



Governor Snyder's
FY2019 Budget Proposal

Citizens Research Council

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- 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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Governor Snyder's FY2019 Budget Proposal

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Citizens Research Council of Michigan Webinar

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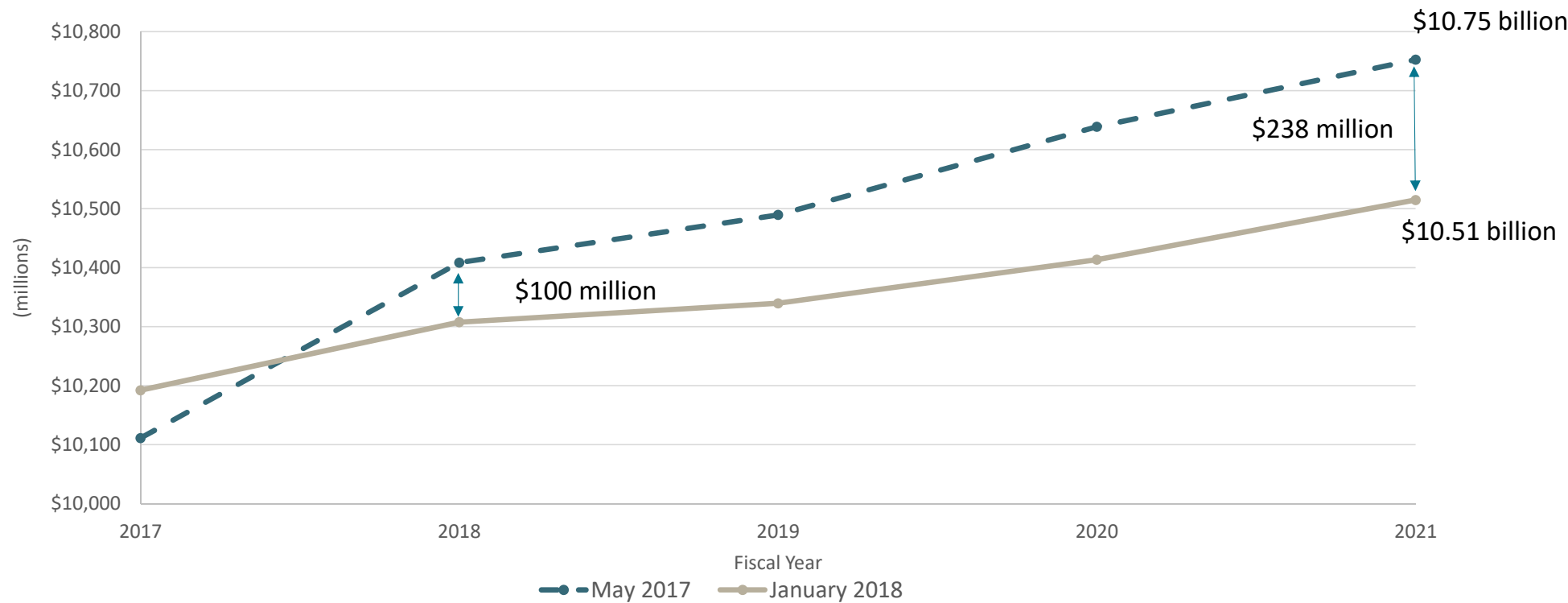
Jordon Newton, Research Associate



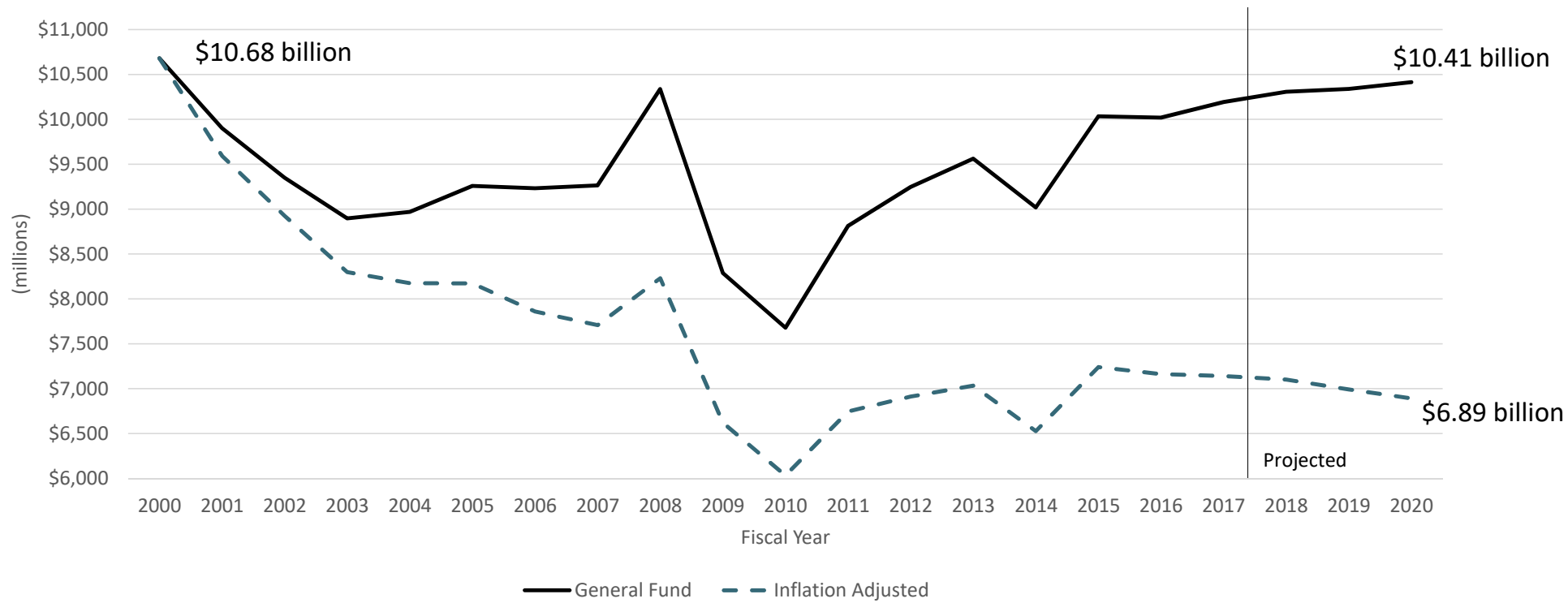
- Citizens Research Council's researcher focused on state affairs
- Recent graduate of the Michigan State University Master of Public Policy Program
- B.A. in Economics from Gonzaga University

