

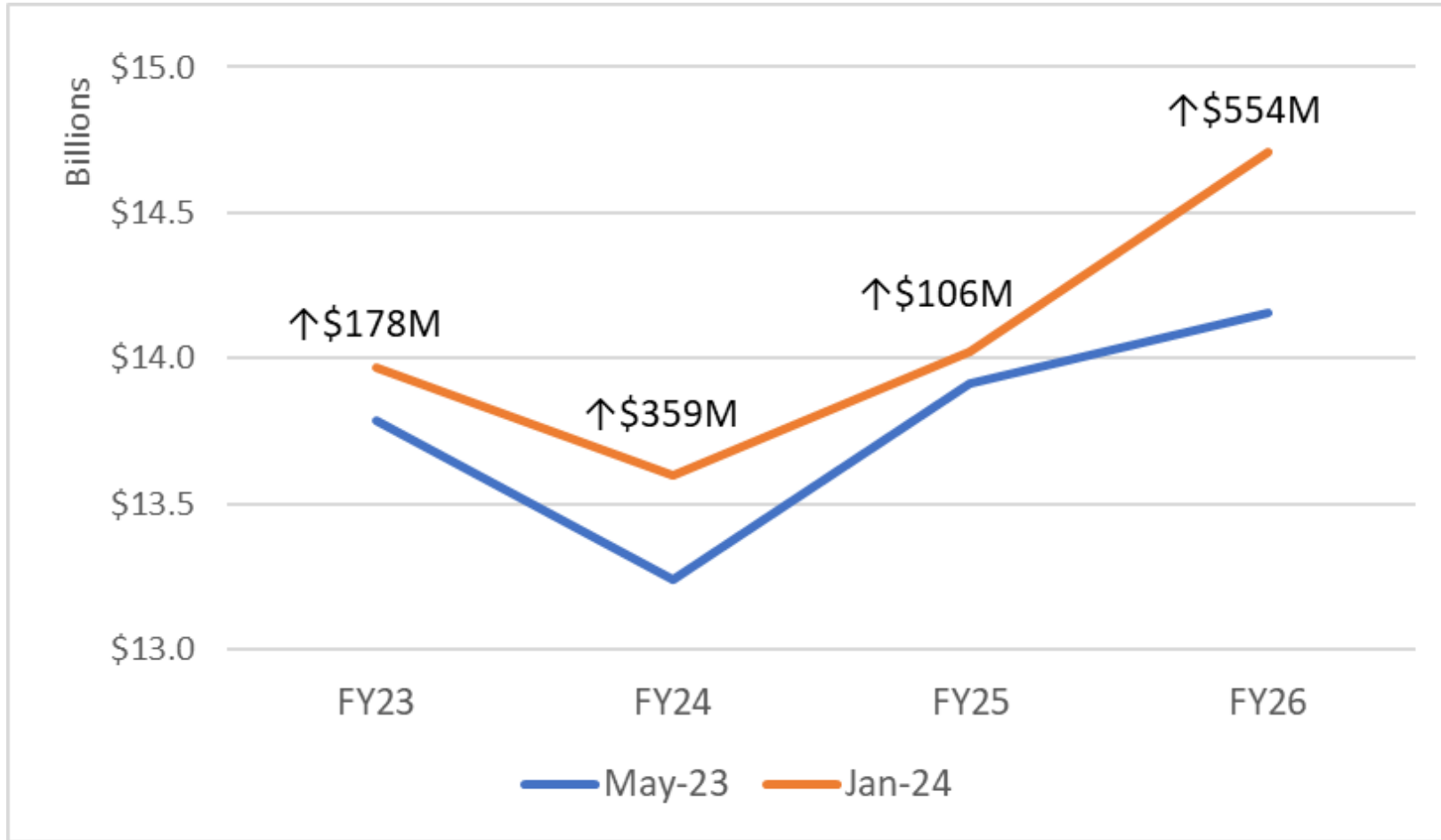
# Analyzing the Governor's FY2025 Budget Recommendations

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MSU Institute for Public Policy and Social Research – Policy Forum  
February 15, 2024

