



CITIZENS RESEARCH COUNCIL OF MICHIGAN

Governor Snyder's FY2017 Budget Proposal

Citizens Research Council of Michigan Webinar
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Outline

- State Revenues: Continued growth but future diversions of general fund resources
- Situation Facing Governor: Significant surplus coming into FY2016
- Governor's budget: Significant one-time investments (Flint, Detroit Public Schools); road plan frees up GF/GP for other priorities
- Assessment of the proposal: Budget pressures and long-term outlook

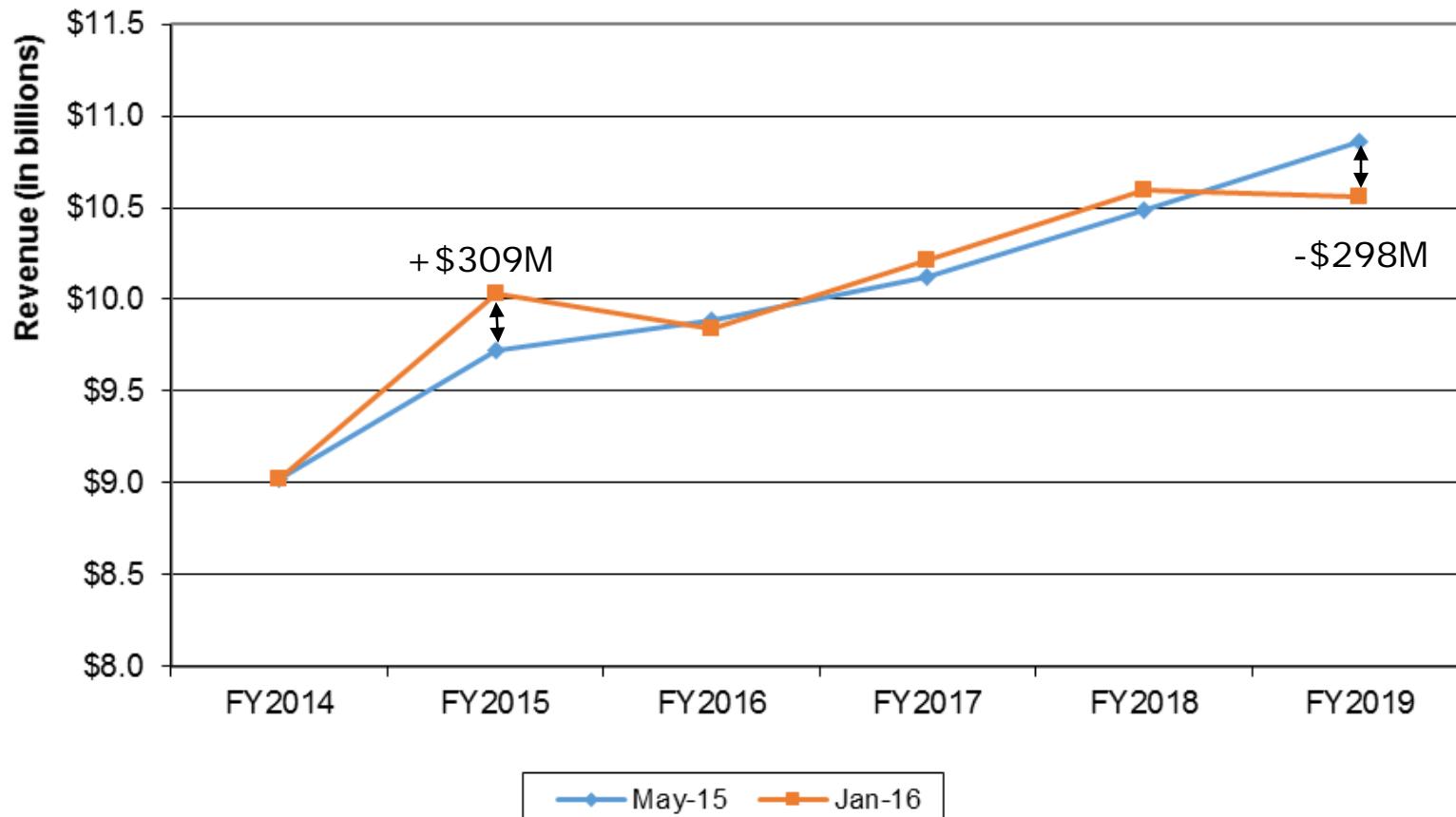


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State Revenue Picture

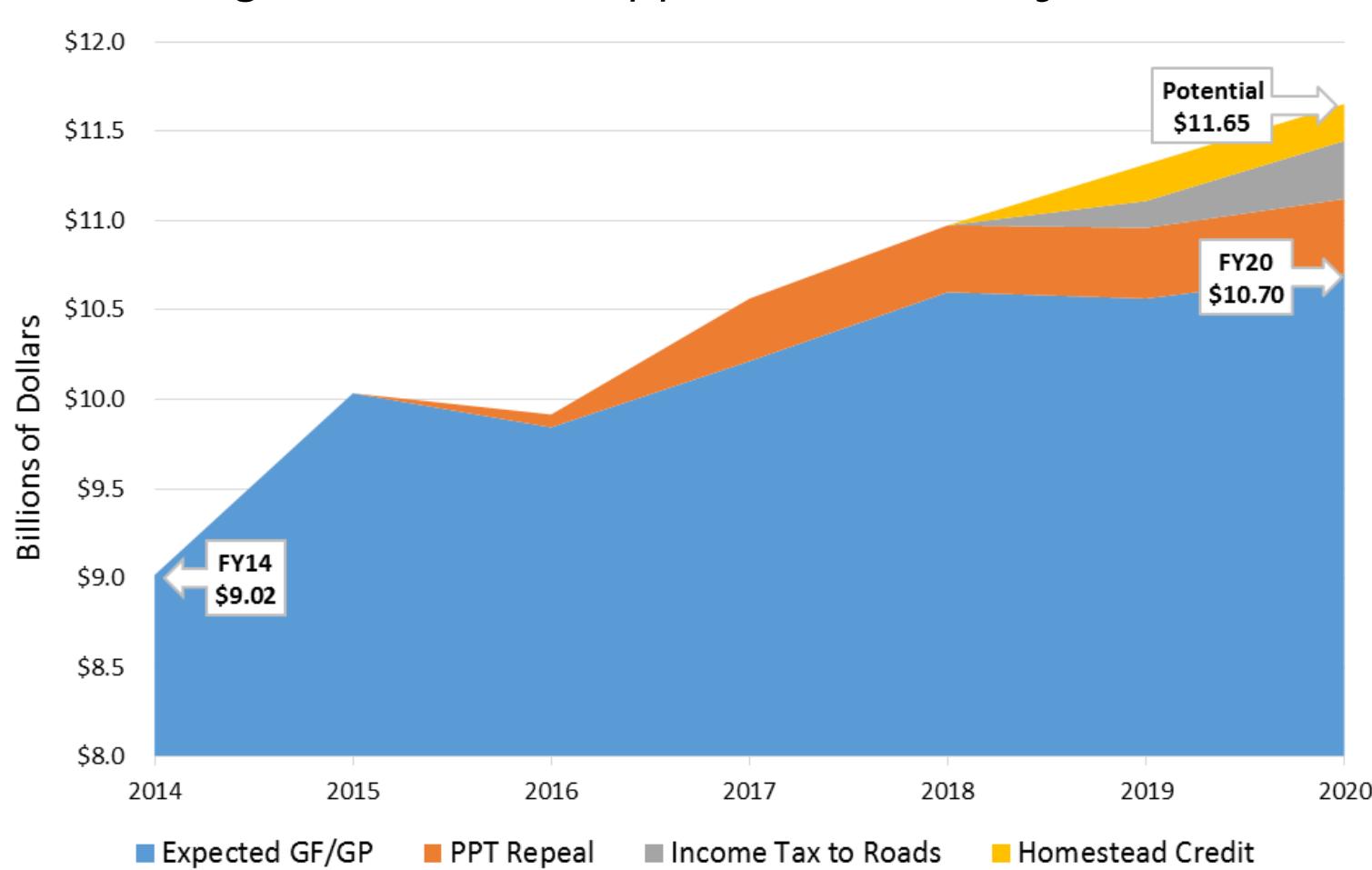
GF/GP Revenue Forecasts

Changes in January Create "Surplus"



