Analyzing the Governor’s FY2025 Budget Recommendations

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Citizens Research Council of Michigan

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The Big Picture: Revenue Situation Facing the Governor
January Revenue Estimates – General Fund

- GF/GP revenue estimates up somewhat
  - FY23: up 1.3%
  - FY24: up 2.7%
  - FY25: up 0.6%
  - FY26: up 3.9%

- FY26 revenue includes $550M coming back to GF/GP from Corporate Income Tax

Source: January 2024 CREC Final Summary.
GF/GP Ongoing Surplus Around $650M

- GF/GP revenue estimate for FY2025 exceeds FY2024 “baseline” by around $650M
- Room for about 4.9% growth in ongoing GF/GP budget
- Last year, gap was $2.5B

Source: Research Council calculations based on Senate Fiscal Agency balance sheet projections and Executive Budget Book.
January Revenue Estimates – School Aid Fund

- Very modest upward adjustments in forecasted SAF revenue
- Up less than 1 percent in each year

Source: January 2023 CREC Final Summary.
School Aid Fund: $550M Ongoing Surplus

- SAF revenue estimate for FY24 exceeds baseline spending around $550M
- Room for around 3% growth in ongoing SAF budget
- Last year, gap was $1.3B

Source: Research Council calculations based on Senate Fiscal Agency balance sheet projections and Executive Budget Book.
State’s “Money in the Bank” Has Fallen

Both GF/GP and SAF projected year-end balances are down from the unprecedented levels realized over the previous four fiscal years.

FY24 Year-End Balance Estimates:
- GF/GP: $1.1B
- SAF: $564M
Perspective: Inflation-Adjusted GF/GP Still Down

After climbing out of a two-decade hole, GF/GP revenue is expected to grow by close to $4B between FY2020 and FY2026

Still, adjusted for inflation, FY2026 revenue estimate is still down by 24% from FY2000

Source: Research Council calculations from Senate Fiscal Agency data. Inflation adjustment uses Detroit CPI-U data.
FY2025 Executive Budget

Highlights
### Summary of Changes – GF/GP and SAF

<table>
<thead>
<tr>
<th></th>
<th>FY2024</th>
<th>FY2025</th>
<th>$ Chg</th>
<th>% Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Appropriations</strong></td>
<td>$80.7B</td>
<td>$80.7B</td>
<td>$36M</td>
<td>0.1%</td>
</tr>
<tr>
<td><strong>General Fund/General Purpose</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ongoing Appropriations</td>
<td>$12.8B</td>
<td>$13.6B</td>
<td>$885M</td>
<td>6.9%</td>
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<tr>
<td>One-Time/Supplementals</td>
<td>$2.4B</td>
<td>$669M</td>
<td>-$1.8B</td>
<td>-72.5%</td>
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<tr>
<td><strong>School Aid Fund</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ongoing Appropriations</td>
<td>$17.8B</td>
<td>$18.2B</td>
<td>$459M</td>
<td>2.6%</td>
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<tr>
<td>One-Time/Supplementals</td>
<td>$1.6B</td>
<td>$708M</td>
<td>-$921M</td>
<td>-56.6%</td>
</tr>
</tbody>
</table>
## K-12 Budget Highlights

<table>
<thead>
<tr>
<th>Ongoing Funding</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Foundation Allowance Increase</strong></td>
<td>$370M</td>
</tr>
<tr>
<td>2.5% increase in foundation allowance plus increase in weighted funding categorical grants</td>
<td></td>
</tr>
<tr>
<td><strong>Student Mental Health and Safety Payments</strong></td>
<td>$150M</td>
</tr>
<tr>
<td>Portion of one-time student support payments added as ongoing component of budget</td>
<td></td>
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<tr>
<td><strong>Weighted Foundation Model Increase</strong></td>
<td>$125M</td>
</tr>
<tr>
<td>5% increase for elements of foundation that support high-need students (e.g. ESL, CTE high poverty)</td>
<td></td>
</tr>
<tr>
<td><strong>Great Start Readiness Program</strong></td>
<td>$64M</td>
</tr>
<tr>
<td>Eliminates income requires and provides support for an additional 6,800 children</td>
<td></td>
</tr>
<tr>
<td><strong>Special Education</strong></td>
<td>$50M</td>
</tr>
<tr>
<td>Millage equalization payments to support special education programs delivered by ISDs</td>
<td></td>
</tr>
<tr>
<td><strong>Before and After School Programs</strong></td>
<td>$50M</td>
</tr>
<tr>
<td><strong>Other New Investments</strong></td>
<td>$140M</td>
</tr>
<tr>
<td><strong>TOTAL NEW INVESTMENTS</strong></td>
<td>$949M</td>
</tr>
</tbody>
</table>
School Employee Retirement System Proposal

