

State Budget Overview

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House Fiscal Agency**

**Michigan Community College Association
October 6, 2017**

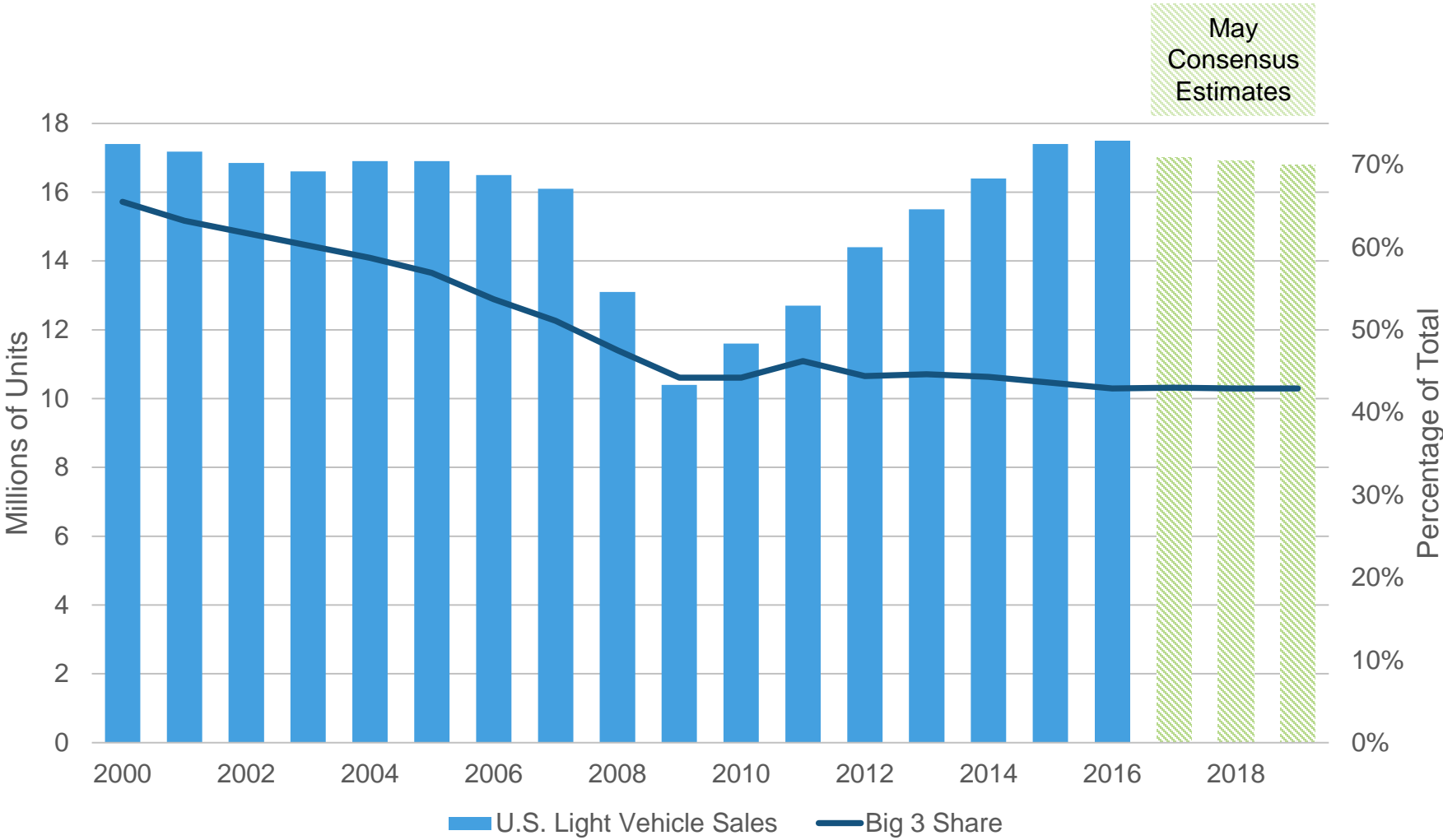
Briefing Topics

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

Economic Trends

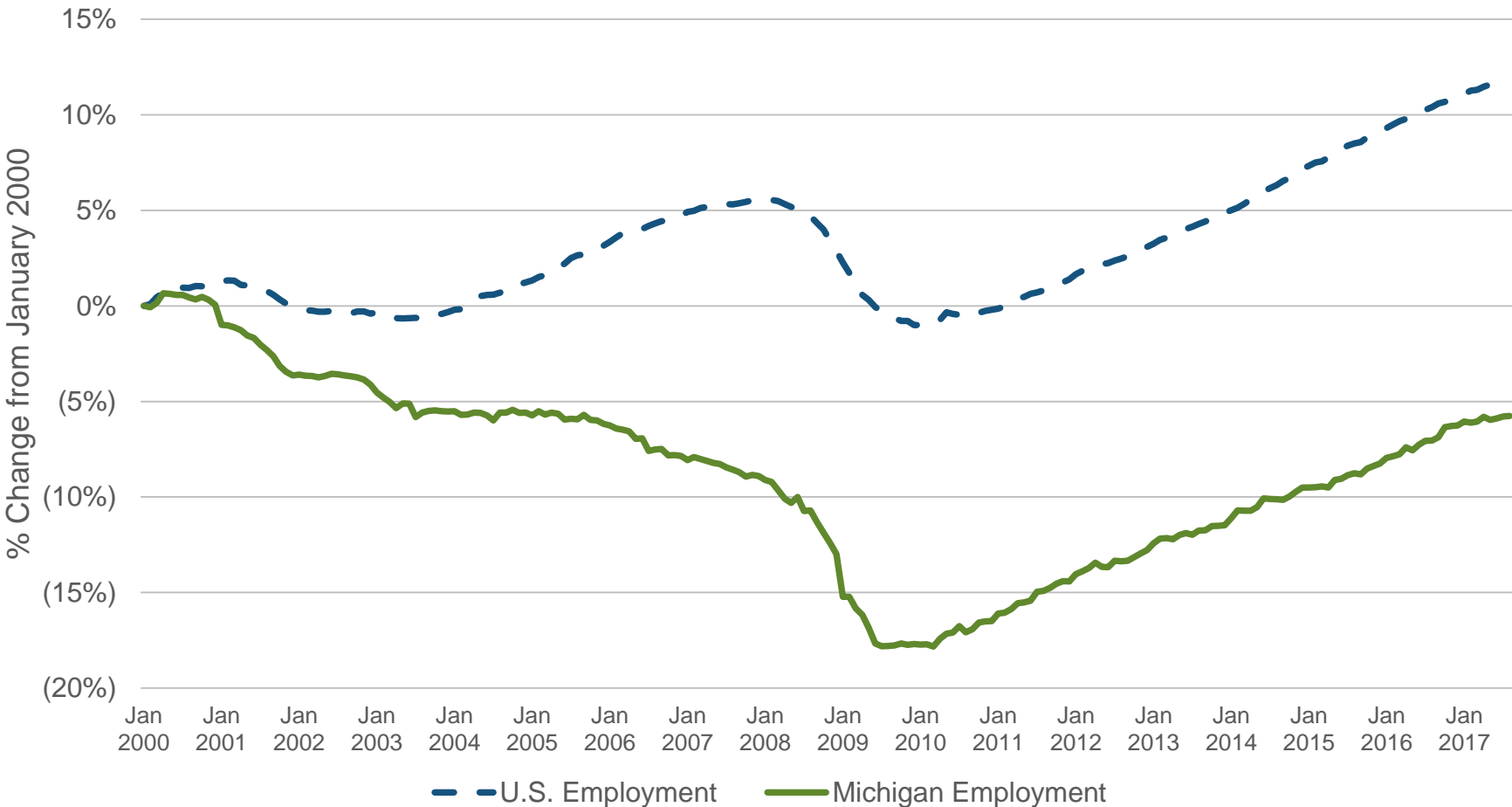
Light Vehicle Sales

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



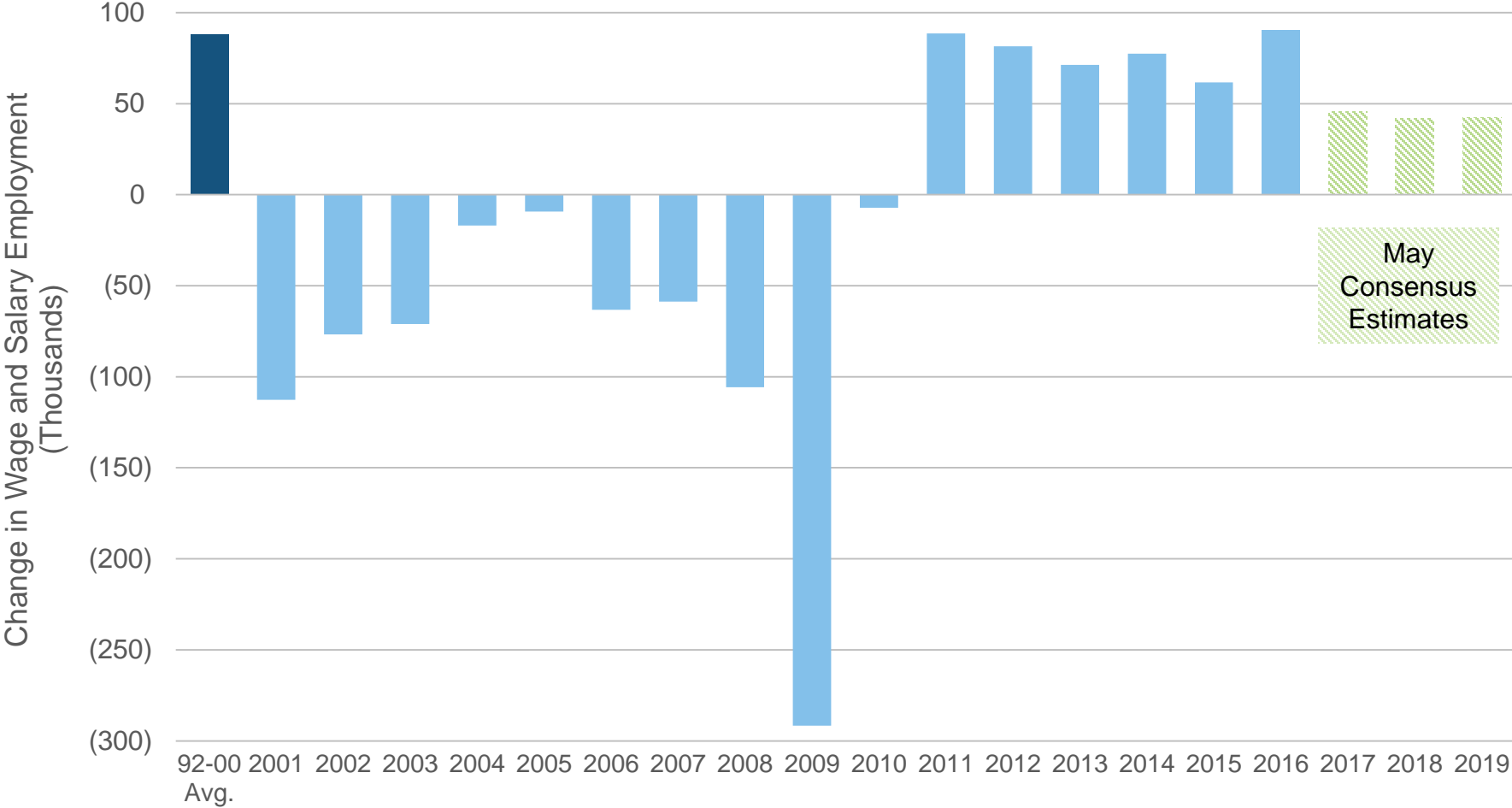
Employment Change Since 2000

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.



