



# Governor Snyder's FY2016 Budget Proposal

Citizens Research Council of Michigan Webinar  
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## Outline

- State Revenue Picture: Business tax uncertainties lead to negative revisions to forecasts
- Situation Facing Governor: Short-term budget shortfall and FY2015 reductions
- Governor's FY2016 budget: Highlights of major changes
- Assessment of the proposal: Budget pressures and long-term outlook

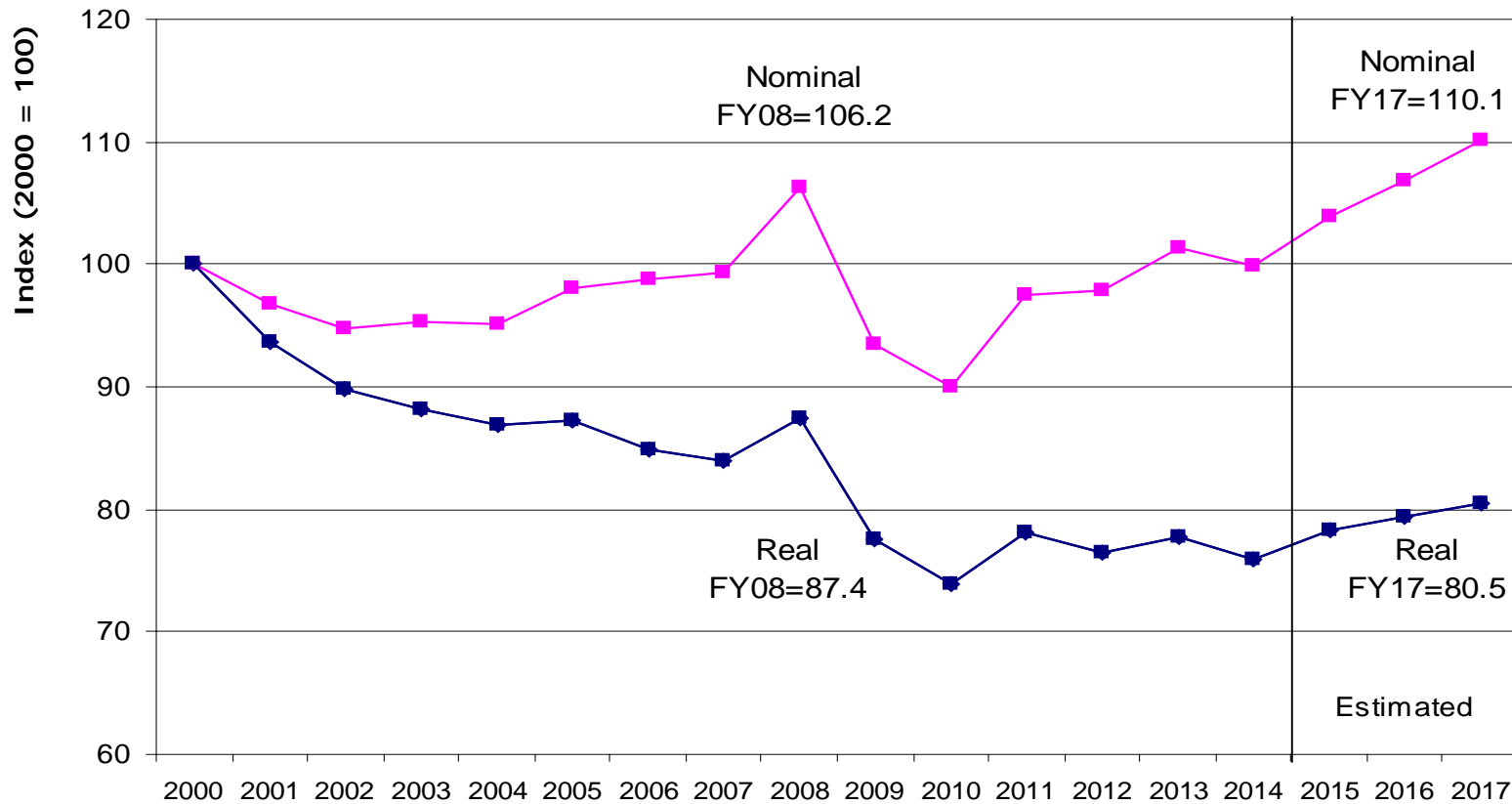


# State Revenue Picture



# Recent History of Major Revenue Funds

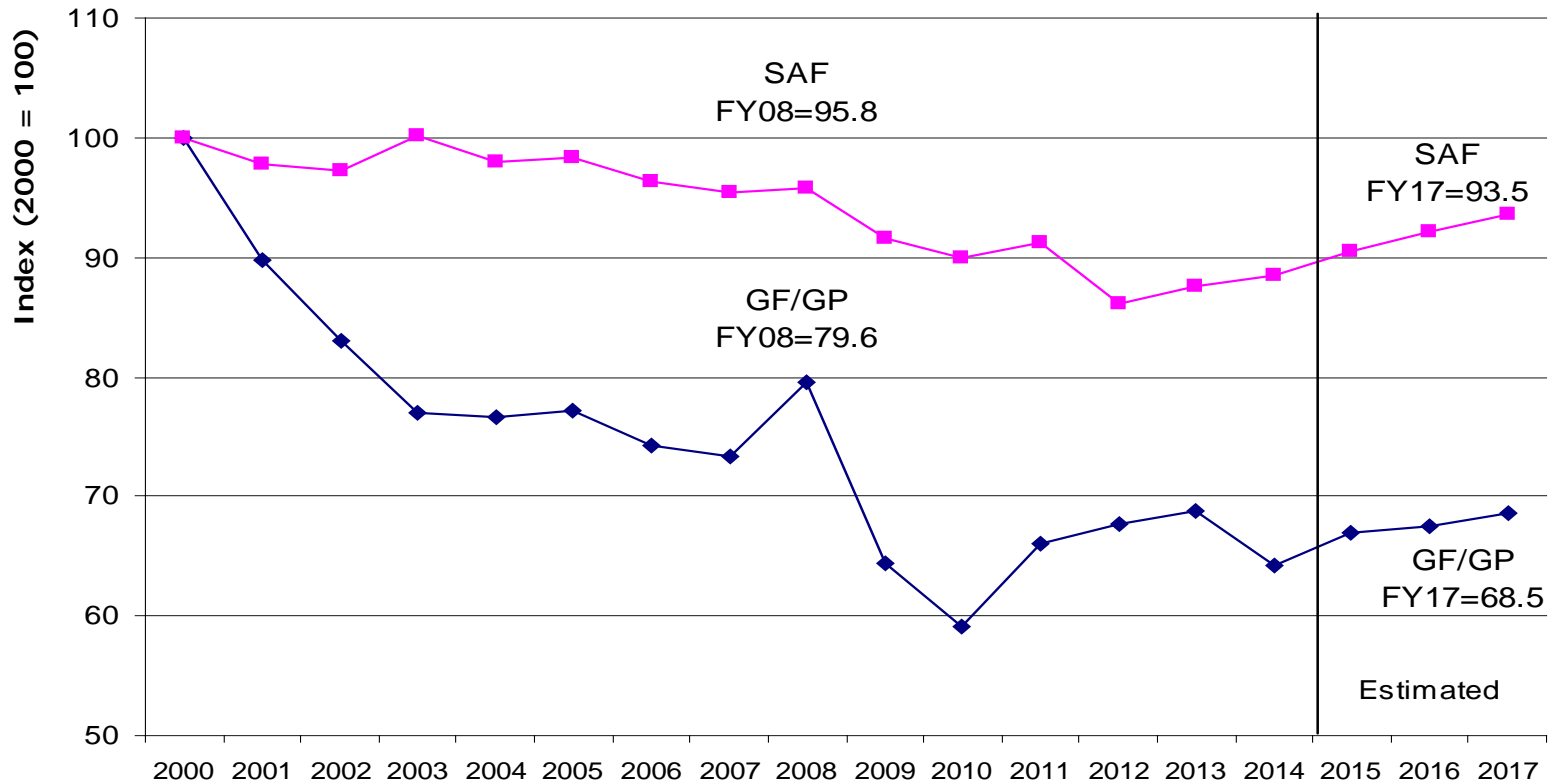
*Stable Revenue Growth, But Still Straining from 2000s*



Data: Revenue adjusted for inflation using Detroit-area Consumer Price Index.

