



Analyzing the
Governor's FY23 Budget
Recommendation

Analyzing the Governor's FY23 Budget Recommendation

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Citizens Research Council of Michigan

March 4, 2021 Webinar

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- Founded in 1916
- Statewide
- Non-partisan
- Private not-for-profit
- Promotes sound policy for state and local governments through factual research – accurate, independent and objective
- Relies on charitable contributions from Michigan foundations, businesses, and individuals
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Robert Schneider, Senior Research Associate



- Work Experience
 - 2nd period with Citizens Research Council
 - State Budget Office
 - House Fiscal Agency
- Policy Background
 - State budget
 - Human Services
 - Corrections
 - Transportation
- Education
 - B.S. in Economics from Central Michigan University
 - M.A. in Economics from Michigan State University.

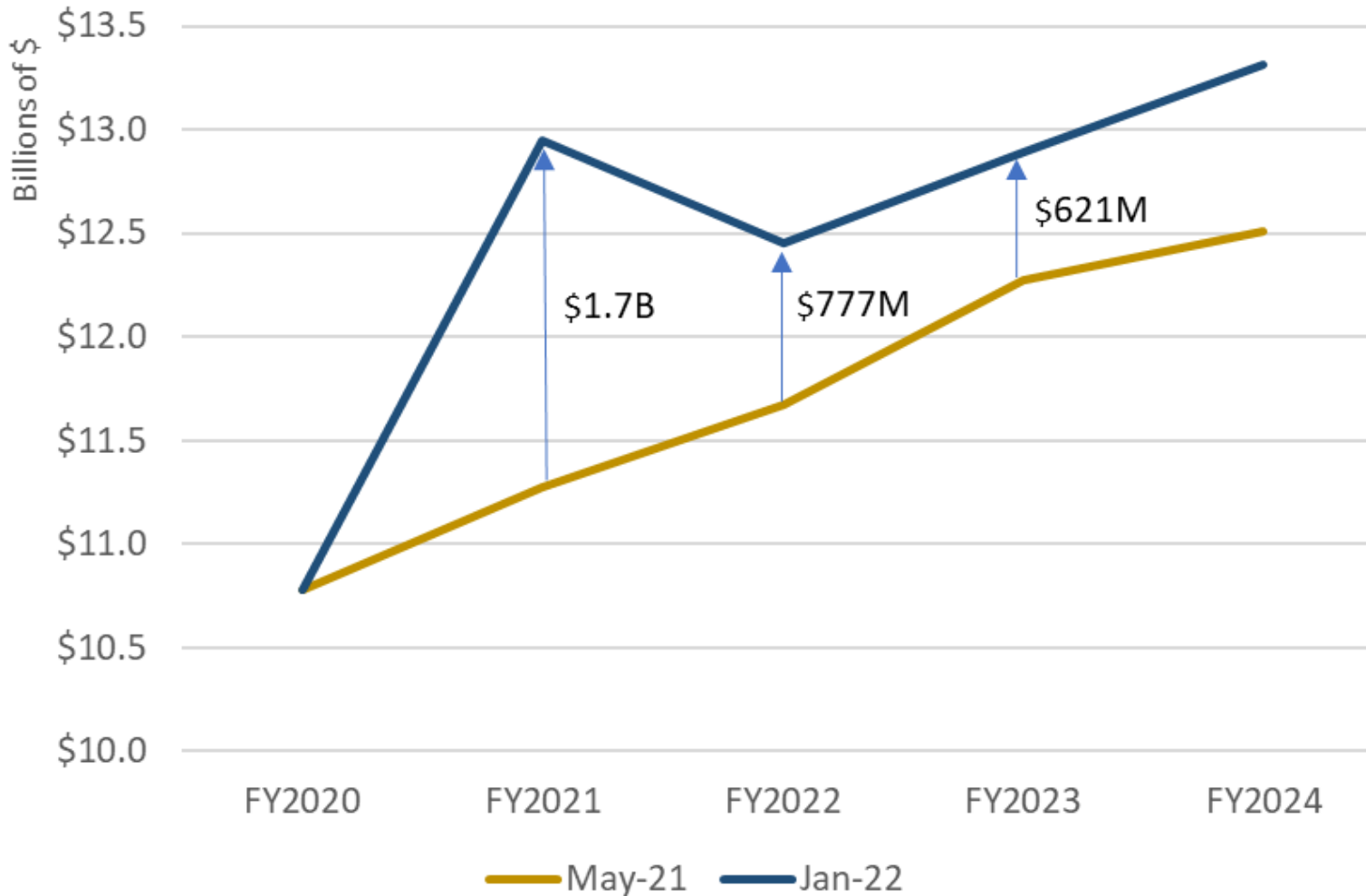
Craig Thiel, Research Director



- Work Experience
 - 2006 - present: Citizens Research Council
 - 1997 – 2006: House and Senate Fiscal
 - 1995 - 1997: Secretary of State
- Policy Background
 - State budget and taxation
 - K-12 education
 - Transportation
 - Inter-governmental relations
- Education
 - MPA, Wayne State University
 - BA, Kalamazoo College

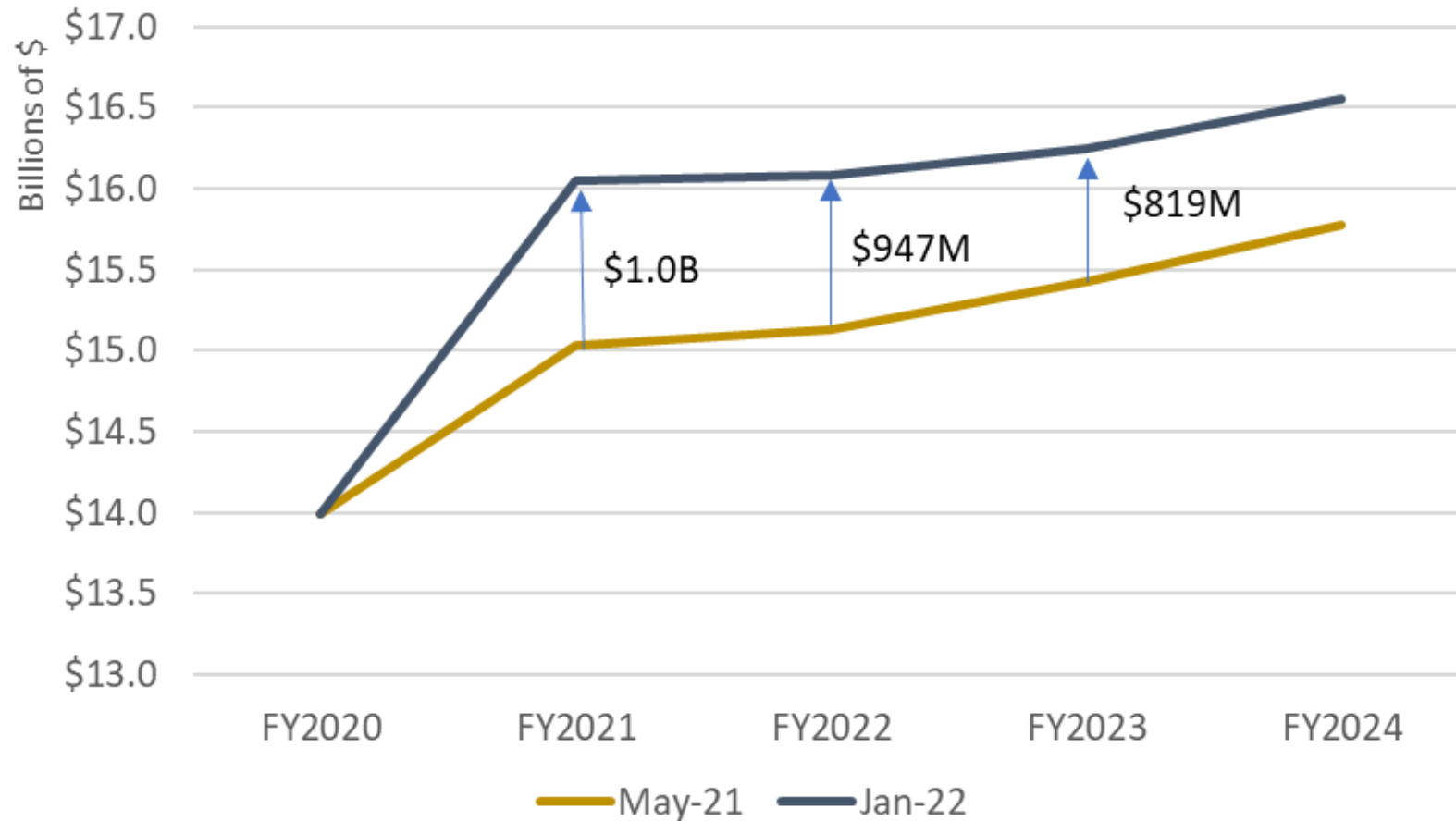
State Revenues: Unprecedented Surpluses Available

