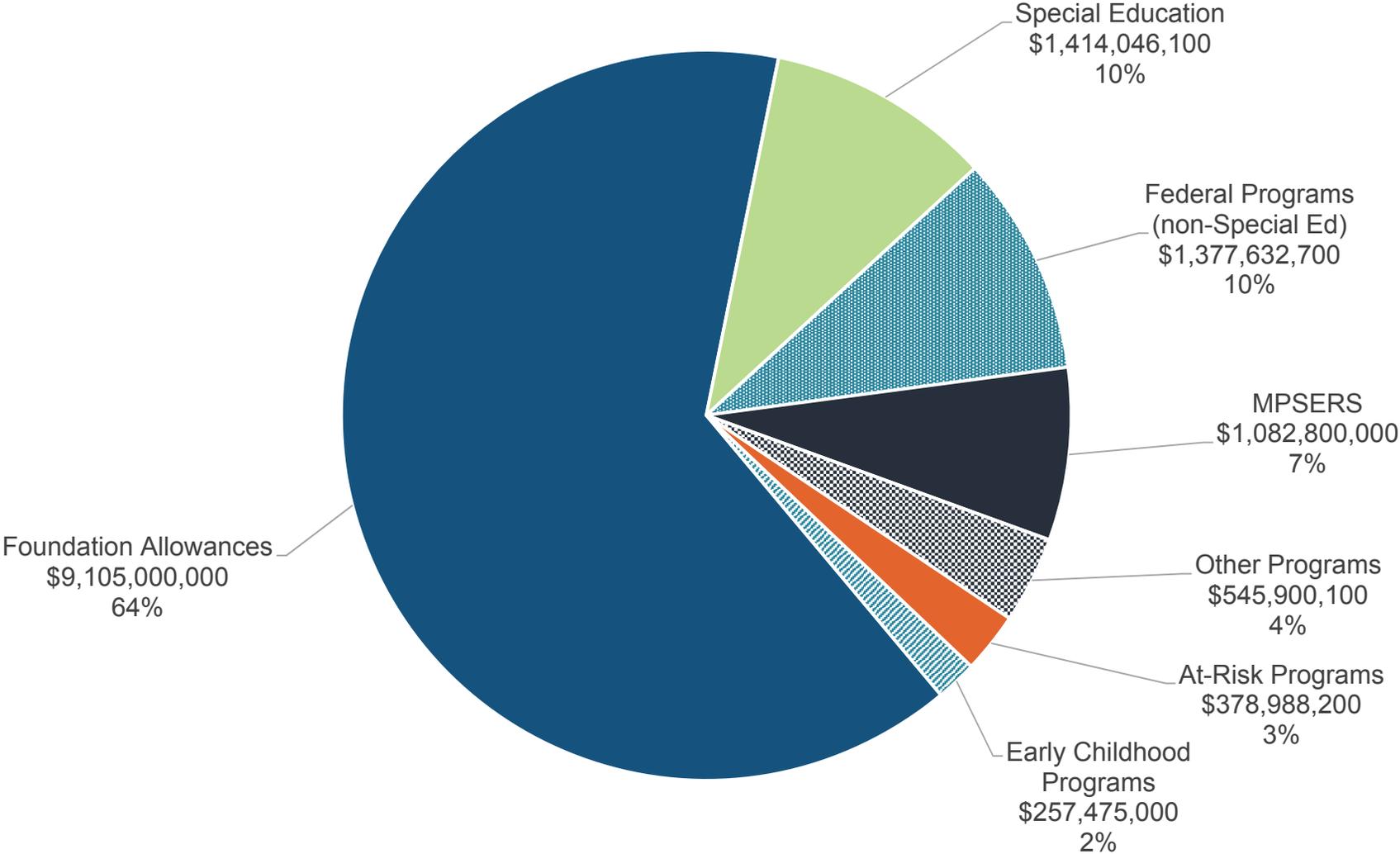
FY 2016-17 School Aid Fund Appropriations

School Aid Fund (SAF) appropriations totaling **\$12.6 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 2016-17 School Aid Appropriations

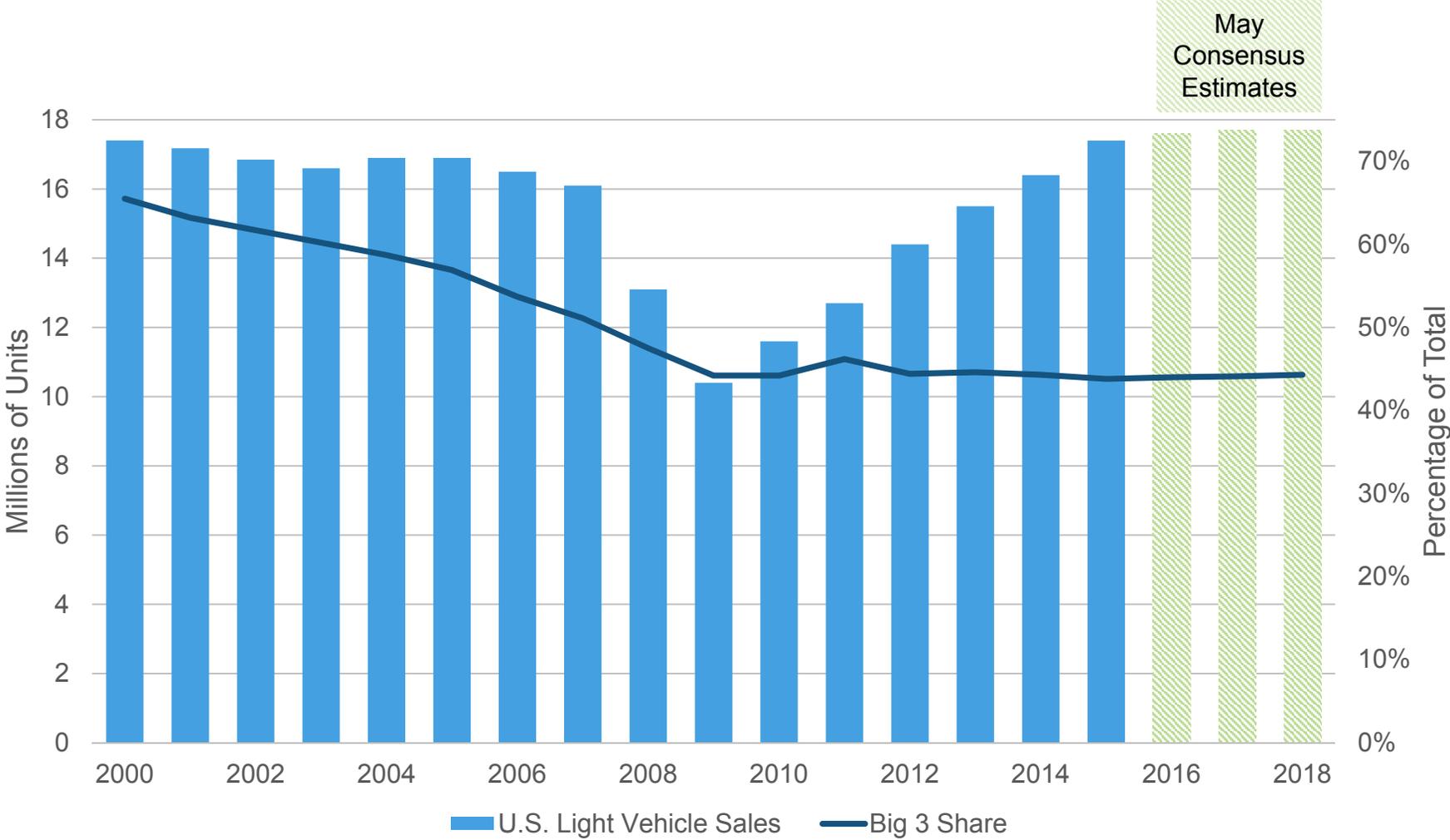
About two-thirds of the \$14.2 billion School Aid budget (including federal funds) supports per pupil foundation allowances used for school district general operations.