# Inflation-Adjusted General Fund and School Aid Fund

*GF/GP Has Taken Greater Hits Over the Decade*

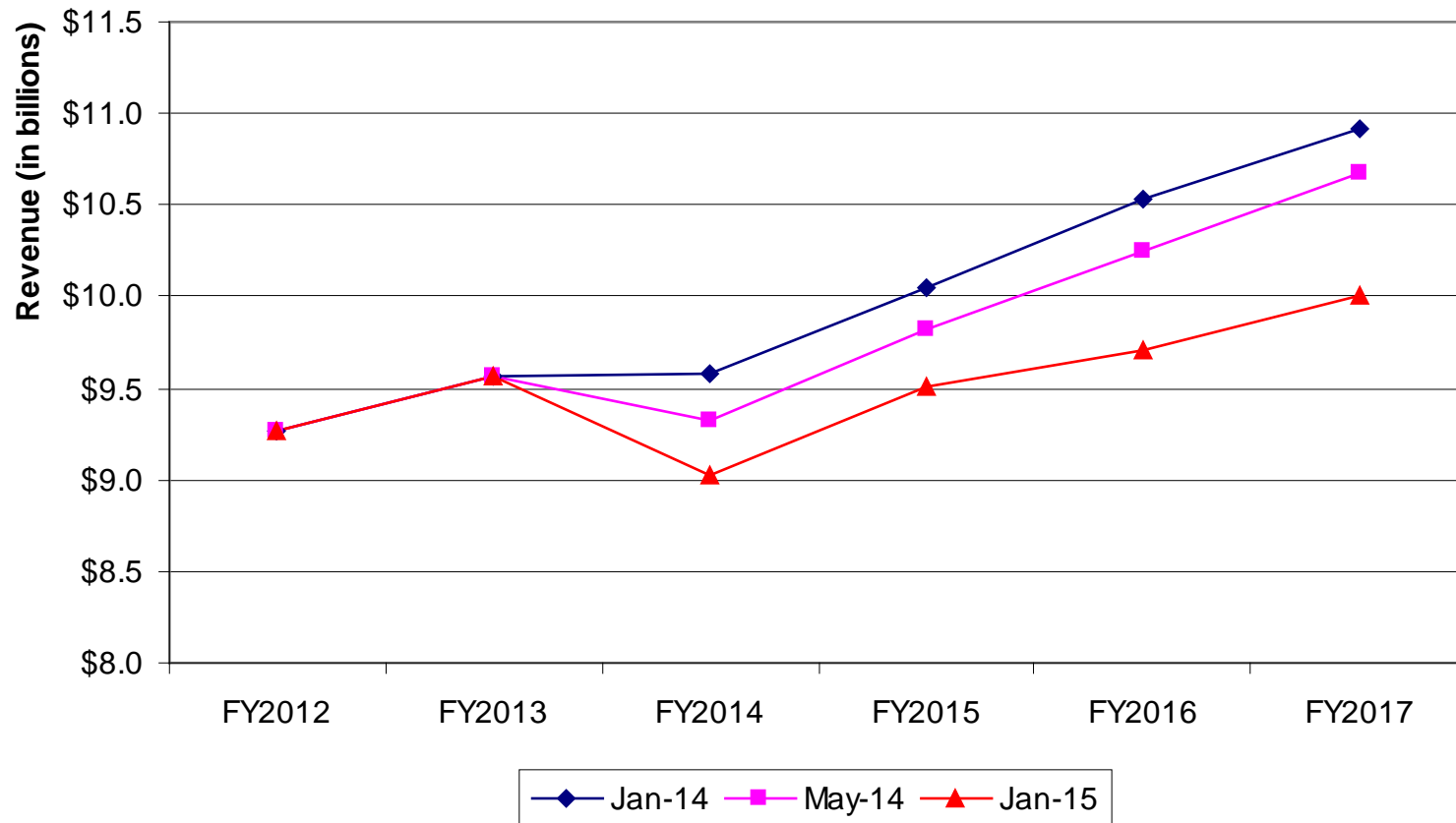


Data: Revenue adjusted for inflation using Detroit-area Consumer Price Index.



# Recent GF/GP Revenue Forecasts

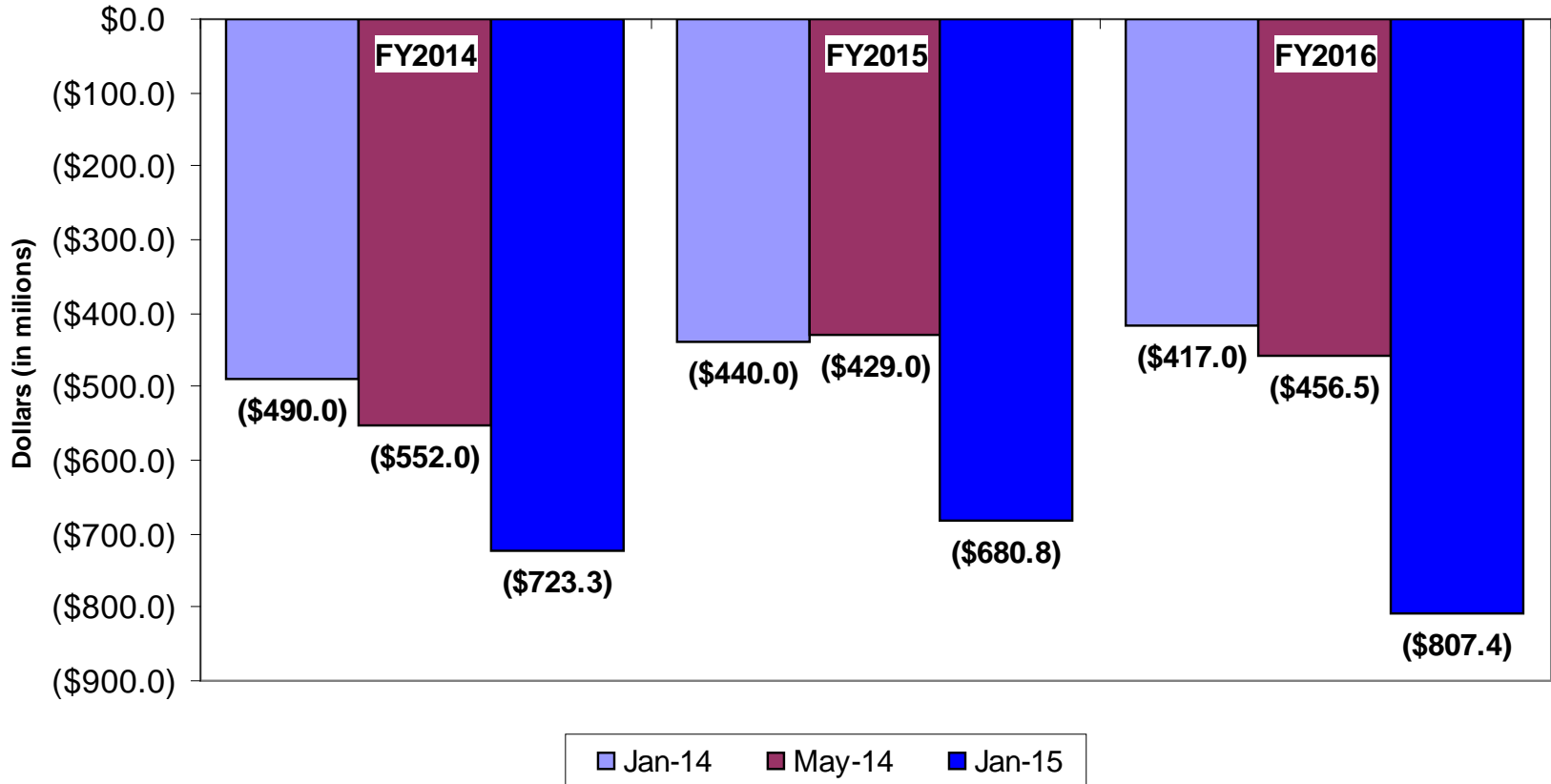
*Downward Revisions in both May and January*





