



State Budget Overview

Ben Gielczyk, Associate Director

March 2024

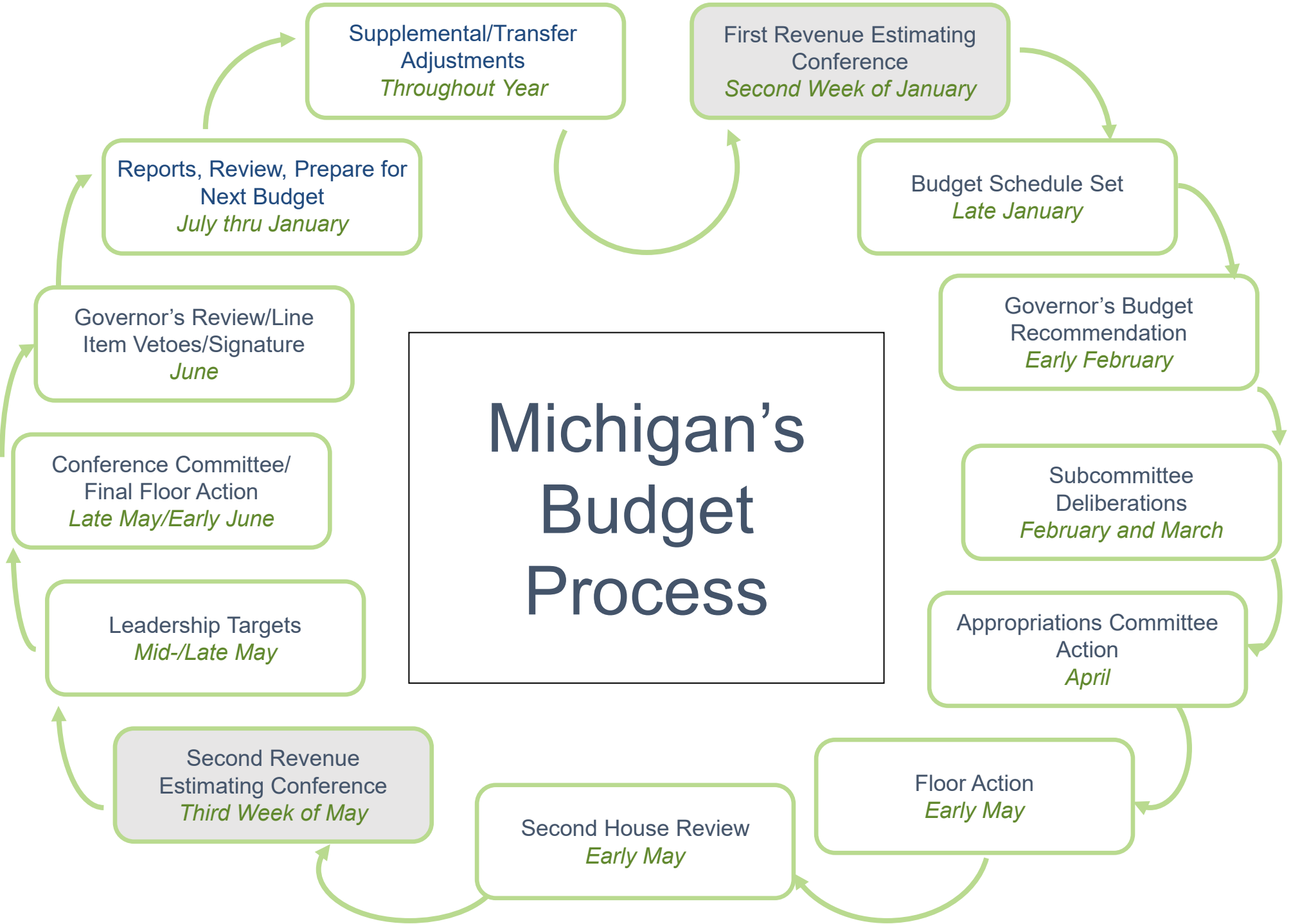
- 1. Budget Process**
- 2. State Budget Overview**
- 3. FY 2024-25 Executive Recommendation Highlights**

1. Budget Process

The House Fiscal Agency (HFA)

- Agency personnel provide **confidential, nonpartisan** expertise to the House Appropriations Committee and all other members of the House on all legislative fiscal matters.
- **Fiscal Analysts**
 - Review the Governor's budget recommendation and assist legislators in developing budget alternatives;
 - Review and prepare budget bills, supplemental appropriations, and certain transfer requests;
 - Provide fiscal impact statements on legislative proposals;
 - Monitor state and national situations that may have budgetary implications;
 - Research and analyze fiscal issues;
 - Prepare reports and documents to assist legislative deliberations; and
 - Prepare special reports at the request of Representatives.
- **Economists**
 - Analyze legislation related to tax and revenue issues;
 - Respond to Representatives' inquiries regarding state tax revenue, revenue sharing, and other economic issues;
 - Monitor state revenue; track state and national economic conditions; and
 - Prepare reports on revenue and other economic issues.
- **Legislative Analysts**
 - Prepare concise, nonpartisan summaries and analyses of bills. Summaries, completed prior to committee deliberations, describe how a bill would change current law, including any fiscal impact. Analyses are prepared for bills reported to the full House from committee and include, with the summary information, a description of the problem being addressed, arguments for and against the bill, and positions of interested organizations.

Michigan's Budget Process



2. State Budget Overview

Key Budget Terms

Fiscal Year: The state's fiscal year (FY) runs from October to September. FY 2023-24 is October 1, 2023 through September 30, 2024.

Appropriation: Authority to expend funds. An appropriation is not a mandate to spend. Constitutionally, state funds cannot be expended without an appropriation by the legislature.

Line Item: Specific appropriation amount that establishes spending authorization for a particular program or function in a budget bill.

Boilerplate: Specific language sections in a budget bill that direct, limit, or restrict line item expenditures, express legislative intent, and/or require reports.

Lapses: Appropriated amounts that are unspent or unobligated at the end of a fiscal year. Appropriations are automatically terminated at the end of a fiscal year unless designated as a multi-year work project under a statutory process. Lapsed funds are available for expenditure in the subsequent fiscal year.

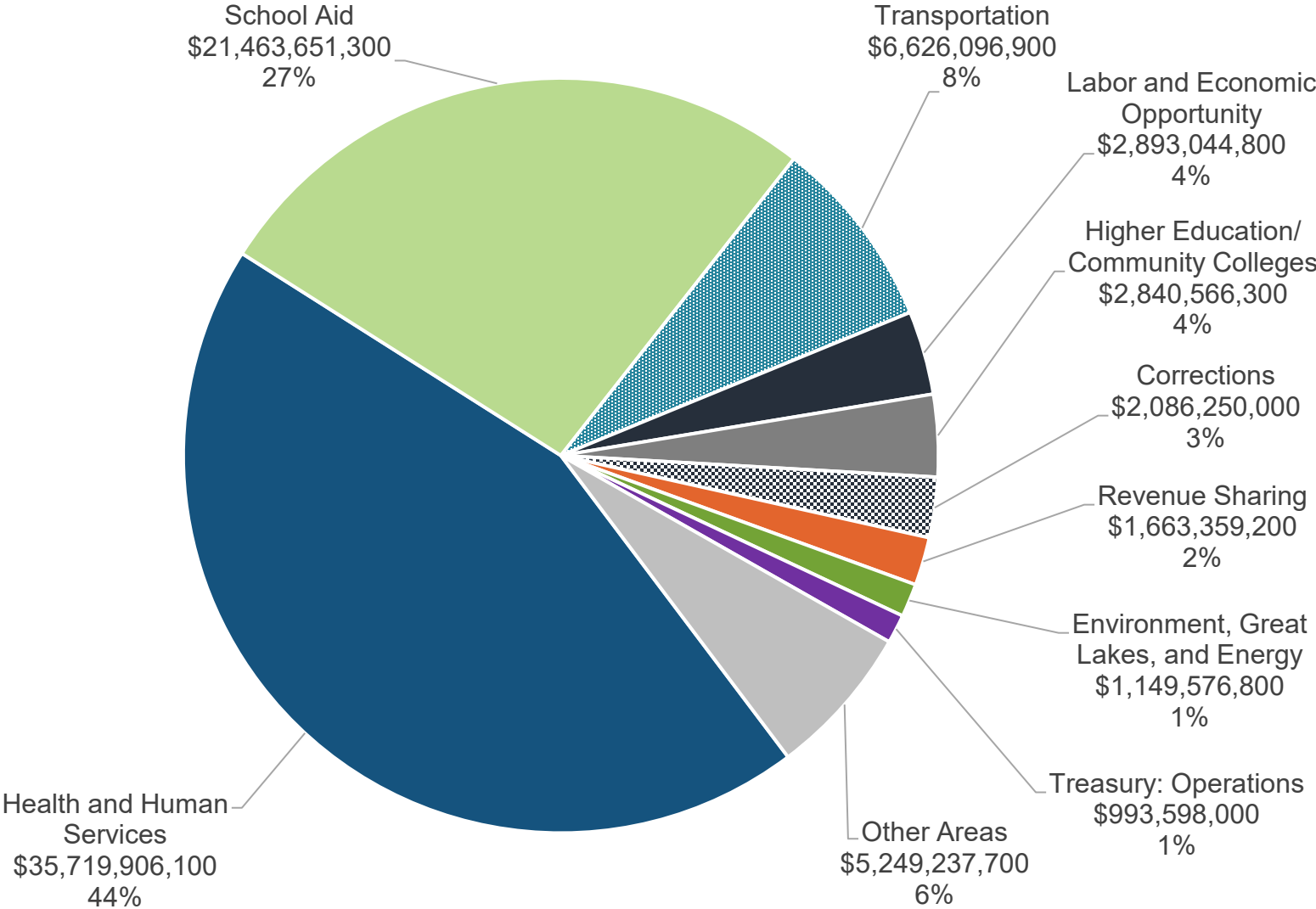
Note: Unless otherwise indicated, historical budget figures in this presentation have not been adjusted for inflation.