Economic Trends

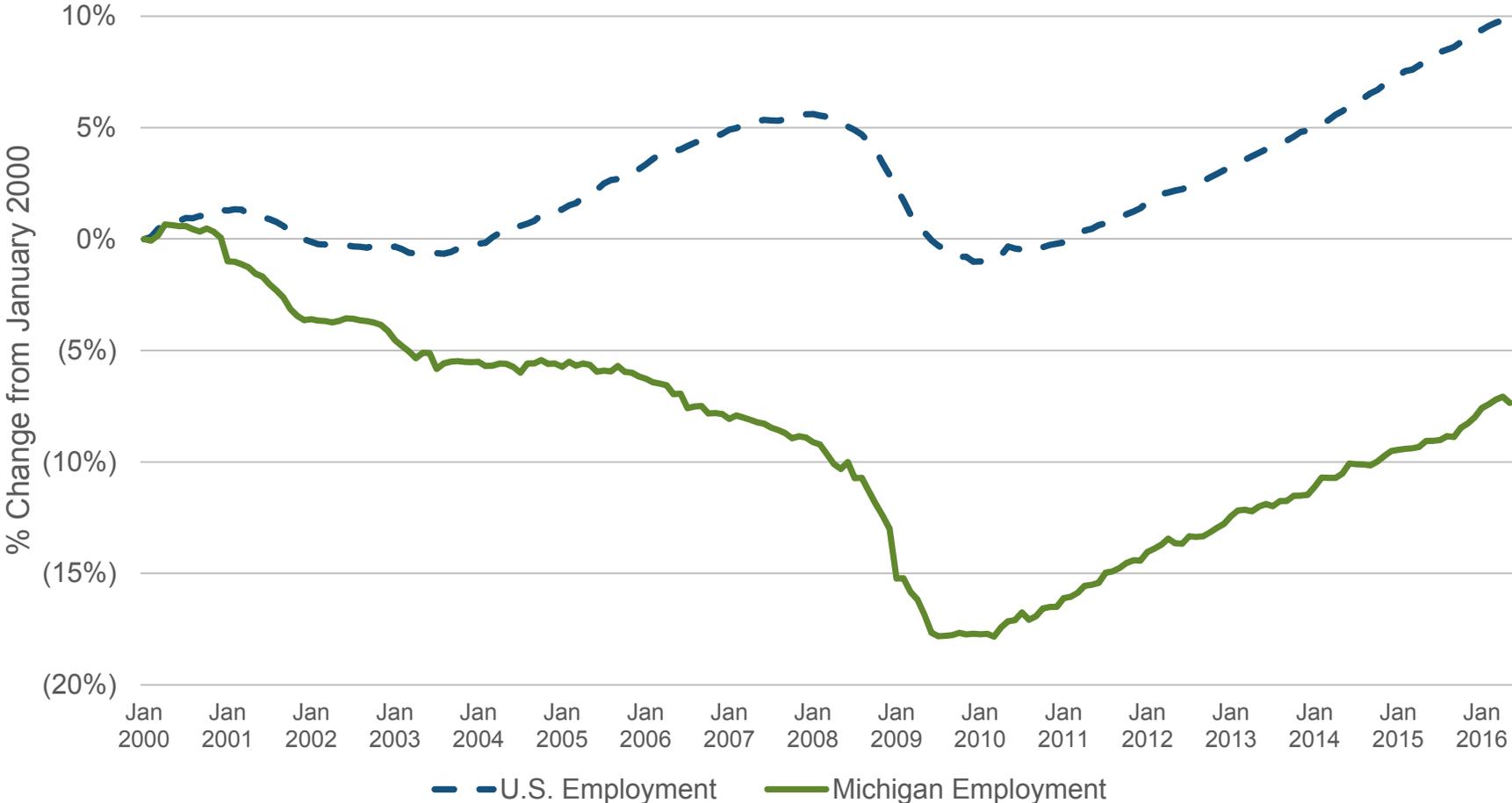
Light Vehicle Sales

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



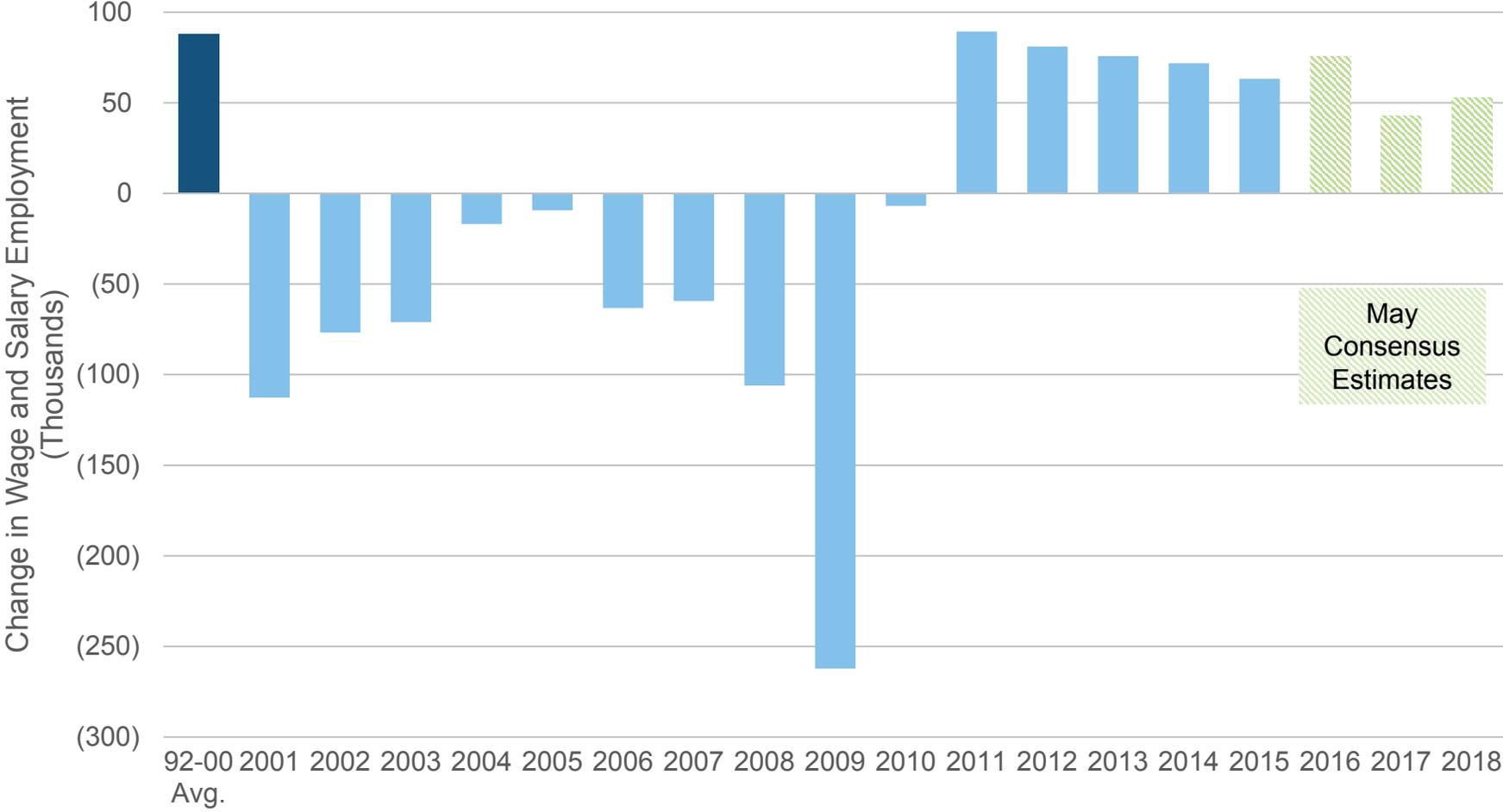
Employment Change Since 2000

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.



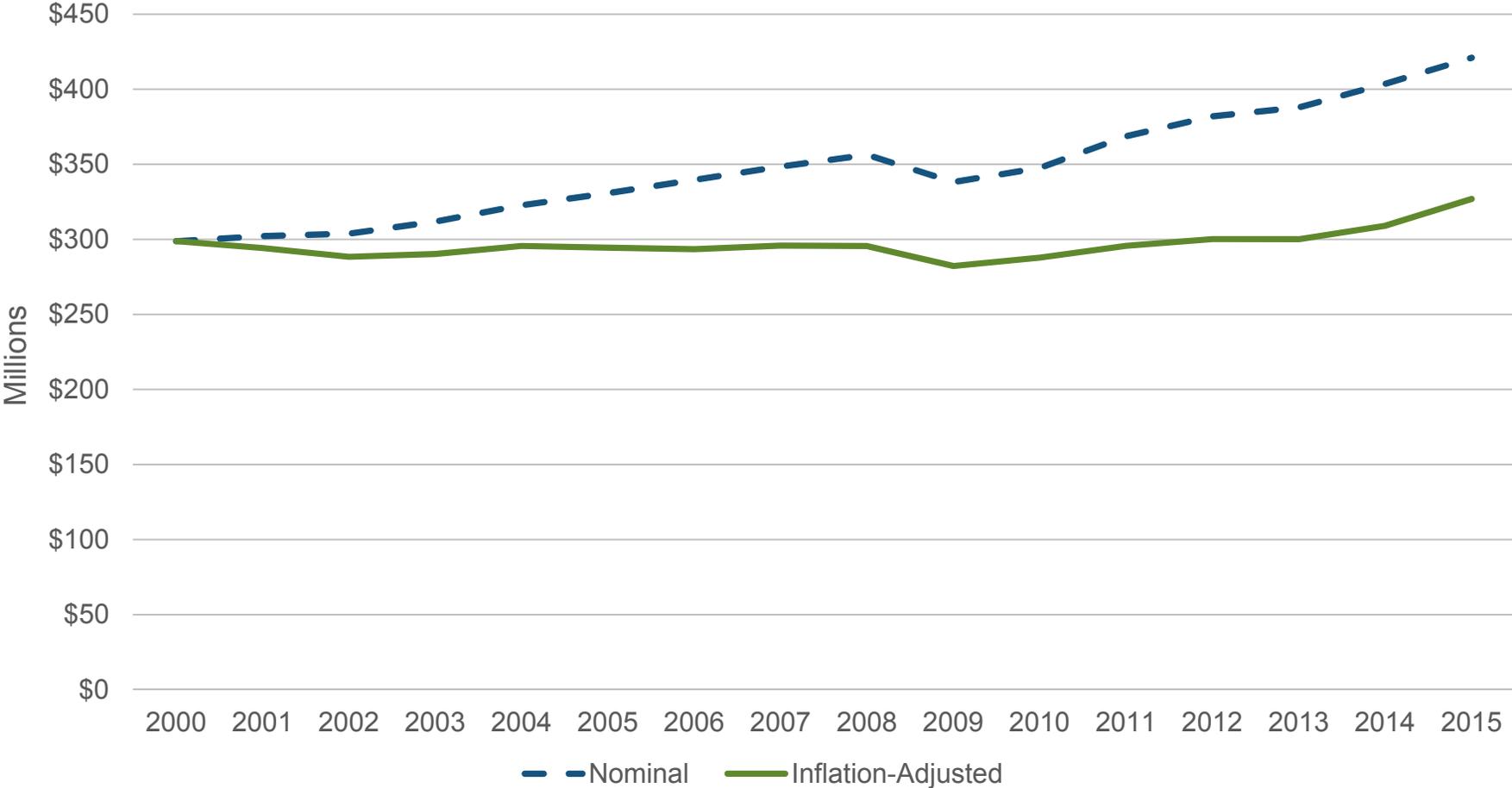
Michigan Employment Changes

Job growth is projected to continue, but at more moderate levels as the state's unemployment rate has now declined to about 5 percent.



Michigan Personal Income

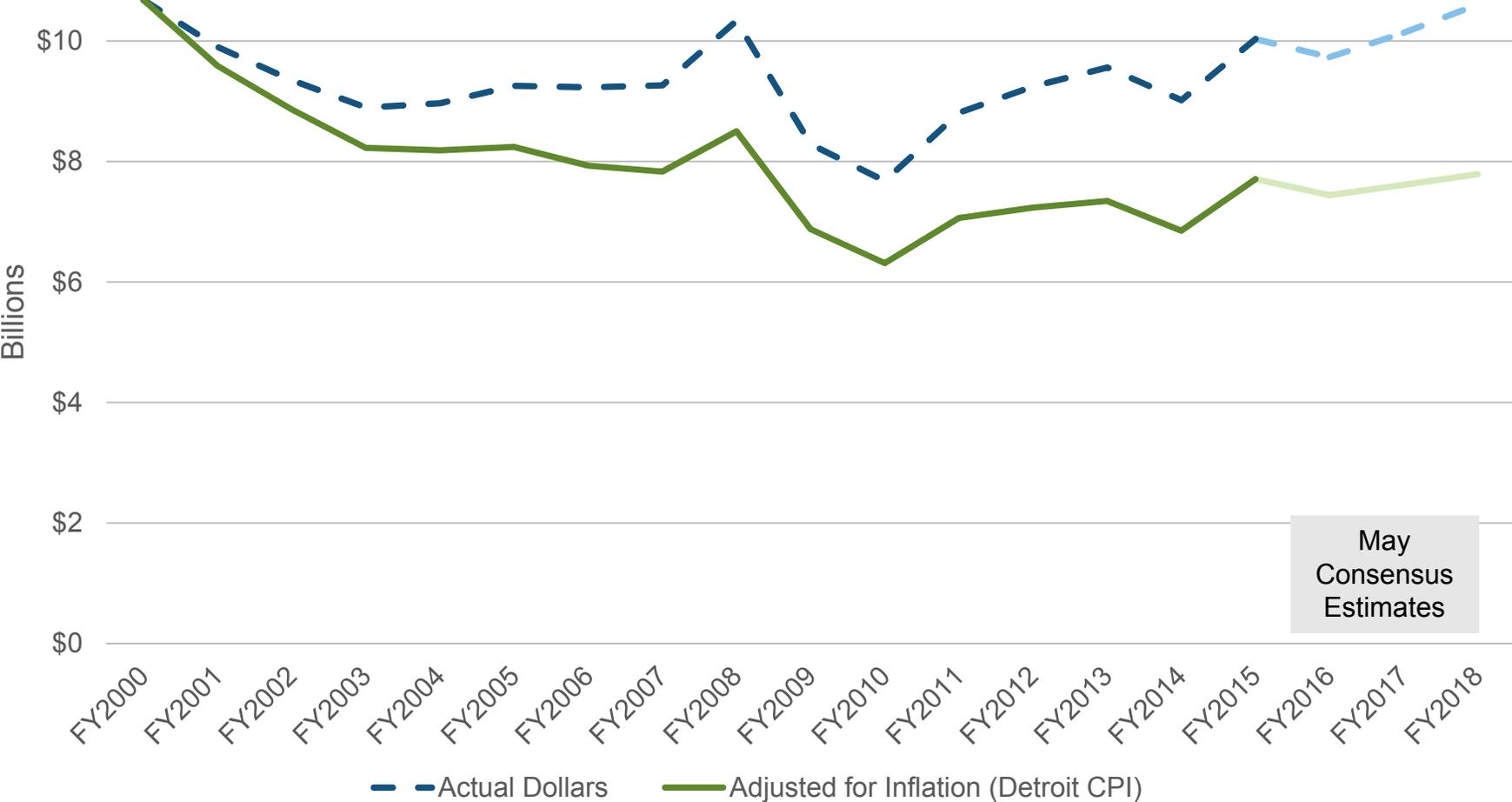
In nominal terms, total personal income in Michigan has risen roughly 41% since 2000. In inflation-adjusted terms, however, personal income has been flat, up until the last two years.



Revenue Trends

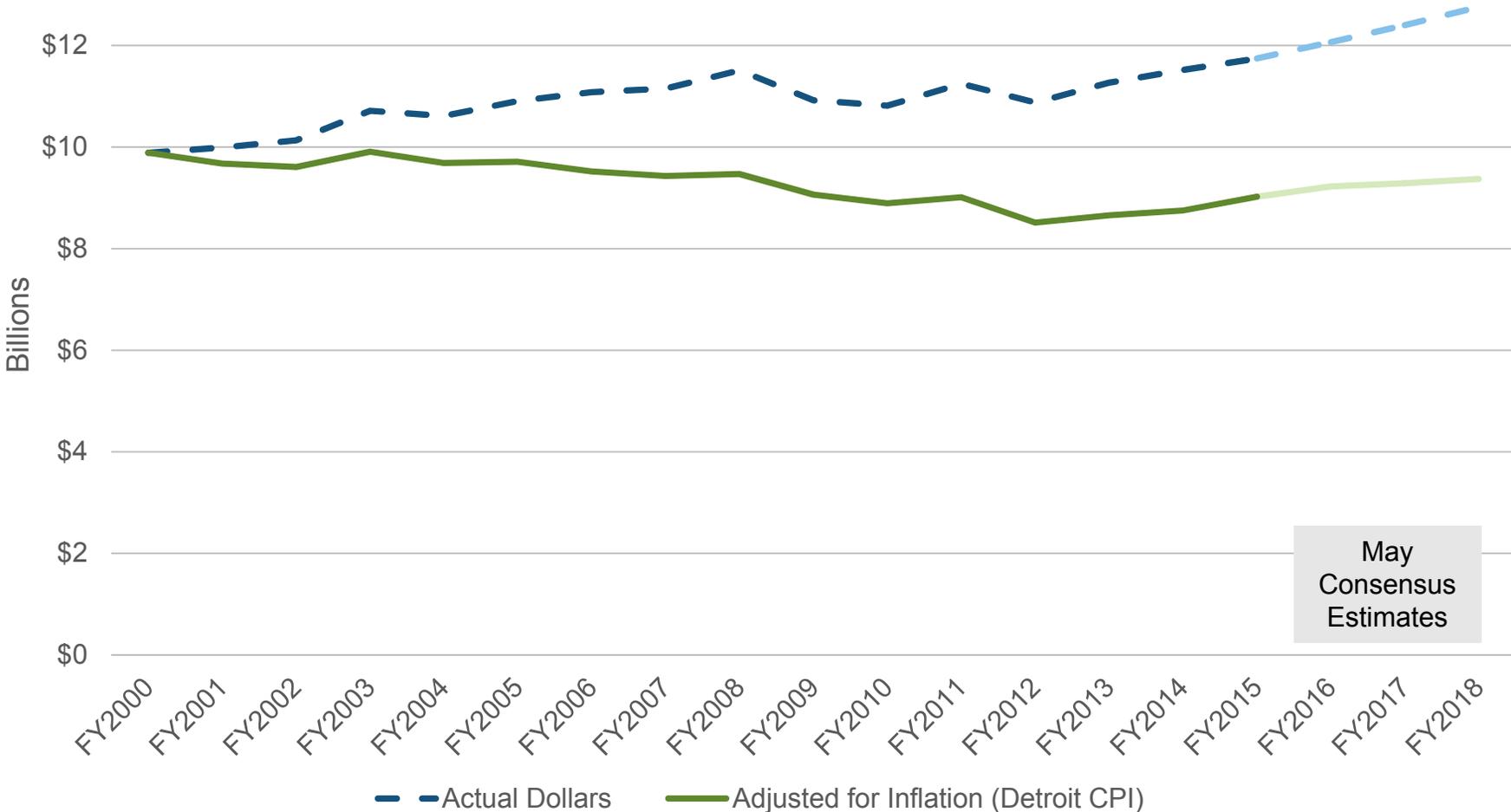
GF/GP Revenue

Nominal GF/GP revenue is expected to again exceed \$10 billion in FY 2016-17. In inflation-adjust terms, however, revenue will be 29% below the FY 1999-2000 level.



