

Michigan State University's Legislative Leadership Program

State Budget Overview by

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SENATE FISCAL AGENCY**

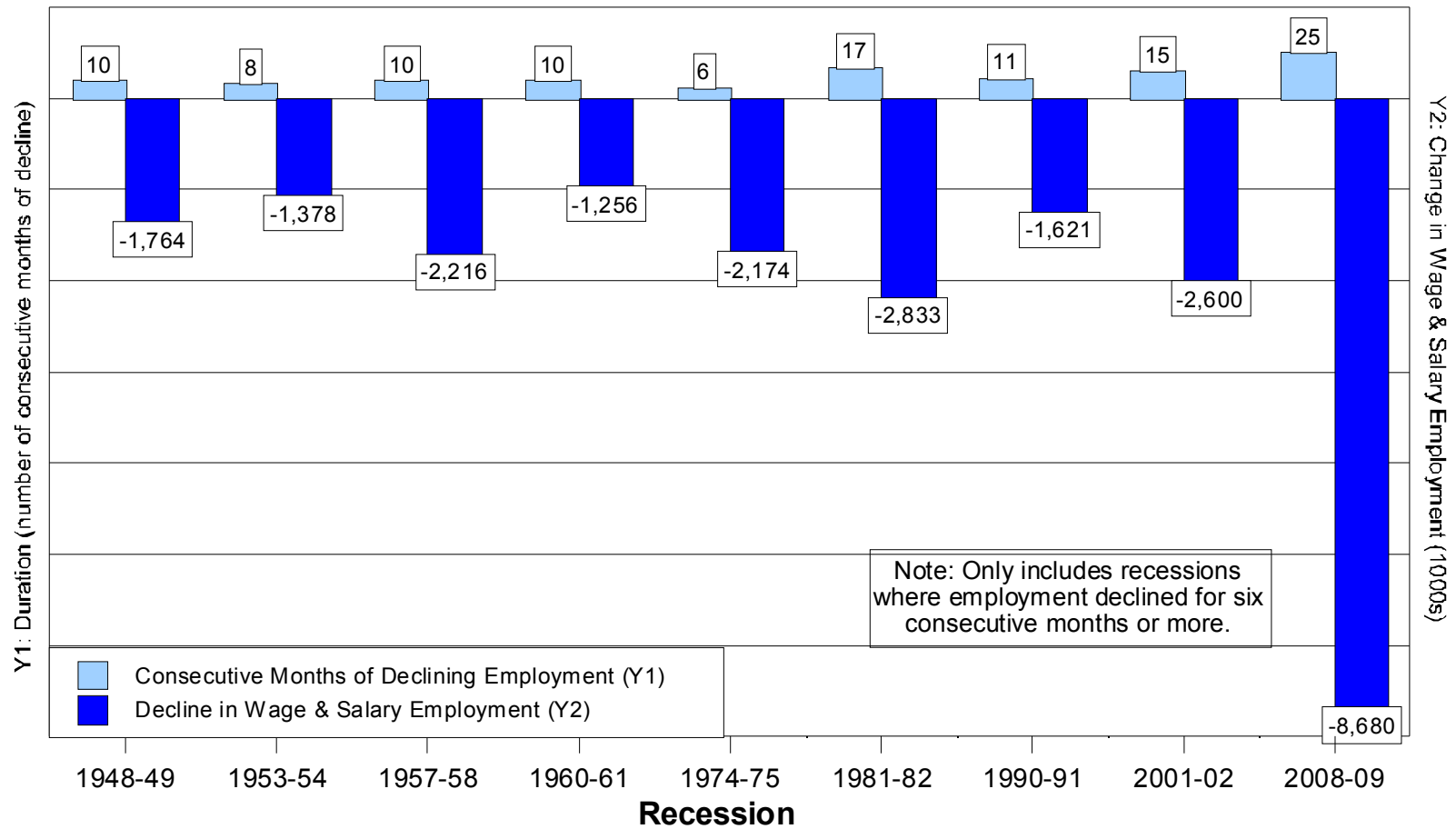


December 5, 2016

<http://www.senate.michigan.gov/sfa/>

Figure 1

Magnitude and Duration of Post-World War II Recessions 2008-09 Recession Longer and More Severe



