



Background Briefing

STATE BUDGET OVERVIEW

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APPROPRIATIONS OVERVIEW

State Appropriation Fund Source Definitions

- 1. Federal Funds:** Federal grant or match revenue; generally dedicated to specific programs or purposes.
- 2. Local/Private Funds:** Revenue received from local units of government and private, non-governmental entities for specific services or purposes.
- 3. State Restricted Funds:** State revenue restricted by State Constitution, state statute, or outside restriction that is available only for specific purposes. Includes most fee revenue. Largest such fund is the School Aid Fund.
- 4. General Fund/General Purpose (GF/GP):** Unrestricted General Fund revenue available for basic state programs and other purposes determined by the Legislature.

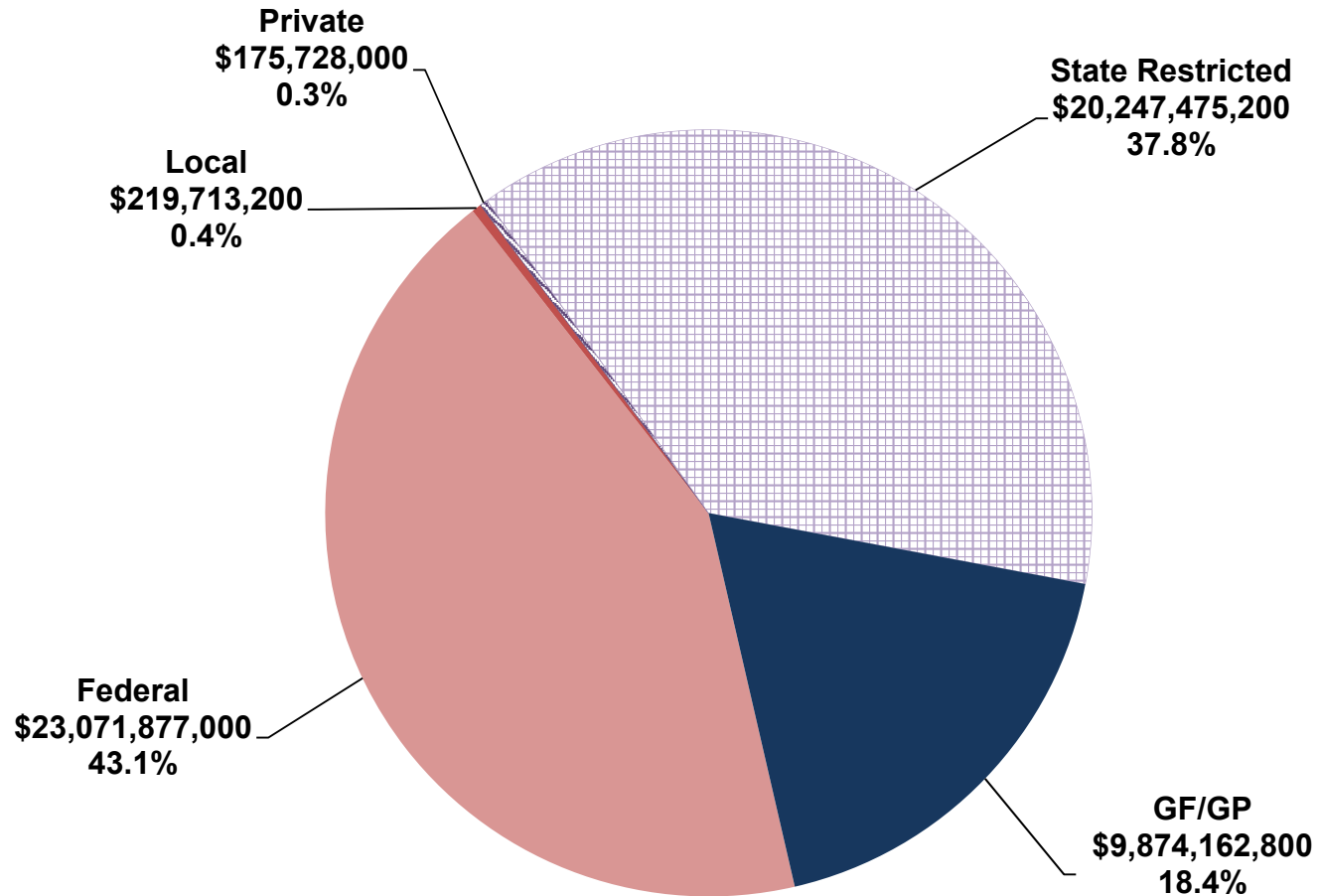
Adjusted Gross Appropriations: Total state appropriations from all fund sources. Excludes funds appropriated twice in state budget through interdepartmental grants (IDGS) or intradepartmental transfers (IDTs).

State Source Appropriations: Appropriations from state-level revenue sources: State Restricted plus GF/GP.

NOTE: All appropriation amounts in this briefing are unadjusted for inflation unless otherwise noted.

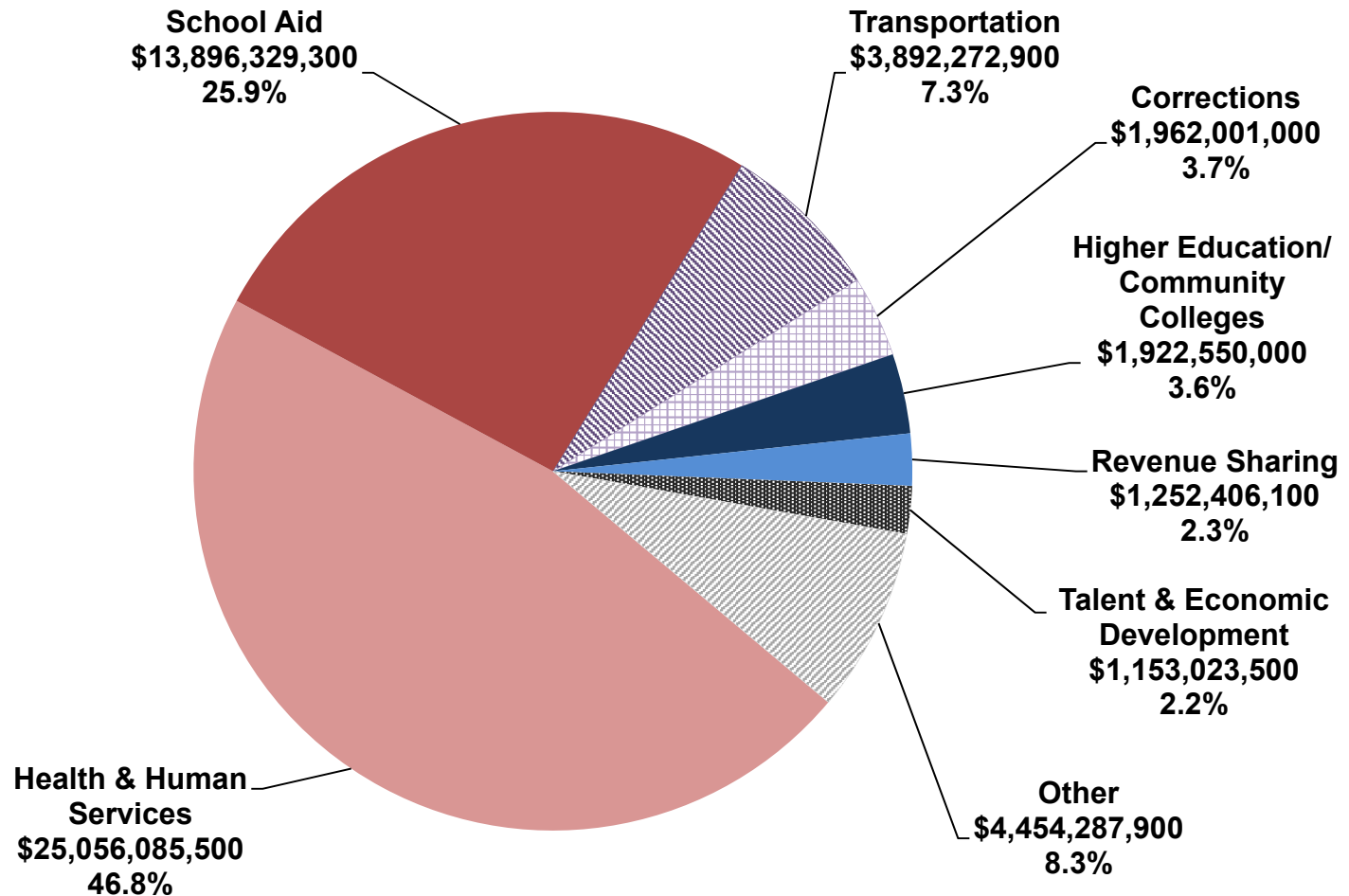
FY 2015-16 State Budget by Source

About 80% of the \$53.6 billion state budget is funded by federal or restricted sources. State restricted sources can be either constitutional (for example, the School Aid Fund) or statutory in nature.



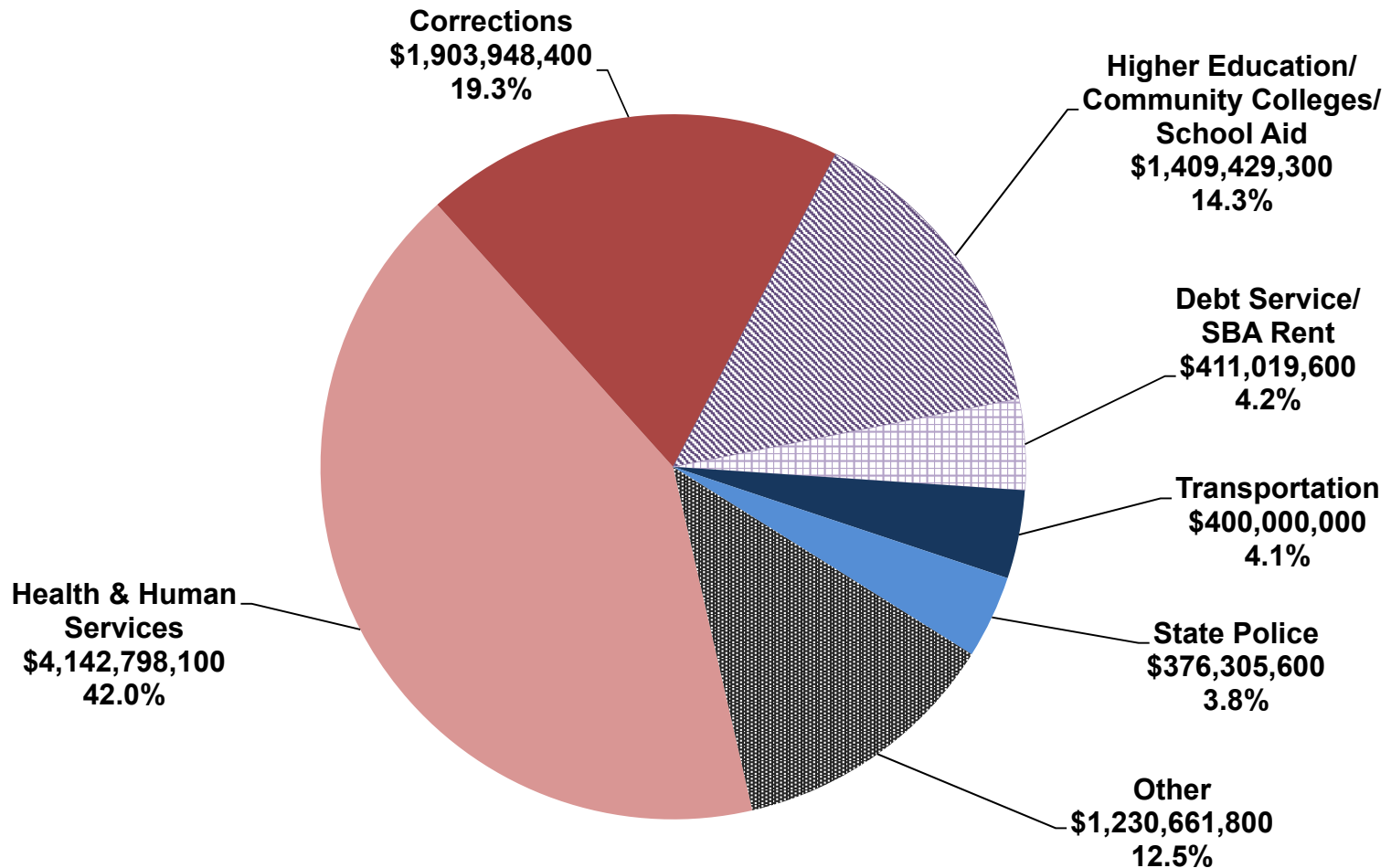
FY 2015-16 Adjusted Gross Appropriations

Large portions of the \$53.6 billion state budget consist of payments to health care providers, school districts, universities and colleges, and local units of government.



FY 2015-16 GF/GP Appropriations

88% of the \$9.9 billion GF/GP budget is appropriated for health and human services, public safety, education, debt service, and transportation. The remaining 12% (\$1.2 billion) provides funding for 13 state departments, the Judiciary, the Legislature, and the Executive Office.



FY 2015-16 State Budget

Millions of \$

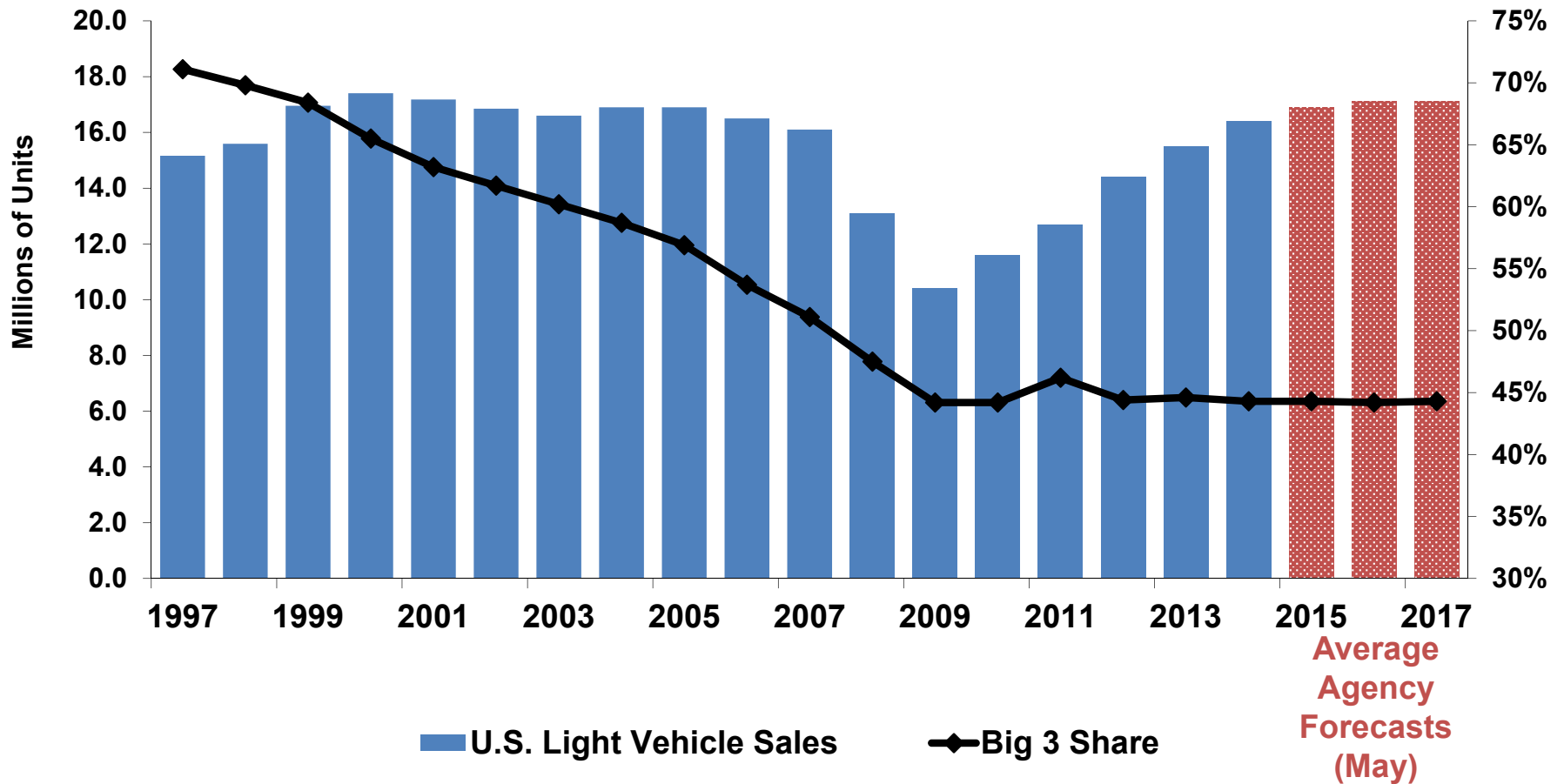
Budget Area	Adjusted Gross	GF/GP
Health & Human Services	\$25,056.1	\$4,142.8
School Aid	13,896.3	45.9
Transportation	3,892.3	400.0
Corrections	1,962.0	1,903.9
Higher Education	1,534.7	1,232.4
Treasury: Revenue Sharing	1,252.4	0.0
Talent & Econ Development	1,153.0	198.5
State Police	594.6	376.3
Treasury: Operations	526.7	123.9
Environmental Quality	477.8	34.8
Natural Resources	402.6	39.6
Community Colleges	387.8	131.1
Licensing & Reg Affairs	361.6	38.5
DTMB: Operations	330.2	222.6

