



Analyzing the
Governor's
FY2024 Budget
Recommendations

Analyzing the Governor's FY2024 Budget Recommendations

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Citizens Research Council of Michigan

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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.

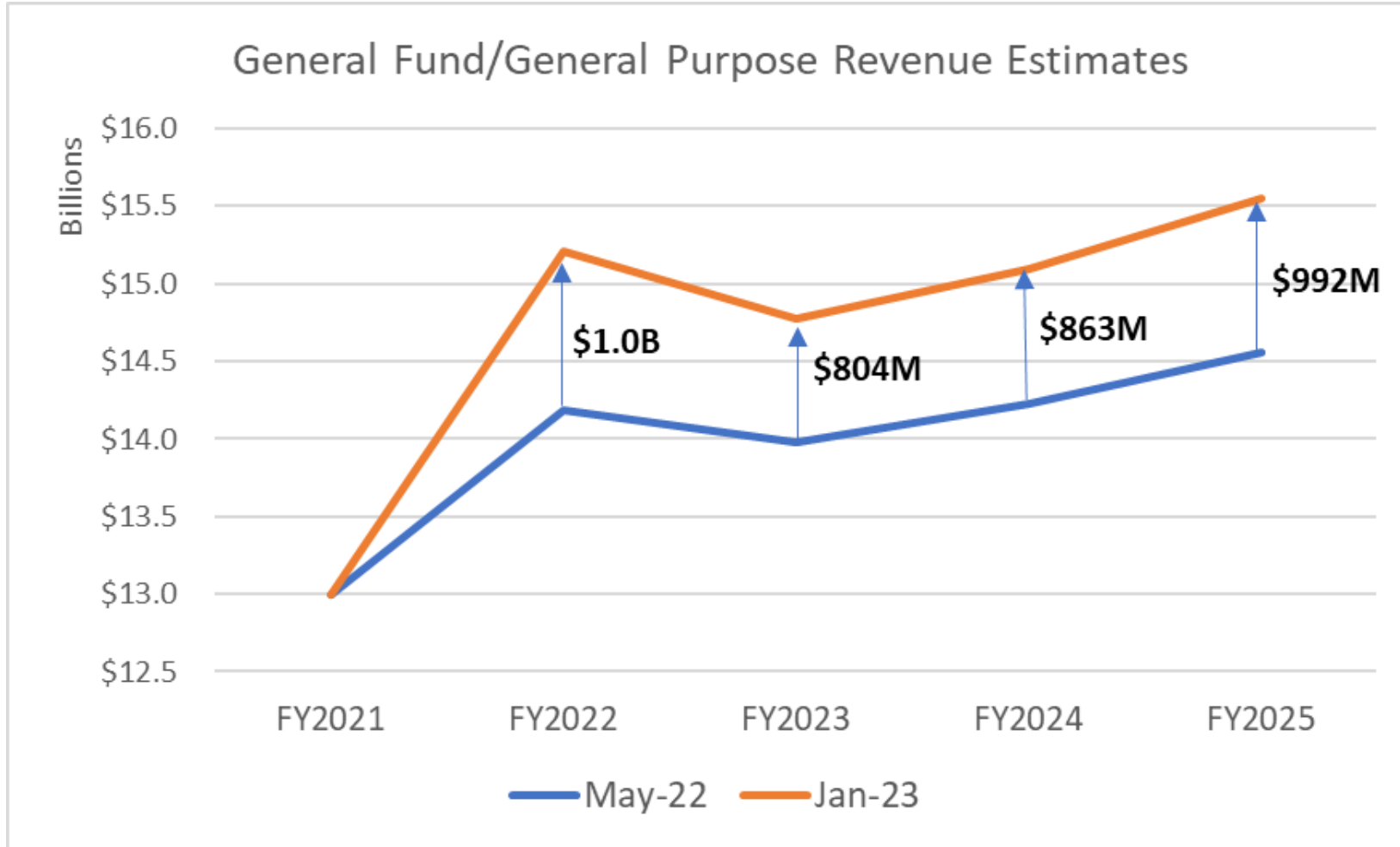
Craig Thiel, Research Director



- 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

Revenue Outlook: Improved January Forecasts Turn “Good” to “Great”

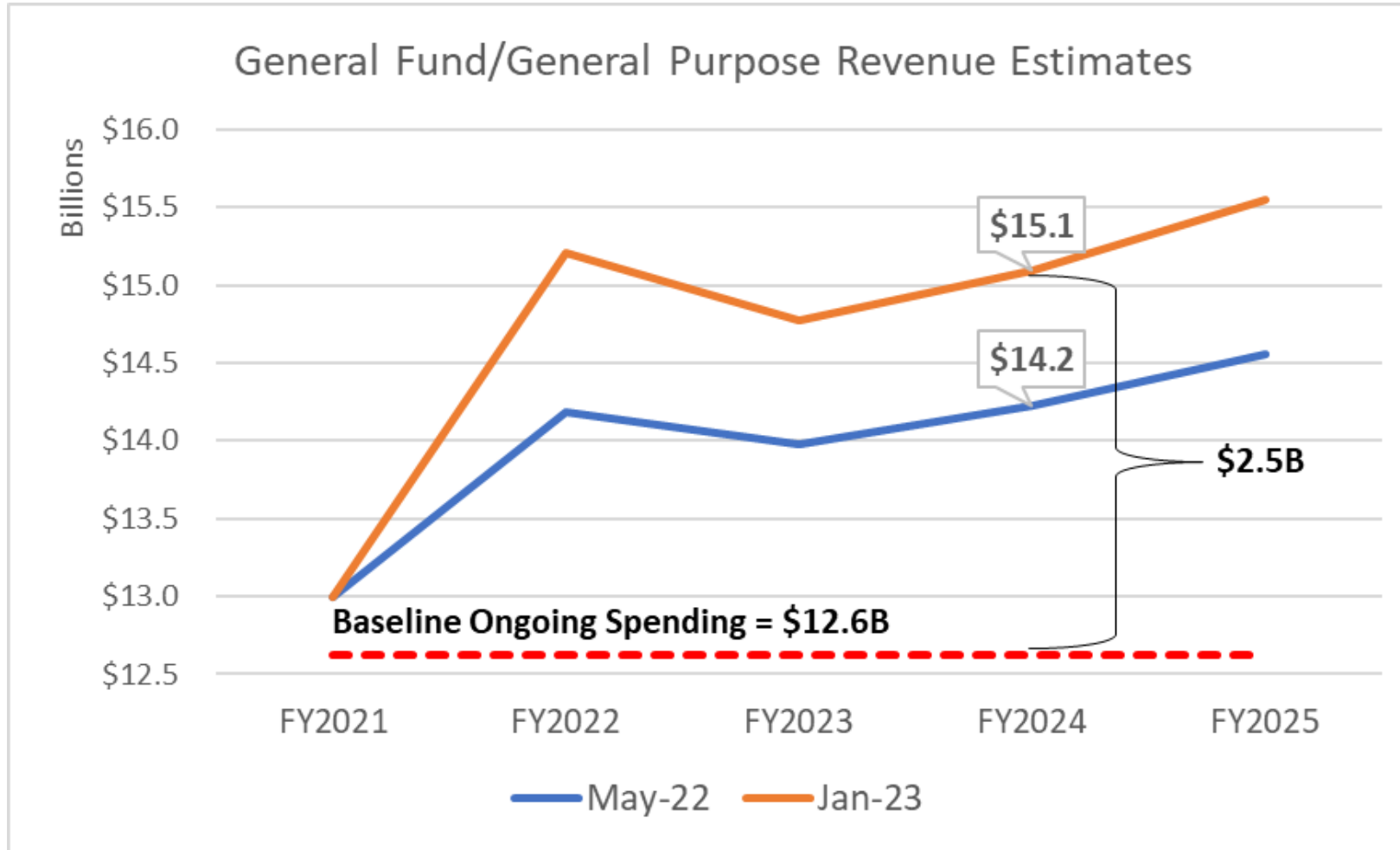
January Revenue Estimates – General Fund



- GF/GP revenue estimates up between \$800M and \$1B over the forecast period

Source: January 2023 CREC Final Summary.

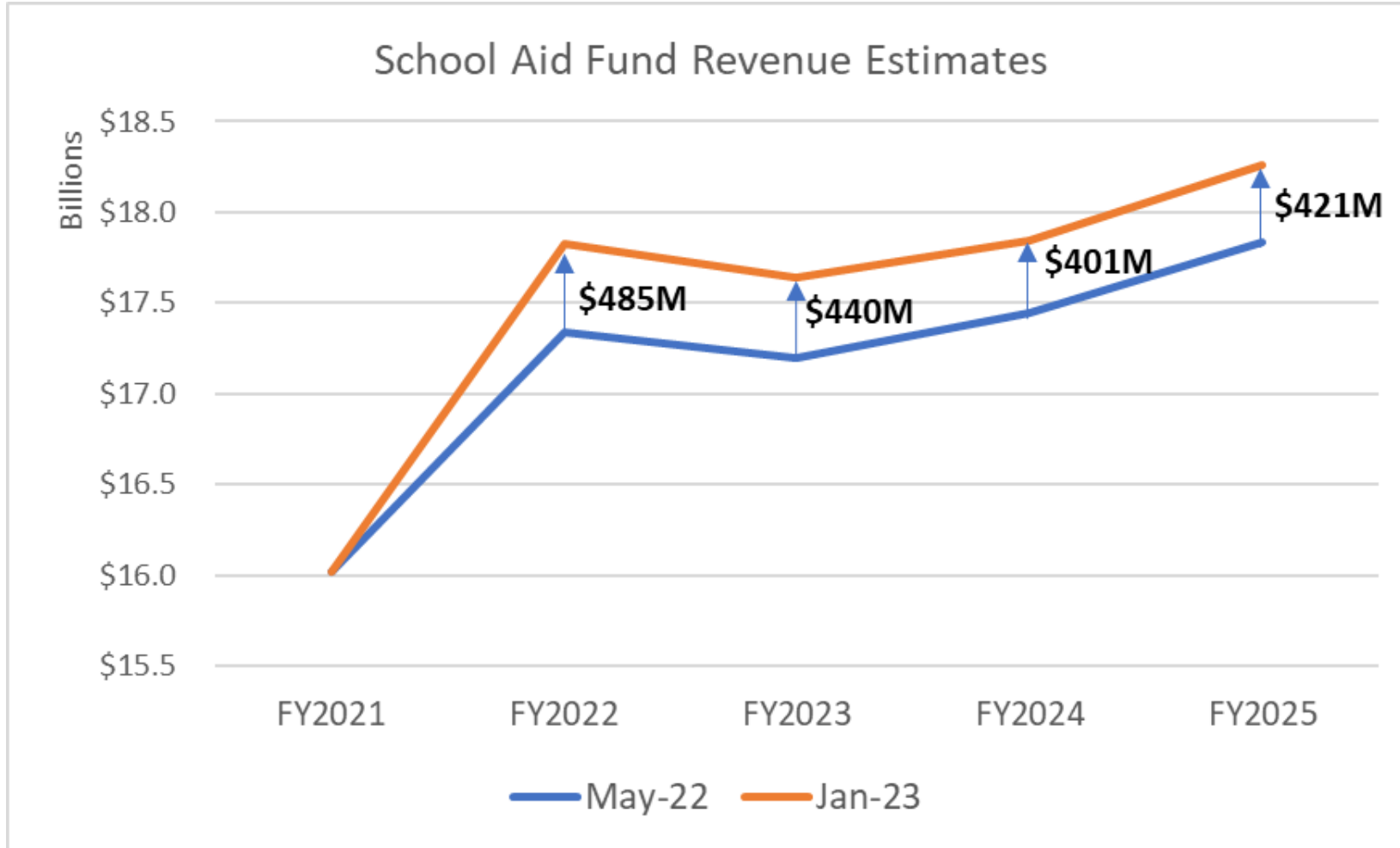
GF/GP Ongoing Surplus Increases to \$2.5B



- New GF/GP revenue estimate for FY2024 exceeds FY2023 “baseline” by \$2.5B
- \$2.5B in “budget room” for new investments or tax relief

Source: Research Council calculations Senate Fiscal Agency balance sheet projections and Executive Budget Book..