January Revenue Estimates – General Fund



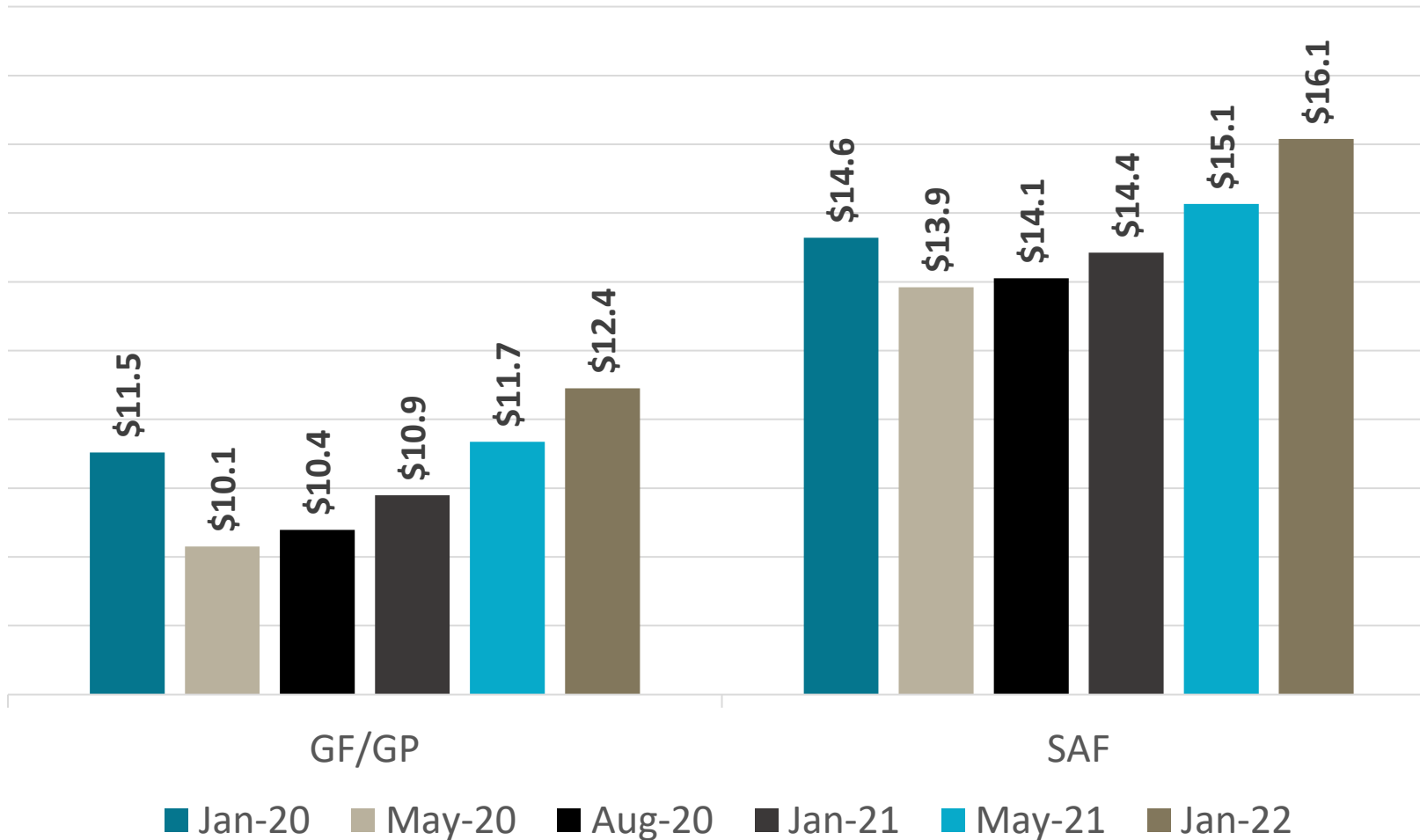
- GF/GP revenue estimates up \$2.5B for FY2021 and FY2022; so more one-time revenue available
- For FY2023, GF/GP revenue forecast up \$621 million; extra ongoing revenue available for FY23 budget

January Revenue Estimates – School Aid Fund



- SAF revenue up \$1.9B for FY2021 and FY2022; again, this means more one-time revenue
- Revenue up \$819M in FY2023