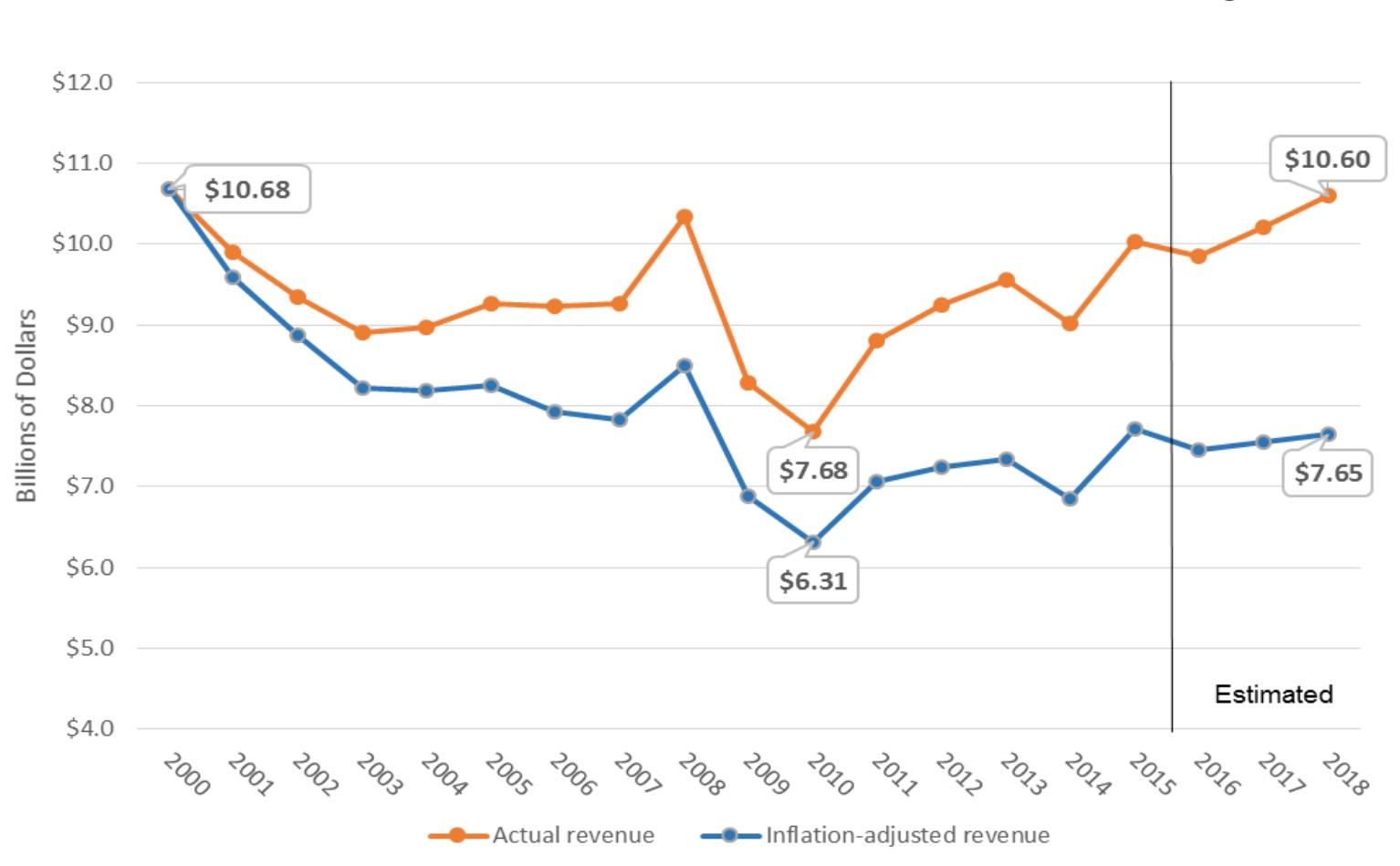
GF/GP Revenue and Tax Policy Changes

Foregone Revenue Approaches \$1B by FY2020



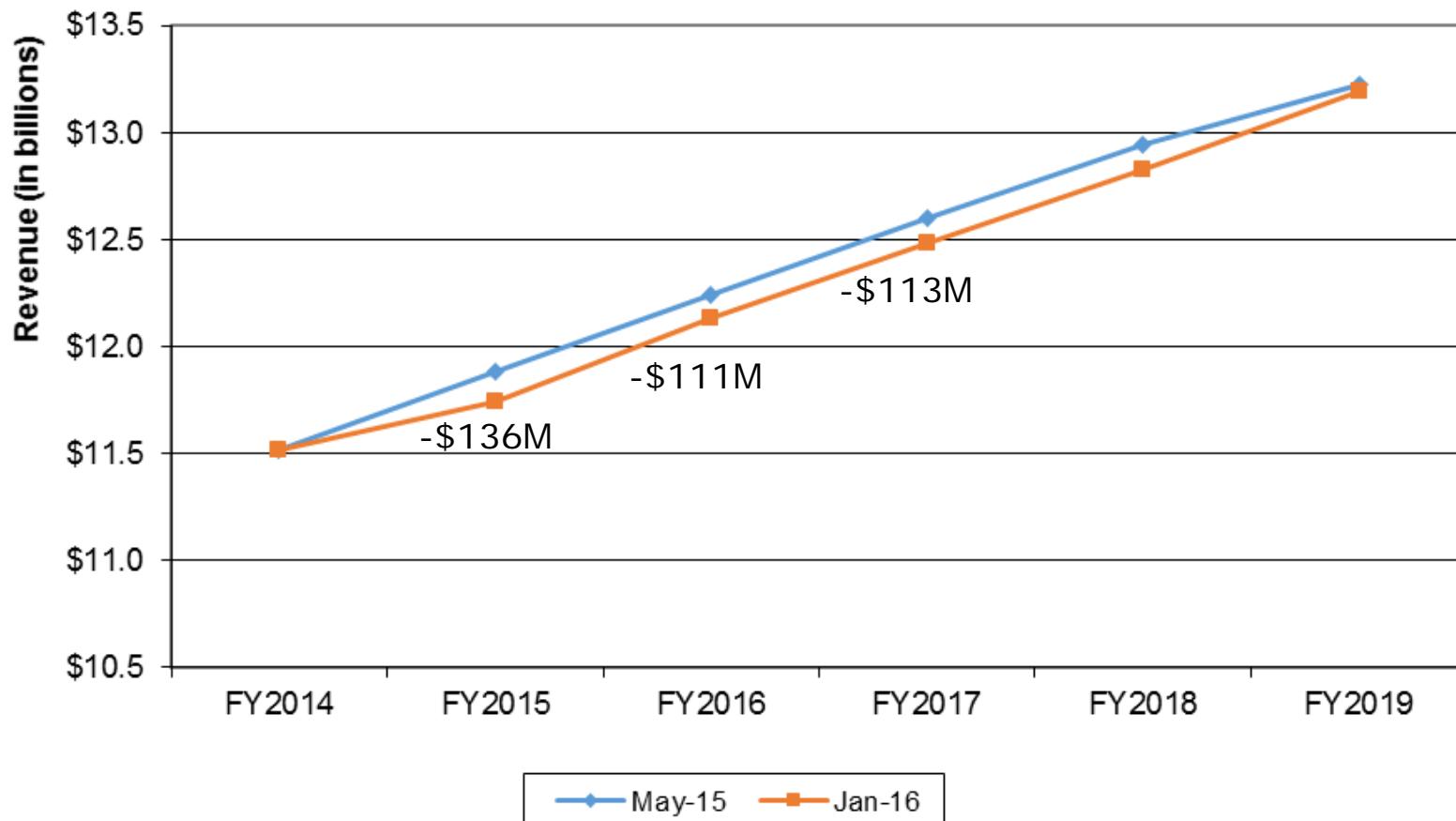
GF/GP Growth since FY2000

Growth since FY2010, But Still Recovering



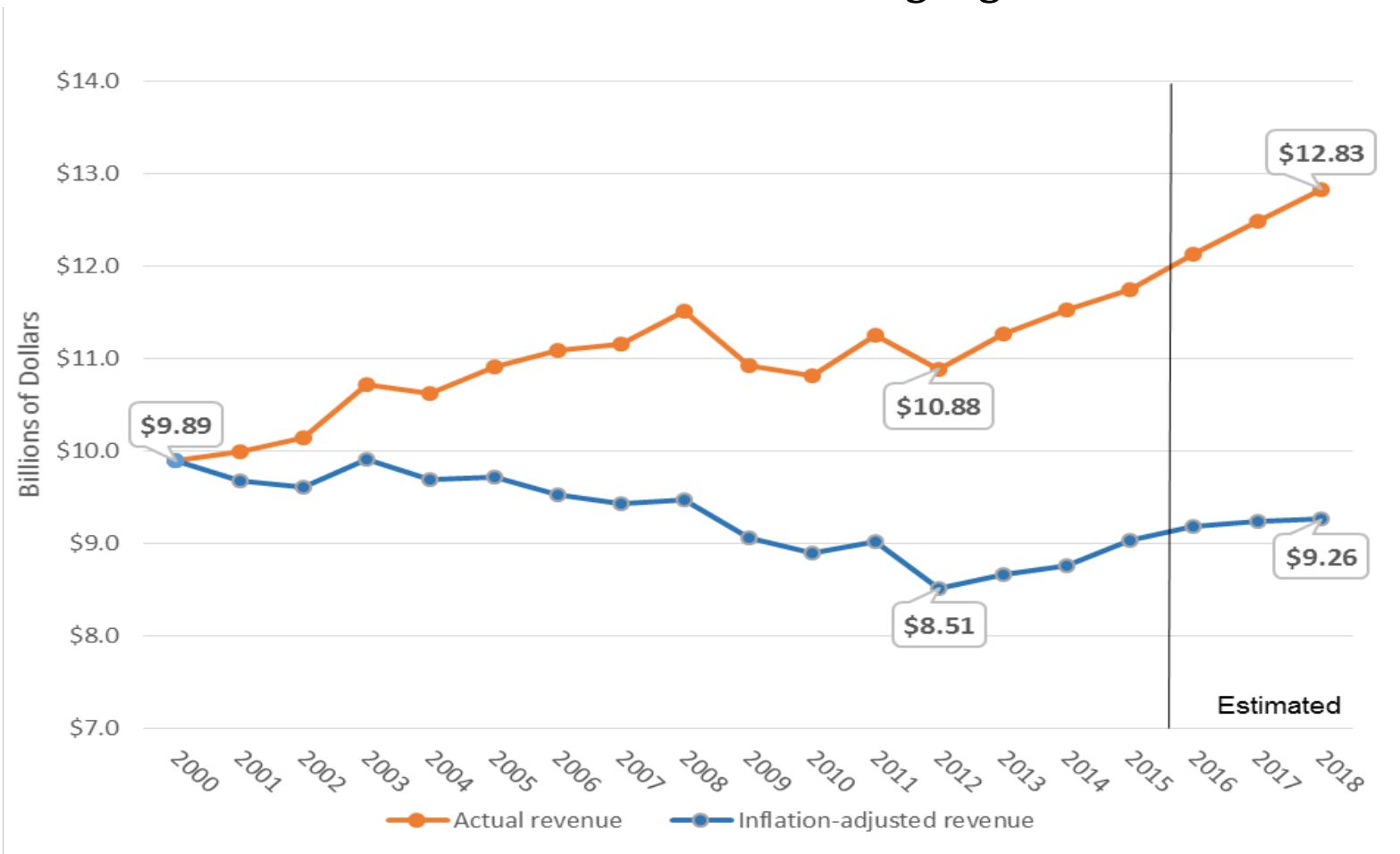
School Aid Fund Revenue Forecasts

Low Gasoline Prices Drag Down Sales Tax Collections



School Aid Fund Growth since FY2000

"Lost Decade" Not as Damaging to SAF





Tax Policy Changes and the Budget

Three Key Tax Items Will Impact Revenues

- Use Tax on Medicaid HMOs: Feds have disallowed current 6% use tax on Medicaid HMOs; \$400 million GF/GP and \$200 million School Aid Fund
 - Must repeal by January 2017 (affects 3/4 of FY2017)
- Health Insurance Claims Assessment: 0.75% tax on paid health claims in Michigan will increase to 1% if feds disallows HMO use tax; \$80 million boost to offset GF/GP
 - But HICA sunsets in January 2018; Governor requests extension
- Insurance Premium Tax Credit: Unintended consequence of 2012 law change makes auto insurers eligible for tax credit for “Assigned Claims” involving uninsured drivers - \$80 million GF/GP loss
 - Governor proposes closing the credit in his budget



Situation Facing the Governor: One-Time Surplus



GF/GP Revisions Bring Surplus

Additional GF/GP Resources Available at Close of FY2015

- With revenues revisions, expected general fund balance jumps to \$695 million at close of FY2015
- Despite downward revenue revisions, School Aid Fund closed out FY2015 with \$190 million balance
- End result: State had combined revenue surplus of \$885 million between the two funds as it entered FY2016



FY2016 Supplemental Request

One-Time Needs: Flint, Detroit Schools, Infrastructure

- Flint Water Crisis: \$157 million total (\$131 million GF/GP)