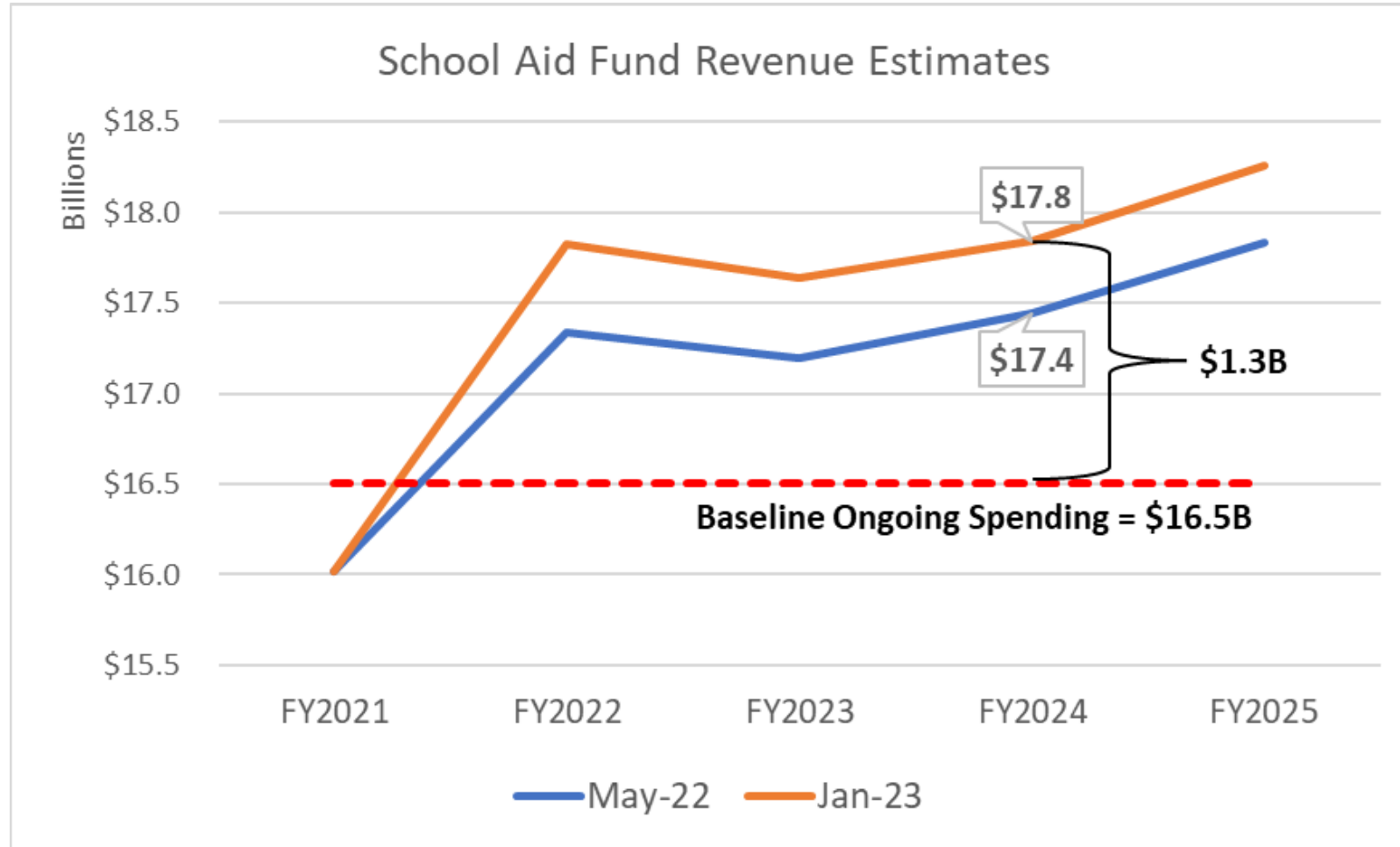
January Revenue Estimates – School Aid Fund



- SAF revenue estimates up between \$400M and \$500M across the four-year forecast

Source: January 2023 CREC Final Summary.

School Aid Fund: \$1.3B Ongoing Surplus



- SAF revenue estimate for FY24 exceeds baseline spending by \$1.3B
- As with GF/GP, this means there's significant room for new ongoing investments

Source: Research Council calculations Senate Fiscal Agency balance sheet projections and Executive Budget Book..

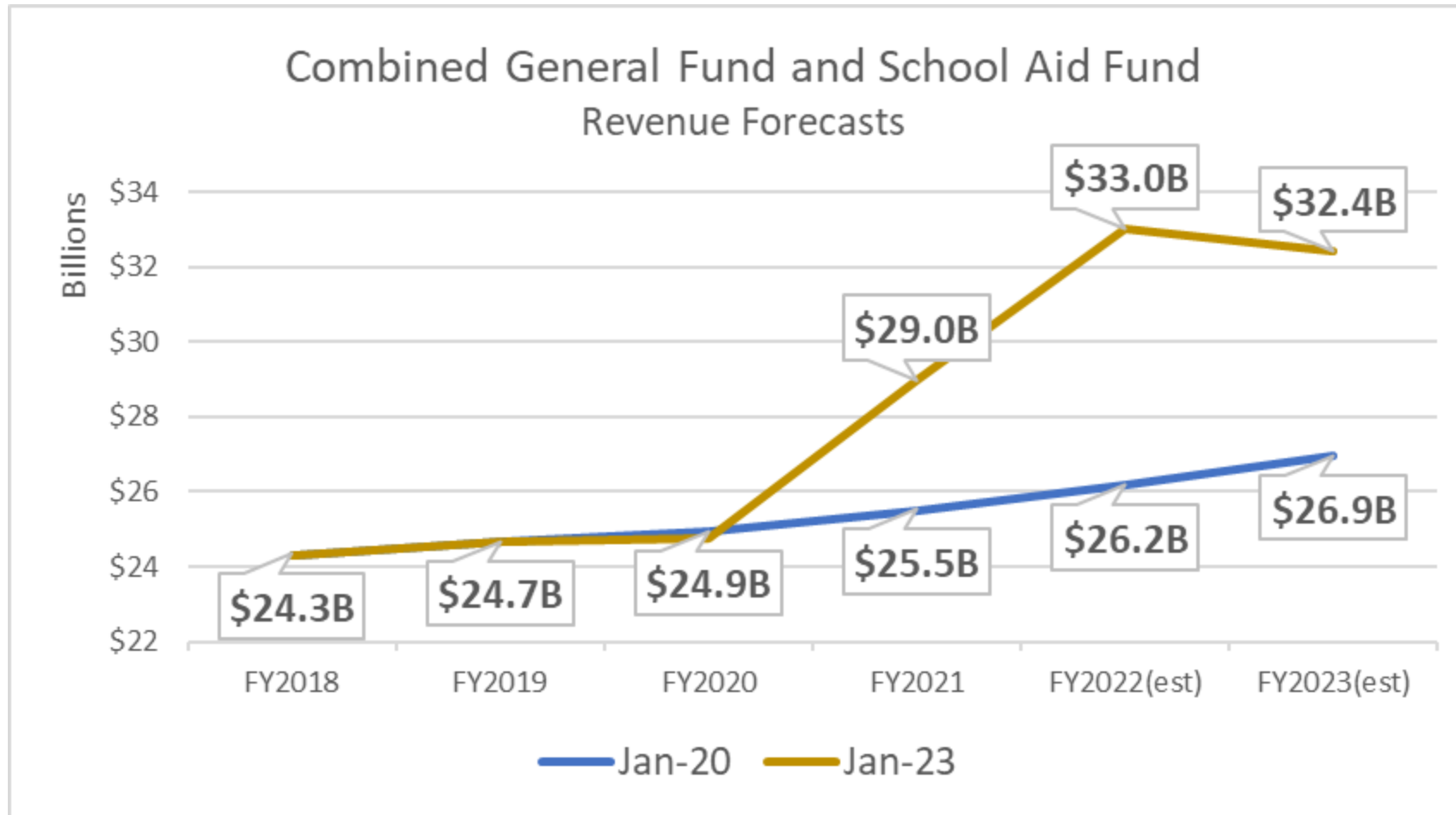
State's "Money in the Bank" Grows

Revenue Surge Results in Large Fund Balances

Estimated FY2023 Year-End Fund Balances	
GF/GP	School Aid Fund
\$5.1 billion	\$4.2 billion

- Based on current appropriations, state will have over \$9B in available fund balance across these two major revenue funds
- These fund balances are like "money in the bank" to the state; can be accessed for one-time purposes:
 - One-time public investments
 - Paying down state debt
 - Holding in reserve for the next rainy day