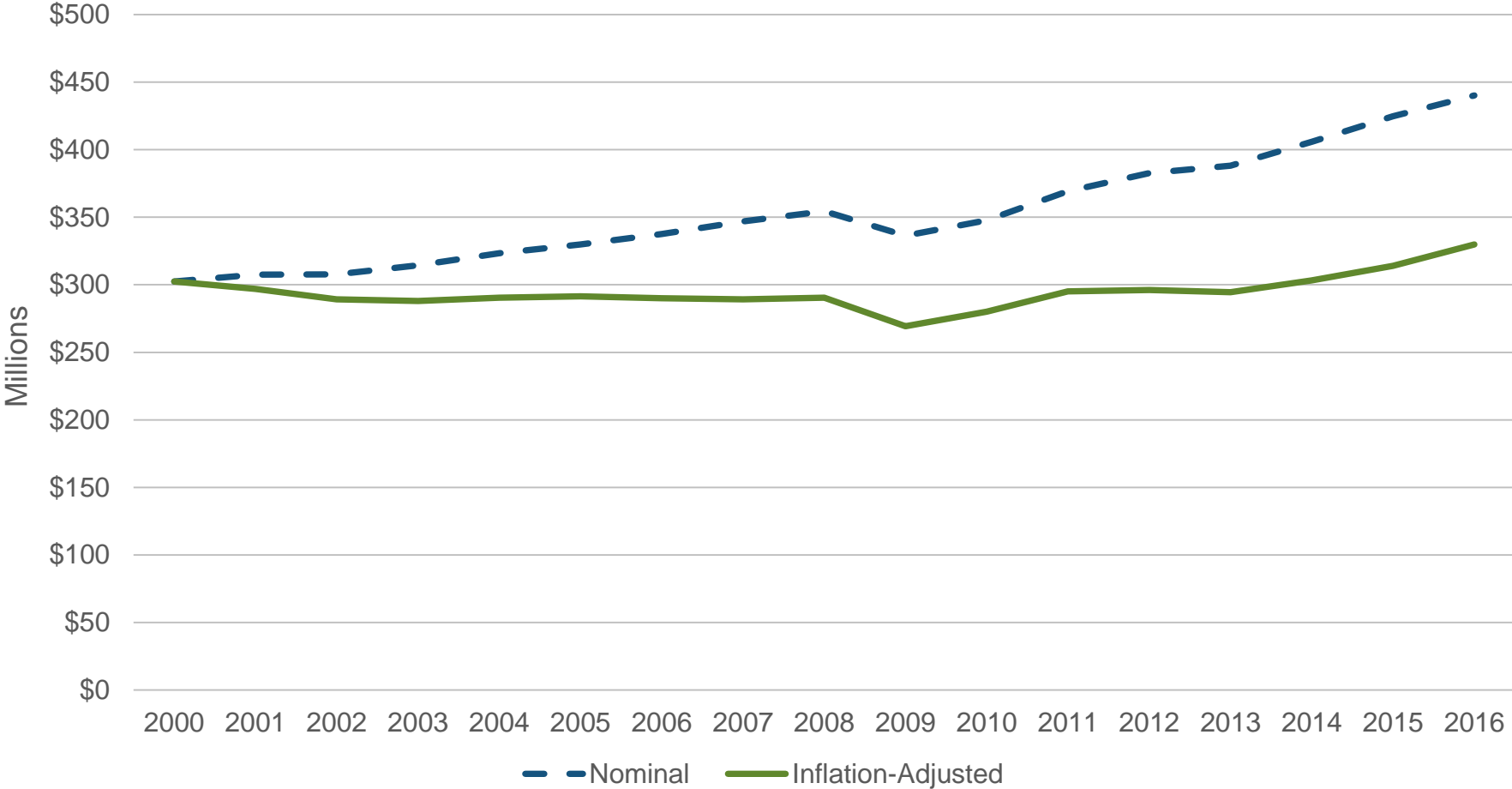
Michigan Employment Changes

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

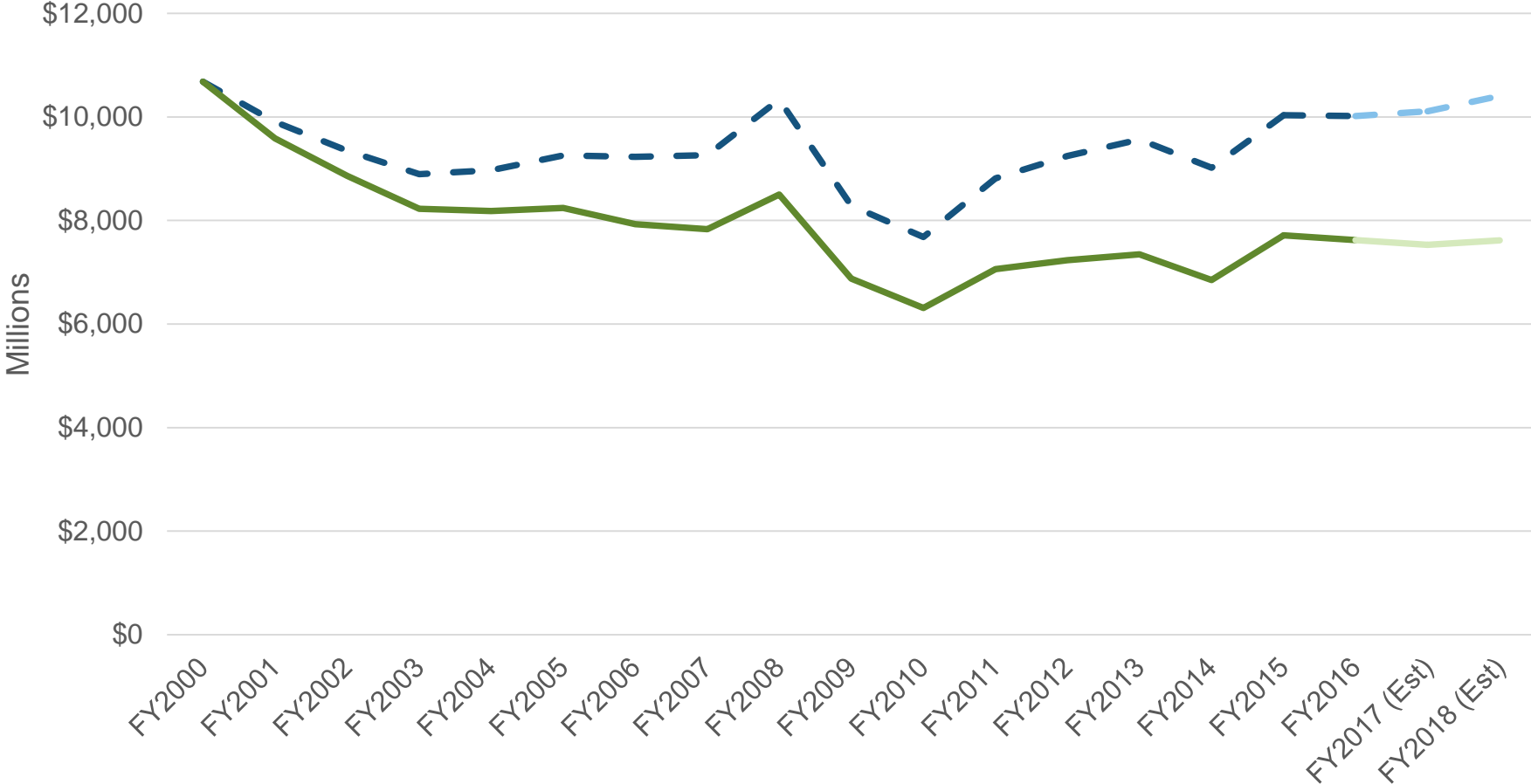
In nominal terms, total personal income in Michigan has risen roughly 46% since 2000. In inflation-adjusted terms, however, personal income has been flat, up until the last three years.



Revenue Trends

GF/GP Revenue

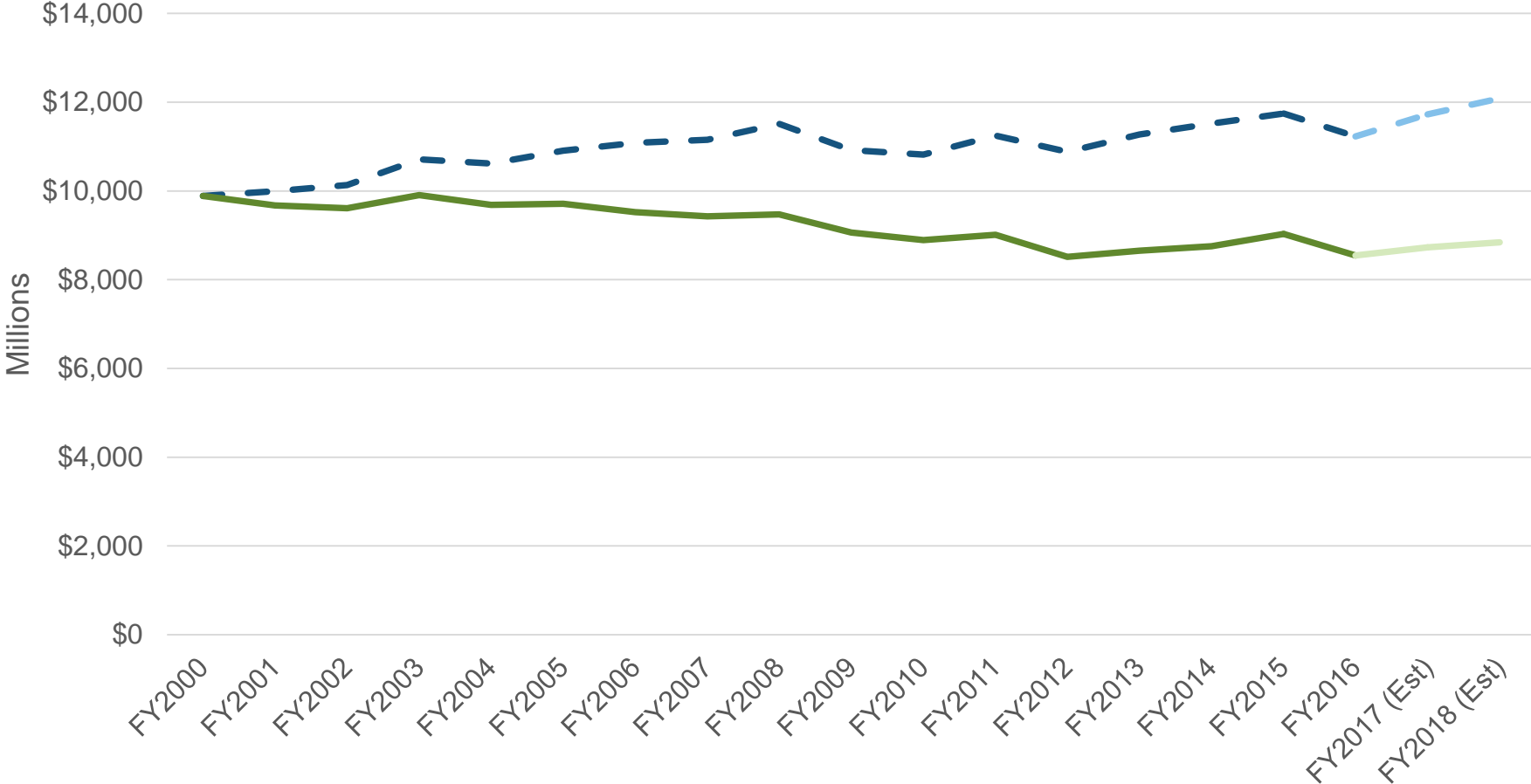
Nominal GF/GP revenue is expected to exceed \$10.4 billion in FY 2017-18. When adjusted for inflation, however, GF/GP revenue is estimated to be 28.7% below the FY 1999-00 level.



— — Actual Dollars
 — Adjusted for Inflation (Detroit CPI)
 May 2017
Consensus
Estimates

School Aid Fund Revenue

Nominal SAF revenue has generally grown since FY 2011-12. In inflation-adjusted terms, however, FY 2017-18 revenue is estimated to be 10.6% below the FY 1999-00 level.



— Actual Dollars — Adjusted for Inflation (Detroit CPI)