- Michigan Infrastructure Fund: \$165 million (all GF/GP)
- Detroit Public Schools: \$50 million (all GF/GP)
- Other Budget Adjustments: add \$35.7 million GF/GP
- TOTAL GF/GP REQUESTED = \$381.7 million



FY2016 Supplemental Request *Funding to Address Flint Water Crisis*

	FY2016		FY2017	
	All Funds	GF/GP	All Funds	GF/GP
Early Education and Intervention Programs	\$27.0	\$15.4	\$18.2	\$10.1
Universal access to pre-school and Early On services for Flint children; expanded eligibility for state child care assistance; access to fresh fruit and vegetables; Summer youth employment program				
Public Health and Nutritional Services	\$2.2	\$2.2	\$15.1	\$9.1
Food and nutritional programs; restaurant inspections; physical and behavioral health evaluations and care; residential lead investigations and abatement				
Flint Water System and Residential Bills	\$63.4	\$63.4	\$5.4	\$0.0
Residential water bill relief (up to \$30 million); replacement of high-risk lead service lines (up to \$25 million); water testing and response needs; costs of keeping Flint connected to Detroit water system				
Reserve Funds	\$64.1	\$50.0		
\$50 million GF/GP and \$14.1 million in federal TANF and child care funding reserved for future needs				
TOTAL FUNDING	\$156.7	\$131.0	\$38.7	\$19.2



Supplemental Reduces State Surplus

Smaller Fund Balances Remain Coming into FY2017

	GF/GP	SAF
<i>Beginning Balance</i>	\$694.7	\$190.0
<u>Revenues</u>		
Current Revenue Estimates	\$9,784.0	\$14,165.8
Executive-Proposed Changes	\$60.0	\$0.0
<i>Available Revenues</i>	\$9,844.0	\$14,165.8
<u>Expenditures</u>		
Current Appropriations	\$9,909.1	\$14,362.5
Executive Supplemental	\$381.7	(\$54.4)
Budget Stabilization Fund	\$95.0	\$0.0
<i>Estimated Expenditures</i>	\$10,385.8	\$14,308.1
Ending Balance	\$152.9	\$47.7