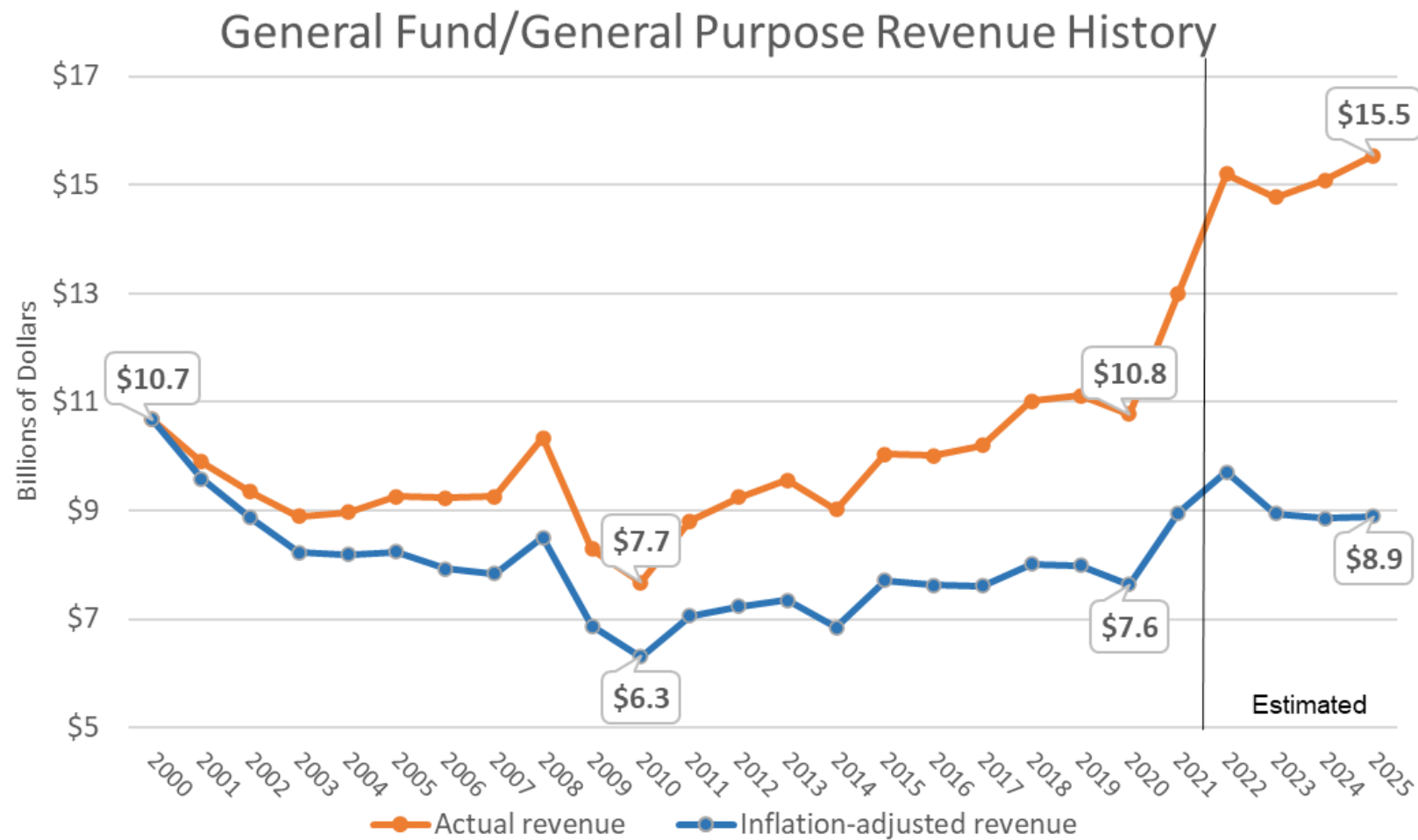
Perspective: Revenue Boom after COVID-19



Source: January 2023 and January 2020 CREC Final Summaries.

- Blue line: January 2020 projections (two months before COVID outbreak)
- Yellow line: January 2023 projections
- FY2022: up almost \$7B from January 2020
- FY2023: up \$5.5B from January 2020

Perspective: Inflation-Adjusted GF/GP Still Down



After climbing out of a two-decade hole, GF/GP revenue is expected to grow by \$4.7B between FY2020 and FY2025

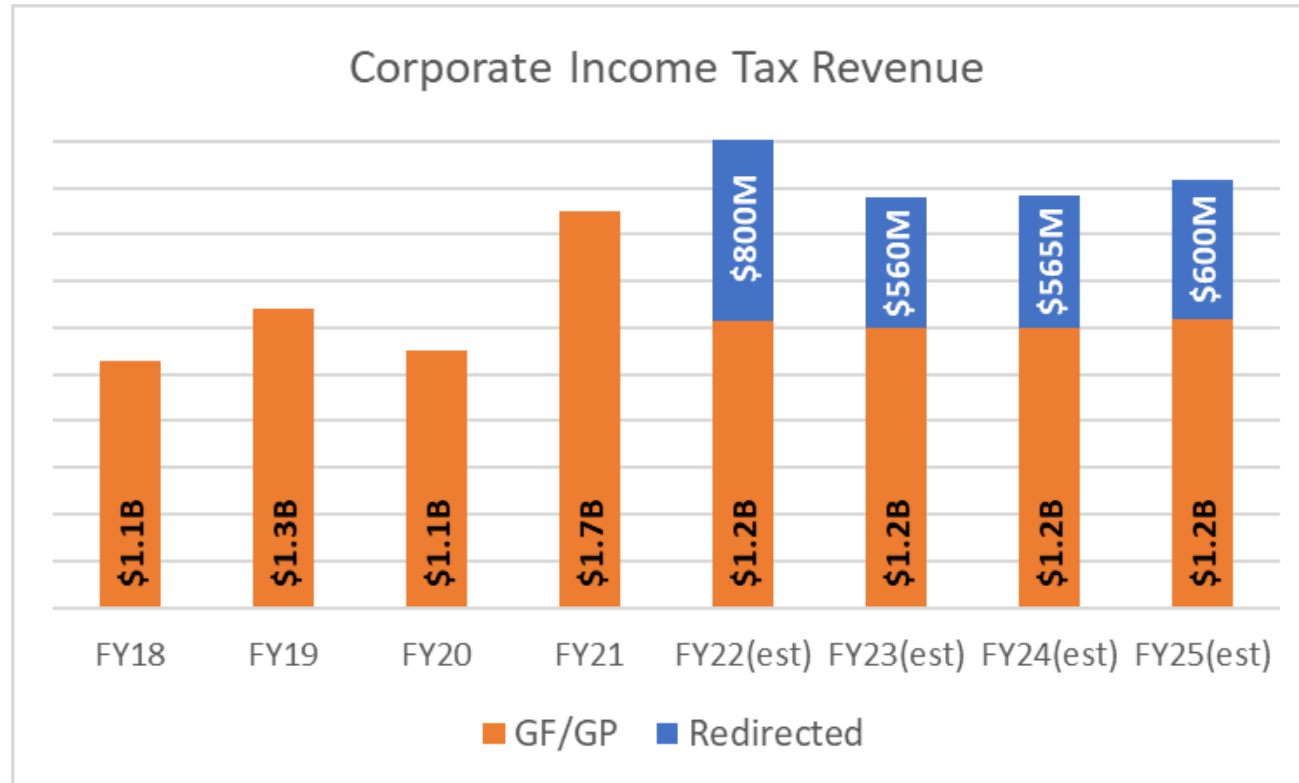
Still, adjusted for inflation, FY2025 revenue estimate is still down by close to 17% from FY2000

Source: Research Council calculations from Senate Fiscal Agency data.

FY2024 Executive Budget

Tax Policy Proposals

Corporate Income Tax Redirection



For FY23/FY24/FY25, if CIT revenue exceeds \$1.2 billion, then:

- \$50M to Michigan Housing and Community Development Fund
- \$50M to Revitalization and Placemaking Fund
- Up to \$500 million to Strategic Outreach and Attraction Reserve (SOAR) Fund

Deposit to the Housing and Community Development Fund continues into future years

	FY2023	FY2024	FY2025	FY2026
Estimated Foregone Revenue	\$560M	\$565M	\$600M	\$50M

Earned Income Tax Credit (EITC)

State's Working Families Tax Credit is currently 6% of the related federal EITC; proposal would boost the credit to 30% of the federal credit

State Budget Office estimates average state credit would increase by almost \$550 for just over 700,000 eligible Michigan households

Single with Two Eligible Children				Single, No Eligible Children				Married (Joint), Two Eligible Children			
Federal AGI	State Credit		Increase	Federal AGI	State Credit		Increase	Federal AGI	State Credit		Increase
	at 6%	at 30%			at 6%	at 30%			at 6%	at 30%	
\$10,000	\$241	\$1,203	\$962	\$5,000	\$23	\$116	\$92	\$10,000	\$241	\$1,203	\$962
\$20,000	\$370	\$1,849	\$1,479	\$10,000	\$30	\$149	\$119	\$20,000	\$370	\$1,849	\$1,479
\$30,000	\$245	\$1,226	\$980	\$15,000	\$7	\$35	\$28	\$30,000	\$323	\$1,614	\$1,291
\$40,000	\$119	\$594	\$475	\$20,000	\$0	\$0	\$0	\$40,000	\$196	\$982	\$786
\$50,000	\$0	\$0	\$0					\$50,000	\$70	\$350	\$280

Calculations based on federal credit amounts from [IRS EITC Assistant](#)

	FY2023	FY2024	FY2025
Foregone Revenue	\$415M	\$415M	\$415M

Tax Treatment of Retirement Income

Governor renews her proposal to reverse changes to the treatment of certain retirement income enacted in 2011; prior to those changes, public pensions were exempt from state income tax and many forms of private retirement income received favorable exemptions

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 2023: aged 65 or older; 25% exemption of retirement income
- Tax year 2024: aged 62 or older; 50% exemption of retirement income
- Tax year 2025: aged 59 or older; 75% exemption of retirement income
- Tax year 2026: everyone; 100% exemption of retirement income

	FY2023	FY2024	FY2025	FY2026
Estimated Foregone Revenue	\$50M	\$210M	\$375M	\$515M

One-Time Income Tax Rebate

Executive Budget: does not call for a rebate; instead, it assumes an \$800M deposit of CIT revenue to the SOAR Fund in FY2022

New Plan (HB 4001): \$180 rebate for each tax filer against 2022 income tax; rebate would come as “advance refund payment” against 2023 tax liability

- Single taxpayer: \$180 rebate
- Married couple filing jointly: \$180 rebate
- Married filing separately: \$90 rebate for each taxpayer

Legislation must take effect by April 18, 2023, for rebates to be effectuated (more to come...)