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

Figure 2

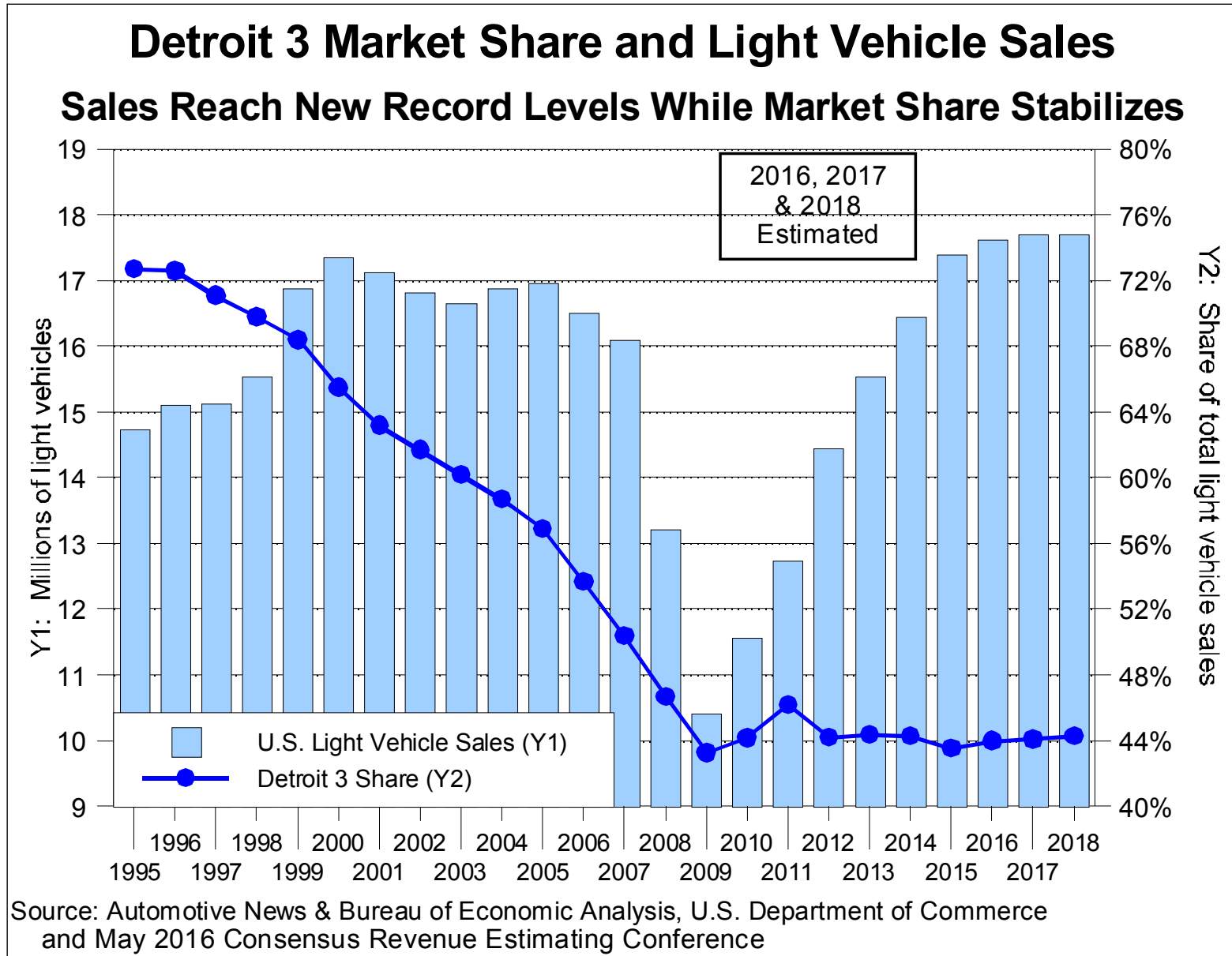


Figure 3

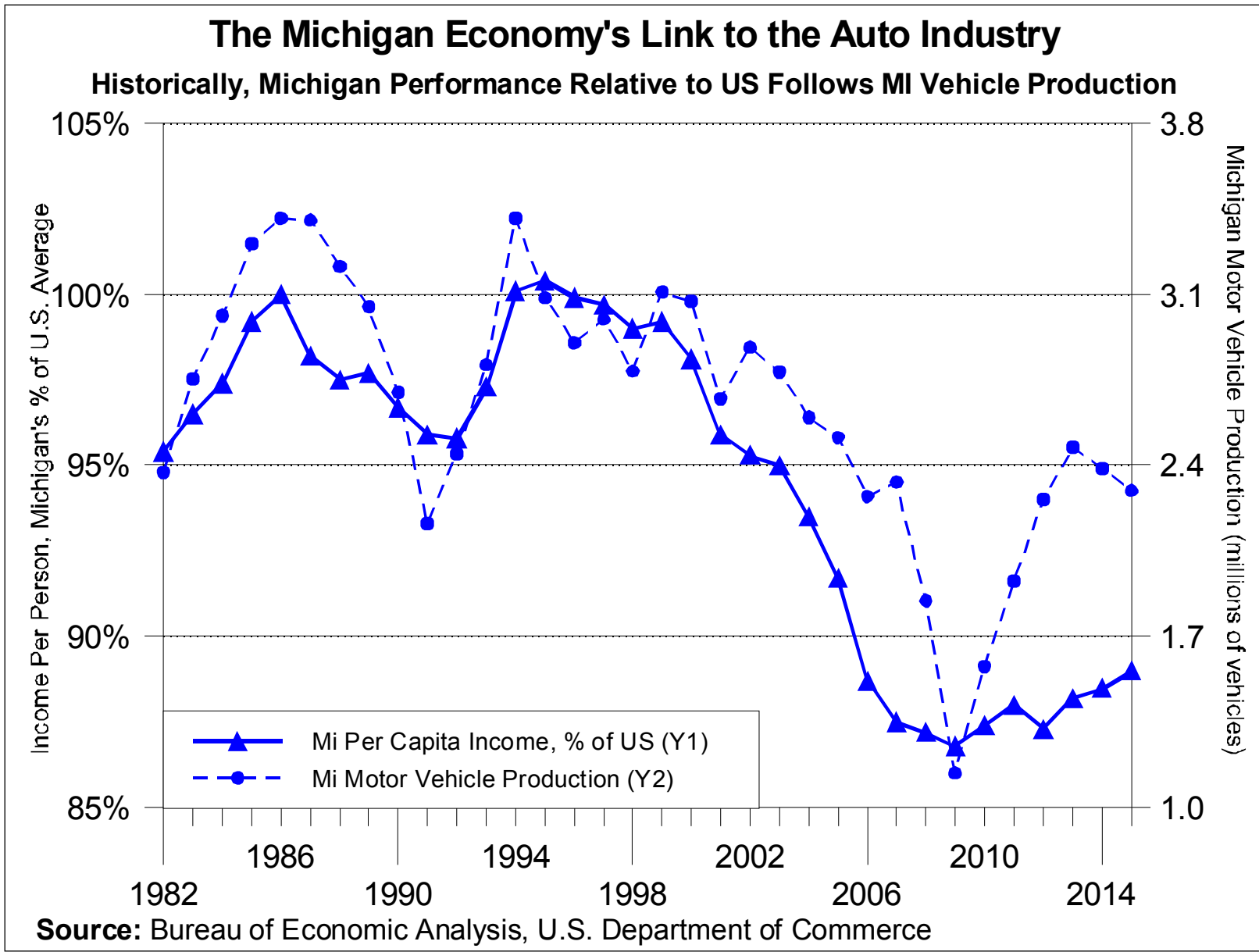
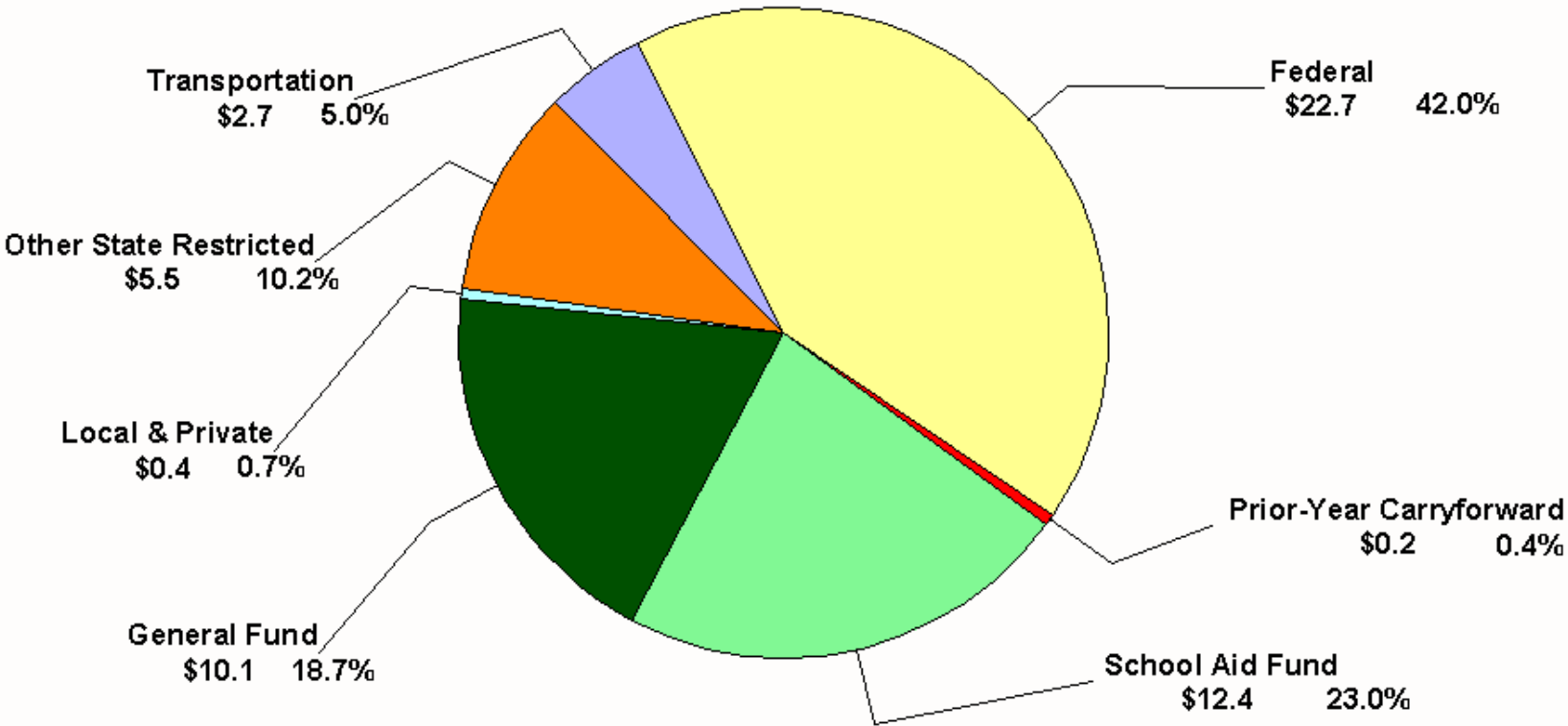


Figure 4

FY 2016-17 Estimated Revenue Sources for State Appropriations (Billions of Dollars)



Total Revenue = \$54.1 billion

General Fund and School Aid Fund are
May 17, 2016 Consensus Revenue Estimates

Figure 5

FY 2016-17 General Fund Ongoing Revenue Sources (Millions of Dollars)