May 2017
Consensus
Estimates

Major State Taxes as a Percentage of Michigan Personal Income

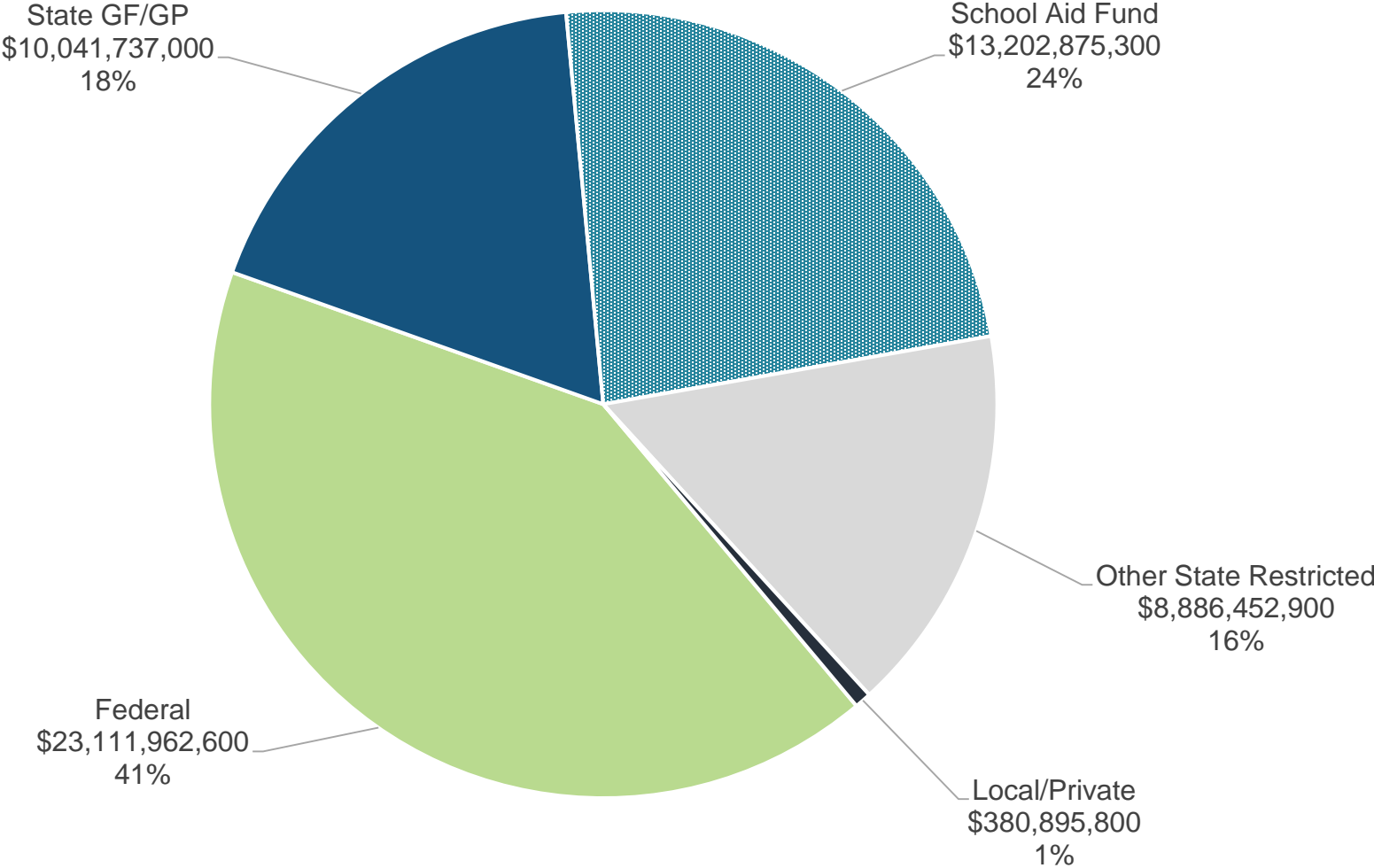
Recent growth in state revenue has been driven by the income tax. Other major state taxes have declined as a percentage of state personal income as a result of economic trends or tax policy decisions.



Appropriations

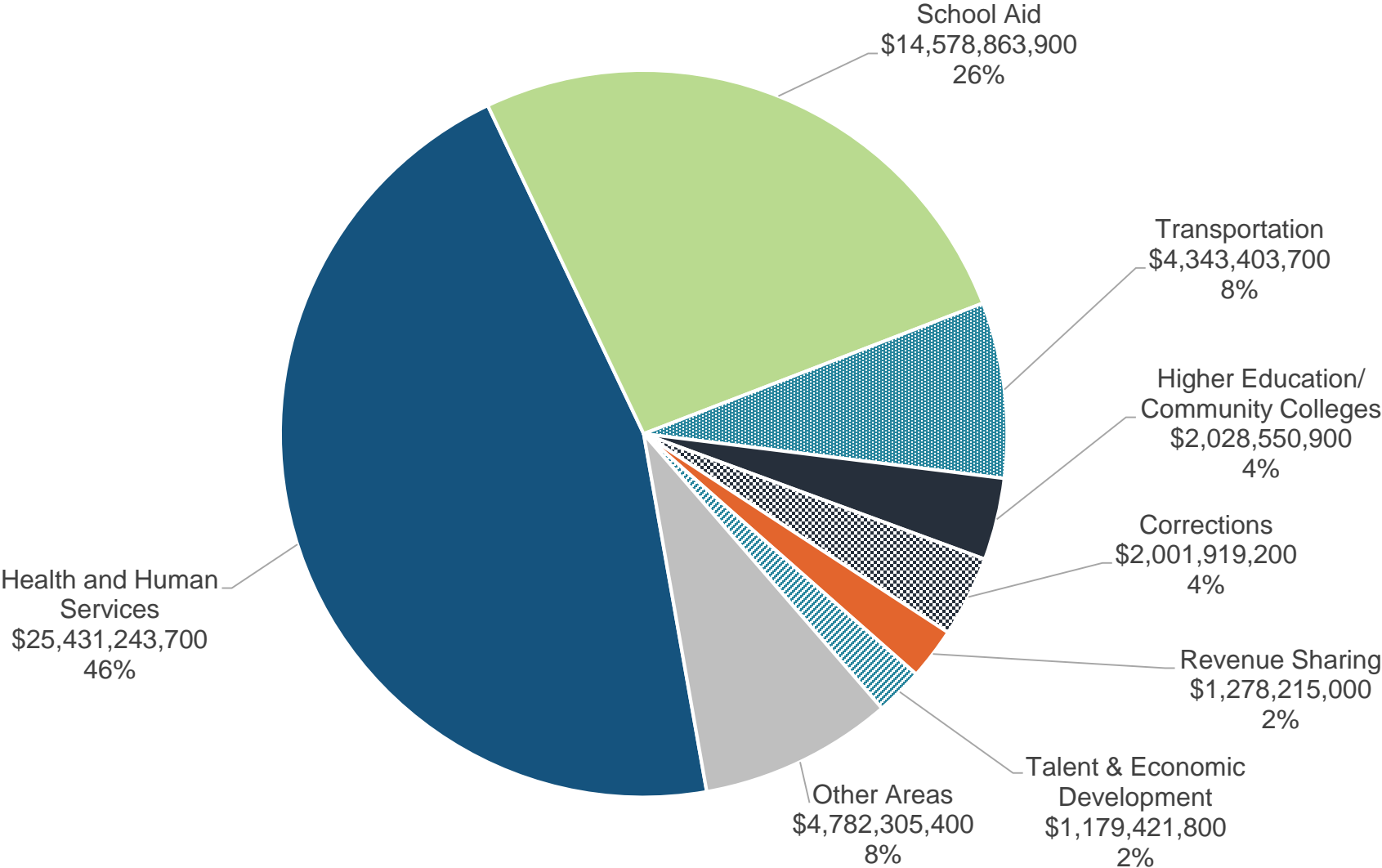
FY 2017-18 Fund Sources

Discretionary GF/GP funds make up less than 18% of the **\$55.6 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 42%.



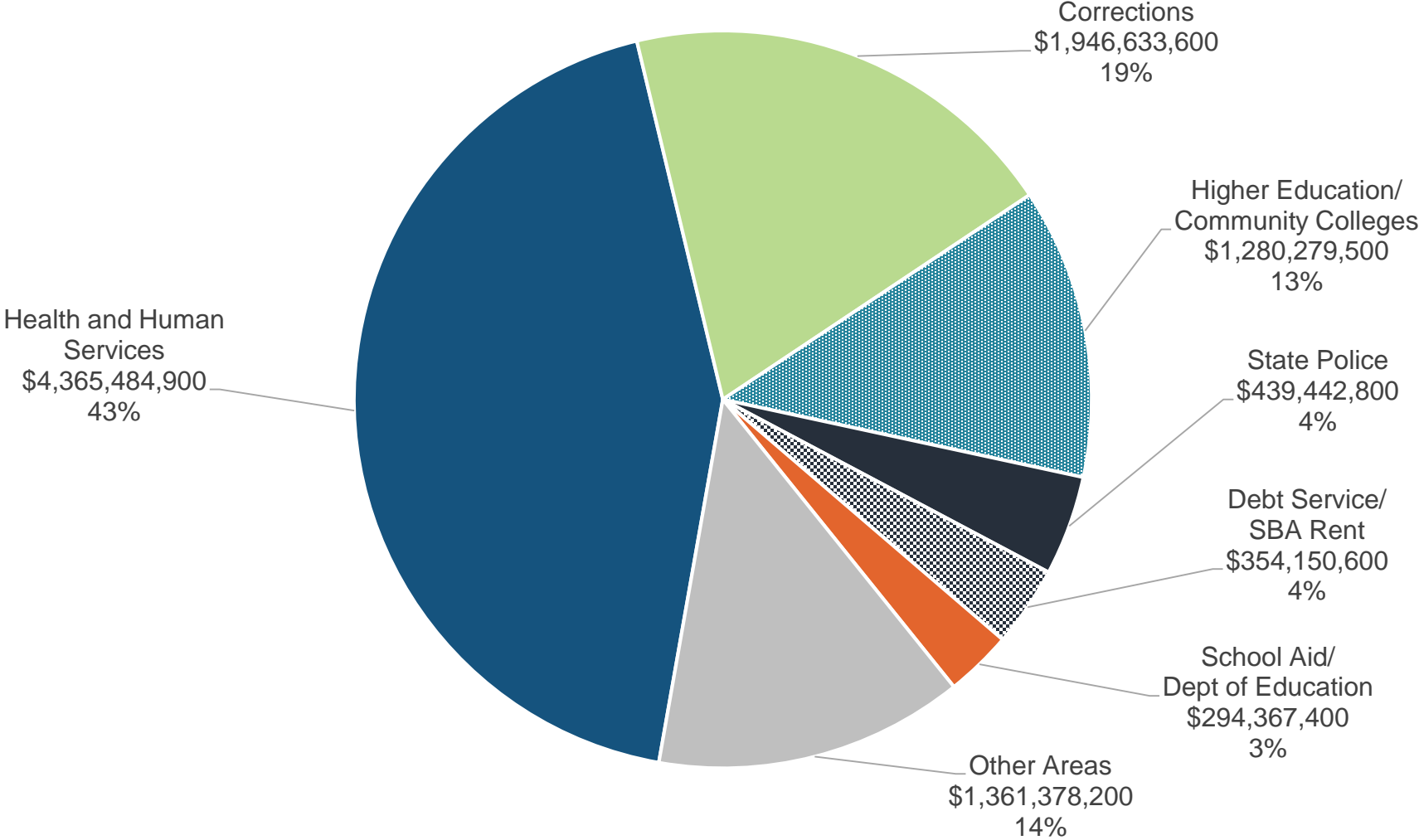
FY 2017-18 Adjusted Gross Appropriations

Large portions of the **\$55.6 billion** state budget consist of payments to health care providers, school districts, universities and colleges, and local units of government.



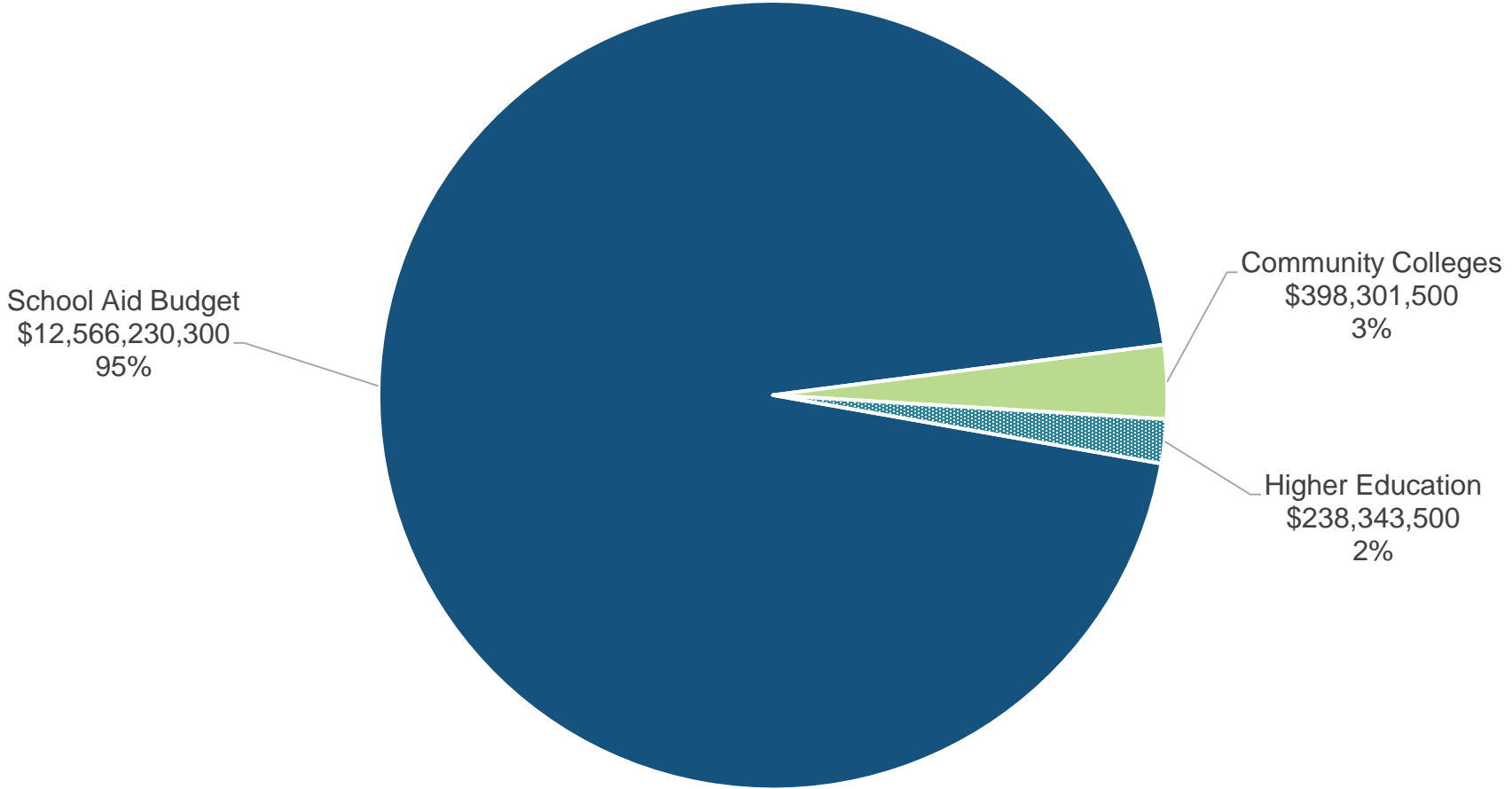
FY 2017-18 GF/GP Appropriations

86% of the **\$10.0 billion** GF/GP budget is appropriated for health and human services, public safety, education, and debt service. The remaining 14% provides funding for 13 state departments, the Judiciary, the Legislature, and the Executive Office.