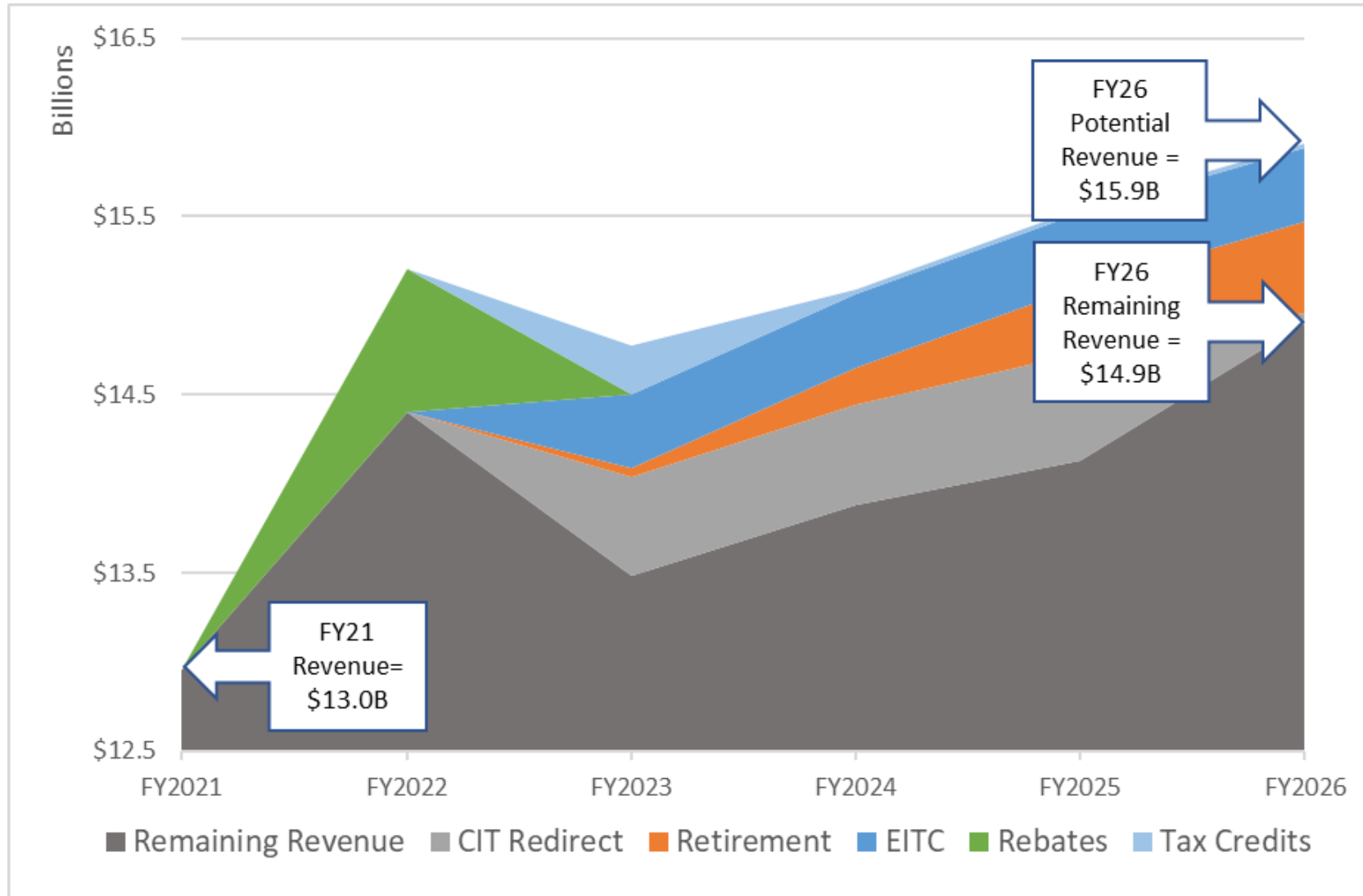
	FY2022
Estimated Foregone Revenue	\$800M

Other New Tax Credits

- Onshoring Clean Energy Supply Chain Tax Credit (\$200M): first-come, first serve credits with \$200 million cap on total credits issued. Credit up to 33% of related federal credit for clean energy projects in Michigan (e.g., carbon capture, onshoring of green energy supply chain)
- Electric Vehicle Sales and Use Tax Exemption (\$48M): applies to the first \$40,000 in sales price for new purchases or leases of personal use electric vehicles between October 1, 2023, and September 30, 2025
- Child Care Educators Income Tax Credit (\$24M): Annual refundable credit of between \$1,000 and \$3,000 (depending on qualifications) for childcare directors and staff who work in eligible licensed childcare facilities

	FY2024	FY2025	FY2026
Estimated Foregone Revenue	\$272M	\$24M	\$24M

Revenue Impact of Tax Proposals



Foregone Revenue:

- FY2022: \$800M
- FY2023: \$1.3B
- FY2024: \$1.2B
- FY2025: \$1.4B

Long run revenue impact is \$1B once most of the CIT redirections expire

GF/GP "budget room" for FY2024 shrinks from \$2.5B to \$1.3B

What About the Income Tax Rate Cut?

Income tax rate trigger established as part of 2015 transportation funding package requires an income tax rate cut when GF/GP revenue exceeds a cap based on inflation rate over time

FY22 GF/GP Revenue: \$15.31 billion (pre-book closing)

FY22 Capped GF/GP: \$14.61 billion

\$698 million (gap would lower rate from 4.25% to 4.05%)

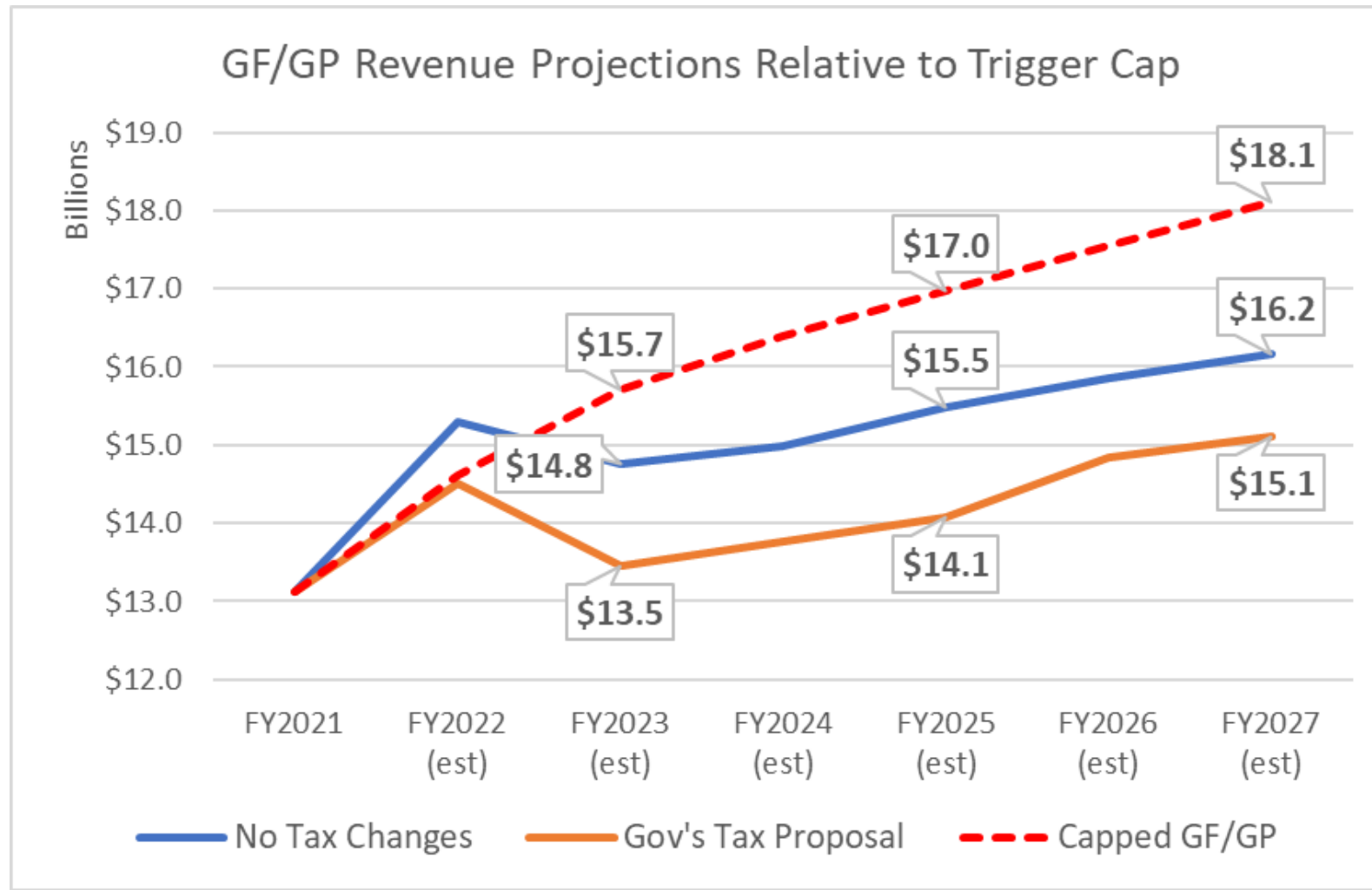
BUT...

HB 4001: \$800M in FY2022 GF/GP revenue is shifted into Taxpayer Rebate Fund to pay for one-time rebates; GF/GP goes down \$800M in the final books ➡ no rate cut

BUT...

HB 4001 must take effect before FY2022 books are closed, or we go back to rate cut

Trigger Probably Becomes Moot After FY2022



- Given current revenue and inflation estimates, the rate trigger isn't likely to be a factor after FY2022
- Even with no tax cuts, FY2023 GF/GP revenue is expected to be \$900M below the trigger cap
- With the tax cut proposals, FY2023 revenue will be more than \$2B below the cap

FY2023 Executive Budget

Summary of Governor's Spending Proposal

Governor's FY2024 Budget Recommendation

Overall Changes from FY2023 Budget

	FY2023 Current	FY2024 Executive Budget	% Chg
Total Appropriations	\$77.7B	\$79.4B	2.1%
Federal Revenue	\$31.4B	\$32.7B	4.1%
General Fund/General Purpose Revenue	\$17.0B	\$14.8B	(12.7%)
School Aid Fund Revenue	\$17.6B	\$19.1B	8.8%
Other Revenue Sources	\$11.8B	\$12.8B	8.1%

Summary of Major Changes – GF/GP and SAF

	GF/GP	SAF
FY2023 Total Appropriations	\$17.0B	\$17.6B
Minus: One-Time Appropriations	\$5.0B	\$1.4B
FY2023 Ongoing Appropriations	\$12.0B	\$16.2B
New Ongoing Investments	\$754M	\$1.2B
New One-Time Investments	\$1.9B	\$1.4B
Baseline Adjustments (caseloads, financing, payroll)	\$239M	\$358M
Budget Reductions	(\$51M)	(\$67M)
FY2024 Executive Budget Recommendation	\$14.8B	\$19.1B

