



# Governor Snyder's FY2017 Budget Proposal

Citizens Research Council of Michigan Webinar  
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## Outline

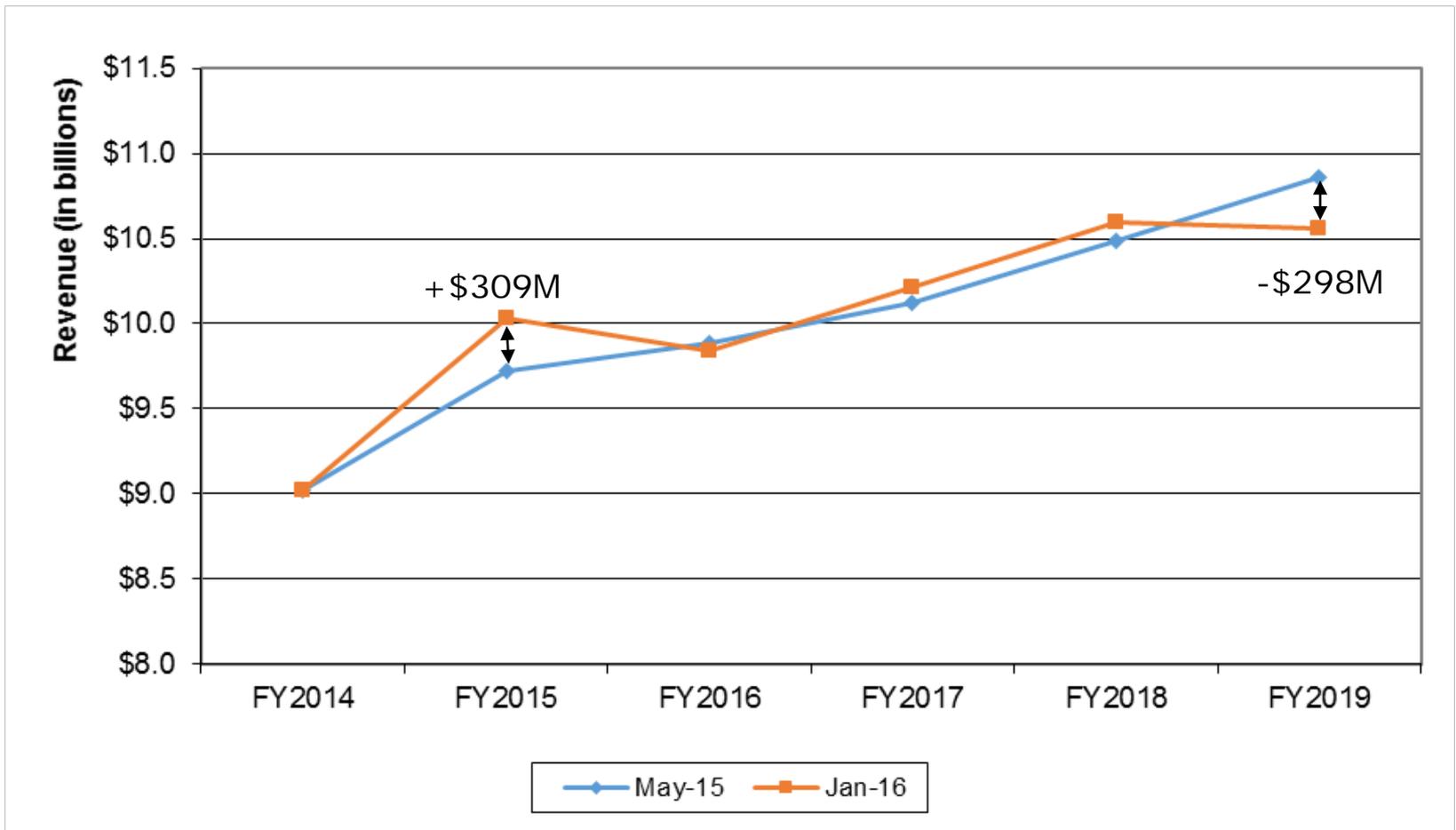
- State Revenues: Continued growth but future diversions of general fund resources
- Situation Facing Governor: Significant surplus coming into FY2016
- Governor's budget: Significant one-time investments (Flint, Detroit Public Schools); road plan frees up GF/GP for other priorities
- Assessment of the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