FY 2023-24 State Budget

Fund Source	Funding	Description
Gross Appropriations	\$81,941,620,800	Total spending authority from all revenue sources
Interdepartmental Grants (IDG) Revenue	1,256,333,700	Funds received by one state department from another state department, usually for services provided
Adjusted Gross Appropriations	\$80,685,287,100	Gross appropriations excluding IDGs; avoids double counting when adding appropriation amounts across budget areas
Federal Revenue	32,925,202,100	Federal grant or matching revenue; generally dedicated to specific programs or purposes
Local Revenue	297,032,700	Revenue received from local units of government for state services
Private Revenue	223,220,000	Revenue from individuals and private entities, including payments for services, grants, and other contributions
State Restricted Revenue	31,942,597,100	State revenue restricted by the State Constitution, state statute, or outside restriction that is available only for specified purposes; includes most fee revenue; School Aid
State General Fund/General Purpose (GF/GP) Revenue	\$15,297,235,200	Unrestricted revenue from taxes and other sources available to fund basic state programs and other purposes determined by the Legislature

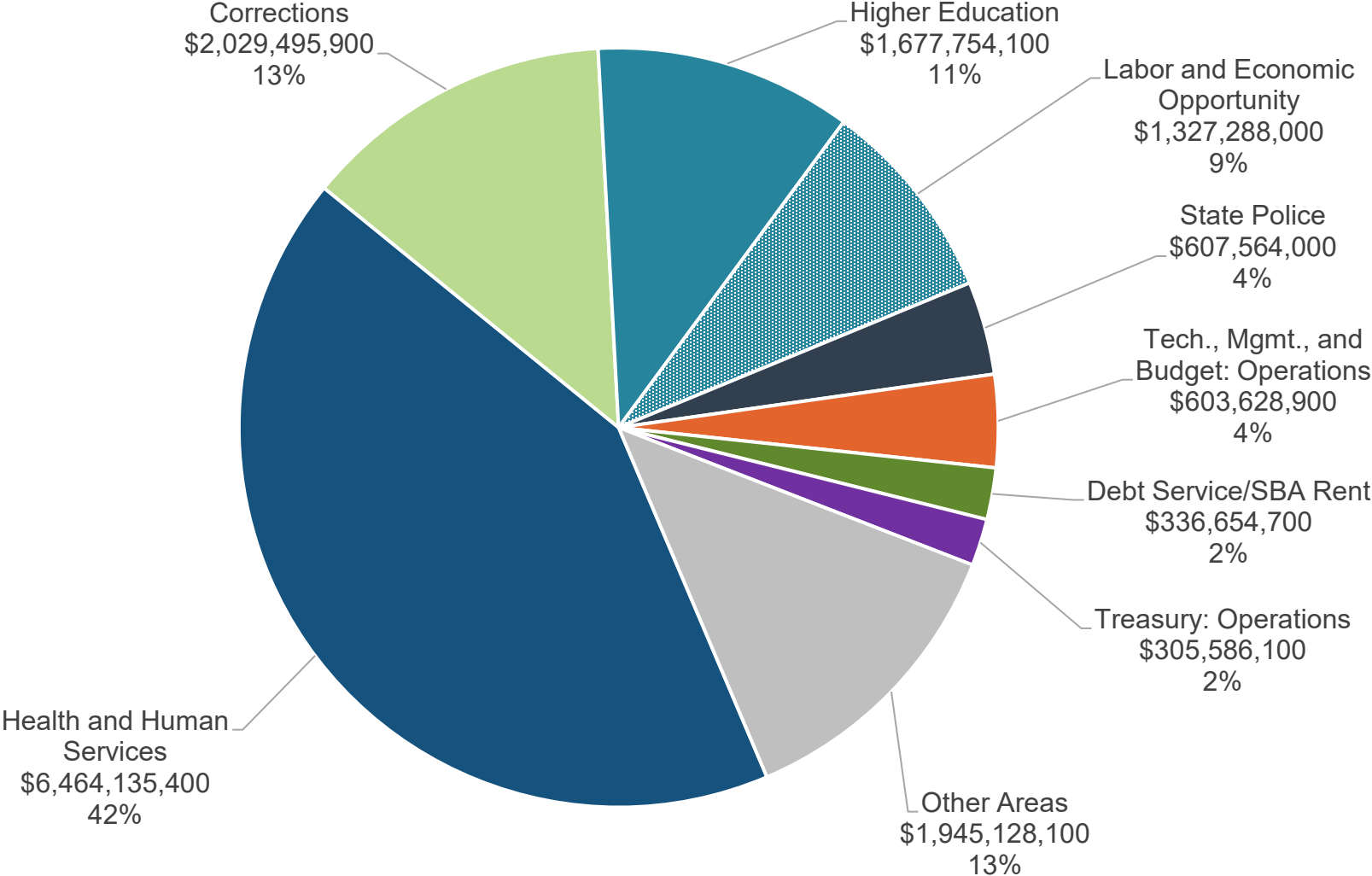
FY 2023-24 Adjusted Gross Appropriations

Large portions of the **\$80.7 billion** state budget consist of payments to health care providers, school districts, universities and colleges, and local units of government.



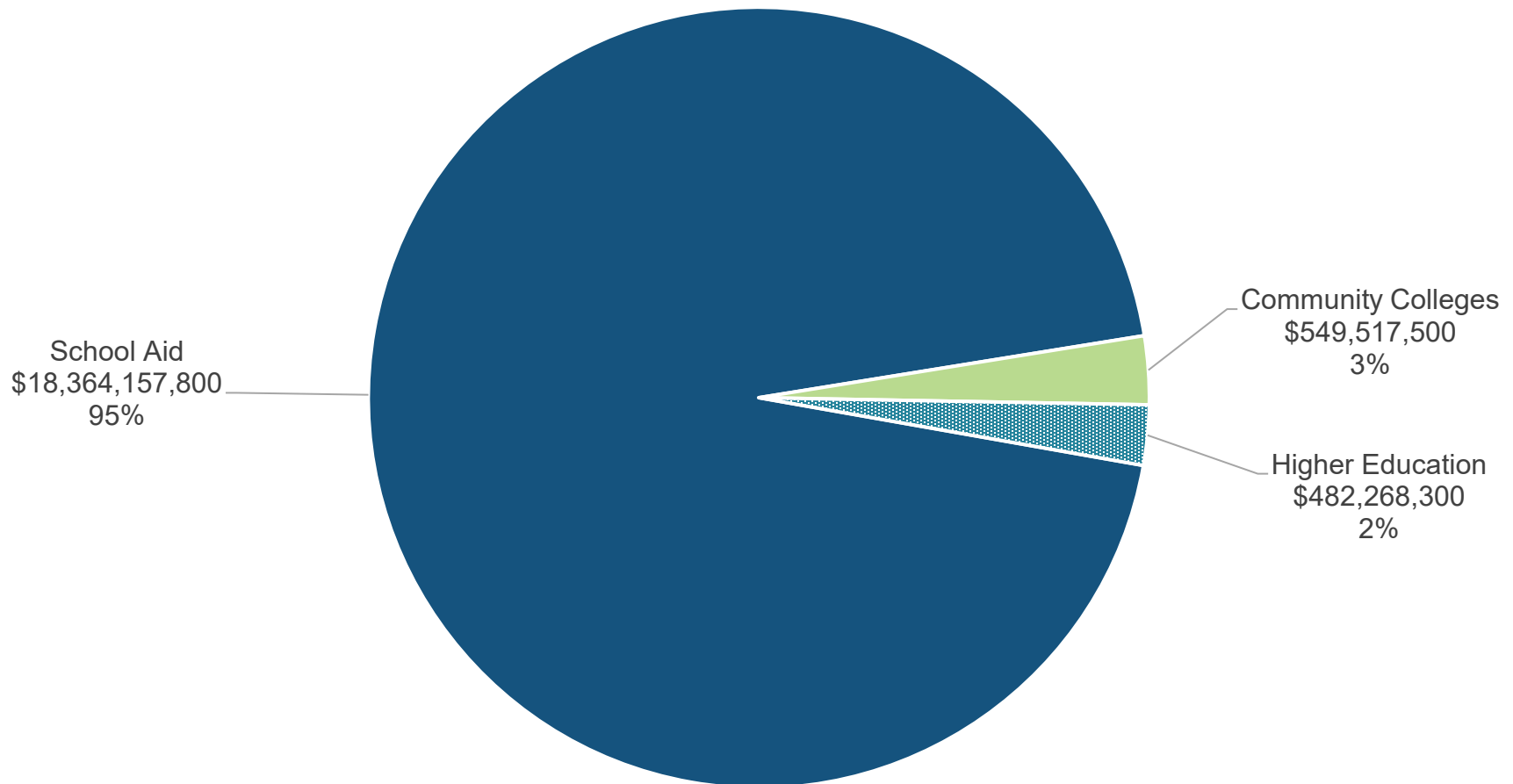
FY 2023-24 GF/GP Appropriations

75% of the \$15.3 billion GF/GP budget is appropriated for health and human services, public safety, education, and debt service. The remaining 13% provides funding for 13 state departments, the Judiciary, the Legislature, and the Executive Office.



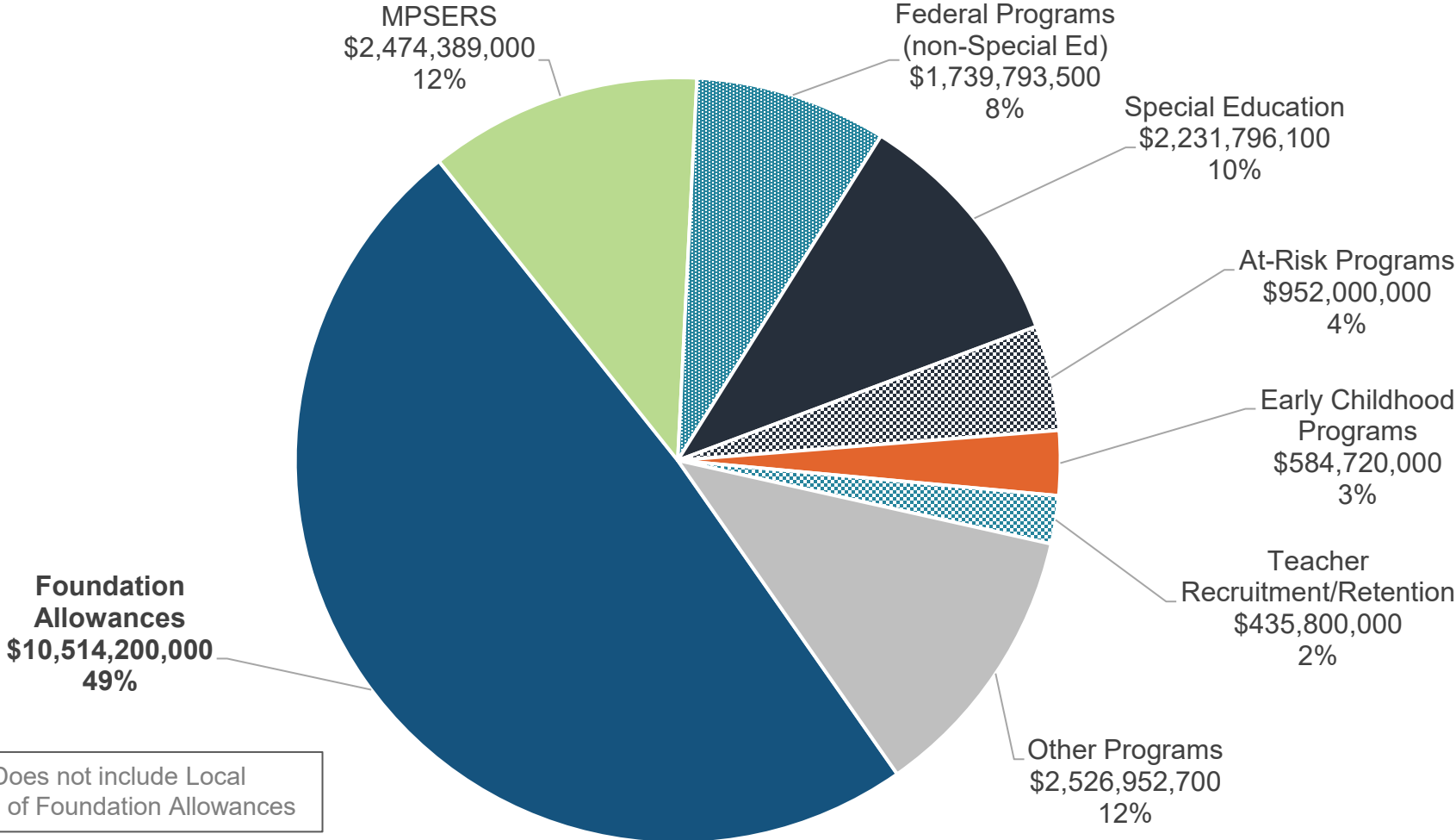
School Aid Budget Share of Total School Aid Fund (SAF) Appropriations

School Aid Fund (SAF) appropriations totaling **\$19.4 billion** are primarily for K-12 school districts. The School Aid budget represents **95%** of the state's SAF appropriations for FY 2023-24.