Revenue Forecasts

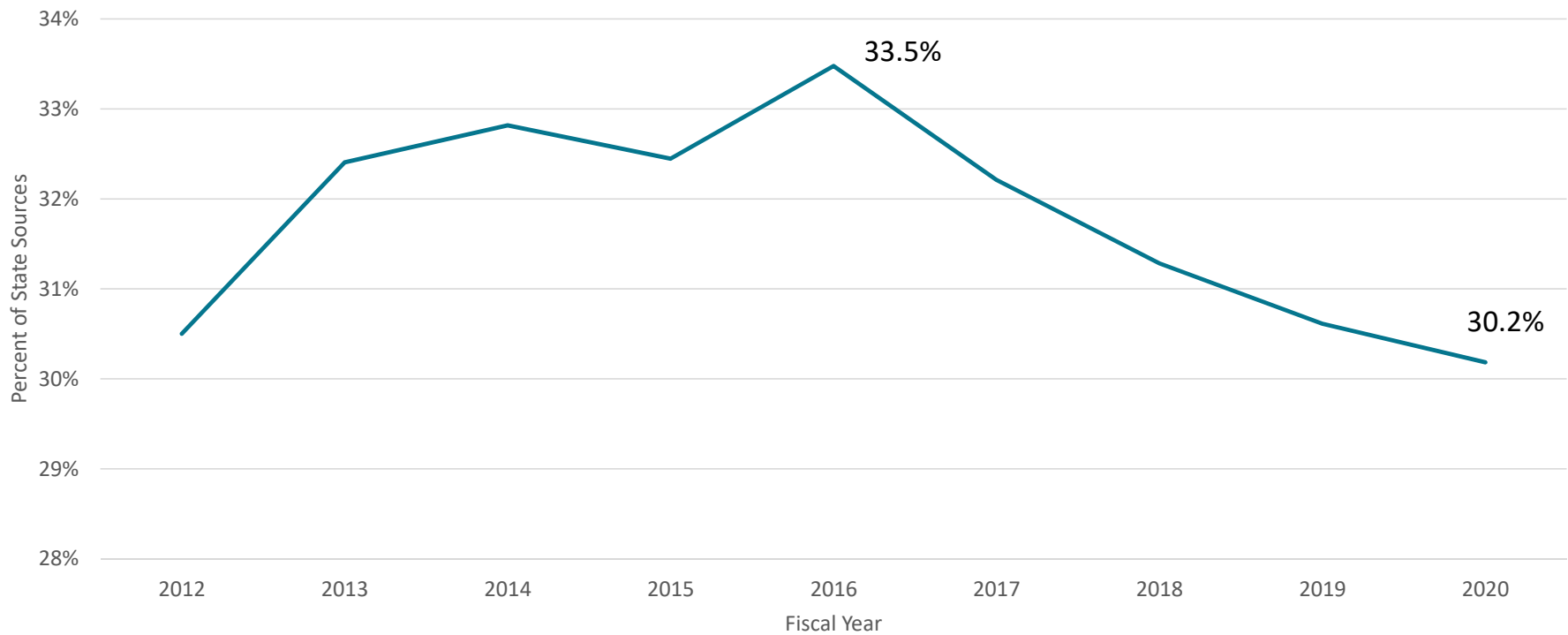
Declining General Fund Projections



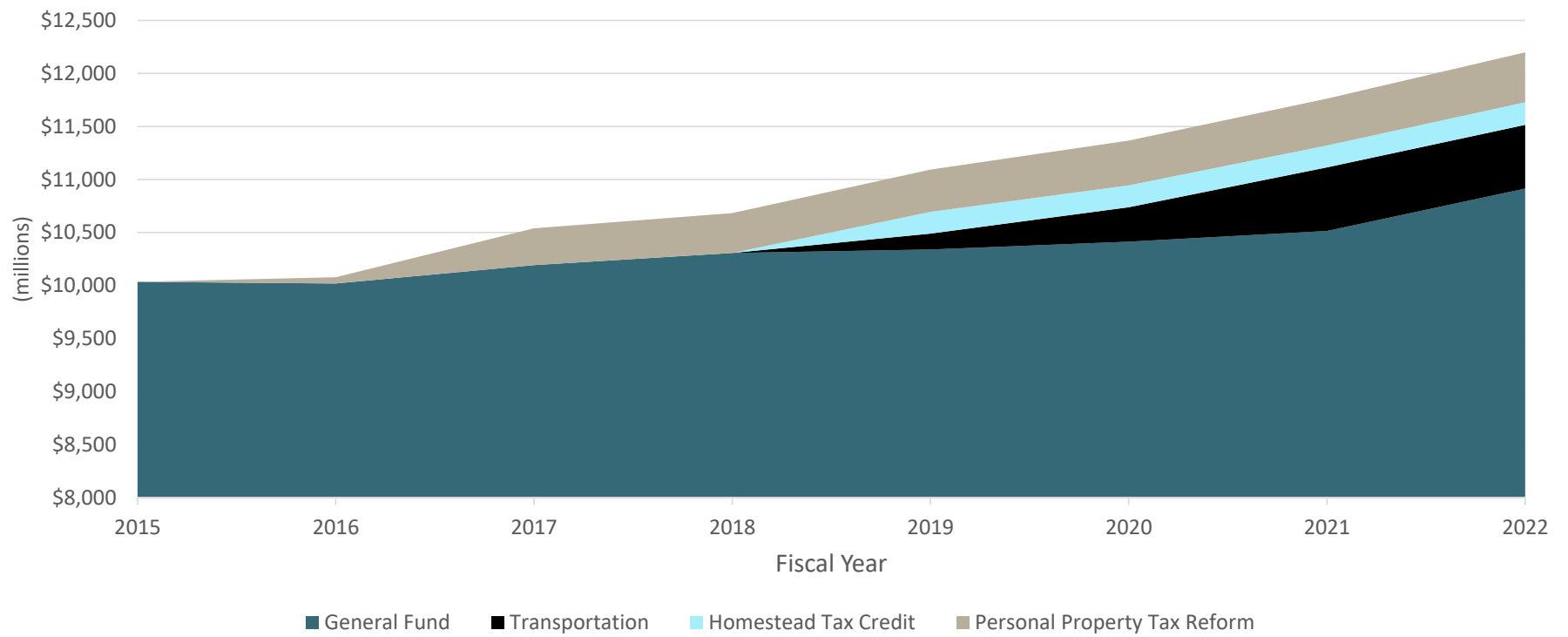