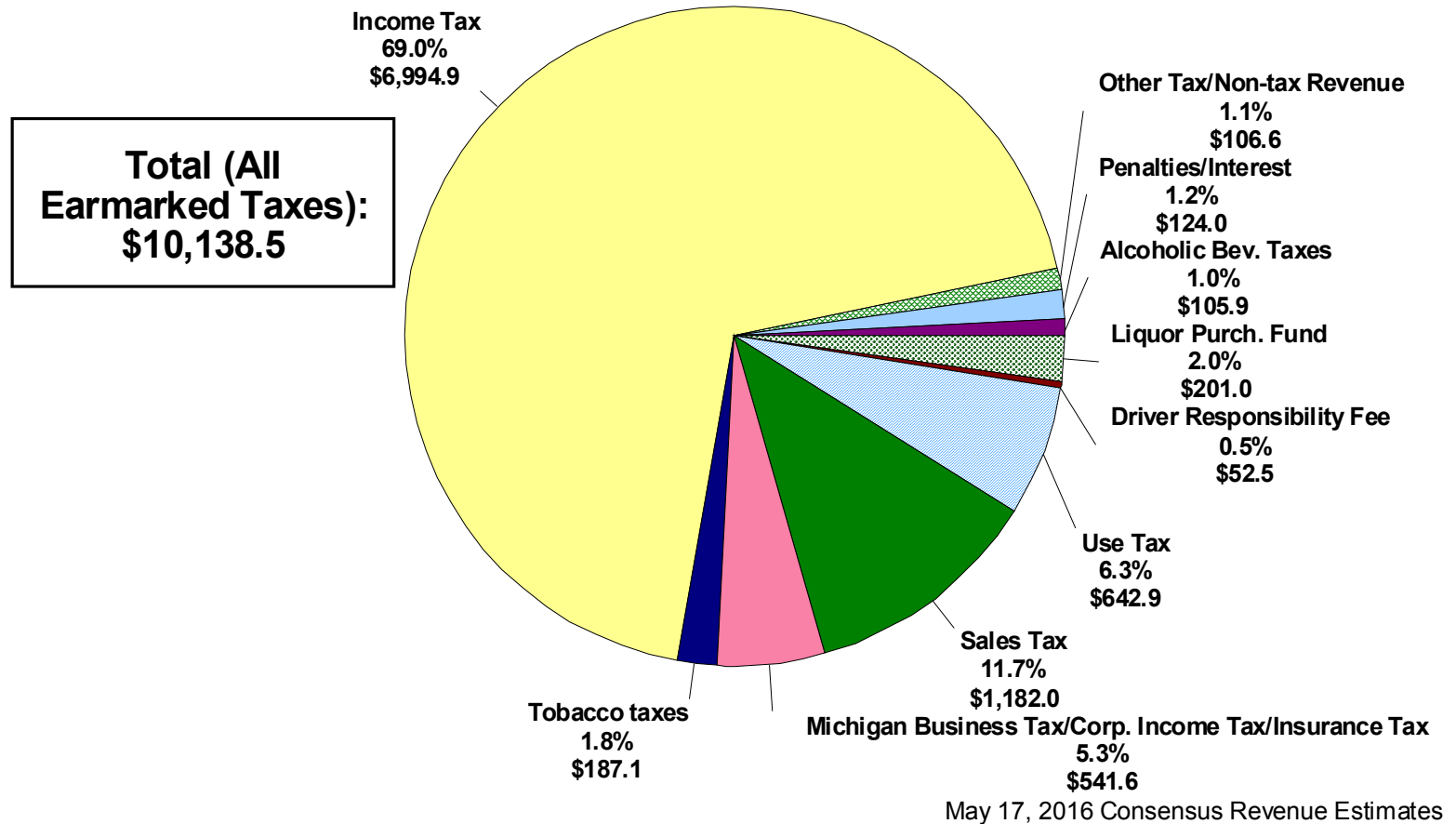
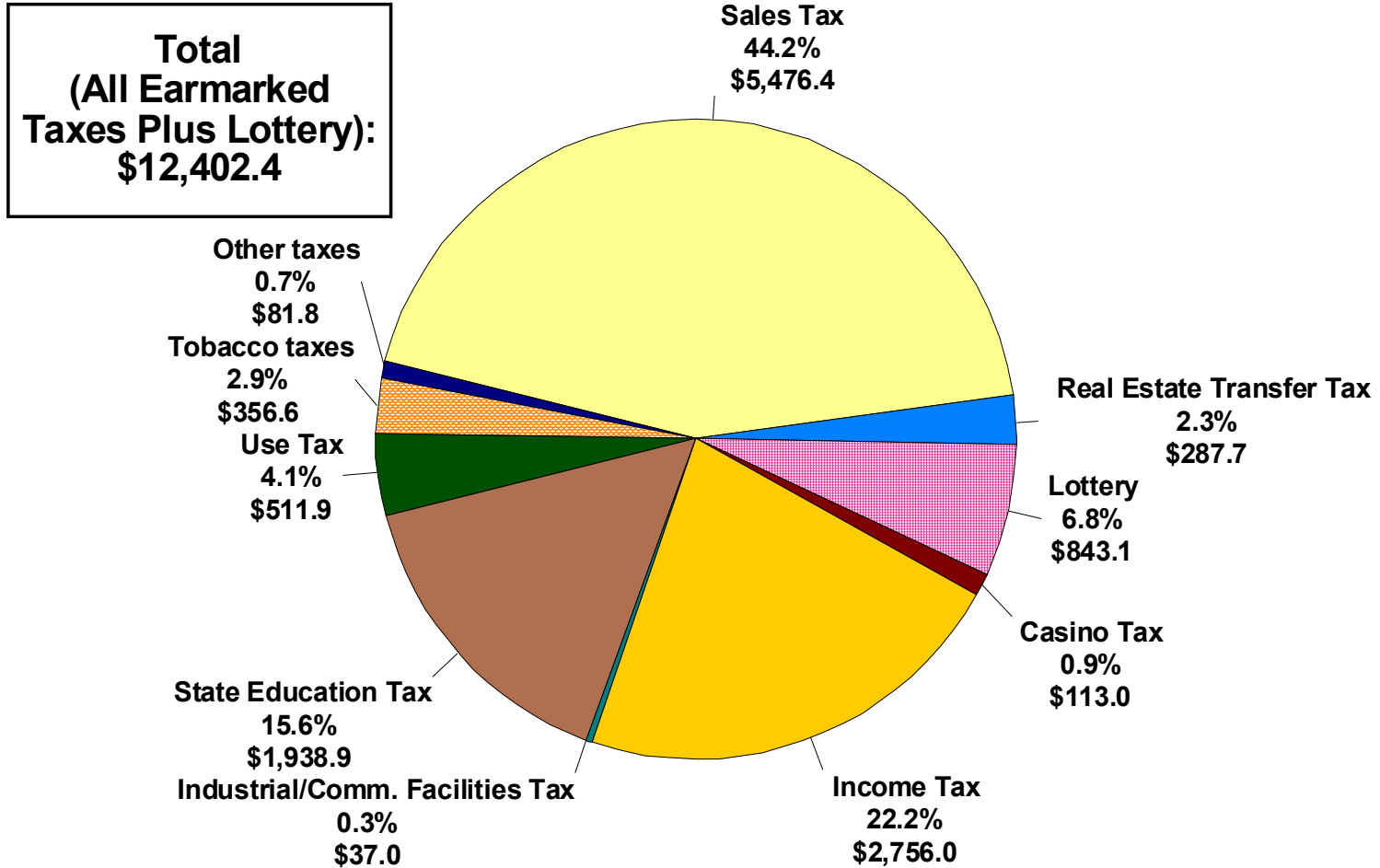


Figure 6

FY 2016-17 School Aid Fund Ongoing Revenue Sources (Millions of Dollars)



May 17, 2016 Consensus Revenue Estimates

BUDGET TIME FRAME

JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE
LEGISLATIVE ACTION					
Governor's State of the State is delivered and budget recommendation is prepared for submission to the Legislature.	Governor's budget is delivered, legislative action begins.	Subcommittees make decisions, Appropriations Committee meets, floor votes take place.			Budget targets are negotiated between the Executive and Legislature. Conference Committees meet.
SENATE FISCAL AGENCY ACTION					
First Consensus Revenue Estimating Conference (CREC) is scheduled. SFA prepares applicable documents, schedules future hearings, and provides background briefings.	SFA presents analysis of Governor's budget. Subcommittee hearings begin.	Decision documents are prepared, SFA works with Subcommittee chairs and members to develop proposals, substitute bills are prepared and analyzed, amendments are drafted. SFA revenue forecast is released. Second CREC is held in May.			SFA provides staff support to Conference negotiations, and prepares and analyzes Conference Reports.

JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
LEGISLATIVE ACTION					
Governor signs appropriation bills and issues vetoes. Veto overrides are considered. Current-year budget adjustments are considered. Fiscal year ends September 30.			New fiscal year begins October 1. Appropriations Committee considers year-end transfers. Budget implementation legislation is considered.		
SENATE FISCAL AGENCY ACTION					
Analysis of initial legislation is completed. Initial Appropriations Report is distributed. Year-end budgetary adjustments and lapse estimates are completed.			SFA Year-End Appropriations Report is generated. SFA Economic and Revenue Forecast is released. Mid-year budget adjustments (transfers, supplementals, Executive Orders) are analyzed as needed.		