FY 2023-24 School Aid Appropriations

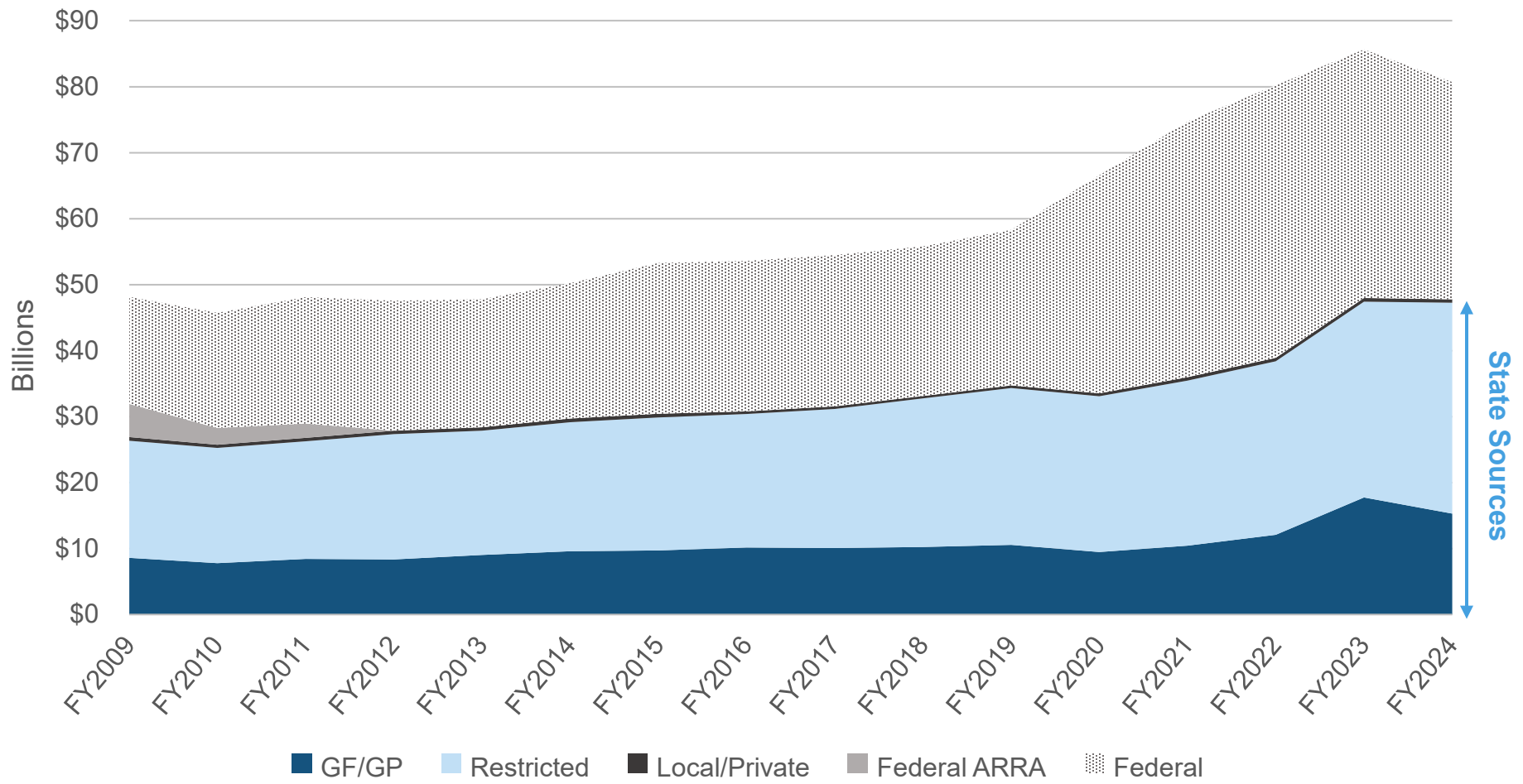
About **49%** of the **\$21.5 billion** School Aid budget supports per-pupil foundation allowances used for school district general operations.



Budget Trends

Total State Budget History

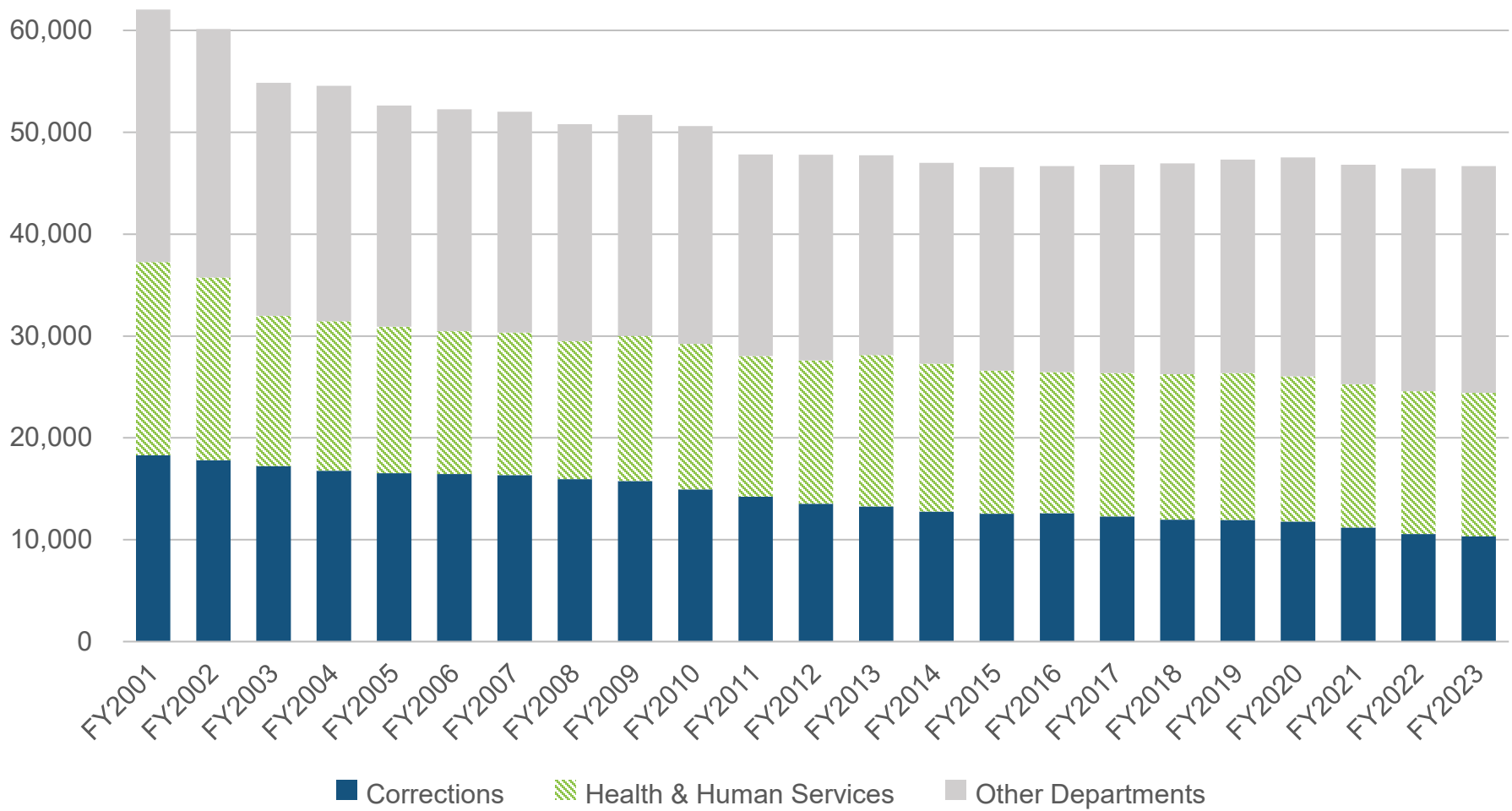
Total state budget growth of 68% since FY 2009 has been driven by both growth in federal and state funds for Medicaid expansion and federal stimulus funding in response to the coronavirus pandemic.



ARRA: Federal American Recovery and Reinvestment Act of 2009

Total Classified State Employees

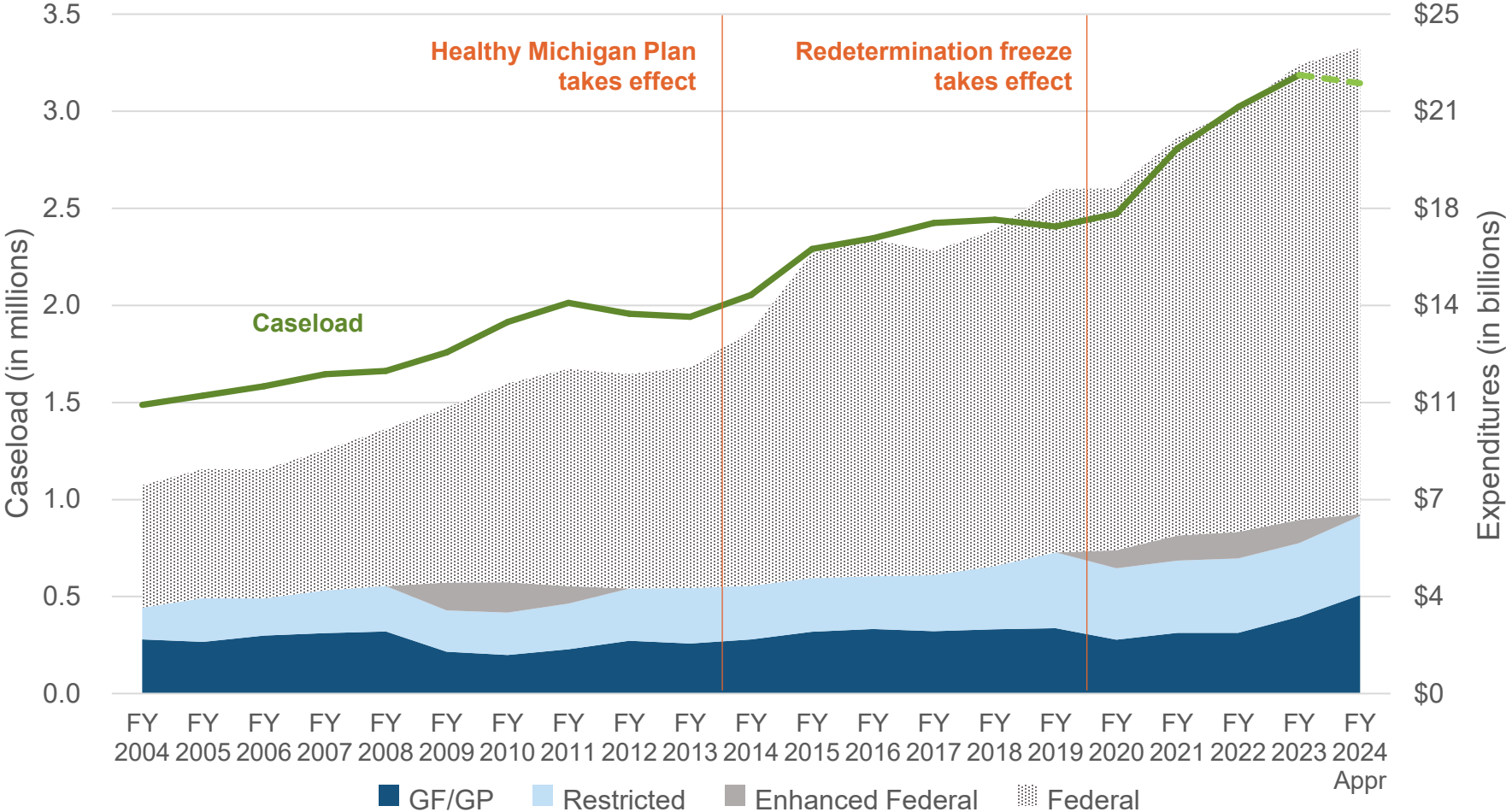
The total number of state employees has declined by about **15,380 (33%)** since FY 2001. **Estimated FY 2023-24 compensation-related costs total: \$6.5 billion Gross (\$3.4 billion GF/GP).