General Fund Purchasing Power Declining



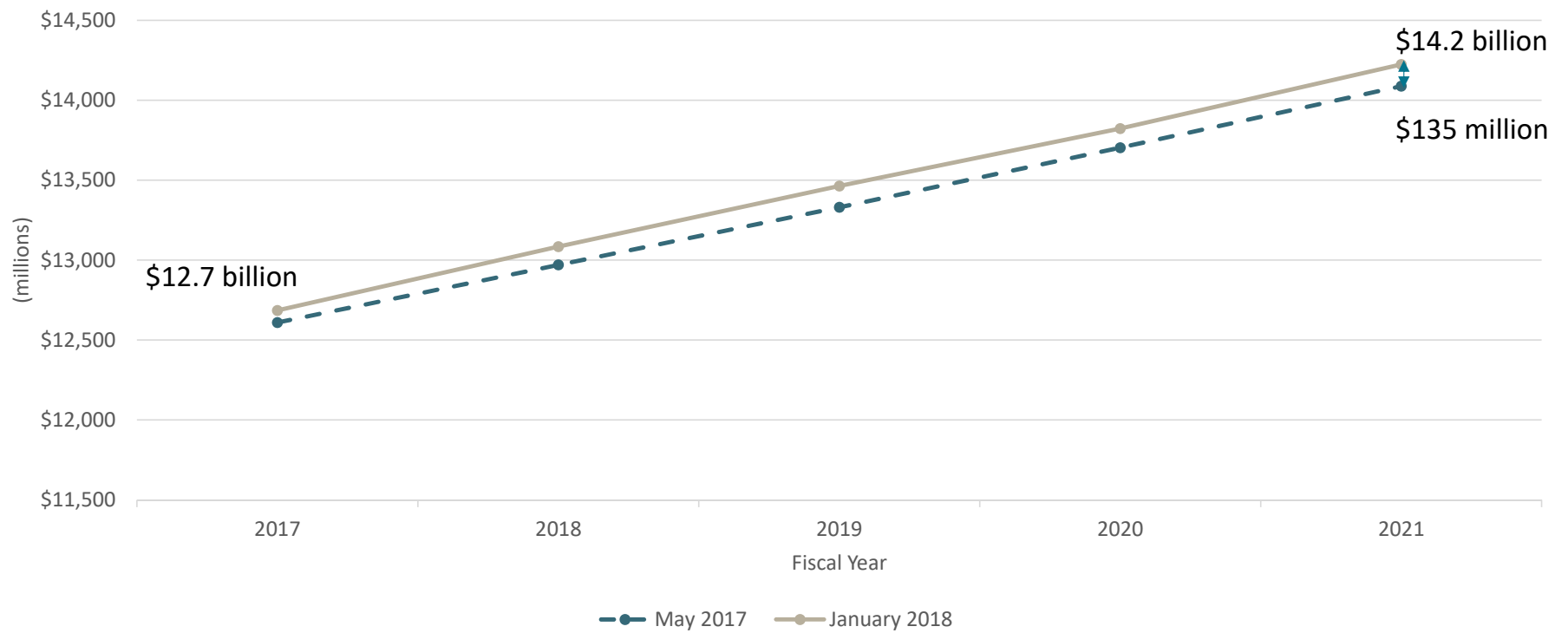
General Fund Spending Down as Portion of State Budget