Budget Area (Continued from left)	Adjusted Gross	GF/GP
Education (Dept of)	\$305.9	\$74.9
Judiciary	282.3	183.4
DTMB: SBA Rent	254.6	254.6
State	205.2	17.2
Military & Veterans Affairs	166.9	51.2
Treasury: Debt Service	156.4	156.4
Legislature	136.5	131.9
Agriculture & Rural Dev	86.3	43.1
Attorney General	63.6	37.0
Insurance & Fin Services	64.4	0.2
Legislative Auditor General	17.4	15.5
Civil Rights	15.8	12.9
Executive Office	5.5	5.5
TOTAL	\$53,589.0	\$9,874.2

ECONOMIC TRENDS

Light Vehicle Sales

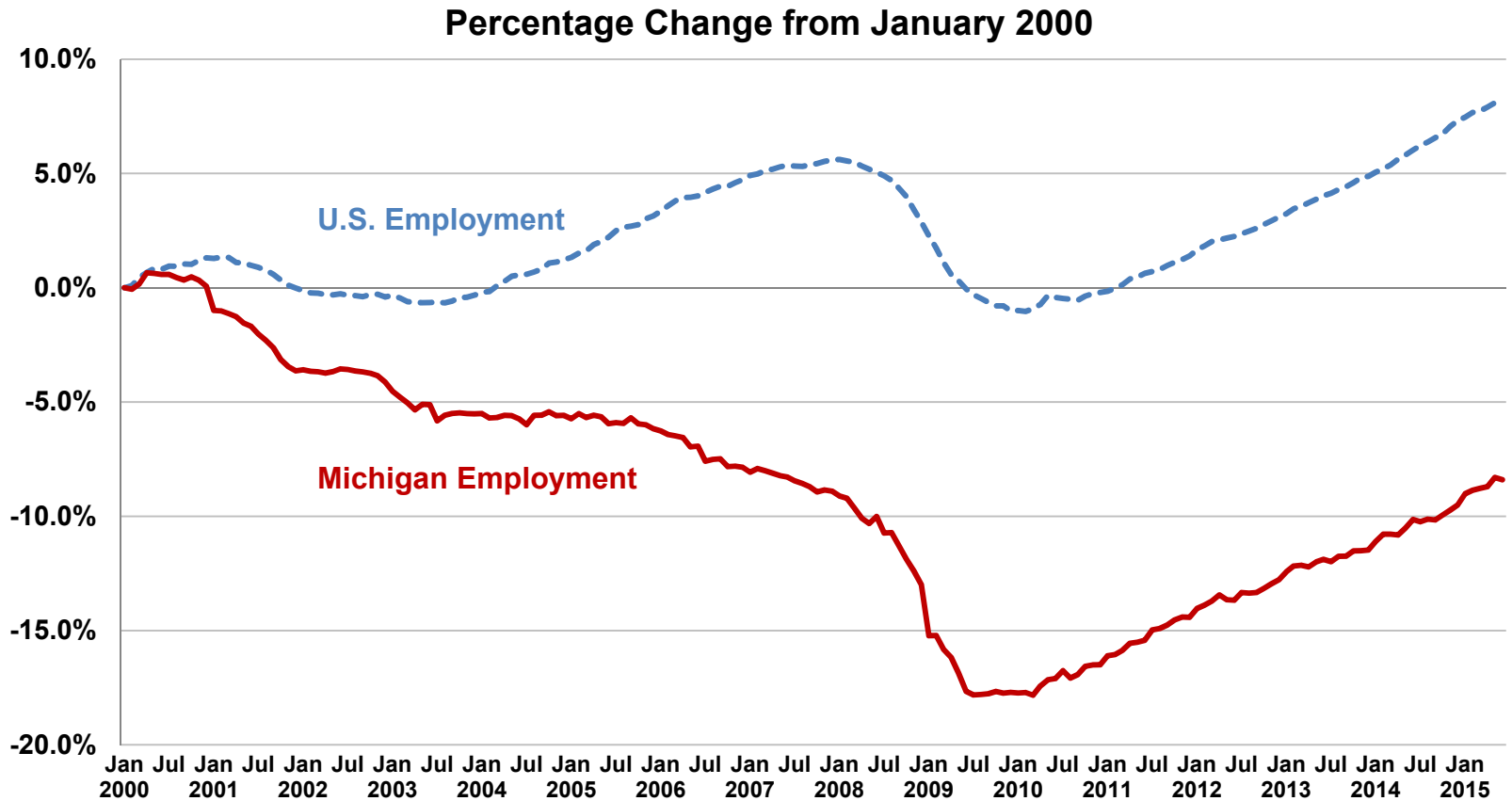
Vehicle sales have increased to near-peak levels, with the share produced by domestic automakers having stabilized.



Source: Automotive News

Employment Trends

Following a decade of protracted state-level job losses, Michigan employment rebounded sharply following the great recession and has grown at about the same rate as national employment since 2012.

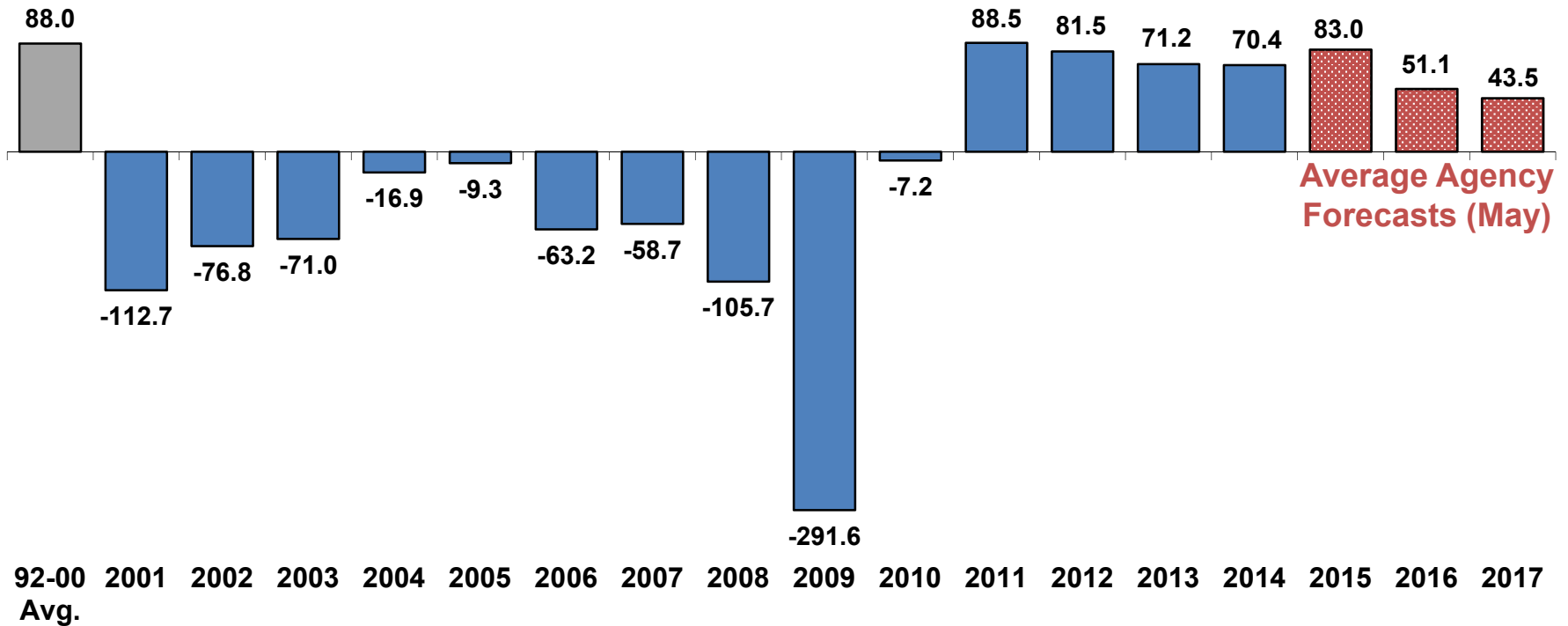


Source: U.S. Department of Labor, Bureau of Labor Statistics

Michigan Employment Growth

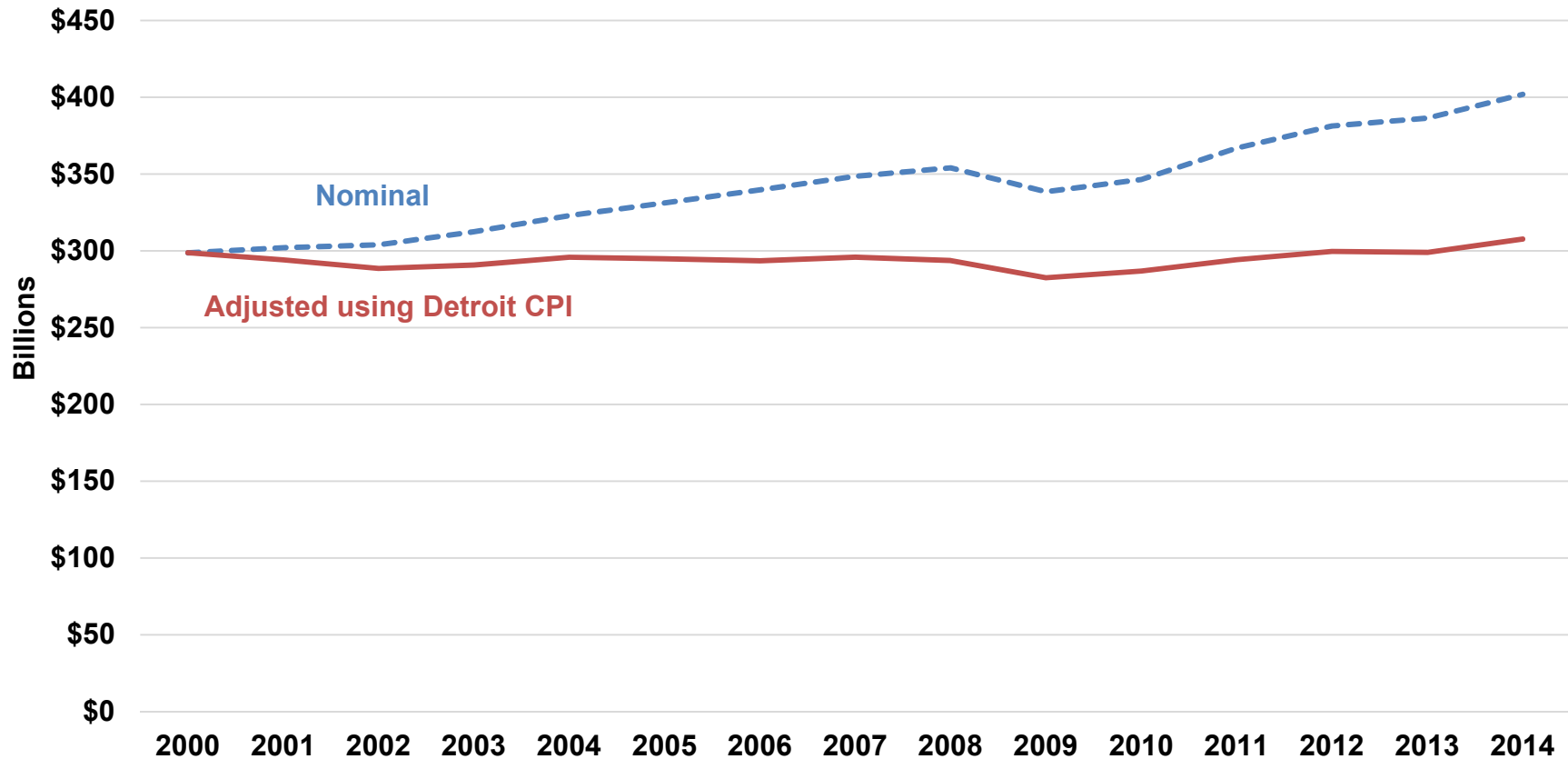
Job growth is projected to continue, but at more moderate levels.

Change in Michigan Wage and Salary Employment (Thousands)



Michigan Personal Income

In nominal terms, personal income in Michigan has risen roughly 25% since 2000. In inflation-adjusted terms, however, personal income has been flat over this period, slightly surpassing the 2000 level in 2014.

