



Governor Snyder's FY2014 Budget Proposal

Citizens Research Council of Michigan Webinar
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Outline

- Economic outlook and state revenue picture
- Status of FY2013 budget
- FY2014 Governor's budget: high-level overview
- Highlights of major changes
- Assessment of the proposal

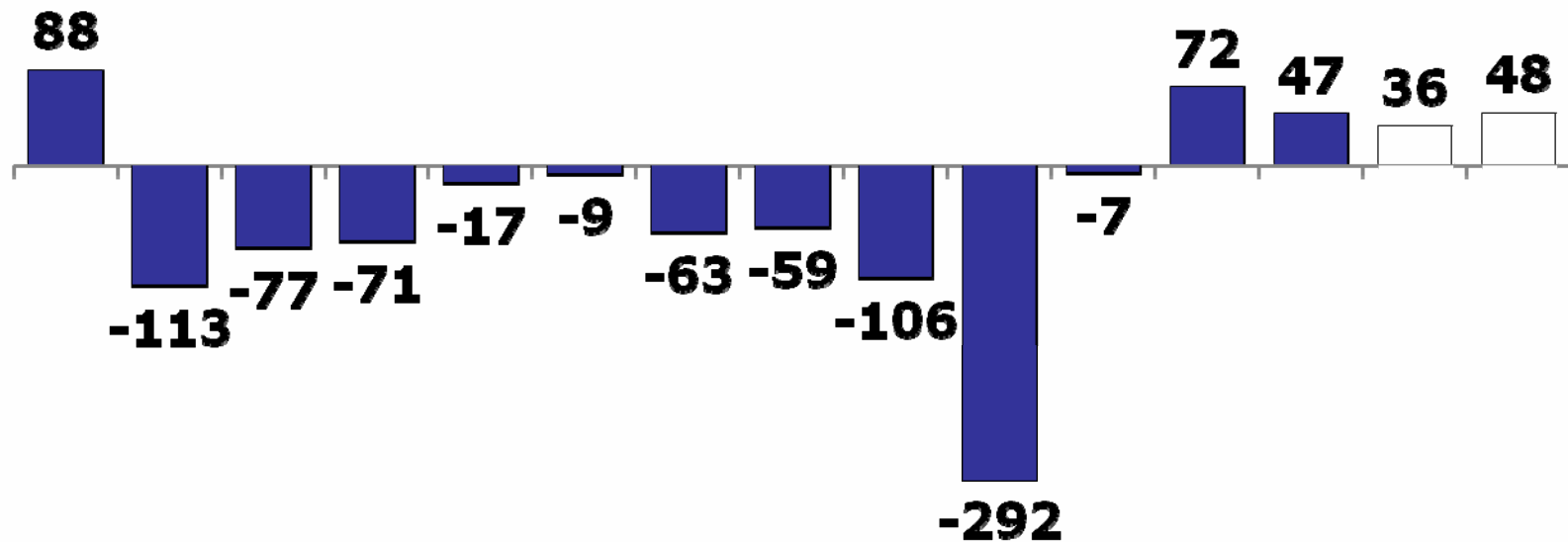


Economic Outlook, Revenues and Status of FY2013 Budget



Michigan Employment Grows Modestly in 2013 and 2014

Annual Employment Growth (thousands of jobs)