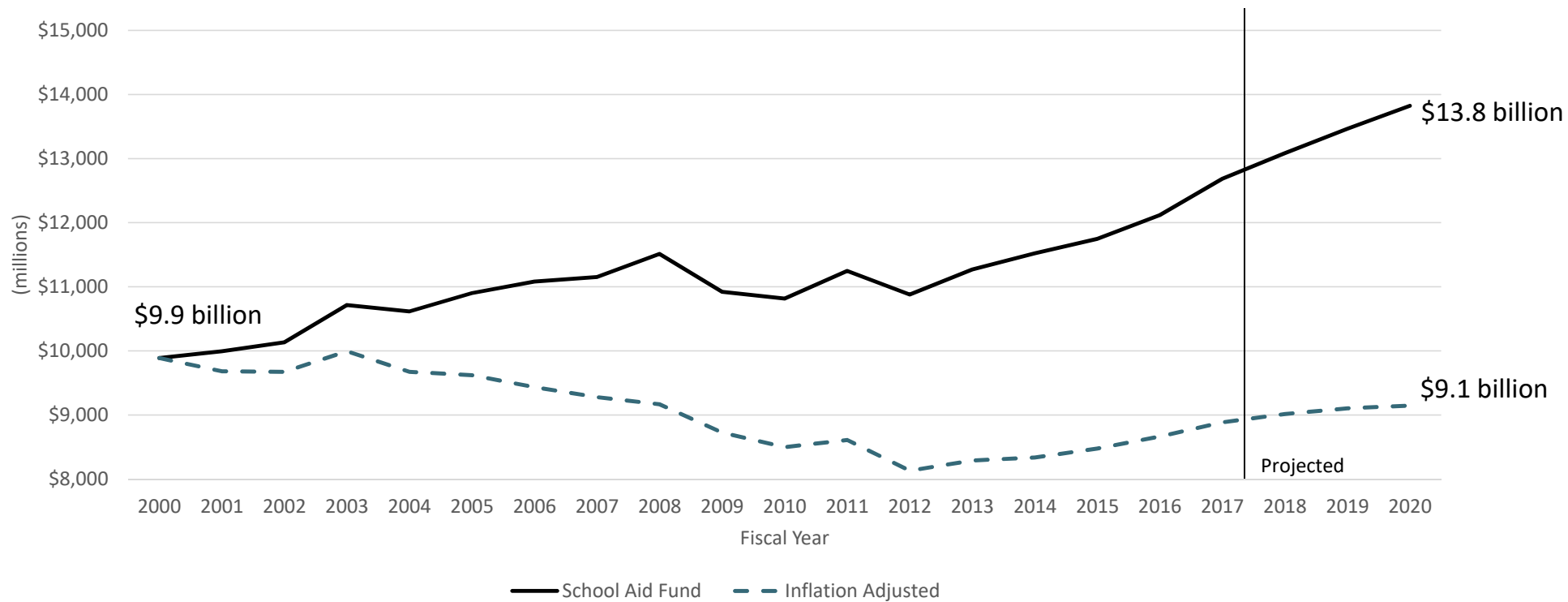
General Fund Growth and Major Diversions



Slight Uptick for the School Aid Fund



School Aid Fund Growing Relative to Inflation



Executive Budget Appropriations

Executive Budget Appropriations

	FY2018	FY2019	Change	Percent Change
General Fund	\$10.08 billion	\$10.05 billion	(\$.03 billion)	(.3%)
School Aid Fund	<u>\$12.86 billion</u>	<u>\$12.91 billion</u>	<u>\$.05 billion</u>	.4%
Combined GF/SAF	\$22.94 billion	\$22.96 billion	\$.02 billion	.1%
Total State	\$32.23 billion	\$32.83 billion	\$.6 billion	1.9%
Federal Spending	\$23.15 billion	\$22.68 billion	(\$.47 billion)	(2.0%)
Adjusted Gross Appropriation	\$55.75 billion	\$55.90 billion	\$.15 billion	.3%

General Fund Balance Sheet

Resources (millions)	FY2018	FY2019
Initial Balance	\$622.5	\$191.7
Consensus Revenue Estimate	\$10,307.7	\$10,339.6
Adjustments	(\$10.9)	(\$8.6)
Revenue Sharing: Ongoing	(\$465.9)	(\$466.2)
Revenue Sharing: One Time	(\$5.8)	\$0.0
Total Resources	\$10,447.6	\$10,056.6
Expenditures (millions)		
Budgeted Ongoing	\$9,746.2	\$9,831.7
Budgeted One Time	\$334.3	\$217.6
Rainy Day Fund	\$150.0	\$0.0
Supplemental Requests	\$25.4	\$0.0
Total Expenditures	\$10,255.9	\$10,049.3
Ending Balance	\$191.7	\$7.3

School Aid Fund Balance Sheet

Resources (millions)	FY2018	FY2019
Initial Balance	\$377.4	\$97.0
Consensus Revenue Estimate	\$13,084.5	\$13,464.0
General Fund Grant	\$78.0	\$45.0
Federal Aid	\$1,726.4	\$1,724.7
Other	\$94.9	\$101.9
Total Resources	\$15,361.7	\$15,432.6
Expenditures (millions)		
School Aid	\$14,573.1	\$14,636.0
Deposit into MPSERS Reserve	\$55.0	\$0.0
Community College	\$398.3	\$405.0
Higher Education	\$238.3	\$385.3
Total Expenditures	\$15,264.7	\$15,426.6
Ending Balance	\$97.0	\$6.0