Mandated Budget Requirements and Restrictions State Budget Process Constitutional Requirements

- Budget Submission Date (Sec. 18 of Article V)
- Balanced Budget Requirement (Sec. 31 of Article IV and Sec. 18 of Article V)
- Revenue Limit (Sec. 26 of Article IX)
- Expenditure Limit (Sec. 28 of Article IX)
- State and Local Spending Split (Sec. 30 of Article IX)
- Appropriation Reductions (Sec. 20 of Article V)
- Line Item Veto (Sec. 19 of Article V)
- Limits on State General Obligation Debt (Sec. 15 of Article IX)

Mandated Budget Requirements and Restrictions State Budget Process Statutory Requirements

Public Act 431 of 1984 provides the basic statutory framework for the State budget process. Some of the major provisions include:

- Role of State Budget Director
- Fiscal Year Period
- Budget Submission Date
- Consensus Revenue Estimating Conference
- Countercyclical Budget and Economic Stabilization Fund
- Operating Funds
- Implementation of Constitutional Requirements

Mandated Budget Requirements and Restrictions Boilerplate Requirements

Intent language contained in appropriation bills is referred to as boilerplate. Boilerplate language is used to accomplish the following objectives:

- Imposes Conditions on Appropriations
- Reporting Requirements
- Imposes Specific Spending Criteria

State Budget Terms

Gross Appropriations: Total level of State appropriations from all fund sources

Adjusted Gross Appropriations: Total Gross Appropriations excluding interdepartmental grants and transfers

State Restricted Revenue Appropriations: State taxes or fees that are designated for a specific purpose in the budget by either constitutional or statutory requirements

General Fund/General Purpose Appropriations: Unrestricted portion of State budget fund sources

State Spending from State Resources Appropriations: Total level of State appropriations excluding Federal, local, and private funding sources; includes only State Restricted and General Fund/General Purpose appropriations

FTE: Full-time equated employee

Boilerplate: Intent language in appropriation bills

Table 1

ADJUSTED GROSS, STATE SPENDING FROM STATE RESOURCES, AND GF/GP INITIAL APPROPRIATIONS for FY 2016-17 (Billions of Dollars)			
Department/Budget Area	Adjusted Gross	State Spending	GF/GP
Health and Human Services	\$24.8	\$6.7	\$4.4
K-12 Education	14.2	12.3	0.2
Transportation	4.1	2.7	0.01
Corrections	2.0	2.0	2.0
Higher Ed/Community Colleges	<u>2.0</u>	<u>1.9</u>	<u>1.4</u>
Subtotal	\$47.1	\$25.6	\$8.0
All Other	7.0	5.4	2.0
Total	\$54.0	\$31.0	\$10.0

Table 2

SUMMARY OF FY 2016-17 APPROPRIATION CHANGES		
	Gross	GF/GP
FY 2015-16 Year-To-Date Appropriation¹⁾	\$54,320,118,200	\$10,149,633,800
<u>Changes for FY 2016-17:</u>		
New Programs	\$110,597,200	\$28,669,000
Program Increases.....	1,743,696,650	567,681,100
Program Eliminations/Reductions.....	(1,057,652,050)	(400,792,100)
Major Fund Shifts Affecting GF/GP.....	0	(253,269,100)
Other Technical Program Adjustments	(347,472,200)	(189,869,500)
Economic Increases.....	143,003,700	73,019,400
Unclassified Salaries Adjustments.....	<u>466,500</u>	<u>251,000</u>
Total Changes.....	\$592,639,800	(\$174,310,200)
FY 2015-16 INITIAL APPROPRIATION.....	\$54,912,758,000	\$9,975,323,600
¹⁾ Appropriation as of July 1, 2016.		