Source: Michigan Civil Service Commission, Annual Workforce Report

Medicaid Expenditures by Fund Source

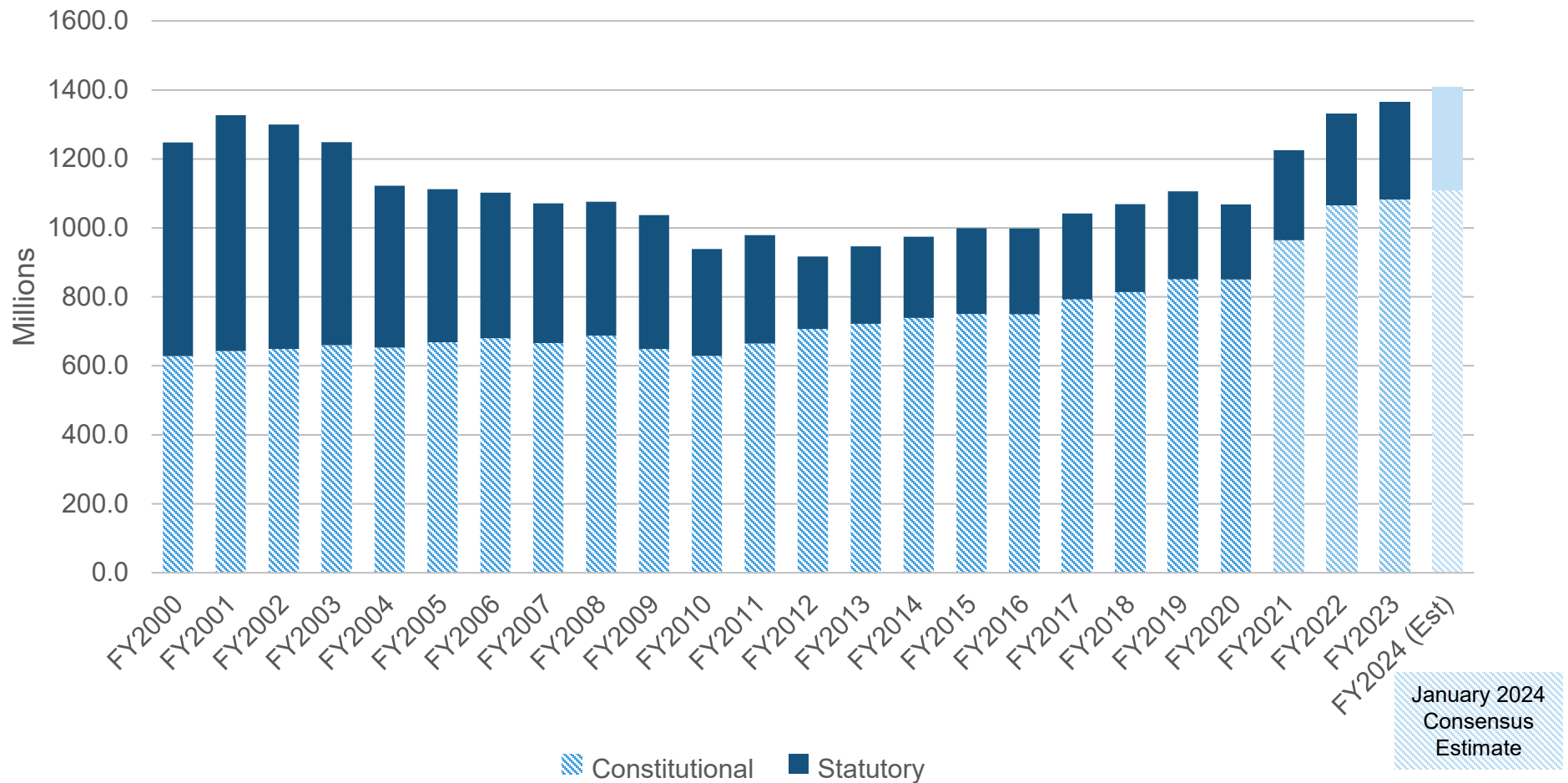
Since FY 2003-04, the state’s total Medicaid caseload has increased by **106%**, expenditures have increased by **210%**, and GF/GP has increased by **82%**, due to economic trends, the expansion under the Healthy Michigan Plan, and more recently the coronavirus pandemic redetermination freeze.



Enhanced Federal from American Recovery and Reinvestment Act of 2009 and Families First Coronavirus Response Act of 2020

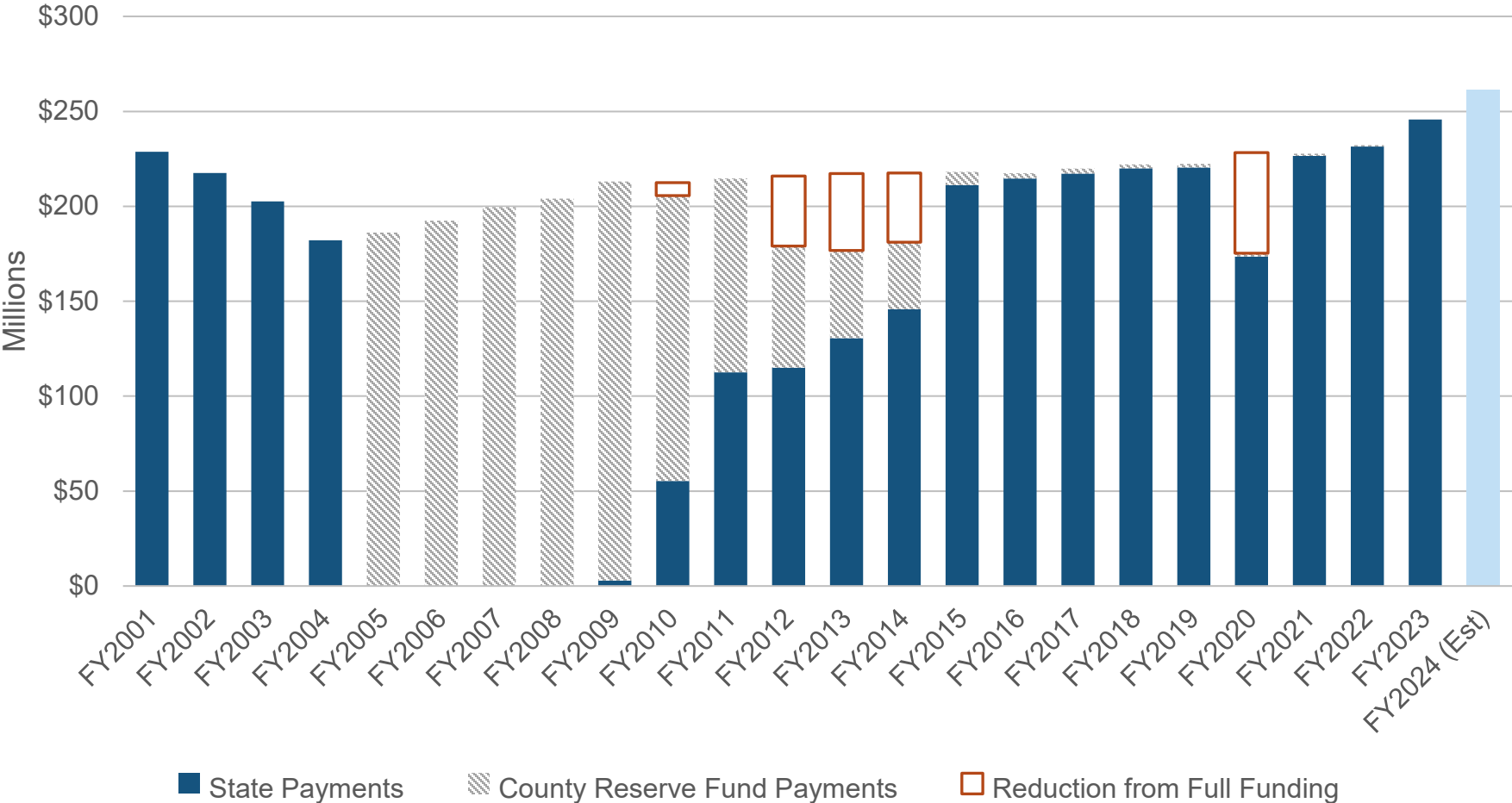
Revenue Sharing to Cities, Villages, and Townships (CVTs)

Per capita constitutional payments to CVTs have grown consistent with sales tax revenue growth. FY 2023-24 discretionary (statutory) payments remain **\$384.9 million** below the FY 2000-01 peak.