# Michigan Business Tax Credits

*Increased Credit Claims Contribute to Revenue Downgrades*







# **Situation Facing the Governor Budget Shortfall**



# GF/GP Budget Shortfall for FY2015

*Shrinking Revenues Create New Imbalance*

	December (Pre-Consensus)		January (Post-Consensus)	
	FY2014	FY2015	FY2014	FY2015
<b>Beginning Balance</b>	\$1,186.6	\$607.2	\$1,186.6	\$306.4
<u>Revenues</u>				
<b>Consensus Revenue Estimates</b>	\$9,319.3	\$9,826.0	<b>\$9,018.5</b>	<b>\$9,501.4</b>
Revenue Sharing/Other Adjustments	(\$441.2)	(\$503.1)	(\$441.2)	(\$503.1)
Medicaid Managed Care Tax	\$164.6	\$373.7	\$164.6	\$373.7
<b>Total Adjusted Revenues</b>	<b>\$9,042.7</b>	<b>\$9,696.6</b>	<b>\$8,741.9</b>	<b>\$9,372.0</b>
<u>Expenditures</u>				
General Appropriations (non-MDOT)*	\$9,095.5	\$9,832.1	\$9,095.5	\$9,832.1
Transportation Appropriations	\$451.6	\$284.6	\$451.6	\$284.6
BSF Contributions	\$75.0	\$94.0	\$75.0	\$94.0
<b>Total Baseline Expenditures</b>	<b>\$9,622.1</b>	<b>\$10,210.7</b>	<b>\$9,622.1</b>	<b>\$10,210.7</b>
<b>Annual Revenues minus Expenditures</b>	<b>(\$579.4)</b>	<b>(\$514.1)</b>	<b>(\$880.2)</b>	<b>(\$838.7)</b>
<b>Ending Balance</b>	<b>\$607.2</b>	<b>\$93.1</b>	<b>\$306.4</b>	<b>(\$532.3)</b>

\* = FY14 general appropriations include year-end lapses



# FY2015 Reduction Proposals

## *Executive Order 2015-5*

- \$102.9 million in GF/GP reductions across state departments and agencies; represents a mix of unused funding, efficiencies on the margin, and true program cuts
- Larger reductions include
  - Disaster reserve funding - \$16M
  - Corrections food and facility efficiencies - \$8.5M
  - Adoption subsidies - \$6.5M
  - State Police Trooper and Motor Carrier Schools - \$6M
  - Hospital Graduate Medical Education - \$5M



# **FY2015 Reduction Proposals**

## *Negative Supplemental Request*

- \$443.4 million in additional GF/GP savings
- Largest components of the supplemental
  - Fund shifts of \$216.9M (including \$171M in shifts to School Aid Fund)
  - Medicaid caseload savings - \$100M
  - Reduced payment towards teacher retirement system liability - \$80M
  - State Building Authority rent - \$17.8M
  - State film incentives - \$12M
  - Everything else - \$16.7M



# Reduction Proposals in Perspective

*Different Looks at Budget Growth from FY14 to FY15*

	<b>FY2014</b>	<b>FY2015</b>	<b>Growth</b>
YTD Appropriations (Feb 11)	\$9,570.7	\$10,116.7	5.70%
<i>Executive Order 2015-5</i>		(\$102.9)	
<i>Proposed Supplemental</i>		(\$443.4)	
Adjusted Appropriations	\$9,570.7	\$9,570.4	0.00%
Subtract: Lapse	(\$234.9)	??	
Add: Fund Shifts		\$216.9	
Available Budget	\$9,335.8	\$9,787.3	4.84%



# **Governor's Budget Proposal for FY2016**



# Governor's FY2016 Proposal

## *Summary of Overall Changes*

	Original FY2015	Executive FY2016	Dollar Change	Percent Change
<b>Adjusted Gross</b>	<b>\$52,341,818,700</b>	<b>\$53,033,644,900</b>	<b>\$691,826,200</b>	<b>1.3%</b>
Federal	\$21,739,855,200	\$22,662,451,400	\$922,596,200	4.2%
Restricted	\$19,966,476,600	\$20,489,566,700	\$523,090,100	2.6%
Local/Private	\$518,782,800	\$401,173,800	(\$117,609,000)	-22.7%
<b>GF/GP</b>	<b>\$10,116,704,100</b>	<b>\$9,480,453,000</b>	<b>(\$636,251,100)</b>	<b>-6.3%</b>



# Governor's FY2016 Proposal

## *Budget Adjustments Restore Structural Balance*

	<u>FY2014</u>	<u>FY2015</u>	<u>FY2016</u>
<b>Beginning Balance</b>	<b>\$1,186.6</b>	<b>\$306.4</b>	<b>\$14.0</b>
<u>Revenues</u>			
Consensus Revenue Estimates - Jan '15	\$9,018.5	\$9,501.4	\$9,713.2
Revenue Sharing/Other Adjustments	(\$441.2)	(\$503.1)	(\$486.8)
Medicaid Managed Care Tax	\$164.6	\$373.7	\$377.7
<b>Total Adjusted Revenues</b>	<b>\$8,741.9</b>	<b>\$9,372.0</b>	<b>\$9,604.1</b>
<u>Expenditures</u>			
General Appropriations (non-MDOT)	\$9,095.5	<b>\$9,285.8</b>	<b>\$9,341.0</b>
Transportation Appropriations	\$451.6	\$284.6	\$139.5
BSF Contributions	\$75.0	\$94.0	\$95.0
<b>Total Baseline Expenditures</b>	<b>\$9,622.1</b>	<b>\$9,664.4</b>	<b>\$9,575.5</b>
<b>Annual Revenues minus Expenditures</b>	<b>(\$880.2)</b>	<b>(\$292.4)</b>	<b>\$28.6</b>
<b>Ending Balance</b>	<b>\$306.4</b>	<b>\$14.0</b>	<b>\$42.6</b>





# Education Highlights

## School Aid

- Total spending increase of 0.6% from FY2015
  - \$13.8B - ongoing spending (e.g., foundation grant, special ed., MPSEERS)
  - \$115M - one-time spending (e.g., technology grants, distressed districts)
- Areas of focus:
  - Small per-pupil foundation increase
  - Another sizeable retirement contribution
  - Significant increase in “at-risk” funding
  - New - 3<sup>rd</sup> grade reading initiative / career tech. ed.
  - Additional funding for financially distressed districts
  - General Fund reduced \$69M to help balance budget