Figure 7

Appropriations by Source of Funds FY 2016-17 Initial Gross Appropriations

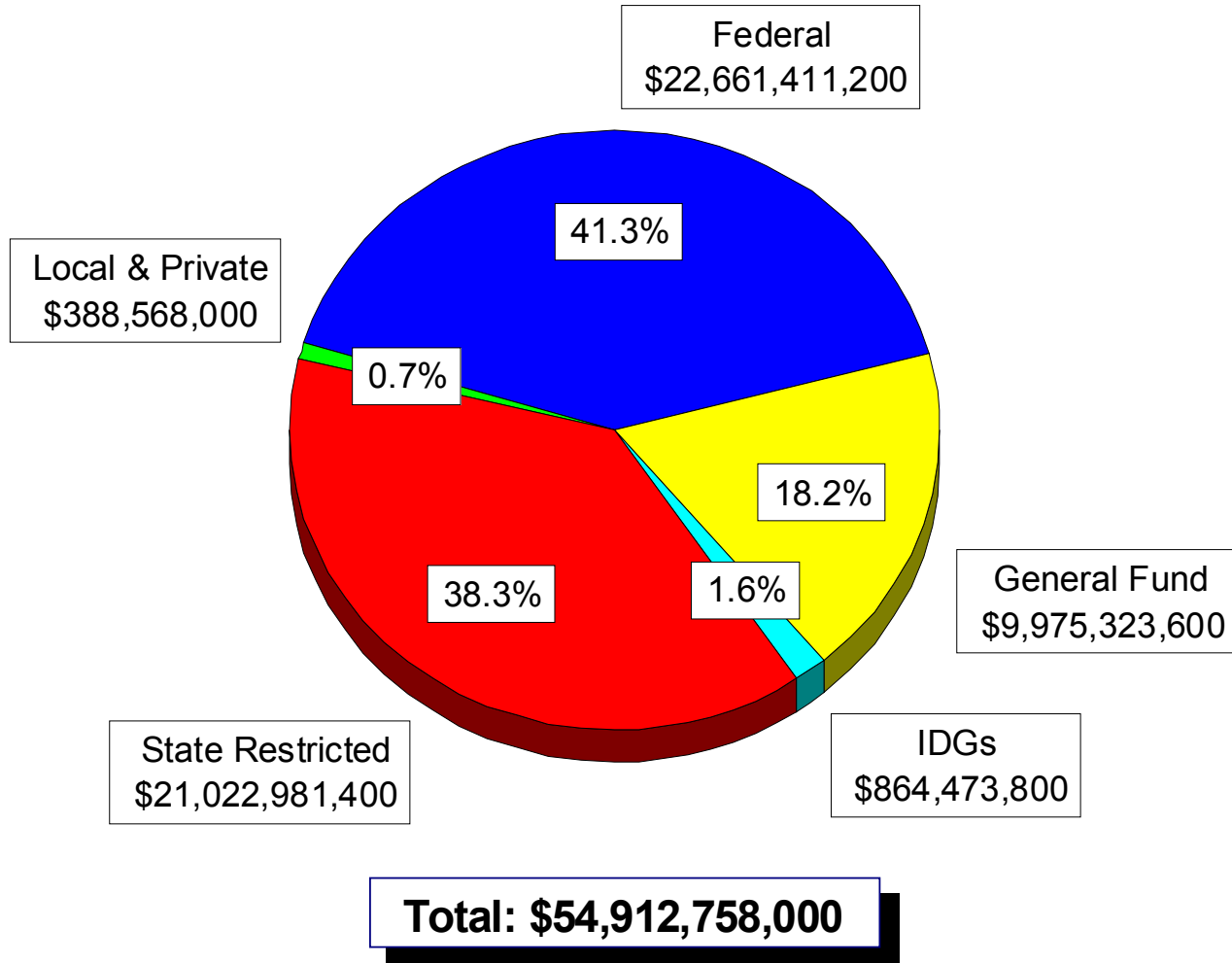


Figure 8

Adjusted Gross FY 2016-17 Initial Appropriations

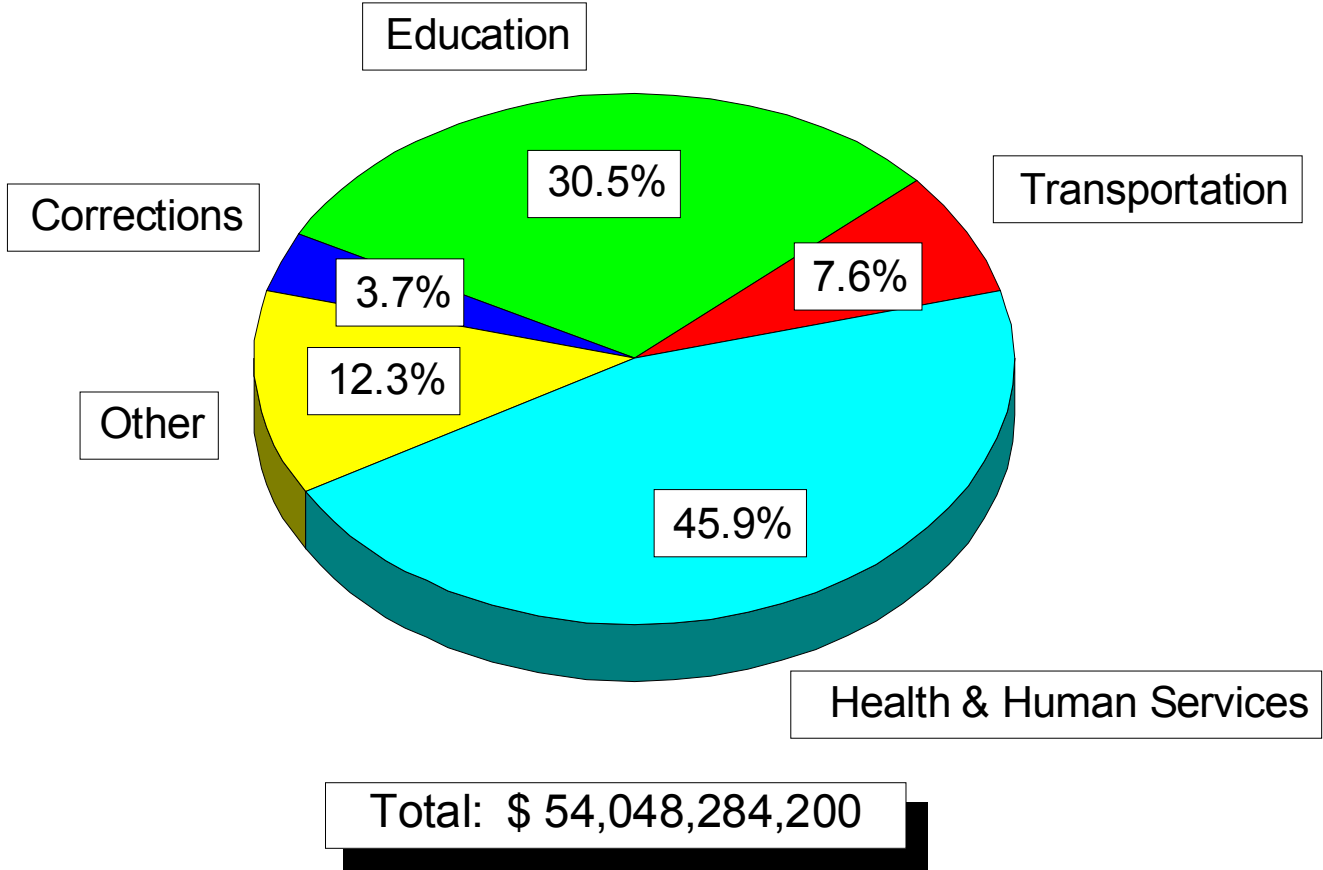


Table 3

INITIAL ADJUSTED GROSS APPROPRIATIONS FY 2016-17	
<u>Department/Budget Area</u>	
Health and Human Services	\$24,828,323,100
School Aid	14,161,842,100
Transportation	4,110,490,200
Corrections	2,002,729,000
Higher Education	1,582,640,400
Treasury-Revenue Sharing	1,228,982,700
Talent and Economic Development.....	1,145,994,300
State Police	622,895,700
Technology, Management, and Budget....	607,137,600
Treasury-Operations.....	507,860,900
Environmental Quality	504,323,700
Natural Resources	396,878,200
Community Colleges	395,925,600
Licensing and Regulatory Affairs	371,138,600
Education.....	331,975,200
Judiciary	296,684,000
State	228,015,600
Military and Veterans Affairs.....	173,998,400
Legislature	141,903,600
Treasury-Debt Service.....	137,037,000
Agriculture and Rural Development.....	93,778,100
Attorney General	72,496,100
Insurance and Financial Services.....	65,549,600
Legislative Auditor General	18,093,300
Civil Rights.....	15,954,900
Executive	5,636,300
TOTAL APPROPRIATIONS	\$54,048,284,200

Figure 9

General Fund/General Purpose FY 2016-17 Initial Appropriations

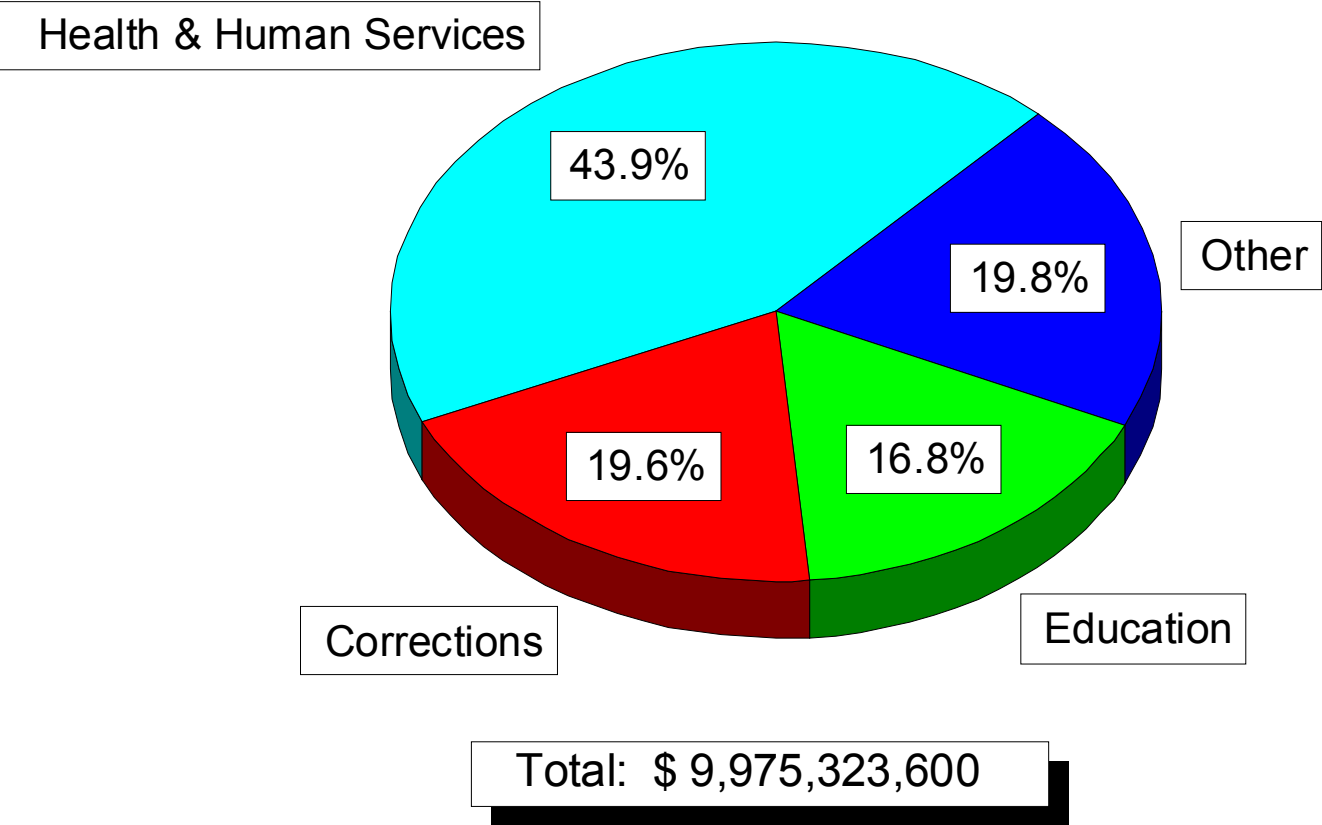


Table 4

INITIAL GF/GP APPROPRIATIONS FY 2016-17	
<u>Department/Budget Area</u>	
Health and Human Services	\$4,374,548,300
Corrections	1,951,957,900
Higher Education	1,243,904,500
Technology, Management, and Budget	485,518,600
State Police	402,662,800
School Aid	218,900,000
Judiciary	189,157,400
Talent and Economic Development	179,388,900
Legislature	137,227,800
Treasury-Debt Service	137,037,000
Community Colleges	135,510,800
Treasury-Operations	98,408,800
Education	76,181,200
Military and Veterans Affairs	55,243,600
Agriculture and Rural Development	49,926,900
Environmental Quality	47,736,400
Licensing and Regulatory Affairs	43,721,100
Attorney General	42,840,500
Natural Resources	39,910,000
State	22,109,600
Legislative Auditor General	16,123,900
Civil Rights	13,021,300
Transportation	8,500,000
Executive	5,636,300
Insurance and Financial Services	150,000
Treasury-Revenue Sharing	0
TOTAL GF/GP APPROPRIATIONS	\$9,975,323,600