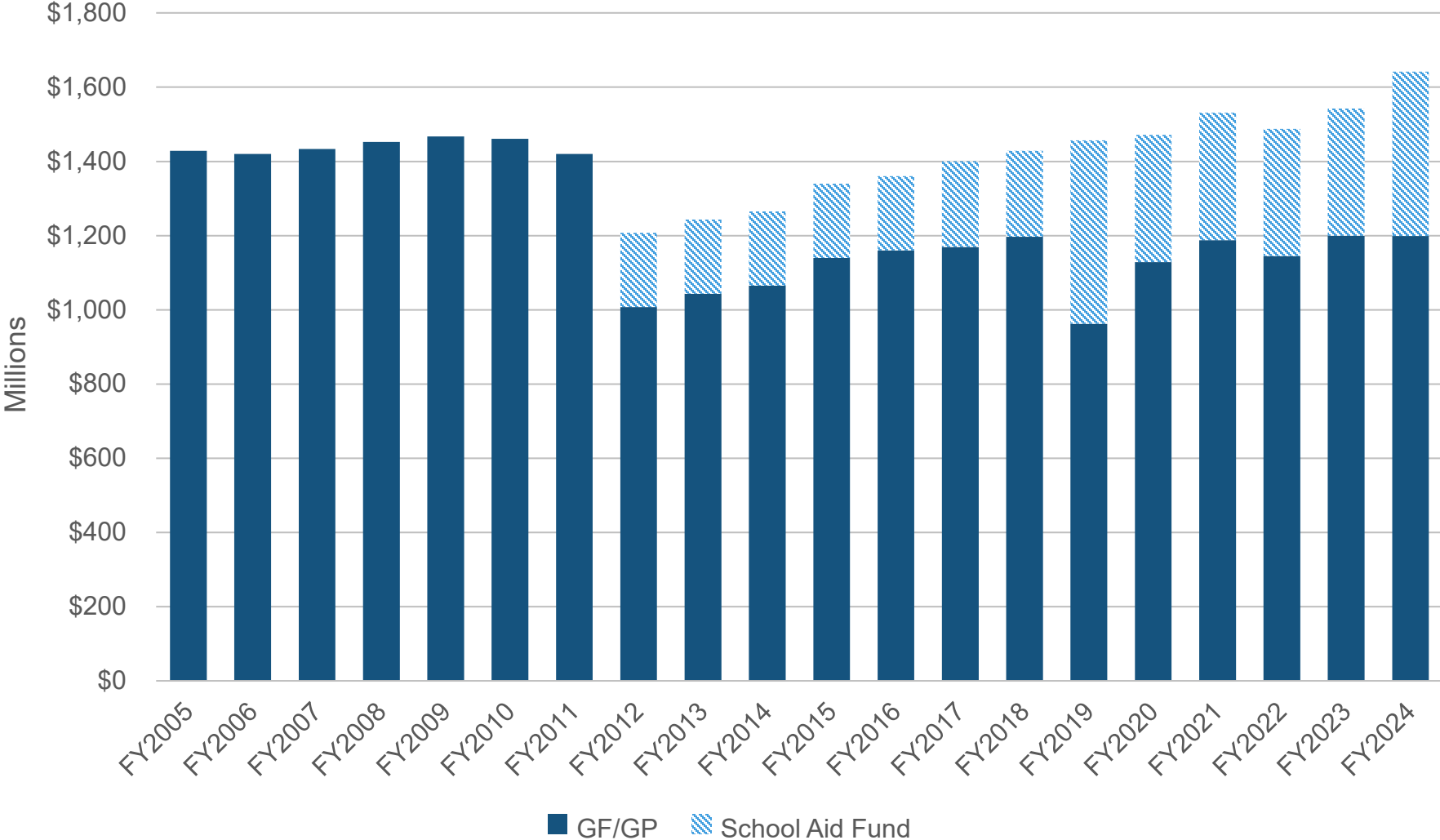
County Revenue Sharing

Reserve fund payments temporarily replaced state revenue sharing for counties. After a period of underfunding, full funding to counties was restored based on the reserve fund mechanism in with FY 2014-15 and increased above full funding beginning in FY 2016-17. For FY 2023-24, total funding is about **\$39.6 million** higher than FY 2000-01.



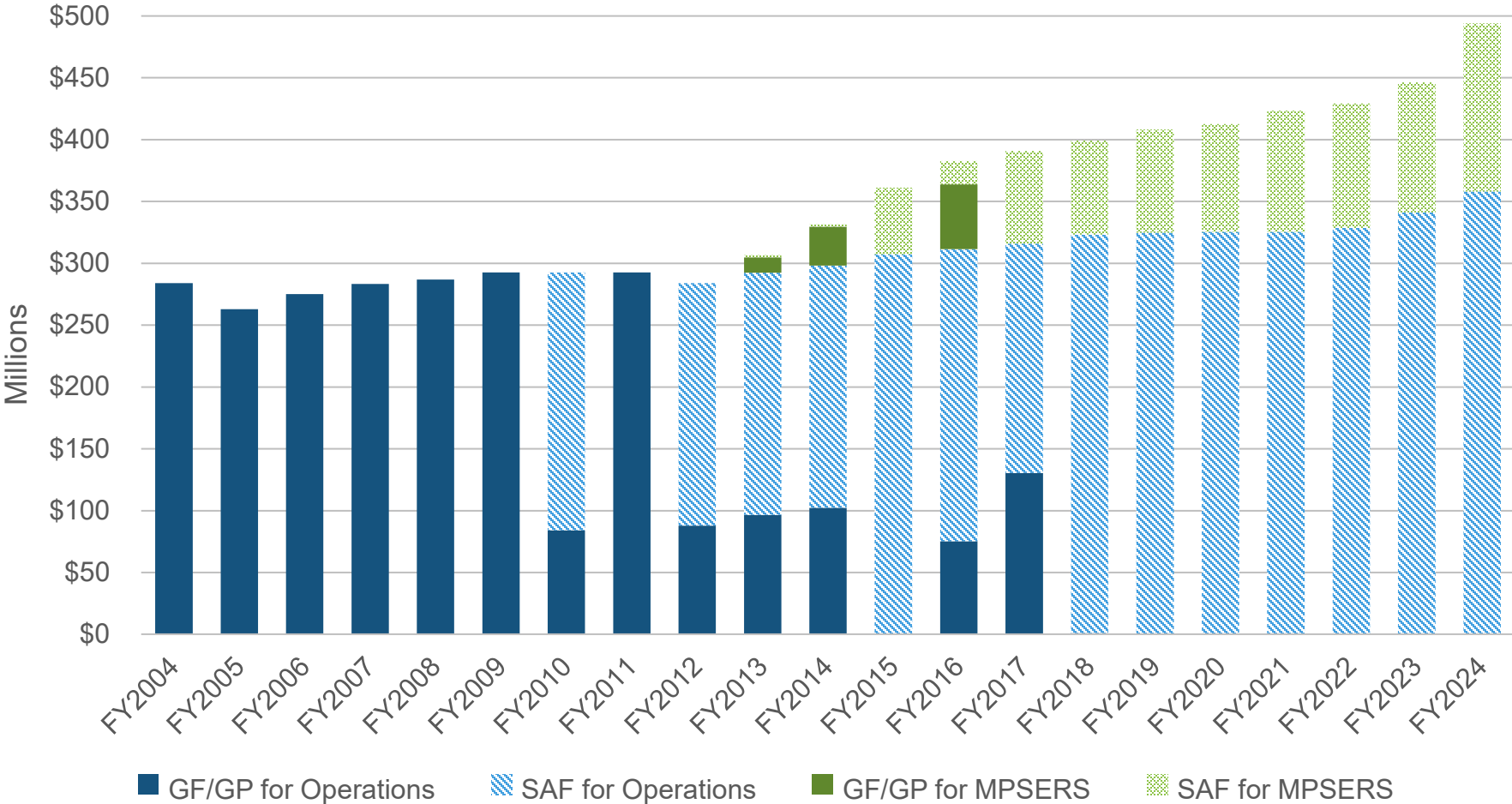
University Operations Grants History

State support for public universities operations has increased by **\$434.8 million (36%)** since FY 2011-12 and hit a new nominal 20-year high of **\$1.64 billion** in FY 2023-24. SAF funding has increased after remaining steady for the past few years.



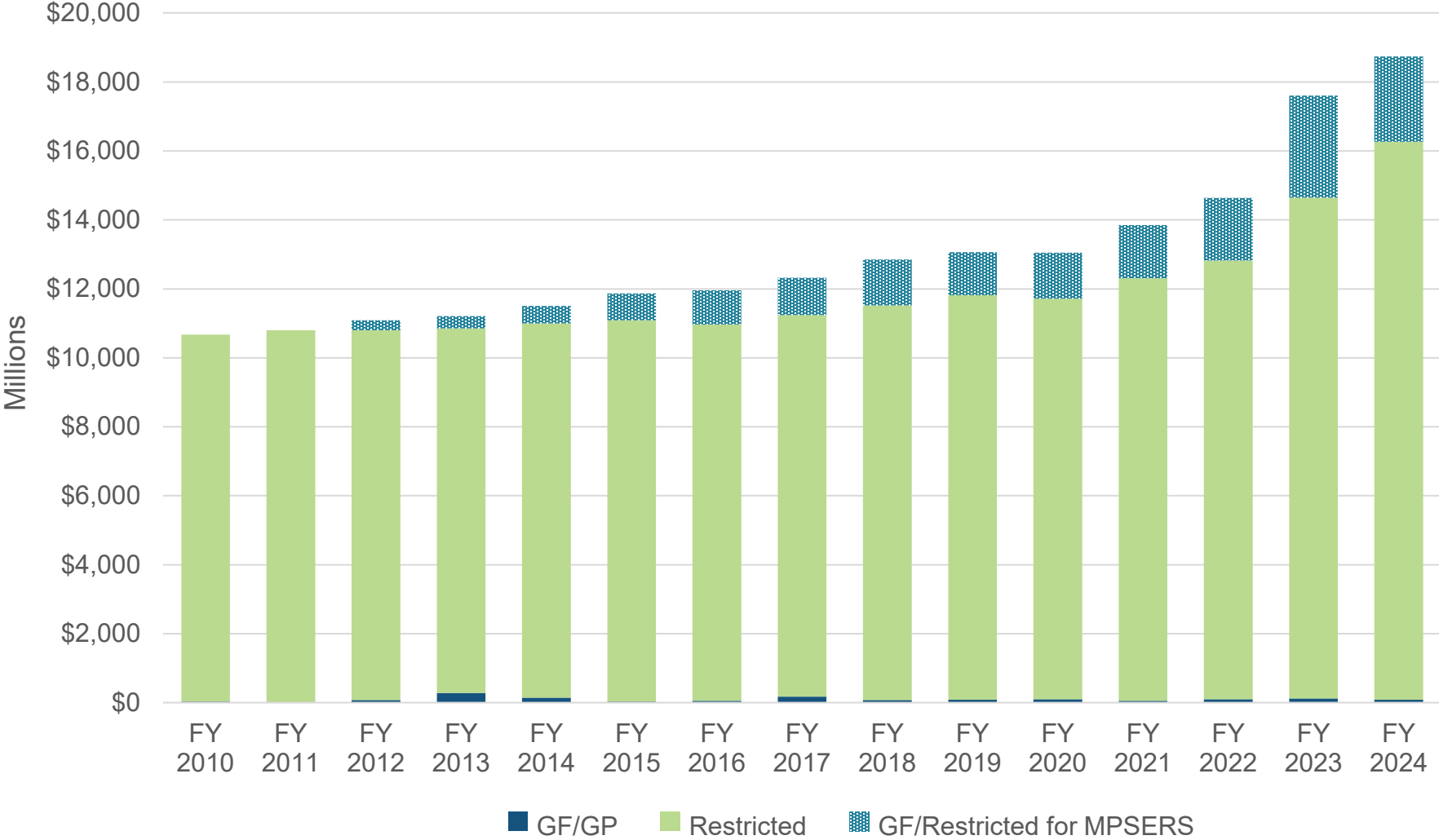
Community College Appropriations

FY 2023-24 state appropriations for community college operations are at their peak of **\$357.9 million**, increasing by 5.0% over the previous fiscal year. Increased funds have been allocated in recent years to offset growing retirement costs.