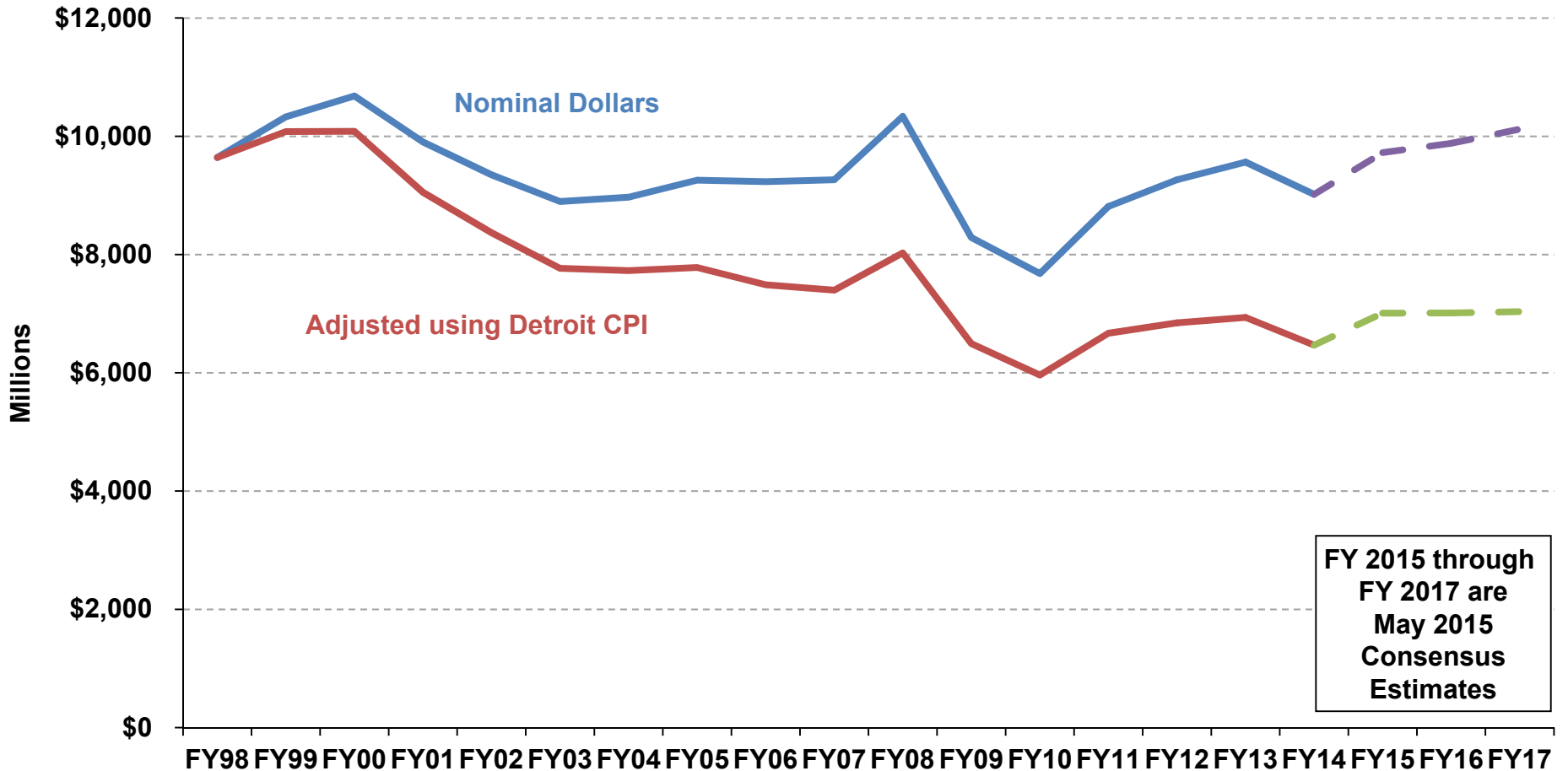


Source: U.S. Bureau of Economic Analysis

LONG-TERM REVENUE TRENDS

GF/GP Net Revenue

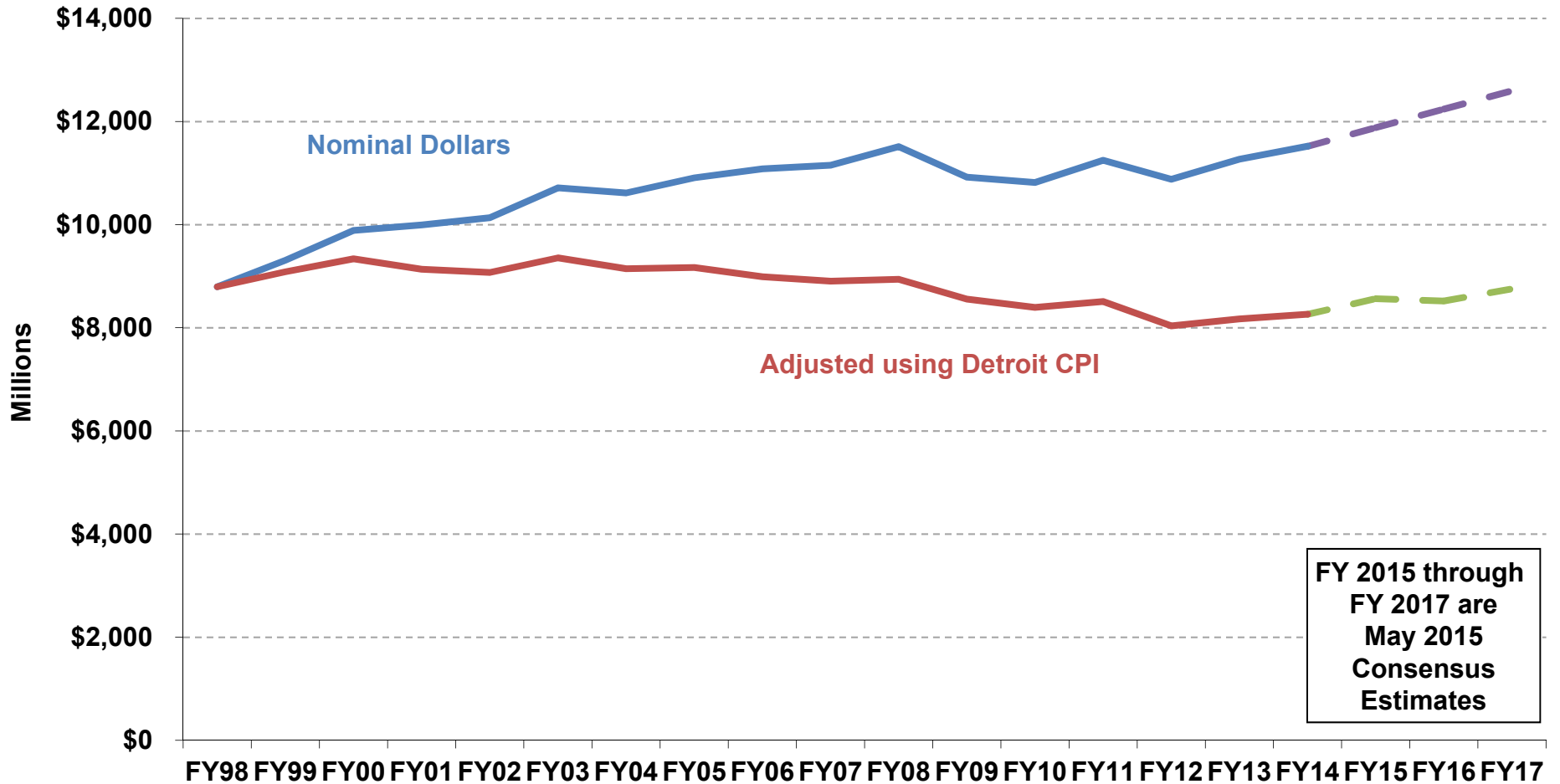
Nominal GF/GP revenue is estimated to grow 29% from FY 2010 to FY 2016 but remains below previous peaks. Adjusted for inflation, FY 2016 revenue will be 31% below the FY 2000 level.



Note: For consistency, revenue figures for years prior to FY 2010-11 have been adjusted to include sales tax revenue previously designated for statutory revenue sharing.

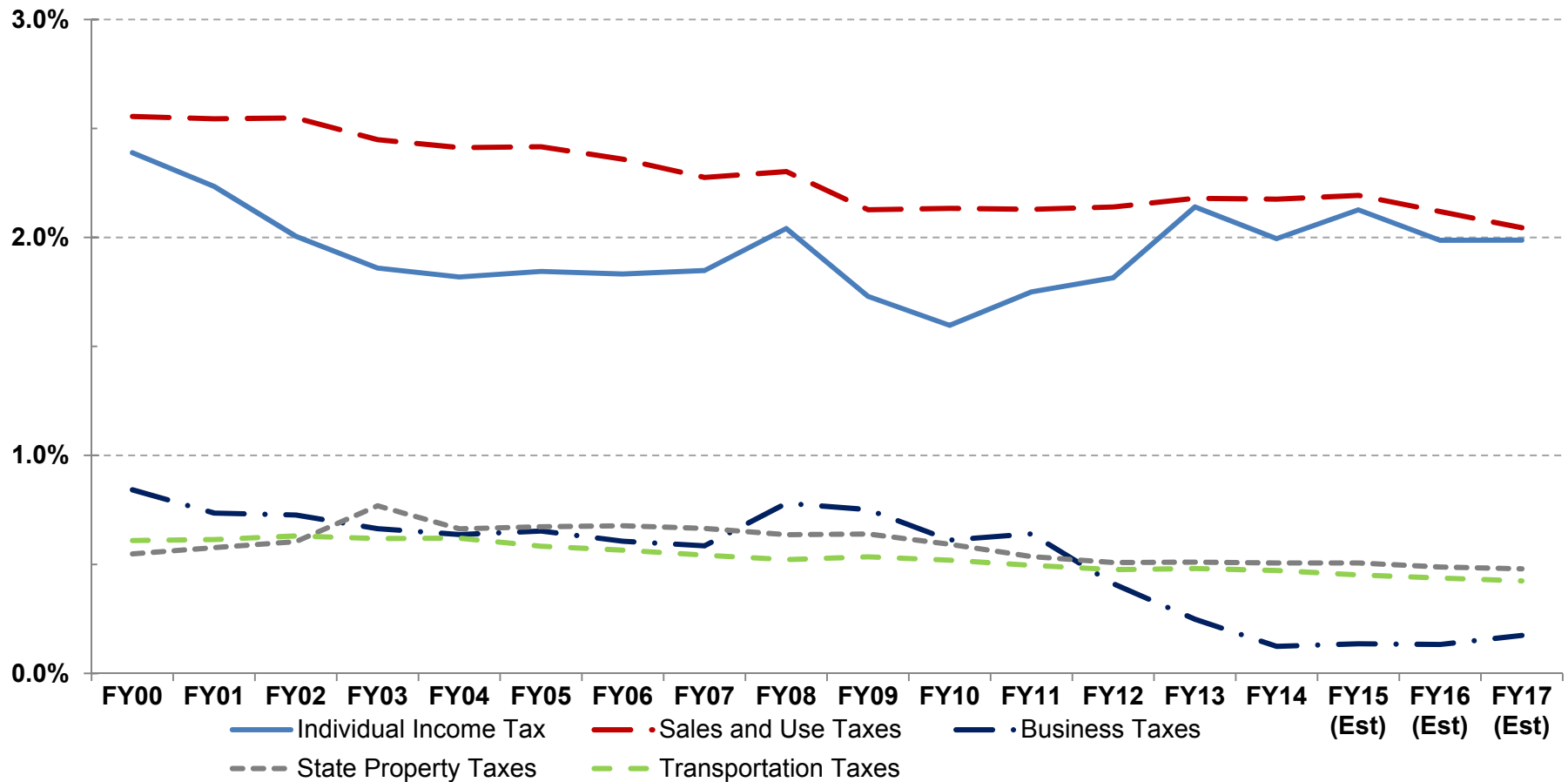
School Aid Fund Net Revenue

Nominal SAF revenue is estimated to grow 13% from FY 2012 to FY 2016. Adjusted for inflation, however, FY 2016 revenue will be 9% below the FY 2000 level.



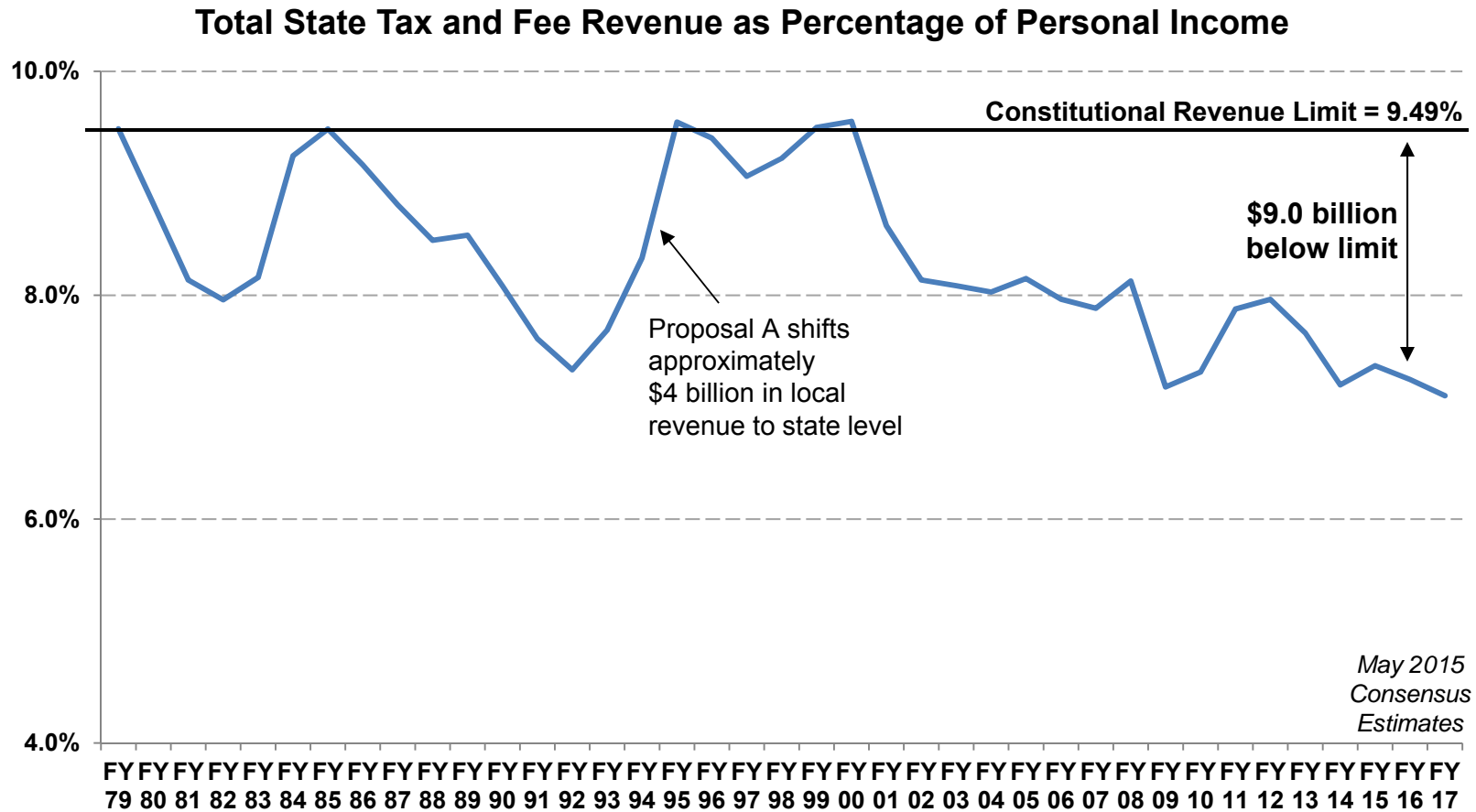
Major State Taxes as a Percentage of Michigan Personal Income

Recent growth in state revenue has been driven by the income tax. Other major state taxes have declined as a percentage of state personal income as a result of economic trends or tax policy decisions.