## Foundation Grant

*Small increase may be offset by loss of other funding*

- **Across-the-board increase**
  - \$75 per pupil (~ 1%)– \$108M million
  - Minimum grant – \$7,326/pupil
  - 4<sup>th</sup> increase, but smallest when equity included
  - Maintains \$840/pupil spread with basic grant
- **Increase potentially offset**
  - Modifications to other per-pupil allocations will eat away at foundation increase
  - Declining enrollment at district level will result in reduction of total revenue – two-thirds of districts affected



# Examples: Net Per-Pupil Funding

*Districts will be affected differently*

Examples:

	<u>District A</u>	<u>District B</u>	<u>District C</u>	<u>District D</u>
Foundation Increase	\$ 75	\$ 75	\$ 75	\$ 75
"Best Practices" Funding	\$ (30)	\$ (30)	\$ (30)	\$ (30)
"Performance" Funding*	<u>\$ (100)</u>	<u>\$ (70)</u>	<u>\$ (30)</u>	<u>\$ -</u>
<b>Net Per-Pupil Funding Change</b>	<b>\$ (55)</b>	<b>\$ (25)</b>	<b>\$ 15</b>	<b>\$ 45</b>

\* *Number of districts qualifying for this level of performance funding in FY2015*

28                      80                      147                      343

*Nearly all districts will see less than \$75 per pupil increase*



## Retirement Contributions

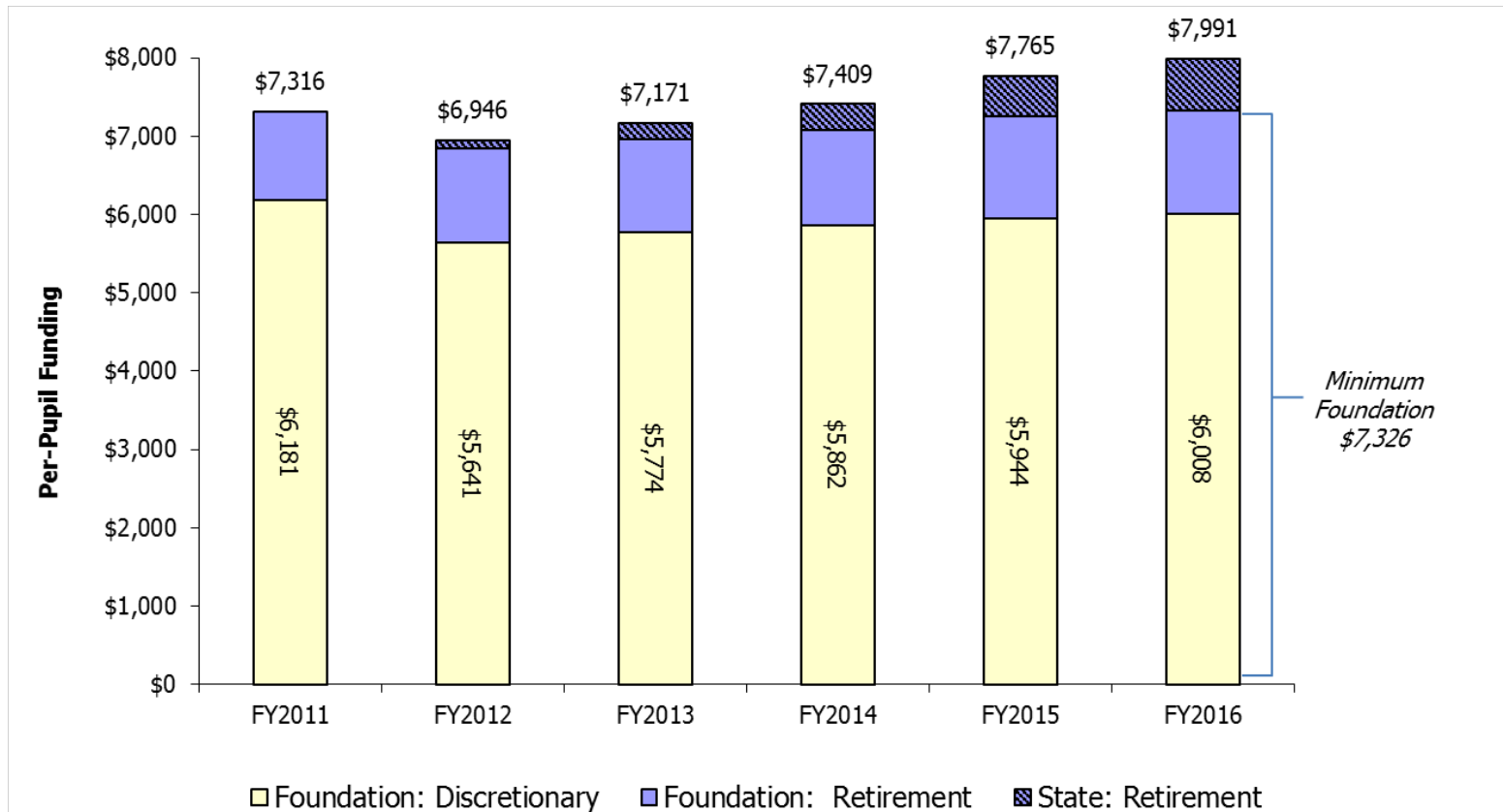
*Another large increase for state share of UAAL payment*

- Significant increase for state share of **MPSERS payment**
  - \$219M to maintain employer UAAL cap (\$894M total)
  - Add'l \$88M in FY2017 (\$982M total), then levels off
  - State payment equivalent to add'l 10.5% of payroll (~\$640/pupil)
  - Rate cap provides predictability for financial planning
- Maintains funding for **offset payment** - \$100M
  - District payment based on share of covered payroll, approx. \$70/pupil



# Retirement Costs and Per-Pupil Funding

*Combined contributions amount to \$2,000 per pupil*



Source: Senate Fiscal Agency and House Fiscal Agency Reports; Office of Retirement Services