# The Big Picture: Revenue Situation Facing the Governor

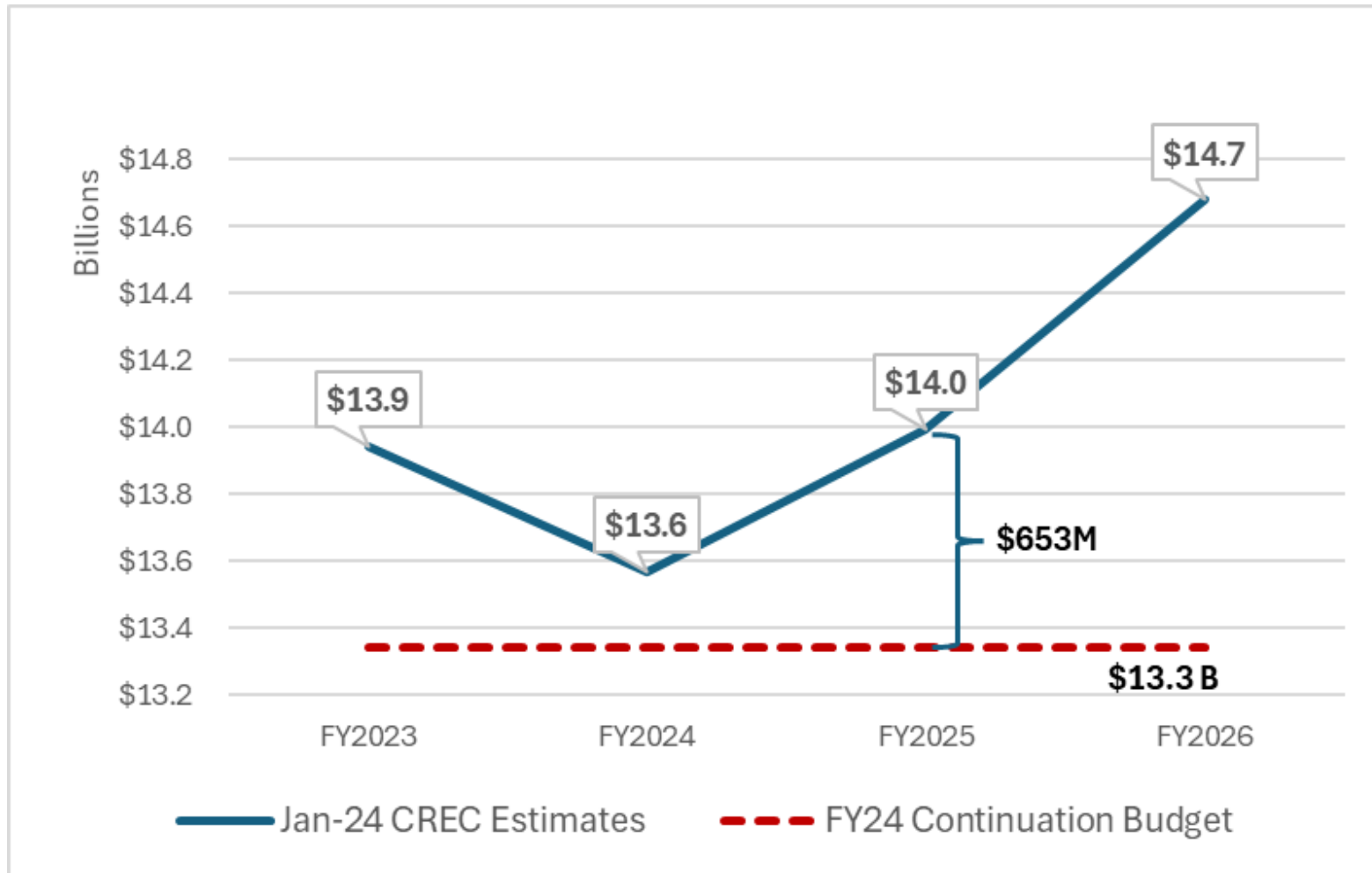
# January Revenue Estimates – General Fund



- 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.