Table 5

FULL-TIME EQUATED POSITIONS FY 2015-16 VERSUS FY 2016-17				
Department/Budget Area	FY 2015-16 Year-to-Date Positions	FY 2016-17 Initial Positions	Position Change	Percent Change
Agriculture & Rural Development	454.0	473.0	19.0	4.2%
Attorney General.....	518.5	527.0	8.5	1.6
Civil Rights.....	129.0	129.0	0.0	0.0
Corrections	14,174.3	13,803.9	(370.4)	(2.6)
Education.....	588.5	597.5	9.0	1.5
Environmental Quality.....	1,224.0	1,232.0	8.0	0.7
Executive	74.2	74.2	0.0	0.0
Health & Human Services.....	15,437.0	15,570.5	133.5	0.9
Insurance & Financial Services	337.0	336.5	(0.5)	(0.1)
Judiciary.....	495.0	510.0	15.0	3.0
Licensing & Regulatory Affairs.....	2,164.3	2,170.3	6.0	0.3
Military & Veterans Affairs	888.5	898.5	10.0	1.1
Natural Resources	2,229.8	2,236.8	7.0	0.3
State	1,587.0	1,587.0	0.0	0.0
State Police.....	3,131.0	3,226.0	95.0	3.0
Talent & Economic Development	1,613.0	1,609.0	(4.0)	(0.2)
Technology, Management, & Budget	2,844.0	2,877.0	33.0	1.2
Transportation.....	2,912.3	2,912.3	0.0	0.0
Treasury (Operations)	1,901.5	1,906.5	5.0	0.3
TOTAL POSITIONS	52,702.9	52,677.0	(25.9)	(0.04%)
Note: Full-Time Equated classified positions include exempt positions in Judiciary.				

Figure 10

Full-Time Equated Classified Positions FY 2016-17 Initial Appropriations

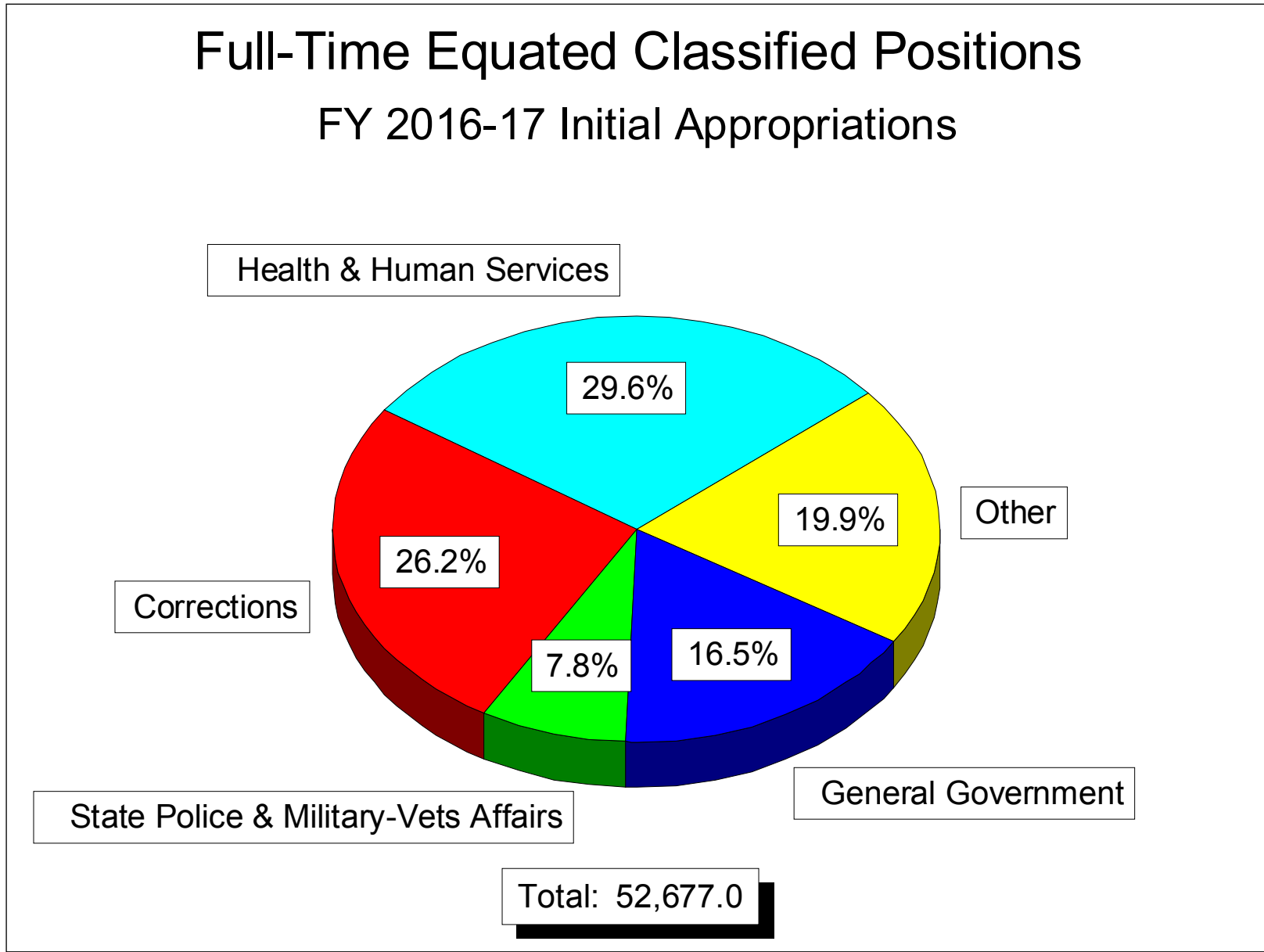
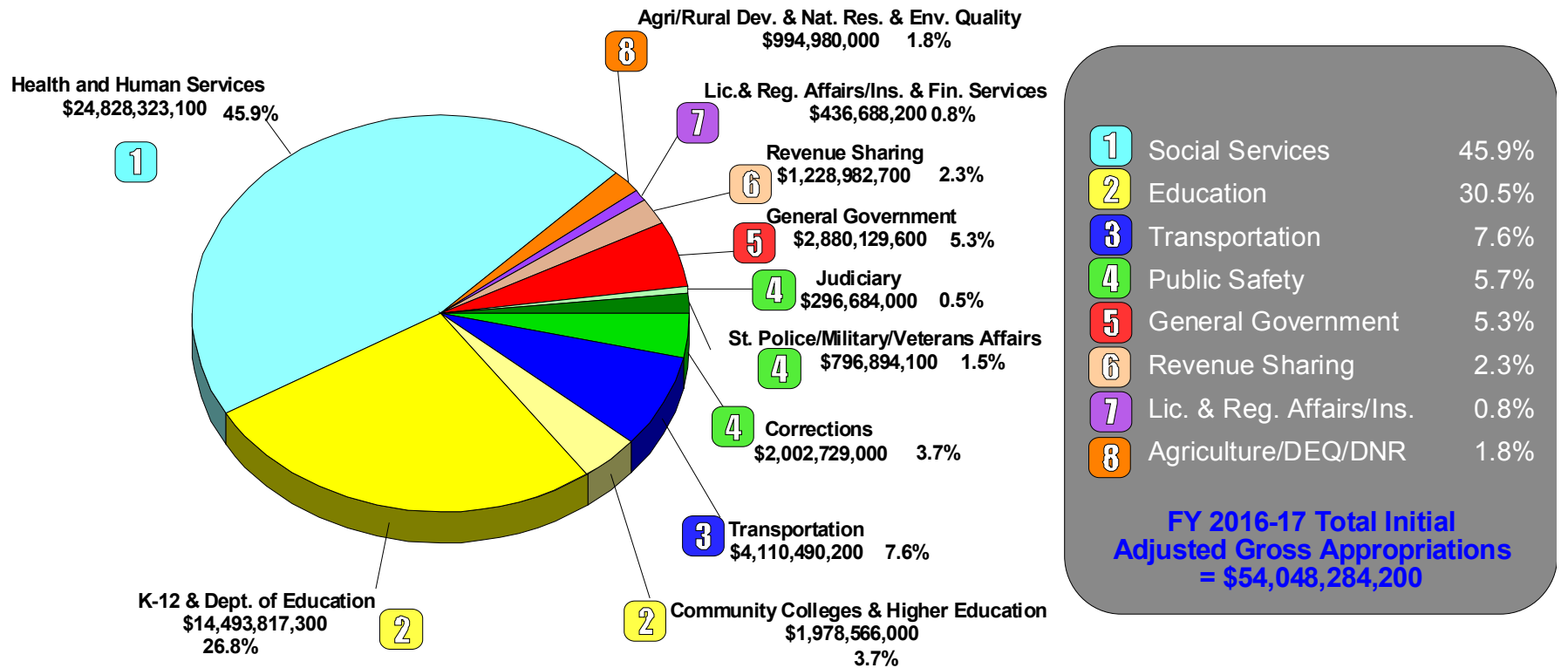