Constitutional Revenue Limit

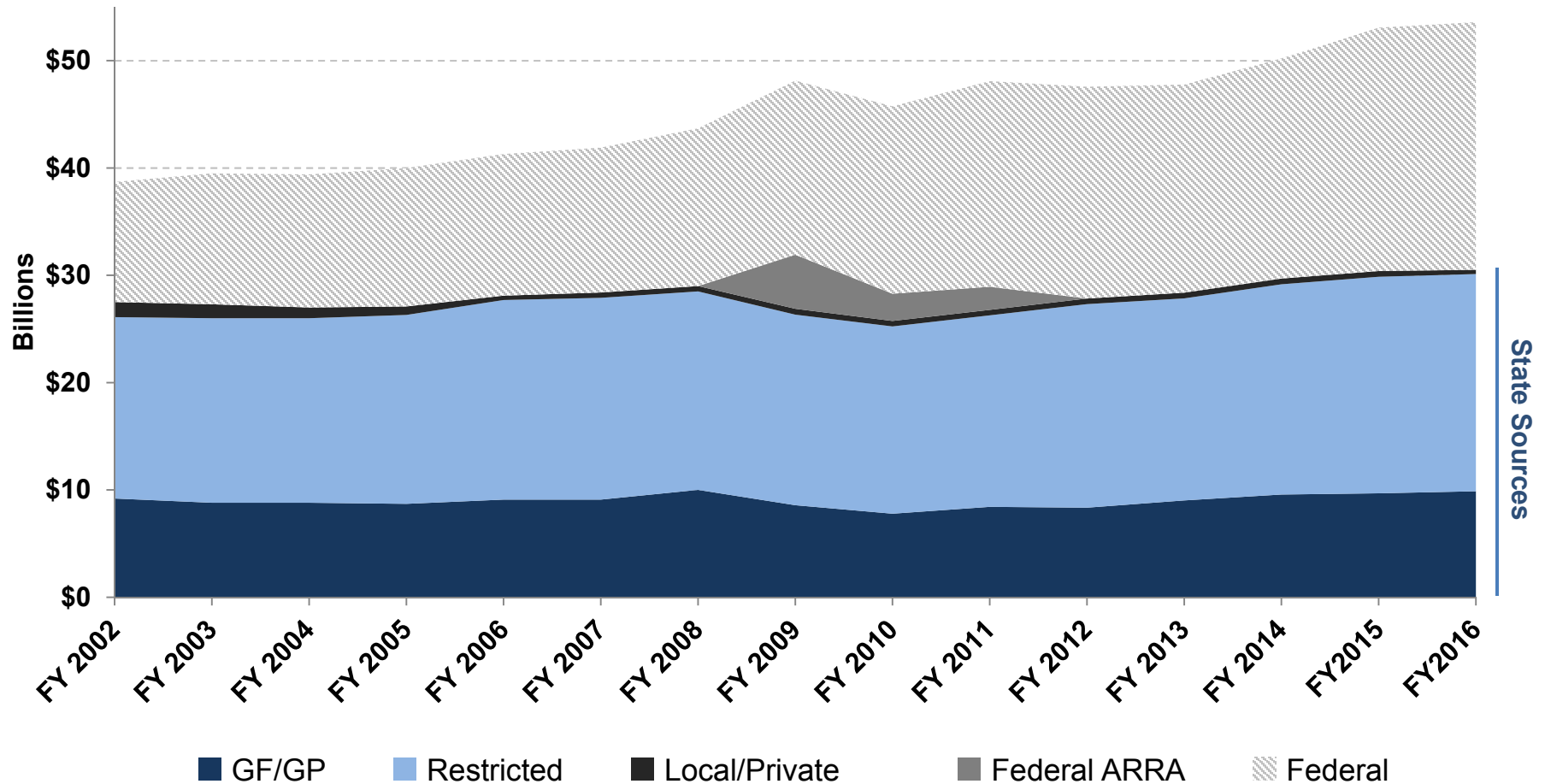
Total state revenue collections for FY 2016 are estimated to be \$9.0 billion lower than the limit set in the State Constitution.



LONG-TERM BUDGET TRENDS

Total State Appropriations

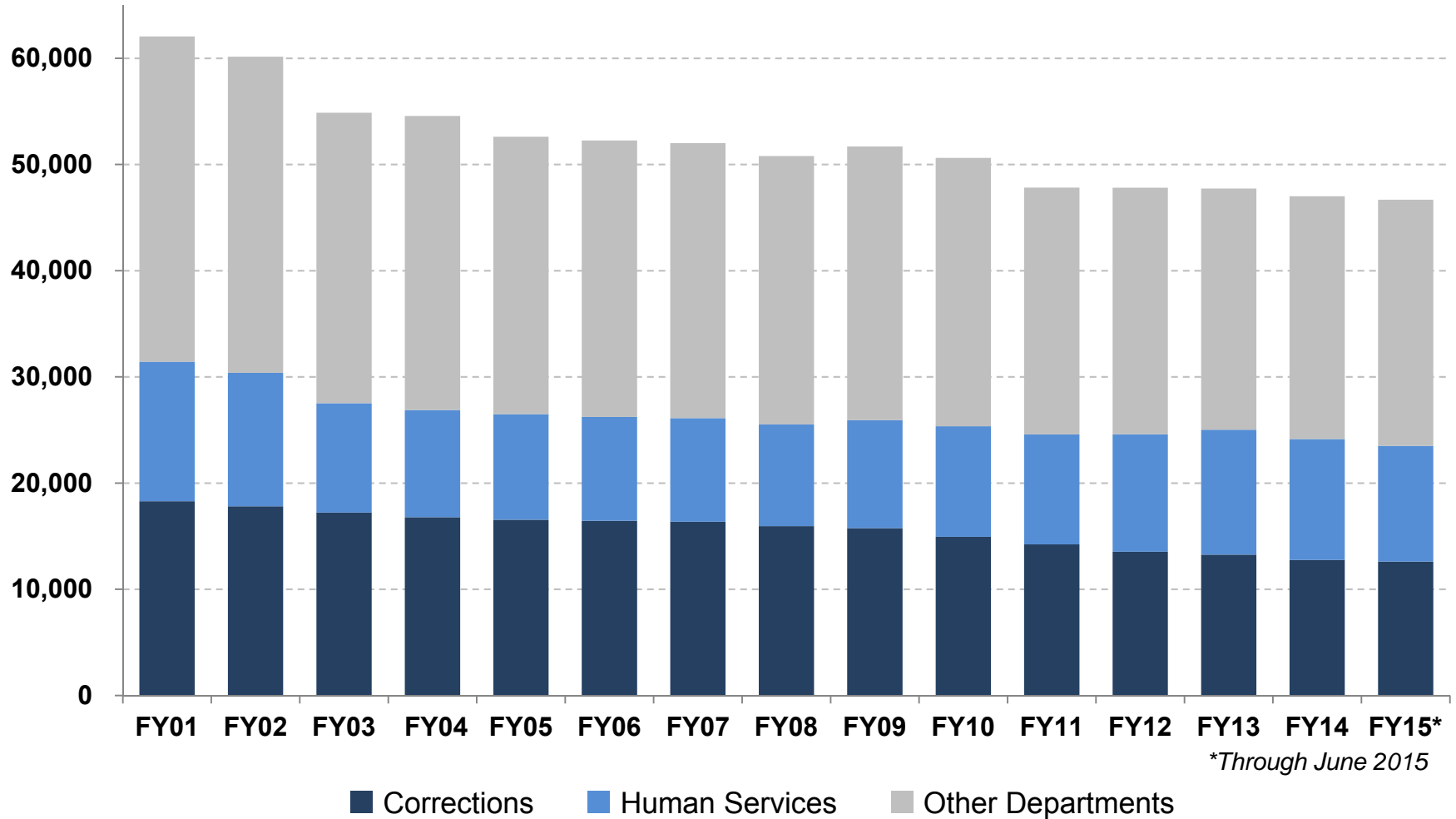
While total appropriations have grown 38% since FY 2002, appropriations from state sources have grown just 15%. State budget growth has been driven mainly by increases in available federal funds.



ARRA: Federal American Recovery and Reinvestment Act of 2009

Total Classified Employees

The total number of state employees has declined by over 15,000 (25%) since FY 2001.



State Employee Compensation-Related Costs

FY 2015-16 Total: \$5.9 Billion (Estimated)

Roughly 50% of costs related to state employee compensation are funded by GF/GP revenue; remaining costs are funded by federal and restricted sources. Corrections employees account for roughly 50% of GF/GP compensation-related costs.

Salary and Wages: \$3.2 billion

- Average salary for a full-time state employee has increased from \$46,063 in FY 2003-04 to \$56,209 in FY 2013-14, which equates to growth of 2.0% per year.

Health Insurance: \$644 million

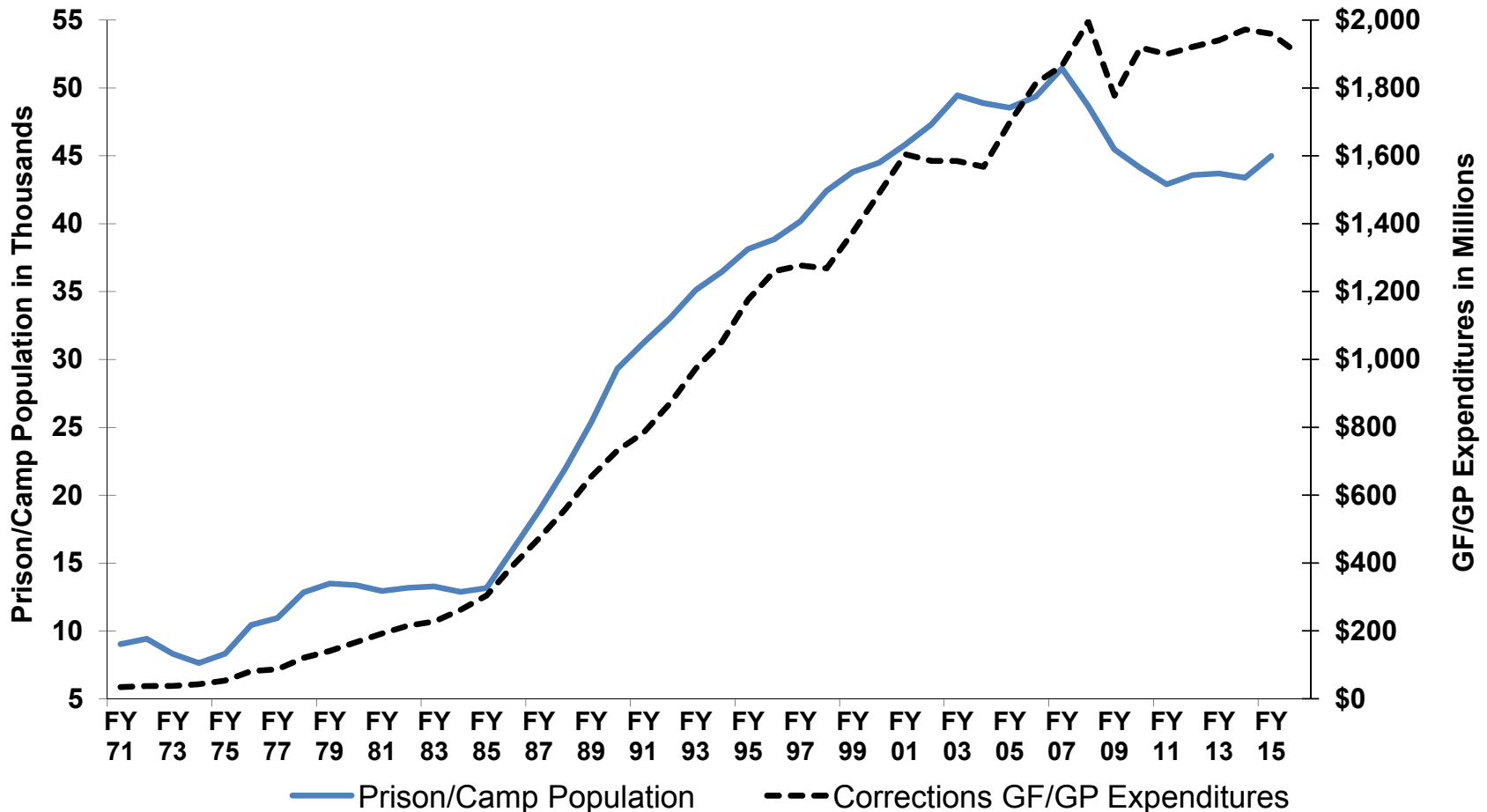
- Employee premium costs are paid on an 80/20 state/employee basis. Employee deductibles and copays have also been increased.

Retirement and Other Post Employment Benefits (OPEB): \$2.0 billion

- Costs have increased substantially in recent years due to unfunded liabilities created primarily by investment losses in 2008. Additionally, the Legislature's decision in 2011 to begin prefunding retiree health care benefits (OPEB) has resulted in short-term cost increases but reduced long-term liabilities.
- Employees hired since 1997 enter a defined contribution (DC, or 401k) retirement plan, rather than a pension plan. Employees in the pension plan now pay 4% of salary into the system. Employees hired since 2012 receive a DC cash benefit in place of retiree health care benefits.

Corrections Budget Changes

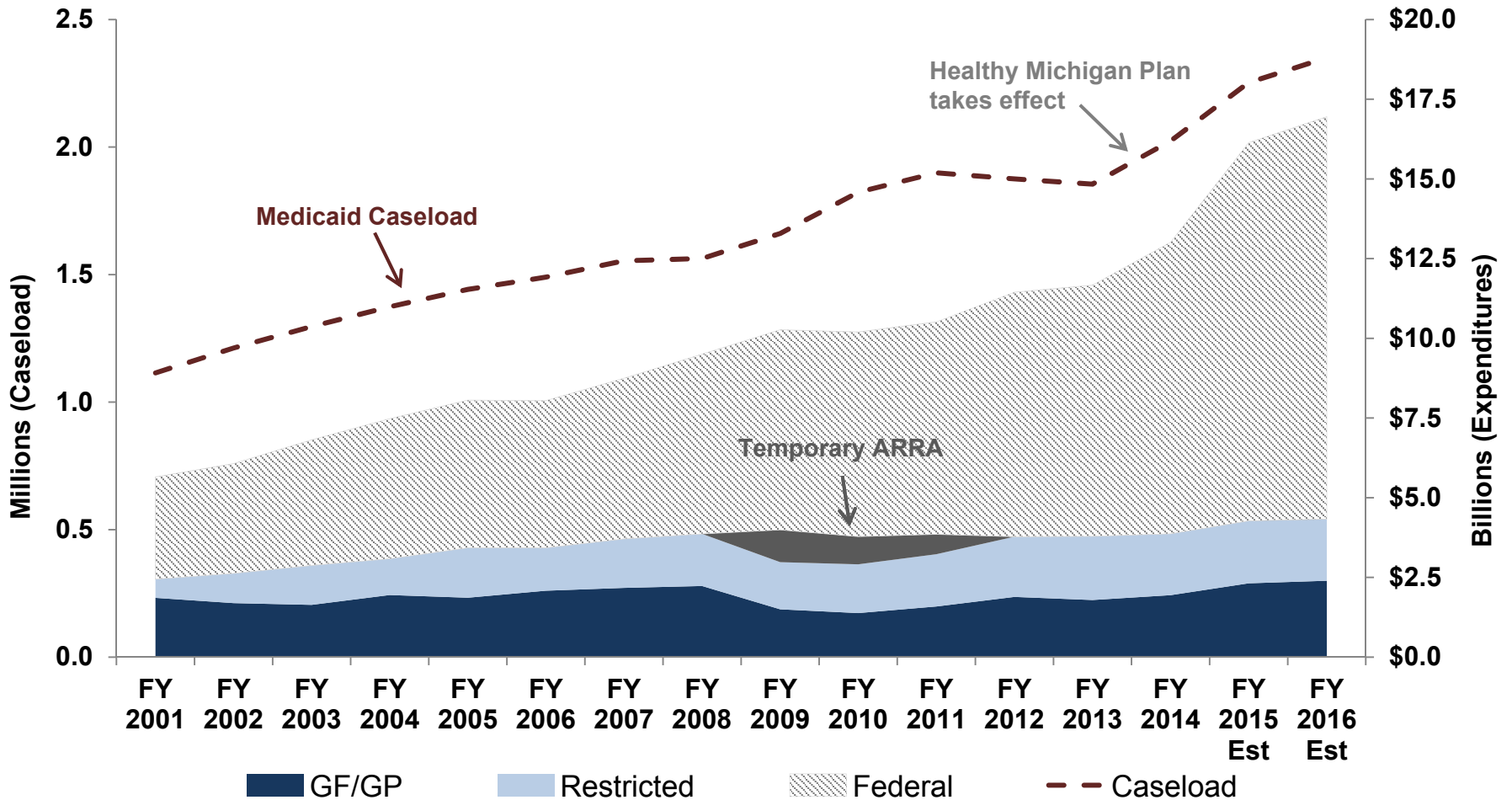
Over the long term, corrections costs have grown consistent with prison population. Expenditures have flattened out in recent years as the population has been reduced. The Corrections budget would have decreased since FY 2011 if not for the costs of paying down retirement liabilities.