# State Revenue Picture

# GF/GP Revenue Forecasts

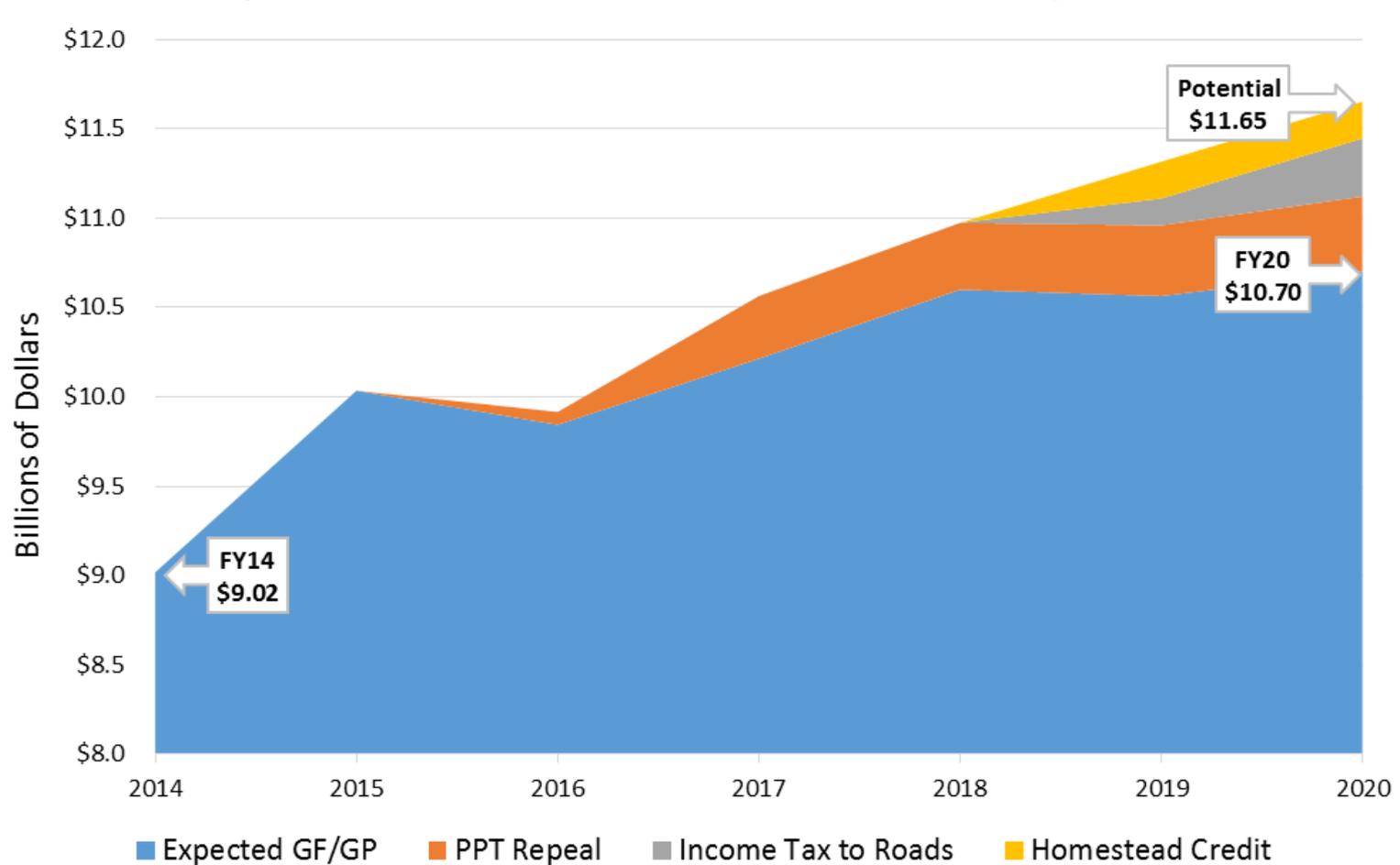
*Changes in January Create "Surplus"*





