



CITIZENS RESEARCH COUNCIL OF MICHIGAN

# **Governor Snyder's FY2013 Budget Proposal**

Citizens Research Council of Michigan Webinar  
February 17, 2012

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## Outline

- US and Michigan economic update
- Status and update on FY2012 Budget
- Major themes in the proposal
- Highlights in major areas
- Assessment of the proposal



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# **US and Michigan Economic Update**



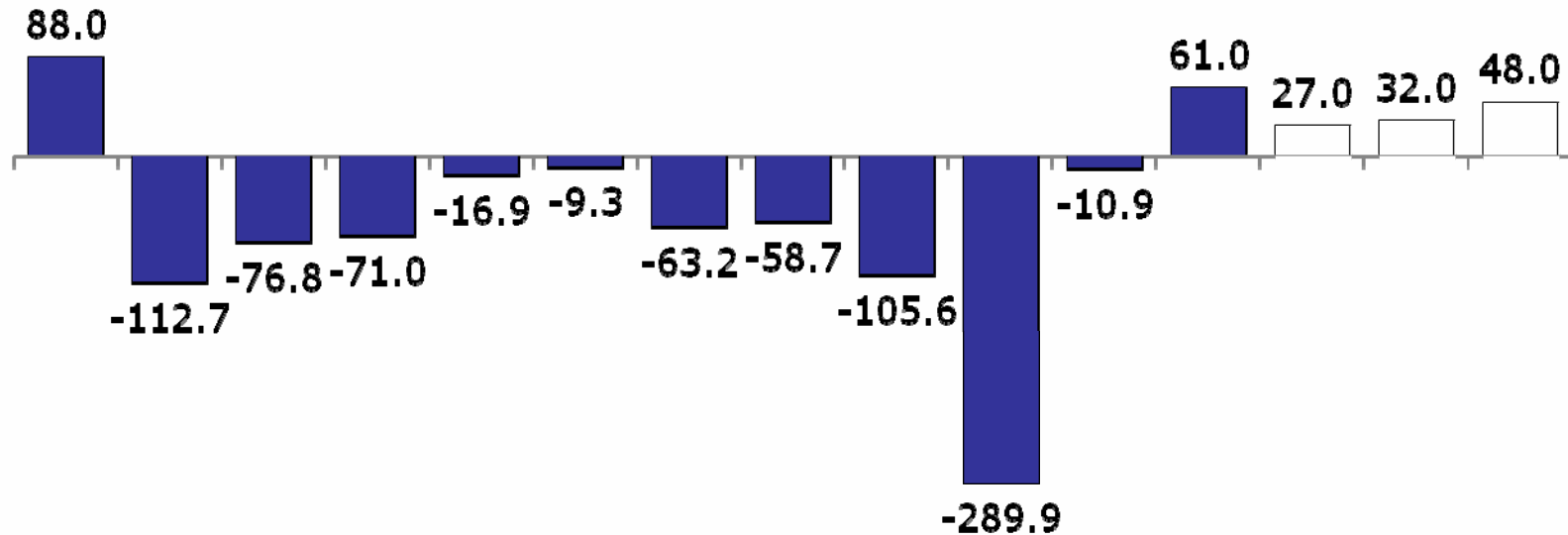
## What is the Outlook for the National Economy?

- Most forecasters see no recession, but growth is slow. Consensus estimate for real GDP 2.2% for 2011; 1.7% for 2012 and 2013, and 1.6% for 2014
- Housing, government spending declines, and Europe weigh on growth
- Recession fears of last summer have passed
- Job growth has been improving since August and January surprised on the upside with employment up 243,000. 2<sup>nd</sup> straight month over 200k
- Plenty of uncertainty on the horizon: Greece/Europe, Iran/Oil prices, automatic fed spending cuts and expiration of Bush tax cuts scheduled for 1/1/13



# Michigan Employment Grew in 2011 After 10 Consecutive Years of Decline

Average Annual Change in Payroll Employment ('000)