## **“At-risk” Funding**

*First significant increase proposed in over a decade*

- “At-risk” funding increase of \$100M (\$409M total)
  - May ballot question would trigger \$40M for FY2015
- Per law changes last year, these funds are intended to ensure “at-risk” students:
  1. Are proficient in reading by end of 3<sup>rd</sup> grade, and
  2. Are career and college ready in high school
- Funding used for direct instructional and non-instructional services, but **not administrative costs**
- Currently funded well below statutory cap (11.5% of basic foundation amount ~ \$931/pupil)
  - Current payments prorated by \$315/pupil



## Third Grade Reading Initiative

*Goal to be "Top 10" improved state by 2019*

- Increased focus on improving reading proficiency levels by the end of third grade – multi-faceted approach proposed, but still in development
- Total of \$25M identified for FY2016:
  - Parent education pilot program – competitive grants
  - Professional development for district personnel
  - Diagnostic tools for early literacy in grades K-3
  - Hire early literacy coaches – competitive grants
  - Grants to districts to provide add'l instructional time to K-3 students in need of support (\$95/ 1<sup>st</sup> grader)
  - Establish clearinghouse of "best practices"





# Career/Tech Education

## *New program*

- \$17.8M School Aid Fund to provide grants to early/middle college programs throughout state (all 10 prosperity regions)
  - Regionalized focus based on:
    - a) Career clusters – proj. job openings, wages, etc.
    - b) Educational providers – districts, ISDs, universities
    - c) Outreach
  - Funding distributed by multiplying current enrollment by 50% of the prior year's CTE costs per FTE
- Expansion of the traditional use of School Aid Fund resources, similar to pre-K increases of last 2 years



# Fiscally Distressed School Districts

*Additional technical assistance, funding, and reporting*

- Enhanced resources to address financial and academic distress
  - New money for **inter-agency team** (Treasury and MDE) to develop “early warning” system
  - New \$75M **Distressed District Rehabilitation Fund** (few details provided)
  - Require new **Enhanced Deficit Elimination Plan**
- Pick up “early warning system” legislation from last session
- What is state’s policy for dealing with distressed districts?



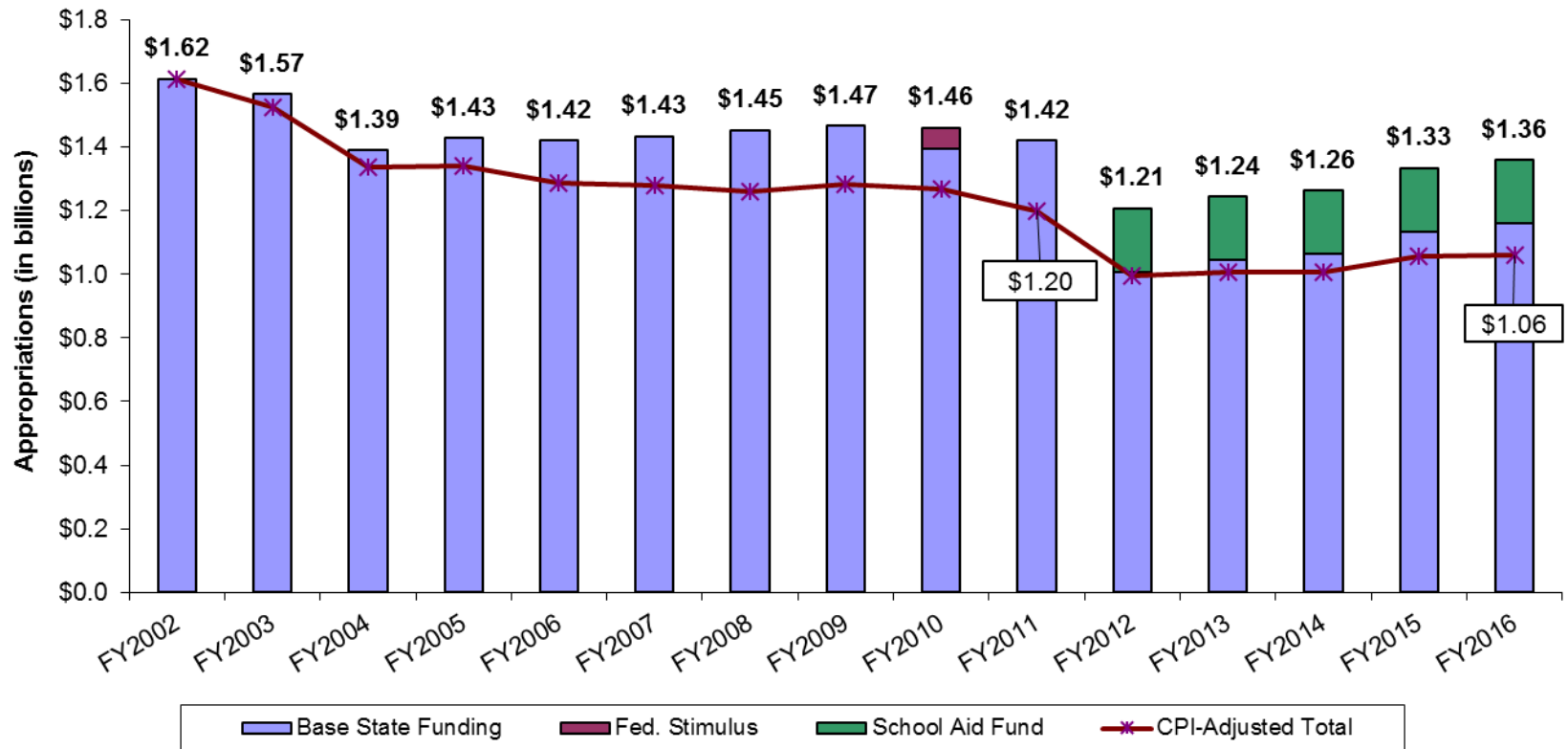
## Higher Education

*2% increase to continue restoration of FY2012 cuts*

- Add'l funding for operations, but no major changes in financial aid/scholarships
  - \$28M increase to basic operations
  - Individual school funding increases range from 0.6% to 4.0%
- Tuition restraint language (cap of 2.8%)
- Retirement contribution cap for 7 schools in MPSERS
- Continued use of School Aid Fund (\$205M total)
  - Proposal does not reflect constitutional changes on May 5 ballot