Figure 11

Where State of Michigan Tax Dollars Are Spent Fiscal Year 2016-17 Initial Adjusted Gross Appropriations



Senate Fiscal Agency - July 1, 2016

Table 6

TOTAL ACCUMULATED PENSION UNFUNDED LIABILITIES												
Fiscal Year	MPSERS ¹⁾ : BASIC/MIP		MPSERS ¹⁾ : HYBRID		STATE EMPLOYEES		STATE POLICE		JUDGES		LEGISLATIVE	
	Unfunded Liability	Funded Ratio	Unfunded Liability	Funded Ratio	Unfunded Liability	Funded Ratio	Unfunded Liability	Funded Ratio	Unfunded Liability	Funded Ratio	Unfunded Liability	Funded Ratio
2005-06	6,141,000,000	87.5	---	---	1,909,000,000	85.1	181,700,000	86.9	(39,100,000)	116.0	(940,000)	101.0
2006-07	5,771,000,000	88.7	---	---	1,818,000,000	86.2	192,700,000	86.7	(53,900,000)	121.8	(4,437,000)	103.0
2007-08	8,931,000,000	83.6	---	---	2,363,000,000	82.8	230,600,000	84.6	(56,700,000)	123.0	(590,000)	100.0
2008-09	11,982,000,000	78.9	---	---	3,127,000,000	78.0	295,900,000	80.7	(50,70,000)	120.7	5,631,000	97.0
2009-10	17,633,400,000	71.1	---	---	4,078,100,000	72.6	392,300,000	75.4	(32,700,000)	113.0	21,184,000	88.2
2010-11	22,389,000,000	64.7	---	---	5,385,000,000	65.5	489,800,000	69.9	(15,100,000)	106.0	31,907,000	82.0
2011-12	24,266,000,000	61.3	\$6,225,000	82.1%	6,207,100,000	60.3	601,900,000	64.0	3,800,000	98.5	43,550,000	76.0
2012-13	25,796,200,000	59.6	(941,000)	101.4	6,210,100,000	60.3	654,900,000	62.0	12,256,000	95.1	45,978,000	74.6
2013-14	26,478,976,000	59.9	(11,786,000)	110.4	6,211,035,000	61.6	666,583,000	63.0	10,884,000	95.8	56,995,000	70.4
2014-15	26,721,248,000	60.5	(23,000)	100.0	5,820,912,000	64.2	654,205,000	64.7	7,914,000	96.9	N/A	---

Notes: FY 2014-15 Total Accrued Unfunded Liability for pensions (excluding Legislative) equals \$33,204,256,000. Negative numbers in the unfunded liability column represent surplus assets in a retirement system. New hires in the State Employees', Judicial, and Legislative retirement systems no longer are eligible for a defined benefit pension, and instead are part of a defined contribution (401k) retirement plan. New hires in MPSERS have a choice between a hybrid (DB and DC) plan or a straight DC plan. New hires in State Police are in a hybrid (DB and DC) plan. The hybrid plans are called "Pension Plus".

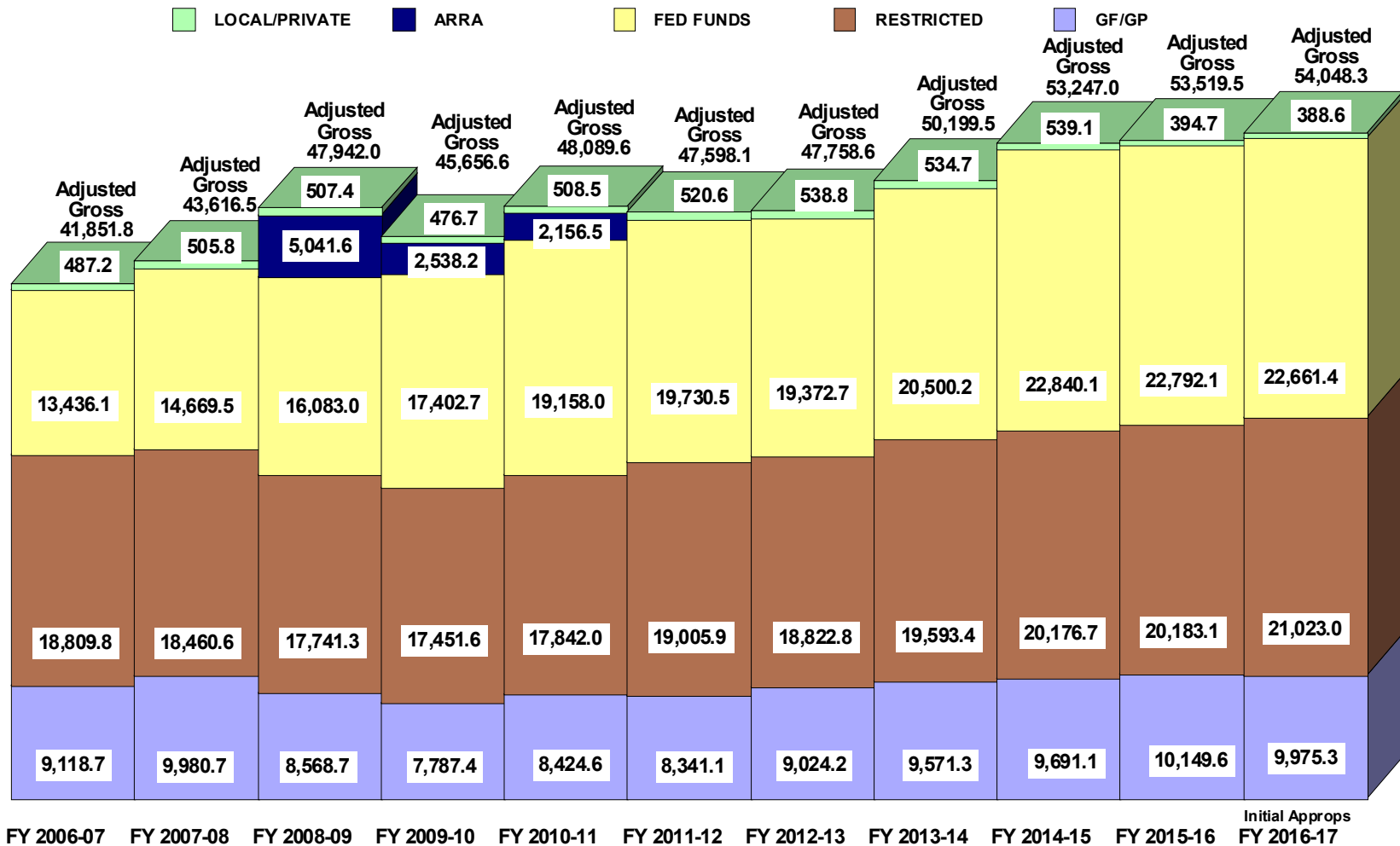
¹⁾ Michigan Public School Employees Retirement System (MPSERS)- Basic and Member Investment Plan (MIP): pension plan closed to new hires since July 1, 2010; and Hybrid: pension plan open to new hires since July 1, 2010.