Revenue Forecasts Come Full Circle



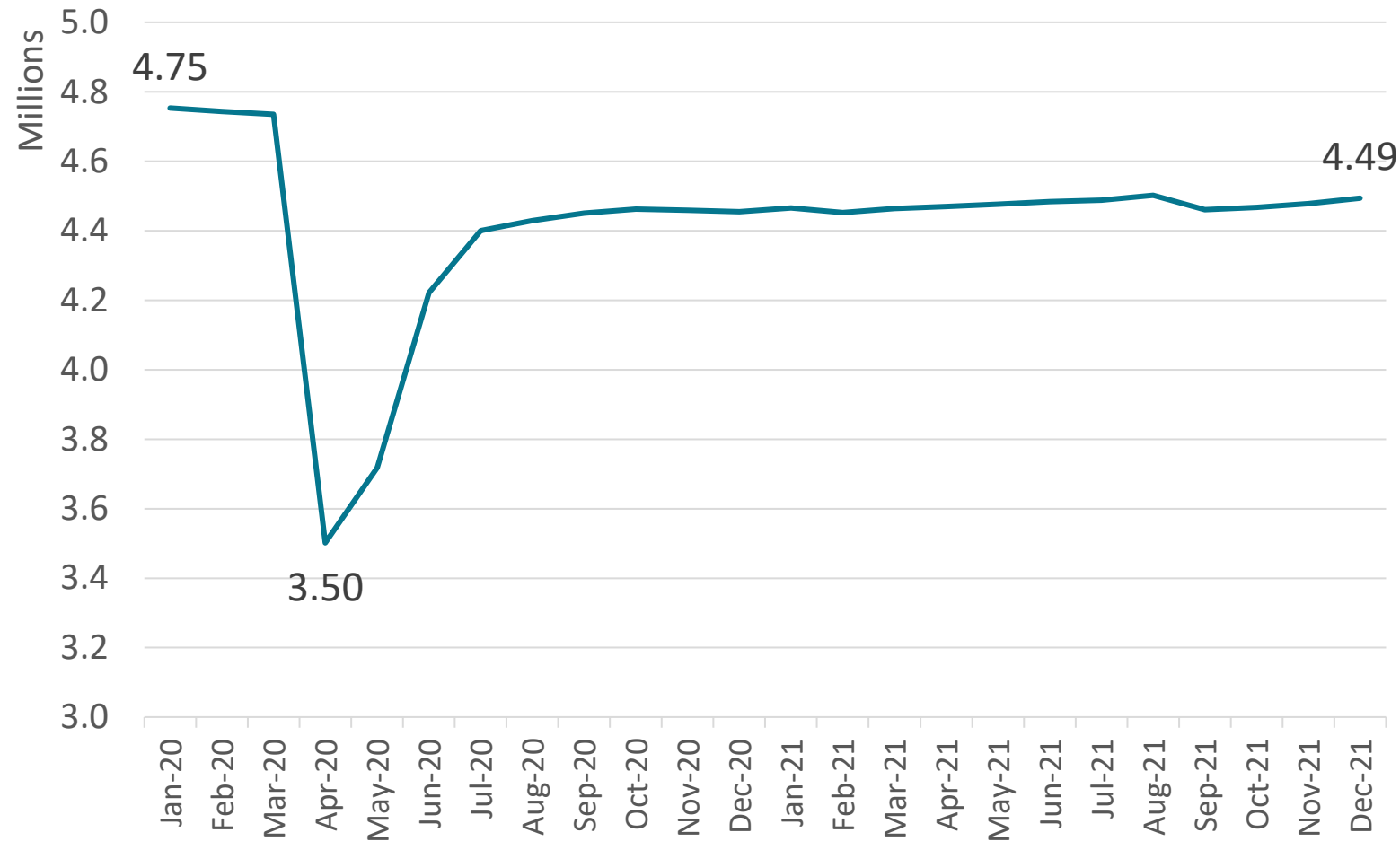
FY2022 Revenues

- Projections drop by \$2.1 billion in May 2020 due to the early economic disruptions from the pandemic
- In January 2022, forecasts are now a staggering \$2.4 billion above the last pre-pandemic forecast

Source: January 2021 CREC Final Summary.

Michigan Economy: Employment

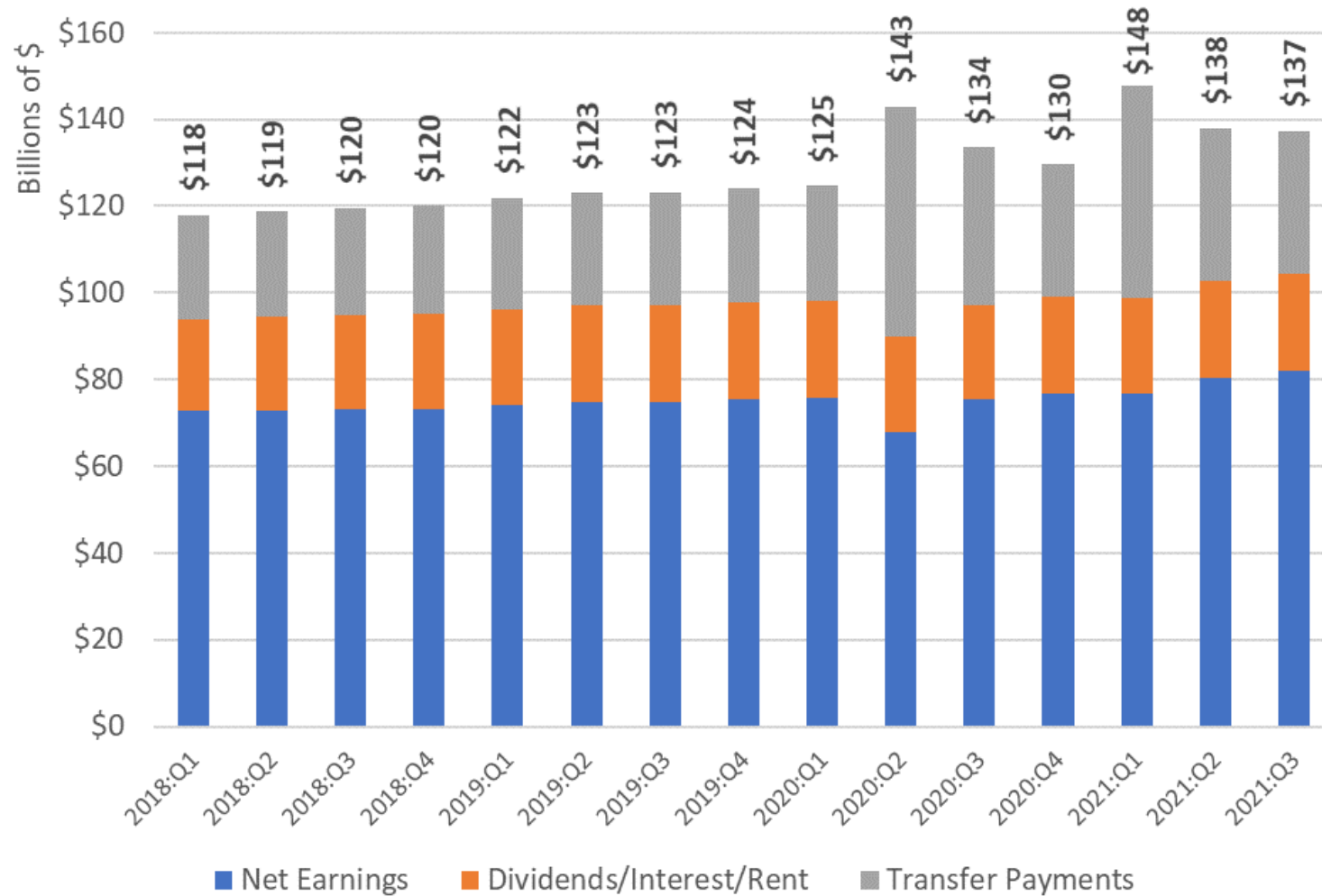
Wage and Salary Employment



Michigan has recovered about 80% of the jobs lost during the severe downturn at the onset of the COVID-19 pandemic.

However, that means the state still has 250,000 fewer workers now than at the beginning of 2020.

Michigan Economy: Personal Income



Despite job declines, personal income growth was at historic highs in 2020 and 2021

Growth was driven by COVID-related transfer payments (e.g., economic impact payments, enhanced unemployment, Paycheck Protection Program)

Implications for FY23 Budget

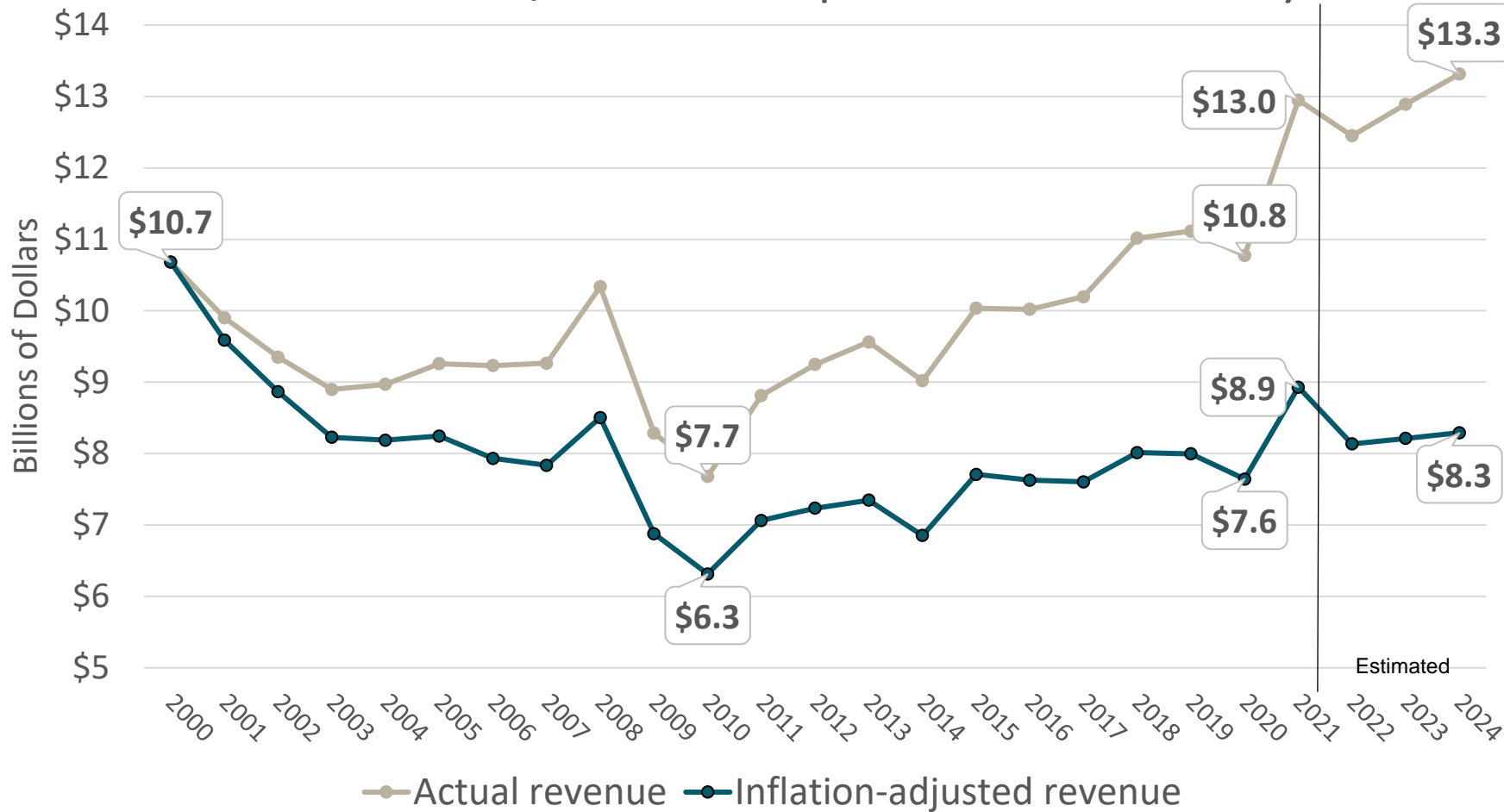
Revenue Surge Results in Large Fund Surpluses