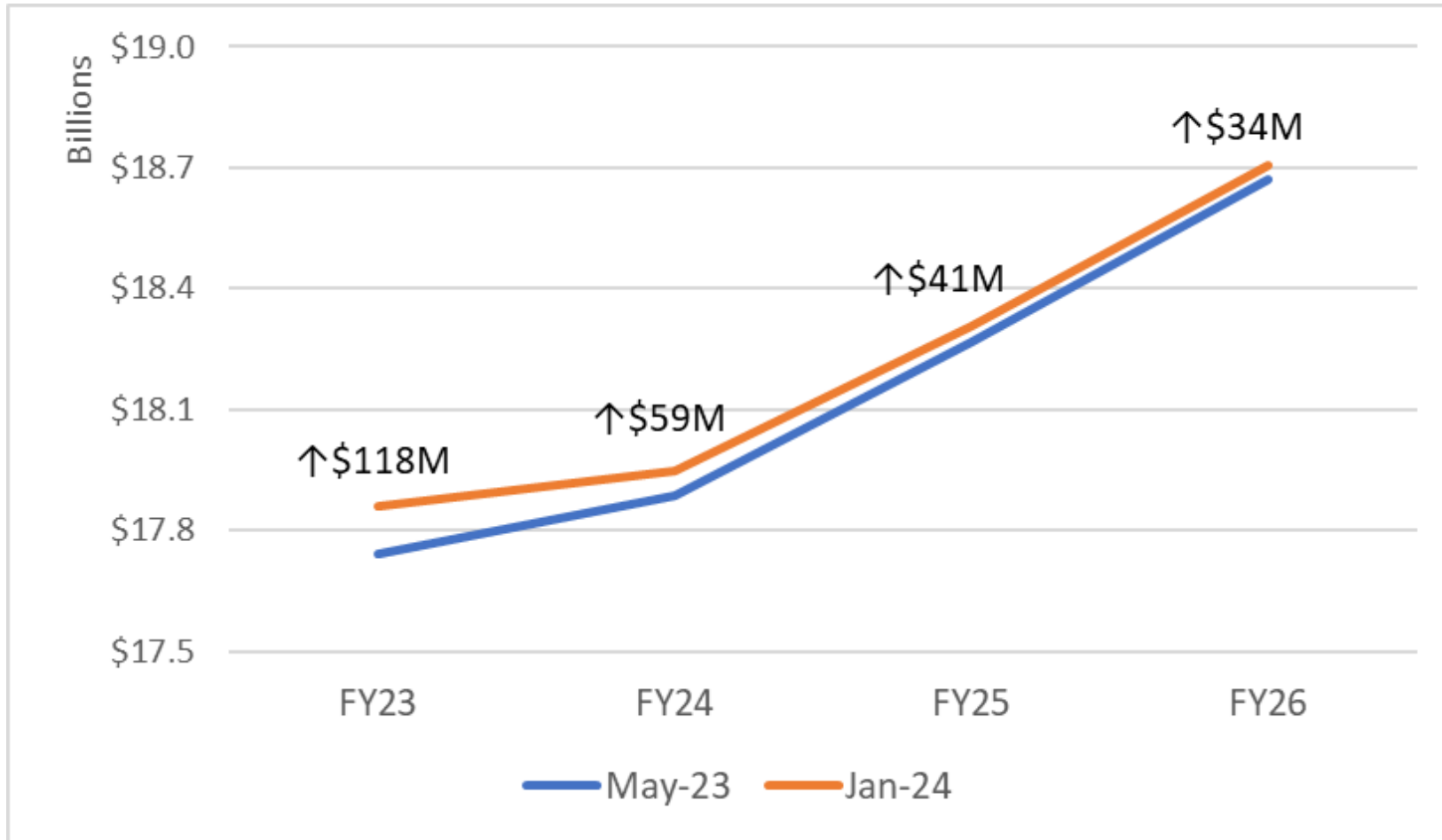
# GF/GP Ongoing Surplus Around \$650M



- 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..