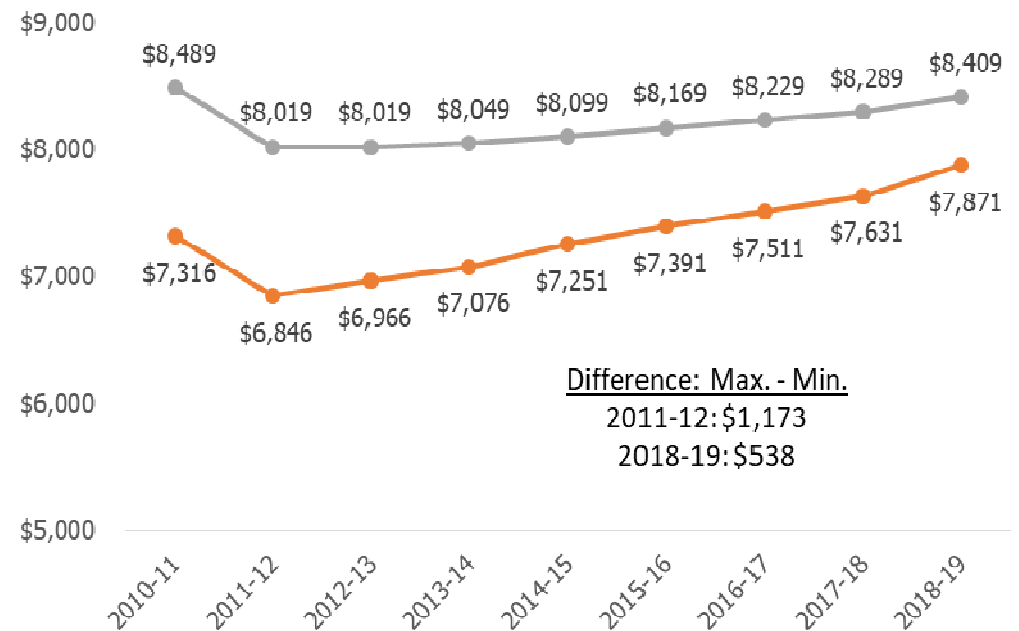
Education Highlights

School Aid Overview

- Total state funding \$12.9B, up 0.4% from FY2018
 - Continued, but smaller, decline in student enrollment (-0.3%)
 - Funding for retirement system reforms continue to draw resources
 - Use of School Aid Fund (SAF) to support higher education appropriations
- Highlights
 - Foundation allowance
 - Key reductions – cyber charter and nonpublic school students
 - Teacher retirement system

Foundation Allowance

- Per-pupil funding increase
 - Uses "2X" formula
 - Increases: \$120 to \$240
- Narrows gap to \$538 from \$1,173 in FY2011
 - Over two-thirds of pupils receive minimum allowance
- Total cost for increase (\$312M) offset by reductions elsewhere

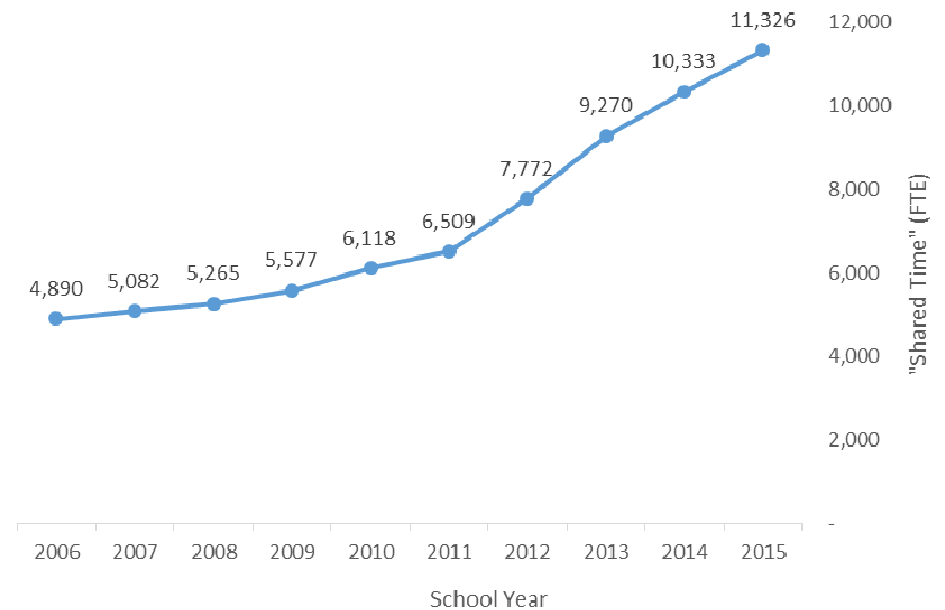


Foundation Allowance – Cybers and Nonpublic Students

- Governor’s budget caps foundation allowance payments for students enrolled in **cyber charter** schools and **nonpublic** schools
- Cyber charters
 - Schools would receive 75% of allowance, \$5,903, (\$25M reduction)
- Nonpublic schools or “shared-time” program
 - Total of \$64M, compared to \$132M in FY2018 (\$68M reduction)
 - Limits a district’s total nonpublic school student enrollment to 5 percent
 - Prohibits districts from enrolling nonpublic kindergarten students
 - Requires that nonpublic student “optional” programming is also available to majority of district students