Note: Fiscal Year 2008-09 reflects GF/GP reduction due to appropriation of temporary federal ARRA funds.

Medicaid Expenditures by Fund Source

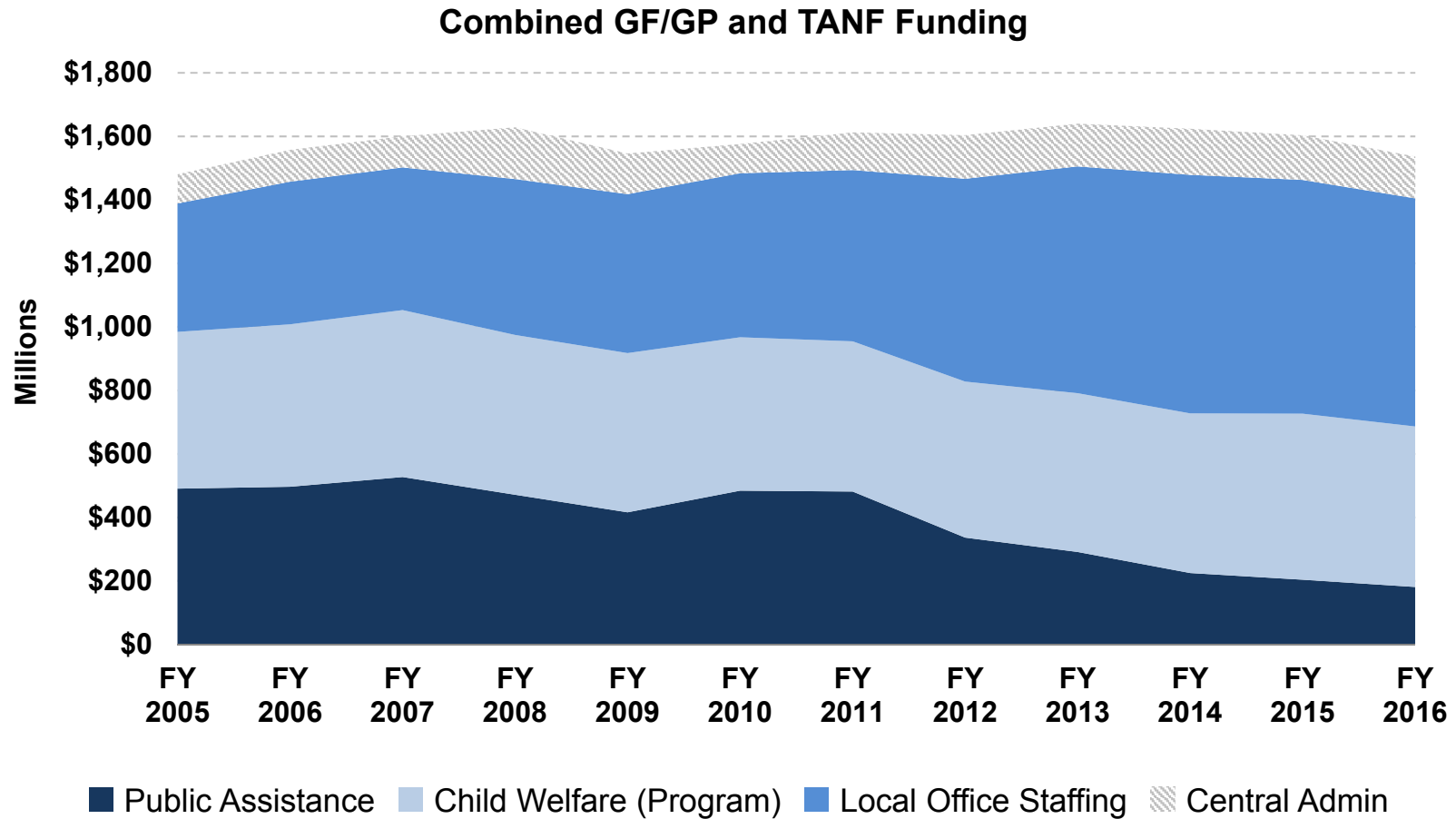
The state's total Medicaid caseload has doubled since FY 2001. GF/GP spending for Medicaid, however, has been effectively held flat due to the use of provider taxes, federal match rate increases due to lagging personal income growth, and 100% initial federal funding for the Healthy Michigan Plan.



ARRA: Federal American Recovery and Reinvestment Act of 2009

Human Services Funding

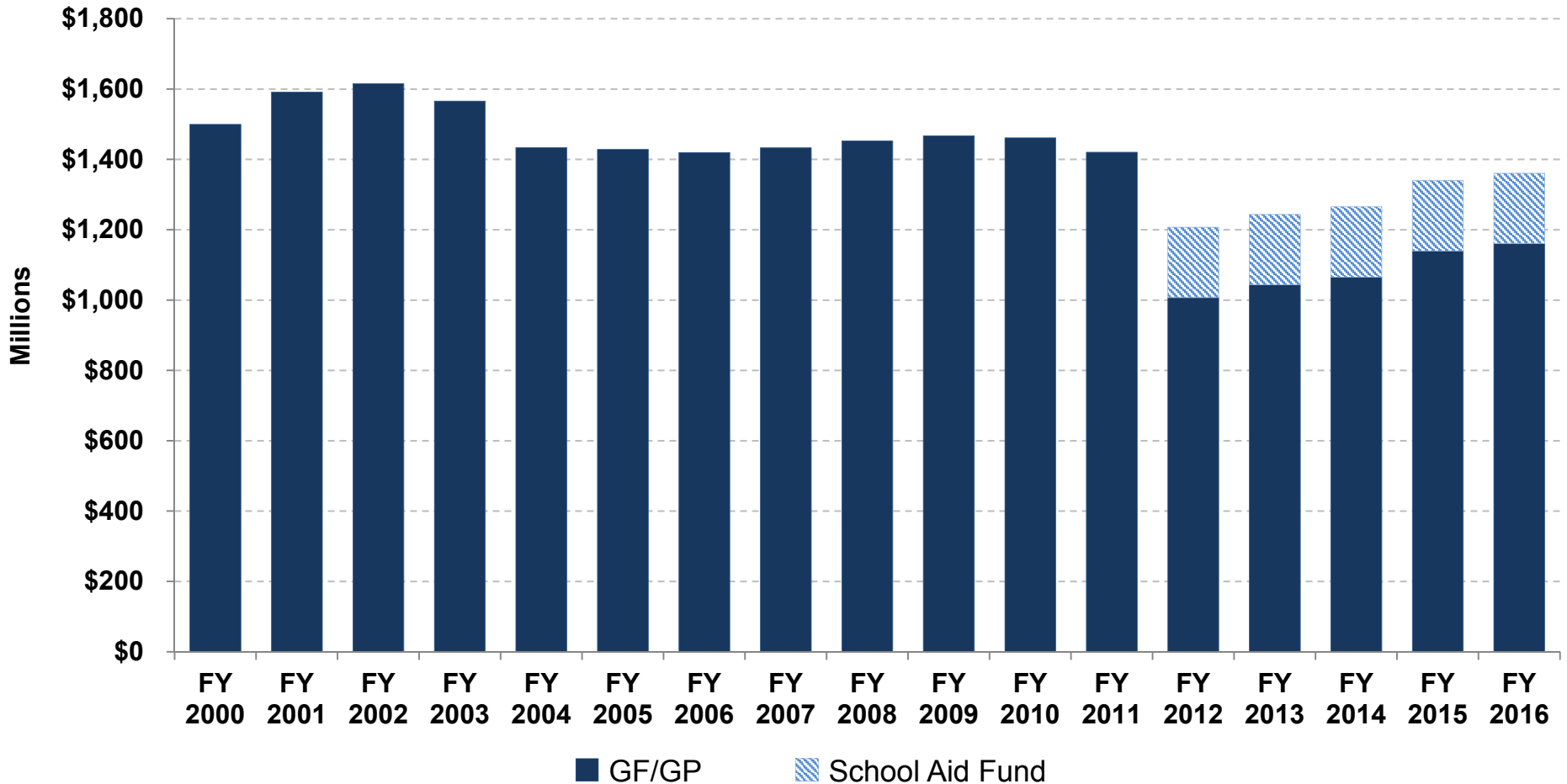
Overall discretionary funding for Human Services has been flat in recent years. Public Assistance has declined markedly due to implementing time limits on cash assistance and caseload reductions, while Local Office Staffing has increased due to child welfare settlement staffing enhancements and retirement liability costs.



Note: Figures exclude one-time funding for low income energy assistance in FY 2013.

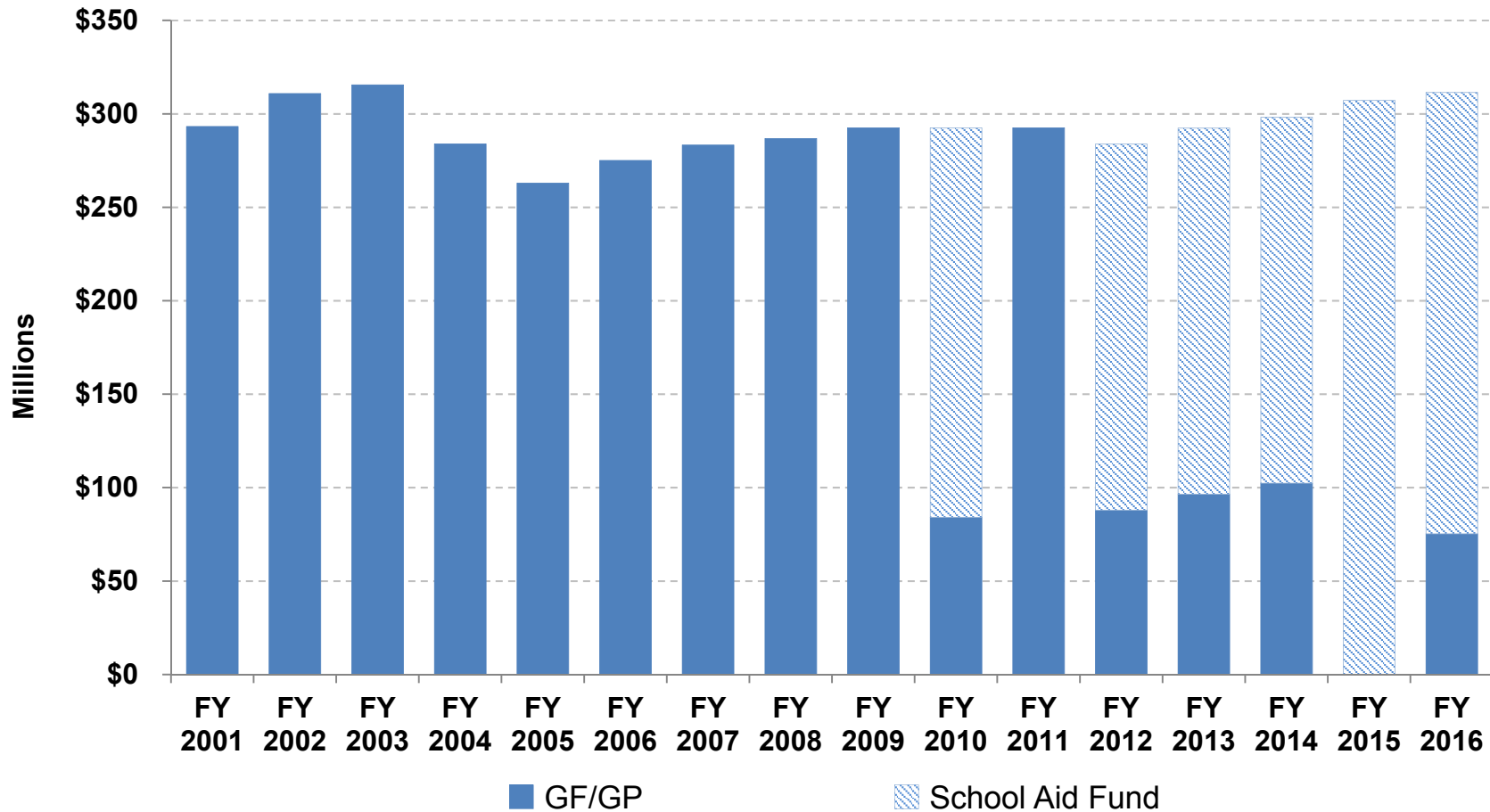
State Appropriations for Public University Operations

State support for public universities has increased by \$153 million (13%) since FY 2012, but remains \$255 million (16%) below the FY 2002 peak.