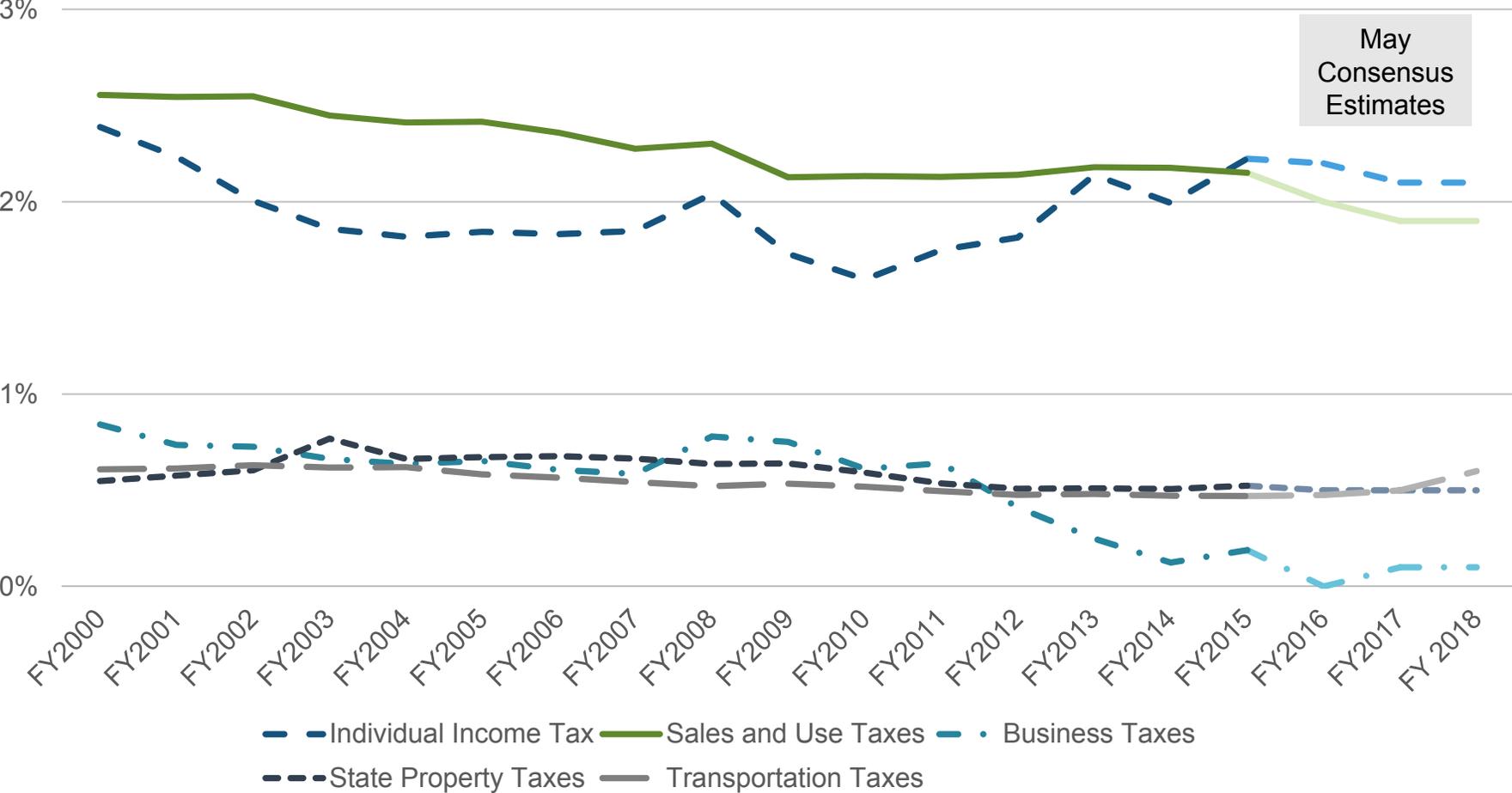
School Aid Fund Revenue

Nominal SAF revenue has grown steadily since FY 2011-12. In inflation-adjust terms, however, FY 2016-17 revenue will be 6% below the FY 1999-2000 level.



Major State Taxes as a Percentage of Michigan Personal Income

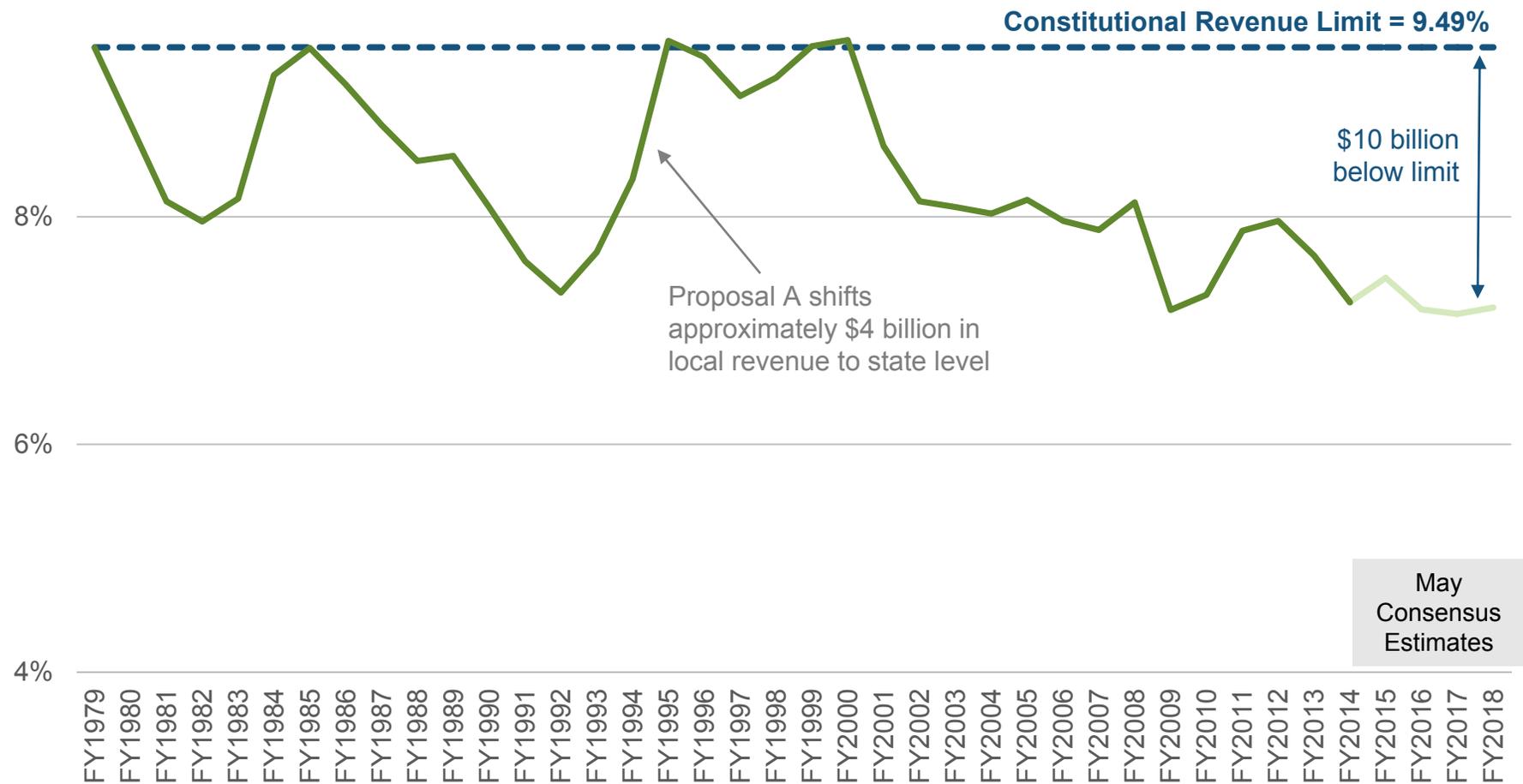
Recent growth in state revenue has been driven by the income tax. Other major state taxes have declined as a percentage of state personal income as a result of economic trends or tax policy decisions.



Note: Business taxes represent net total of corporate income tax collections and negative Michigan Business Tax collections due to ongoing credits

Total State Revenue as a Percentage of Michigan Personal Income

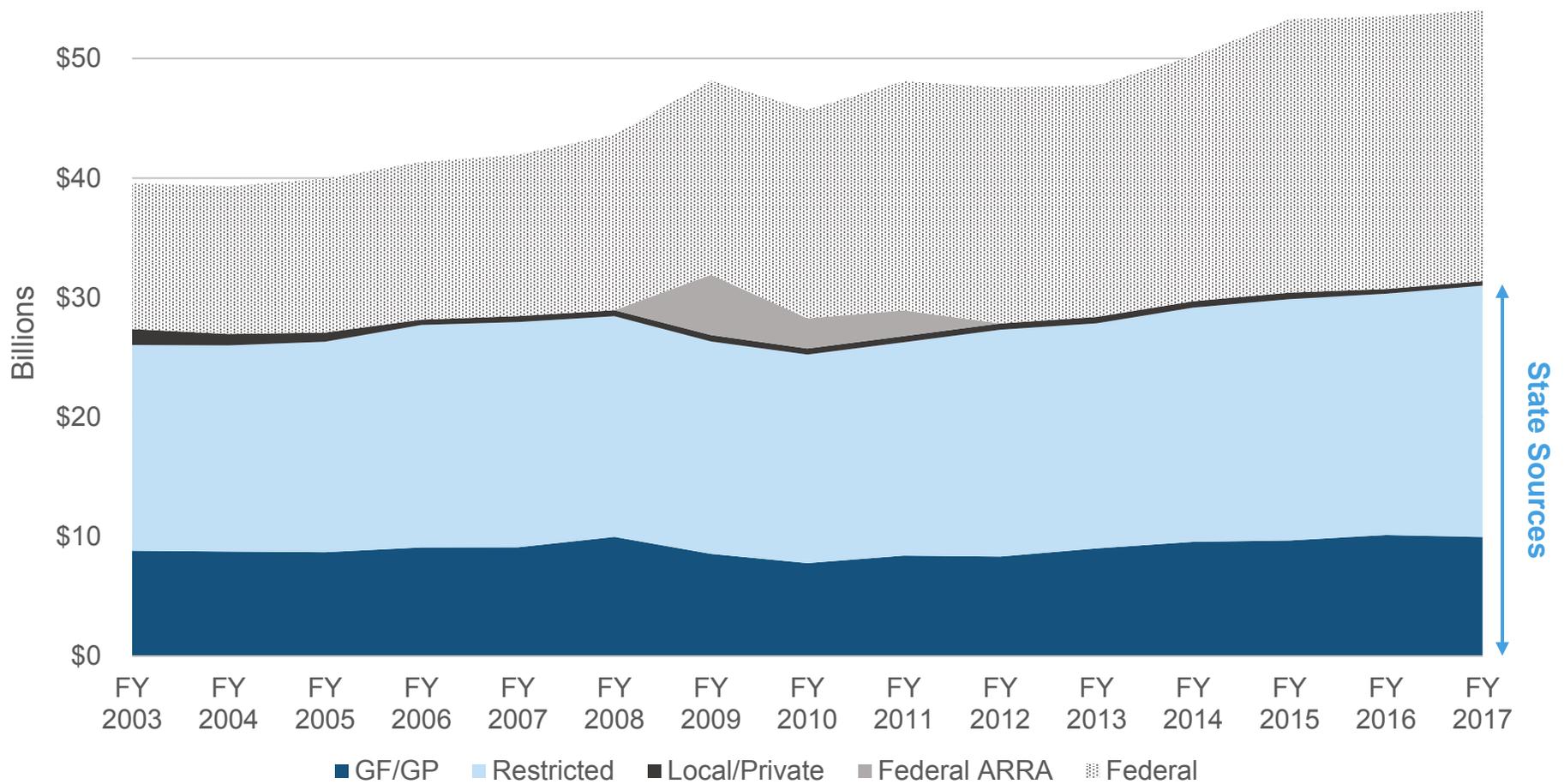
Michigan's constitution was amended in 1978 to set a limit on total state revenue (including all taxes and fees) equal to 9.49% of personal income. For FY 2016-17, the state is projected to be \$10 billion below that limit.