Growth in “Shared-Time” Impressive

- Total 17,200 FTE in 2018
- Since 2011, enrollment up 265%
 - Aided by policy changes
- Represents less than 1% of total enrollment statewide in 2016
 - In 8 districts, accounts for 10% or more of total enrollment
 - 10 districts account for over 50% of total enrollment
 - 24 districts affected by 5% cap

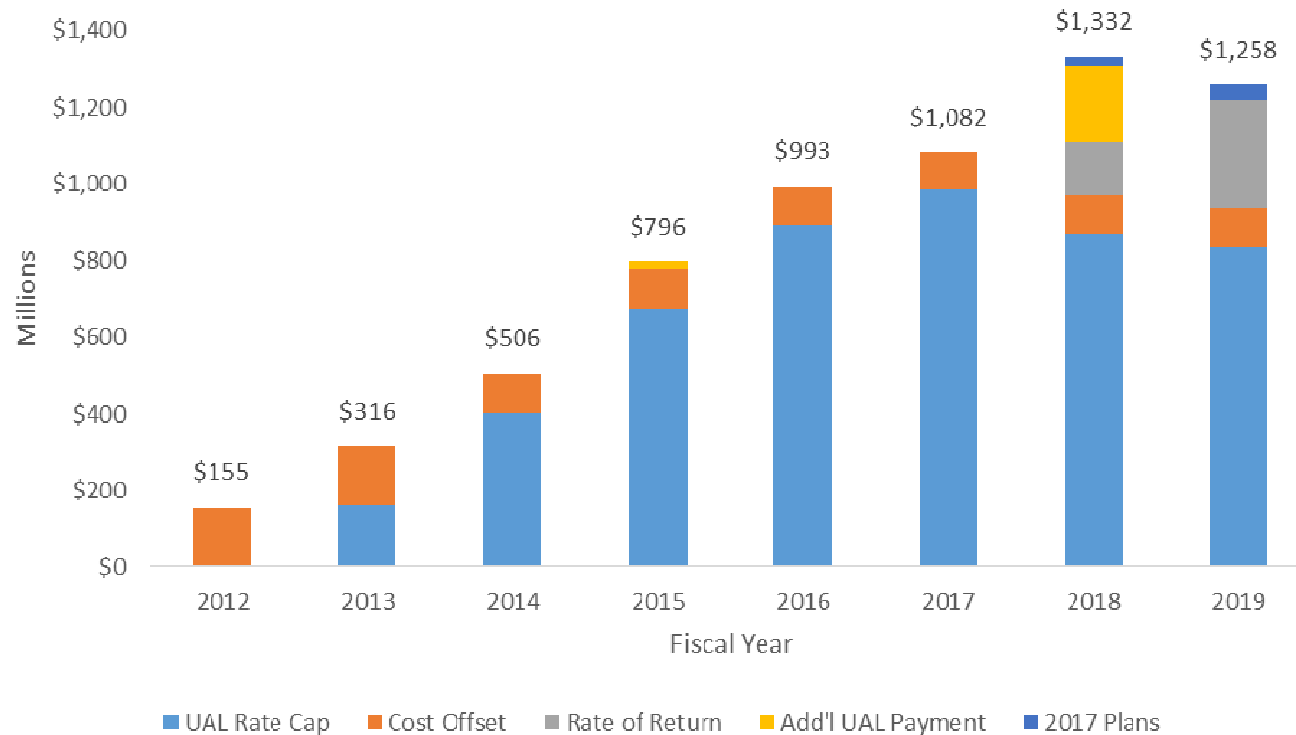


Teacher Retirement System

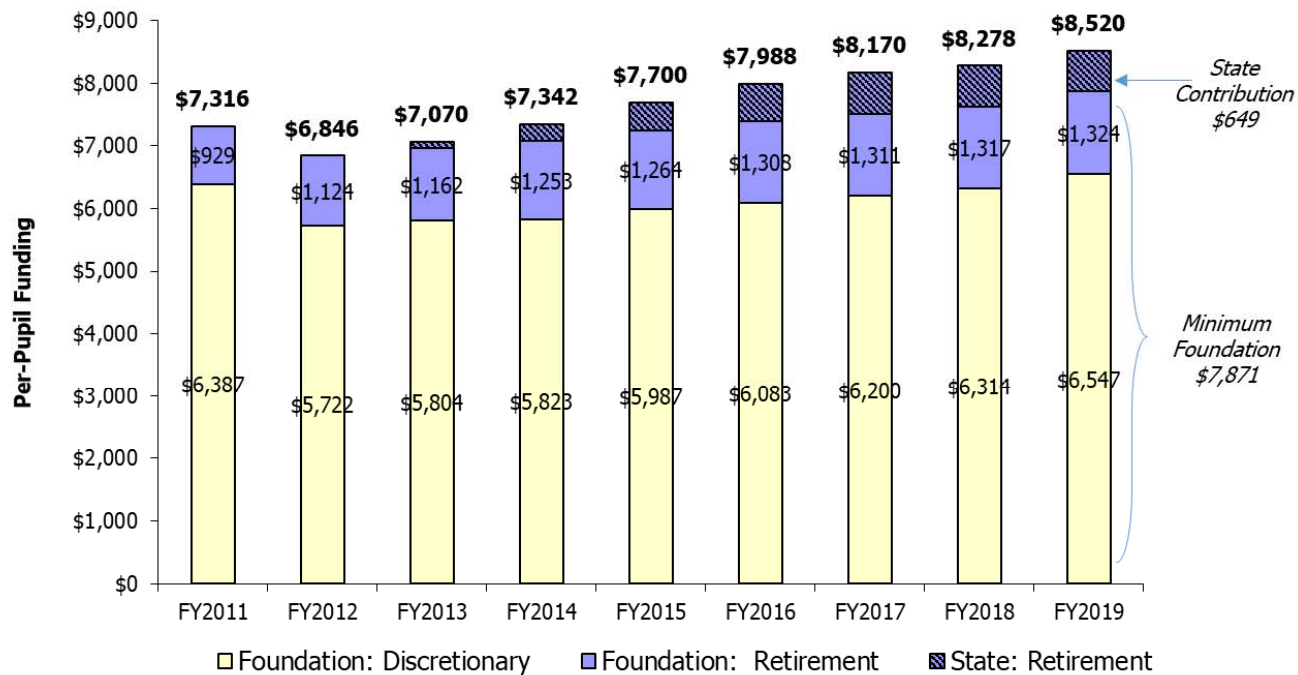
- Additional funding for recent reforms to hold districts harmless
 - Phase-in of lower return on investment assumption (\$145M)
 - New plans (defined contribution and hybrid) enacted in 2017 require higher employer match (\$15M)
- Retirement cost offset payment maintained
 - Governor recommends \$100M (\$67 per pupil)
- FY2018 one-time \$200M legacy cost payment eliminated
- Excluding one-time payment, total state contributions to system up \$126M over FY2018