TOTAL ACCUMULATED HEALTH UNFUNDED LIABILITIES											
Fiscal Year	MPSERS		STATE EMPLOYEES		STATE POLICE		JUDGES		LEGISLATIVE		
	Unfunded Liability	Funded Ratio	Unfunded Liability	Funded Ratio	Unfunded Liability	Funded Ratio	Unfunded Liability	Funded Ratio	Unfunded Liability	Funded Ratio	
2005-06	\$24,757,000,000	2.5%	\$13,499,000,000	0.0%	\$944,400,000	0.0%	\$6,400,000	0.0%			
2006-07	24,957,000,000	3.0	12,966,000,000	0.0	918,100,000	0.0	6,600,000	0.0			
2007-08	25,979,000,000	3.1	13,542,000,000	0.0	963,000,000	0.0	6,700,000	0.0	\$118,309,000	11.0%	
2008-09	27,582,000,000	2.5	12,618,000,000	0.0	882,300,000	0.0	6,600,000	0.0	122,282,000	11.0	
2009-10	27,627,200,000	3.5	14,666,400,000	0.0	1,055,900,000	0.0	7,400,000	0.0	139,373,000	10.2	
2010-11	25,890,000,000	4.3	14,251,000,000	0.0	994,700,000	0.0	7,900,000	0.0	125,000,000	10.8	
2011-12	21,780,200,000	5.8	8,412,600,000	3.9	1,002,000,000	3.3	8,510,000	0.0	124,336,700	14.3	
2012-13	12,493,400,000	14.0	7,535,700,000	8.1	550,726,000	8.7	7,656,000	0.0	130,860,200	14.8	
2013-14	11,179,666,000	21.1	7,690,968,000	12.1	559,689,000	12.2	8,665,000	0.0	134,943,600	14.9	
2014-15	9,301,854,000	27.5	7,696,604,000	14.5	580,817,000	14.0	9,126,000	0.0	N/A	---	

Notes: FY 2014-15 Total Accrued Unfunded Liability for retiree health care (excluding Legislative) equals \$17,588,401,000. The State Employees Retirement System began prefunding retiree health care in FY 2011-12 and MPSERS and State Police began prefunding in FY 2012-13. However, new hires (since January 1, 2012 for State employees, June 10, 2012 for State Police, September 4, 2012 for MPSERS, and January 1, 2013 for Legislative) are no longer eligible for retiree health care premium coverage. Instead, these groups, except for legislators, receive matching 401k contributions that could be used to pay for costs related to retiree health care, which accumulate in a personal healthcare fund. Legislators not vested by January 1, 2013, have neither retiree health premium coverage nor a personal healthcare fund.

Figure 12

State Of Michigan Appropriations by Fund Source Year-To-Date (Millions of Dollars)



Notes: Adjusted Gross = Total appropriations for all departments. State Resources = State restricted + GF/GP appropriations.
 Does not include GF/GP BSF appropriations of \$362.7 million, \$140 million, \$75 million, \$94 million, and \$95 million for FYs 2011-12, 2012-13, 2013-14, 2014-15, and 2015-16 respectively, or \$230 million GF/GP in FY 2013-14 for Roads and Risks Reserve Fund. Senate Fiscal Agency - October 1, 2016

Table 7

STATE SPENDING FROM STATE RESOURCES APPROPRIATIONS TOTAL COMPARED IN SELECTED BUDGET AREAS (Millions of Dollars)				
Budget Area	FY 2006-07 Year-to-Date Appropriations	FY 2016-17 Initial Appropriations	Dollar Difference	Percent Change
Health and Human Services	\$6,253.3	\$6,668.7	\$415.4	6.6%
Corrections	1,939.7	1,988.5	48.9	2.5
K-12 School Aid	11,597.0	12,343.2	746.2	6.4
Community Colleges	247.8	395.9	148.1	59.7
Higher Education	1,607.8	1,481.1	(126.6)	(7.9)
Revenue Sharing-Constitutional	666.0	757.9	91.9	13.8
Revenue Sharing-Nonconstitutional	405.1	471.1	66.0	16.3
All Other Programs	5,212.0	6,891.8	1,679.9	32.2
Total State Spending	\$27,928.6	\$30,998.3	\$3,069.7	11.0%
Addendum:				
Medicaid Caseload	1,540,400	2,350,000	809,600	52.6%
Prison Population	51,490	43,655	(7,835)	(15.2)
K-12 Pupil Count	1,681,062	1,484,500	(196,562)	(11.7)
University Students	253,576	261,989	8,413	3.3
Community College Students	139,219	133,895	(5,324)	(3.8)
Michigan Personal Income (millions)	\$346,367.0	\$449,394.0	\$103,027.0	29.7%
Detroit Consumer Price Index	199.0	224.1	25.1	12.6%
NOTES: Revenue Sharing: Constitutional number is the May 2016 Consensus Revenue Estimating Conference (CREC) estimate. Medicaid Caseload: Number for FY 2016-17 includes the estimated 600,000 individuals who are eligible under the expansion of Medicaid. Prison Population: These are "average population" numbers and do not represent the exact count on any particular date, but demonstrate how many beds are associated with the appropriation; the numbers are taken from the annual appropriation bills. K-12 Pupils: FY 2016-17 pupil count is the May 2016 CREC estimate. Community College and University Students: Numbers in FY 2016-17 column reflect the most recent data available, which are FY 2014-15 fiscal-year-equated-students as reported in the Activities Classification Structure (ACS) and the Higher Education Institutional Data Inventory (HEIDI). Michigan Personal Income and Detroit CPI: Numbers are fiscal year averages; FY 2016-17 numbers are May 2016 CREC estimates.				

Table 8

STATE APPROPRIATIONS FROM ALL SOURCES: HOW MUCH IS DISCRETIONARY?	
(Actual Dollars)	
FY 2016-17 Initial Adjusted Gross Appropriation	\$54,048,284,200
<u>Constitutional/Statutory Earmarking Requirements:</u>	
School Aid Fund (50% Constitutional).....	(\$12,644,749,400)
Transportation (87% Constitutional).....	(2,736,727,700)
Regulatory Restricted Revenue (Statutory).....	(1,659,796,900)
Constitutional Revenue Sharing.....	(757,875,200)
Federal Funding Requirement.....	(22,661,411,200)
Local and Private Revenue	(388,568,000)
Debt Service Payments (GF/GP)	(395,507,600)
Caseload/Inmate Driven.....	(7,957,228,300)
Estimated Balance for Discretionary Spending	\$4,846,419,900
<u>Estimated Balance for Discretionary Spending Includes:</u>	
GF/GP Funding for Community Colleges and Higher Education.....	\$1,379,415,300
Nonconstitutional State Revenue Sharing Funding	471,107,500
State Restricted and GF/GP Funding for State Police	411,526,600
Medicaid Programs-includes GME and MIChoice waiver	400,000,000
Non-Medicaid Programs-includes CMH, Local Public Health, Aging.....	300,000,000
GF/GP Funding for K-12 School Aid-includes Foundation Allowance	195,984,300
GF/GP Funding for Judiciary	189,157,400
State Restricted and GF/GP Funding for Department of State.....	99,794,300
GF/GP for Transportation	8,500,000
State Restricted Revenue for Various State Departments.....	358,369,800
GF/GP Funding for: Agriculture, Attorney General, Civil Rights, Education, Environmental Quality, Executive, Insurance & Financial Services, Legislature, Licensing & Regulatory Affairs, Military & Veterans Affairs, Natural Resources, Technology, Management, & Budget, Treasury Operations and Talent & Economic Development	1,032,564,700
Estimated Discretionary Spending.....	\$4,846,419,900

Potential FY 2017-18 State Budget Pressures

- Decrease in regular Medicaid Federal match rate from 65.15% to 64.70% (~\$45 million)
- Increase in Healthy Michigan Plan Medicaid State match rate from 3.75% to 5.75% (~\$70 million)
- Impact of expiration of use tax for Medicaid managed health care (~\$40 million)
- Hepatitis C and other pharmaceutical costs in Corrections and Health and Human Services
- Other caseload and cost adjustments for Corrections and Health and Human Services (+ and -)

Potential Longer Term State Budget Pressures

- Transportation infrastructure funding (~\$356 million in FY 2018-19, growing to ~\$814 million in FY 2021-22)
- Phase-in of Personal Property Tax reform (\$380 million in FY 2016-17, growing to \$572 million in FY 2026-27)
- MEGA and other certificated tax credits (~\$500 - \$600 million annually until 2032)
- Local units of government financial and infrastructure issues (e.g. Flint water, Detroit schools, pension systems)
- Uncertainty regarding Federal budget policy