Estimated FY22 Year-End Fund Balances	
GF/GP	School Aid Fund
\$3.3 billion	\$3.6 billion

- Based on current appropriations, state will have revenue surplus of almost \$7B to carry into FY2023; these are one-time funds that should most appropriately be used for one-time spending needs
- Surplus is due to state revenue growth; none of this is tied to recent federal funding allocations
- Ongoing revenue growth also leaves room for new investments:
 - About \$1 billion for the General Fund
 - About \$1.3 billion for the School Aid Fund
- Options for the Governor and Legislature: New investments? Or tax cuts?

Budget History 101: When Things Were Bad

General Fund/General Purpose Revenue History



Revenue in FY2020 was effectively the same as it was two decades earlier in FY2000

Adjusted for inflation, FY2024 revenue is still expected to be down by more than 22% from FY2000

Source: Research Council calculations from Senate Fiscal Agency data.

FY23 Executive Budget

Tax Proposals:

Retirement Income and Earned Income Tax Credit

Tax Relief: Earned Income Tax Credit

2011 changes: EITC reduced from 20% of the existing federal credit to 6% of that federal credit

Governor's proposal would return the EITC to 20% of the federal credit; maximum credit would rise from \$359 for tax year 2021 to \$1,233 for tax year 2022

State Budget Office estimates average credit will increase by around \$300 to \$450 dollars per year for 738,000 eligible low-income households with earned income

	FY2022	FY2023	FY2024	FY2025
Foregone Revenue	\$0	\$262M	\$267M	\$272M

Tax Relief: Treatment of Retirement Income

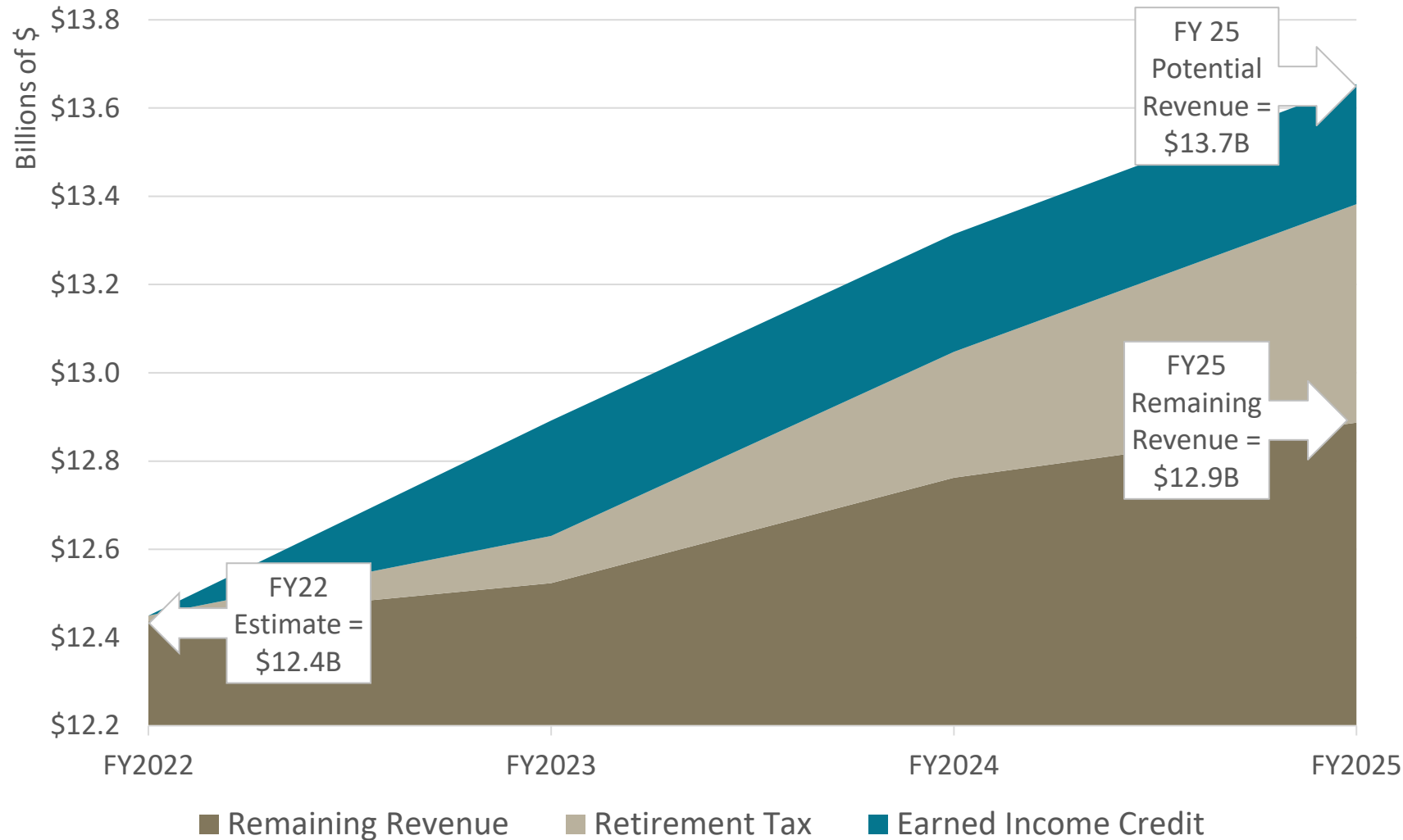
2011 changes: Eliminates exemption of public retirement and pension benefits from state income tax; reduces general deductions for retirement benefits for persons born after 1945 and limits deductions to those reaching age 67

Governor's proposal would repeal these changes, giving retirees the option to apply either "old rules" or "new rules". Changes are phased in by tax year:

- Tax year 2022: aged 65 or older; 25% exemption of retirement income
- Tax year 2023: aged 62 or older; 50% exemption of retirement income
- Tax year 2024: aged 59 or older; 75% exemption of retirement income
- Tax year 2025: everyone; 100% exemption of retirement income