State Appropriations to Teacher Retirement

Total contribution up to \$1.3B in FY2019



Legacy Costs – Employer and State Share



Notes: Includes retiree health payments funded on a cash basis in FY2011 and FY2012.

Source: Senate Fiscal Agency and House Fiscal Agency Reports; Office of Retirement Services

Postsecondary Highlights

Higher Education

Inflationary increase

- \$29M increase to basic operations through performance funding
 - One-half allocated on proportional basis (2010-11 base funding shares)
 - One-half allocated based various measures (completions, R&D spending)
 - Individual school funding increases range from 1.5% to 3.1%
- Increased funding conditioned on tuition restraint (lesser of 3.8% or \$490 per student)
- Increased use of School Aid Fund (additional \$120M, brings total to \$386M)

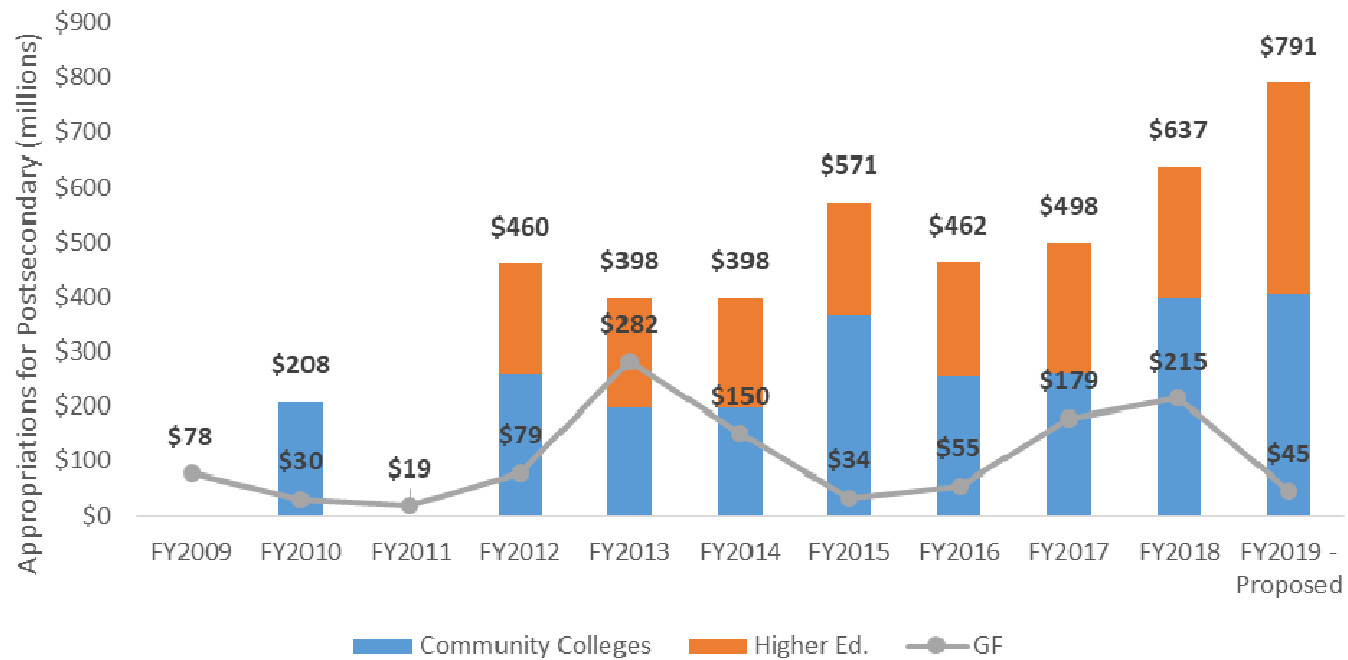
Community Colleges

Operations funding held constant

- Operations funding held at FY2018 levels for each college (\$319M)
- Under personal property tax reforms enacted in 2014
 - Community colleges receive 100% reimbursement for lost revenue
 - State law requires “excess” funds to be proportionally distributed
 - In current year, 24 of 28 colleges shared in additional \$24M of “excess”
- Governor recommends modifying distribution formula
 - Local governments will retain “excess”
 - Distribution among government types based on share of “excess” of last two years (colleges share is 15% of \$153M)
 - Distribution among individual colleges based on share of appropriation