FY 2017-18 School Aid Fund Appropriations

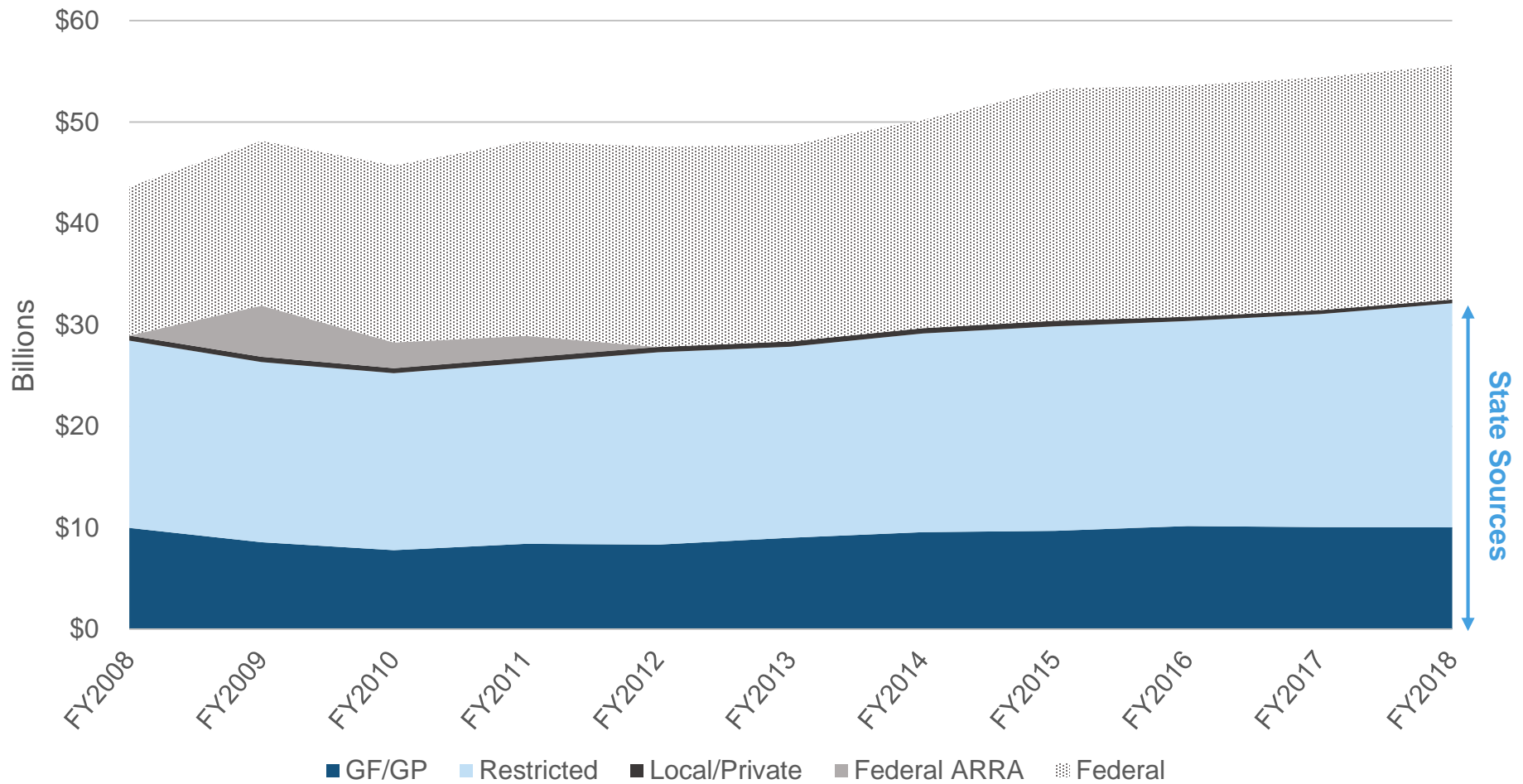
School Aid Fund (SAF) appropriations totaling **\$12.6 billion** are primarily for K-12 school districts and other school aid purposes. In recent years, however, a portion of SAF funds have been used in place of GF/GP funds for community colleges and public universities.



Budget Trends

Total State Budget History

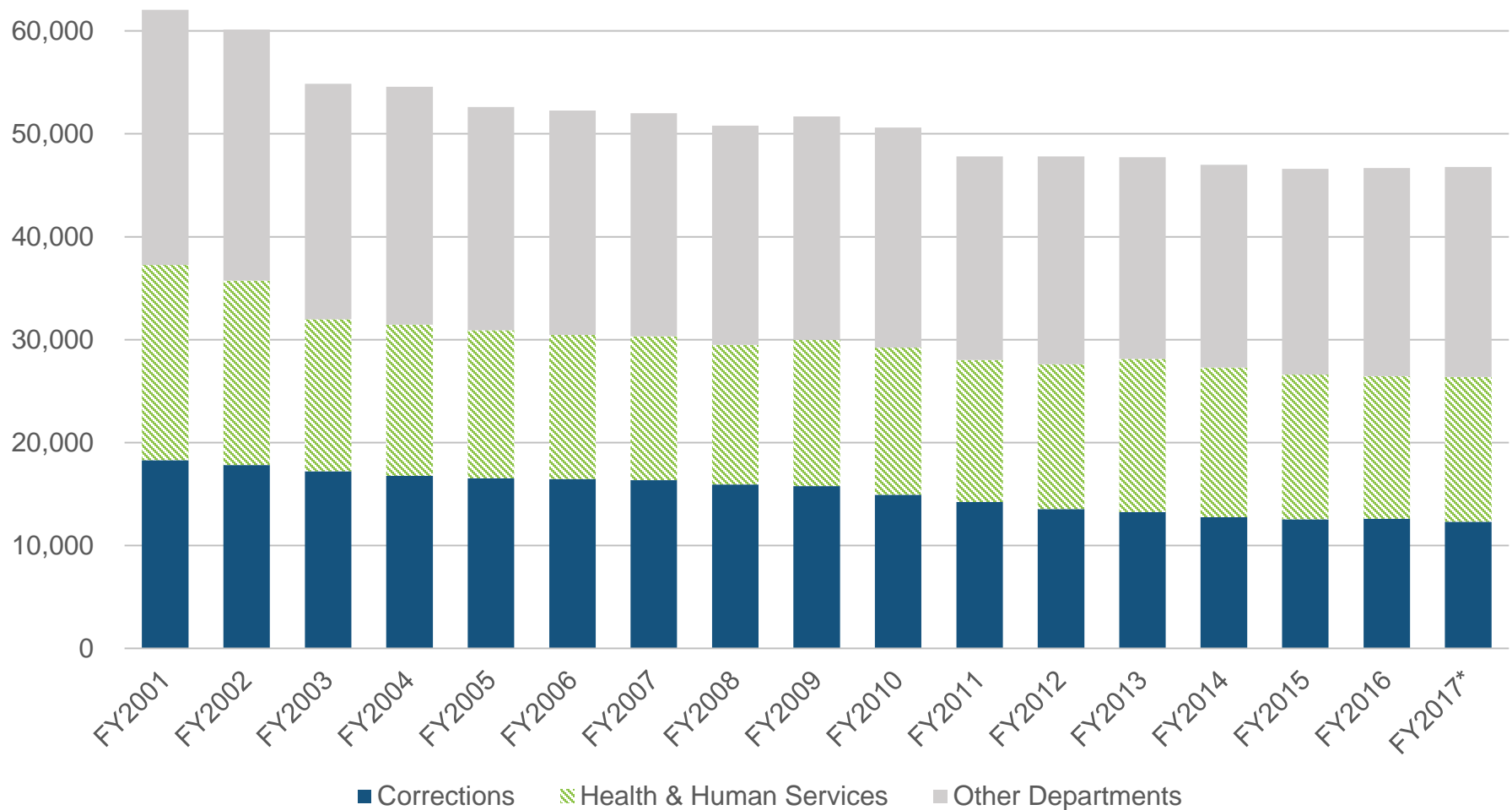
Total state budget growth of 27% since FY 2008 has been driven mainly by increases in available federal funds. State-source appropriations (GF/GP plus restricted) have grown just 13%.



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.