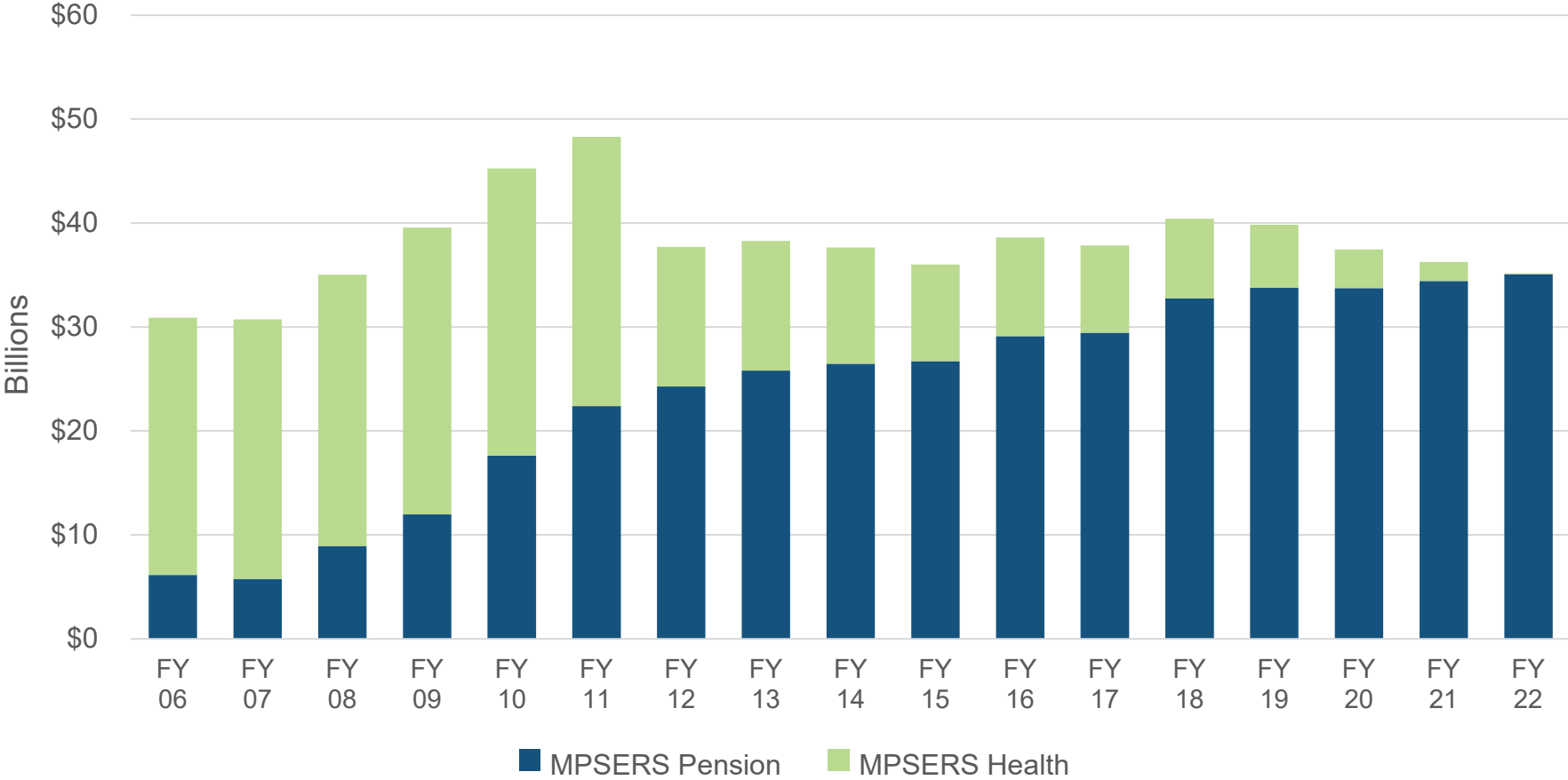
School Aid Funding History – State Funds

The amount included to hold districts harmless from increasing retirement liability costs is **\$2.4 billion** in FY 2023-24. Since FY 2009-10, non-MPSERS funding has increased by **52%**.



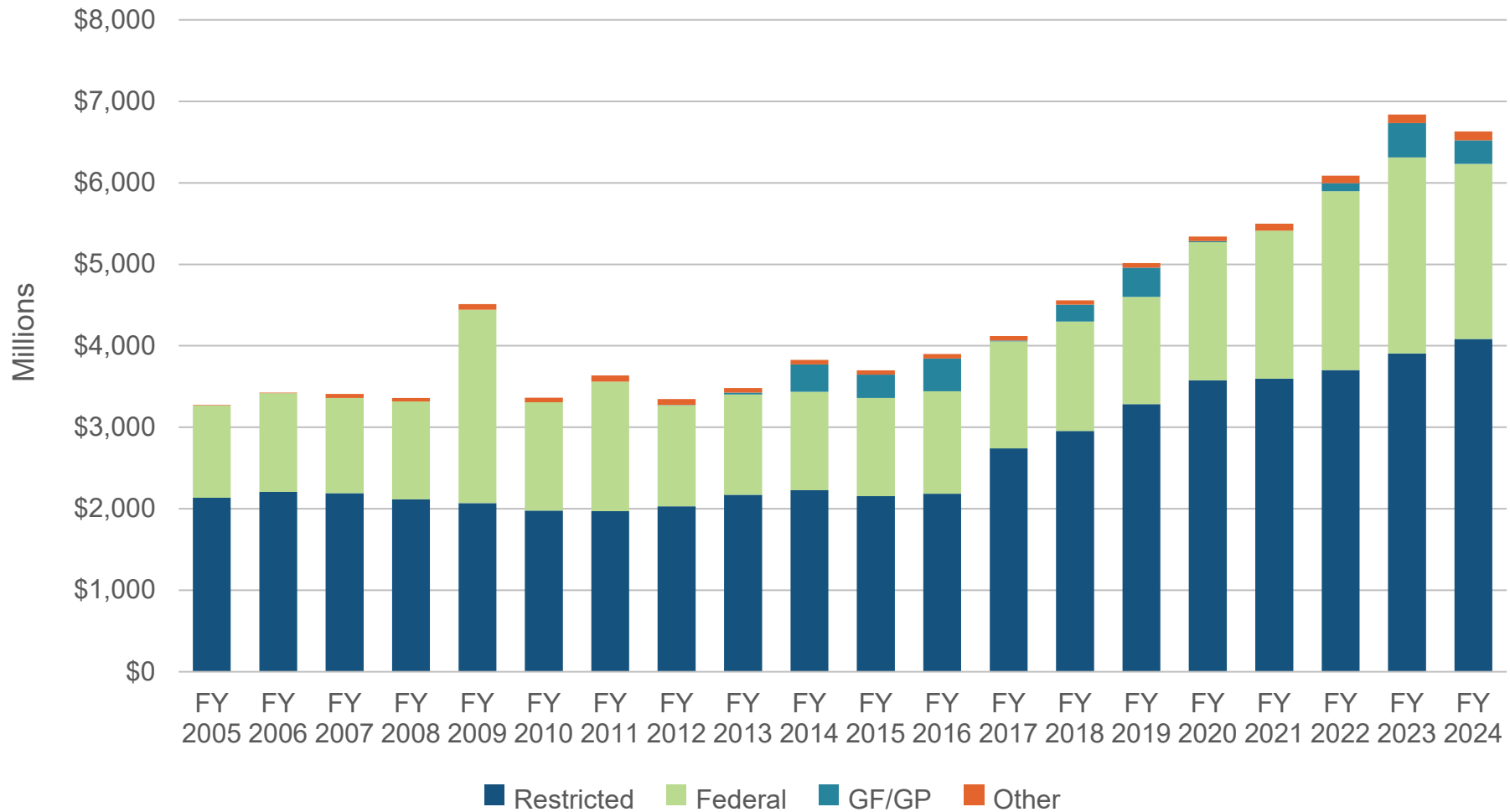
Retirement Liabilities

The decision to begin prefunding retiree health benefits in FY 2011-12 led to declining health liabilities. Liabilities increased by **\$2.6 billion** in FY 2017-18 due to the adoption of the most recent experience study. Reductions in the assumed long-term investment rate of return that began in FY 2015-16 have increased pension liabilities.



Transportation Appropriations

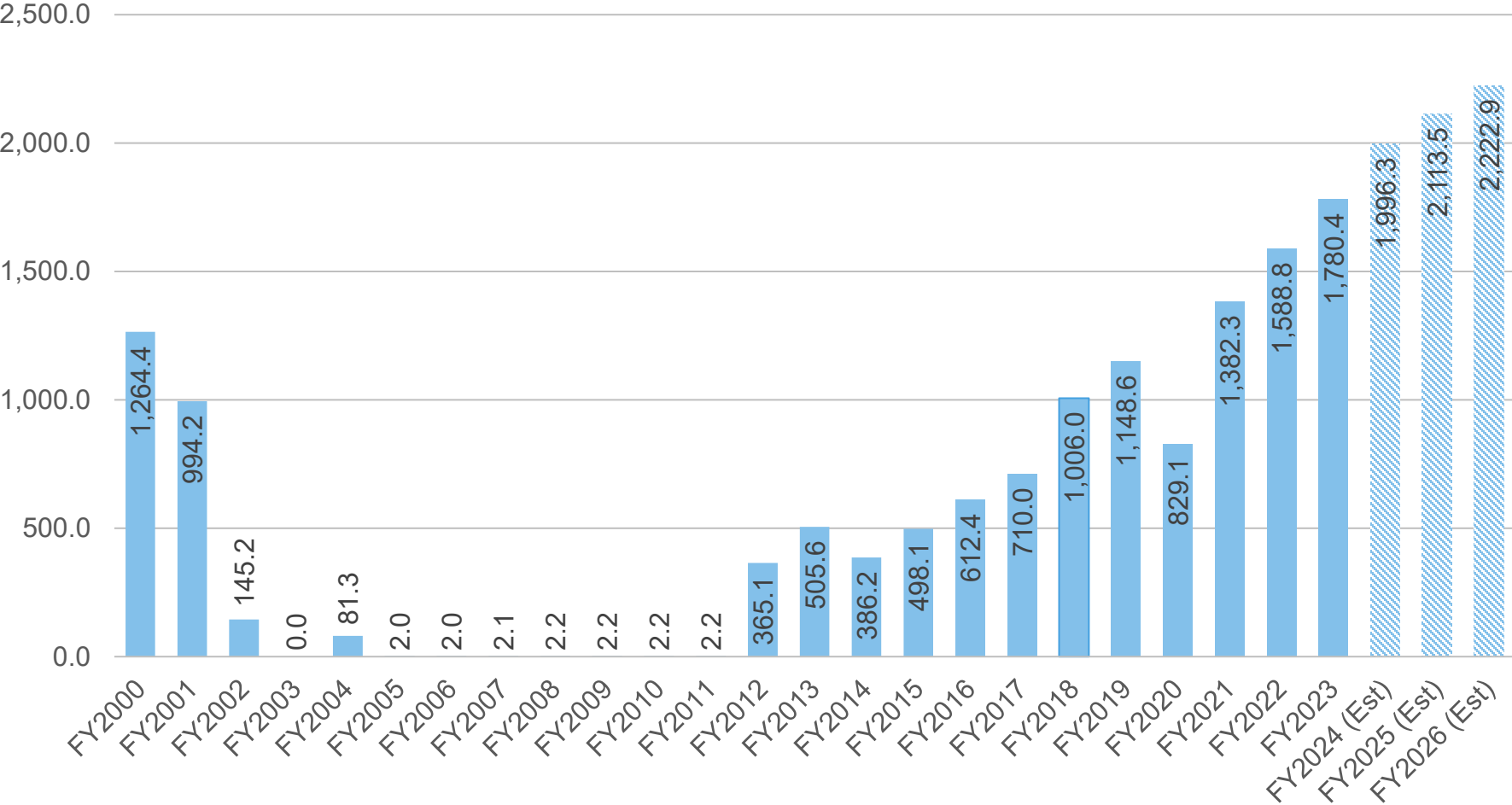
Increases in state restricted funds beginning in FY 2017 reflect implementation of the November 2015 Road Funding Package. Increases in federal funding beginning in FY 2022 reflect the federal infrastructure act known as IIJA.



Note: FY 2008-09 increase in federal funds reflects ARRA “stimulus” program funding.