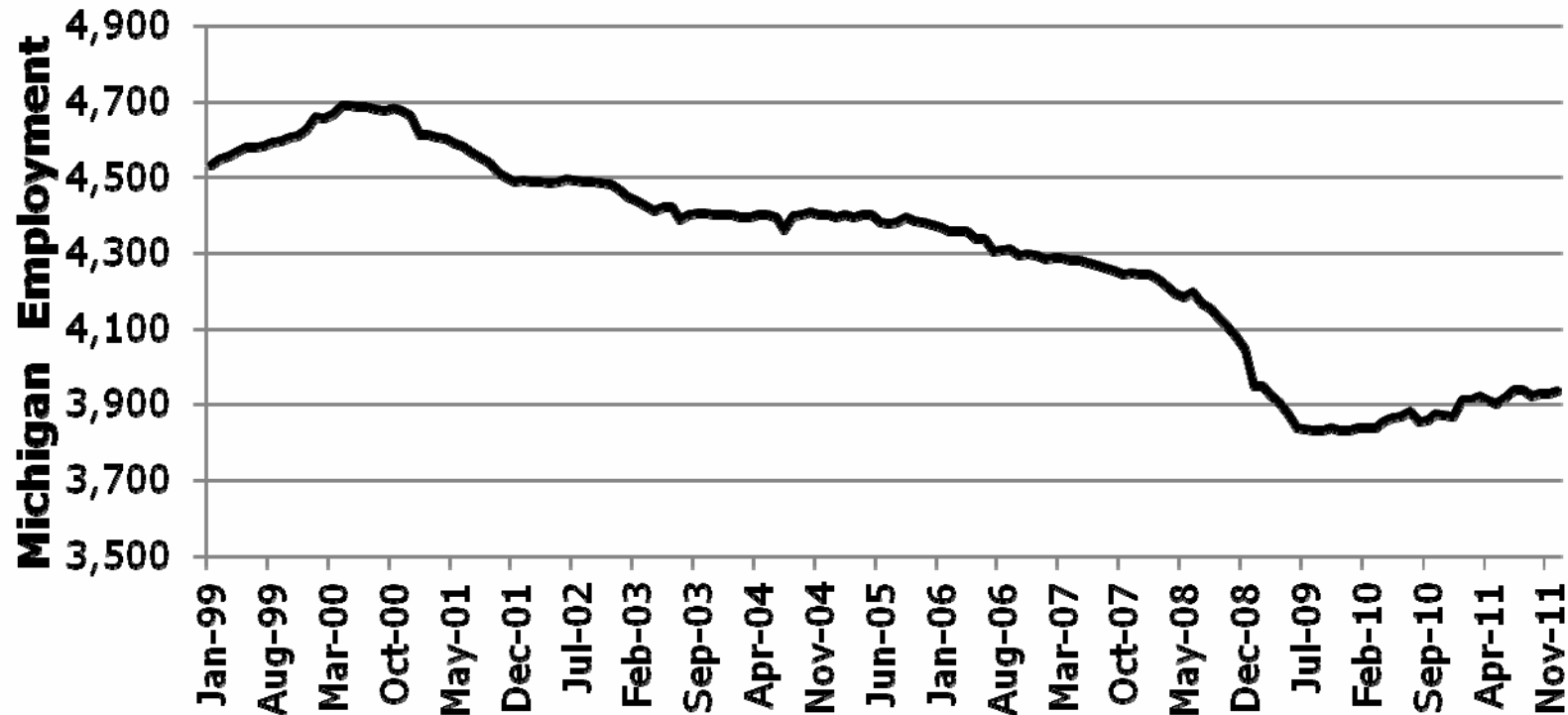


Avg. 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014  
92 to  
00

Source: U.S. Bureau of Labor Statistics and CRC calculations. 2011 total is preliminary. 2012 to 2014 are the January 2012 Consensus estimates.



# Michigan Employment Starts to Improve But Still Down 750,000 Jobs From Peak





## Revenue Estimates Up From May But FY2014 Below FY2011

	Change From May 2011			
	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
GF-GP	\$129.8	\$278.0	\$126.5	
SAF	<u>\$109.7</u>	<u>\$128.5</u>	<u>\$89.7</u>	
Total	\$239.5	\$406.5	\$216.2	

	Change From Prior Year's Revenue Total			
	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
GF-GP	\$1,134.5	\$217.4	\$4.1	\$201.4
SAF	\$431.2	(\$484.6)	\$291.3	\$304.7
Stimulus	<u>(\$401.0)</u>	<u>(\$1,120.0)</u>	<u>\$0.0</u>	<u>\$0.0</u>
	\$1,164.7	(\$1,387.2)	\$295.4	\$506.1





# **Status and Update of FY2012 Budget**



# FY2012 Budget Update

## *Economic Improvement*

- FY2012 budget completed in late May 2011 (based on May 2011 revenue estimates)
- Since then, marked improvement in condition of the budget, as result of improving economic situation
- Jan. 2012 revenue estimate: add'l \$407M from May
- Estimated FY2012 year-end balances:
  - General Fund surplus: \$70M to \$628M
  - School Aid Fund surplus: \$0 to \$119
- What to do with these add'l resources?
  - Some of it one-time in nature – result of FY2011 year-end balance increase
  - Some of it ongoing – result of economic conditions which will improve base going forward
  - Important consideration: use funds appropriately to maintain structural balance in budget (ongoing revenue = ongoing spending)