Education Budget Highlights

Background – Context for Executive Budget

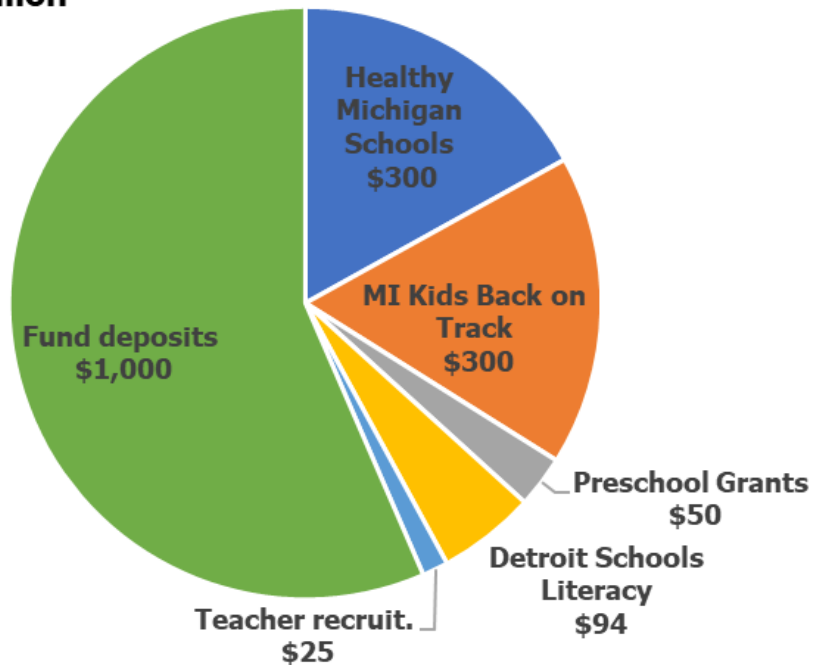
- Student academic performance and well-being
 - Pandemic's profound negative impacts on K-12 learning and achievement
 - On top of these academic struggles, student mental health challenges
- Healthy growth in School Aid Fund revenue
- School Aid Fund shielded from fiscal impacts of tax changes
- Massive amount of surplus funds – one-time and ongoing money
- Governor Whitmer's second term
 - Building on previous priorities, e.g., universal Pre-K
 - Transitioning to a weighted-student funding model

Spend Down of SAF Surplus

FY2023 one-time appropriations

FY2023 SAF Supplemental
(millions)

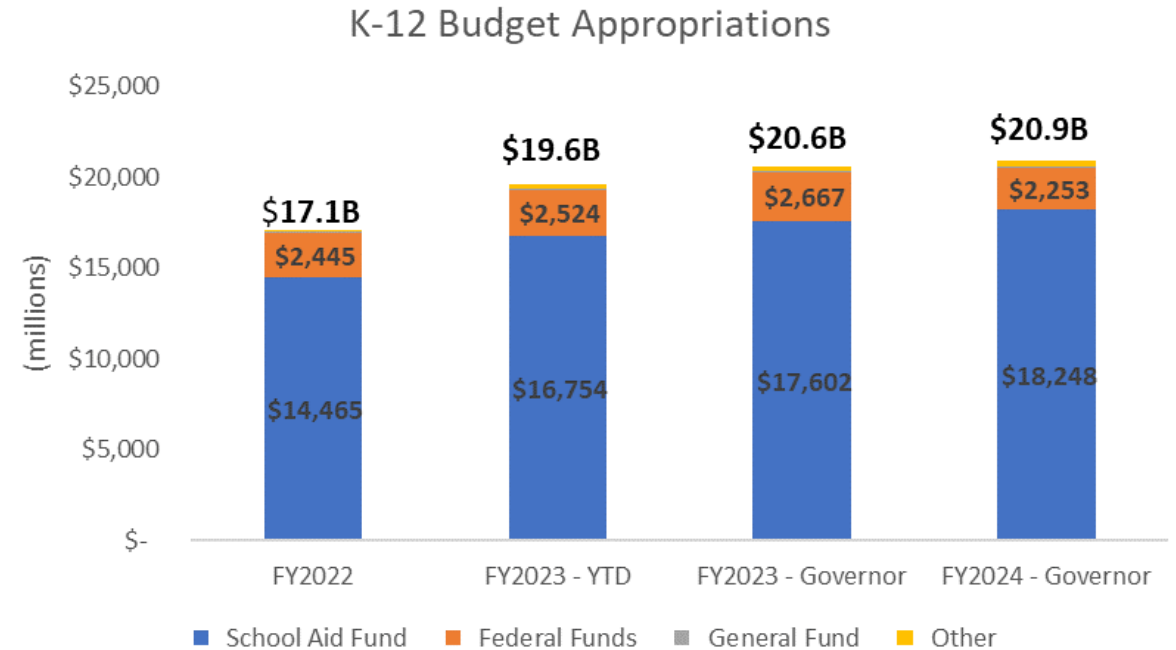
Total: \$1.8 billion



- Healthy Michigan Schools
 - Improve health outcomes and lower energy costs in schools
- MI Kids Back on Track
 - Per-pupil grants for tutoring programs
- \$500M deposits to other funds
 - Teacher Pension Reserve Fund
 - School Consolidation and Infrastructure Fund
- Reduces FY2023 SAF surplus from \$4.1B to \$2.3B
 - Balance appropriated in FY24

Big Picture: K-12 Appropriations

- Nearly all school operating funds flow through budget
 - State budget largely determines local school funding levels
- Healthy increases – 7% overall and 9% for School Aid Fund
 - Since FY2022, SAF approps. up 25%
- FY2023 Supplemental – \$900M
 - Schools have two years to spend funds
- One-time federal COVID-19 funding working through local budgets now



Governor's FY24 School Aid Fund Proposals

K-12, community colleges and universities

K-12 Appropriations

- Again, mix of ongoing and one-time appropriations
 - \$1.4B in ongoing/baseline funding
 - \$1.4B total one-time funding (same amount as FY23 before supplemental)

Higher Education Appropriations

- Colleges – 4% increase, 100% SAF
 - Total operational funding from SAF - \$492M
- Universities – 4.5% increase, no SAF
 - Total operational funding from SAF - \$352M

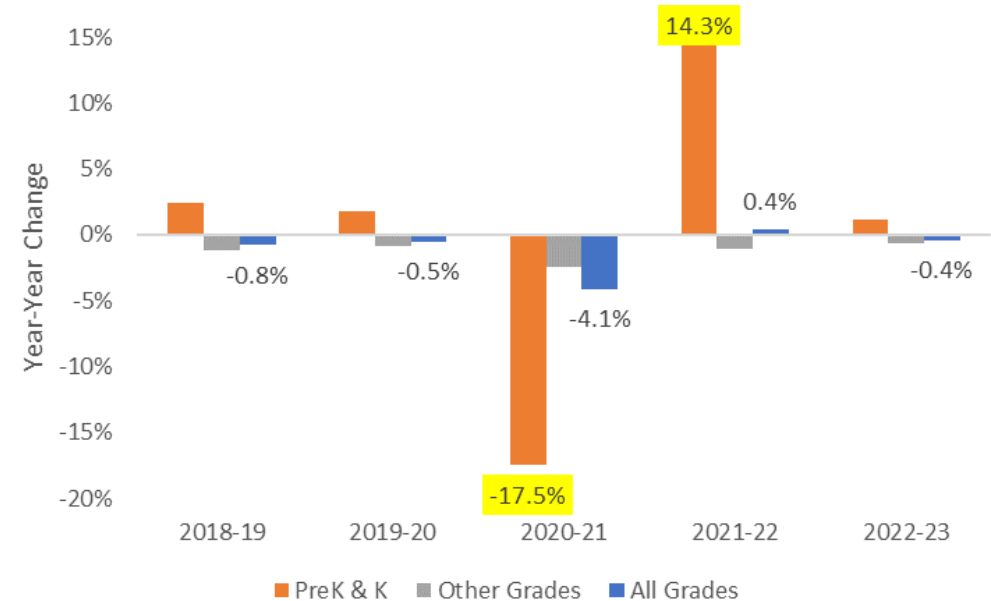
	School Aid Fund	
	K-12 (millions)	Univ. and CC (millions)
FY23 Ongoing Approps.	\$ 15,407	\$ 797
Changes - Ongoing Funding	\$ 1,089	\$ 14
New - One-time Funding	\$ 1,423	\$ -
Baseline Adjustments	\$ 329	\$ 35
FY24 Exec. Budget	\$ 18,248	\$ 845
<i>\$ Change - ongoing/baseline</i>	<i>\$ 1,418</i>	<i>\$ 48</i>
<i>% Change - ongoing/baseline</i>	<i>9%</i>	<i>6%</i>

K-12 Budget Highlights

Base student funding

- Foundation allowance – 5% increase
 - \$9,608 per-pupil for ALL local school districts
 - Cyber schools – 80% of base foundation
- Statewide student enrollment continues slow decline
 - Pandemic disrupted enrollments in earlier grades most
 - Migration to non-public schooling has “reset” total enrollment base
 - Local experiences vary – fewer students means less overall funding

	<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%	1,405,083	-3.1%
2022-23	1,437,279	-0.4%	1,399,800	-0.4%
2023-24 -est.			1,393,800	-0.4%
2024-25 -est.			1,388,600	-0.4%



K-12 Budget Highlights

Weighted student funding elements

Objective: Provide additional funding above base foundation in recognition of higher educational costs of specific student populations

- **Students at-risk of academic failure**
 - Fully funded (11.5% of foundation - \$1,000 per student) – second year
- **Special education students**
 - Second year of implementation of new funding model
 - Special education students receive 87.5% of foundation allowance (up from 75% in FY2023) PLUS required Headlee percentages
 - Effectively reduces the amount of General Fund dollars districts must allocate to serve students with special needs
- **Bilingual education and rural district funding**
 - Supports for students learning English and isolated districts

K-12 Budget Highlights

Ongoing Funding	Total	
Universal School Meals Make available no-cost breakfast and lunch to ALL children attending public school.	\$160M	
Early Learning and Preschool Expand eligibility for Great Start Readiness Program; enhanced transportation services	\$91M	
Early Literacy Programs Hire add'l early literacy coaches for each ISD and increase per-pupil payment to districts	\$25M	
One-Time Funding	Total	Two-year?
School Safety Grants	\$318M	Yes
Mental Health Payments	\$300M	Yes
Early Literacy Curriculum and Training	\$300M	Yes
Consolidation Incentive Payments	\$245M	Yes
Electric School Bus Matching Grants	\$150M	No