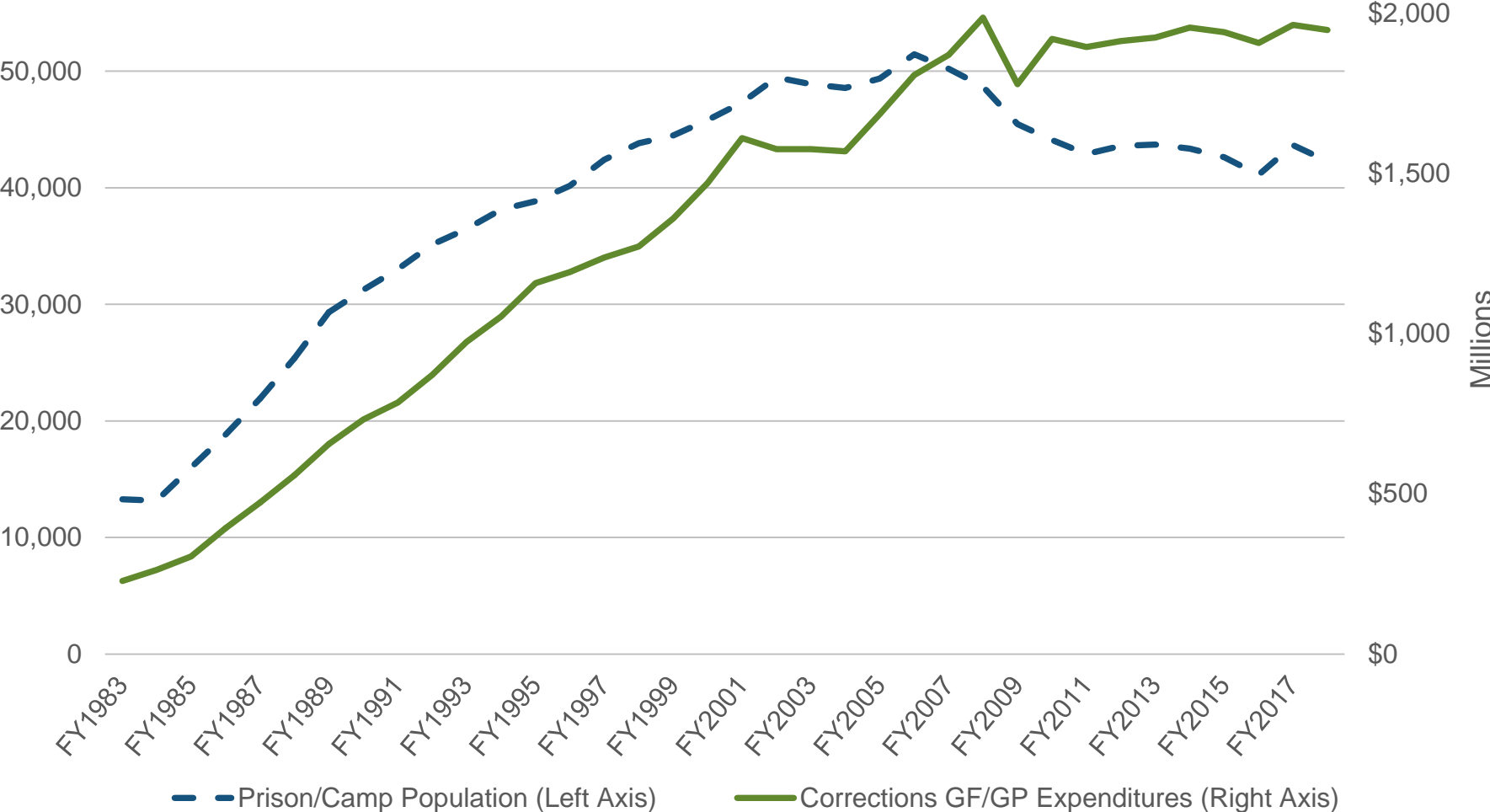


Source: Michigan Civil Service Commission, Annual Workforce Report

*Through July 1, 2017

Corrections Population and Expenditures

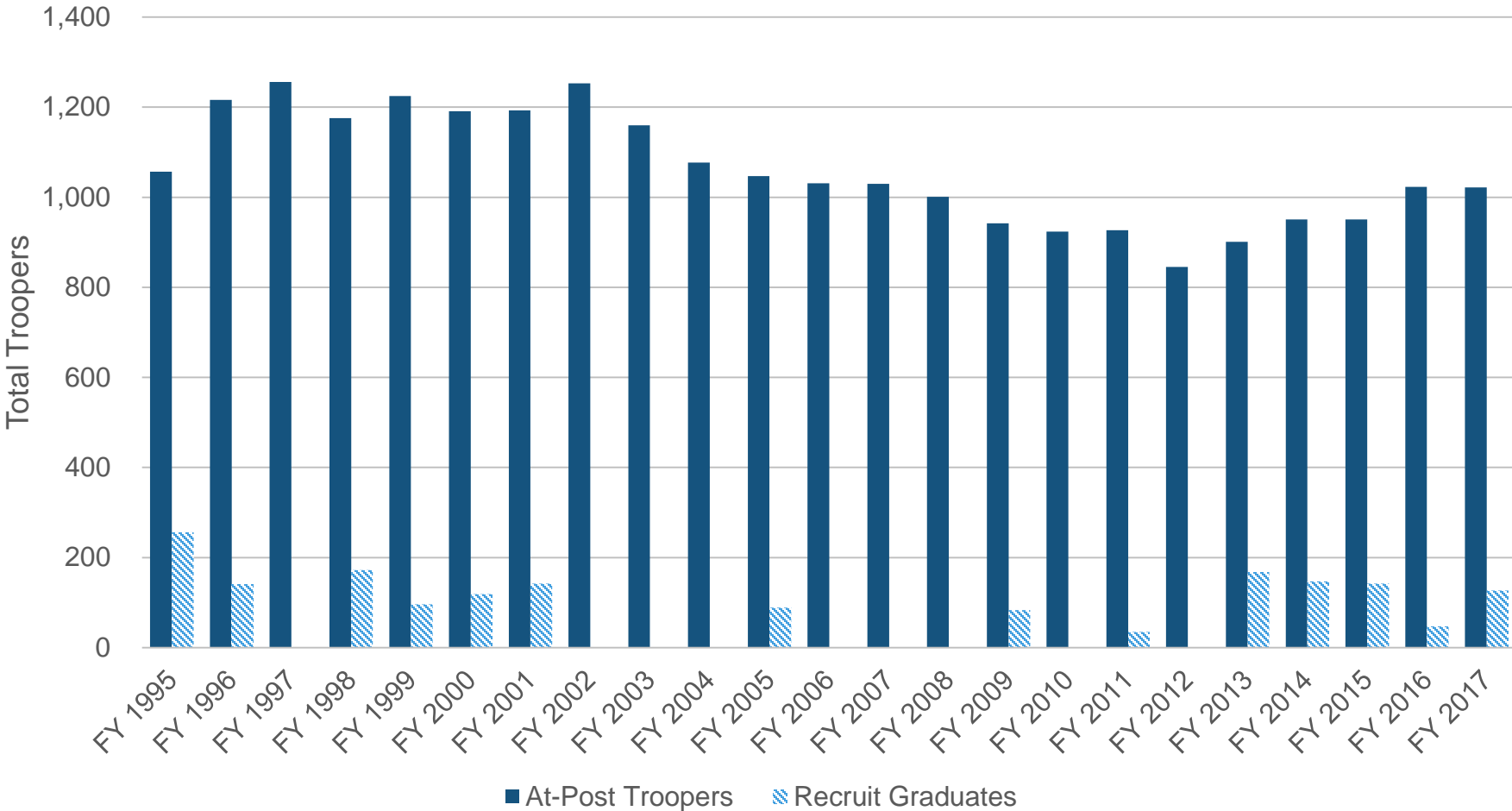
Over the long term, corrections costs have grown consistent with prison population. The Corrections budget would have decreased since FY 2010-11 if not for the increased costs of paying down retirement liabilities.



* FY 2017 and FY 2018 based on year-to-date GF/GP appropriations and budgeted prisoner counts

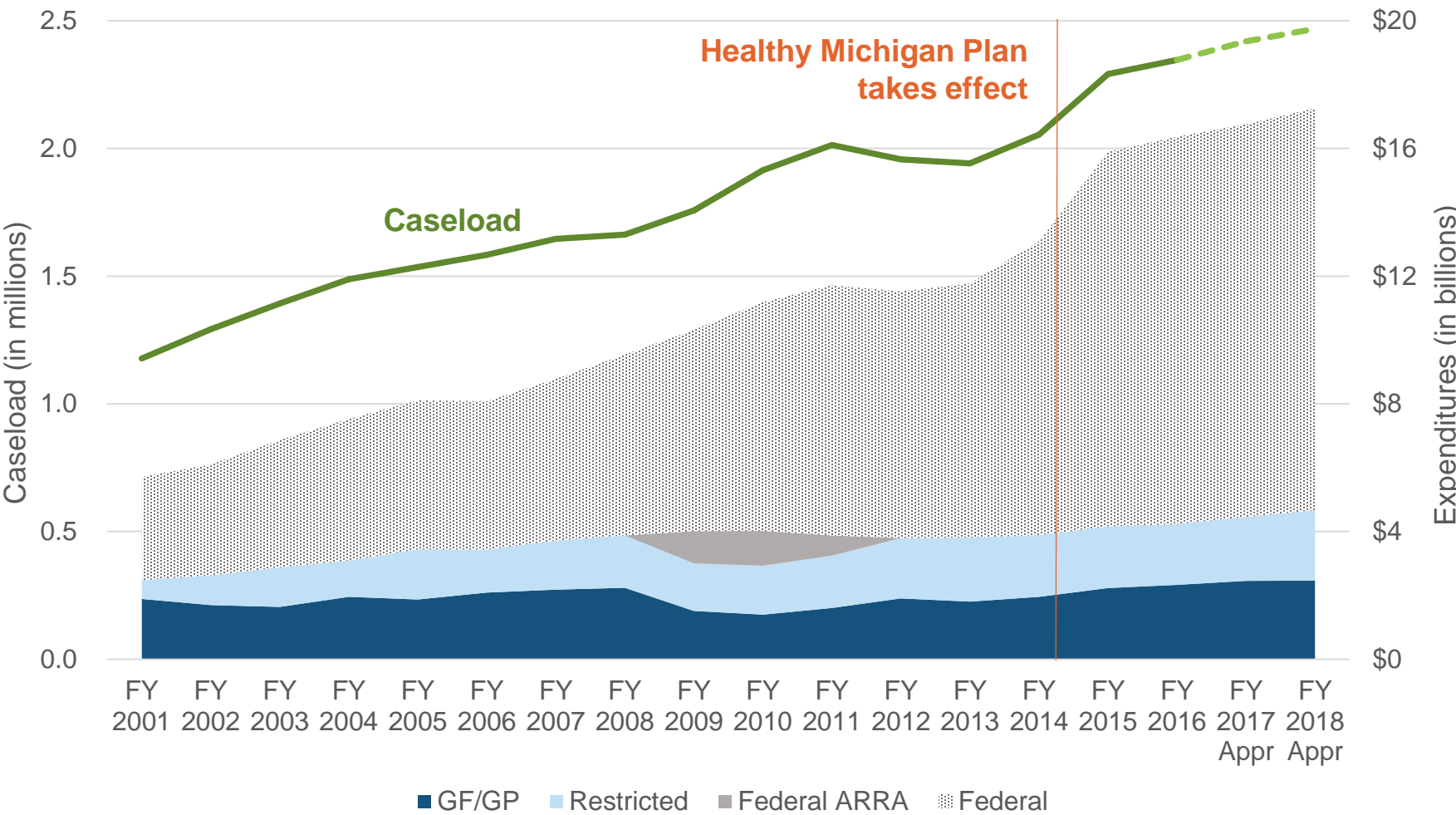
State Police At-Post Trooper Strength

Total MSP Trooper strength has decreased by approximately 3% between the end of FY 1994-95 and FY 2015-16. As of April 2017, the MSP has 1,022 Troopers at-post with 127 new graduates joining the ranks in FY 2016-17 as of February 2017.



Medicaid Expenditures by Fund Source

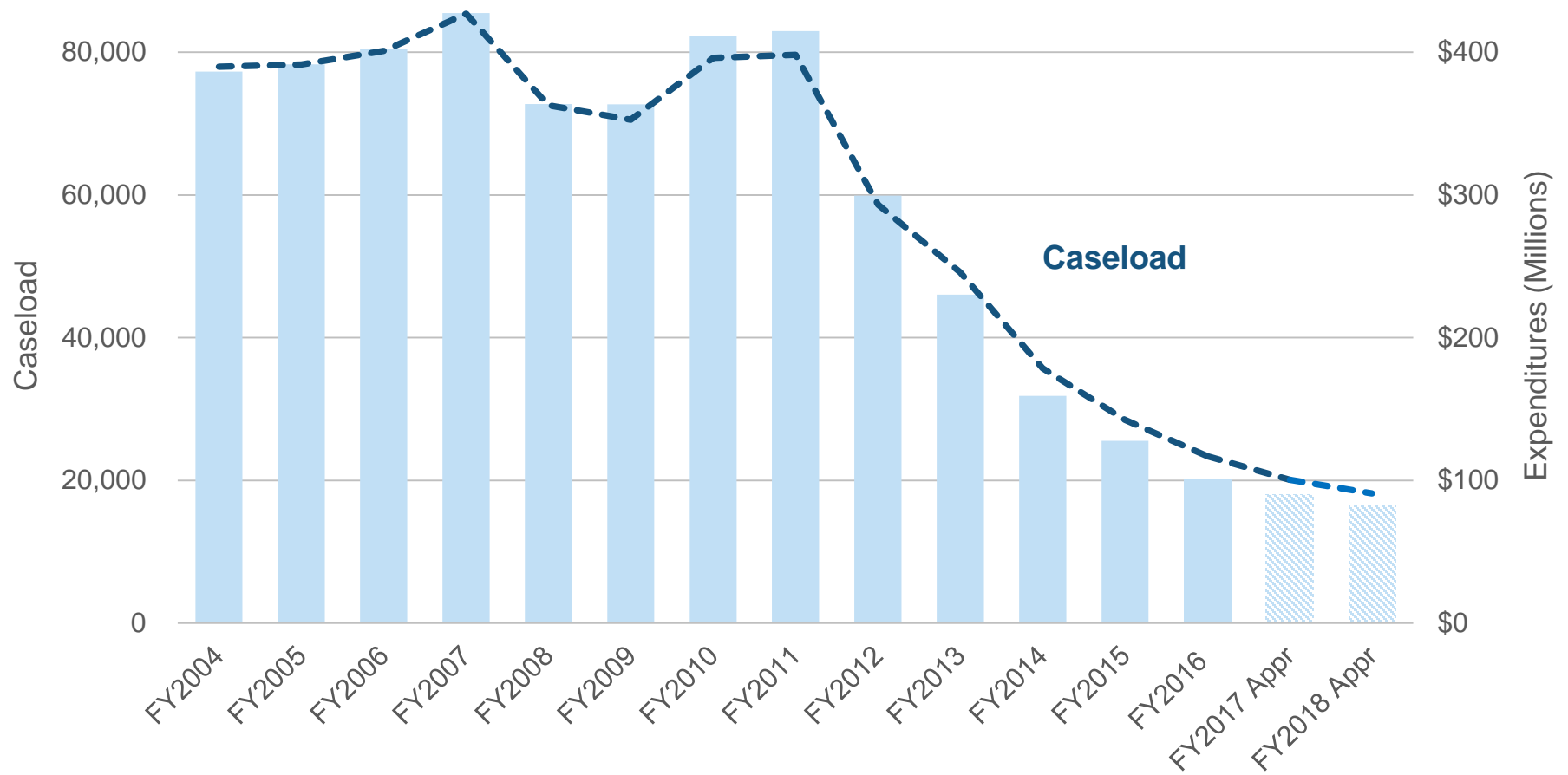
Since FY 2000-01, the state's total Medicaid caseload has doubled and expenditures have tripled due to economic trends and the expansion under the Healthy Michigan Plan. However, GF/GP spending for Medicaid, has only increased by 30%.