Avg 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014
92 to
2000



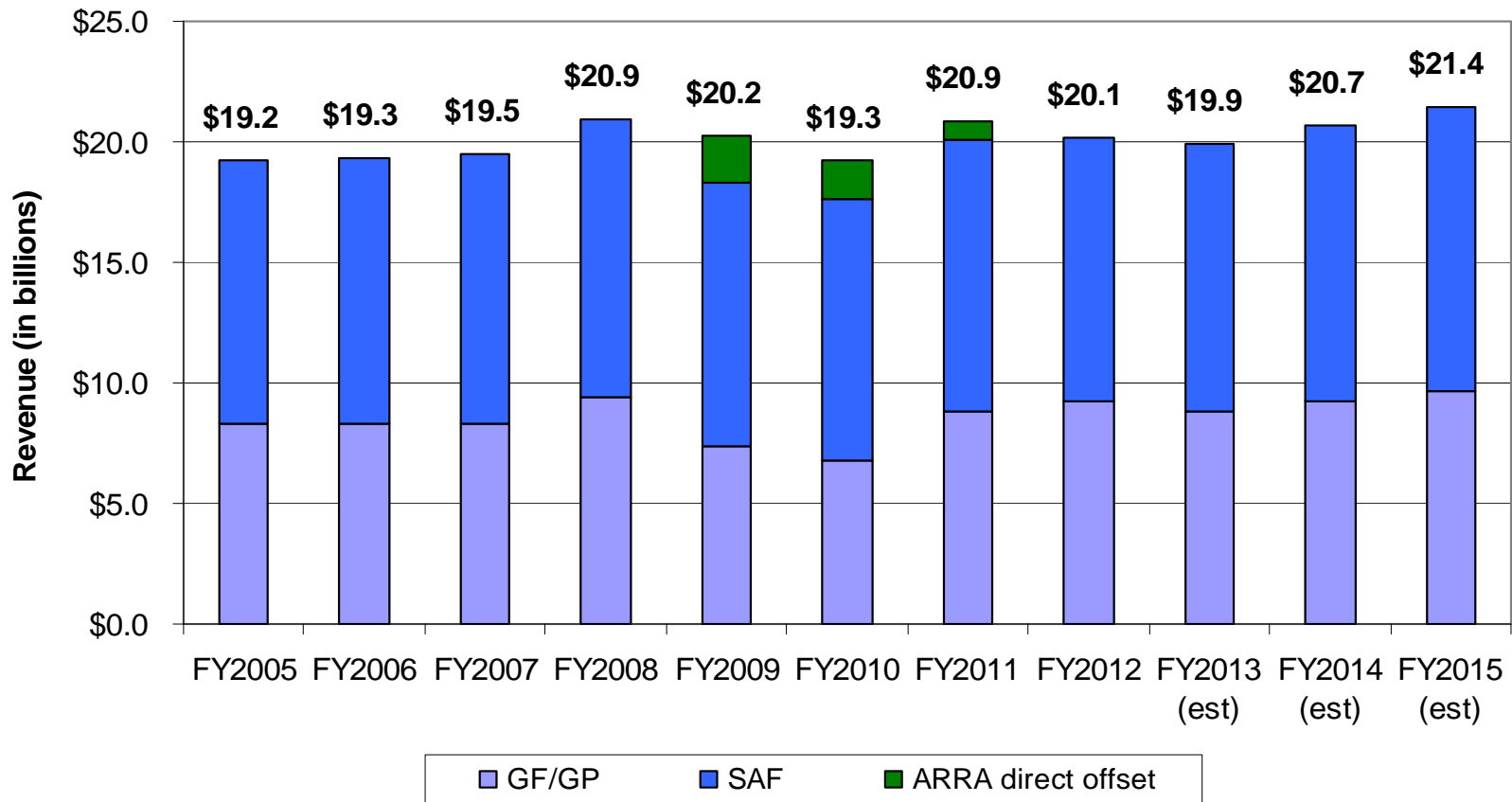
Revenue Estimates Down in FY2013; but up for FY2014 and FY2015

| January 2013 Consensus Revenue Estimates | | | | | |
|---|-----------------|-----------------|---------------------|---------------------|---------------------|
| | Final FY2011 | Final FY2012 | Estimated FY2013 | Estimated FY2014 | Estimated FY2015 |
| GF/GP revenue | \$8,813.0 | \$9,265.2 | \$8,792.3 | \$9,264.4 | \$9,640.0 |
| Chg from prior yr | | 5.1% | -5.1% | 5.4% | 4.1% |
| SAF revenue | \$11,248.2 | \$10,878.8 | \$11,127.7 | \$11,432.5 | \$11,768.8 |
| Chg from prior yr | | -3.3% | 2.3% | 2.7% | 2.9% |
| Change from May 2012 Consensus Revenue Estimates | | | | | |
| | | <u>FY2012</u> | <u>FY2013</u> | <u>FY2014</u> | |
| GF/GP | | \$200.8 | (\$177.7) | \$5.4 | |
| Chg from May 2012 | | 2.2% | -2.0% | 0.1% | |
| SAF | | \$2.7 | (\$41.7) | (\$39.0) | |
| Chg from May 2012 | | 0.0% | -0.4% | -0.3% | |