K-12 Budget Highlights

Reserves and retirement debt repayment

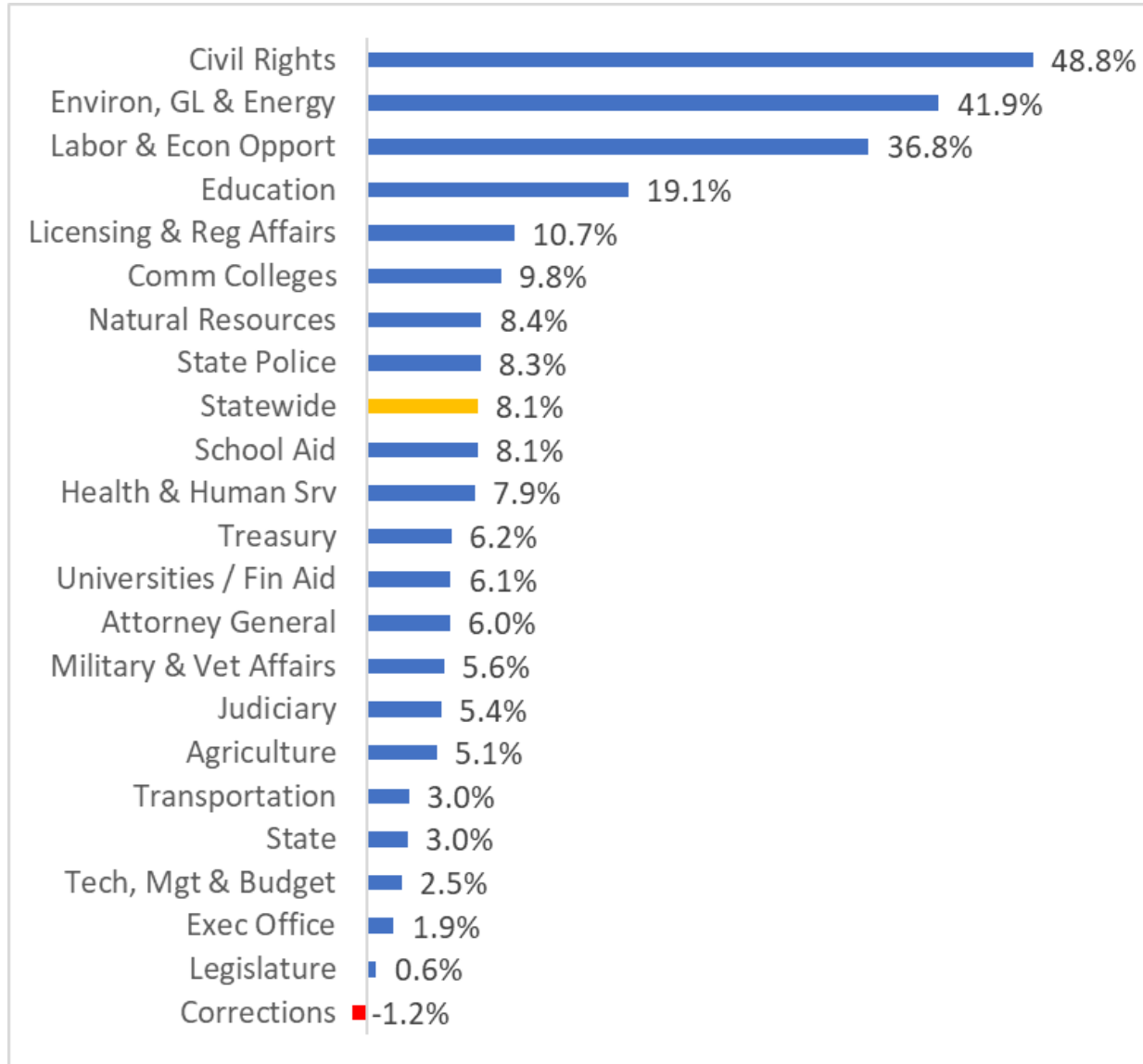
- **New SAF Rainy Day Fund**
 - \$900M to shield from pro-rated state aid cuts and SAF revenue downturn
- **School Employee Retirement System**
 - Total \$2.3B for normal retirement costs and legacy debts of pension and retiree health benefits
 - Maintains statutory cap for school district costs (\$1.6B total)
 - Additional \$202M one-time to reduce payroll growth assumption

Big Picture Takeaways for K-12 Schools

- Continued healthy SAF revenue growth, combined with being shielded from tax impacts, allows for modest increases in ongoing basic state support for K-12 schools
 - Surplus funds allow for another large round of one-time funding
 - Surplus funds allow some previous one-time items to be continued
- One-time surplus funding largely eaten up in FY2023 and FY2024, with some rolling into FY2025
- Students still recovering from pandemic disruptions; state funding is available to meet the call
 - A few districts have large sums of unspent federal COVID-19 funds

General Fund Budget Highlights

Ongoing Appropriation Changes by Department



- Five departments with total funding increases of more than 10 percent
- Statewide average growth of 8.1 percent
- Corrections – only department with funding decline;
recognizes savings from two November 2022 consolidations
 - Closure of Michigan Reformatory (Ionia)
 - Partial closure of Harrison Correctional Facility (Adrian)

Labor & Economic Opportunity

Ongoing Investments	Total Funding	GF/GP
Economic and Community Development Initiatives Budget proposal recognizes the redirection of Corporate Income Tax revenue; similar amounts would be available in FY23 and FY25 for each initiative under the proposal: <ul style="list-style-type: none"> • Strategic Outreach & Attraction Reserve Fund (\$500M) Supports business attraction incentives to draw major business projects to MI • Revitalization and Placemaking Program (\$50M) Grants for site rehabilitation/redevelopment and place-based infrastructure (e.g., public spaces, outdoor dining) that promote population and tax revenue growth • Housing and Community Development Fund (\$50M) Grants and loans to promote affordable housing development and community development projects 	\$650M	\$0M

One-Time Investments	Total Funding	GF/GP
Regional Empowerment Program	\$200M	\$200M
Insulin Affordability and Manufacturing	\$150M	\$150M
Community Downtown Economic Development Program	\$100M	\$100M

Health and Human Services

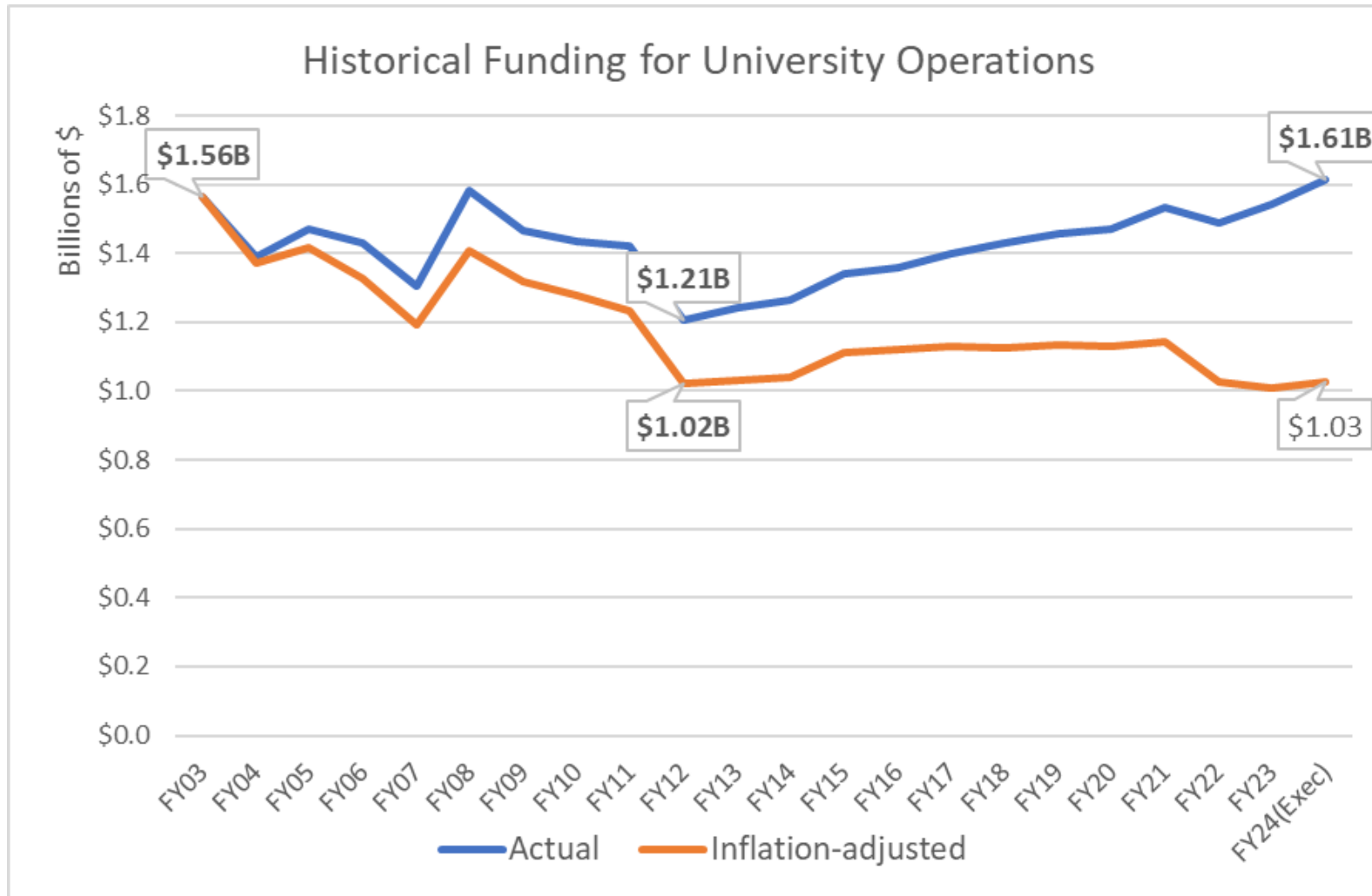
Ongoing Investments	Total Funding	GF/GP
Direct Care Worker Wage Increase Supports a \$1.50/hour wage increase for eligible direct care and non-direct care staff that provide behavioral health, physical health, and aging services	\$305M	\$111M
Racial Disparities Task Force Recommendations Funding would support neighborhood health grants and mobile units; sickle cell anemia programming; and Diversity, Equity, and Inclusion training with the department	\$41M	\$40M
Healthy Moms, Healthy Babies Expansion Expands evidence-based pregnancy services; waives Medicaid 5-year waiting period for children and pregnant women for legally residing immigrants; increased support to Michigan Perinatal Quality Collaborative	\$68M	\$32M
Local Public Health Services Increase in support to local health departments in delivering statutorily-mandated local public health services.	\$30M	\$30M
One-Time Investments	Total Funding	GF/GP
Nursing Home Transitional Assistance (Reimbursement Reform)	\$110M	\$102M
Water Quality Projects	\$100M	\$100M

Environmental, Great Lakes & Energy

Ongoing Investments	Total Funding	GF/GP
Water Infrastructure Funding Federal funding under the Infrastructure Investment and Jobs Act combined with GF/GP match supporting local projects	\$280M	\$30.5M
Lead Service Line Replacement Ongoing funding to support lead service line replacement and technical assistance in disadvantaged communities; supplemented by one-time allocation	\$26M	\$26M

One-Time Investments	Total Funding	GF/GP
Lead Service Line Replacement	\$200M	\$200M
Environmental Justice Projects Air quality and contaminated site remediation in disadvantaged communities	\$100M	\$100M
Renewable Ready Communities Grants Local grants to support establishment of wind, solar, and energy storage facilities	\$40M	\$40M