## University Operations Funding

*With increase, still below FY2011 level by 4%*



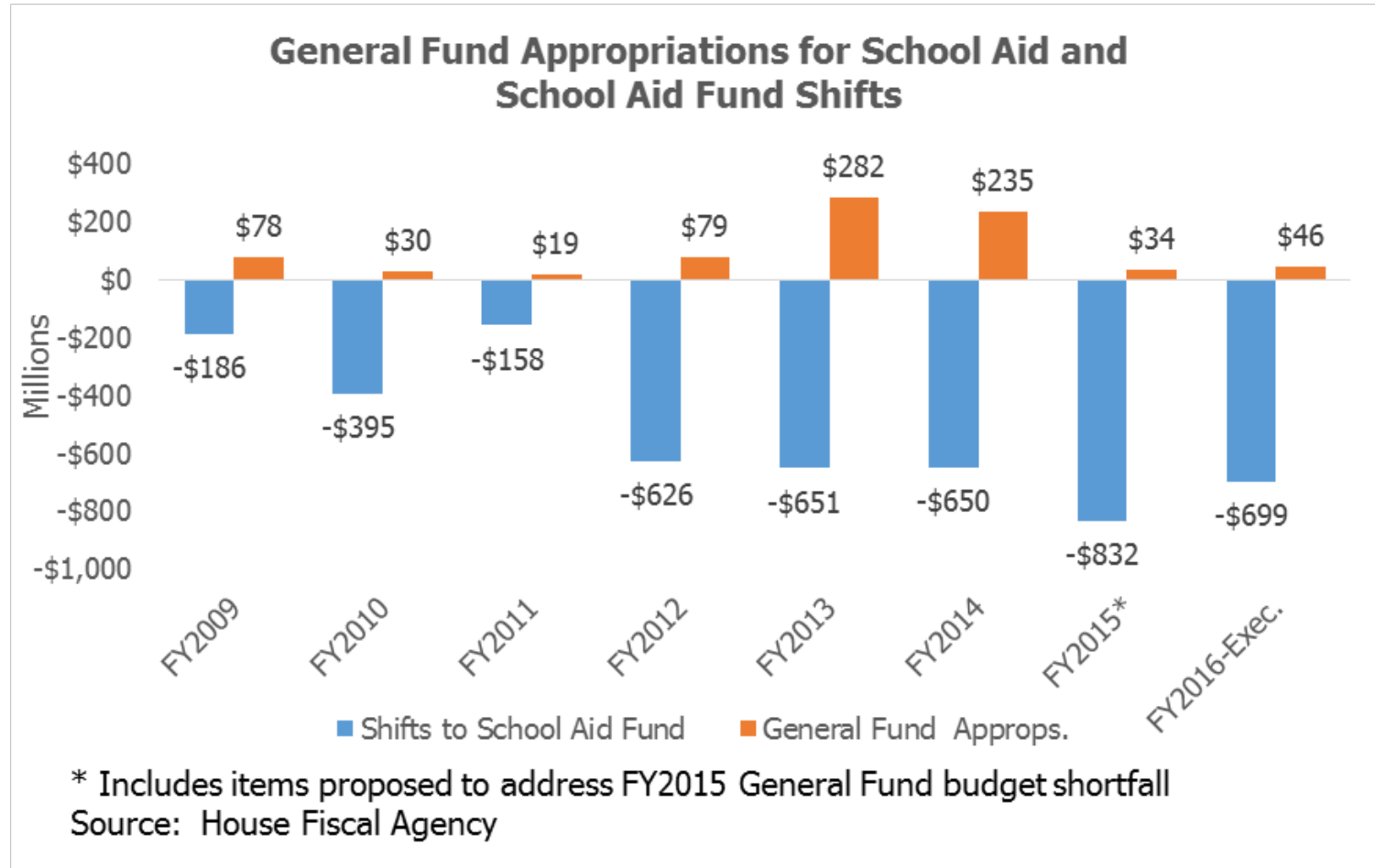


## Community Colleges

### *Inflationary increase for operations*

- \$4.3M increase in operations, distributed via modified performance funding formula
  - 50% based on last year's allocation
  - Individual school operational funding increases range from 1.2% to 1.9%
- \$17M added for state share of retirement costs (\$71M total) – capped employer contribution
- New - \$6M for Independent Part-time Student Grant – need-based award for adult students attending community colleges
- School Aid Fund supports \$230M, up \$34M from FY2015

# As General Fund Support for School Aid Shrinks, School Aid Fund is Stretched





# General Budget Highlights



# Local Revenue Sharing

## *FY2015 One-Time Allocations Eliminated*

- Constitutional payments (cities, villages, townships) up by 3.1 percent based on projected sales tax growth - \$23.8M
- Maintain discretionary funding of \$243 million for cities, villages, and townships and \$5 million for grants to financially distressed cities, villages, and townships
- One-time FY2015 allocations of \$5.8 million for cities, villages, and townships and \$3.0 million for financially distressed cities, villages, and townships are discontinued
- County revenue sharing up 1.7 percent to reflect two new counties coming back on-line for standard revenue sharing payments - \$3.6M