Recent History of Major Revenue Funds

Revenues Just Getting Back to FY2011 Levels





FY2013 Budget Update

One-Time Expenditures reduce, but do not eliminate, major fund balances

| | <u>GF/GP</u> | <u>SAF</u> |
|--|----------------|----------------|
| Beginning Balance | \$987.4 | \$254.0 |
| <u>Revenues</u> | | |
| Consensus Revenue Estimates | \$8,792.2 | \$11,127.7 |
| EVIP/Revenue Sharing/Other Adjustments | (\$369.4) | |
| <u>Expenditures</u> | | |
| GF/GP: Ongoing Expenditures | \$8,653.8 | |
| GF/GP: One-time School Aid Expenditures | \$181.4 | |
| GF/GP: One-time other Expenditures | \$184.4 | |
| GF/GP: One-time BSF deposit | \$140.0 | |
| SAF: K-12 Expenditures | | \$10,961.2 |
| SAF: Postsecondary Expenditures | | \$398.1 |
| New FY2013 Executive supplemental requests | (\$27.9) | (\$27.5) |
| Ending Balance | \$278.5 | \$49.9 |



Governor's Budget Recommendation: The Big Picture



Situation Facing Governor

- Surpluses in both GF/GP and SAF with the potential for stable growth in revenue in both FY2014 and FY2015
- Stability shifts decision-making from “how to cut” to “how to spend”
 - Restore previous budget cuts?
 - Revise budget priorities with new programs?
 - Save dollars today to invest in the future?
- State still faced with escalating retirement legacy costs in the short run
- Growing public and political dialogue on two issues that DON'T affect discretionary dollars: roads and health care



Governor's Proposal

Summary of Ongoing and One-Time Funding Changes

| | <u>Gross</u> | <u>GF/GP</u> | <u>SAF</u> |
|---|-------------------|------------------|-------------------|
| FY2013 Ongoing Year-to-Date Appropriations | \$49,033.0 | \$8,653.8 | \$11,359.3 |
| FY2014 Executive - Ongoing | \$51,305.5 | \$8,850.7 | \$11,439.4 |
| Growth from FY2013 Ongoing Appropriations | 4.6% | 2.3% | 0.7% |
| One-Time Funding Proposals: | | | |
| Continuation of FY2013 one-time appropriations | \$76.2 | \$39.8 | \$0.0 |
| New FY2014 one-time appropriations | \$125.9 | \$96.0 | \$0.0 |
| K-12: one-time equity increase and grants | \$99.5 | \$50.0 | \$49.5 |
| FY2014 Executive - Ongoing plus One-Time | \$51,607.1 | \$9,036.5 | \$11,488.9 |
| Growth from FY2013 Ongoing Appropriations | 5.2% | 4.4% | 1.1% |
| BSF and Health Savings Fund deposits | \$185.0 | \$185.0 | \$0.0 |



Governor's Proposal

Balances reduced, but deposits for rainy day continue

| | GF/GP | | SAF | |
|--------------------------------|------------------|------------------|-------------------|-------------------|
| | FY2014 | FY2015 | FY2014 | FY2015 |
| Beginning Balance | \$278.5 | \$15.8 | \$49.9 | \$1.3 |
| <u>Revenues</u> | | | | |
| Consensus Revenue Estimates | \$9,264.4 | \$9,639.9 | \$11,432.5 | \$11,768.8 |
| Revenue Sharing | (\$380.6) | (\$358.6) | | |
| Blue Cross tax impact | \$62.0 | \$75.0 | | |
| Other adjustments | \$6.0 | \$8.0 | \$7.8 | \$23.4 |
| Total Adjusted Revenues | \$8,951.8 | \$9,364.3 | \$11,440.3 | \$11,792.2 |
| <u>Expenditures</u> | | | | |
| Ongoing expenditures | \$8,850.7 | \$9,034.7 | \$11,439.4 | \$11,791.3 |
| One-time expenditures | \$135.8 | \$4.0 | \$49.5 | \$0.0 |
| GF/GP contribution to SAF | \$50.0 | \$0.0 | | |
| Total Expenditures | \$9,036.5 | \$9,038.7 | \$11,488.9 | \$11,791.3 |
| BSF deposit | \$75.0 | \$150.0 | | |
| Health Savings Fund deposit | \$103.0 | \$137.8 | | |
| Ending Balance | \$15.8 | \$53.6 | \$1.3 | \$2.2 |



Budget Risk Factors

Pending Issues with Significant Budgetary Implications

- Health Insurance Claims Assessment – shortfall addressed in FY2013, but long-term fix needed
- Federal disallowance of DSH payments – potential need to pay back \$195.0 million to federal government
- Corrections – prison population has turned up modestly; further growth would bring significant new GF/GP costs



Highlights



Medicaid Expansion

under federal Affordable Care Act

- Coverage expanded to individuals with incomes up to 133% of federal poverty level: estimated 320,000 new recipients in FY2014; 470,000 by FY2021
- Federal government covers 100% of initial costs; state cost sharing begins in 2017 and grows to 10% by 2020