	FY2022	FY2023	FY2024	FY2025
Estimated Foregone Revenue	\$13M	\$107M	\$285M	\$495M

Revenue Impact of Tax Proposals



The two tax reduction proposals would draw down about 63% of projected GF/GP revenue growth between FY2022 and FY2025

Tax Relief: Implications for GF/GP Budget

Trade-off: Tax proposals would reduce funding available for ongoing budget investments

	FY23	FY24	FY25
Room for Budget Growth	\$1.0B	\$1.0B	\$1.0B
Taxation of Retirement Income	(\$107M)	(\$285M)	(\$495M)
Earned Income Tax Credit	(\$262M)	(\$267M)	(\$272M)
Remaining Room for Growth	\$631M	\$448M	\$233M

FY23 Executive Budget

Summary of Governor's Proposal

Governor's FY23 Budget Recommendation

Overall Changes from FY22 Budget

	FY22 Current	FY23 Executive Budget	% Chg
Total Appropriations	\$72.2B	\$74.1B	2.6%
Federal Revenue	\$31.3B	\$30.3B	(3.2%)
General Fund/General Purpose Revenue	\$12.9B	\$14.3B	10.7%
School Aid Fund Revenue	\$15.6B	\$16.6B	6.7%
Other Revenue Sources	\$12.3B	\$12.8B	5.6%

For perspective, total state appropriations for FY2019 equaled \$58.3B

Summary of Major Changes – GF/GP and SAF

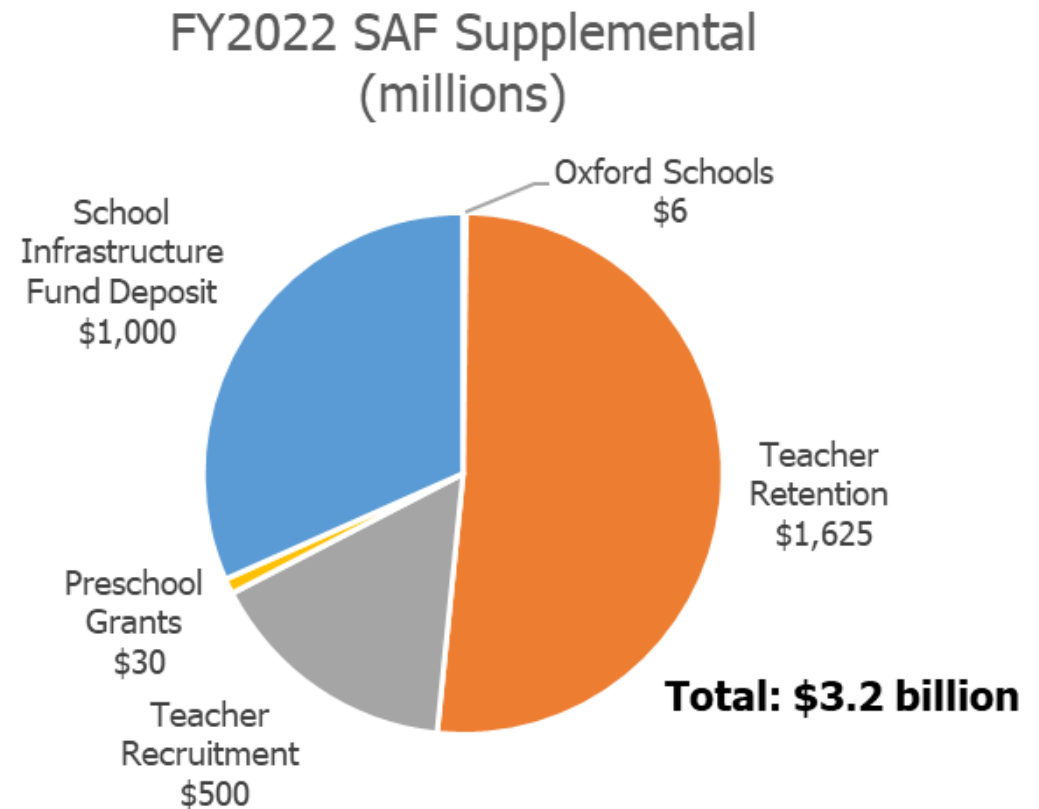
	GF/GP (millions)	SAF (millions)
FY22 Ongoing Appropriations	\$11.0B	\$15.1B
New Ongoing Investments	\$412M	\$1.3B
New One-Time Investments	\$2.4B	\$398M
Baseline Adjustments (caseloads, financing, payroll)	\$511M	(\$109M)
FY23 Executive Budget Recommendation	\$14.3B	\$16.6B

Education Budgets Highlights

Spend Down School Aid Fund Surplus

FY22 one-time appropriations

- Employee retention bonuses
 - Teachers - \$2K first/second year; \$3K in third year and \$4K in fourth year
 - Non-teachers - first/second year only
- Teacher recruitment
 - Grow-Your-Own programs
 - Student teacher stipends
 - Tuition stipends for students in teacher prep. programs
- Deposit to Infrastructure Fund
 - Matching grants to eligible districts for building capital improvements
- Reduces FY22 SAF Surplus from \$3.6B to \$535M
 - The balance is appropriated in the FY23 budget



Governor's FY23 School Aid Fund Proposals

K-12, community colleges, and universities

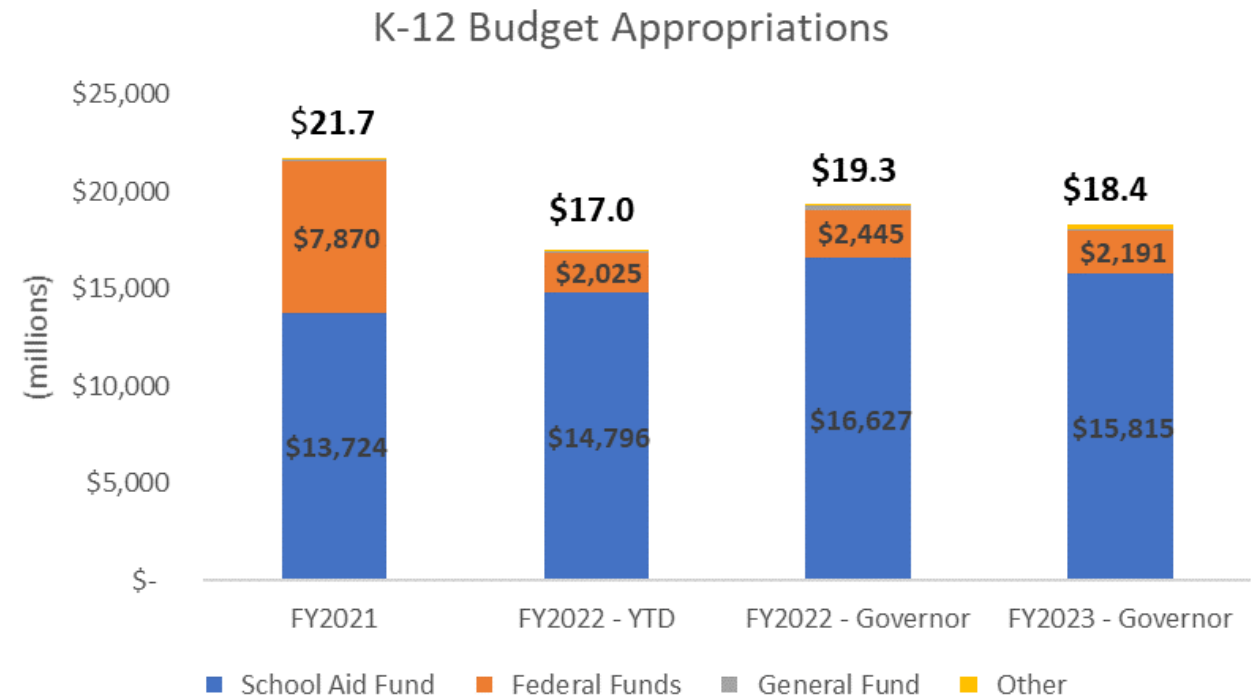
- 5% increase in general operations across all education budgets
- Additional 5% one-time funding for colleges and universities
 - Mix of one-time items for K-12 budget
- Colleges – continue to be funded 100% from School Aid (\$470M)
- Universities - partially funded from School Aid (\$348M)