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Governor's Budget Proposal for FY2017



Governor's FY2017 Proposal *Summary of Overall Changes*

	Current FY2016	Executive FY2017	Dollar Change	Percent Change
Adjusted Gross	\$53,637,531,300	\$54,025,415,000	\$387,883,700	0.7%
Federal	\$23,077,722,000	\$22,503,868,200	(\$573,853,800)	-2.5%
Restricted	\$20,260,423,300	\$21,094,381,300	\$833,958,000	4.1%
Local/Private	\$395,441,200	\$395,301,500	(\$139,700)	0.0%
GF/GP	\$9,903,944,800	\$10,031,864,000	\$127,919,200	1.3%



Education Highlights



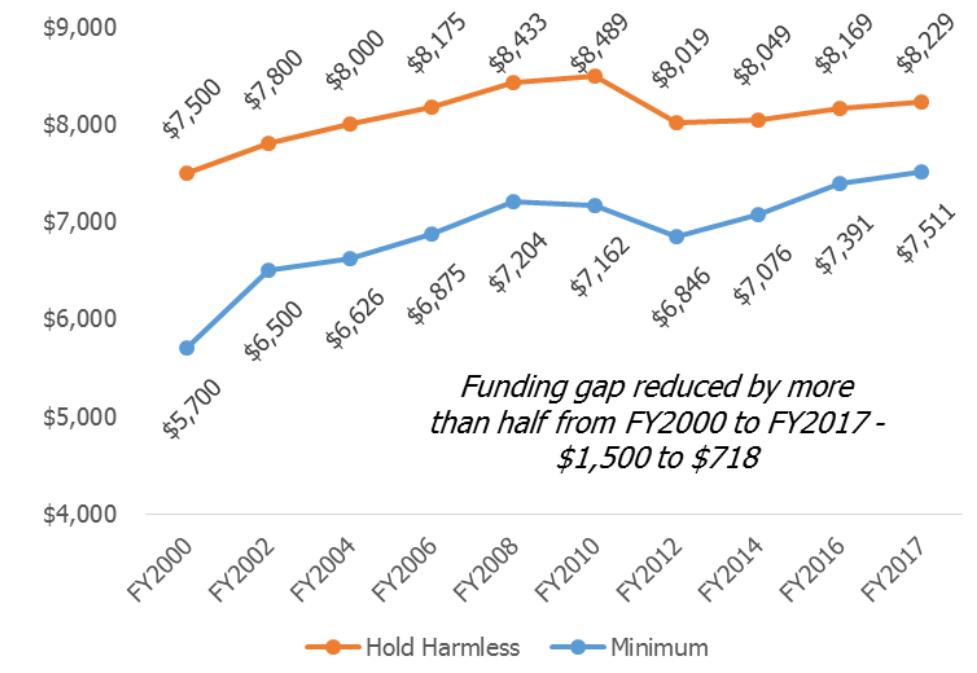
School Aid

- Total spending of \$14.2B - increase of 2%
 - \$12.1B – state support up \$1.4B since FY2011
 - But, \$1B of increase for retirement costs
- Areas of focus in FY2017 proposal:
 - Moderate per-pupil foundation increase
 - Detroit Public Schools debt relief plan
 - Declining enrollment
 - Retirement contributions

Foundation Grant

Moderate increase to narrow funding gap

- **“2X” funding increase**
 - \$60 to \$120 per-pupil (pp) increase
 - Minimum - \$7,511 pp
 - Hold harmless - \$8,229 pp
 - Narrows funding gap to \$718 pp
 - 66% of districts at minimum; compared to 40% in FY2010





Detroit Public Schools

Debt relief plan

- DPS **legacy debts** estimated @ \$500M at year end
 - Annual cost of **financing debt** (\$1,100/pupil) comes at expense of current operations
- Proposed **debt relief plan** involves –
 - **Split DPS** into 2 entities - “old” would pay off debts and “new” responsible for educating kids
 - **Repurpose** local operating tax (\$72M) for debt
 - School Aid Fund shortfall backfilled with **tobacco settlement revenue**
- Other components of **reform package** in works
- Immediate **cash flow shortage**, \$50M for FY2016



Declining Enrollment

Challenge for majority of school districts

- **Declining enrollment** fiscal challenge since mid-2000s
 - 72% of trad. districts lost enrollment 2014 to 2015
 - School spending is “sticky” in short-run
- Modify **student membership count**
 - Change membership weighting factor (current year/previous year) from 90/10 to 50/50
 - More emphasis on previous year’s enrollment
 - Tempers the year-over-year enrollment loss
 - Provides districts with additional time to adjust budget