# GF/GP Revenue and Tax Policy Changes

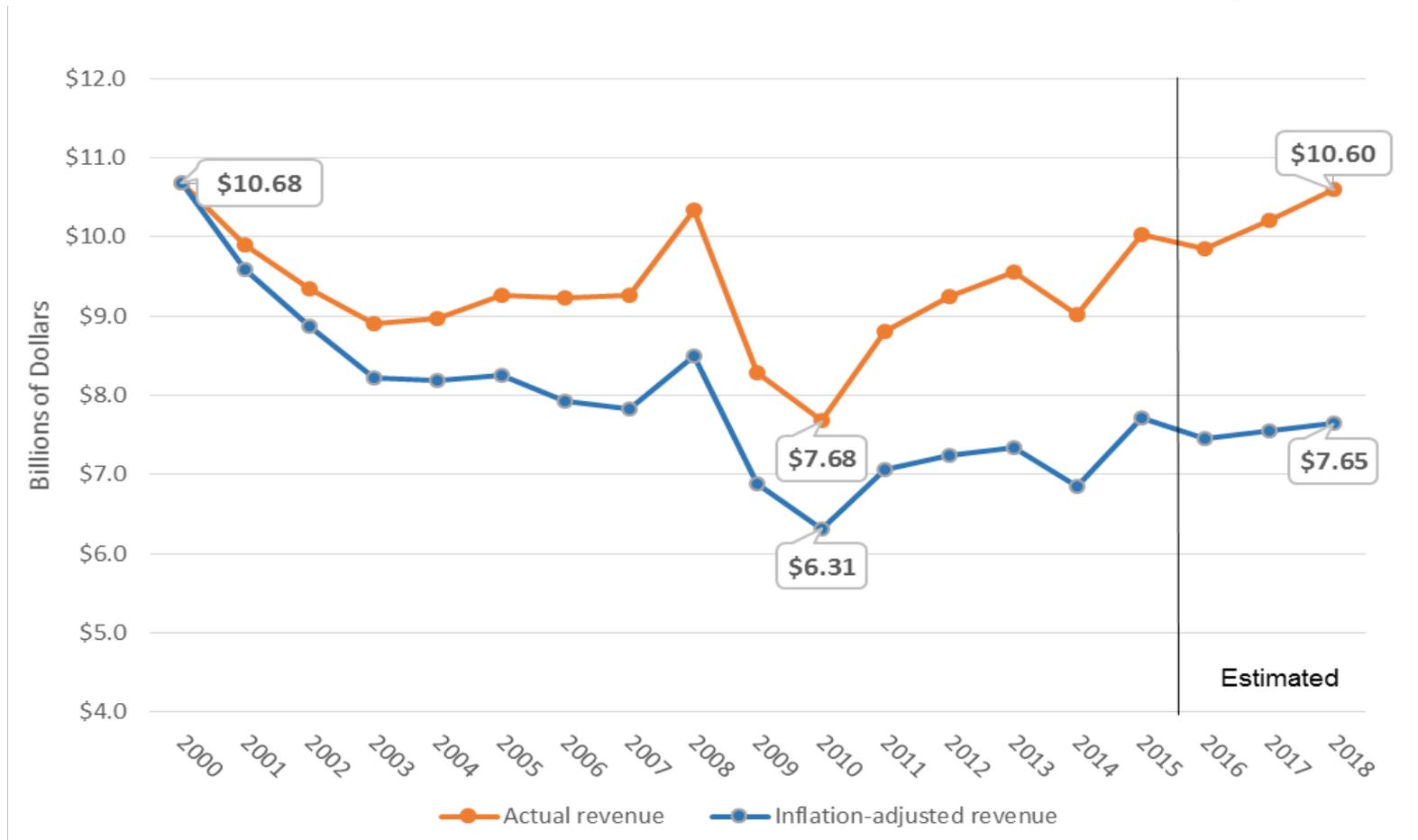
*Foregone Revenue Approaches \$1B by FY2020*