ARRA: Federal American Recovery and Reinvestment Act of 2009

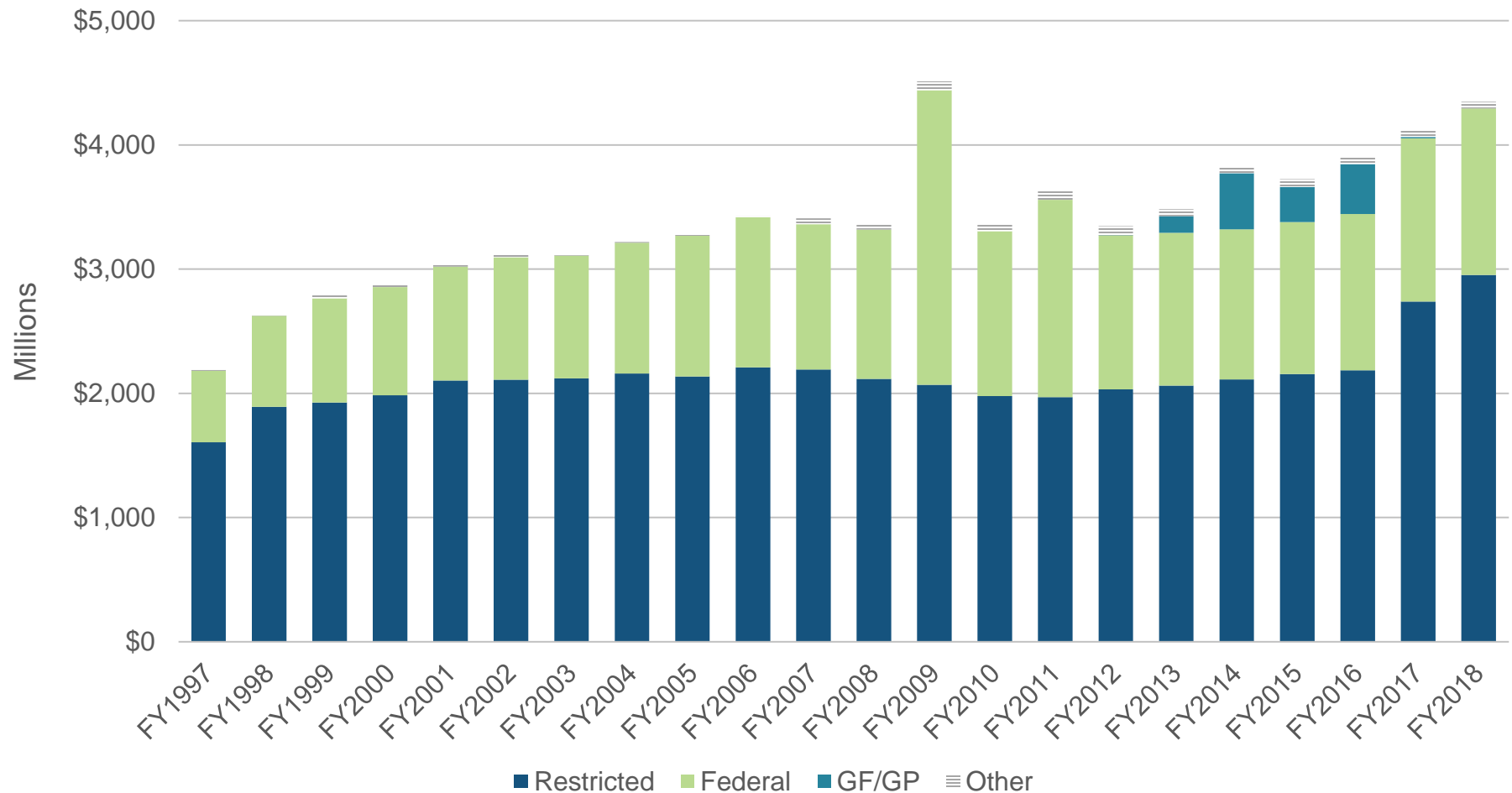
Family Independence Program (FIP) Expenditures

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.



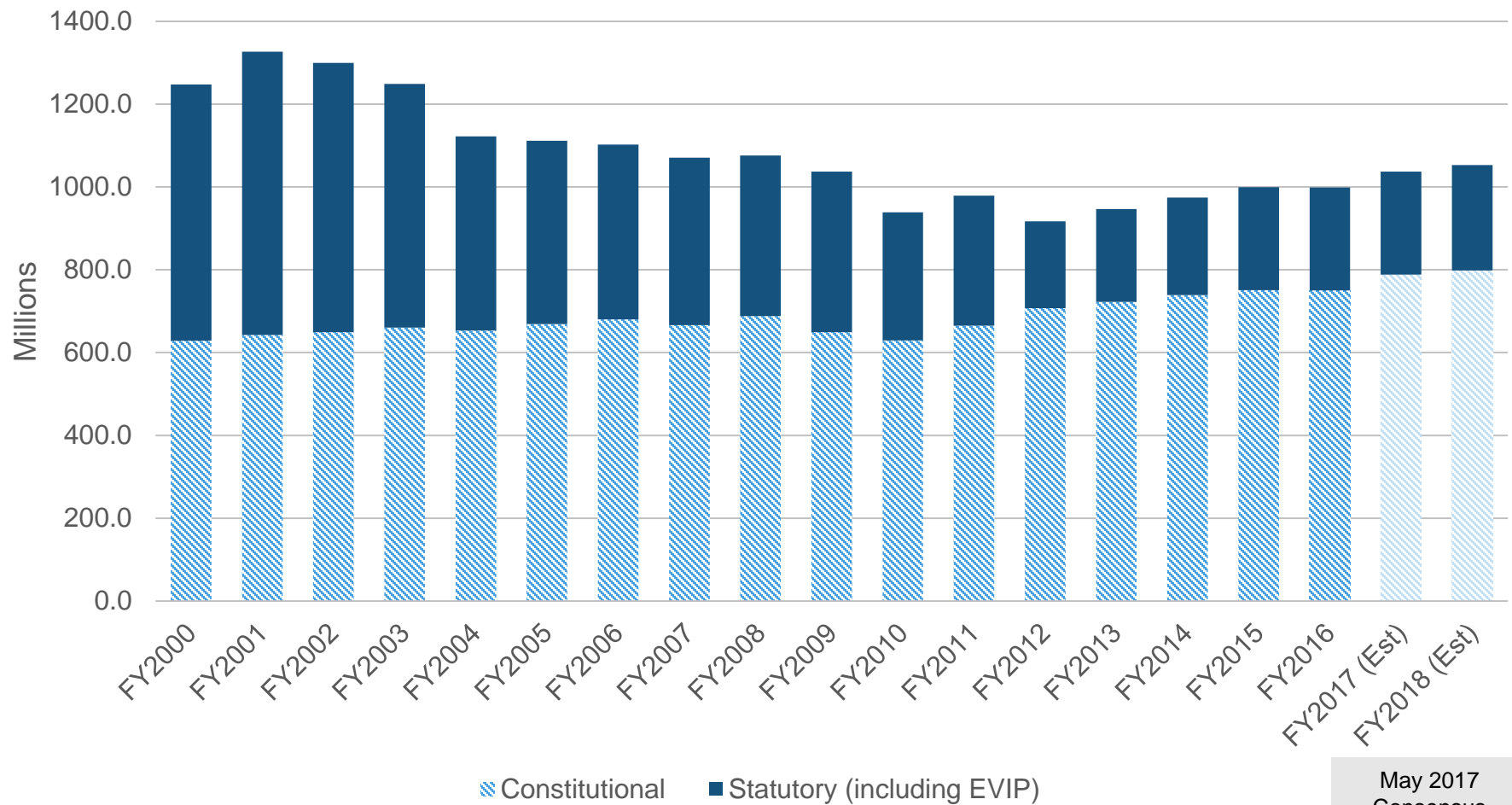
Transportation Appropriations

Excluding temporary federal ARRA "stimulus" funds in FY 2008-09, total transportation appropriations were relatively flat from FY 1997-98 through FY 2015-16. Increases in FY 2016-17 and FY 2017-18 reflect additional revenue provided through the Road Funding Package passed November 2015, and effective January 1, 2017, as well as anticipated increases in federal aid.



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

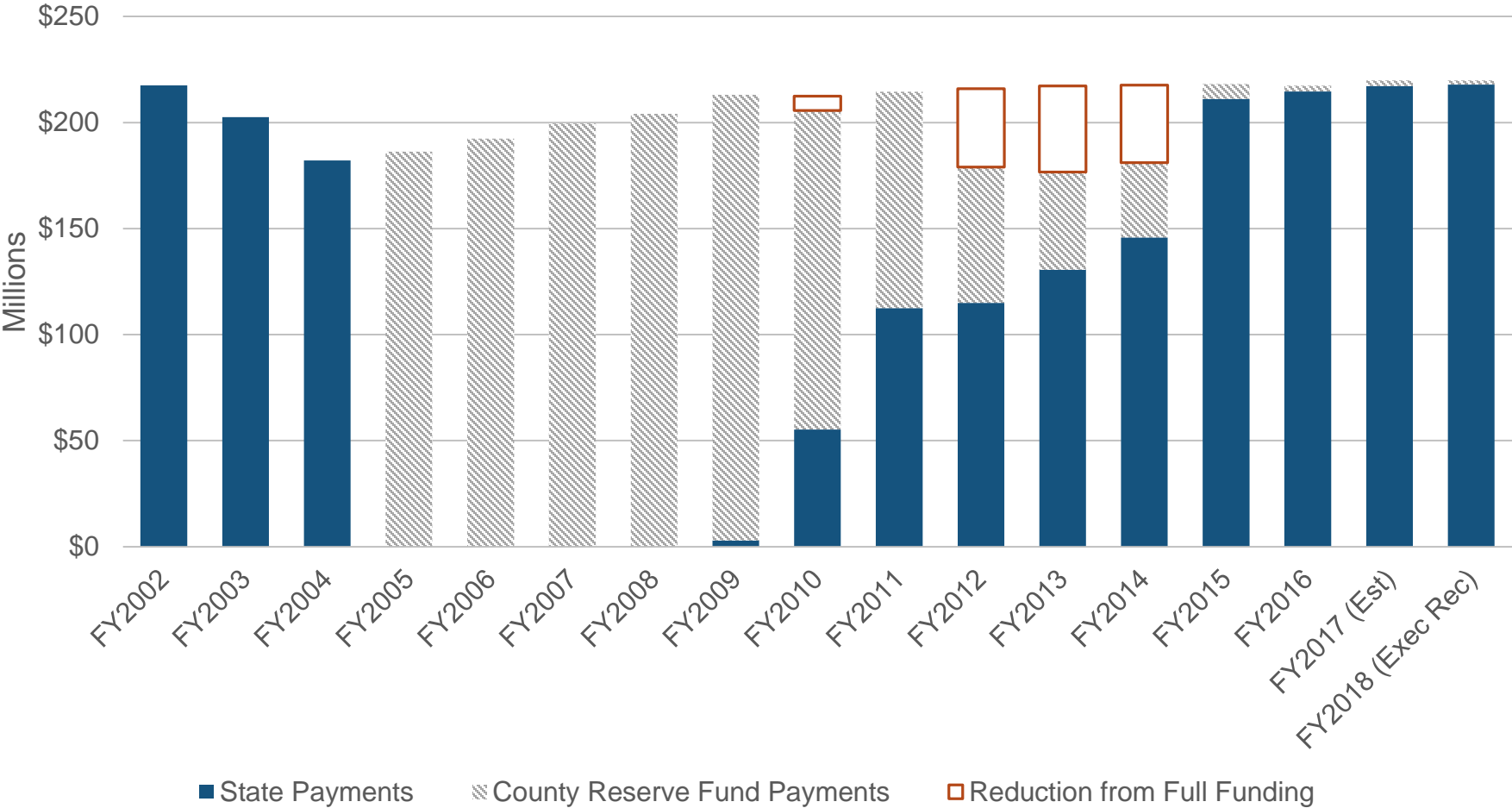
Per-capita constitutional payments to CVTs have grown consistent with sales tax revenue growth. Discretionary (statutory) payments remain \$429 million below the FY 2000-01 peak; reductions have helped balance the GF/GP budget.