# One-Time vs Ongoing Spending

## *Key Distinction When Using Fund Balances*

- Designate items as “one-time” because ongoing revenues not sufficient to support spending
- Governments use “one-time” spending for a variety of reasons:
  - Address short-term needs
  - Pay down debt
  - Save for the future
- Substantial portions of FY2011 surpluses already designated as “one-time” spending in FY2012:
  - \$460M from the School Aid Fund
  - \$427M from the General Fund (including \$256M to the Rainy Day Fund)
- Governor’s plan exhausts fund balances in FY2013, either in “one-time” spending or deposited in the Rainy Day Fund



## **Major Themes**



## **Situation Facing Governor**

*Starting Point Different Than FY2012*

- Budget balanced (unlike FY2012 when faced with a \$1.5B shortfall in General Fund)
- Economic improvement translates to moderate revenue growth in both General and School Aid Funds
- Sizeable projected year-end FY2012 balances in both General and School Aid Fund budgets
- Pressures to restore funding, after cuts taken in FY2012
- Tax restructuring complete (although potential for personal property tax reform – affects locals mainly)
- Scheduled income tax rate cut (1/2013) costs \$133M



# Themes in Governor's Budget

*Continuation of FY2012*

- Structurally balanced in both General and School Aid Funds
- Some moderate funding increases in FY2013 – higher education, local government, public safety
- FY2014 budget - “planning budget” – basically flat
- “Best Practices” funding expanded to other areas
- “All money is green” – SAF for higher education
- Distinction between one-time and ongoing spending
- Build up reserves in Rainy Day Fund to \$388M
- Continue to pay down debt (state employee OPEB liabilities)



# Highlights



## K-12 School Aid Highlights

- Total spending: minimal increase (0.2%) for FY2013
  - But, \$460M in “one-time” spending in FY2012
  - Only \$150M designated as “one-time” in FY2013
  - Some “one-time” converted to ongoing spending, but remainder is removed
  - Ongoing spending: increase of \$214M or 2%
- Freezes foundation grants (min. \$6,846), continues \$470 cut
- Half-day kindergarten receives one-half foundation
- Continues “best practices” incentive funding
- Adds new student performance funding component
- Increases funding to help offset retirement costs
- Includes competitive grants to encourage consolidation





# Performance/"Best Practices" Funding

## *Adds New Programs*

- \$190M available to districts in two areas (up from \$154M in FY2012, but only \$50M is ongoing)
- New - approx. \$70M (up to \$100pp) for student achievement
  - \$30pp for math proficiency grades 3-8
  - \$30pp for reading proficiency grades 3-8
  - \$40pp for high school students across 4 years
- Approx. \$120M (est. \$78pp) for districts meeting 5 of 6 "best practices" - similar to current-year
  - Schools of choice, measure student growth 2X year, dual enrollment, online learning, health care policy holder (existing), and dashboard (existing)
- New - 5% of ISD general operation funding tied to districts meeting 4 of 5 "best practices"
  - Service consolidation plan, competitive bid non-instructional service, technology plan, dashboard, work with other ISDs



## K-12 Per-Pupil Funding

*Small Increase Offset by Retirement Rate Increase*

### Per-Pupil Funding Changes Compared to FY2012

	<u>FY2012</u>	<u>FY2013</u>	<u>FY2014</u>
Foundation (minimum)	\$ 6,846	\$ 6,846	\$ 6,846
Best Practice/Performance Funding	\$ 100	\$ 178	\$ 65
Retirement Contribution Incr. Cost Offset	\$ 100	\$ 115	\$ 115
Subtotal	\$ 7,046	\$ 7,139	\$ 7,026
% Change from FY2012		1.3%	-0.3%
Retirement Contribution Incr. (compared to '12)	\$ -	\$ (166)	\$ (215)
Net Change	\$ 7,046	\$ 6,973	\$ 6,811
% Change from FY2012		-1.0%	-3.3%