Budget Trends

State Budget History

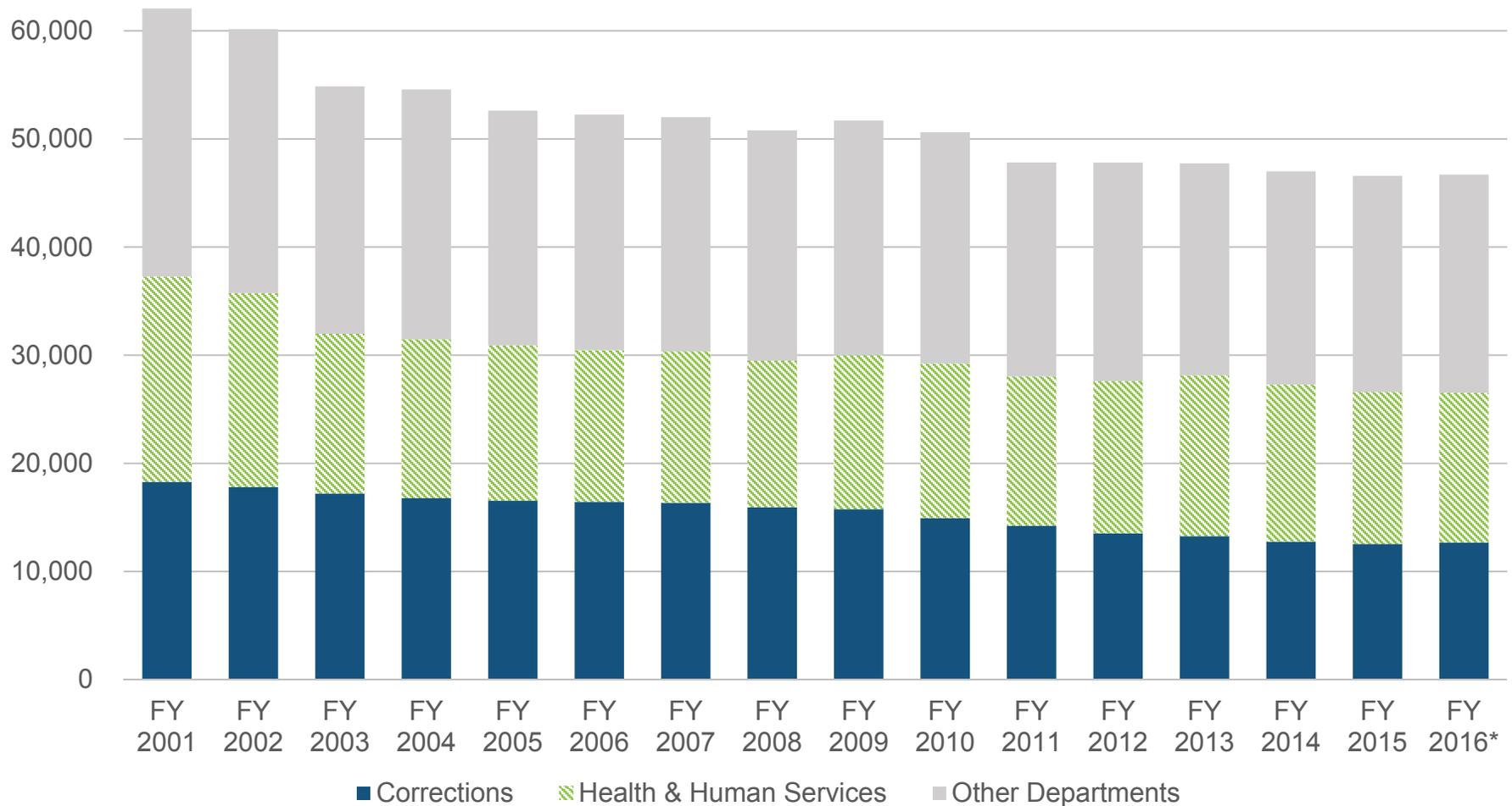
Total state budget growth of 37% since FY 2002-03 has been driven mainly by increases in available federal funds. State-source appropriations (GF/GP plus restricted) have grown just 19%.



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 (25%) since FY 2000-01.



*Through June

State Employee Compensation-Related Costs

Estimated FY 2016-17 Total: \$6.0 billion Gross (\$3.0 billion GF/GP)

- **Salary and Wages: \$3.3 billion**

- Average salary for a full-time state employee has increased from \$48,421 in FY 2003-04 to \$57,171 in FY 2013-14, which equates to growth of 1.7% per year.

- **Health Insurance: \$700 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.

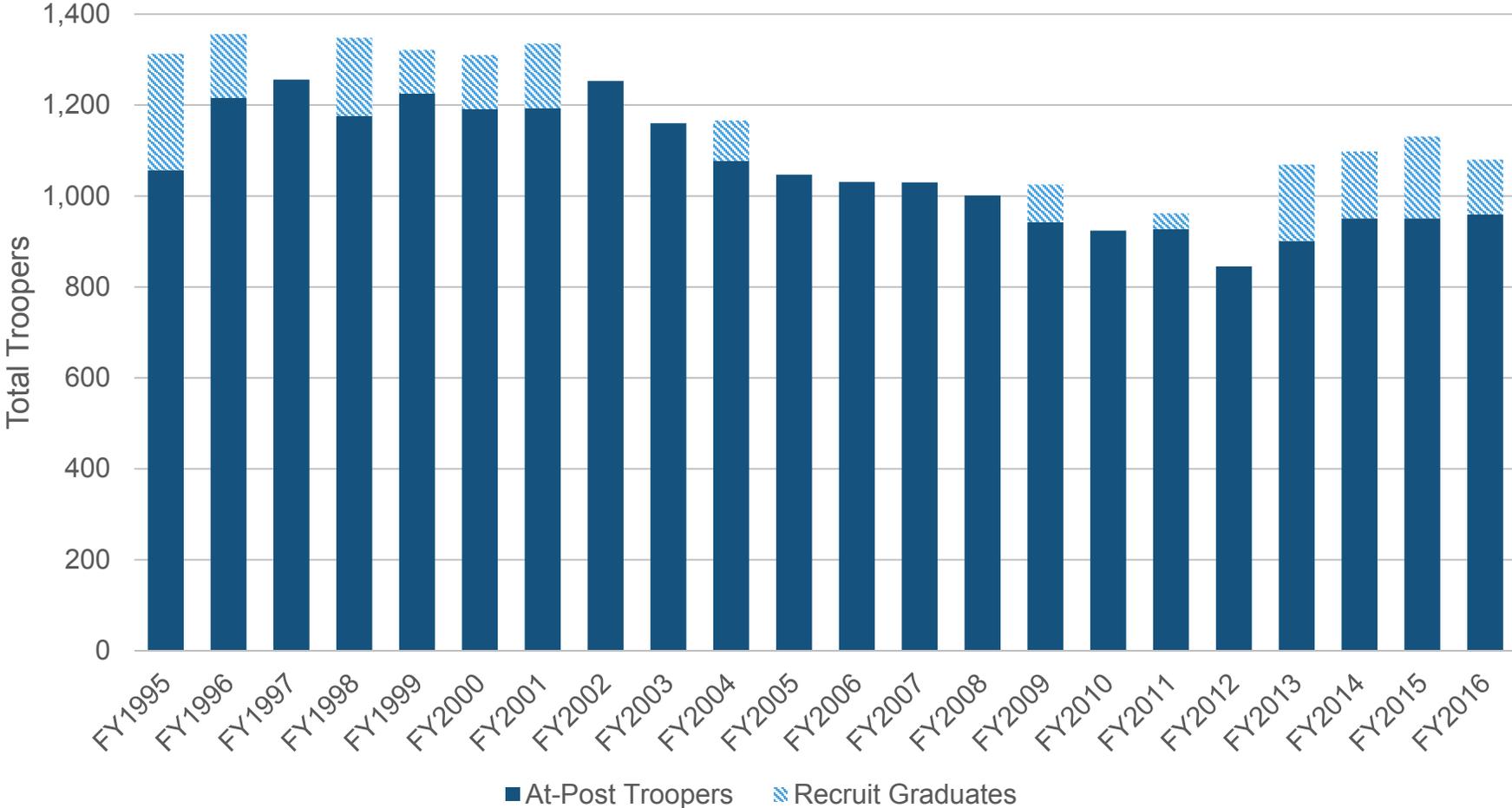
Corrections Population and Expenditures

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.



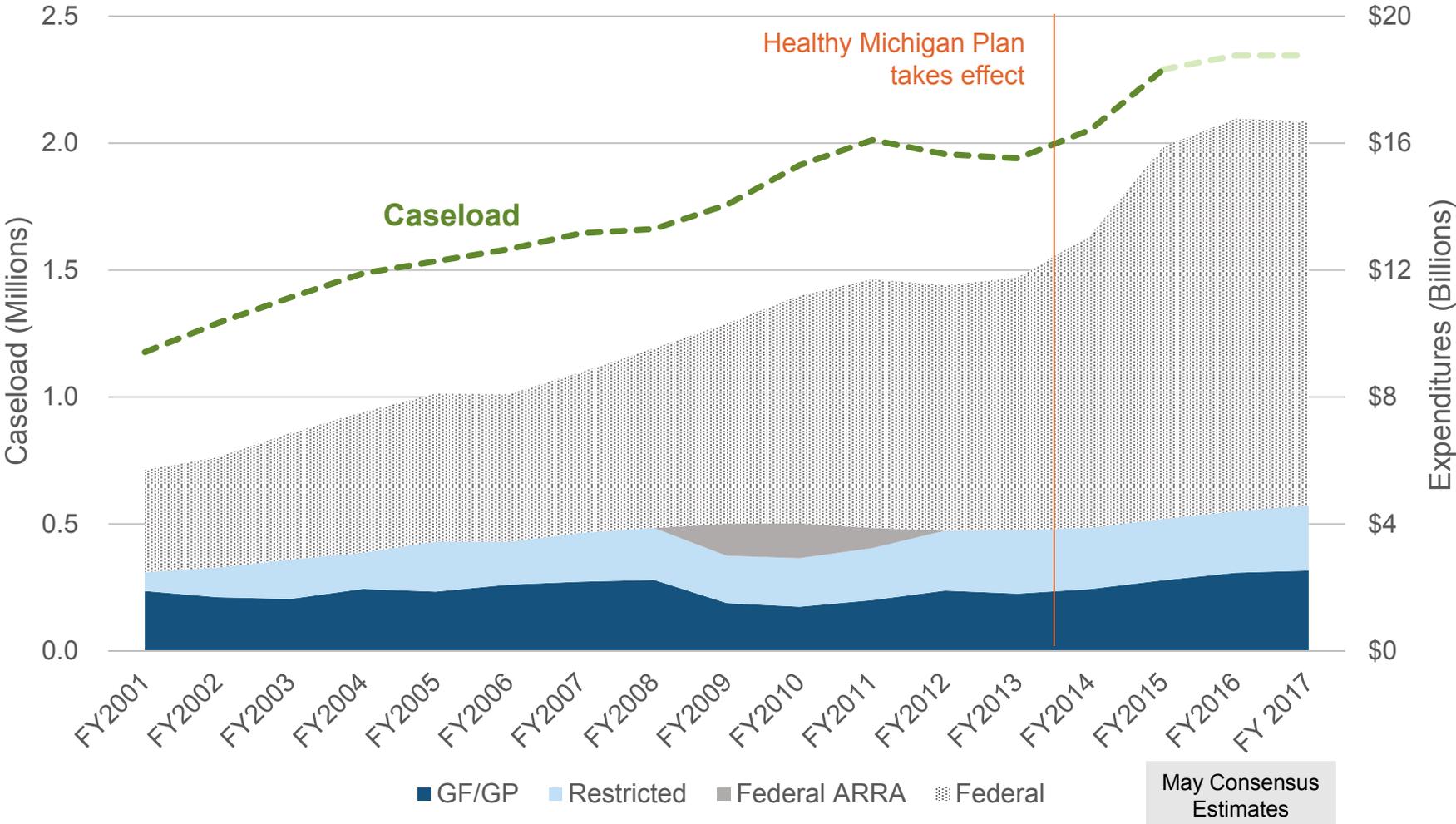
State Police At-Post Trooper Strength

Funding has been invested in graduating about 600 new troopers over the last four years. Total Trooper strength, however, remains 14% between the FY 1994-95 level. Another Trooper Recruit School begins in July.



Medicaid Caseload and Expenditures

The state's total Medicaid caseload has doubled since FY 2000-01 due to economic trends and the expansion under the Healthy Michigan Plan. Through FY 2015-16, however, GF/GP spending for Medicaid has been effectively held flat.