	FY2023	
	SAF - K12	SAF - HE
FY2022 Ongoing Approps.	\$ 14,299	\$ 790
Proposed Ongoing Investments	\$ 1,244	\$ 22
Proposed One-time Investments	\$ 382	\$ 16
Baseline Adjustments	\$ (109)	\$ (9)
FY2023 Exec. Budget	\$ 15,815	\$ 818
<i>\$ Change - ongoing</i>	<i>\$ 1,134</i>	<i>\$ 12</i>
<i>% Change - ongoing</i>	<i>8%</i>	<i>2%</i>

K-12 Budget Overview

\$1B in new ongoing spending

- \$18.4B - Total K-12 Budget
 - \$1.4B (8%) increase from FY22
 - \$1.1B in ongoing SAF revenue available for FY23
- Major Items - ongoing
 - \$580M – foundation allowance
 - \$222M – at-risk funding
 - \$150M – special education
 - \$150M – teacher recruitment
- Major Items – one-time
 - \$295M – student mental health



K-12 Budget Highlights

Foundation funding and student enrollment

- Foundation allowance – \$435 increase (5%)
 - From \$8,700 to \$9,135
 - Cyber schools - no increase
 - \$580M statewide – half of available on-going SAF
- Small membership decline
 - Local experiences will vary
 - No “hold harmless” for declining enrollment districts
- COVID-19 enrollment decline does not show up until one year later because of “super blend” for 2020-21

	<u>Enrollment</u>	<u>change</u>	<u>Membership</u>	<u>change</u>
2018-19	1,507,772		1,469,021	
2019-20	1,499,552	-0.5%	1,460,527	-0.6%
2020-21	1,437,612	-4.1%	1,449,500	-0.8%
2021-22	1,443,456	0.4%	1,406,000	-3.0%
2022-23 -est.			1,401,200	-0.3%
2023-24 -est.			1,396,000	-0.4%

K-12 Budget Highlights

At-risk and special education students

Student-specific funding

- At-risk program - \$1,051 per student (up from \$768 today)
 - Over one-half of students qualify
 - Provides full statutory amount (11.5% of foundation)
- Special education – increase state reimbursement percentage
 - Add'l 5% of reimbursable costs - total of 8% (discretionary)
 - Headlee decision requires state reimbursement of at least 29%; brings state share to 37%
 - For most districts, this dedicated funding offsets General Fund contributions to special education budgets and not an increase in special education services
- Bilingual education – 5% increase
 - Per-student grants based on service needs

Other K-12 Highlights

- New - school infrastructure grant program (\$170M)
 - Funded from new infrastructure fund over next six years
 - Matching grants – up to \$1M per project
 - Charter schools excluded
- New – teacher recruitment (\$150M)
 - \$10,000 per year for tuition reimbursement
 - Public teacher preparation programs only
- One-time funding – student mental health (\$295M)
 - School wraparound services (\$120M) - hire psychologists, social workers, counselors, and nurses; state funding phased-out over three years
 - Expand current TRAILS pilot program statewide (\$150M)
- Increase - GSRP per-child grant - \$8,700 to \$9,135 (full day)

Take a Step Back

FY23 budget comes on heels of major federal funding

- Massive infusion of federal funding – three relief packages since 2020
 - Total of \$6.2B - represents about one-third of total annual K-12 outlays (\$18B)
 - \$5.7B – Elementary and Secondary School Emergency Relief (ESSER)
 - 90% of ESSER dollars allocated directly to districts via federal Title IA formula
 - \$3.4B from latest round (American Rescue Plan) hitting local budgets now
- For handful of districts, this money represents once-in-lifetime funding
 - Largely discretionary funding – local uses/experiences will vary
 - Minimum – \$1,100 per pupil from American Rescue Plan (equalization)
 - 35 districts (of 800) receive 5X minimum or more – Flint \$30K per pupil
- Although one-time money, it will prop up district budgets for years

Federal Relief Spending Stretches Out

60% estimated to be spent after FY22

Estimated Spending Schedules for ESSER Relief Packages (millions \$)

	Total Allocated	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
ESSER I (CARES)	\$ 389.8	\$ 50.7	\$ 175.4	\$ 124.7	\$ 25.3	\$ 12.5	\$ 1.4			
ESSER II (CRRSA)	\$ 1,656.3		\$ 331.3	\$ 496.9	\$ 447.2	\$ 248.4	\$ 82.8	\$ 33.1	\$ 16.6	
ESSER III (ARP)	\$ 3,722.0		\$ 186.1	\$ 930.5	\$ 930.5	\$ 744.4	\$ 558.3	\$ 260.5	\$ 74.4	\$ 37.2
Total Expenditures	\$ 5,768.1	\$ 50.7	\$ 692.8	\$ 1,552.1	\$ 1,403.0	\$ 1,005.3	\$ 642.5	\$ 293.7	\$ 91.0	\$ 37.2
% of total		1%	12%	27%	24%	17%	11%	5%	2%	1%

Source: Congressional Budget Office

NOTE: ESSER Spending @ 12/21

ESSER I (CARES)	\$ 349.4	90%
ESSER II (CRRSA)	\$ 272.4	16%
ESSER III (ARP)	\$ -	0%
Total	\$ 621.8	11%

General Fund Budget Highlights

FY22 GF/GP Supplemental Proposals

Major Funding Changes	GF/GP
Strategic Outreach and Attraction Reserve Fund	\$500M
Behavioral Health Capacity Expansion	\$186M
Budget Stabilization Fund formula deposit	\$52M
Revenue Sharing – 2020 Census “Hold Harmless”	\$50M
First Responder Retention Payments	\$30M
Mobility Futures Initiative	\$25M
Other Adjustments	\$32M
Medicaid and Human Services Adjustments	(\$402M)
Total GF/GP Appropriations	\$473M

School Aid Supplemental

- \$200M GF/GP for university and community college infrastructure improvements
- \$94M for Detroit Public School Community District settlement
- \$7M GF/GP for other items

GF/GP surplus falls from \$3.3B to \$2.5B under these proposals

GF/GP Ongoing Appropriation Changes by Department

<u>Department</u>	<u>FY2022</u>	<u>FY2023</u>	<u>Increase</u>	<u>% Chg</u>
Agriculture	\$61,311.9	\$65,939.8	\$4,627.9	7.5%
Attorney General	\$41,496.0	\$45,044.8	\$3,548.8	8.6%
Civil Rights	\$14,357.3	\$14,981.6	\$624.3	4.3%
Corrections	\$1,978,319.4	\$2,040,108.3	\$61,788.9	3.1%
Education	\$92,238.1	\$98,181.5	\$5,943.4	6.4%
Environment, Great Lakes & Energy	\$61,700.4	\$77,585.8	\$15,885.4	25.7%
Executive Office	\$7,318.6	\$7,708.6	\$390.0	5.3%
Health & Human Services	\$5,323,516.7	\$5,933,772.4	\$610,255.7	11.5%
Insurance & Financial Services	\$0.0	\$0.0	\$0.0	N/A
Judiciary	\$207,339.8	\$218,898.0	\$11,558.2	5.6%
Labor & Economic Opportunity	\$264,172.4	\$276,225.4	\$12,053.0	4.6%
Legislature	\$192,592.1	\$198,227.7	\$5,635.6	2.9%
Licensing & Regulatory Affairs	\$180,345.9	\$182,593.5	\$2,247.6	1.2%
Military & Veterans Affairs	\$72,193.8	\$73,250.0	\$1,056.2	1.5%
Natural Resources	\$46,116.7	\$48,419.0	\$2,302.3	5.0%
School Aid	\$37,318.1	\$67,700.0	\$30,381.9	81.4%
State	\$12,435.6	\$13,746.6	\$1,311.0	10.5%
State Police	\$506,837.0	\$546,510.9	\$39,673.9	7.8%
Technology, Management & Budget	\$457,945.1	\$475,209.0	\$17,263.9	3.8%
Transportation	\$0.0	\$0.0	\$0.0	N/A
Treasury	\$221,478.2	\$229,675.9	\$8,197.7	3.7%
Universities/Financial Aid	\$1,217,321.5	\$1,306,008.5	\$88,687.0	7.3%
All Departments	\$10,996,354.6	\$11,919,787.3	\$923,432.7	8.4%