# GF/GP Growth since FY2000

*Growth since FY2010, But Still Recovering*

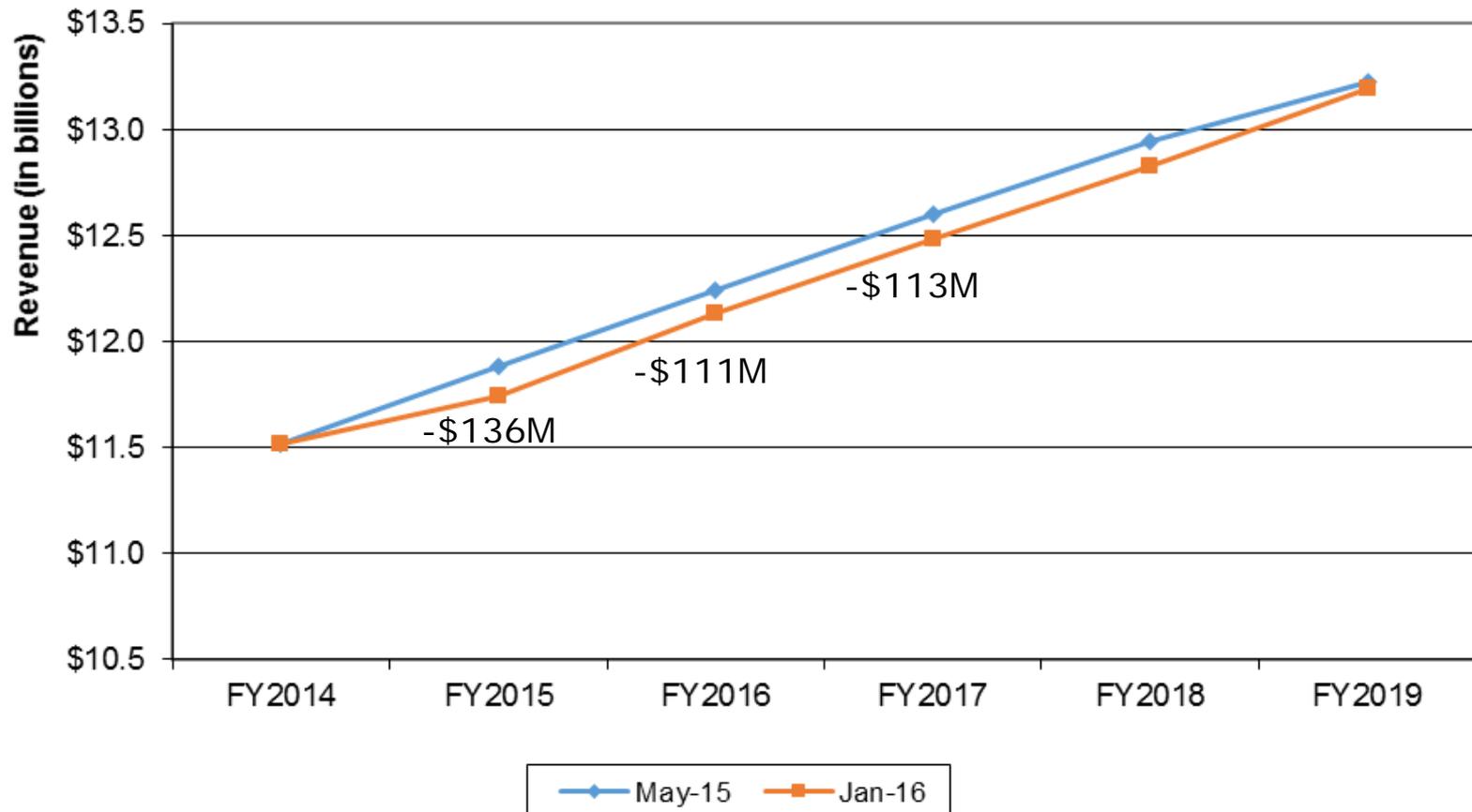


Data: Revenue adjusted for inflation using Detroit-area Consumer Price Index.