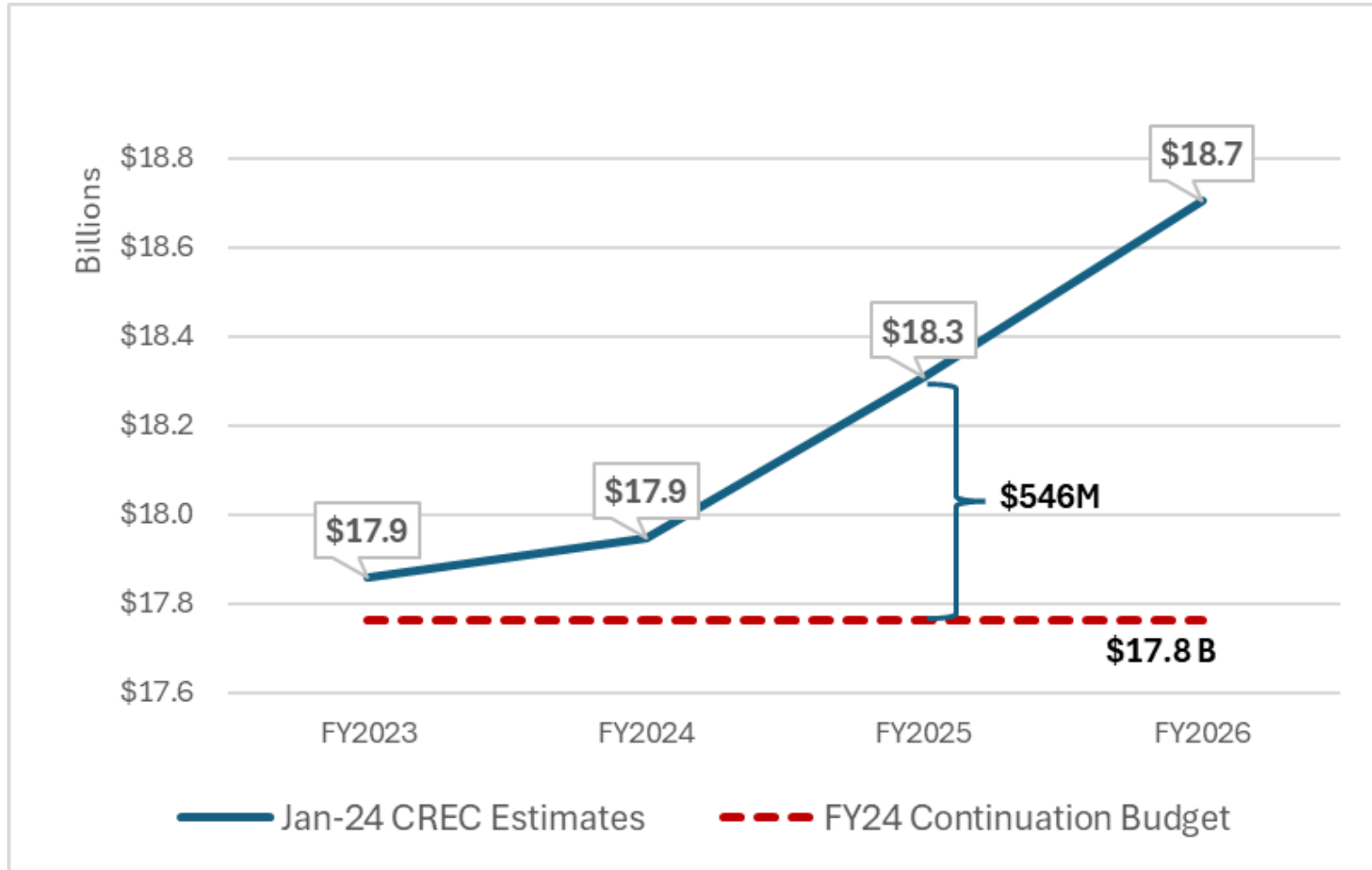
# January Revenue Estimates – School Aid Fund



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

Source: January 2023 CREC Final Summary.