Current Medicaid Eligibles

- Children (up to 200% FPL)
- Parents/caretakers/young adults (up to 50% FPL)
- Elderly/disabled (up to 100% FPL)
- Certain childless adults (up to 33% FPL)

New Eligibles Under Expansion

- All adults (up to 133% FPL) starting on January 1, 2014



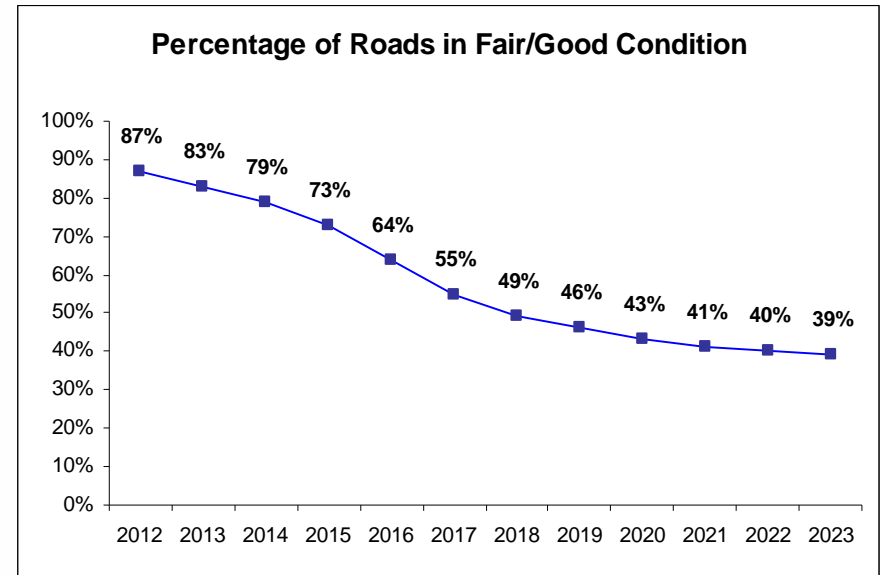
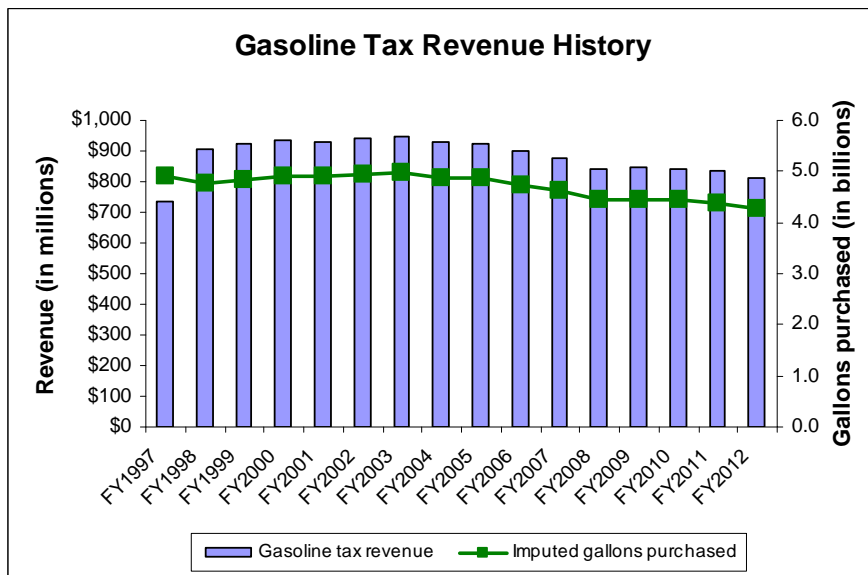
Medicaid Expansion

Costs, Savings, and new Health Savings Fund

- Cost of expanded coverage = \$1,564.9 million (all federal in FY 2014)
- State achieves GF/GP savings by shifting adults currently served by state-funded non-Medicaid programs to federally-funded Medicaid
- FY2014 savings anticipated with Community Health budget (\$181.7 million) and Corrections budget (\$24.2 million)
- Fifty percent of GF/GP savings achieved through 2020 to be deposited into new Health Savings Fund, a sub-fund within the Budget Stabilization Fund
- Health Savings Fund proceeds will be used to offset future state GF/GP contributions for Medicaid

Transportation Funding

Summary of the underlying problem



- Higher gas prices and increased fuel efficiency = less gasoline consumption
- Revenue from fixed \$.19/gallon gasoline tax declines
- Reduced revenue plus inflation negatively impact ability to finance road maintenance