• Two Components of Michigan Public School Employees Retirement System (MPSERS)
  • Pension – $35B unfunded liabilities (64% funded) as of 9/30/22
    • Scheduled to be fully funded by 2038
  • Retiree Health - $89M unfunded liabilities (99% funded) as of 9/30/22
    • Projection: 100% funded by FY2025, therefore no amortization payment required

• MPSERS “funding floor” provision added to statute in 2018
  • Annual payments for unfunded liabilities (pension and retiree health) no less than prior year until ALL liabilities “fully paid”
  • As a result, actual contribution amounts for retiree health well-above actuarially-determined amounts since FY2020; pay-off unfunded liabilities much sooner
MPSERS Proposal - Budget Impacts

• Governor requesting statutory change to apply funding floor provision to each separate component of MPSERS unfunded liability (pension and retiree health) – allows redirection of $670M to other budget items

• Required employer contributions for unfunded liabilities: no statutory change requested
  • State law caps employer contributions at 20.96% of payroll (pension and retiree health combined)

<table>
<thead>
<tr>
<th>Summary of Change (in millions)</th>
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<tbody>
<tr>
<td></td>
<td>Pension UAAL Contribution</td>
</tr>
<tr>
<td>FY25, without statutory change</td>
<td>$3,273.2</td>
</tr>
<tr>
<td>FY25 Executive Budget</td>
<td>$3,273.2</td>
</tr>
<tr>
<td>Difference</td>
<td>$0.0</td>
</tr>
</tbody>
</table>
Increased Support for Financial Aid Programs

$30M increase for Michigan Achievement Scholarships
  • Community College Guarantee would provide full coverage for tuition for any future MI high school graduate
  • Plus $1,000 for income-eligible students for other costs (e.g. housing)

$20M increase for Tuition Incentive Program for Medicaid-eligible students

On the other end, proposal begins phase out of State Competitive Scholarships and Michigan Tuition Grants
Statutory (discretionary) revenue sharing:
- 5% ongoing increase for all local units of government ($27.5M)
  - One-time increase equivalent to 5% growth ($27.5)
    - 2% for public safety
    - 3% local fiscal recovery fund incentive
Long-Term Budget Outlook

Michigan Budget Looks “Normal” Again
• In actual dollars, FY19 budget $58B; by FY23 the budget grew to over $85B

• Growth was largely driven by huge influx of federal revenue as well as one-time spending out of state fund balances

• Proposed FY25 budget returns to pre-COVID trend

Source: Research Council analysis of Senate Fiscal Agency and House Fiscal Agency data
Tax Policy Proposals

- Research and Development Tax Credit ($100M): tax credit for companies engaged in qualified research and development efforts

- Caregivers Tax Credit: credit of up to $5,000 for caregiving expenses on behalf of aging or sick relatives

<table>
<thead>
<tr>
<th>GF/GP Revenue Foregone</th>
<th>FY2024</th>
<th>FY2025</th>
<th>FY2026</th>
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</thead>
<tbody>
<tr>
<td>R&amp;D Tax Credit</td>
<td></td>
<td></td>
<td>$100M</td>
</tr>
<tr>
<td>Caregivers Tax Credit</td>
<td>$22.5M</td>
<td>$37.5M</td>
<td>$37.5M</td>
</tr>
<tr>
<td>Total Revenue Loss</td>
<td>$22.5M</td>
<td>$37.5M</td>
<td>$137.5M</td>
</tr>
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</table>
GF/GP: Room for Only Inflationary Growth

Room for only 2.3 percent GF/GP ongoing budget growth in FY26

GF/GP fund balance would largely disappear by the end of FY25

Source: Research Council calculations Senate Fiscal Agency balance sheet projections and Executive Budget Book..
SAF: Only Room for 1% Growth in FY26

Room for very modest budget growth in FY26 of around $212M (just over 1 percent)

SAF fund balances would be largely eliminated by end of FY25

Source: Research Council calculations Senate Fiscal Agency balance sheet projections and Executive Budget Book..
What About the Income Tax Rate?

- If courts rule income tax rate cut should be permanent, FY24 GF/GP revenue falls $530M, and revenue falls by $760M annually thereafter.
- $1.3B budget hole across both FY24 and FY25 would immediately necessitate major budget revisions.
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