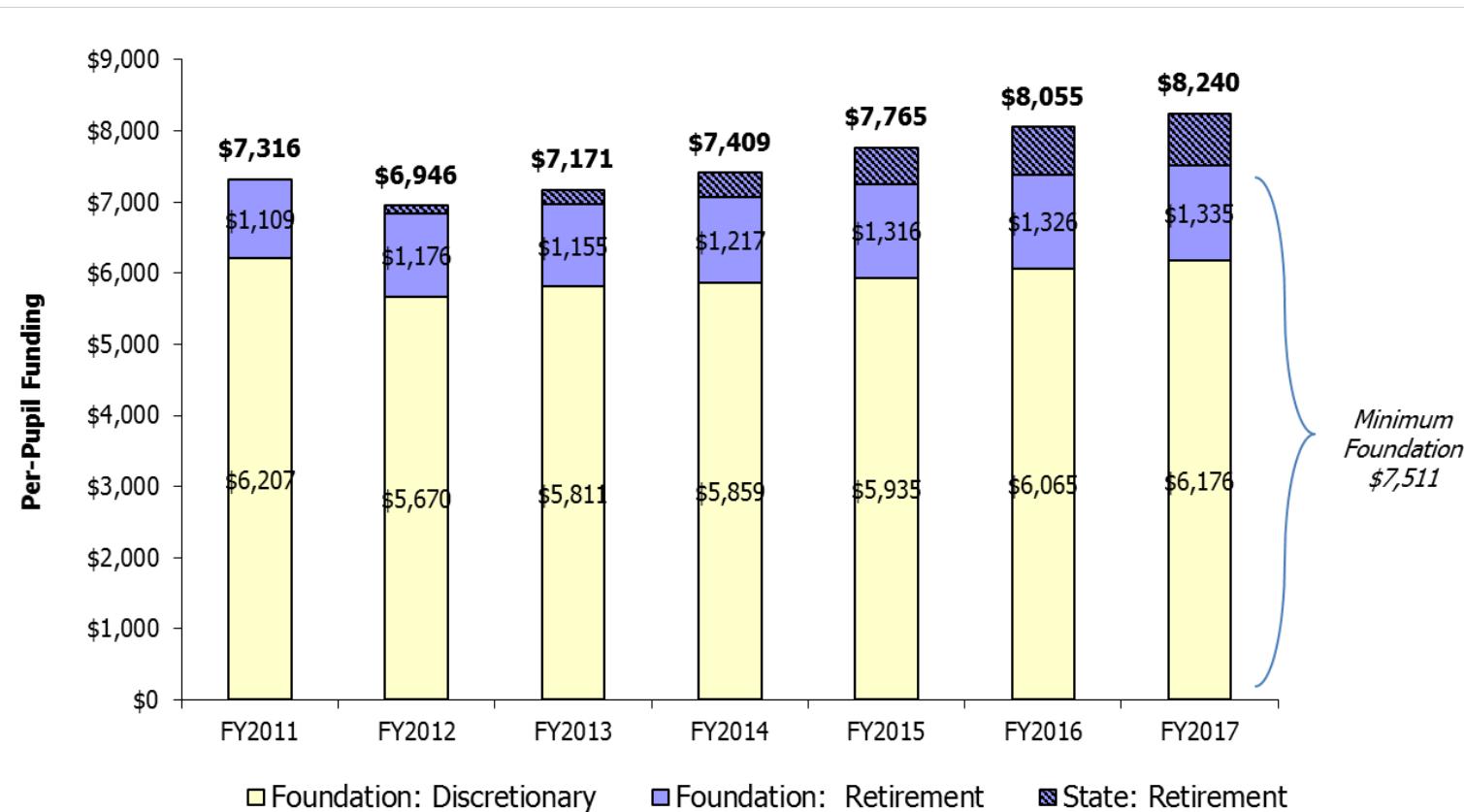
Retirement Contributions

Payment for unfunded liabilities

- **Unfunded Liabilities** – pension (\$26.5B) & retiree health (\$11.2B)
 - School Aid Fund responsible for funding
 - Increase **state stabilization rate**
 - State share - increase \$89M (\$983M total)
 - State share - 11.7% of payroll (\$729/pupil)
 - Add'l \$6M in FY2018, then levels off
 - **District share** remains fixed - 20.96% of payroll
 - Maintains funding for **offset payment** - \$100M
 - District payment based on share of covered payroll, approx. \$70/pupil