Transportation Funding Proposal

Combined Motor Fuel Tax and Vehicle Registration Increases

| | <u>Current Rate</u> | <u>Proposed Rate</u> | <u>New FY2014 Revenue</u> |
|--------------------------------------|---|--------------------------|-------------------------------|
| Gasoline Tax | \$0.19/gallon | \$0.33/gallon | \$598.7 million |
| Diesel Fuel Tax | \$0.15/gallon | \$0.33/gallon | \$129.0 million |
| Registration Taxes | Light vehicles - increase 60% Large trucks/trailers - increase 25% | | \$508.3 million |
| | NEW STATE REVENUE | | \$1,236.0 million |
| County option - vehicle registration | Up to 0.18% of vehicle list price | | \$280.0 million |
| | TOTAL POTENTIAL REVENUE | | \$1,516.0 million |



Transportation Funding Distribution

Governor proposes revised formula for road funding

- Retains 2% gasoline tax earmark to **Recreation Improvement Fund** and 10% net Michigan Transportation Fund (MTF) contribution to **Comprehensive Transportation Fund** (public transit)
- Local road agencies and MDOT's State Trunkline Fund receive "baseline" allocations based on FY2012 distributions
- **Basic Industry Logistics Transportation (BILT) Fund** – replaces Transportation Economic Development Fund and receives \$55.4 million of the new revenue; competitive grant program assisting transportation projects that support private investment in manufacturing, tourism and agriculture
- **Commercial Corridor Fund** – receives remaining MTF revenues of \$1,131.8 million. Funding emphasis on key commercial corridors related to economic development; Administration proposes to work with Legislature on statutory distribution formula.