State Appropriations for Community Colleges Operations

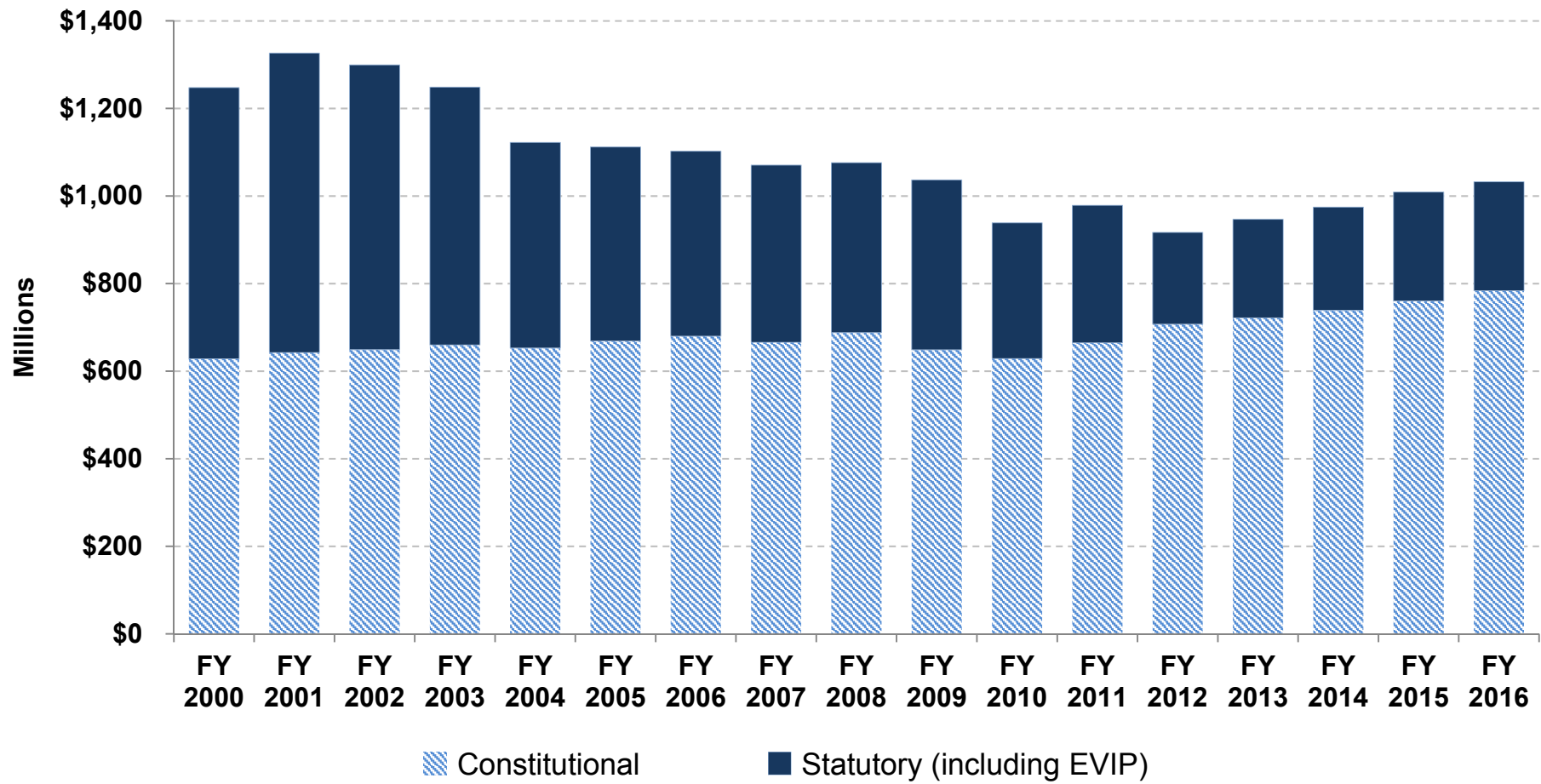
Despite recent growth, state support for community college operations remains slightly below the FY 2003 peak. The School Aid Fund is now the primary source for this funding.



Note: Excludes funding added in recent years for retirement rate cap; funds flow through to retirement system.

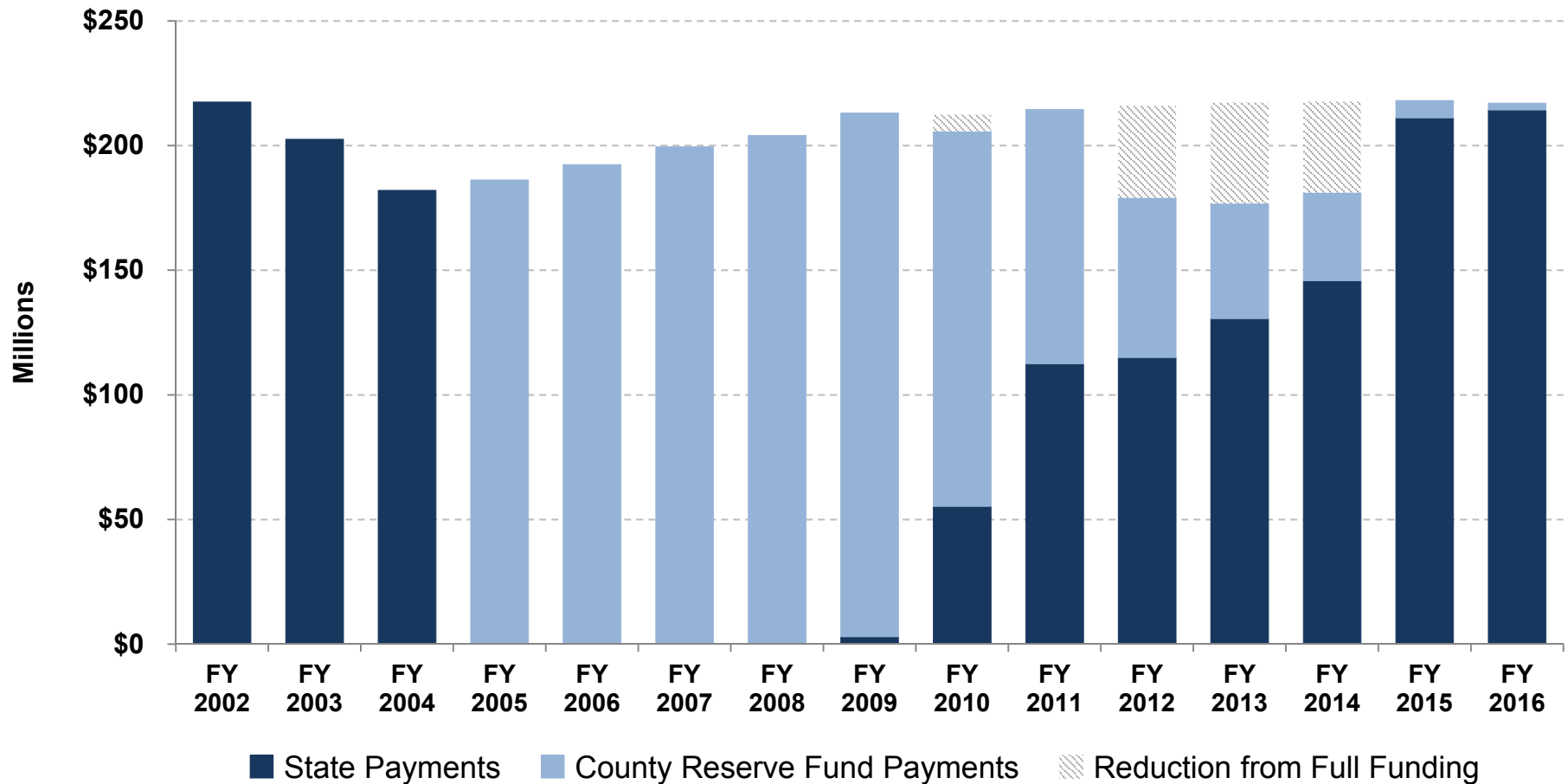
Revenue Sharing to Cities, Villages, and Townships (CVTs)

Per-capita constitutional payments to CVTs have grown consistent with sale tax revenue growth. Discretionary (statutory) payments remain \$435 million below the FY 2001 peak; reductions have helped balance the GF/GP budget.



Revenue Sharing to Counties

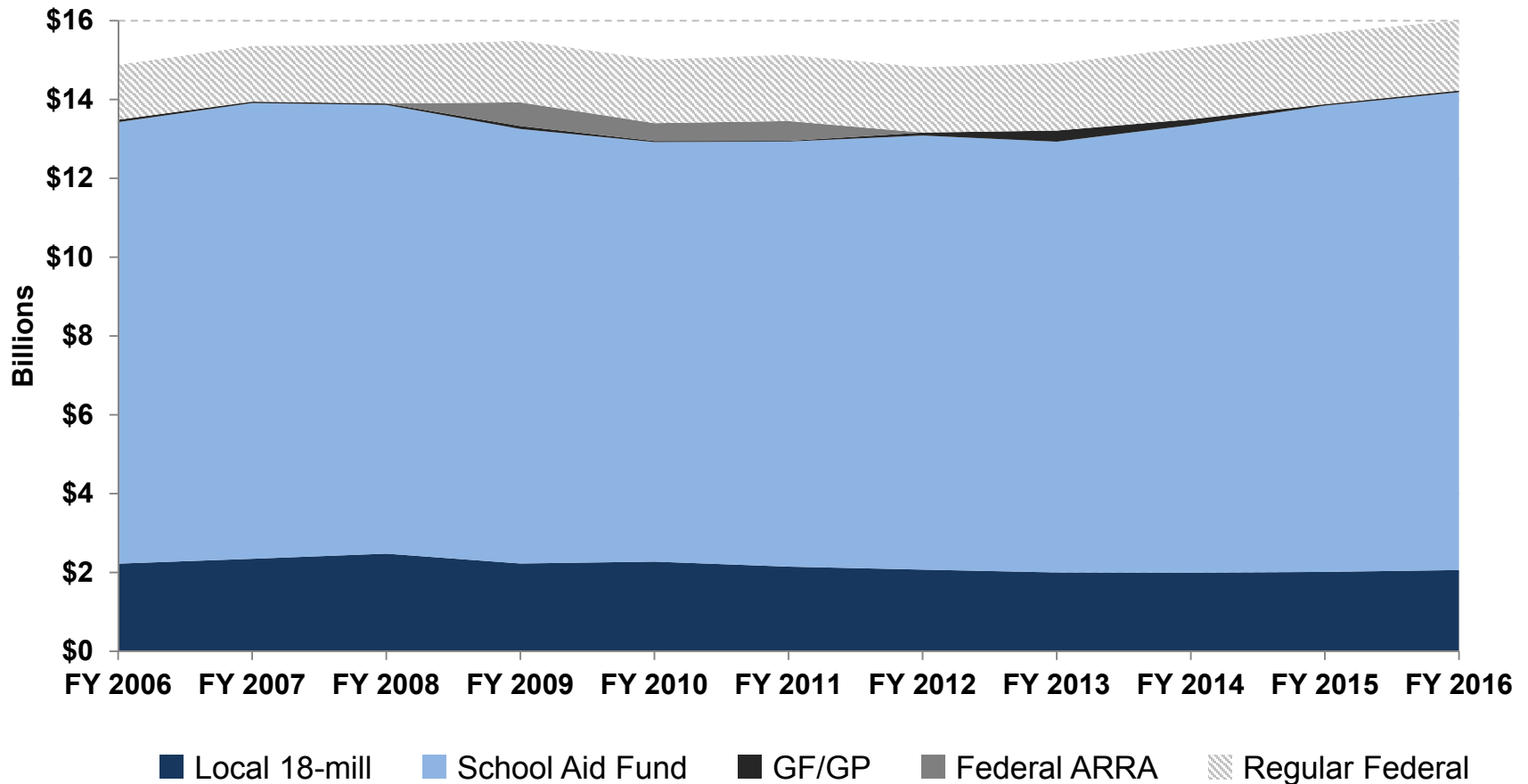
Reserve fund payments temporarily replaced state revenue sharing for counties. After a period of underfunding, funding to counties was restored to full funding relative to the reserve fund mechanism beginning with FY 2015. Total funding is at approximately the FY 2002 level.



School Aid Funding

Local 18-mill Levy and State Appropriations

Excluding federal funds dedicated for specific purposes, total FY 2016 funding for schools is now slightly (2.0%) above the previous FY 2007 peak. Total pupils have declined about 12% over this period. Recent increases have included significant funding for growing retirement costs.