# Local Revenue Sharing

*Examples of the Impact of One-Time Allocations*

		FY2014	FY2015	Annual % Chg	FY2016 (Exec)	Annual % Chg
Midland Township (Midland County)	Constitutional	\$171,559	\$177,492	3.5%	\$183,026	3.1%
	Discretionary	\$0	\$0	n/a	\$0	n/a
	<b>Total</b>	<b>\$171,559</b>	<b>\$177,492</b>	<b>3.5%</b>	<b>\$183,026</b>	<b>3.1%</b>
City of Clare (Clare County)	Constitutional	\$230,372	\$238,338	3.5%	\$245,769	3.1%
	Discretionary	\$68,847	\$70,950	3.1%	\$70,950	0.0%
	<b>Total</b>	<b>\$299,219</b>	<b>\$309,288</b>	<b>3.4%</b>	<b>\$316,719</b>	<b>2.4%</b>
East Bay Township (Grand Traverse County)	Constitutional	\$799,885	\$827,546	3.5%	\$853,352	3.1%
	Discretionary	\$0	\$28,221	n/a	\$0	-100.0%
	<b>Total</b>	<b>\$799,885</b>	<b>\$855,767</b>	<b>7.0%</b>	<b>\$853,352</b>	<b>-0.3%</b>



## Community Health

### *Combination of Program Enhancements and Reductions*

- **Cut Medicaid reimbursement** for laboratory services paid by Medicaid HMOs from Medicare rate to Medicaid fee-for-service rate – savings of \$31.9 million gross, \$10.9 million GF/GP
- **Healthy Kids Dental:** expanded to Wayne, Oakland, Kent Counties for children up to age 8 - \$21.8M gross, \$7.5M GF/GP
- **Provide Medicaid adult dental** coverage for up to 600,000 low-income adults - \$23.0 million gross, \$7.9 million GF/GP
- **Autism services:** coverage expanded to age 21 and one-time service capacity grants to five Michigan universities
- Reductions to hospital payments targeting **Graduate Medical Education** and **Rural Hospitals**; Governor proposes shifting funding to provider assessments



# Health Insurance Claims Assessment

*Governor Proposes Legislative Changes to Save GF/GP*

- HICA assessed on paid claims made health insurers, third-party administrators, and self-insured entities
- Governor proposes two changes beginning in FY2016
  - Tax rate: increase from 0.75 percent to 1.3 percent
  - Eliminate current cap of \$450 million imposed on combined revenue of HICA and Medicaid managed care use tax
- Revenue: additional revenue of \$180 million will offset GF/GP in the FY2016 Community Health budget

# Human Services

## *Foster Care and Adoption Subsidy Reductions*

- **Foster Care Reimbursement Rates**
  - Eliminates \$3 daily rate increase for private child placing agencies - \$5.5 million GF/GP savings
  - Eliminates rate increase for private residential providers of foster care services - \$3.3M GF/GP savings
  - Rate increases were tied to greater state cost sharing for these services
- **Adoption Subsidy Redeterminations**
  - Reduces funding for adoption subsidy redeterminations for children with special needs - \$6.5M GF/GP savings



# Child Development and Care Program

## *Expanded Access to Child Subsidies*

- **Child Care Subsidy Policy Changes - \$23.6 million in federal funding**
  - Ensures 12-month continuous eligibility for subsidies regardless of income changes
  - Increases exit income threshold to 250 percent of federal poverty level
  - Increases reimbursement rates for high-quality providers as determined by state's quality rating system
- **Child Care Licensing Staff - \$5.7 million in federal funding**
  - Allows for an additional 39 child care licensing consultant and manager positions within Department of Human Services



# Transportation Funding

*No Assumptions Related to Ballot Proposal*

- Budget does not include any additional funding that might be generated through voter approval of Proposal 2015-1
- Governor proposes \$139.5 million in GF/GP for MDOT to ensure that all available federal transportation aid can be matched
- GF/GP subsidy is down from prior years

	FY2014	FY2015	FY2016 (Exec)
GF/GP Contribution	\$336,600,000	\$284,647,900	\$139,521,100
Roads and Risks Reserve Fund	\$115,000,000		
<b>Total Added Funding</b>	<b>\$451,600,000</b>	<b>\$284,647,900</b>	<b>\$139,521,100</b>



# Fee Increases Enhance Revenues

*\$12.9 Million Increase in Restricted Revenue*

- Retail liquor license fees: \$6.2M
- Renewable Operating Permit (air quality) fees: \$2.2M
- Pesticide registration/fertilizer inspection fees: \$1.2M
- Retail food establishment fees: \$1.5M
- Commercial feed tonnage and license fees: \$0.5M
- Health care facility inspection fees: \$1.3M



## Savings for Future Needs

- Governor proposes an additional \$95 million deposit for FY2016 into the Budget Stabilization Fund
- Planned deposit combined with FY2015 deposit of \$94 million and interest earnings is projected to result in fund balance of \$610 million by close of FY2016 – about 2.8% of combined GF/GP and SAF revenues
- Governor does not renew proposal to create a new Health Savings Sub-fund to bank Medicaid expansion savings





# Assessment of Proposal



# Future Budget Pressures

*What Happens in FY2017 and Beyond?*

- Transportation Funding: If May ballot proposal fails, back to the drawing board on transportation funding; will state continue to invest GF/GP in roads?
- Medicaid Managed Care Use Tax: Federal government has signaled that states must discontinue this type of provider tax
- State Medicaid Match: Medicaid expansion will require state matching funds beginning in FY2017



## Assessment

- Budget reductions through Executive Order and proposal supplementals are sufficient to bring structural balance once again
- Future budget pressures could lead to GF/GP shortfalls down the road
- Voters actions on May ballot proposal will have big ramifications on structural balance – either positive or negative



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