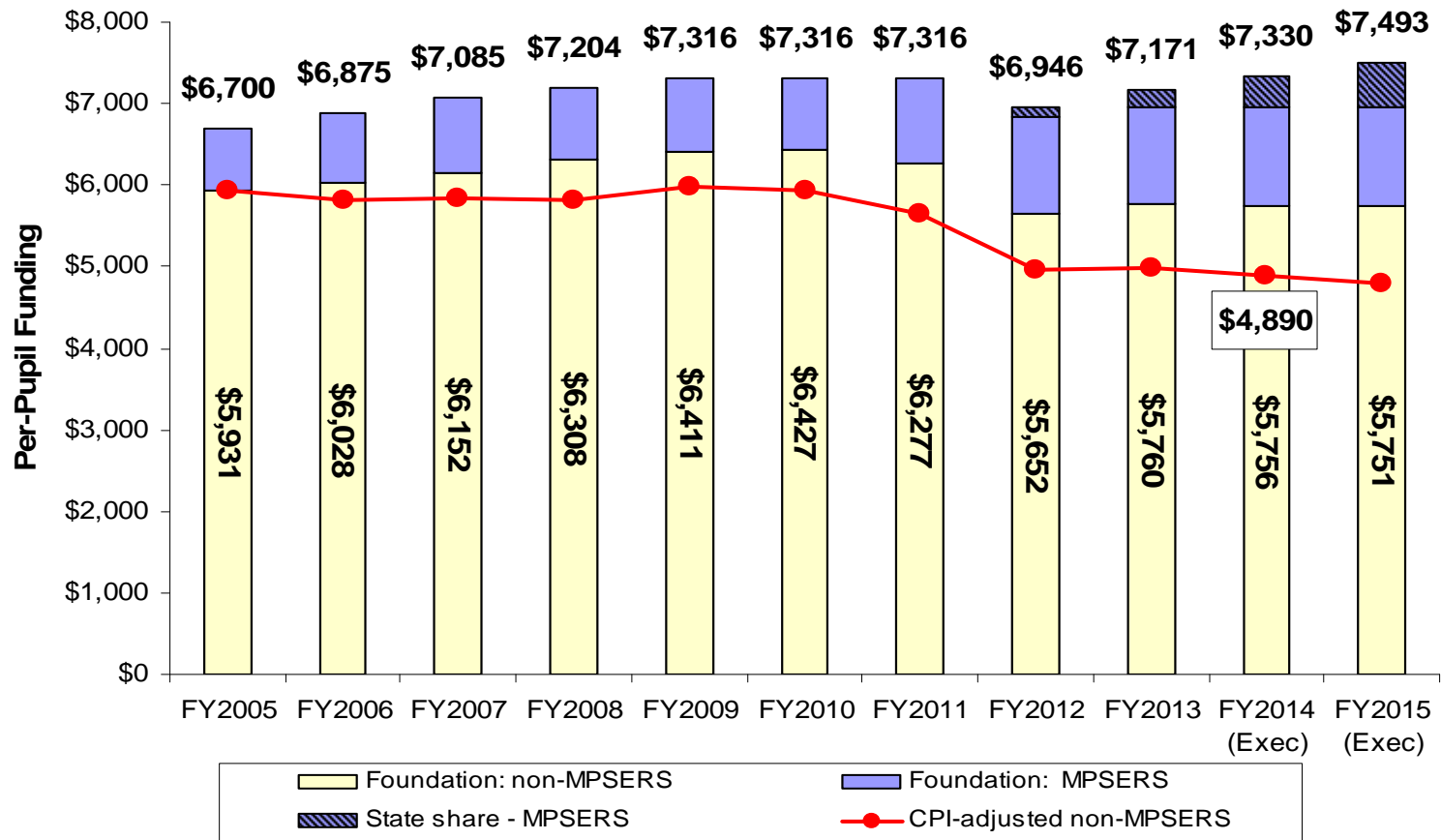
K-12 School Aid Highlights

- Total spending: 2.2% growth from FY2013
- No change to per-pupil foundation allowance, but includes other categorical changes:
 - \$24M for **Equity payments** of up to \$34 per-pupil for districts at or near the minimum foundation grant bringing minimum per-pupil payment to \$7,000
 - **Best Practices** funding reduced by \$55M (or \$36 per pupil)
 - **Small Class Size** grants reduced by \$4M; grant capped at \$100 for districts below \$7,500 foundation and \$50 for those at or above \$7,500
 - **Technology Infrastructure Grants** reduced from \$50M to \$13.5M
 - All four allocations are eliminated for FY2015
- Increases funding by \$273 million in FY2014 and another \$256 million in FY2015 to cover state share of **unfunded MPERS liability costs**; includes appropriations from MPERS Reserve Fund to mitigate these costs
- **Great Start Readiness Program**: additional \$65 million in FY2014 and \$130 million in FY2015 over FY2013 funding level
- New programs: **Digital Learning Innovation** (\$10M) and **Competitive Student-Centric grants** (\$8M)



MPSERS Costs and the Foundation Grant

Estimated impact on districts receiving minimum grant





Great Start Readiness Program

Significant funding increase for pre-school programs

| | FY2013 Funding | FY 2014 Funding | % Chg from FY2013 | FY2015 Funding | % Chg from FY2013 |
|--------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Great Start Readiness Program | \$109,275,000 | \$174,275,000 | 59.5% | \$239,275,000 | 119.0% |
| Allotment per Half-Day Placement | \$3,400 | \$3,625 | 6.6% | \$3,625 | 6.6% |
| Estimated Half-Day Placements | 32,140 | 48,076 | 49.6% | 66,007 | 105.4% |

- Allows enrollment of younger children in line with changes to kindergarten age requirements – at least 4 years old, but not less than 5 years old by November 1 of 2013-14 school year; by October 1 of 2014-15 school year
- At least 90% of participating children must live in families below 300% of federal poverty level (up from 75%)
- ISDs must contract with eligible for-profit and non-profit community-based providers for at least 20% of slots or notify Department of Education if unable to meet requirement
- Programs must participate in Great Start to Quality Process with at least 3-star rating



Higher Education

2% Increase through Performance-Based Formula

- Overall \$24.9M increase in FY2014 distributed through “performance funding” formula established in FY2013
- Increases range from 0.2% to 5.1% for individual institutions based on \$18.6 million distribution of performance funding
- Additional \$6.2 million will be distributed based on tuition restraint (below 4.0%)
- Financial Aid Programs: \$3.2M increase for Tuition Incentive Program
- Continues to use School Aid Fund contribution (\$200.6M) for operational support



Higher Education

Overview of Performance-Based Funding

Prerequisites for Performance Funding:

- 1) Participate (or make good faith effort) in reverse transfer agreements with at least 3 Michigan community colleges
- 2) Determine application of dual enrollment credits toward university degree without regard to whether they were used toward high school
- 3) Participate in Michigan Transfer Network

Performance Category

Total Degree Completions

% Total Funding
16.7% \$4,144,825

Six-Year Graduation Rate

16.7% \$4,144,825

Institutional Support as Percentage of Core Expenditures

16.7% \$4,144,825

Institutions receive 0-3 points based on rank and/or improvement versus national Carnegie peers