State University Operations



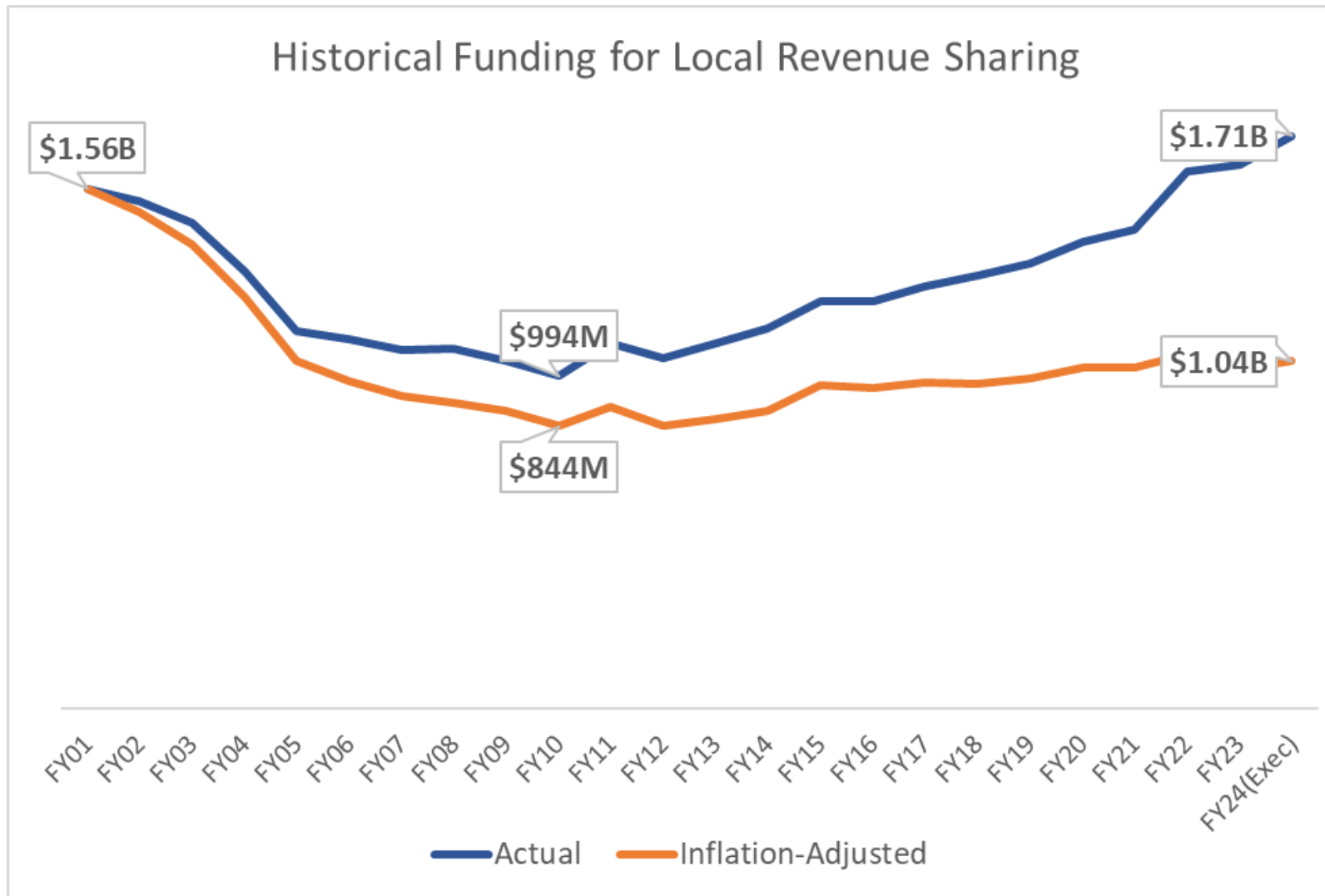
Executive Budget

- 4% ongoing increase (\$61M) for all 15 universities
- \$7.3M toward phase-in of per-student funding floor
 - GVSU, Oakland & UM-Dearborn
- \$141M share of one-time funding for infrastructure and technology

Postsecondary Scholarship Fund

- New fund received a \$250M GF/GP appropriation in FY2022 budget
- Executive proposal supplements the fund balance with \$50 million in ongoing GF/GP funding and another \$50 million in one-time funding; brings total balance to \$350M
- Fund will be tapped to support new Michigan Achievement Scholarships for high school completers starting in 2023 who are first-time, full-time enrollees at a Michigan public university, community college, or independent non-profit college
 - Public university: \$2,500/year minimum, up to \$5,550
 - Community college: \$1,750/year minimum, up to \$2,750
 - Independent institution: \$1,000/year minimum, up to \$4,000
- Long-term costs seem uncertain; more GF/GP support will certainly be needed in future years to fully fund all eligible students

Local Revenue Sharing



Executive Budget

All local units receive:

- 5% ongoing increase
- 10% one-time increase with half of that earmarked for public safety

Cities, village, townships

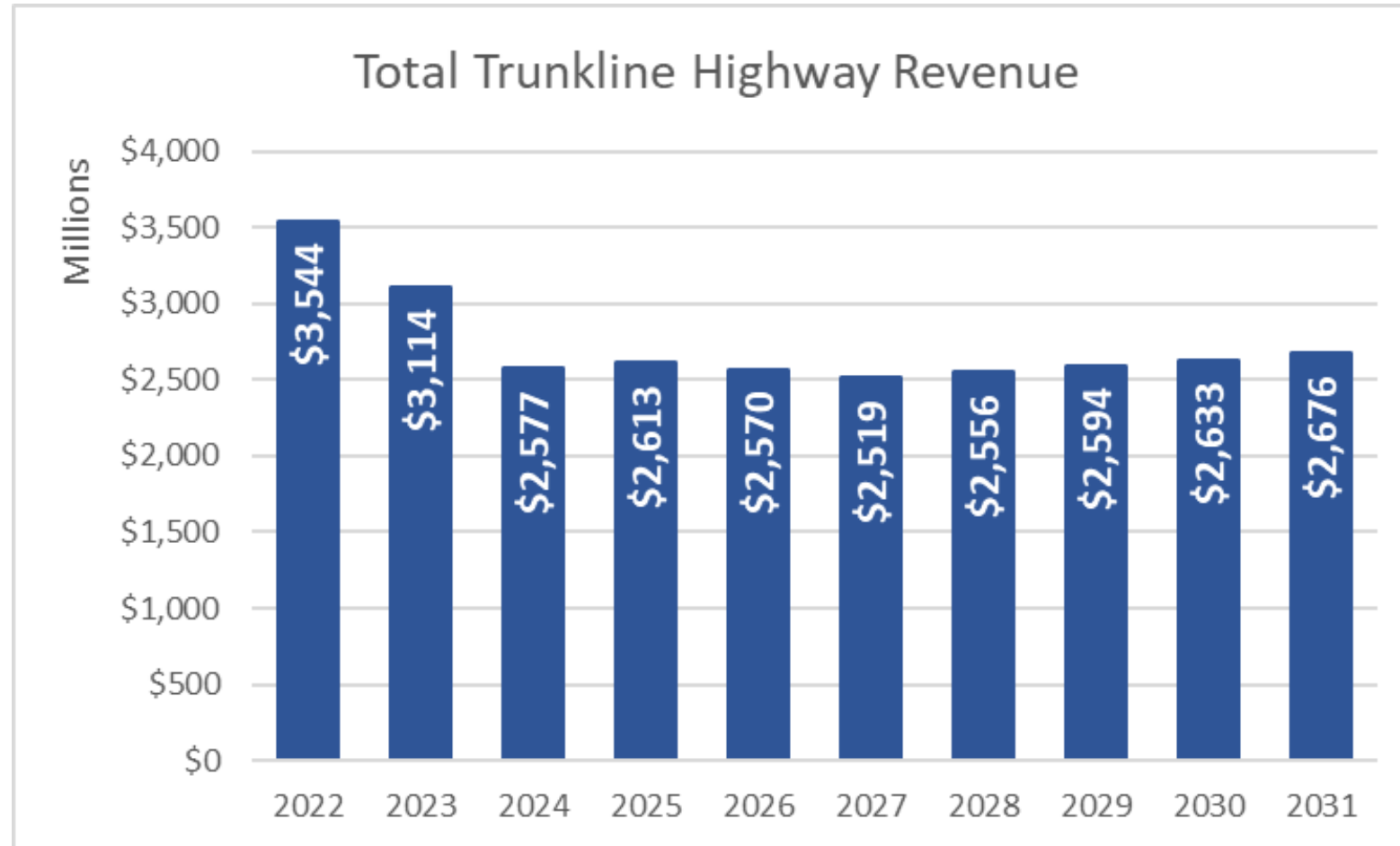
- \$14M ongoing
- \$28M one-time

Counties

- \$12.2M ongoing
- \$24.4M one-time

Assessment of the Budget

What About the Roads?



Source: Michigan Department of Transportation, [Transportation Asset Management Plan](#), July 2022

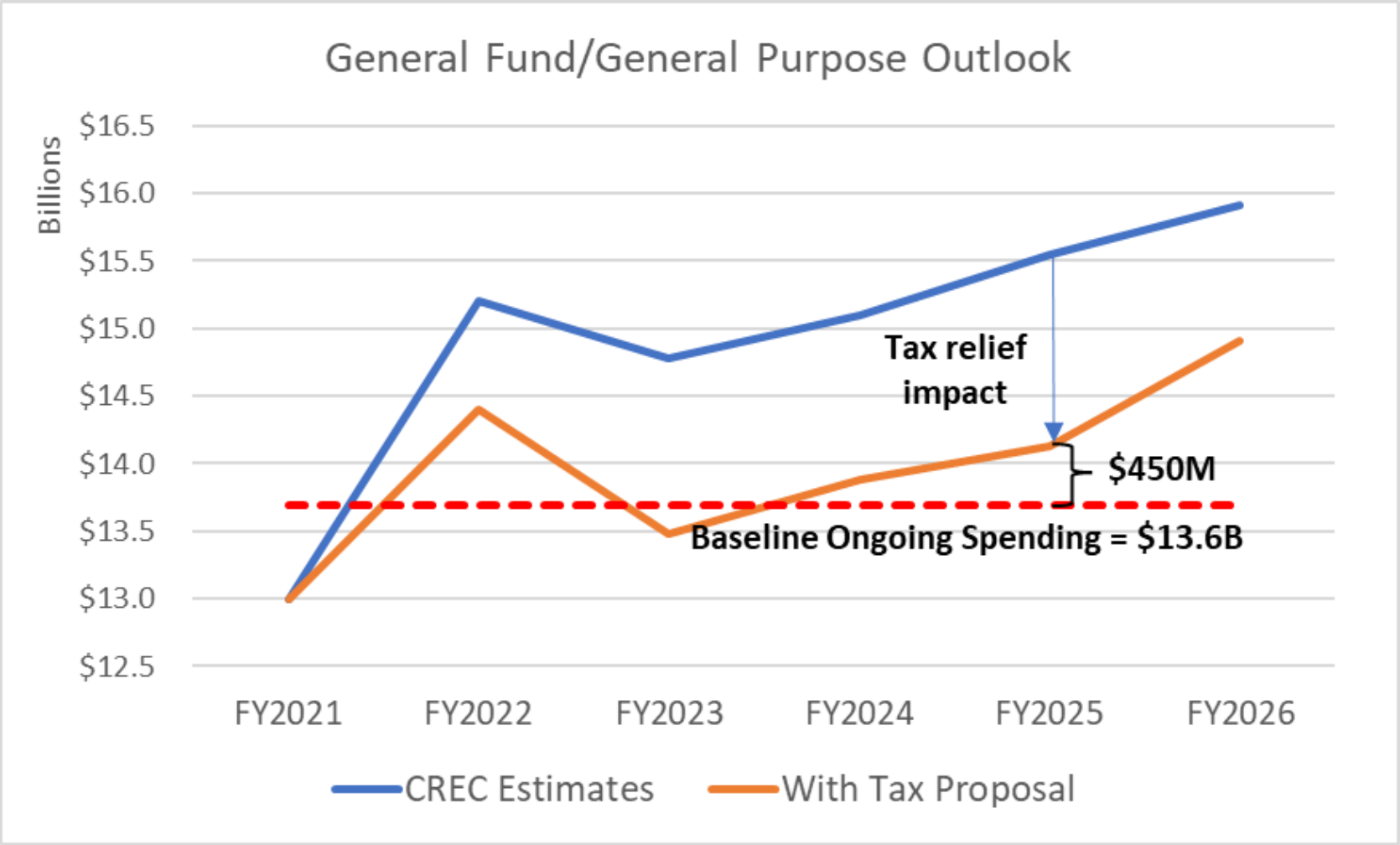
- Total revenue for state highways is projected to drop by almost \$1B between 2022 and 2024 with the depletion of Rebuilding Michigan bond revenue
- Governor's budget includes \$200M in one-time funding for Bridge Bundling program