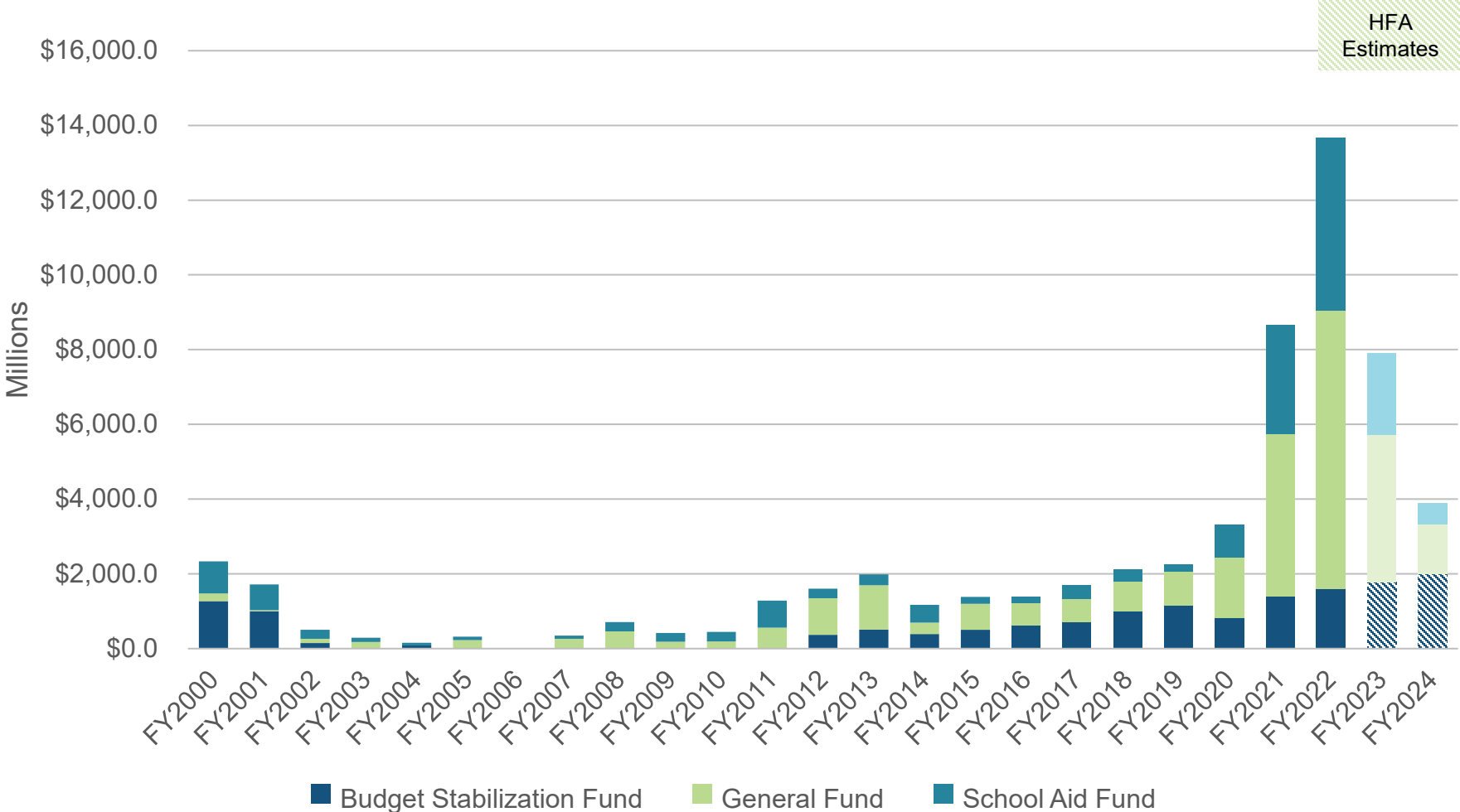
Budget Stabilization Fund Balance

After a \$118 million deposit, the balance at the end of FY 2022-23 was approximately **\$1,780.4 million—about 5.6%** of combined GF and SAF appropriations. The balance is expected to grow due to a \$100.0 million appropriation in FY 2023-24, strong interest earnings due to high interest rate environment, and annual repayments.



Combined Ending Balances

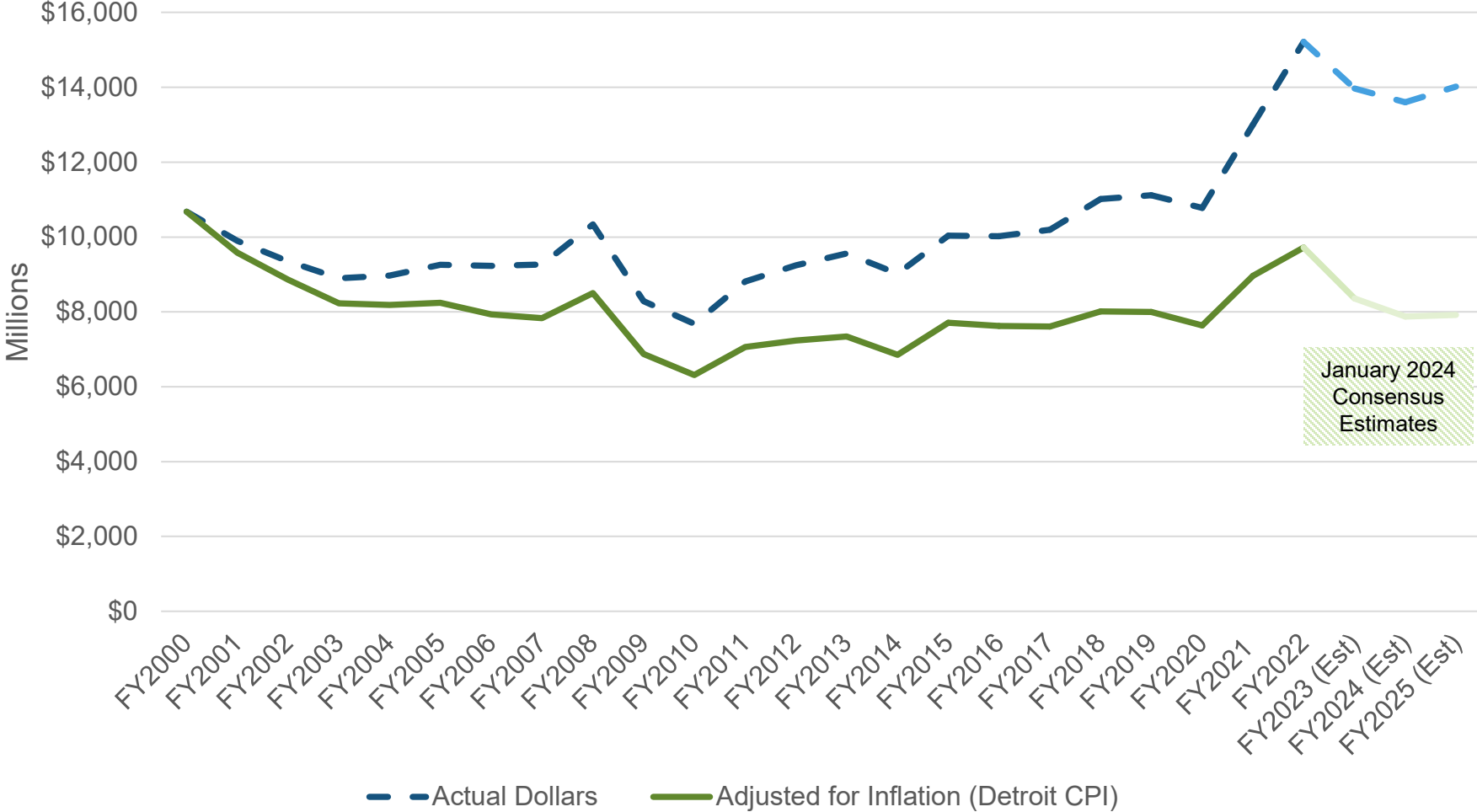
Large GF and SAF year-end balances accumulated from FY 2020-21 through FY 2022-23 as revenue growth outpaced projections and lower state expenditures due to federal stimulus funding in response to the coronavirus pandemic, allowing for substantial one-time expenditures.



Revenue Trends

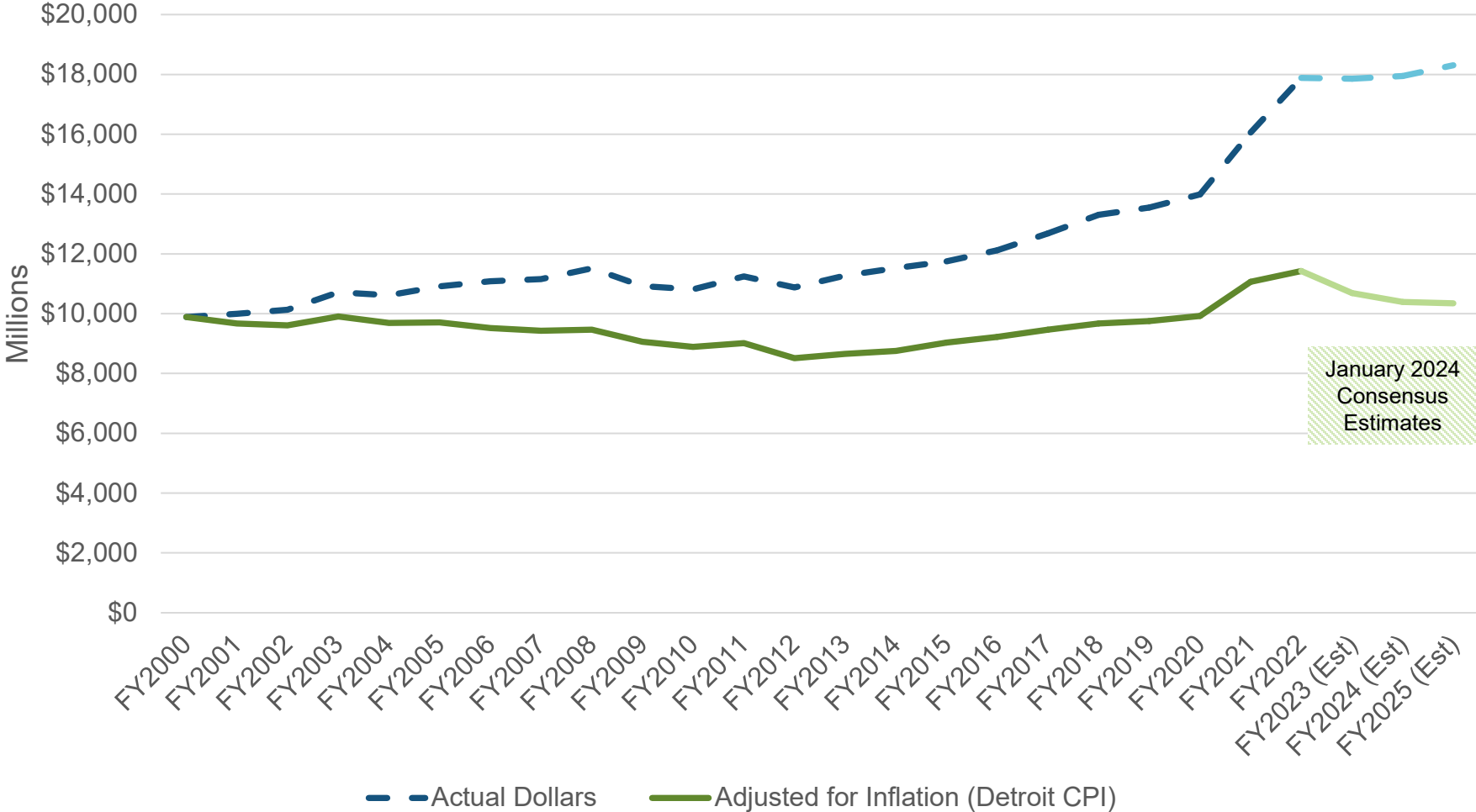
GF/GP Revenue

Nominal GF/GP revenue is expected to exceed \$14.0 billion in FY 2024-25. When adjusted for inflation, however, GF/GP revenue is estimated to be 25.8% below the FY 1999-00 level.