GF/SAF Appropriation Interplay

SAF Appropriations for Postsecondary and
GF Appropriations for K-12



Governor's Education Proposal from 50K Feet

- Emphasis on increasing per-pupil funding
- Additional funding to meet teacher retirement system reforms
 - School districts held harmless, BUT costs financed by School Aid Fund
- Expanded use of School Aid Fund for higher education
 - School Aid Fund used to ease General Fund budget pressures

General Fund Outlook

FY2019 – Conditions Facing Governor

- Many scheduled programs coming on line or increasing
 - Transportation funding
 - Homestead property tax credit increase
 - Personal Property Tax Reform
- Slow growth in General Fund revenue
 - 1.1% in FY2019
 - 0.3% in FY2020
 - 0.7% in FY2021
- Revenue expected to decline relative to inflation until FY2022
- Very little room for new spending or revenue reductions

Transportation Package Phase-In

- FY2019 brings the first General Fund appropriation for the transportation package
 - \$150 million scheduled for FY2019
 - \$325 million for FY2020
 - \$600 million for FY2021
- Executive budget allocates \$175 million of FY2017 lapsed funds to transportation
 - Would bring FY2019 in line with FY2020 funding

Homestead Property Tax Credit Changes

- Increased the income eligibility
 - \$50,000 to \$60,000
- Lowered the threshold for earning credits
- Indexed the cap on property value to inflation
- The changes start for Tax Year 2018
 - \$206 million revenue reduction for FY2019

General Fund Highlights

Few General Fund Changes Proposed

Reductions

- IT investment reductions (\$25 million)
- Corrections facility closure (\$18.8 million)
- DHHS Managed Care Rule savings (\$21.2 million)
- Restoring cost share for foster care (\$8 million)
- Others (\$56.4 million)
- Total: \$129.4 million

Increases

- Indigent Defense Commission (\$46 million)
- Prisoner food changes (\$13.7 million)
- Rural hospital payments (\$7 million)
- PFAS containment (\$8 million)
- Others (\$36 million)
- Total: \$110.7 million

Renew Michigan Initiative

- The Environmental Protection Bond is exhausted
 - Brownfield site cleanup
 - Solid waste management
 - Wastewater treatment
- The Clean Michigan Initiative bond funding has mostly been depleted
 - Water quality monitoring
 - Lead abatement
 - Pollution prevention and control
- 3,000 known contaminated sites with no responsible party

Renew Michigan Initiative

- Proposes a \$79 million in new revenue to
 - \$45 million for brownfield site cleanup
 - \$24 million for waste management
 - \$5 million for water quality monitoring
 - \$5 million for park infrastructure improvements
- Increases the fee for landfill dumping
 - Currently at \$.12 per cubic yard (about \$.36 per ton) – lowest nationally
 - Raises to Midwest median (matching Ohio at \$4.75 per ton)

Michigan Indigent Defense Commission

- Michigan Indigent Defense Commission was created in 2013 to improve defense services for the indigent
- \$61.3 million in requested funding to meet new standards
 - \$46 million from the general fund
- Other reforms are requested to improve the efficiency of the MIDC, including
 - Aligning deadlines with the state fiscal year and lengthening the review period
 - Establish a minimum local share of \$7.25 per capita
 - Requiring 90% of revenue from partially indigent defendants to be remitted to the state system

PPT Reform Reimbursement Adjustment

- 2014 Personal Property Tax reform refunded localities for lost revenue
 - Allocated more than \$400 million annually
- Reimbursements overshot the amount of eligible documented personal property
 - \$150 million more than revenue lost
- Current distribution leaves out some governments
 - 17 counties, 87 cities, 612 townships, 130 villages, and 4 community colleges
- Governor's budget recommends adjusting the formula

PPT Reform Reimbursement Adjustment

- Fully reimburse localities for lost revenue
- Leftover funds would be redistributed by the following
 - \$15 million to replace expiring Fire Protection grants
 - Remainder distributed
 - 30% to counties
 - 48% to cities
 - 2% to villages
 - 5% to townships
 - 15% to community colleges
 - Distributed on a per capita basis
 - Minimum \$4,500 payments to reduce administrative costs

Revenue Sharing as a Whole

- \$20.4 million net increase
- 3.1% Increase in constitutional sales tax revenue sharing
 - \$34.3 million
- Removes several smaller values
 - \$6.2 million supplemental revenue sharing was not renewed
 - \$5.8 million in one-time sales tax sharing ended
 - County revenue sharing was reduced by \$2.2 million
 - \$.3 million of new money was allocated for counties that exhausted their reserve funds
- \$1.28 billion overall in revenue sharing

Concluding Thoughts

Looking Back: Snyder Budget Policy

- Budgets that are balanced and completed on time
- Manage slow growing General Fund, at least in recent years
- School Aid Fund and General Fund interchangeable, within limits
- Debt reduction, especially teacher retirement system
- Building up reserves in state rainy day fund

Changes in State Spending: FY2000 to FY2019