Fund Balances Would Be Depleted

	<u>GF/GP</u>	<u>SAF</u>
FY23 Year-End Balance		
Original Estimate	\$5.1B	\$4.2B
Minus: Tax Proposals (FY22 & FY23)	\$1.8B	\$0
Minus: FY23 Supplementals	\$1.0B	\$923M
Minus: BSF and Reserve Proposals	\$400M	\$1.0B
Revised Estimate	\$1.9B	\$2.3B
FY24 Budget		
Minus: One-Time Spending	\$1.9B	\$1.7B
Minus: SAF Reserve Proposal		\$900M
Plus: Budget Surplus (Revenue minus Spend)	~\$0	\$500M
FY24 Year-End Balance Estimate	~\$0	\$200M

- FY2023 year-end balance is cut in half by tax proposals and one-time FY2023 supplemental spending
- Remaining balance is depleted largely by the one-time FY2024 spending proposals

GF/GP: Still Room for Modest Growth



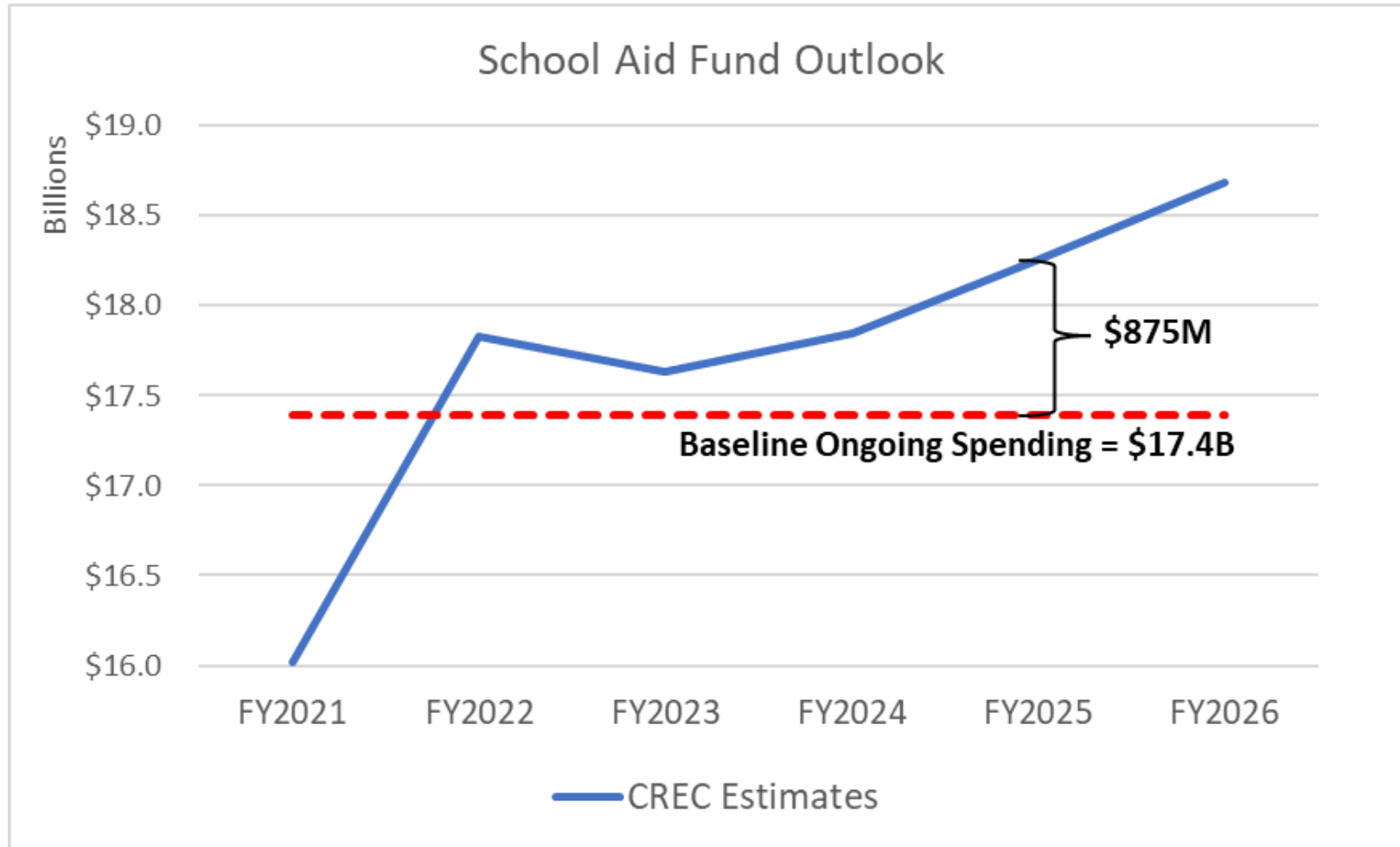
“Budget room” down from \$2.5B to around \$450M in FY2025

- Tax relief: \$1.4B
- Ongoing Spending: \$950M

Safety Value: Major CIT redirections (\$500M to SOAR, \$50M for revitalization) end in FY2025

Source: Research Council calculations Senate Fiscal Agency balance sheet projections and Executive Budget Book..

SAF: Greater Room for Continued Growth



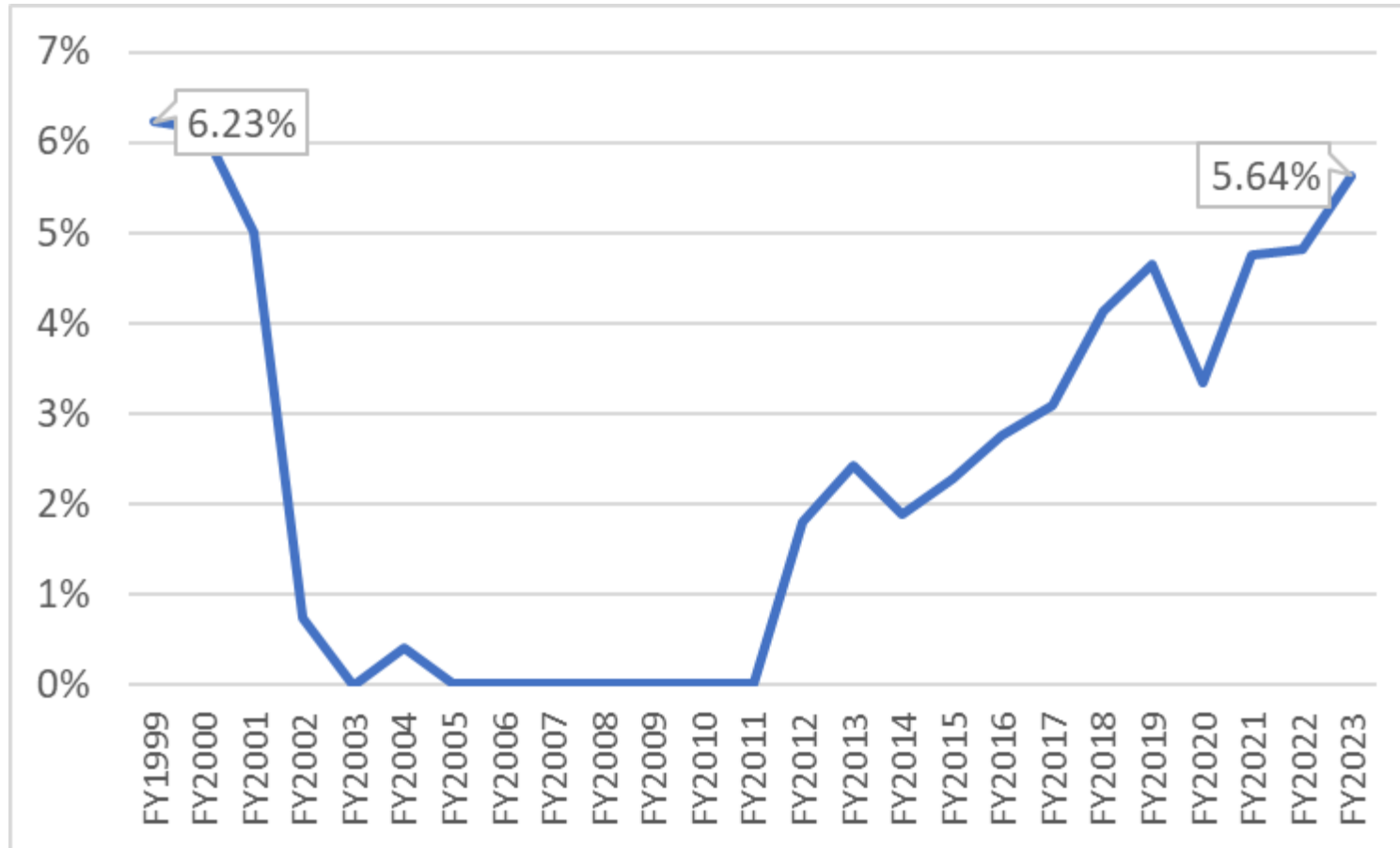
“Budget room” for FY25 remains around \$875M

- No tax relief impact for School Aid Fund
- Ongoing spending increases by \$1.2B

Source: Research Council calculations Senate Fiscal Agency balance sheet projections and Executive Budget Book..

State Boosts Rainy Day Reserves

Budget Stabilization Fund as a Percent of Total GF/GP and SAF Revenue



Budget Stabilization Fund would grow by \$200 million, bringing balance to over \$1.8B in FY2023

Executive Budget also includes \$900M deposit into School Aid "rainy day" fund

Q&A on Budget Proposal

Kyle Melinn and John Reurink

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