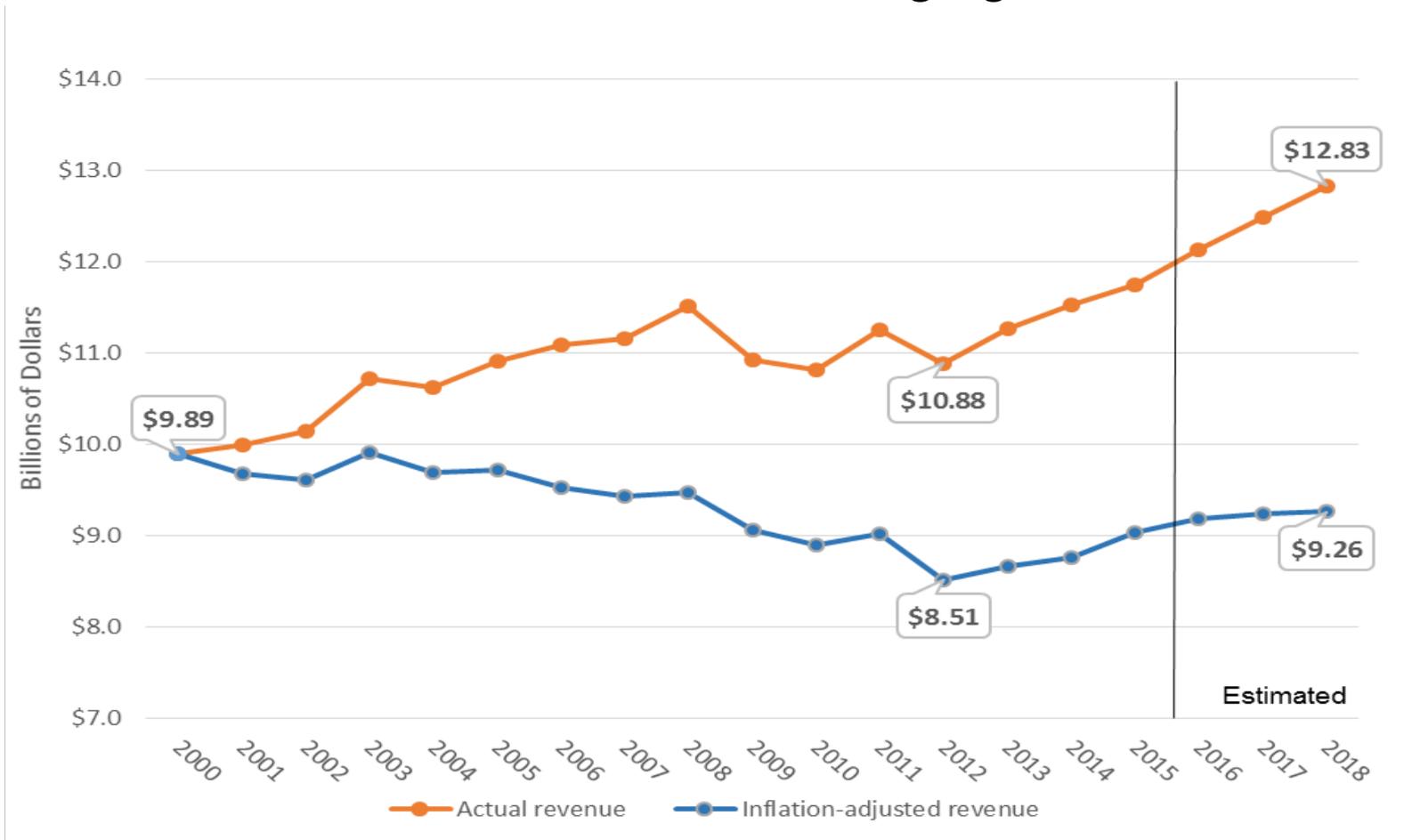
# School Aid Fund Revenue Forecasts

*Low Gasoline Prices Drag Down Sales Tax Collections*



# School Aid Fund Growth since FY2000

*"Lost Decade" Not as Damaging to SAF*



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

# 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
<b>Early Education and Intervention Programs</b>	<b>\$27.0</b>	<b>\$15.4</b>	<b>\$18.2</b>	<b>\$10.1</b>
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				
<b>Public Health and Nutritional Services</b>	<b>\$2.2</b>	<b>\$2.2</b>	<b>\$15.1</b>	<b>\$9.1</b>
Food and nutritional programs; restaurant inspections; physical and behavioral health evaluations and care; residential lead investigations and abatement				
<b>Flint Water System and Residential Bills</b>	<b>\$63.4</b>	<b>\$63.4</b>	<b>\$5.4</b>	<b>\$0.0</b>
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				
<b>Reserve Funds</b>	<b>\$64.1</b>	<b>\$50.0</b>		
\$50 million GF/GP and \$14.1 million in federal TANF and child care funding reserved for future needs				
<b>TOTAL FUNDING</b>	<b>\$156.7</b>	<b>\$131.0</b>	<b>\$38.7</b>	<b>\$19.2</b>



# Supplemental Reduces State Surplus

*Smaller Fund Balances Remain Coming into FY2017*

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



# **Governor's Budget Proposal for FY2017**



# Governor's FY2017 Proposal

## *Summary of Overall Changes*

	<b>Current FY2016</b>	<b>Executive FY2017</b>	<b>Dollar Change</b>	<b>Percent Change</b>
<b>Adjusted Gross</b>	<b>\$53,637,531,300</b>	<b>\$54,025,415,000</b>	<b>\$387,883,700</b>	<b>0.7%</b>
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%
<b>GF/GP</b>	<b>\$9,903,944,800</b>	<b>\$10,031,864,000</b>	<b>\$127,919,200</b>	<b>1.3%</b>