Retirement Costs and Per-Pupil Funding

Contributions amount to \$2,064 per pupil





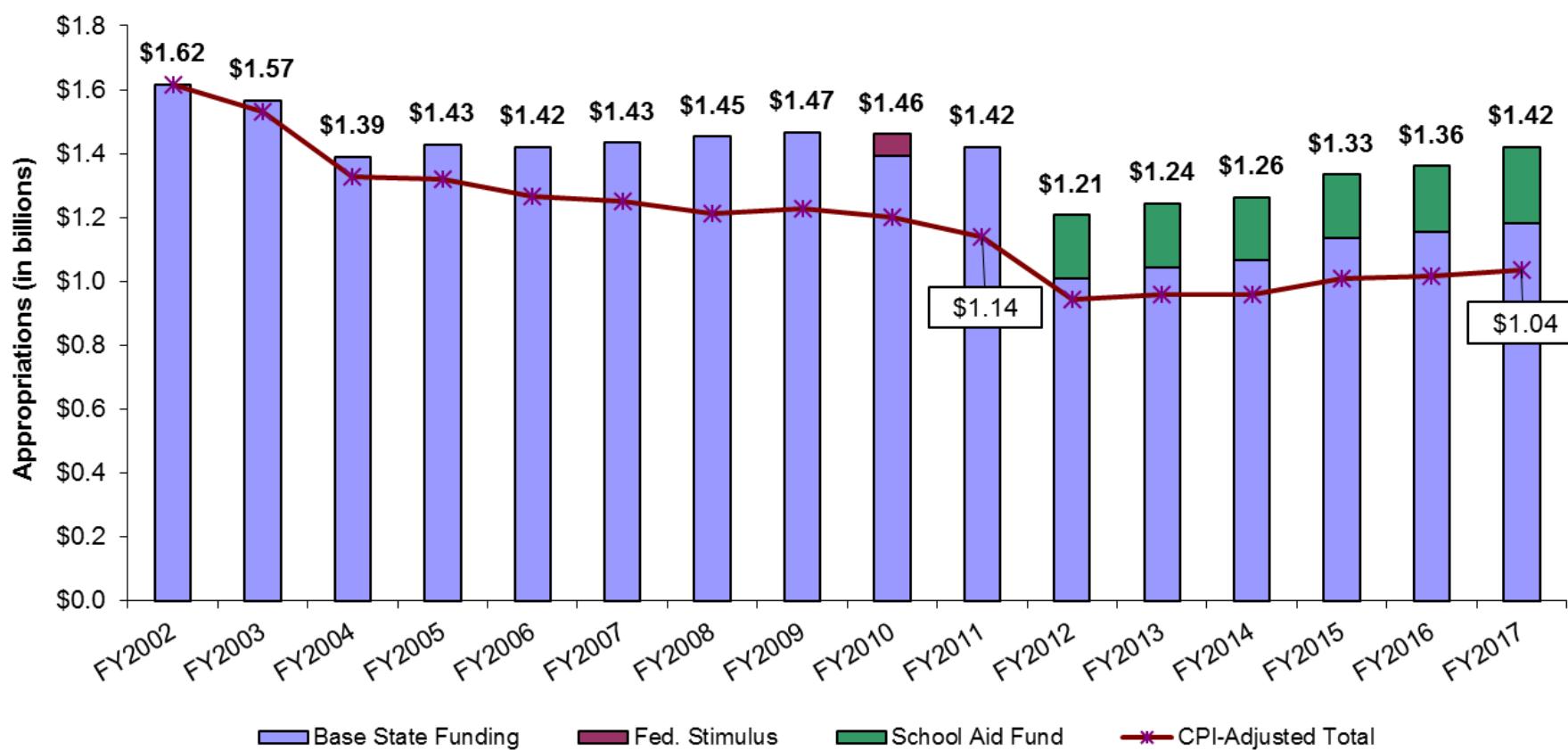
Higher Education

4.4% increase to restore FY2012 cuts

- Add'l funding for operations, but no major changes in financial aid/scholarships
 - \$60M increase to basic operations, provided through the performance funding formula
 - Individual school funding increases range from 3.5% to 6.8%
- Tuition restraint language (cap of 4.8%)
- Retirement contribution cap for 7 schools in MPSERS
 - UAAL cap similar to what is available to K-12 districts and community colleges
 - \$6M to cover costs above cap (25.7% of payroll)
- Continued use of School Aid Fund (\$237M total)



University Operations Funding *With increase, at FY2011 level*





General Budget Highlights



State Medicaid Program

Three Factors Resulting in Increased Medicaid Costs

- **Healthy Michigan Plan match costs:** Michigan must provide 5% matching funds towards Medicaid expansion costs during calendar year 2017 – \$106.5M in GF/GP costs
 - Match rates phases up to 10% by 2020
- **Specialty Drug Costs:** New specialty drugs added to the Medicaid formulary for treatment of Hepatitis C and Cystic Fibrosis plus creation of new specialty drugs reserve fund for future needs – \$280.7M total (\$99.7 million GF/GP)
- **Traditional Medicaid Caseload**
 - General caseload costs: up \$379.1M (\$166.6M GF/GP)
 - Increased FMAP match rate: \$49.2M in added GF/GP costs



State Medicaid Program