- Ongoing GF/GP appropriations increase by \$923M across all departments (8.4% increase over FY22)
 - New investments = \$412M
 - Baseline adjustments = \$511M

American Rescue Plan Funding

FY22 Supplemental draws on an additional \$500M in State Fiscal Recovery Fund (SFRF) revenue; \$4.3B remains

Disposition of State Fiscal Recovery Fund Allocation

Funding in millions

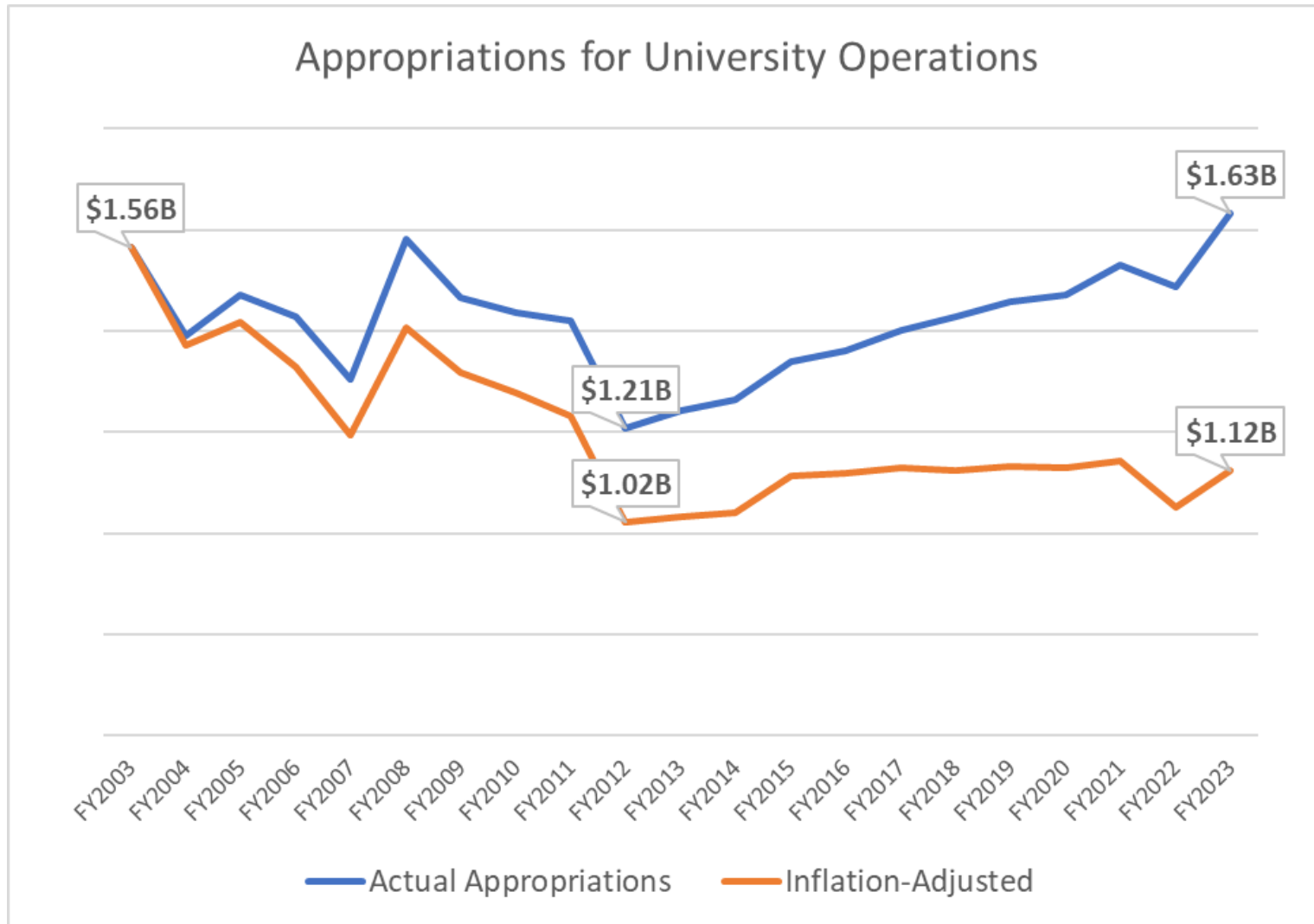
Michigan Allocation	\$6,540.4
SFRF Proceeds Committed in 2021	\$1,192.9
Enacted Supplemental - COVID-19 Response	\$509.5
Governor's Budget - Essential Worker "Hero Pay"	\$500.0
Governor's Budget - First Responder Retention	\$20.0
Unallocated Funding	\$4,318.0

Health and Human Services Highlights

Behavioral Health and Dental Access Headline Significant New Investments

Ongoing Investments	Total Funding	GF/GP
Restructuring of Medicaid dental benefits All recipients served through managed care contract; increased reimbursement for outpatient procedures	\$248M	\$70M
Behavioral health capacity expansion Adds 56 state facility beds and expands access to community-based treatment; expansion of behavioral health homes	\$69M	\$55M
Foster Care payment enhancements 18% increase in payments to foster parents, parents adopting out of child welfare system and juvenile guardians; rate increases for residential facilities	\$44M	\$22M
One-Time Investments	Total Funding	GF/GP
New state psychiatric hospital	\$325M	\$325M
Food security enhancements	\$50M	\$50M
Home repair/plumbing assistance	\$40M	\$40M
State Loan Repayment Program (behavioral health)	\$25M	\$25M