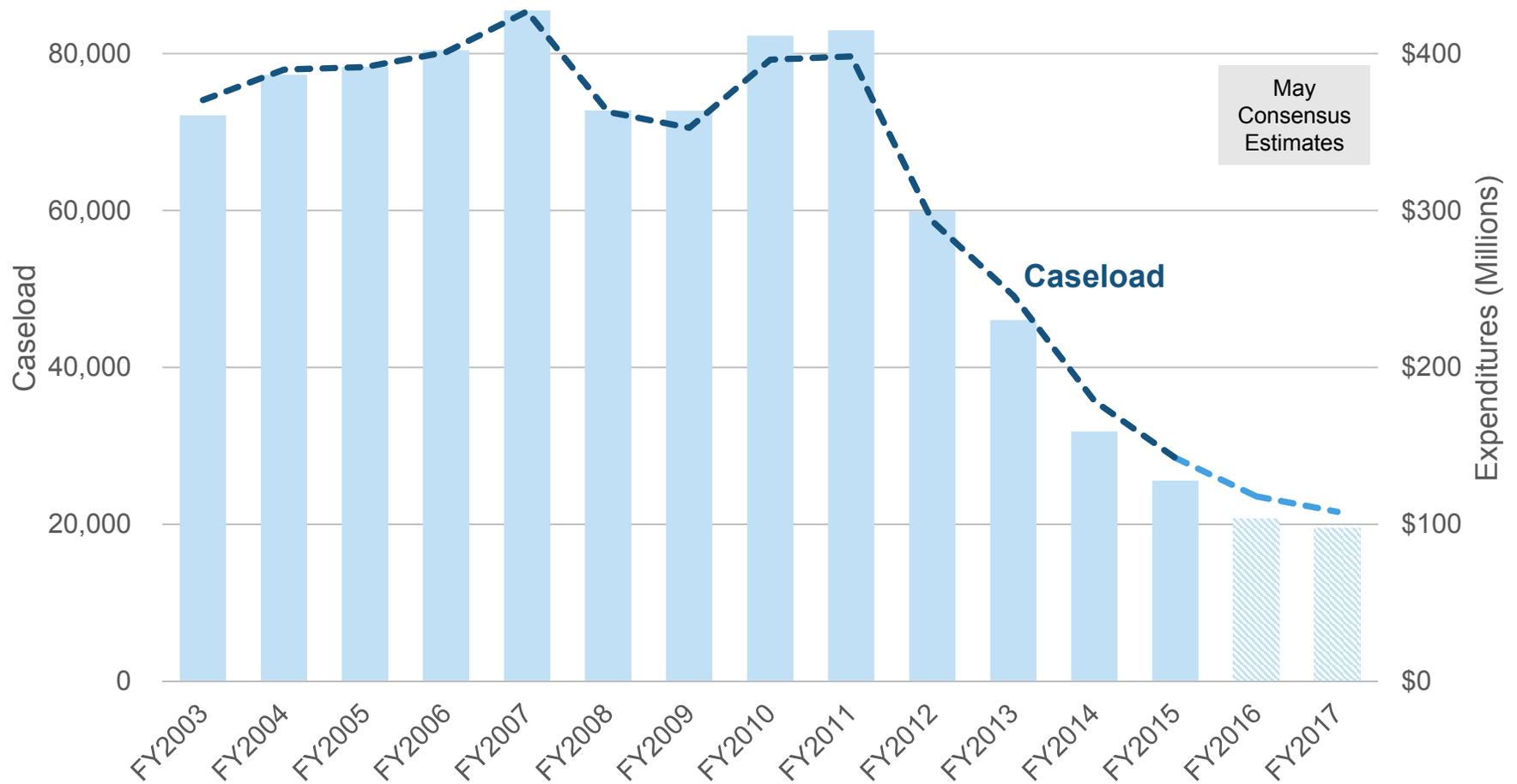


ARRA: Federal American Recovery and Reinvestment Act of 2009

May Consensus Estimates

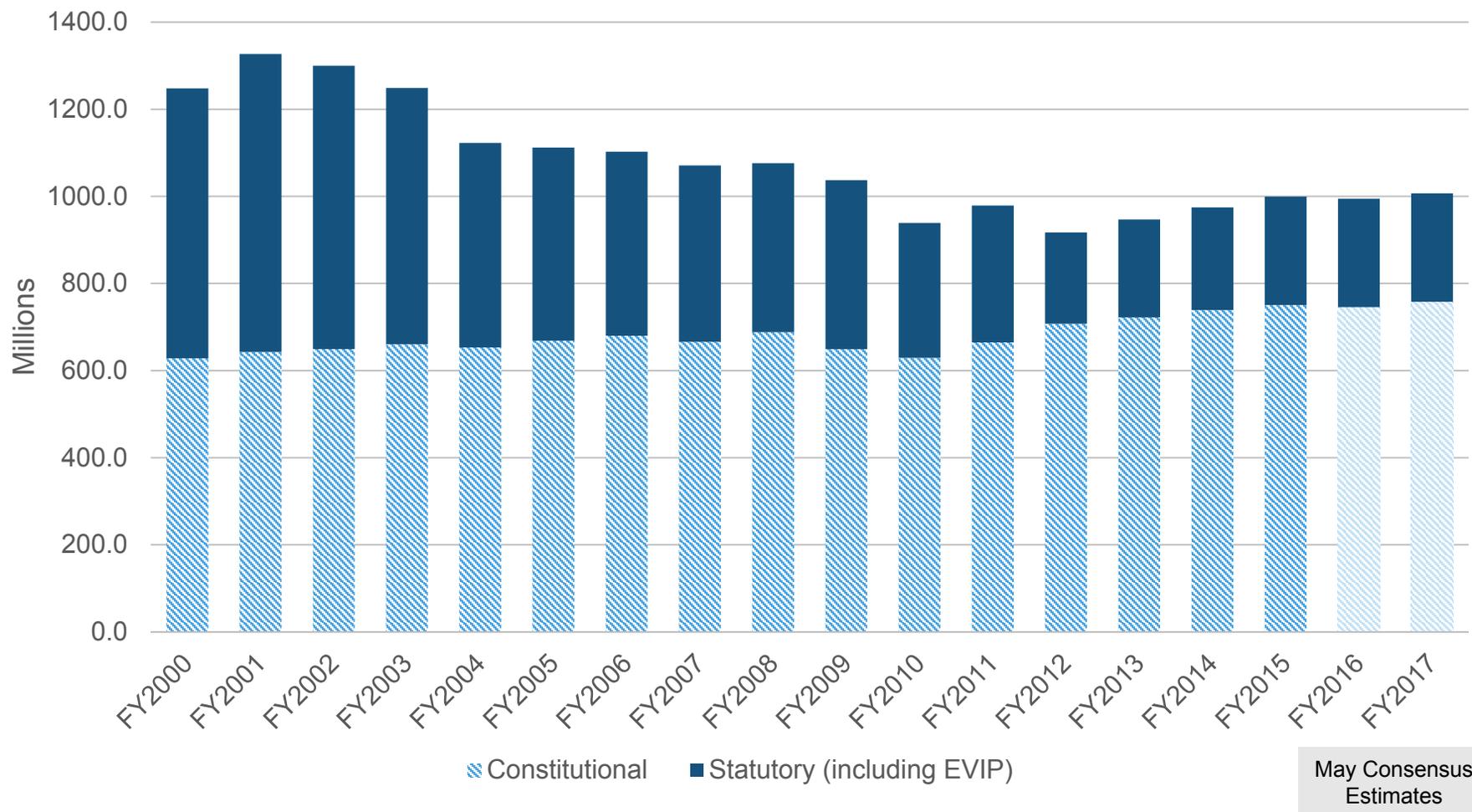
Family Independence Program (FIP) Caseload and Expenditures

Expenditures for FIP, Michigan's cash assistance program funded from a combination of state funds and federal TANF block grant funds, have declined markedly due to both economic conditions and policy changes, including imposition of lifetime time limits.



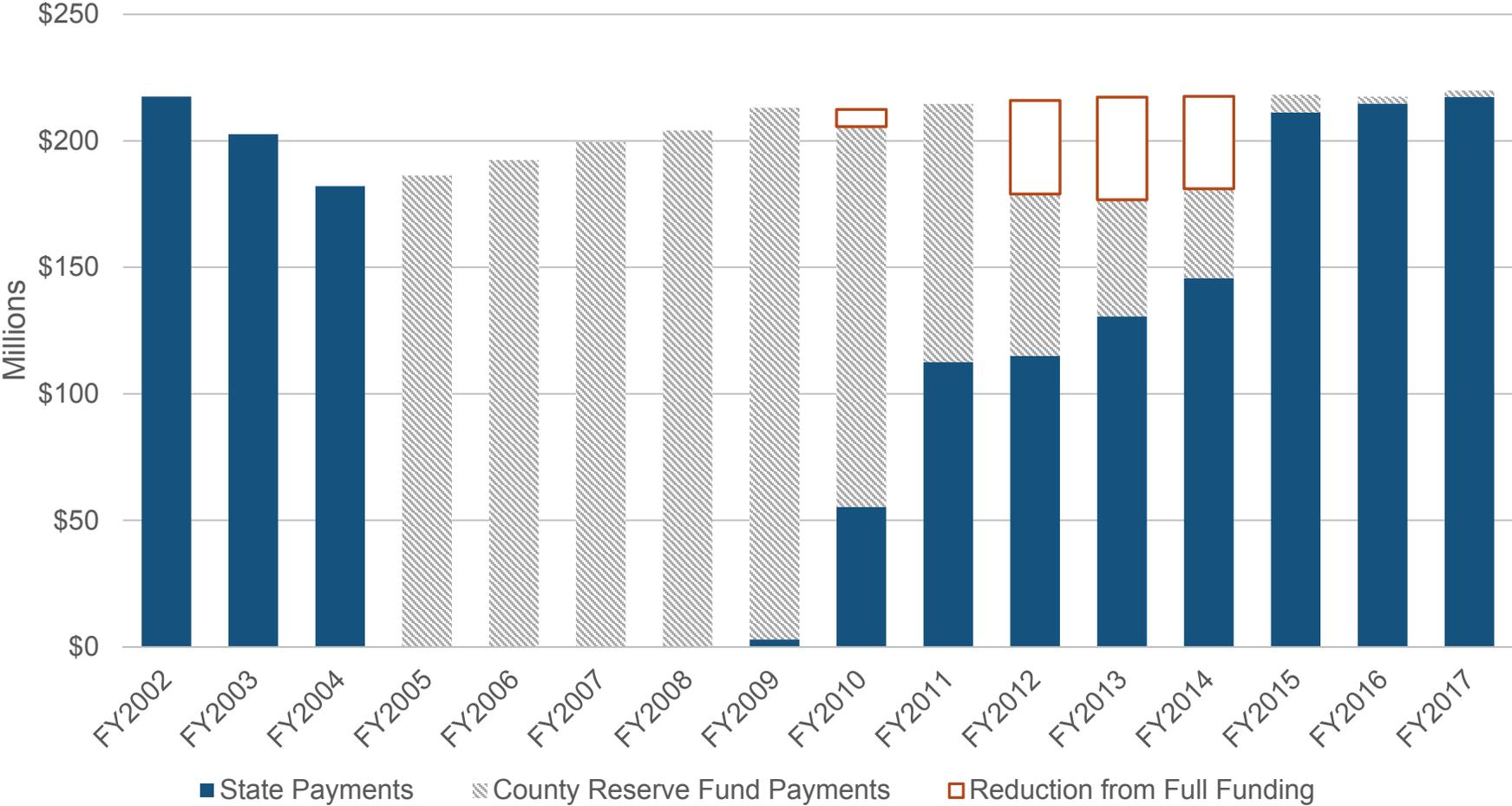
Revenue Sharing to Cities, Villages, and Townships (CVTs)

Per-capita constitutional payments to CVTs have grown consistent with sale tax revenue growth. Discretionary (statutory) payments remain \$435 million below the FY 2000-01 peak; reductions have helped balance the GF/GP budget.