Medicaid Financing Changes with Significant GF/GP Impacts

- **Hospital Provider Tax:** “one-time” state retainer increase of \$93M from FY2016 is expanded in FY2017 proposal to \$105M; eases GF/GP costs since state no longer has to backfill
 - No reductions to Graduate Medical Education or other special hospital payments
- **Medicaid Use Tax and Health Insurance Claims Assessment:** Federal disallowance of current use tax on Medicaid managed care organization leads to savings on spending side of the budget:
 - Health plan reimbursements: down \$613M (\$140M GF/GP)
 - HICA: use tax elimination triggers HICA rate increase: \$58.2M in GF/GP savings



Local Revenue Sharing

Proposed Change Impacts Funding to Larger Townships

- Cities, villages, and townships
 - Constitutional payments up 3.9%: \$29.4 million from growth in dedicated sales tax
 - Discretionary allocation reduced by \$5.8 million: eliminates a population-based payment initiated in FY14; about 100 local units (mostly townships) will lose their discretionary payment
 - Affected units will see 0.4% growth in overall revenue sharing
- Counties
 - No significant change; county payments come 80% through county revenue sharing (no strings attached) and 20% through County Incentive Program
- Competitive Grant Assistance Program is restored at \$11 million; grants support costs of consolidating operations across governmental units



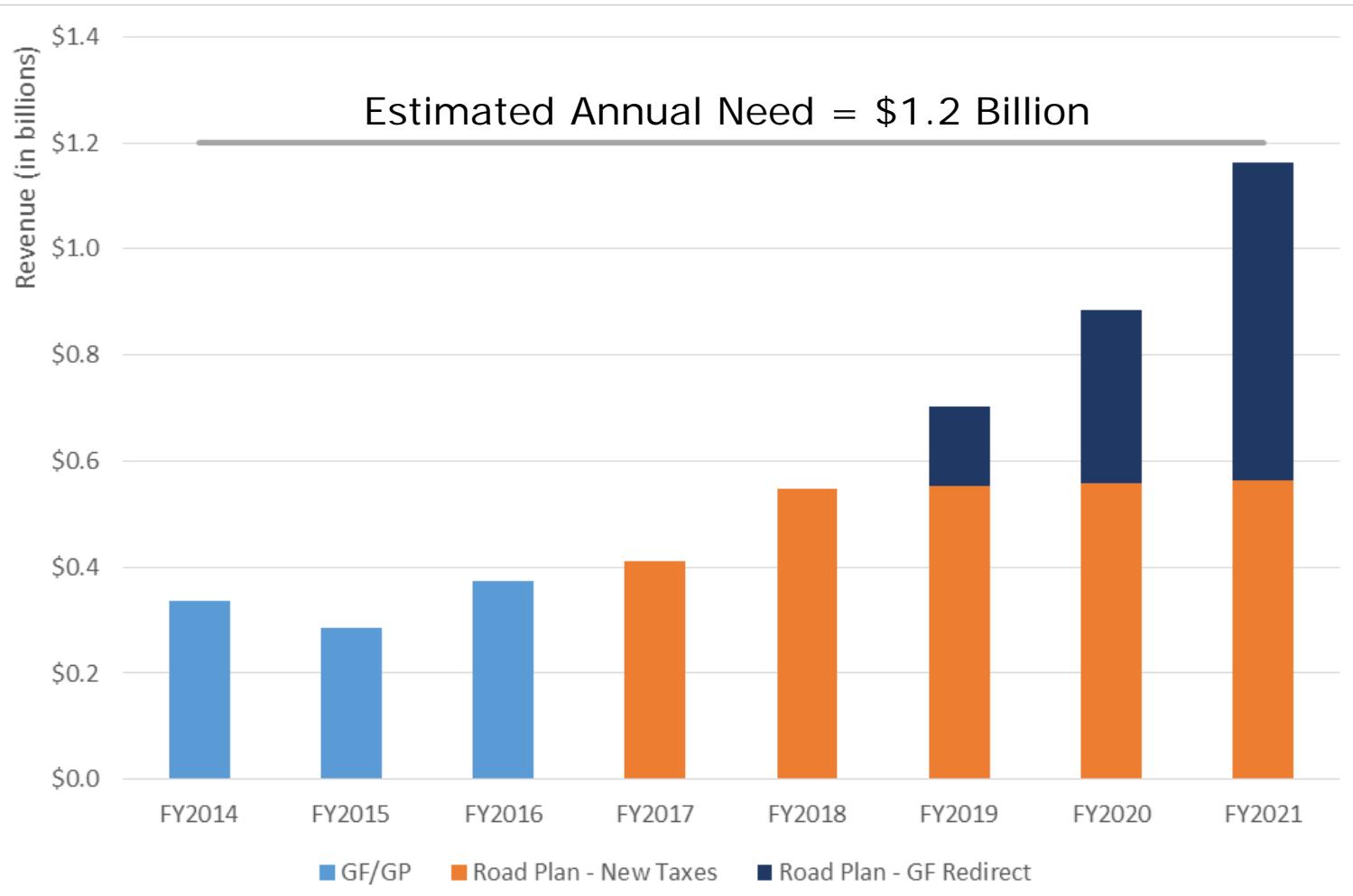
What About the Roads?