# Education Highlights



## School Aid

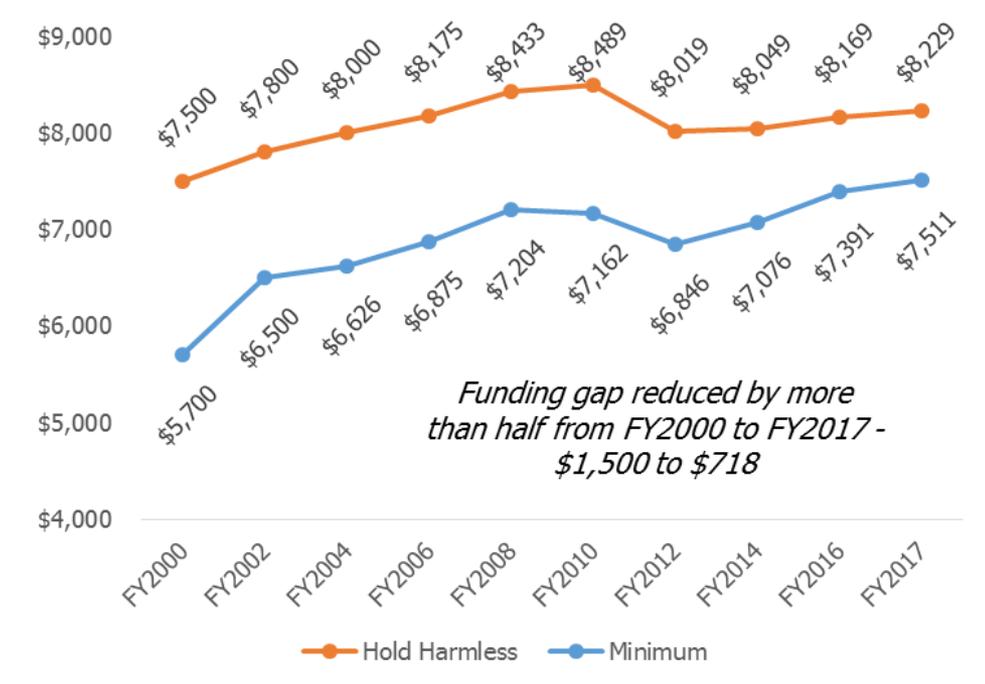
- Total spending of \$14.2B - increase of 2%
  - \$12.1B – state support up \$1.4B since FY2011
  - But, \$1B of increase for retirement costs
- Areas of focus in FY2017 proposal:
  - Moderate per-pupil foundation increase
  - Detroit Public Schools debt relief plan
  - Declining enrollment
  - Retirement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