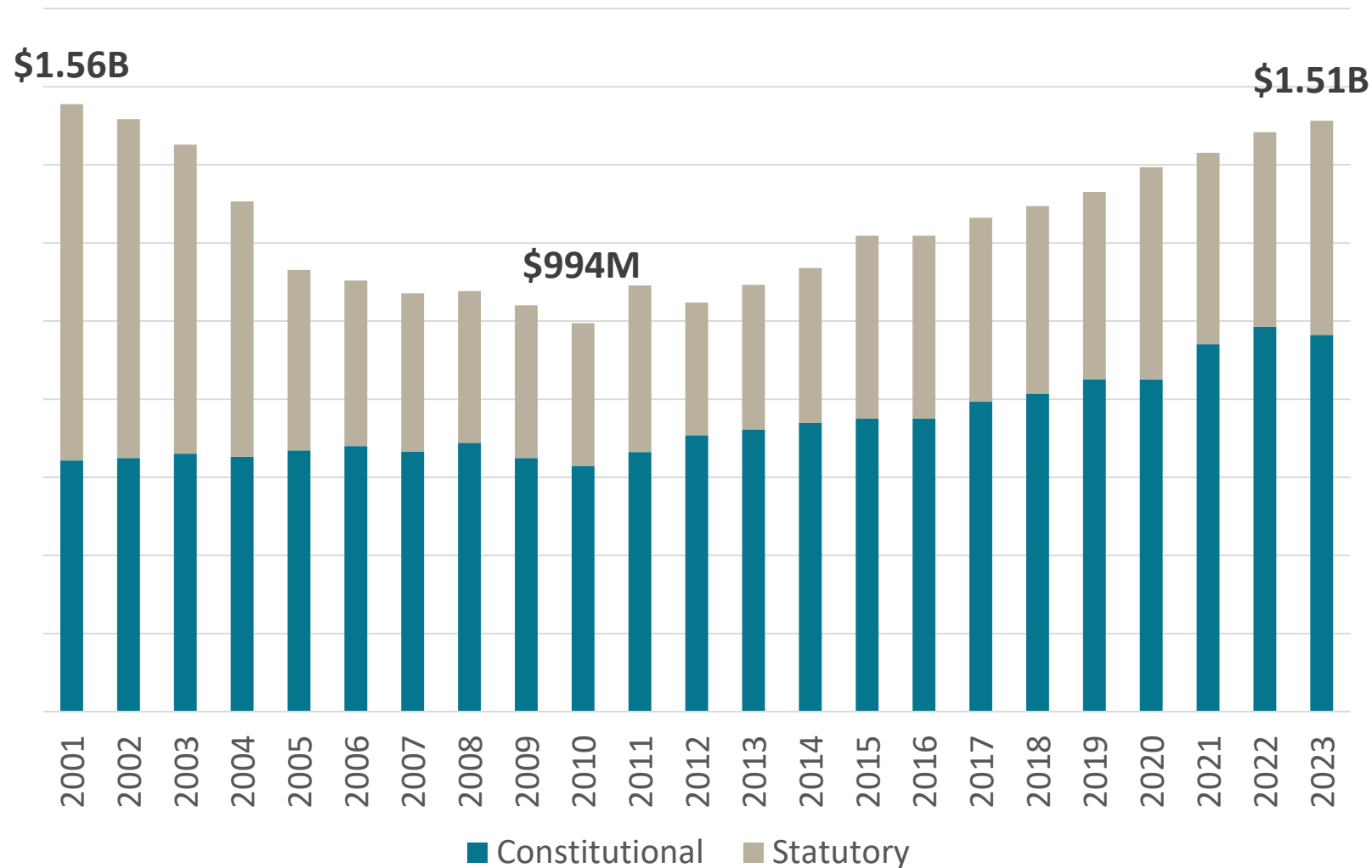
State University Operations



Governor's proposal

- 5% ongoing increase (\$73M)
- 5% one-time increase (\$73M)
- Four-year phase-in of minimum funding floor per full-time equated student (\$13M in FY23)
 - \$3,500 in FY23
 - \$4,500 by FY26

Local Revenue Sharing



Governor's proposal

- 5% ongoing increase (\$24.9M) for statutory revenue sharing to counties, municipalities, and townships
- 5% one-time increase (\$24.9M)
- \$52.5M to meet constitutional obligation to cities, villages, and townships

Economic and Workforce Development

One-Time Funding: Department of Labor and Economic Opportunity	GF/GP
<p>Educational infrastructure collaborations Competitive grant opportunities for “transformational education infrastructure”: \$100M for projects to improve medical education, cancer research, and health sciences; \$130M to improve electric vehicle teaching, training, and development</p>	\$230M
<p>Regional empowerment program Competitive grants to support growth, development, and resiliency of regional and local economies; local cost share of 20-50 percent based on county population</p>	\$200M
<p>Nature, science, and cultural experiences grants Competitive grants for projects supporting Michigan’s cultural diversity and natural beauty</p>	\$75M
<p>Workforce development investments Employer-led education collaboratives to fill talent gaps (\$20M); reducing employment barriers for at-risk and low-income individuals (\$15M); Young Professionals Plus providing employment support for low-income youth (\$15M); Affordable Housing and Apprenticeship Program to develop low-income housing using paid apprentices (\$10.5M)</p>	\$50M

Transportation Infrastructure

One-Time Funding	GF/GP
Critical road and bridge infrastructure (MDOT) Funding for reconstruction of high priority roads on critical economic corridors	\$150M
Pump station back-up generators (MDOT) Provision of reliable back-up generator power at all 164 state-owned pump stations to address the problem of freeway flooding	\$66M
Priority rail grade crossing separation (MDOT) Supports projects to address the most problematic rail crossings around the state through full separation of vehicle and rail traffic via bridges or through realigning existing road or rail infrastructure	\$60M
Electric vehicle rebates (Treasury) Finances first-come, first-served point-of-sale rebates of up to \$2,000 for new electric vehicle purchases and up to \$500 for at-home electric vehicle charging equipment	\$50M

Budget proposal also includes \$578M in new federal funding available under the recently enacted Infrastructure Investment and Jobs Act

Addressing Environmental Challenges

One-Time Funding: Department of Energy, Great Lakes & Environment	GF/GP
Water infrastructure supports Community Technical, Managerial and Financial Support grants to local communities to hire or contract with specialists and experts to manage large water infrastructure projects	\$48M
Matching funds for federal infrastructure dollars Funding to match new federal water infrastructure dollars to cover lead service line replacement, water treatment facility improvements, and stormwater system planning and development	\$36M
High water infrastructure grants Grants to communities to address challenges such as flooding, coastal erosion, and storm water management that are exacerbated by climate change	\$34M
Contaminated site clean-ups	\$50M

Technology and Facilities

One-Time Funding	GF/GP
<p>Statewide case management system (Judiciary) Development and implementation of a statewide judicial case management to replace disparate locally managed and supported systems currently used across the state</p>	\$230M
<p>Information Technology Investment Fund (DTMB) Supports information technology projects that modernize legacy systems and use technology to transform service delivery to residents and businesses (\$35 million ongoing; \$110M one-time)</p>	\$150M
<p>Enterprise-wide special maintenance projects (DTMB) Finances special maintenance projects at state-owned buildings and facilities</p>	\$70M

Long-Term Assessment

Structural Budget Balance

Back to Continuation Budgets for GF/GP

GF/GP Balance Sheet Projections (\$ in millions)

	<u>FY2022</u>	<u>FY2023</u>	<u>FY2024</u>
Beginning Balance	\$4,257.1	\$2,494.0	\$2.7
Estimated Revenue	\$12,447.1	\$12,889.5	\$13,311.7
Tax Relief Proposals	(\$13.0)	(\$369.0)	(\$547.0)
Adjusted Revenue	\$12,434.1	\$12,520.5	\$12,764.7
Current/Ongoing Appropriations	\$13,423.0	\$11,544.7	\$11,544.7
Cost Pressures		\$683.0	\$792.5
Ongoing Investments		\$410.2	\$410.2
One-Time Investments	\$774.2	\$2,373.9	
Ending Balance	\$2,494.0	\$2.7	\$20.0

- Governor's supplemental proposal reduces FY22 GF/GP year-end balance to \$2.5B
- Proposal adds \$410M in new ongoing spending; eventually \$740M in tax relief by FY25
- One-time spending proposals use up the remaining GF/GP balance; little room, if any, room for new investments in FY24 and FY25

School Aid Fund Still with Room for Growth

SAF Balance Sheet Projections (\$ in millions)

	FY2022	FY2023	FY2024
Beginning Balance	\$2,877.3	\$535.8	\$49.9
Estimated SAF Revenue	\$16,078.2	\$16,246.6	\$16,557.7
Federal/Other Restricted Revenue	\$2,704.2	\$2,541.5	\$2,501.0
Adjusted Revenue	\$18,782.4	\$18,788.1	\$19,058.7
Current/Ongoing Appropriations	\$17,770.9	\$17,020.1	\$17,020.1
Cost Pressures	(\$323.7)	(\$127.3)	(\$212.5)
Ongoing Investments		\$1,414.0	\$1,439.2
One-Time Investments	\$3,676.7	\$967.2	\$529.0
Ending Balance	\$535.8	\$49.9	\$332.8

- Huge FY22 supplemental request draws year-end balance to \$536M for FY22
- Revenue growth supports another \$1.4B in ongoing investments in K-12 budget; SAF is not impacted by Governor's tax proposals
- \$332M balance remains at end of FY24 under the proposal

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