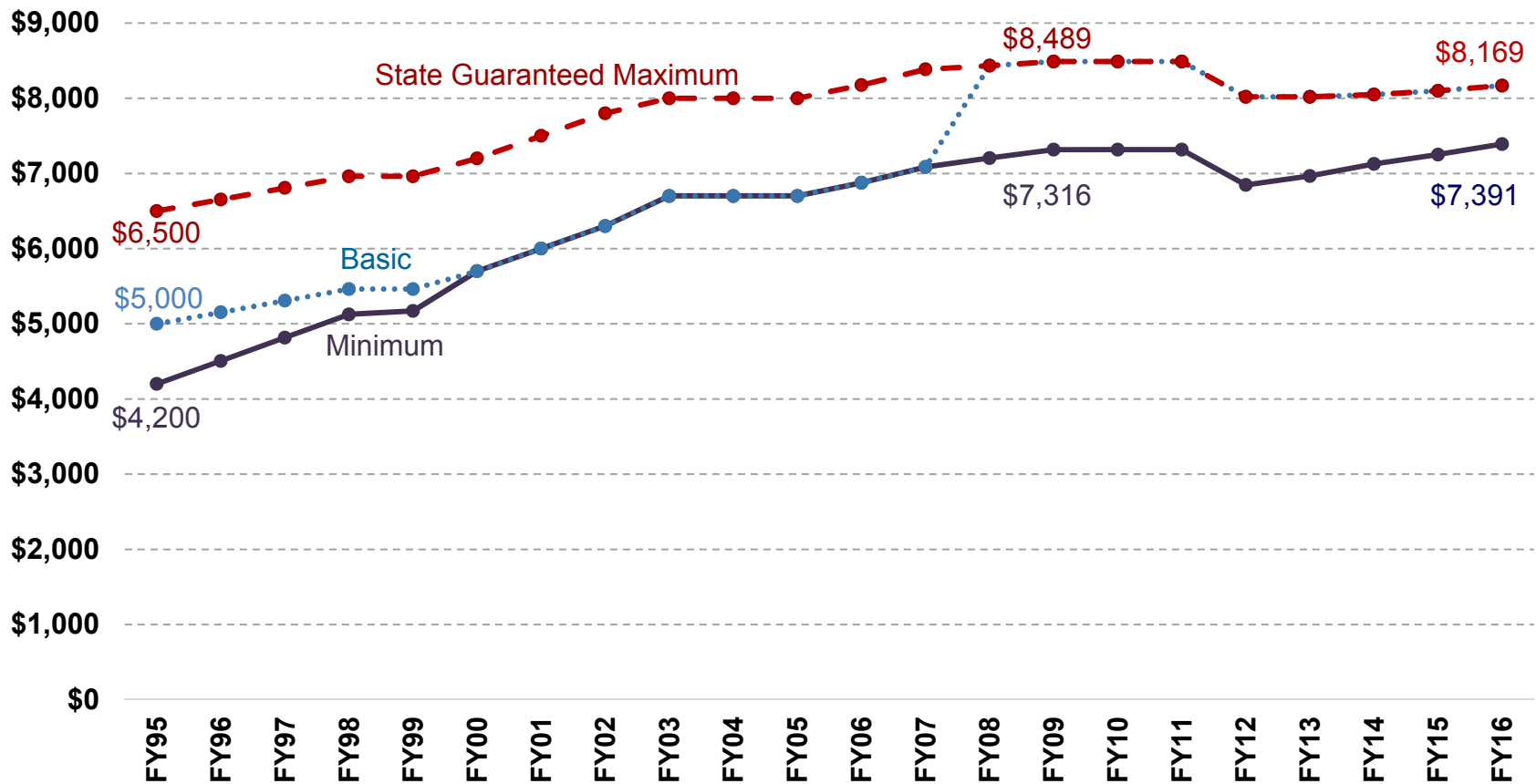


ARRA: Federal American Recovery and Reinvestment Act of 2009

Foundation Allowance History

Growth Since Proposal A

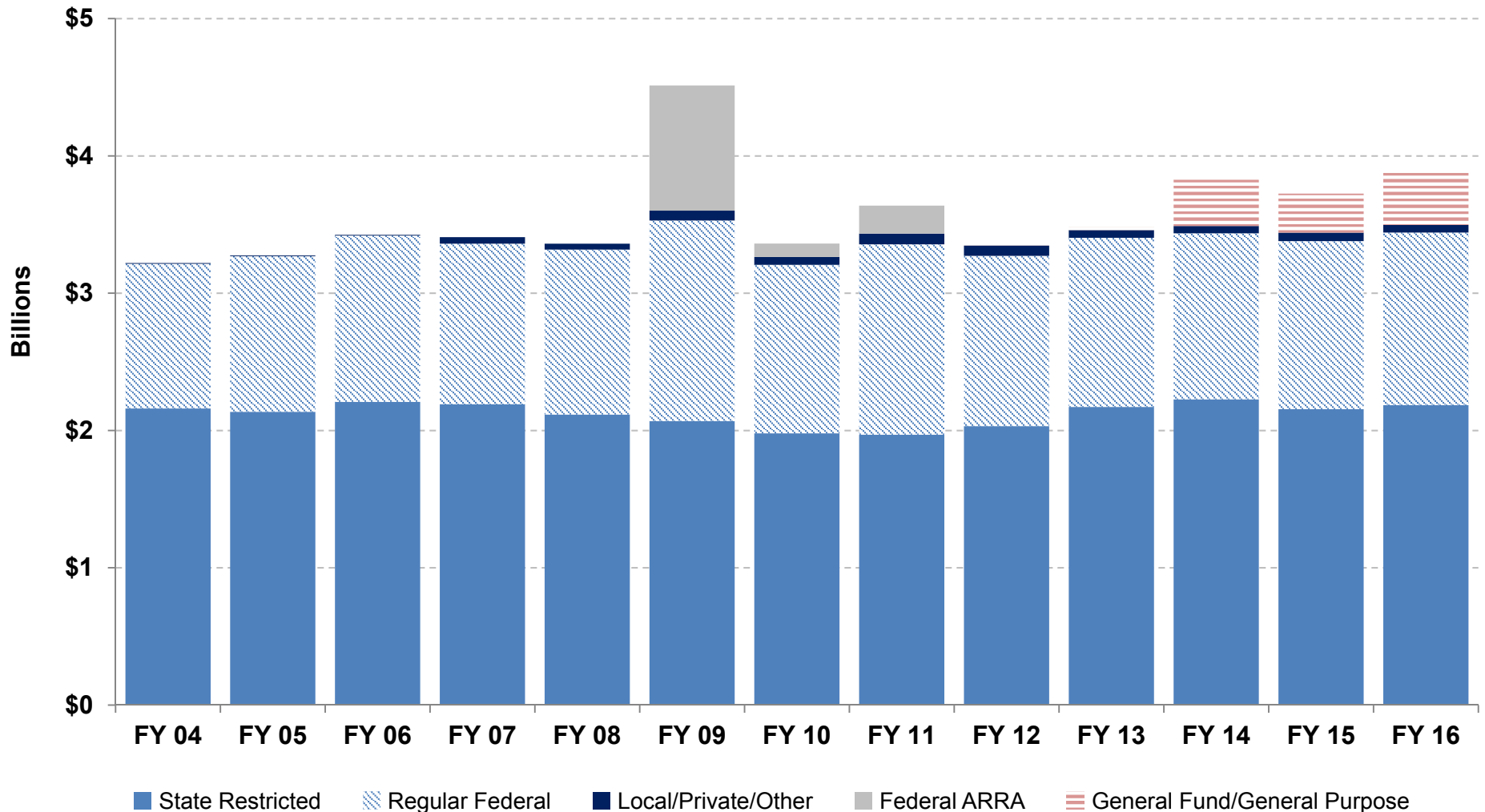
The FY 2016 foundation allowance for schools at the Minimum level is \$75 above the FY 2009 peak. For schools at the State Maximum level, it's \$320 below the FY 2009 peak. The "equity gap" between the two is down to \$778 per pupil.



Note: Does not include the foundation allowances of 37 hold harmless districts that are allowed to collect additional local millage revenue to maintain statutory foundation allowances above the State Guaranteed Maximum.

Michigan's Transportation Budget

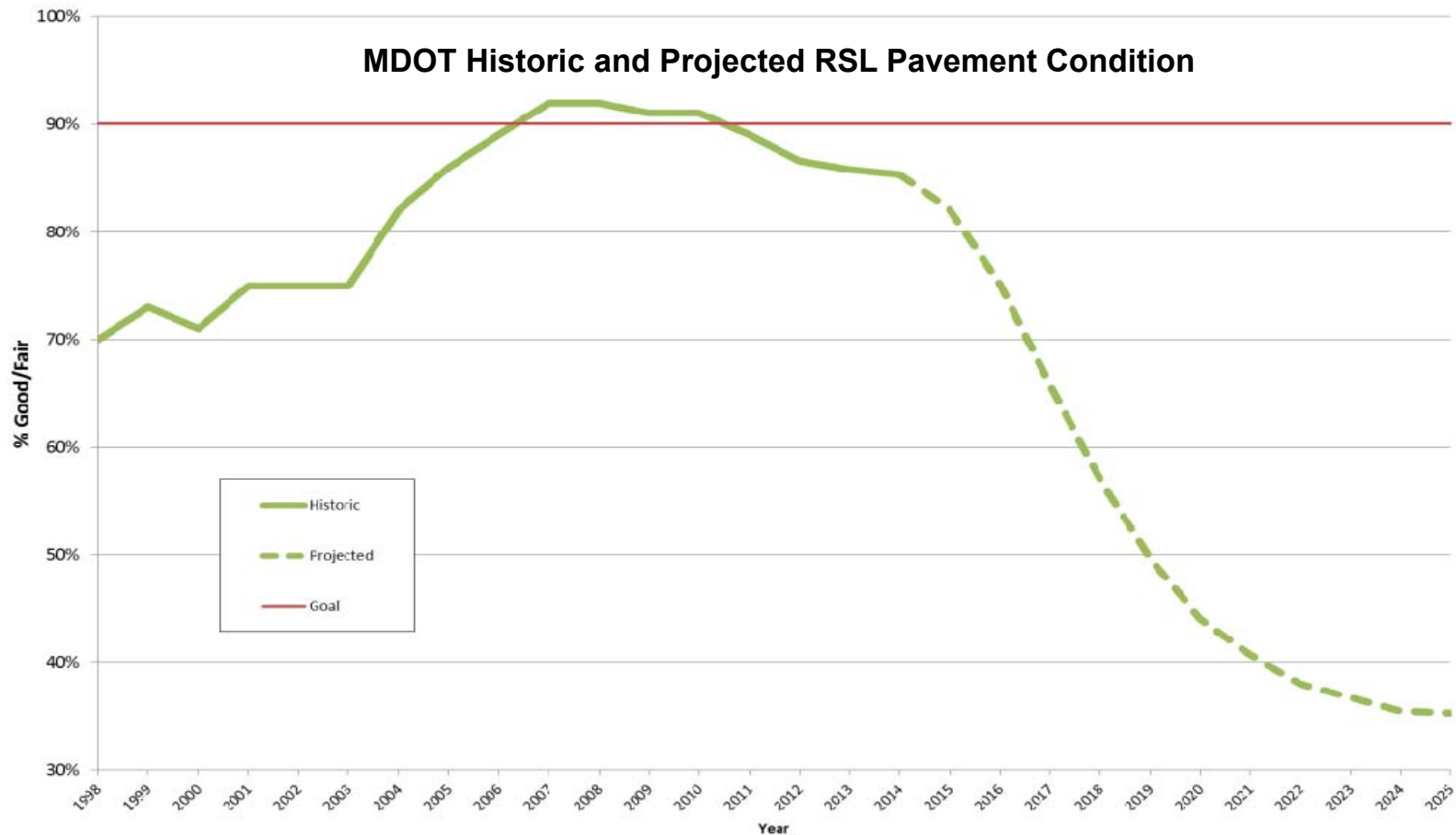
Excluding temporary federal stimulus funds and recent GF/GP allocations, total funding for transportation purposes has experienced minimal growth over the last decade.



ARRA: Federal American Recovery and Reinvestment Act of 2009

State Trunkline Pavement Condition Combined Freeway and Non-Freeway

Current revenue sources dedicated to transportation, mainly fuel and vehicle registration taxes, are insufficient to maintain the state's road system in fair/good condition.



Source: Michigan Department of Transportation, 2014-2018 Five-Year Transportation Program

**FY 2015-16
BUDGET CHANGES**

Major GF/GP Program Reductions and Fund Shifts: FY 2015-16 Budget

Budget Area: Funding Item	Millions of \$
Corrections: Assumed clinical and mental health service savings	(\$15.0)
Corrections: Fund shift with Special Equipment Fund revenue	(10.0)
DHHS: One-time increase state retainer savings from hospital provider tax	(92.9)
DHHS: Assumed Medicaid formulary savings	(18.8)
DHHS: Assumed savings from Medicaid Inspector General/Third Party Liability	(11.6)
DHHS: Fund shift with available federal TANF revenue for Adoption Subsidies	(10.0)
DHHS: Closure of W.J. Maxey Training School	(2.5)
TED: Film Incentive Program (remaining \$25.0 million designated as one-time, with \$19.1 million designated to compensate state retirement systems)	(13.0)
TED: Business Attraction and Community Revitalization Program	(5.6)

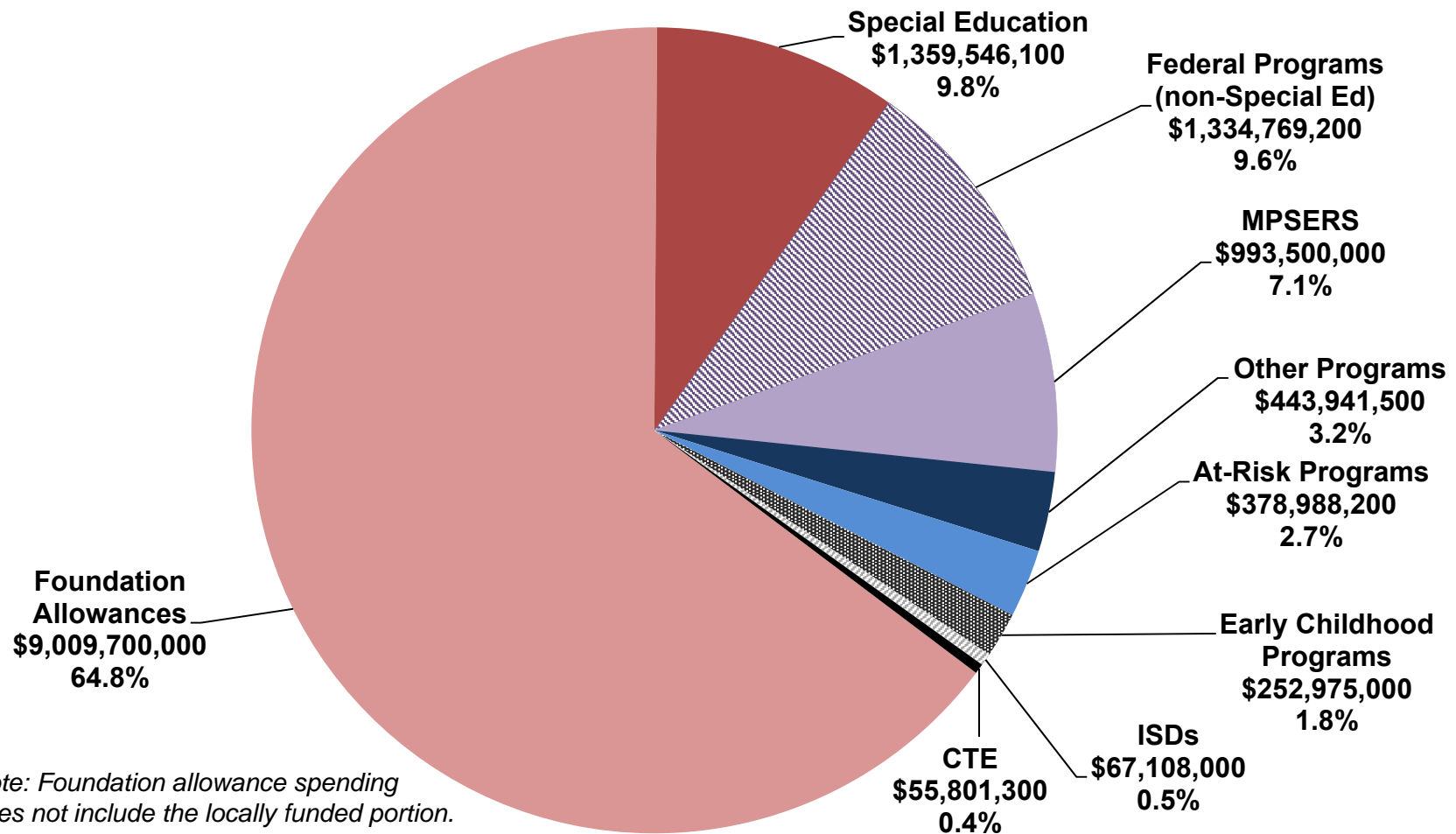
Note: Reductions are from FY 2014-15 levels after accounting for Executive Order (EO) 2015-5 and associated budget reductions.

Major GF/GP Program Increases: FY 2015-16 Budget

Budget Area: Funding Item	Millions of \$
Community Colleges: Operations (1.4%)	\$4.3
Community Colleges: Retirement cost reimbursement	17.2
Higher Education: University Operations (1.5% increase with 3.2% tuition cap)	20.1
DHHS: Health Kids Dental expansion (Kent/Oakland/Wayne, ages 0-12)	12.7
DHHS: Restore Graduate Medical Education and Rural Hospital EO reductions	7.0
State Police: Trooper and Motor Carrier schools	8.8
DTMB: Information Technology upgrades (including restoration of EO reduction)	4.5
DTMB: Building maintenance (including restoration of EO reduction)	11.5
Transportation programs (\$400 million total, of which \$258 million is one-time)	115.4
Treasury: Presidential primary costs (one-time)	10.0

FY 2015-16 School Aid Appropriations

A large portion of recent increases in the \$13.9 billion School Aid budget has been targeted for specific purposes purposes: MPSERS retirement costs, early childhood, at-risk, career and technical education (CTE), etc.