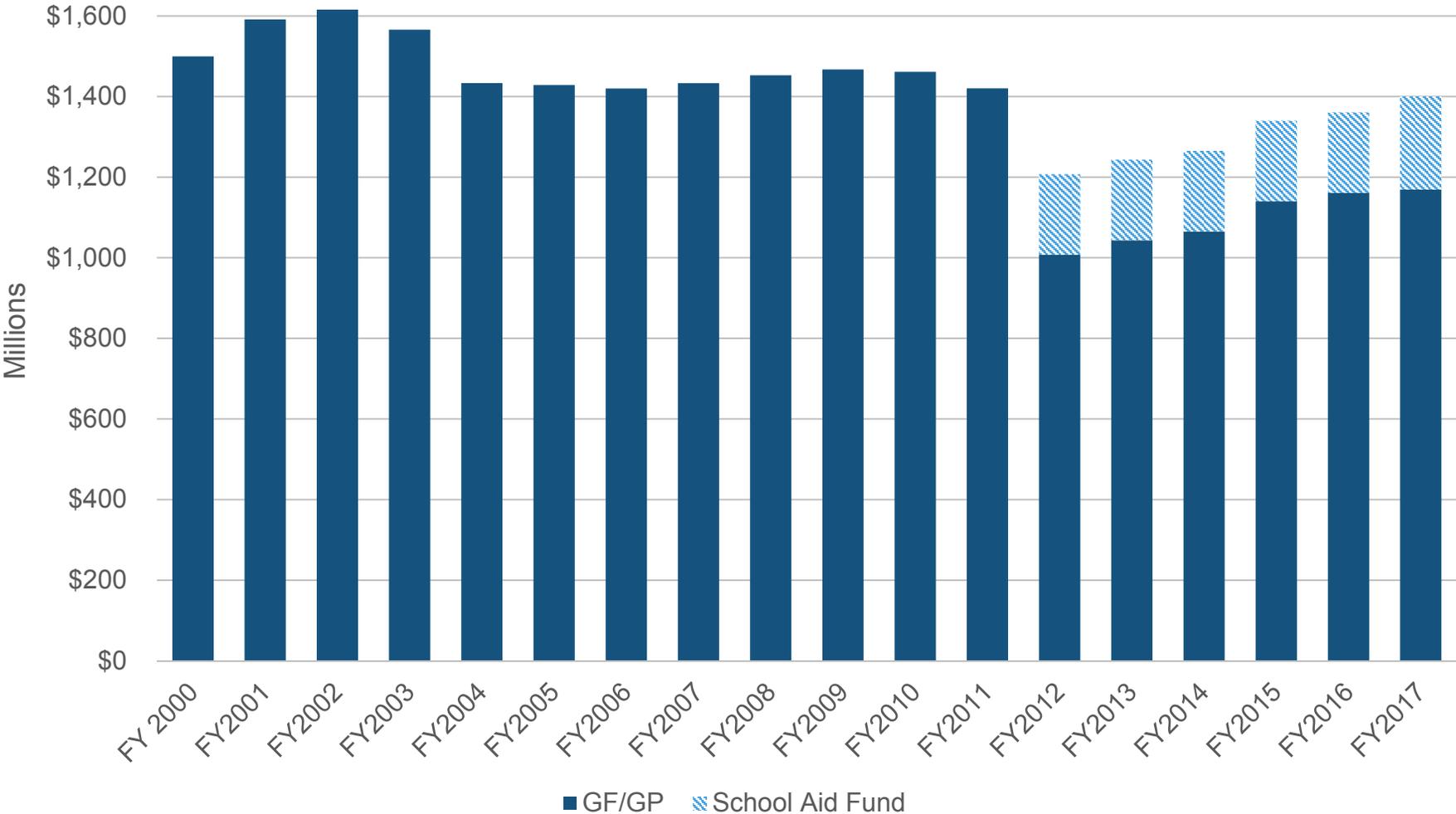
County Revenue Sharing

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. Total funding is at approximately the FY 2001-02 level.



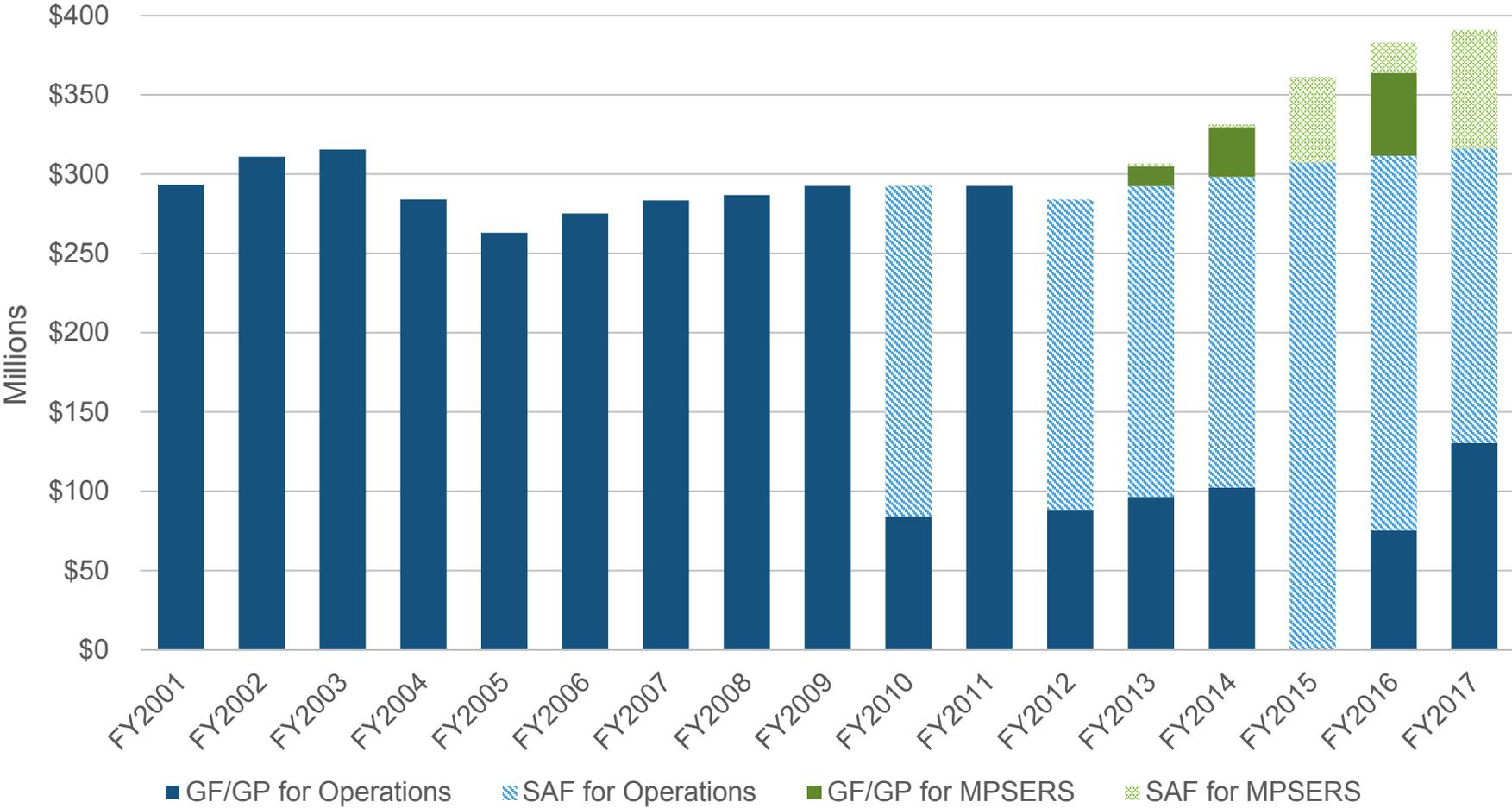
Public University Appropriations

State support for public universities has increased by \$193 million (16%) since FY 2011-12, but remains \$215 million (13%) below the FY 2001-02 peak.



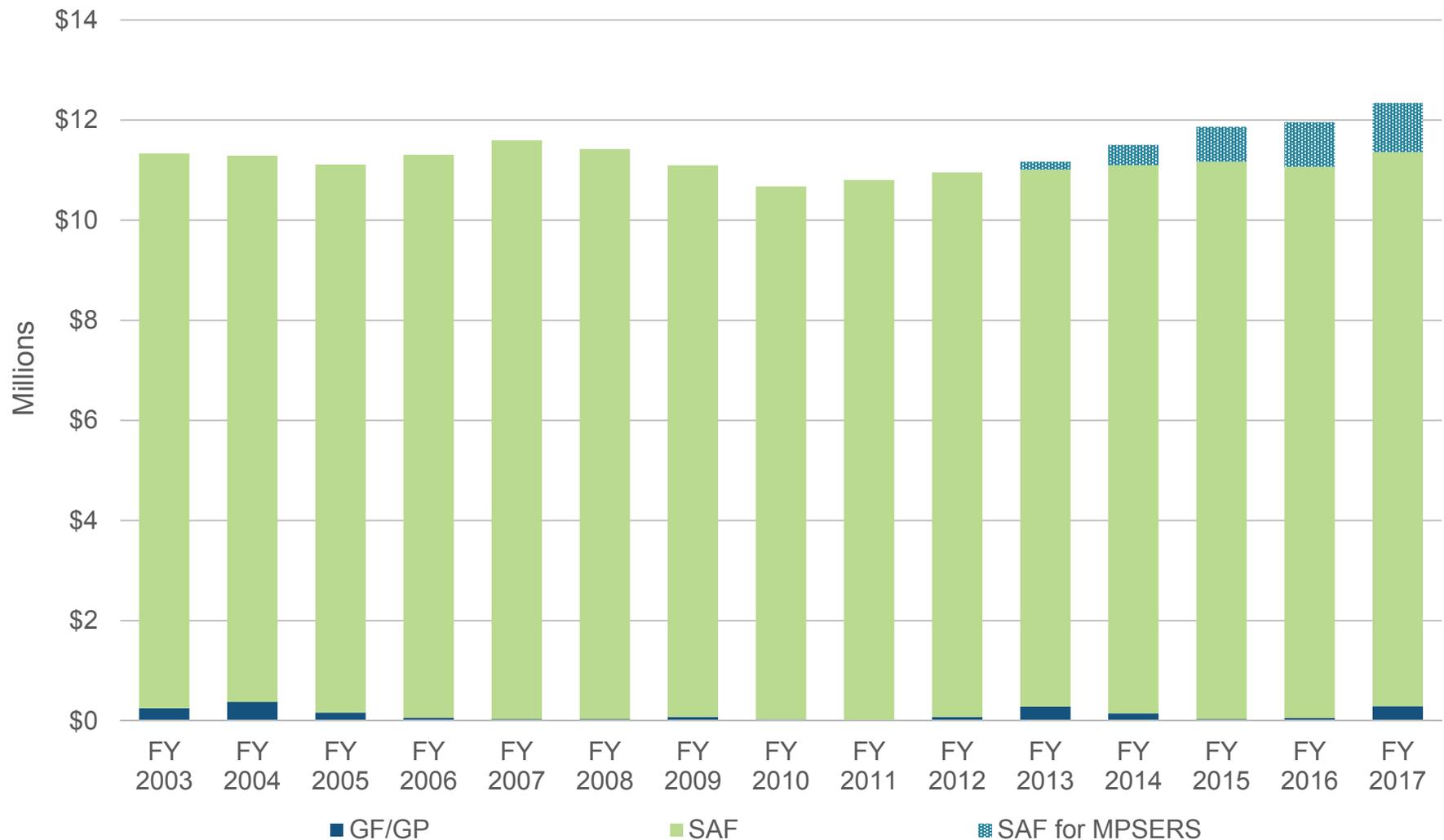
Community College Appropriations

FY 2016-17 state appropriations for community college operations are approximately flat from the FY 2002-03 level. Increased funds have been allocated in recent years to offset growing retirement costs.



School Aid State Funding History

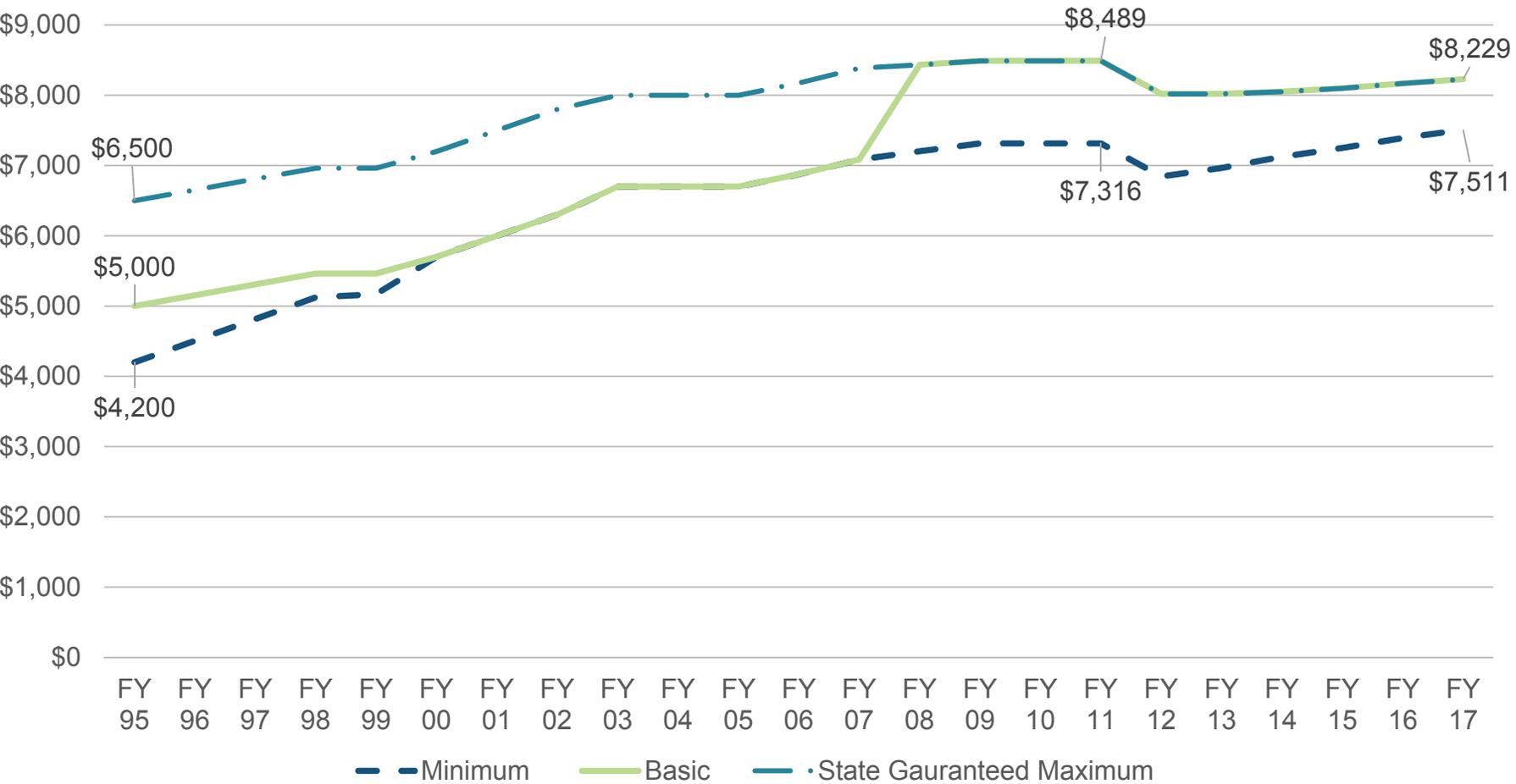
Funding from state funds for the FY 2016-17 budget is 6% higher than its previous peak in FY 2006-07 due to funding for increasing retirement liability costs. Total funding for foundation allowances and other operational costs is still below previous peaks.