May 2017
Consensus
Estimates

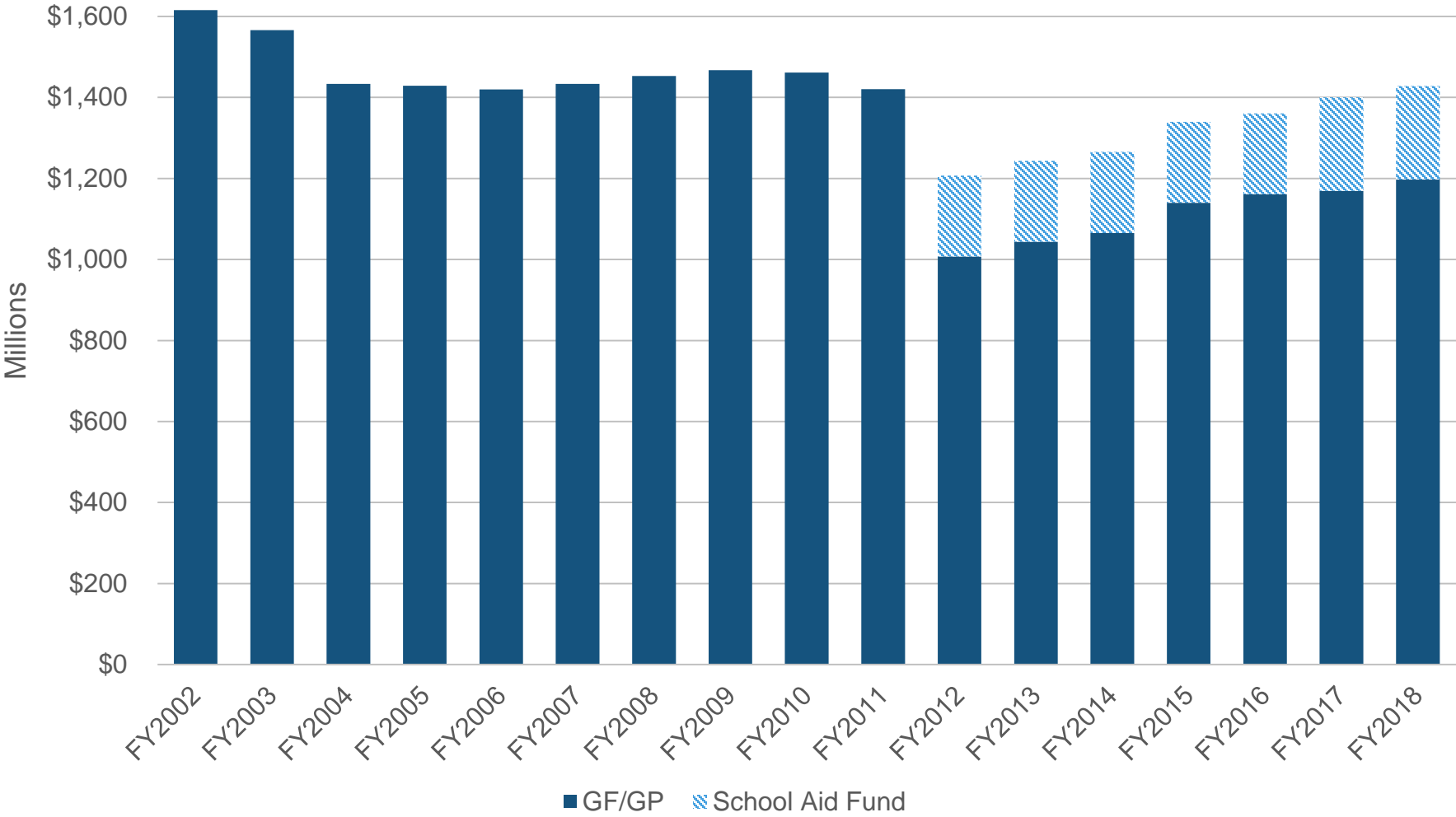
County Revenue Sharing

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 for FY 2016-17 and FY 2017-18. Total funding is at approximately the FY 2001-02 level.



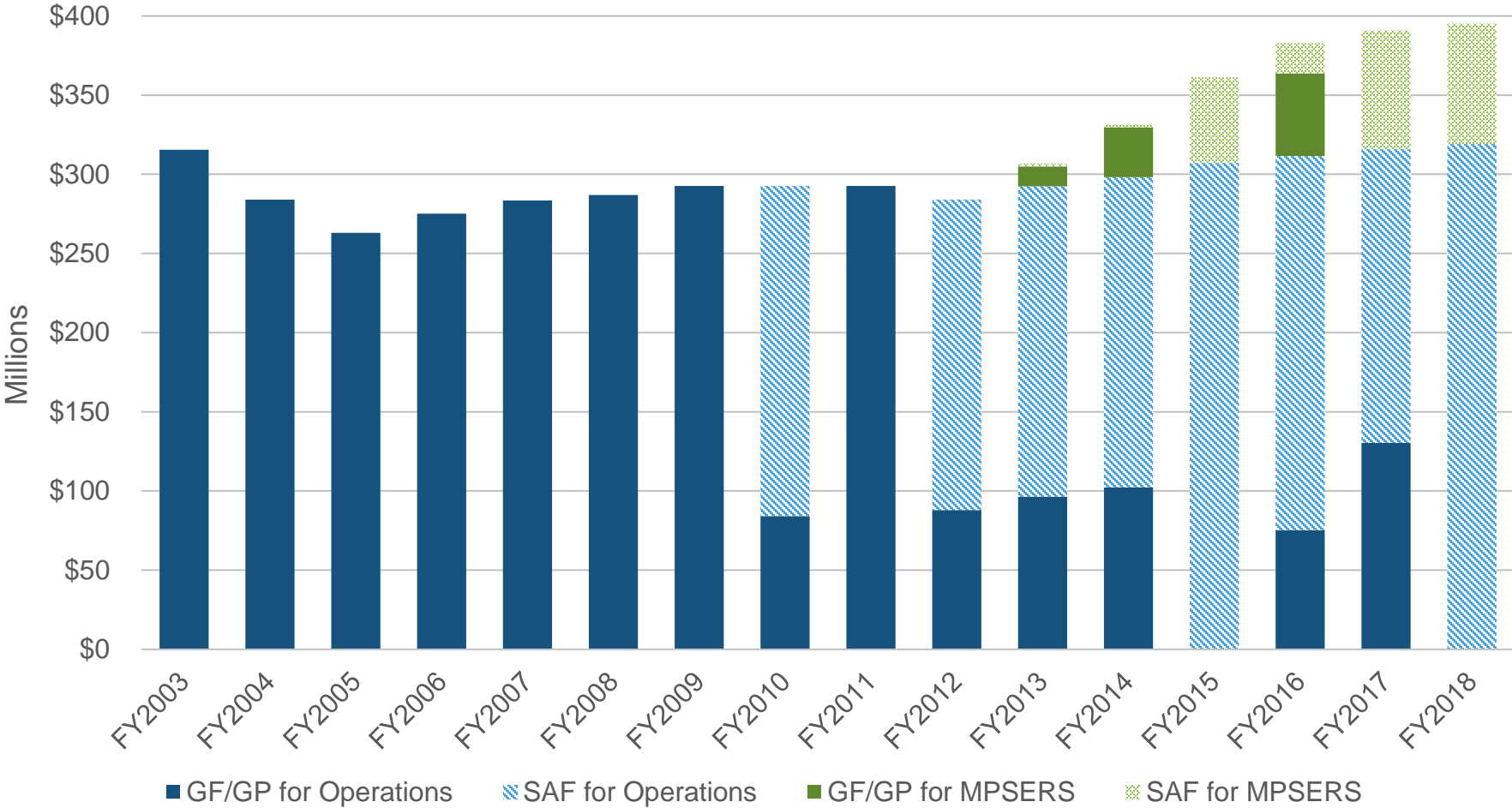
Public University Operations Appropriations

State support for public universities operations grants has increased by \$221 million (18%) since FY 2011-12, but remains \$187 million (12%) below the FY 2001-02 peak of \$1.6 billion.



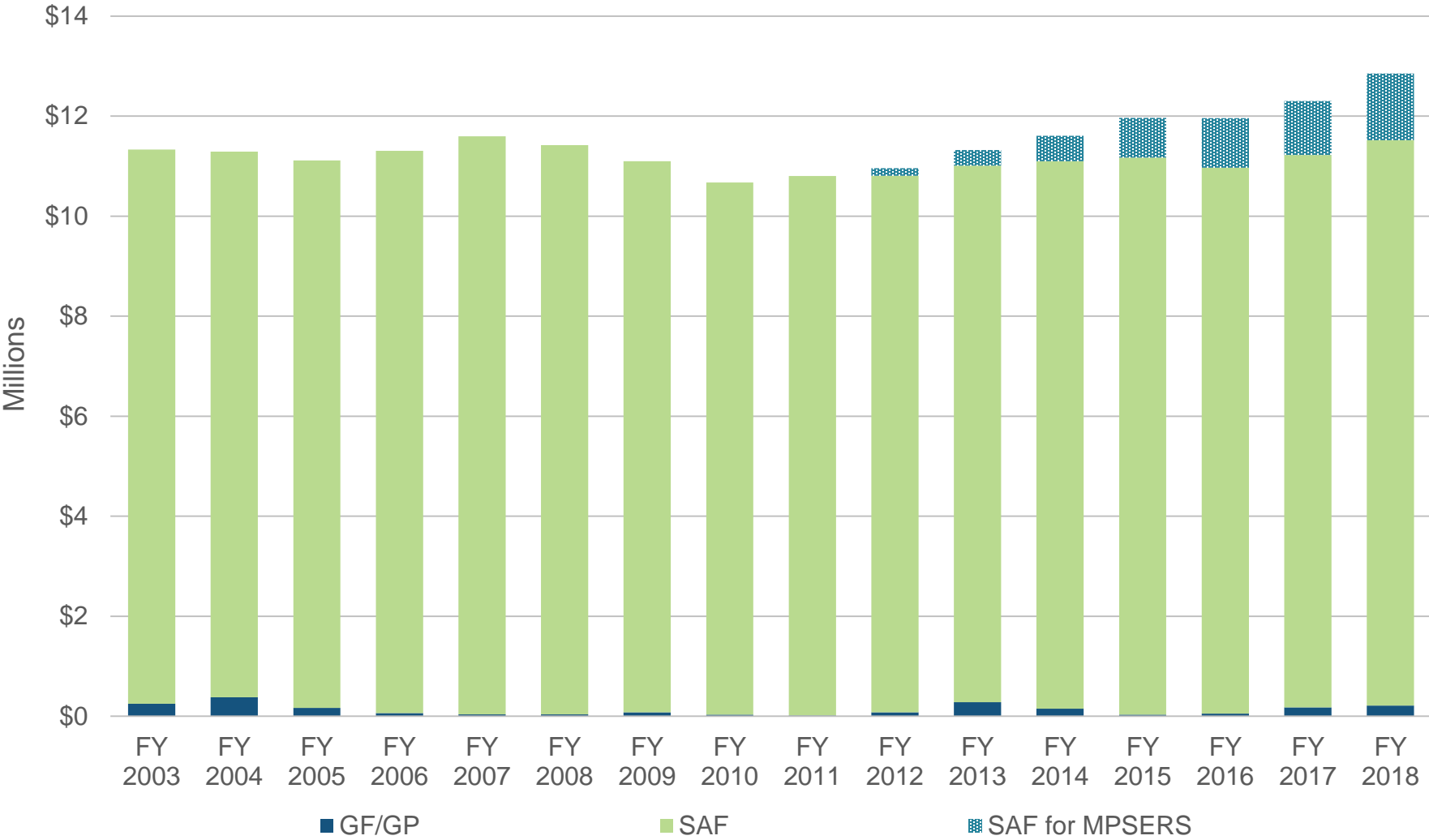
Community College Appropriations

FY 2017-18 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.