School Aid Fund Revenue

Nominal SAF revenue has grown steadily since FY 2011-12. In inflation-adjusted terms, however, SAF revenue remained below the FY 1999-00 level until FY 2020-21.



January 2024 Consensus Revenue Estimates

Millions of \$

	FY 2023-24 Estimate	FY 2024-25 Estimate	FY 2025-26 Estimate	FY 2026-27 Trend	FY 2027-28 Trend
GF/GP Revenue	\$13,597.4	\$14,022.2	\$14,707.6	\$15,071.5	\$15,534.4
\$ Change	(\$368.6)	\$424.9	\$685.4	\$363.9	\$462.9
% Change	(2.6%)	3.1%	4.9%	2.5%	3.1%
SAF Revenue	\$17,946.9	\$18,307.0	\$18,706.0	\$19,204.7	\$19,703.6
\$ Change	\$87.6	\$360.0	\$399.0	\$498.7	\$498.9
% Change	0.5%	2.0%	2.2%	2.7%	2.6%

GF/GP Revenue

- Reductions in FY 2023-24 reflect a decline in historically high non-tax revenue (interest earnings), business taxes, and to a lesser extent consumption taxes.
- Modest growth returns in FY 2024-25 as economic activity rebounds, and growth remains moderate throughout the forecast window; Large increase in FY 2025-26 due to \$550M in CIT earmarks expiring

SAF Revenue

- After flat FY 2023-24 revenues, moderate growth returns in FY 2024-25 and subsequent years.

3. FY 2024-25 Executive Recommendation Highlights

GF/GP and SAF Beginning Balances

(Dollars in Millions)

	FY 2023-24	FY 2024-25
GF/GP	\$3,934.6	\$1,106.2
SAF	\$2,192.5	\$564.1

Revisions impacting balances

- Revised Jan 2024 CREC revenue adjustments:
 - FY 2022-23 GF/GP = \$177.8 million and SAF = \$117.8 million
 - FY 2023-24 GF/GP = \$359.1 million and SAF = \$58.8 million
- FY 2022-23 GF/GP budget lapses (\$900+ million) including Medicaid caseload adjustments (\$120+ million)
- School aid FY 2022-23 budget lapses (\$152 million)

FY 2024-25 Executive Budget Appropriation Changes

(Dollars in Millions)

	Enacted	Executive Rec.	Change	
	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>Dollar</u>	<u>Percent</u>
General Fund/General Purpose	\$15,193.5	\$14,311.3	(\$882.2)	(5.8%)
State Restricted	<u>31,820.5</u>	<u>32,013.5</u>	<u>192.9</u>	0.6%
Total State-Source Appropriations	\$47,014.1	\$46,324.8	(\$689.3)	(1.5%)
Federal	\$32,866.2	\$33,869.9	\$1,003.7	3.1%
Local	297.0	301.1	4.1	1.4%
Private	223.2	225.7	2.5	1.1%
Total Adjusted Gross	\$80,400.5	\$80,721.6	\$321.1	0.4%

Numbers may not add due to rounding

Current Services Baseline Assumptions

Major GF/GP current services baseline increases in the FY 2024-25 executive recommendation include:

- \$229.2 million GF/GP for caseload adjustments. (DHHS and MDE)

- \$128.0 million GF/GP for state employee compensation-related costs. (Most budgets)

- \$135.0 million GF/GP for all other current services baseline costs. (Most budgets)
 - Including: \$27.1 million - Medicare Buy-In compliance; \$26.7 million - prisoner health care/nursing contracts; \$24.6 million - indigent defense commission grants; \$11.1 million - veteran homes operations.

GF/GP Ongoing Allocations

Total investments of \$437.6 million GF/GP for FY 2024-25. Major program increases include:

- \$214.8 million for existing program increases and new programs within DHHS.
 - Including: \$35.6 million - CCBHC expansion, \$30.3 million - Child Caring Institution Rates, \$15.0 million - Michigan Energy Assistance Program, \$14.0 million - Non-Direct Care Wage Increase.
- \$112.5 million net increase for university operations (2.5% increase), scholarships (\$36.0m), and fund shifts (both TANF replacement with GF/GP (\$127.8m) and GF/GP replacement with SAF (\$93.8m).
 - \$30.0 million increase to Michigan Achievement Scholarship which includes community college guarantee.
- \$37.9 million Gross (\$19.0 million GF/GP) to increase hourly childcare reimbursement rates by 10%. (MiLEAP)
- \$12.9 million to Michigan Indigent Defense Commission (MIDC) for implementation of standards 6 and 7 in LARA.

GF/GP One-Time Allocations

One-time allocations total \$769.3 million GF/GP for FY 2024-25. Major increases include:

- \$185.0 million (MDOT)
 - \$95.0 million - federal match; \$55.0 million - local bridge and culvert projects
- \$131.0 million (LEO)
 - \$25.0 million - development-ready sites; \$20.0 million enhancement for business attraction and community revitalization program; \$20.0 million enhancement of Going Pro program; \$20.0 million workforce needs
- \$90.0 million (EGLE)
 - \$40.0 million - federal match; \$25.0 million - electric vehicle charging stations

GF/GP One-Time Allocations

One-time allocations total \$769.3 million GF/GP for FY 2024-25. Major increases include:

- \$77.6 million (DHHS)
 - \$14.2 million - family planning local grants; \$10.0 million - nursing loan repayment
- \$76.8 million (DTMB)
 - \$31.5 million - provide flexible spending account state match; \$25.0 million - Make it in Michigan deposit
- \$60.0 million (MiLEAP)
 - Pilot program to provide childcare subsidies for childcare workers
- \$100.0 million deposit into the budget stabilization fund (BSF)

Education Funding

Major increases proposed for FY 2024-25 School Aid and Community Colleges include:

- \$316.0 million increase to provide district foundation allowances of \$241 per pupil (2.5%).
 - \$27.0 million savings by reducing cyber school foundation allowances to 80% of the foundation.
- Continues \$300.0 million (\$150.0 million ongoing and \$150.0 million one-time). for per-pupil mental health and school safety grants
- \$155.0 million (one-time) for literacy supports to districts and ISDs.
- \$150.0 million (one-time) for the Mi Kids Back on Track plan.
- \$106.2 million increase for Great Start Readiness program (GSRP).
- \$90.3 million grant program for services for low-income students.
- \$50.0 million (one-time) for grow your own programs.
- \$40.0 million increase for school lunch and breakfast program.
- \$9.0 million increase for 2.5% ongoing operations increase for community colleges.

MPERS Changes

Proposed changes to MPERS for FY 2024-25 School Aid and Community College include:

- \$675.4 million Gross reduction for other post-employment benefits (OPEB) contributions for districts (\$631.7 million) and community colleges (\$43.7 million).
- \$100.0 million Gross increase to reduce payroll contribution from 20.96% to 20.00% for both districts (\$94.3 million) and community colleges (\$5.7 million).

Revenue Sharing Allocations

Revenue Sharing changes in the executive recommendation for FY 2024-25 include:

- \$14.7 million (5.0%) ongoing increase for cities, villages, and townships (CVTs).
- \$12.8 million (5.0%) ongoing increase for counties.
- \$27.5 million (5.0%) one-time increase for CVTs and counties based on the following:
 - \$11.0 million (2.0%) one-time increase for CVTs and counties for local public safety initiatives.
 - \$16.5 million (3.0%) one-time increase for CVTs and counties that have obligated all local ARP funds.

Revenue Adjustments

Executive proposal for revenue adjustments includes:

- Environment, Great Lakes, and Energy
 - Revenue increase \$80.0 million
 - Increase landfill tipping fee from \$0.36 per ton to \$5.00 per ton
- Labor and Economic Opportunity
 - Revenue increase of \$60.0 million (one-time) through early return of Venture Michigan Fund investment proceeds for new Michigan Innovation Fund
 - Supports evergreen funds to provide capital support to startups
- Department of Natural Resources
 - Revenue increase \$17.2 million
 - Recreation passport opt out and resident veteran exemption
- Income Tax – Caregiver Tax Credit (Up to \$5,000)
 - GF/GP revenue reduction of \$22.5 million (FY 24) - \$37.5 million (FY 25)

Balance Sheets

Executive Recommendation – General Fund Balance Sheet

(Dollars in Millions)

	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>
Beginning Balance	\$3,934.6	\$1,106.2	\$10.8
 <u>Resources</u>			
Consensus Revenue Estimate: January 2024	\$13,597.4	\$14,022.2	\$14,707.6
Caregiver Tax Credit	(22.5)	(37.5)	(37.5)
Research and Development Tax Credit	--	--	(100.0)
Miscellaneous Adjustments	(27.6)	(27.6)	(27.6)
Revenue Sharing: Ongoing	(552.2)	(579.8)	(579.8)
Revenue Sharing: One-Time	<u>(10.5)</u>	<u>(27.5)</u>	<u>0.0</u>
Total Resources	\$12,984.6	\$13,349.8	\$13,962.7
 <u>Expenditures</u>			
Appropriations: Ongoing	\$12,706.8	\$12,705.8	\$13,591.9
Baseline adjustments	--	263.2	--
Caseload adjustments	--	229.3	--
Investments	--	451.9	--
Reductions/Revenue backfill	--	(89.3)	--
GF to School Aid: Ongoing	82.6	115.1	50.1
Appropriations: One-time	2,436.9	669.3	0.0
Supplementals – Current Law	103.7	--	--
Proposed Supplemental (2024-2)	287.5	--	--
BSF Deposit	100.0	100.0	--
Lapses	(46.5)	--	--
Other/Lawsuit Settlements	<u>142.0</u>	<u>--</u>	<u>--</u>
Total Expenditures	\$15,813.0	\$14,445.3	\$13,642.0
 Projected Ending Balance / (Shortfall)	 \$1,106.2	 \$10.8	 \$331.5

Executive Recommendation – School Aid Fund Balance Sheet

(Dollars in Millions)

	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>
Beginning Balance	\$2,192.5	\$564.1	\$12.0
 <u>Resources</u>			
Consensus Revenue Estimates: January 2024	\$17,946.8	\$18,307.0	\$18,706.0
GF/GP Grant	120.6	116.6	50.1
Detroit Public Trust Fund	72.0	41.0	0.0
Restricted Reserve Funds	767.8	328.1	0.0
Federal Aid	<u>2,218.1</u>	<u>2,272.8</u>	<u>2,272.8</u>
Total Resources	\$21,125.2	\$21,065.5	\$21,028.9
 <u>Expenditures</u>			
School Aid: Ongoing	\$19,135.6	\$19,192.4	\$20,555.2
January 2024 CREC Baseline Adjustments	57.8	99.6	(124.0)
Investments	--	993.0	--
MPSERS savings	--	(631.7)	(631.7)
School Aid: One-time	2,324.1	953.0	--
School Aid: Supplemental current law	161.1	--	--
School Aid: Supplemental request (2024-3)	43.3	--	--
 Community Colleges	 544.5	 465.9	 469.5
Higher Education	<u>487.3</u>	<u>545.5</u>	<u>545.0</u>
Total Expenditures	\$22,753.7	\$21,617.6	\$20,814.0
Projected Ending Balance / (Shortfall)	\$564.1	\$12.0	\$226.9

For more information about the state budget:

HFA website

<http://www.house.mi.gov/hfa/>

Contact Information

Ben Gielczyk, Associate Director: bgielczyk@house.mi.gov

(517) 373-8080