Elimination of Most GF/GP Support for Roads

- Governor proposes removing all but \$10.4 million of current \$400 million in GF/GP support for transportation
- GF/GP is replaced with first-year revenue from transportation funding package enacted last year; tax increases take effect January 1, 2017
 - Gasoline: 19 to 26.3 cents per gallon = \$236M
 - Diesel Fuel: 15 to 26.3 cents per gallon = \$69M
 - Vehicle Registration: up 20 percent = \$155M
- New road revenue = \$412M, but \$90 million of this is earmarked to “Roads Innovation Fund”; distributions requires OK from Legislature

Future Road Revenues

New Road Plan Doesn't Generate \$1.2 Billion until FY2021





State Employee Compensation

Up by \$134 million gross and \$64.8 million GF/GP

- **Salary and Wages:** 1% base pay increase plus 1.5% lump sum payment in October 2016 - \$75.1M (\$35.5M GF/GP)
- **Insurance:** 2.9% growth in insurance costs - \$18.9M (9.3M GF/GP)
- **Retirement:** \$9.6M total (\$4.9M GF/GP) to cover both defined benefit and defined contribution retirement costs, including legacy costs
- **OPEB/Retiree Health Care:** \$30.6M total (\$15.2M GF/GP) to cover both normal and legacy costs related to OPEB benefits, primarily health care for state retirees



Savings for Future Needs

- Given one-time investments, no new deposits proposed for either FY2017 or FY2018 in state's Budget Stabilization Fund
- BSF fund balance of \$611 million by close of FY2016 which equals about 2.8% of combined GF/GP and SAF revenues
- Statute requires \$17.5 million annual payment into BSF through FY2035 from state tobacco settlement revenues as reimbursement for \$194.8 million lump sum payment tied to Detroit bankruptcy settlement



Assessment of Proposal



FY2017 Budget From 50,000 Feet

Transportation Savings Pivotal to Other Budget Growth

SUMMARY OF GF/GP BUDGET CHANGES

FY2016 Year-To-Date Appropriations		\$9,909.1
Reduce GF/GP for Transportation		(\$389.6)
Medicaid - Use Tax and HICA Savings		(\$198.6)
<i>Major Reductions</i>		(\$588.2)
Medicaid Expansion Match		\$106.5
Traditional Medicaid Caseload		\$215.8
Medicaid Specialty Drugs		\$165.2
School Aid Increase		\$174.0
State Employee Compensation		\$64.8
University Operations		\$30.0
Corrections Health Care		\$28.5
Flint Water Crisis - FY17 Funding		\$19.2
<i>Major Increases</i>		\$804.0
EVERYTHING ELSE		(\$93.0)
FY2017 Governor's Recommendation		\$10,031.9

Key Takeaway:

While GF/GP appropriations growth is slow overall, significant redirection of transportation-related GF/GP allowed for growth in other areas (Medicaid, higher education, K-12)



Future Budget Pressures

What Happens in FY2018 and Beyond?

- State Medicaid Match: Medicaid expansion will require increased state matching funds through FY2020
- Medicaid Managed Care Use Tax: Michigan will lose the remaining 25% of the use tax on Medicaid HMOs in FY2018
- Inflationary costs: State personnel costs and Medicaid and public assistance caseloads
- Transportation: Will pressure mount to restore GF/GP funding for roads while we wait for road plan revenue?



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Long Run Outlook

Assumes 2% Growth in Ongoing GF/GP Appropriations

	FY2017	FY2018	FY2019	FY2020
Beginning Balance	\$152.9	\$14.9	\$247.9	\$217.8
<u>Revenues</u>				
Adjusted Revenue Estimates	\$9,813.9	\$10,134.3	\$10,098.7	\$10,237.6
Additional Revenue - Insurance Credit	\$80.0	\$80.0	\$80.0	\$80.0
Available GF/GP Revenues	\$9,893.9	\$10,214.3	\$10,178.7	\$10,317.6
<u>Expenditures</u>				
Ongoing Appropriations	\$9,687.5	\$9,881.25	\$10,078.88	\$10,280.45
One-Time Appropriations	\$344.4	\$100.0	\$100.0	\$100.0
Medicaid Match/Use Tax/HICA		\$0.0	\$30.0	\$110.0
Total Expenditures	\$10,031.9	\$9,981.3	\$10,208.9	\$10,490.5
Annual Revenues minus Expenditures	(\$138.0)	\$233.0	(\$30.2)	(\$172.9)
Ending Balance	\$14.9	\$247.9	\$217.8	\$44.9



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