Weighted Undergraduate Critical Skill Awards

16.7% \$4,144,825

Two-year average of degree and certificate completions in critical skill areas

Weighted Research and Development Expenditures

8.3% \$2,072,400

Limited to universities ranked in Carnegies classifications as at least "Research University (High Research)"

Tuition Restraint

25.0% \$6,217,300

Paid to institutions that limited undergraduate tuition and fee rate increase to less than 4% for 2012-13 and 2013-14 academic years; funding prorated with higher allocations to institutions with increases further below 4%

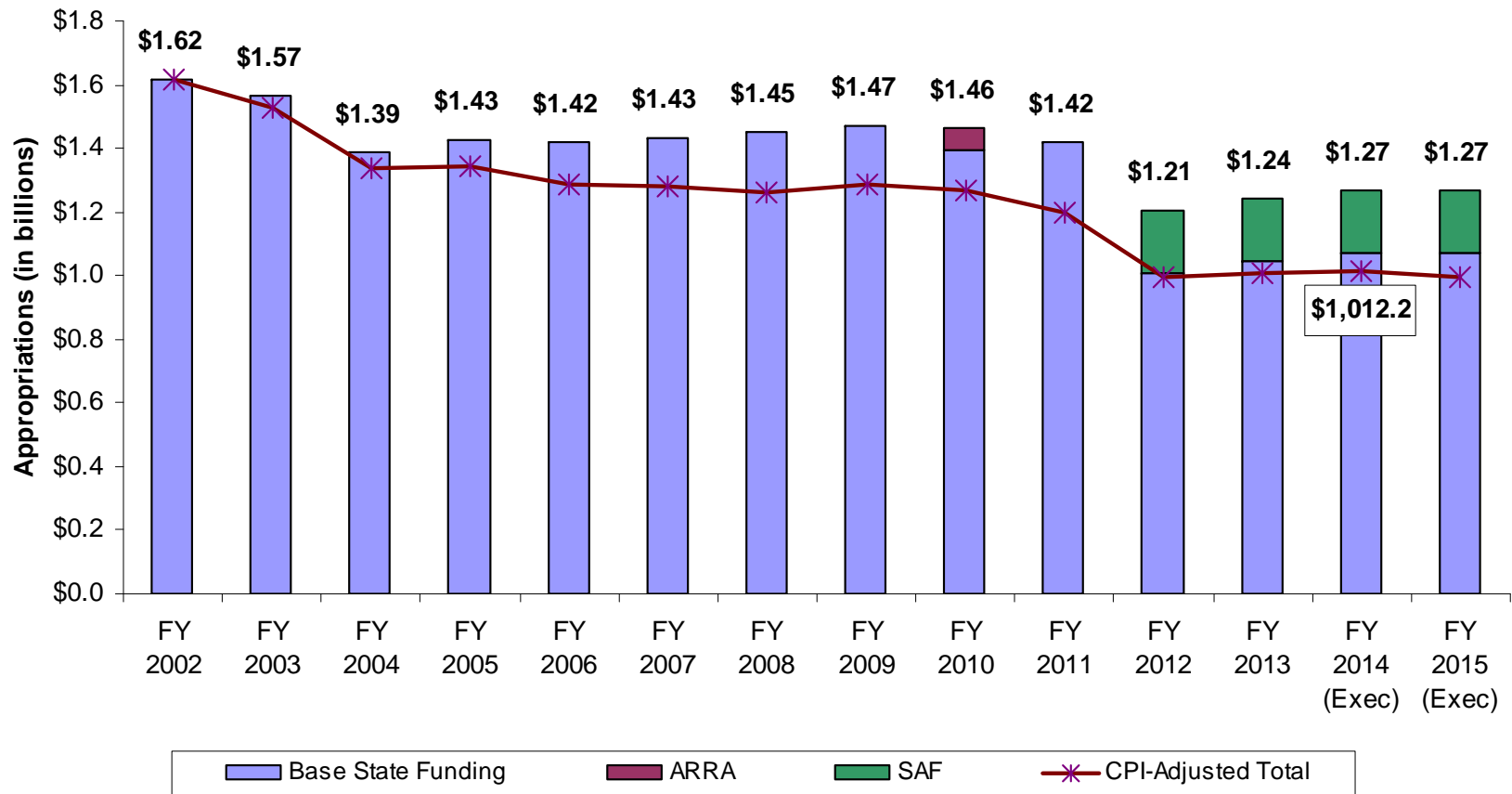
TOTAL PERFORMANCE FUNDING

100.0% \$24,869,000



University Operations Funding History

Increase for universities still leaves funding just over 21% below FY2002 levels; 37% decline adjusted for inflation