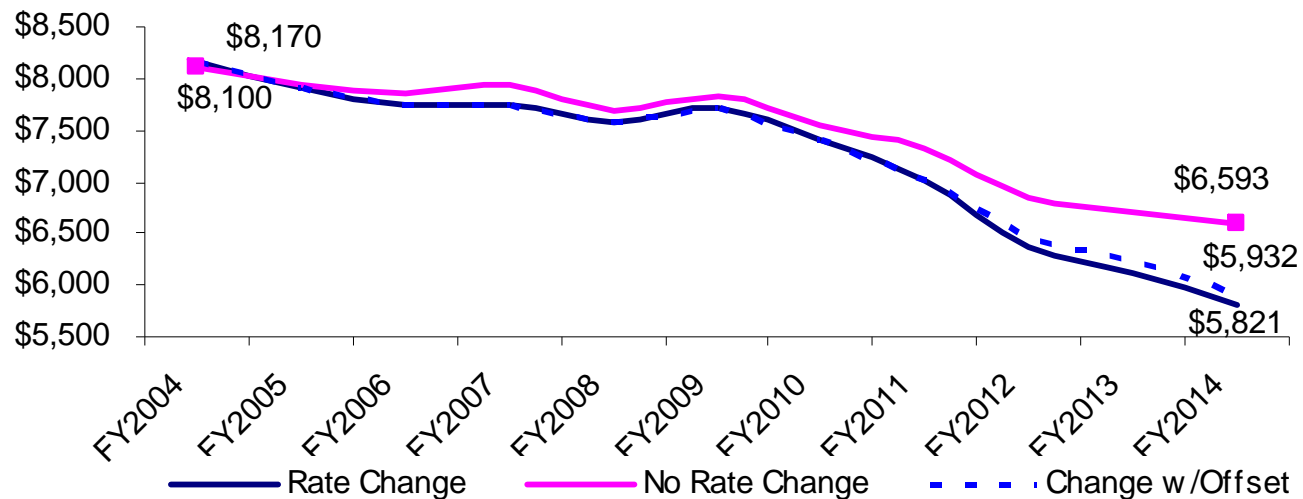
***Retirement Rate Increase: 24.5% in '12 to 27.4% in '13 of payroll***



# Further Deterioration of Foundation Grant

*Inflation and Retirement Contributions Reduce Value of Grant*

**Effect of MPSEs Retirement Contribution Rate Increases  
on Value of Foundation Grant\***



\* Basic/minimum grant adjusted for inflation (constant FY2012 dollars) and MPSEs rate changes since FY1995. Data for FY2004 to FY2014 (estimated) shown here. FY2012 to FY2014 includes MPSEs rate change offset funding.



## Community Colleges

### *Moderate Growth Tied to Performance*

- Total appropriation cut by 4% in FY2012 – ½ across-the-board and ½ based on performance indicators
- Overall 3% increase (\$9M) in FY2013 for new “performance funding” – designated critical skills areas (CSAs)
  - Amount varies by college based on degree completions in CSAs - range from 1.5% to 8.4%
- Small increase (\$1.7M) to help defray retirement cost increases associated with state-administered system
- Continues to use SAF (\$198M) for operational support



## Higher Education

*Moderate Growth but Short of Restoring FY2012 Cuts*

- University funding was cut 15% last year
- Overall 3% increase (\$36M) in FY2013 for new “performance funding” based on 4 factors
  - Growth in undergraduate degree completions, CSA completions, Pell Grant students, tuition restraint
  - Amounts vary by school – range from 0.9% to 7.6% (before tuition restraint allocation)
- Continues to use SAF (\$200M) for operational support



## Assistance to Local Governments

### *Small Increases*

- Constitutional payments (cities, villages, twps) to receive 2% increase based on sales tax growth
- Incentive funding (EVIP) for CVTs maintained at \$210M
- Counties revenue-sharing program replaced with new, incentive-based funding similar to CVTs
  - Increase of \$11M (only 75% of full amount)
- Increases funding (\$20M one-time) for competitive shared services grants to \$25M, allows counties to apply for funding



## Corrections

*Represents Over One-Fifth of General Fund Budget*

- Prison population reduced to 43,018 in 2011, down from historic peak of nearly 51,454 in 2006 (nearly 20% decline)
  - Court commitments remained stable, but moves to parole increased and fewer returns to prison
- General Fund spending declining, but not at same pace as prisoner population
- FY2013 budget increases General Fund spending by 1.6% - largely tied to employee pay/insurance
- Cost savings resulting from facility closures, position eliminations, and competitively bidding health care



## Building Up Reserves

- FY2012 budget included \$256M deposit to Rainy Day Fund, first since FY2000
- FY2013 proposal provides additional \$133M
- Still a way off from \$1.3B surplus at end of FY2000
- Reserves serve as hedge against economic improvement stalling and federal budget cuts
- Reserves used to help manage state's cash needs throughout the year
- Sends positive message to state's creditors





## State Workforce and Employee Compensation

*Further Shrinkage*

- 3% reduction in budgeted classified FTEs (53,314)
- Recognizes the cost increases associated with recently agreed-to collective bargaining agreements
  - Net increase of \$124M in compensation increases
  - Generally, 1% base pay inc. and 1% lump sum payment
  - Non-represented employees to receive 3% base pay inc. and 2% lump sum payment
  - 80/20 health care premium sharing effective FY2013 for all state workers
- Continues to prefund OPEB liabilities for state workers (\$465M)



# Assessment of Proposal



## Assessment

- Budget aided by improving economy and modest revenue growth
- FY2013 budget is balanced without using one-time revenues or other budget gimmicks for ongoing items, similar to FY2012
- Cautiously approaches funding increases; still a way to go to restore cuts implemented in FY2012
- Continues to build up reserves as hedge against economic improvement faltering and federal budget changes



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