Foundation Allowance History

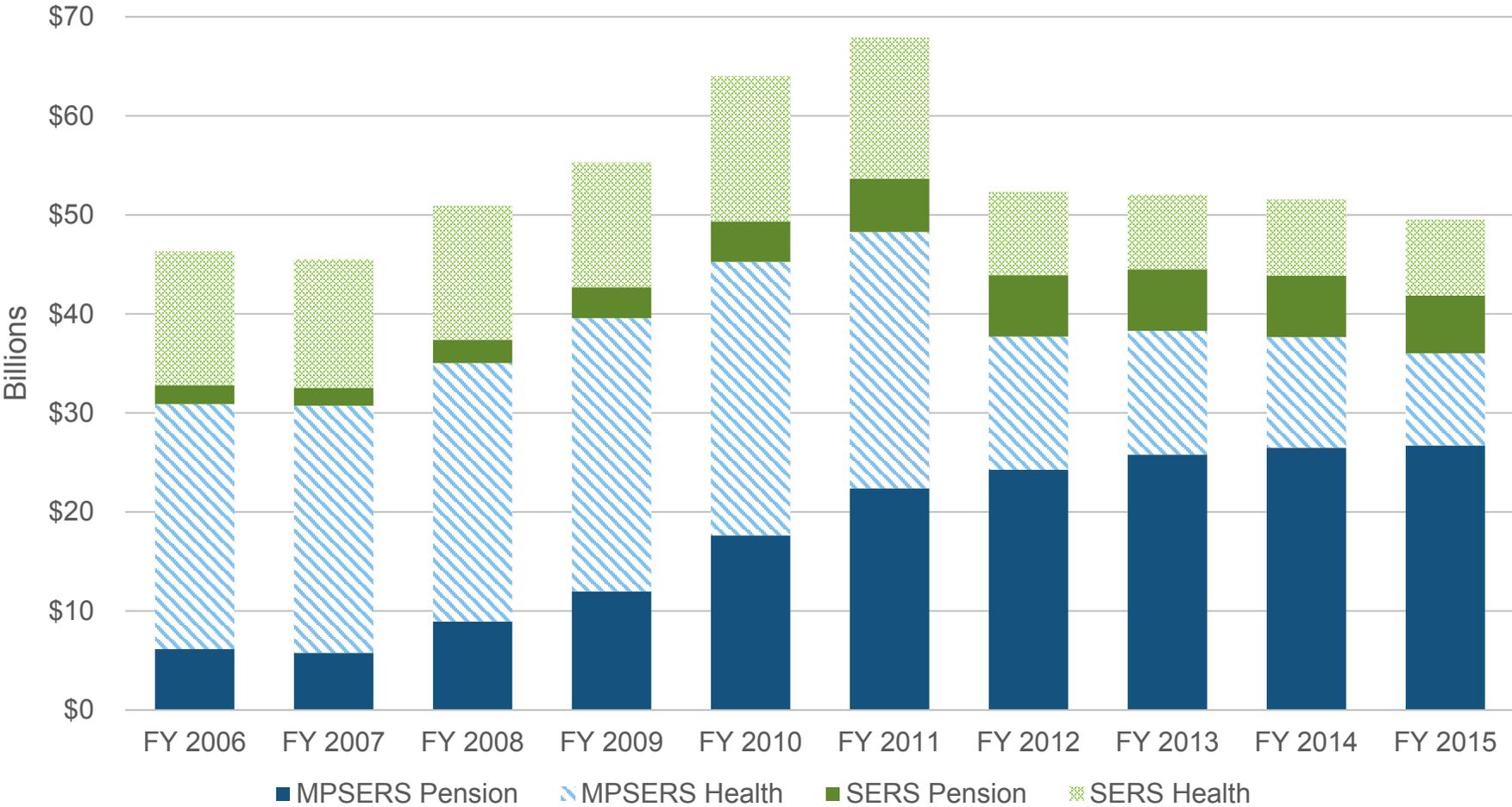
Growth Since Proposal A

The FY 2016-17 foundation allowance for schools at the Minimum level is \$195 above the previous FY 2010-11 peak. For schools at the State Maximum level, it remains \$260 below the FY 2010-11 peak. The “equity gap” between the two is down to \$718 per pupil.



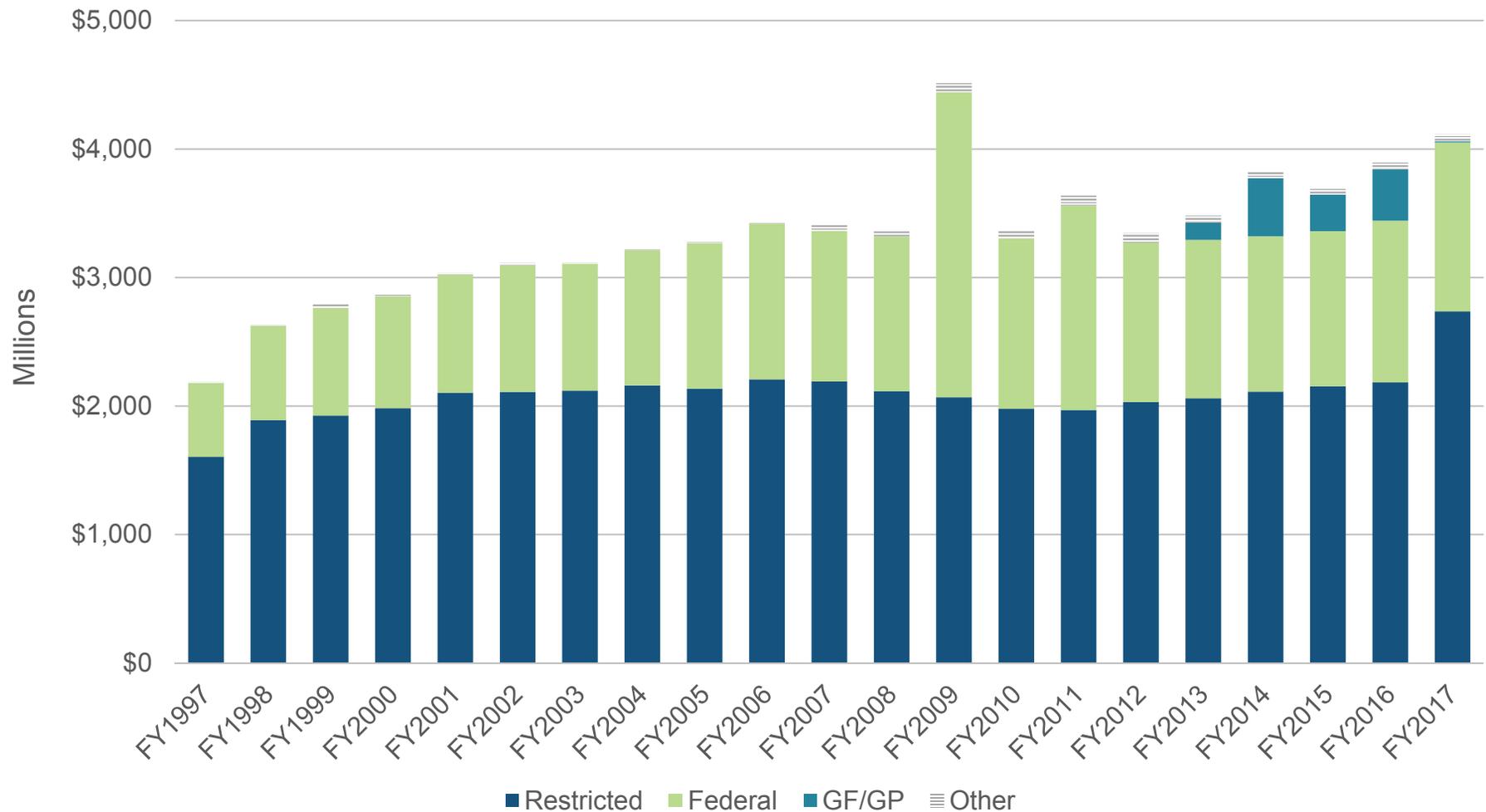
Retirement Liabilities

Total unfunded liabilities for the school employee (MPERS) and state employee (SERS) retirement systems have declined by \$19 billion since FY 2010-11, due primarily to the decision to begin prefunding retiree health benefits.



Transportation Appropriations

Excluding temporary federal stimulus funds, total funding for transportation purposes was relatively flat from FY 1996-97 through FY 2015-16. The increase in FY 2016-17 reflects additional revenue provided through the Road Funding Plan passed November 2015, and effective January 1, 2017.



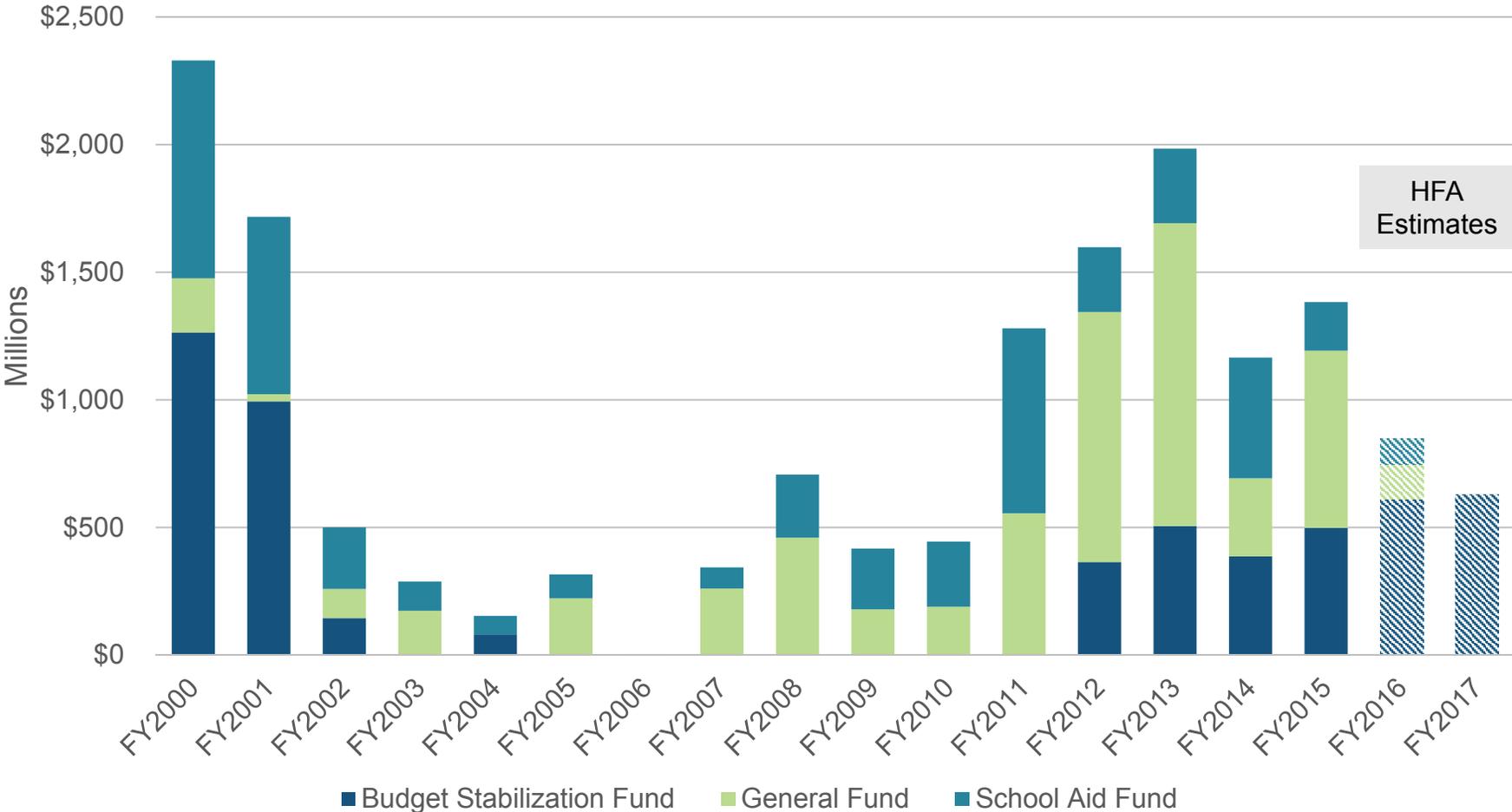
Budget Stabilization Fund Balance

The rainy day fund balance has been restored to about half of the previous peak level. No deposit beyond the \$17.5 million to repay the FY 2013-14 withdrawal for the City of Detroit will be made in FY 2016-17 due to other budget pressures.