Community Colleges

2% Increase for Colleges plus MPSEERS adjustment

- Provides 2% increase for community colleges (\$5.8M); this increase plus a \$1.3M FY2013 allocation are distributed through a modified performance formula
- Proposal results in increases to individual colleges ranging from 1.3% to 2.3%
- Increase of \$31.4 million to cover state's share of MPSEERS retirement liabilities that exceed employer cap
- Proposes new one-time funding of \$1.1M to support Virtual Learning Collaborative to expand availability of on-line courses
- Continues to use SAF (\$198M) for operational support



Community Colleges

New Increase and FY2013 Local

Strategic Value Allocation Distributed through modified formula

Prerequisites for Performance Funding:

Local Strategic Value: must adhere to 4 of 5 specified best practices in each of 3 categories: Economic development and business/industry partnerships; Educational partnerships; and Community services

| <u>Performance Category</u> | <u>%</u> | <u>Total Funding</u> |
|---|---------------|----------------------|
| Across-the-board distribution | 50.0% | \$3,562,300 |
| Weighted Degree and Certificate Completions | 17.5% | \$1,246,800 |
| Number of Contact Hour-Equated Students | 10.0% | \$712,500 |
| Percentage of Institutional Expenditures on Administration (ceiling = 23%) | 7.5% | \$534,300 |
| Funding proportional to two-year average results within each category. | | |
| (NEW) Weighted Skilled Trades Job Placements | 15.0% | \$1,068,700 |
| Proportional to the number of Skilled Trades Program students placed in jobs or apprenticeships in related fields; veteran placements count as two placements | | |
| TOTAL PERFORMANCE FUNDING | 100.0% | \$7,124,600 |



Local Revenue Sharing

Continuation for FY2014, but one-time allocations eliminated in FY2015

- Constitutional payments (cities, villages, twps) to receive 2.3% increase based on sales tax growth
- Incentive funding (EVIP) for CVTs maintained at \$225M; one-time funding of \$7.5M eliminated for FY2015
- Counties revenue-sharing program increased by \$10M to account for additional counties coming on-line; overall funding remains at 77% of full funding level, but one-time funding of \$4.5 million eliminated for FY2015
- Competitive Grant Assistance Program funding to encourage shared services and consolidations remains at \$15M; one-time funds of \$10M eliminated for FY2015



Savings for Future Needs

- Planned \$140M FY2013 deposit into state's Budget Stabilization Fund adds to \$362M deposit in FY2012
- Proposal would deposit additional \$75M in FY2014 and \$150M in FY2015 to bring BSF balance to \$727M by end of FY2015
- Health Savings Fund from Medicaid expansion savings would take in another \$240 million over FY2014 and FY2015
- New Disaster Emergency and Contingency Fund would take in \$8 million across the two-year budget period



New One-Time Allocations

- Business Attraction and Community Revitalization Program (\$27.5M GF/GP)
- Mental Health Innovation and Services (\$5M GF/GP)
- Veterans Service Delivery Initiative (\$4M GF/GP)
- Skilled Trades Training Program (\$10M GF/GP)
- Land Bank Fast Track Authority (\$7M GF/GP)
- Regional Prosperity Grant Program (\$5M GF/GP)
- Distressed Communities (\$5M GF/GP)
- Michigan Film Incentive Program maintained at \$25M GF/GP (down from \$50M in FY2013)



State Workforce and Employee Compensation

Further Shrinkage

- 1.2% reduction in budgeted classified FTEs (53,027)
- Recognizes the cost increases associated with collective bargaining agreements
 - Permanent 1% increase for non-unionized state employees; one-time 1% increase for unionized workforce - \$29.4 million gross, \$14.7 million GF/GP
 - Continued increases in retirement costs - \$146.1 million gross, \$73.5 million GF/GP
 - 80/20 health care premium sharing effective FY2013 helps to mitigate insurance costs - \$10.3 million gross, \$5.3 million GF/GP
- Continues to prefund OPEB liabilities for state workers (\$465M)
- \$27.7M GF/GP (\$13.6M one-time) for training 400 corrections officers, 107 state troopers, and 25 conservation officers



Assessment of Proposal



Assessment

- Budget proposal maintains structural balance in future years
- Emphasizes the build of up of rainy day reserves with deposits into the BSF and new Health Savings Fund
- Surpluses utilized to finance various one-time investments
- Proposal does not include any major restorations of past budgetary cuts (e.g. K-12, higher education, revenue sharing)



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