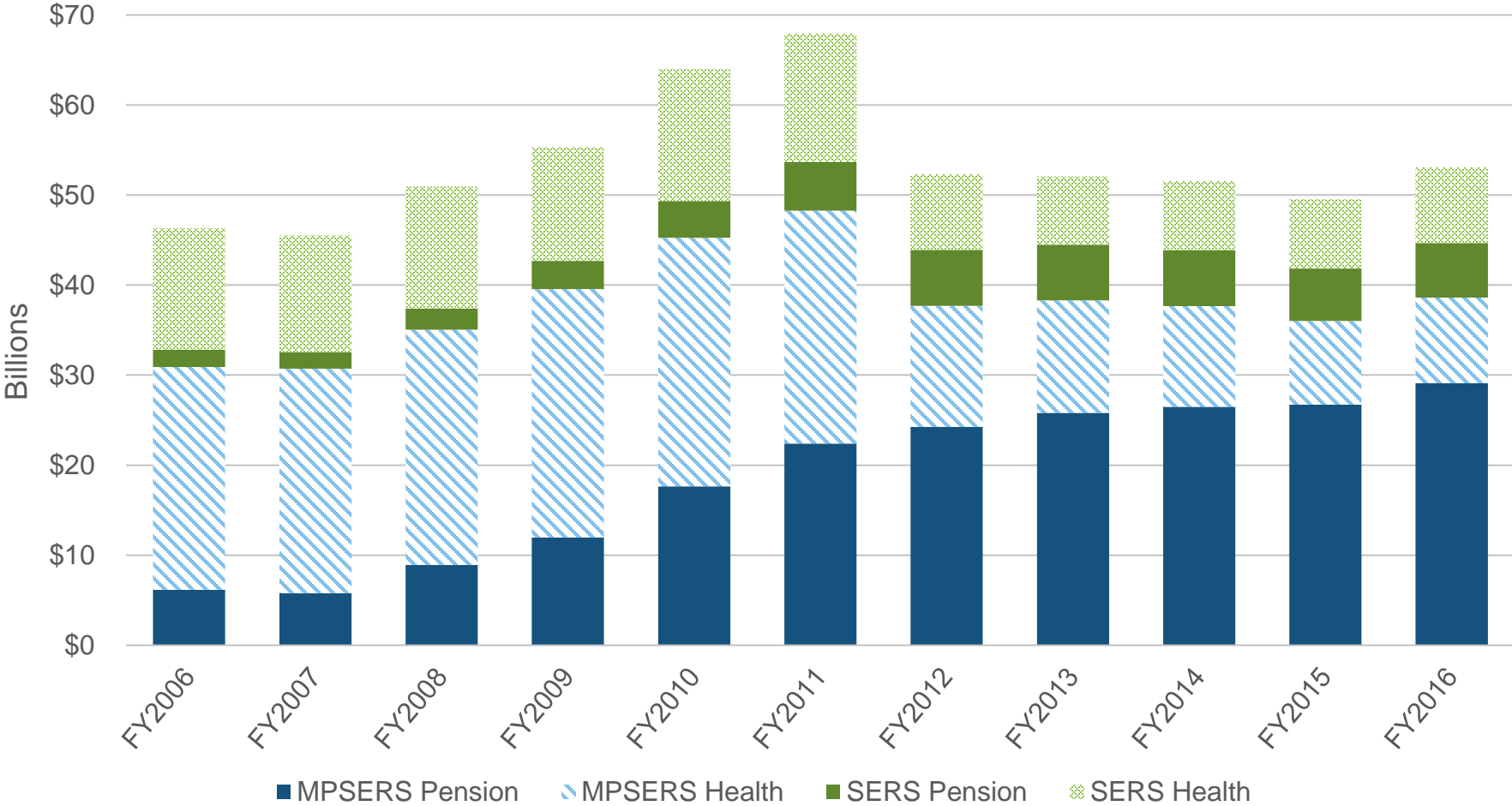
School Aid State Funding History

\$1.3 billion has been added to hold districts harmless from increasing retirement liability costs. Total funding for foundation allowances and other operational costs is still below the previous 2007 peak.



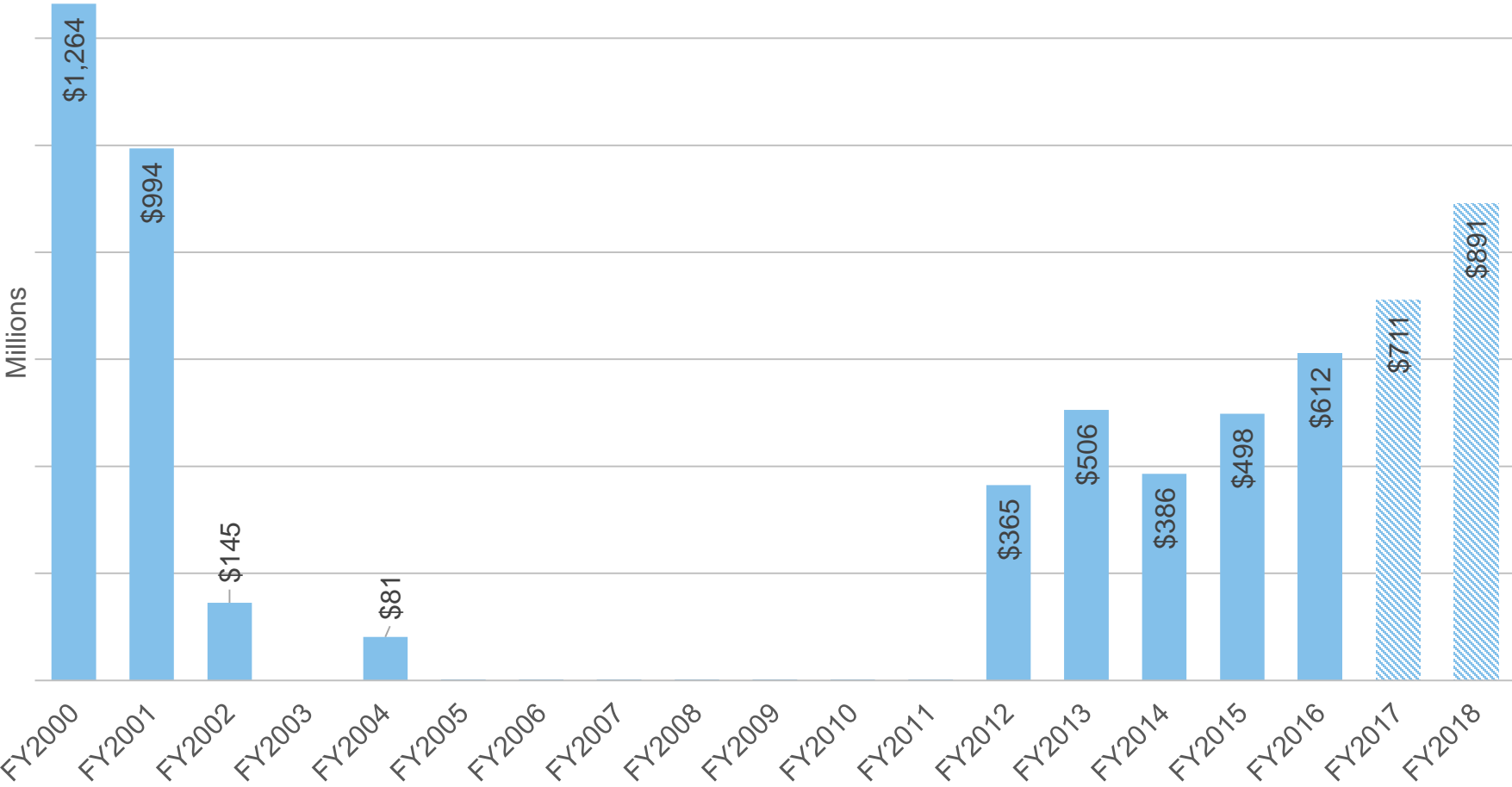
Retirement Liabilities

Total unfunded liabilities for the school employee (MPERS) and state employee (SERS) retirement systems had declined by \$19 billion since FY 2010-11, due primarily to the decision to begin prefunding retiree health benefits, but grew by \$3.5 million in FY 2015-16 due to the policy change that decreased the assumed rate of return from 8.0% to 7.5%.



Budget Stabilization Fund Balance

As of FY 2015-16, the rainy day fund balance has been restored to about half of the previous peak level. A \$75.0 million deposit in addition to the \$17.5 million to repay the FY 2013-14 withdrawal for the City of Detroit will be made in FY 2016-17. FY 2016-17 and FY 2017-18 are based the enacted budgets for each year.



Budget Outlook

May Consensus Revenue Estimates

Millions of \$

	FY 2015-16 Final	FY 2016-17 Estimate	FY 2017-18 Estimate	FY 2018-19 Estimate	FY 2019-20 Trend	FY 2020-21 Trend
GF/GP Revenue	\$10,015	\$10,111	\$10,409	\$10,490	\$10,639	\$10,753
\$ Change	(\$19)	\$96	\$297	\$81	\$149	\$214
% Change	(0.2%)	1.0%	2.9%	0.8%	1.4%	1.1%
SAF Revenue	\$12,119	\$12,610	\$12,971	\$13,331	\$13,704	\$14,088
\$ Change	\$372	\$491	\$361	\$360	\$373	\$384
% Change	3.2%	4.1%	2.9%	2.8%	2.8%	2.8%

GF/GP Revenue

- Minimal growth in FY 2018-19 due to individual income tax transfer for road funding, continued Michigan business tax credits, sluggish corporate income tax growth, and diversion of use tax revenue for personal property tax reimbursement.
- Moderate growth projected for FY 2019-20 and FY 2020-21 despite increased individual income tax transfer for road funding.

SAF Revenue

- Moderate growth projected for the next several years based on sales tax and individual income 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

- Traditional Medicaid caseload, utilization, and inflation costs, on average, increase 2.5% annually, requiring about **\$120 million** GF/GP per year.
- Michigan's federal match rate has begun to decline due to relative growth in personal income, resulting in additional GF/GP costs of about **\$40 million** per year.
- FY 2017-18 budget relies on **\$70 million** in restricted revenue fund balances, which will have to be offset primarily with GF/GP in future fiscal years.

Healthy Michigan Plan

- FY 2017-18 state GF/GP match costs for expanded Medicaid program totals **\$85 million**.
- State match rate will increase to 10% over the next three years, requiring additional GF/GP funds of roughly **\$160 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

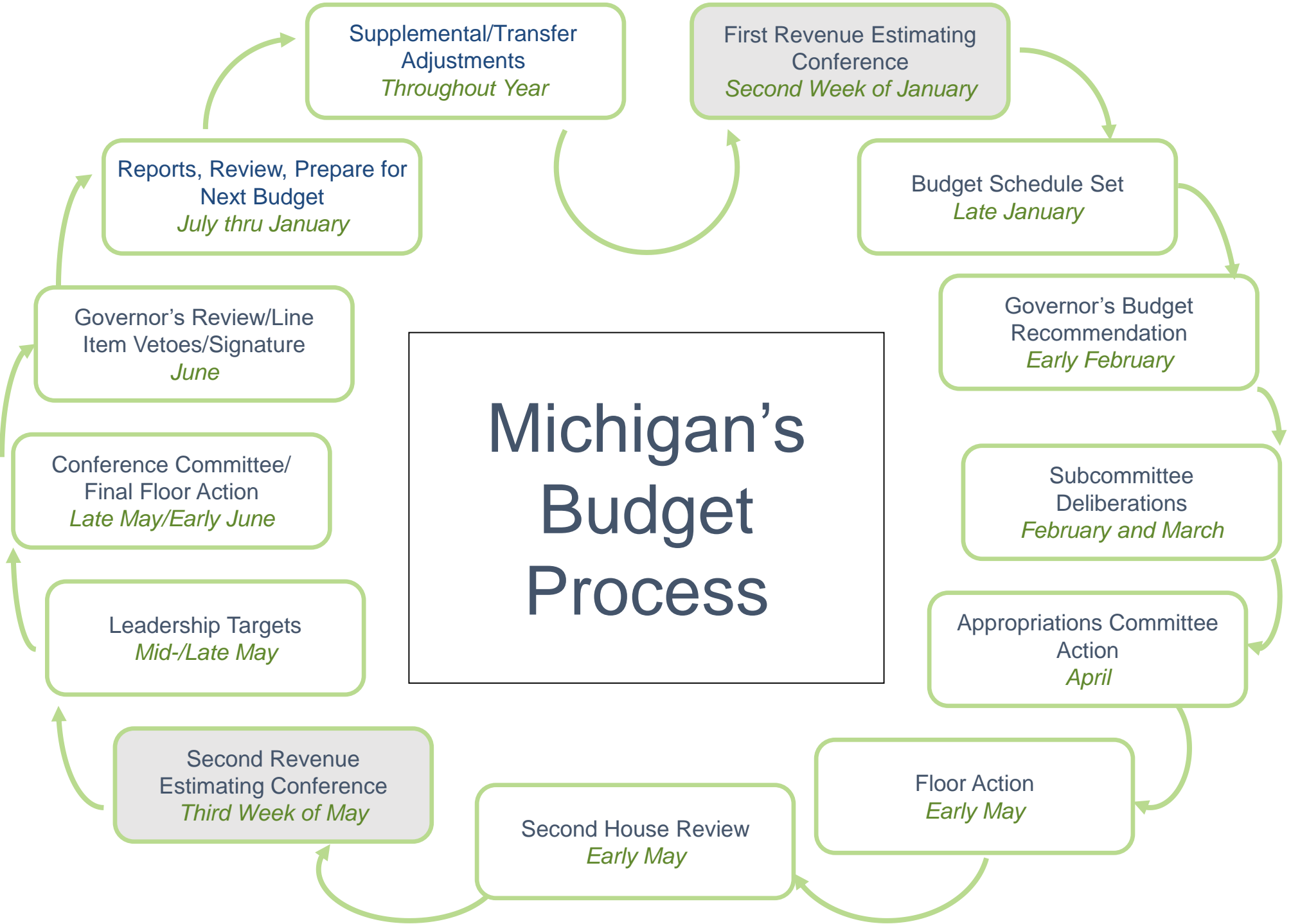
- FY 2016-17 budget relies on **\$65 million** in one-time SAF balance and **\$69 million** in GF/GP funds designated as one-time.
- MPSERS 2nd year of recognizing the reduction in long-term interest rate assumptions from 8% to 7.5% will cost another **\$150 million** in FY 2018-19.
- MPSERS next experience study is expected to update mortality tables which is likely to have significant cost impact by FY 2020-21.

Budget Stabilization Fund

- Estimated FY 2017-18 balance of **\$891 million** equates to 3.8% 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, no deposit would be required for FY 2017-18.

Budget Process

Michigan's Budget Process



For more information about the state budget:

HFA website

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

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