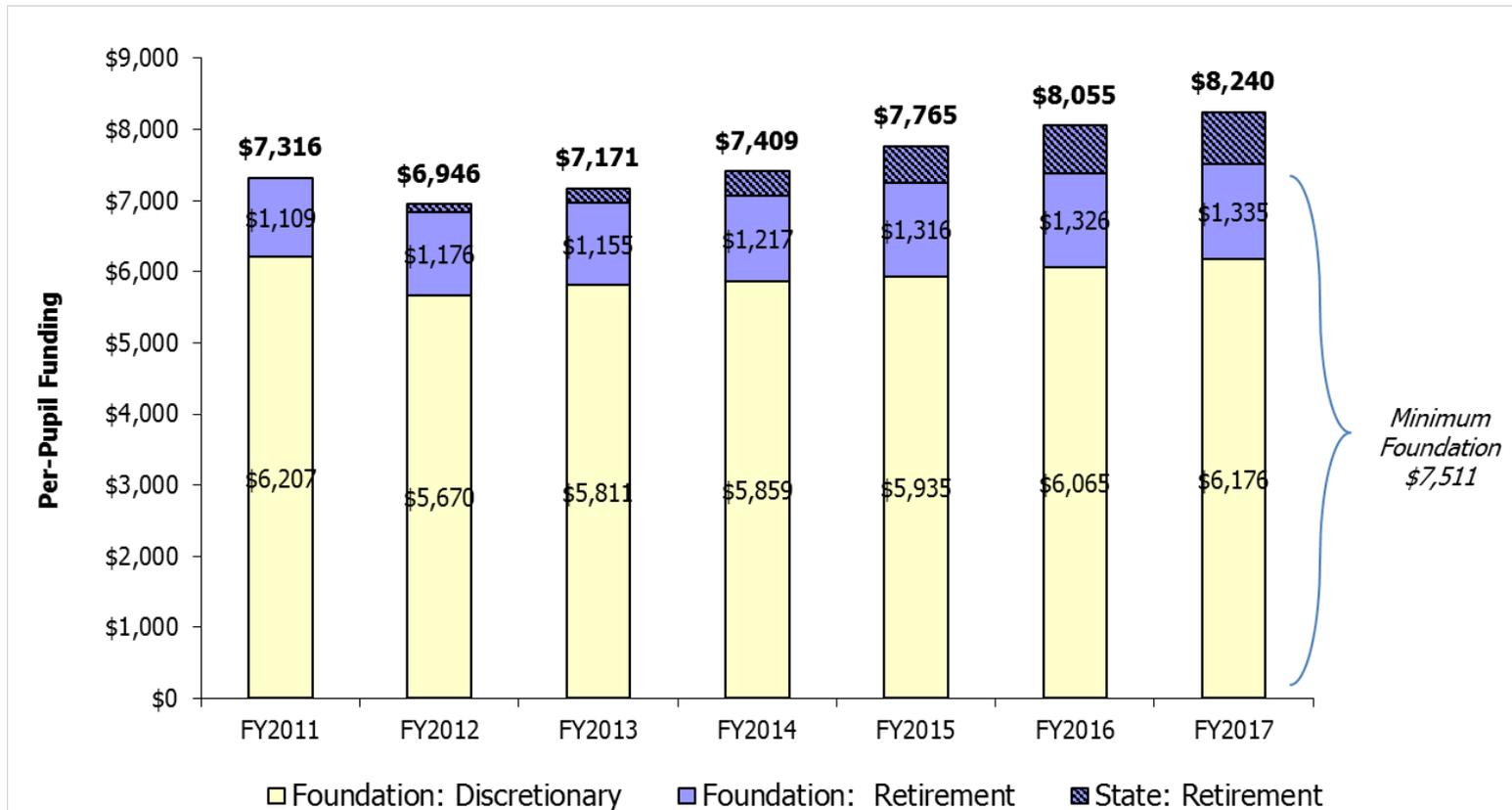
*Payment for unfunded liabilities*

- **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

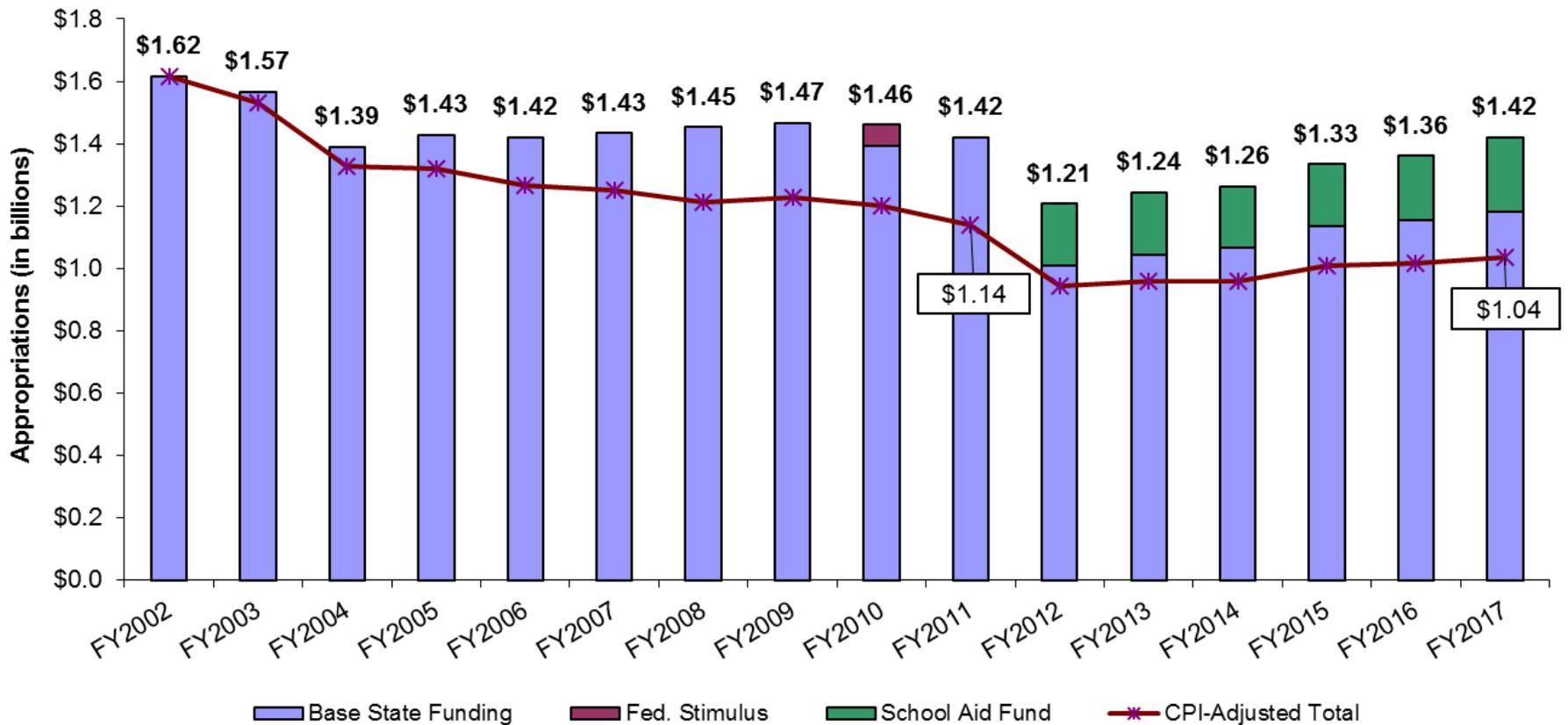
*4.4% increase to restore FY2012 cuts*

- 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

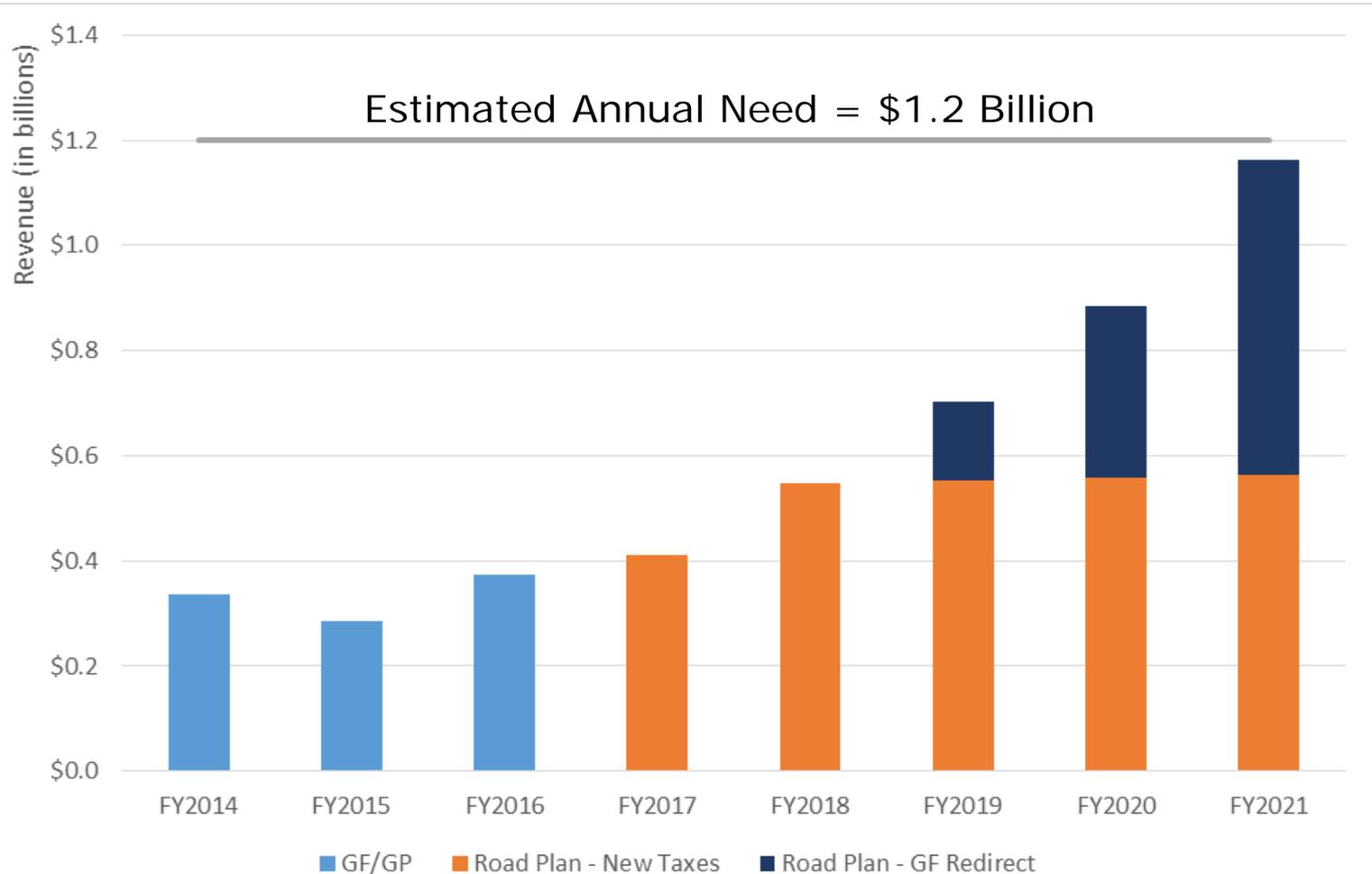
# What About the Roads?

## *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

<b>FY2016 Year-To-Date Appropriations</b>	<b>\$9,909.1</b>
Reduce GF/GP for Transportation	(\$389.6)
Medicaid - Use Tax and HICA Savings	(\$198.6)
<b>Major Reductions</b>	<b>(\$588.2)</b>
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
<b>Major Increases</b>	<b>\$804.0</b>
<b>EVERYTHING ELSE</b>	<b>(\$93.0)</b>
<b>FY2017 Governor's Recommendation</b>	<b>\$10,031.9</b>

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?



# Long Run Outlook

*Assumes 2% Growth in Ongoing GF/GP Appropriations*

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



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