Combined Ending Balances

Large year-end balances accumulated from FY 2010-11 through FY 2014-15 as revenue growth outpaced projections, allowing for substantial one-time expenditures.



Major FY 2016-17 Budget Changes

Flint Water Emergency Funding

Totals for FY 2015-16 and FY 2016-17, \$ in Millions

Category	Gross	GF/GP
Physical, Social, & Educational Well Being	\$70.6	\$47.4
Safe Drinking Water	65.4	63.2
Water Bill Relief	42.8	42.8
Food and Nutrition	17.4	9.4
Emergency Response Operations	6.2	2.4
Other	5.3	1.4
Reserves (available for transfer in FY 2016-17)	33.0	18.9
TOTAL	\$240.6	\$185.4

Notes

- 1) Table includes \$4.5 million GF/GP for Medicaid waiver costs in FY 2015-16, but excludes FY 2016-17 GF/GP costs and all federal match funds.
- 2) Table excludes federal match funds expended by FEMA, as well as \$10 million deposited into the state Disaster and Emergency Contingency Fund which could be expended in Flint.
- 3) FY 2016-17 appropriations were based on half-year costs only, with reserve funds available for second half of year.

Major FY 2016-17 GF/GP Program Reductions and Fund Shifts

- Removes **\$400.0 million** in GF/GP support in the Transportation budget (\$8.5 million GF/GP included for specific special projects), replaced by new restricted fund revenue under the Transportation package enacted in 2015
- **\$27.0 million** net savings in the Corrections budget for the closure of the Pugsley Correctional Facility
- **\$10.2 million** savings in DHHS budget for a Medicaid Health Plan capitated rate reduction
- Use of **\$105.0 million** in ongoing state retainer revenue under the Qualified Assurance Assessment Program for hospitals, increased from a one-time amount of \$92.9 million in FY 2015-16, to offset GF/GP funds for Medicaid
- Redirection of **\$19.8 million** in Transportation Economic Development Fund (TEDF) revenue for transportation projects
- Transfer of **\$10.0 million** in Unemployment Insurance Contingent Fund penalty and interest revenue to GF/GP

Major FY 2016-17 GF/GP Program Increases

- **\$39.8 million** (\$31.2 million SAF and \$8.6 million GF/GP) for a 2.9% increase in public university operations
- **\$31.3 million** (\$118.0 million gross) for 14 statewide IT projects representing seven departments, includes a mix of ongoing and one-time costs
- **\$8.9 million** to expand the Healthy Kids Dental program to all children in the final three counties
- **\$8.5 million** for a corrections officer academy (one-time)
- **\$7.6 million** to open an additional wing at the Center for Forensic Psychiatry
- **\$7.0 million** (including \$3.2 million in one-time costs) for a State Police trooper school

FY 2016-17 Revenue Sharing Changes

- Estimated increase of **\$12.1 million** (1.6%) from the adjusted FY 2015-16 level in constitutional revenue sharing payments to cities, villages, and townships based on sales tax collections
- Continued one-time **\$5.8 million** discretionary revenue sharing payments to cities, villages, and townships for the expanded pool of 101 local units
- **\$467,000** increase for revenue sharing payments to counties to provide full funding to two additional counties who will have exhausted their reserves funds in FY 2016-17
- **\$2.1 million** for county revenue sharing to provide a 1% increase to all counties eligible to receive a state payment

Major FY 2016-17 School Aid Budget Changes

- **\$150.0 million** for increases to district foundation allowances ranging from \$60 to \$120 per pupil based on the 2x formula (percent increases range from 0.7% to 1.6%)
- **\$89.3 million** increase for state-level MPERS unfunded accrued liability costs
- **\$72.0 million** in tobacco settlement funds for foundation allowance costs, to replace funds from the 18-mill levy diverted to pay off debt for Detroit Public Schools

Budget Outlook

May Consensus Revenue Estimates

Millions of \$

	FY 2014-15 Actual	FY 2015-16 Estimate	FY 2016-17 Estimate	FY 2017-18 Estimate	FY 2018-19 Trend	FY 2019-20 Trend
GF/GP Revenue	\$10,034	\$9,734	\$10,139	\$10,607	\$10,598	\$10,755
\$ Change	\$1,016	(\$300)	\$404	\$469	(\$9)	\$157
% Change	11.3%	(3.0%)	4.2%	4.6%	(0.1%)	1.5%
SAF Revenue	\$11,747	\$12,067	\$12,402	\$12,761	\$13,122	\$13,503
\$ Change	\$227	\$320	\$335	\$358	\$361	\$381
% Change	2.0%	2.7%	2.8%	2.9%	2.8%	2.9%

GF/GP Revenue

- Decline for FY 2015-16 due to Michigan Business Tax credit timing (shift from FY 2014-15), large annual/quarterly income tax payments in FY 2014-15, drop in corporate profits, and diversion of Use Tax revenue for Personal Property Tax reimbursement.
- Strong growth projected for FY 2016-17 and FY 2017-18, followed by diversion of projected growth for transportation package beginning in FY 2018-19.

SAF Revenue

- Lower growth in FY 2014-15 due to decline in gas prices.
- Moderate growth projected for FY 2015-16 and beyond based on sales tax growth.

Transportation Package

- Transportation package enacted in 2015 will:
 - Increase 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).
 - Increase vehicle registration taxes by 20% beginning January 1, 2017 (raises roughly \$200 million per year).
 - Increase Homestead Property Tax Credit by altering various parameters: creates estimated GF/GP loss of about **\$200 million** per year beginning in FY 2018-19.
 - Divert income tax revenue currently allocated as GF/GP funds to transportation purposes beginning in FY 2018-19.
 - FY 2018-19: **\$150 million**
 - FY 2019-20: **\$325 million**
 - 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

- Replacement of revenue from Use Tax on Medicaid Managed Care Organizations will require net GF/GP funds of about **\$140 million** over FYs 2016-17 and 2017-18.
- Michigan's federal match rate has begun to decline due to relative growth in personal income. Projected FY 2017-18 GF/GP funding increase of **\$50 million**.
- Specialty drug costs: About \$300 million Gross (**\$110 million** GF/GP) has been added to the budget for new Hepatitis C and Cystic Fibrosis treatments. Other specialty drugs expected to be approved by FDA in near future.

Healthy Michigan Plan

- FY 2016-17 is first year of state match costs for expanded Medicaid program; 5% match beginning January 1, 2017 equates to GF/GP costs of about **\$110 million**, although savings from the state's assessment on hospitals is offsetting most of these costs.
- State match rate will increase to 10% over the next three years, requiring additional GF/GP funds of roughly **\$200 million**.
- Discontinuing expanded program and shifting mental health, prison health care, and other costs back to state would cost **\$250 to \$300 million** per year. Current statute requires discontinuation of program when state costs exceed savings.

Other State Budget Pressures

School Aid

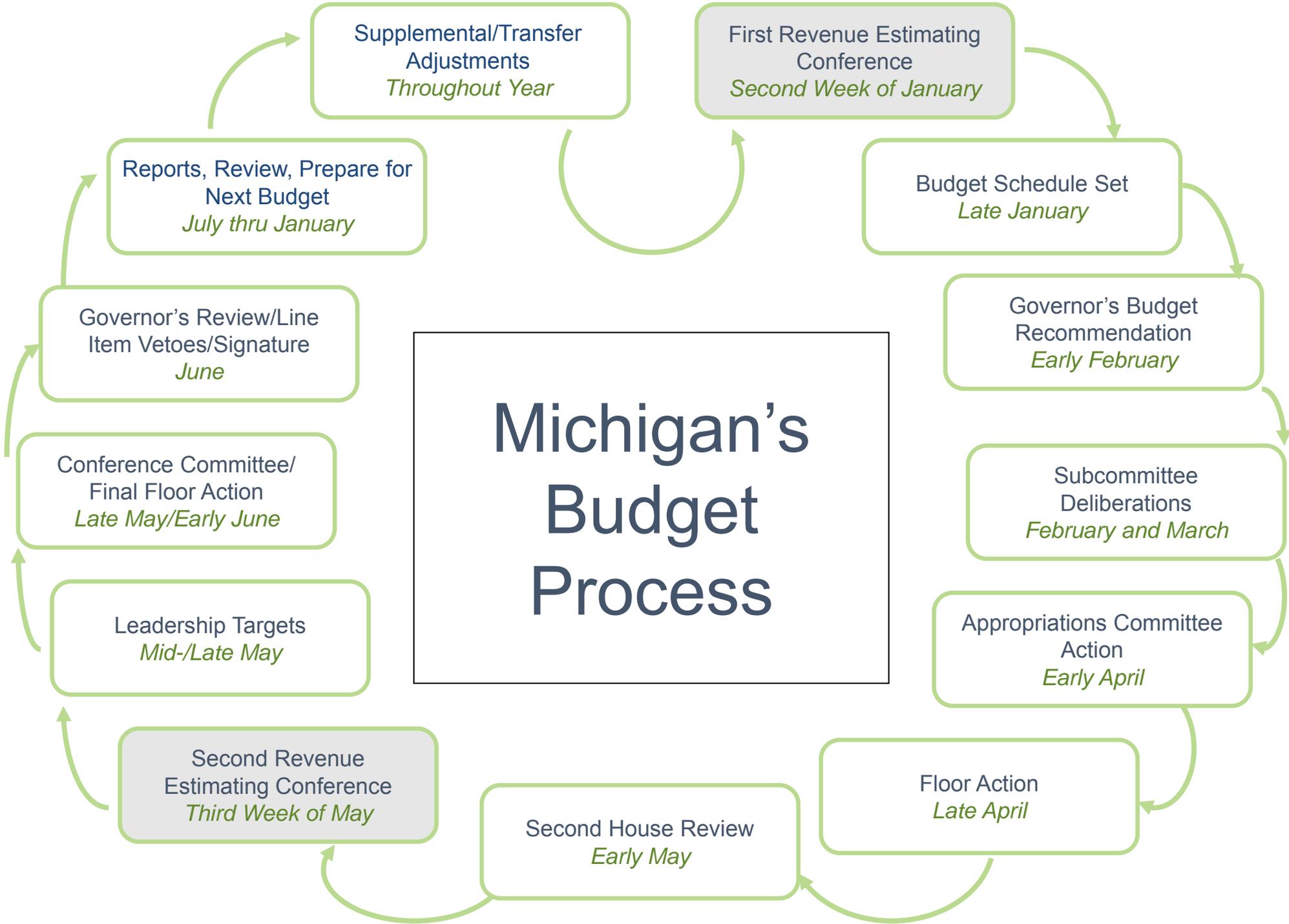
- Loss of revenue from Use Tax on Medicaid Managed Care Organizations will reduce SAF funds by about **\$200 million** over FYs 2016-17 and 2017-18 (\$50 million for FY 2017-18).
- FY 2016-17 budget relies on **\$104 million** in one-time SAF balance and **\$162 million** in GF/GP funds designated as one-time.

Budget Stabilization Fund

- Estimated FY 2016-17 balance of **\$630 million** equates to 2.8% of combined annual General Fund and School Aid Fund revenue. Statutory cap is 10%, or \$2.3 billion.
- Based on statutory formula and projected economic growth from May 2016 consensus revenue estimating conference, FY 2016-17 deposit would have been **\$156 million**. Original Executive Recommendation instead allocated funds for a new Michigan Infrastructure Fund, which was reduced to \$5 million due to negative revenue revisions in May.

Budget Process

Michigan's Budget Process



House Fiscal Agency Budget Roles

- **Analytical**
 - Prepare budget documents providing both summary-level and detailed information on proposed budget changes under Executive Budget and subsequent legislative versions
 - Assist in development of alternative budget proposals; facilitate legislative decision making
 - Gather objective information and analyze data related to specific budget issues of interest to legislators
 - Provide analyses of non-appropriations bills, including estimated fiscal impacts on state and local governments
- **Procedural**
 - Post meeting notices; clerk subcommittee meetings; prepare meeting agendas/minutes
- **Technical**
 - Prepare substitute appropriation bills based on legislative decision making
 - Prepare amendments proposed during subcommittee, committee, and floor debate
 - Prepare supplemental appropriations bills and legislative transfer documents
- **All tasks are completed in compliance with statutory requirements for nonpartisanship and confidentiality.**

For more information about the state budget:

HFA website

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

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