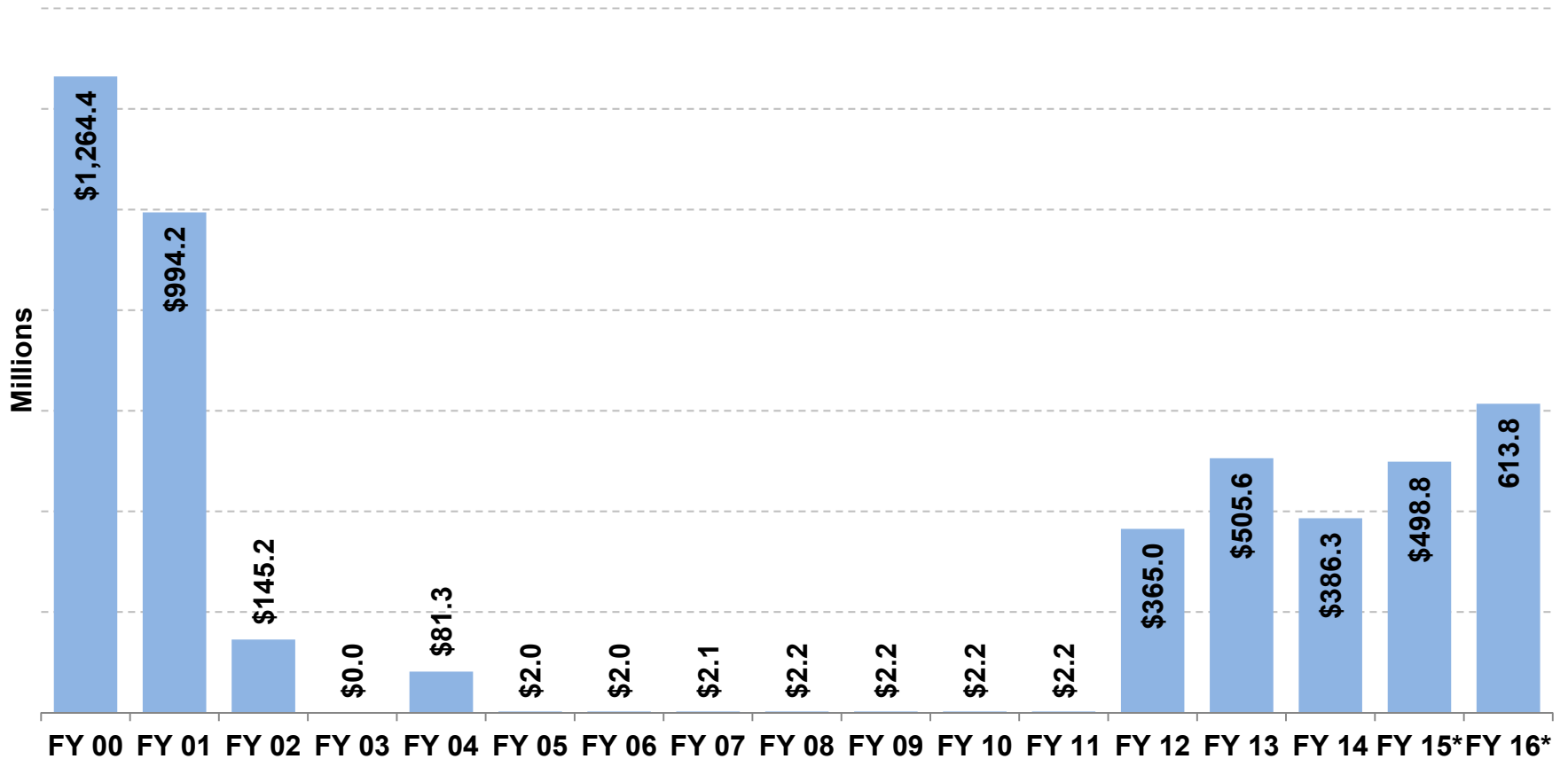


Major School Aid Budget Changes: FY 2015-16

- **Foundation Allowance** – Provides increases ranging from \$70-\$140 using the 2x formula distribution (districts at minimum foundation allowance level receive \$140).
- **Best Practices and District Performance** – Eliminated.
- **At-Risk Funding** – Increased by \$70.0 million.
- **Net \$25 Increase** – \$12.0 million included to ensure all districts receive at least \$25 net increase after adding Foundation and At-Risk increases and Best Practices and District Performance losses.
- **MPERS Retirement Unfunded Liability Costs (State Share)** – Up from \$677 million in FY 2014-15 to \$893 million for FY 2015-16.
- **Technology Readiness Infrastructure Grants** – Reduced from \$41.5 million to \$23.5 million.
- **Early Literacy** – New funding of \$26.4 million.
- **Career and Technical Education Programs** – Increased by \$20.0 million.

Budget Stabilization Fund Balance

The large BSF balance accumulated during the 1990's was quickly depleted in the early 2000's. The balance has been partially restored in recent years, including a \$95.0 million GF/GP deposit for FY 2015-16.

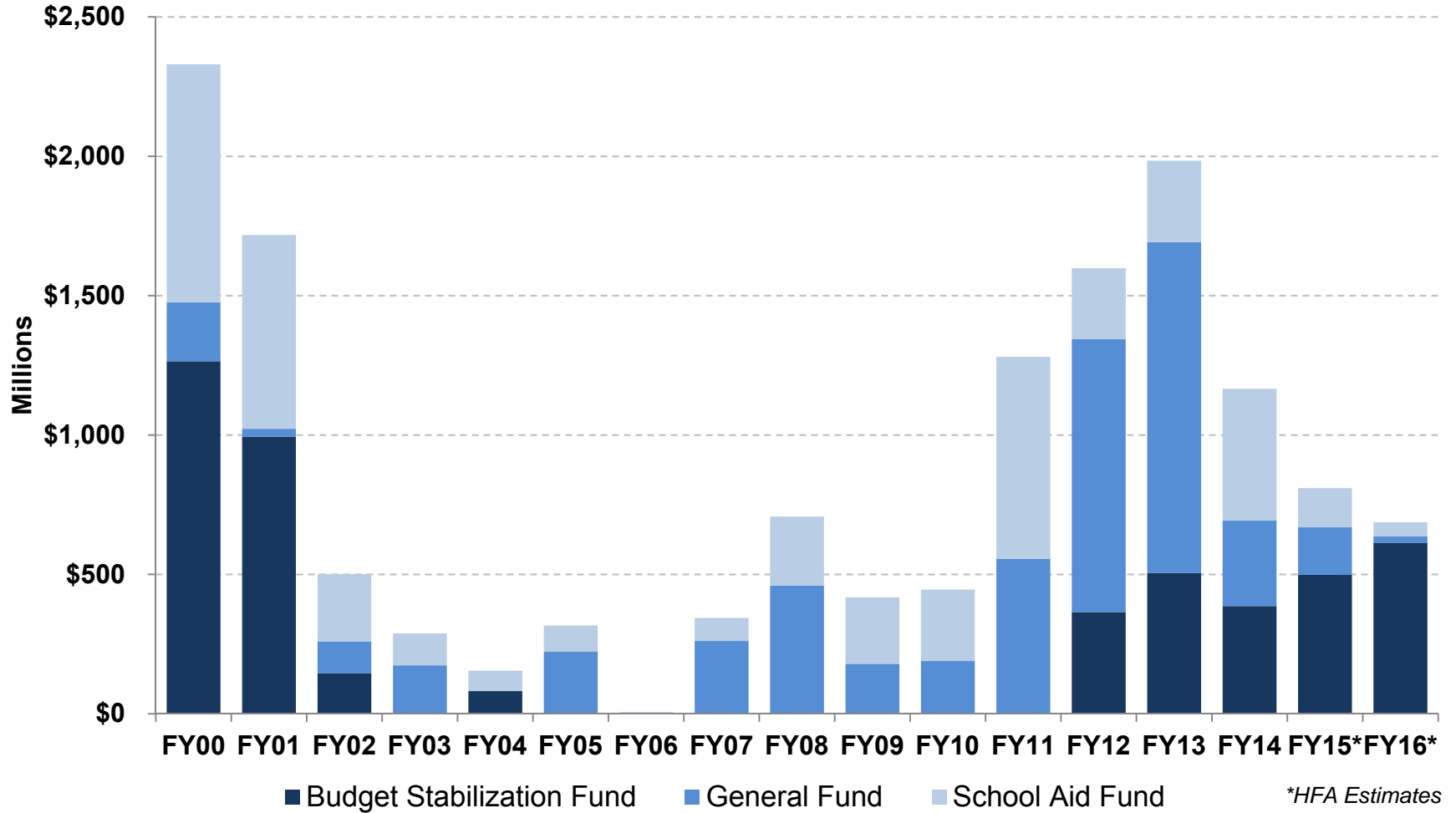


*HFA Estimate

Note: Reduction in balance for FY 2013-14 is due to state payment of \$195 million toward Detroit bankruptcy settlement; funds are to be repaid to BSF from state's share of tobacco settlement revenue over 20 years.

Combined Year-End Balances

Large year-end balances accumulated from FY 2011 to FY 2013 as revenue growth outpaced projections, allowing for substantial one-time expenditures. Outside of the BSF, those balances have now been depleted.



BUDGET OUTLOOK

May 2015 Consensus Revenue Estimates

(Dollars in Millions)

	FY 2015-16			FY 2016-17		
	Revenue Estimate	\$ Change from FY 2015	% Change from FY 2015	Revenue Estimate	\$ Change from FY 2016	% Change from FY 2016
General Fund/ General Purpose (GF/GP)	\$9,881.9	\$156.9	1.6%	\$10,121.5	\$239.6	2.4%
School Aid Fund	\$12,242.9	\$359.7	3.0%	\$12,598.8	\$355.9	2.9%
Total Revenue	\$22,124.8	\$516.7	2.4%	\$22,720.3	\$595.5	2.7%

Note: Revenue estimates assume no changes in state tax policy.

Major State Budget Pressures

- **Transportation**

- **\$400 million** GF/GP appropriated for road programs in FY 2015-16. Of that amount only **\$142 million** is classified as an ongoing appropriation, in order to meet minimum federal match needs.
- Plans considered by House and Senate over summer would permanently divert **\$600 to \$800 million** in GF/GP revenue for Transportation when fully phased in.

- **Personal Property Tax Reform**

- All state losses/costs directed to General Fund.
- Estimated net GF/GP revenue loss increases from **\$41 million** in FY 2015-16 to **\$308 million** in FY 2016-17 as larger personal property exemptions become effective.

Major State Budget Pressures

- **Medicaid Financing (Base Program)**
 - Federal guidance indicates that state's Use Tax on Medicaid Managed Care Organizations (MCOs) must be discontinued by the end of 2016 (3/4 of FY 2016-17 affected).
 - Automatic reversal of tax changes under current law (eliminate Use Tax on Medicaid MCOs, restore HICA rate from 0.75% to 1.0%) will leave General Fund budget hole of roughly **\$130 million** per year. Also reduces School Aid Fund revenue by about **\$200 million** per year.
 - Health Insurance Claims Assessment (HICA) sunsets at end of calendar year 2017; if assessment isn't extended, it would create an additional budget hole of about **\$320 million** per year.
 - State retainer from provider tax on hospitals was increased **by \$93 million** on one-time basis for FY 2015-16. Absent statutory extension, GF/GP backfill will be required for FY 2016-17

Major State Budget Pressures

- **Healthy Michigan Plan**

- Currently 100% federally funded; 5% match costs begin January 1, 2017, phasing up to 10% match costs beginning January 1, 2020.
- Projected costs of **\$120 million** GF/GP in FY 2016-17, increasing to roughly **\$350 million** in FY 2020-21. (Reserve fund included in original Executive proposal was not created.)
- Discontinuing expanded program and shifting mental health, prison health care, and other costs back to state would cost **\$250 million** or more per year.
- Healthy Michigan Plan sunsets if second waiver is not approved by federal government by December 31, 2015 or when/if costs to state outweigh savings.

Major State Budget Pressures

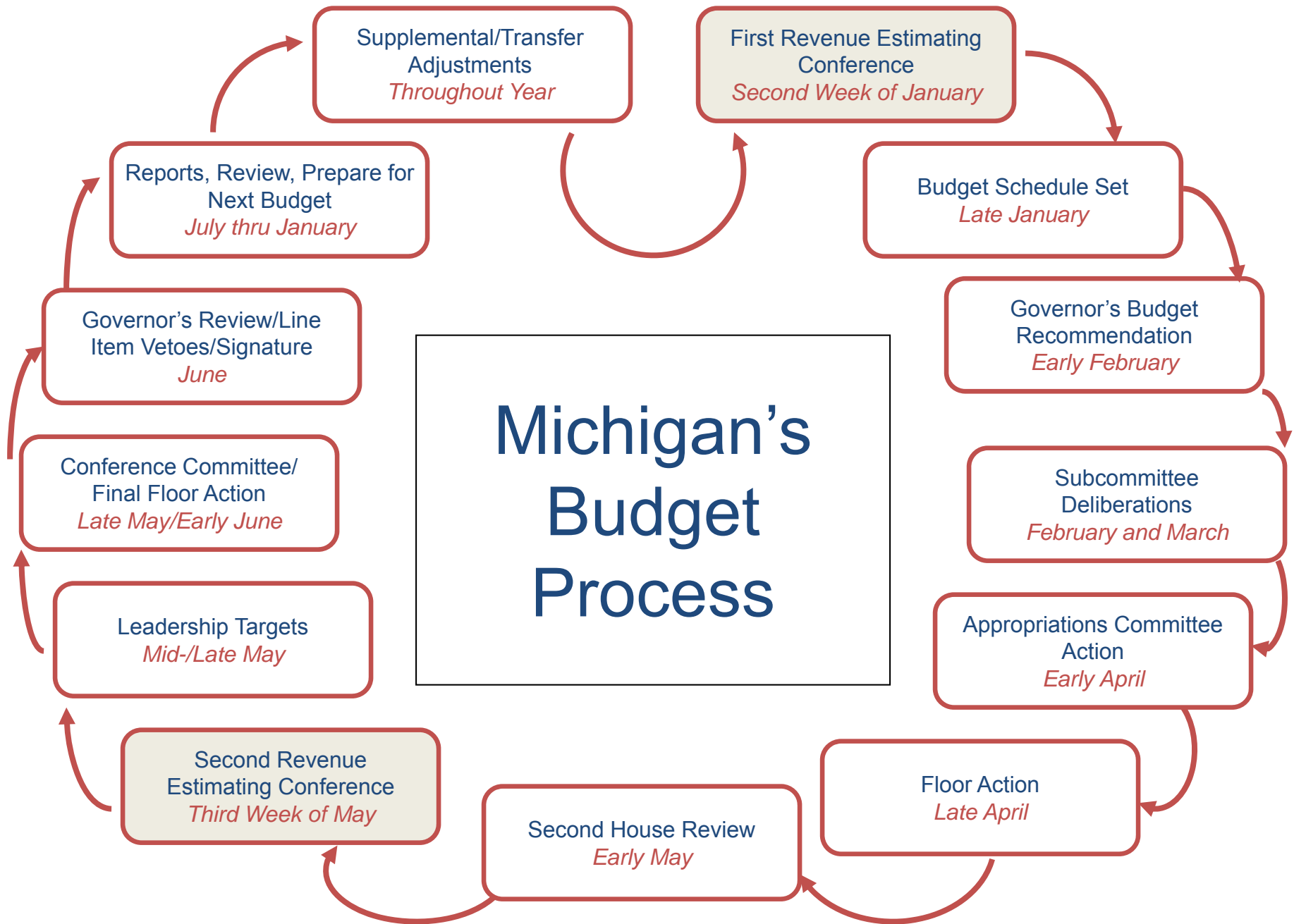
▪ School Aid

- MPSERS retirement unfunded liabilities: state-level costs projected to increase by roughly **\$100 million** for FY 2016-17.
- Loss of Use Tax on Medicaid MCOs: **\$200 million** per year.
- Potential need for state funds to address distressed school districts. (**\$50 million** balance available for FY 2015-16.)

▪ Budget Stabilization Fund

- Estimated FY 2015-16 balance of **\$614 million** equates to 2.8% of combined annual General Fund and School Aid Fund revenue. Statutory cap is 10%.
- Based on statutory formula and projected economic growth from May 2015 consensus revenue estimating conference, FY 2016-17 deposit would be **\$119 million**.

BUDGET PROCESS



House Fiscal Agency Budget Roles

- **Analytical**
 - Prepare budget documents providing both summary-level and detailed information on proposed budget changes under Executive Budget and subsequent legislative versions
 - Gather objective information and analyze data related to specific budget issues of interest to legislators
 - Assist in development of alternative budget proposals; facilitate legislative decision making
 - Provide analyses of non-appropriations bills, including estimated fiscal impacts on state and local governments
- **Procedural**
 - Post meeting notices; clerk subcommittee meetings; prepare meeting agendas/minutes
- **Technical**
 - Prepare substitute appropriation bills based on legislative decision making
 - Prepare amendments proposed during subcommittee, committee, and floor debate
 - Prepare supplemental appropriations bills and legislative transfer documents (as well as associated summaries/explanations)
- **All tasks are completed in compliance with statutory requirements for nonpartisanship and confidentiality.**

**For more information about the
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