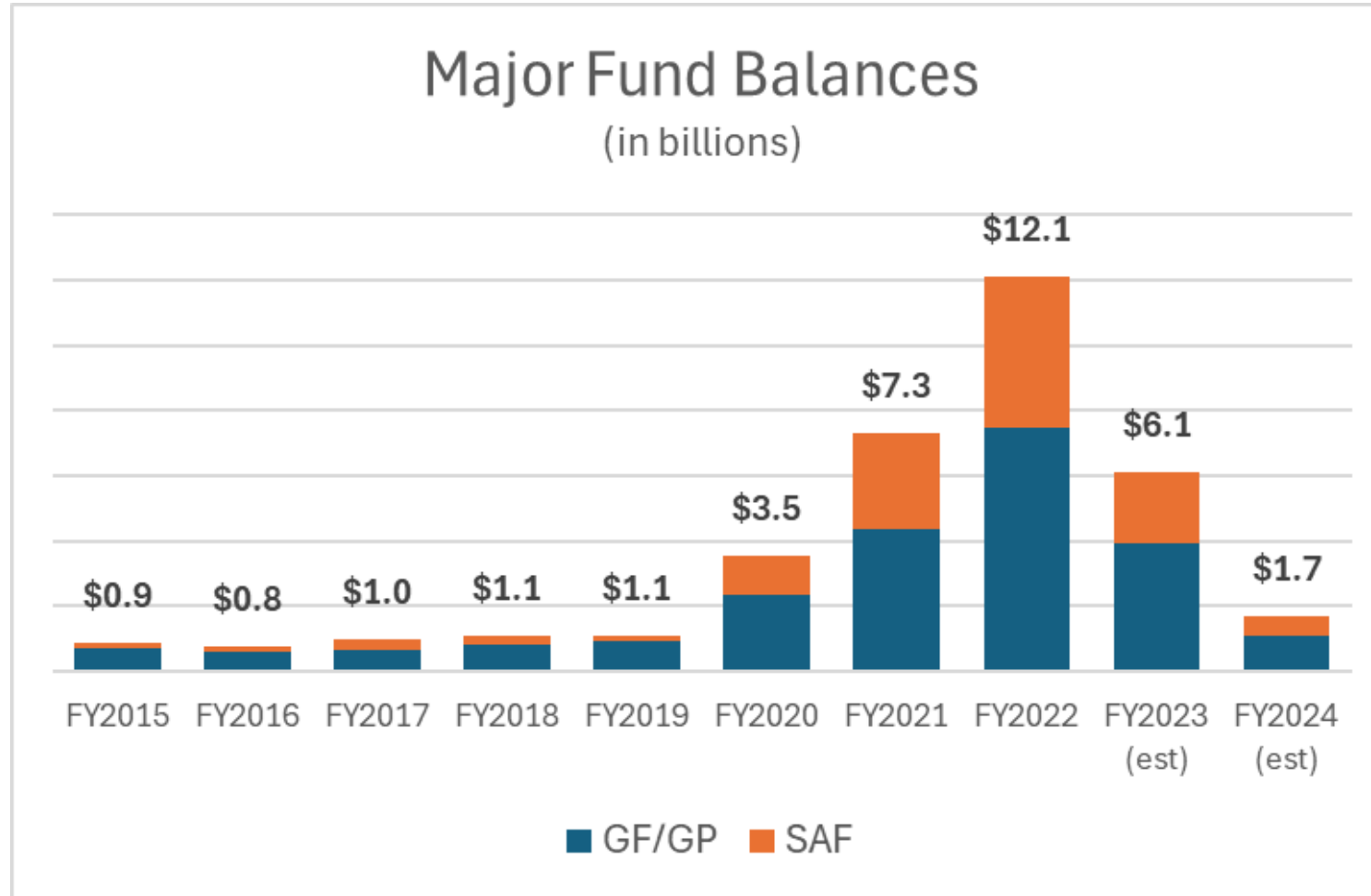
# School Aid Fund: \$550M Ongoing Surplus



- 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

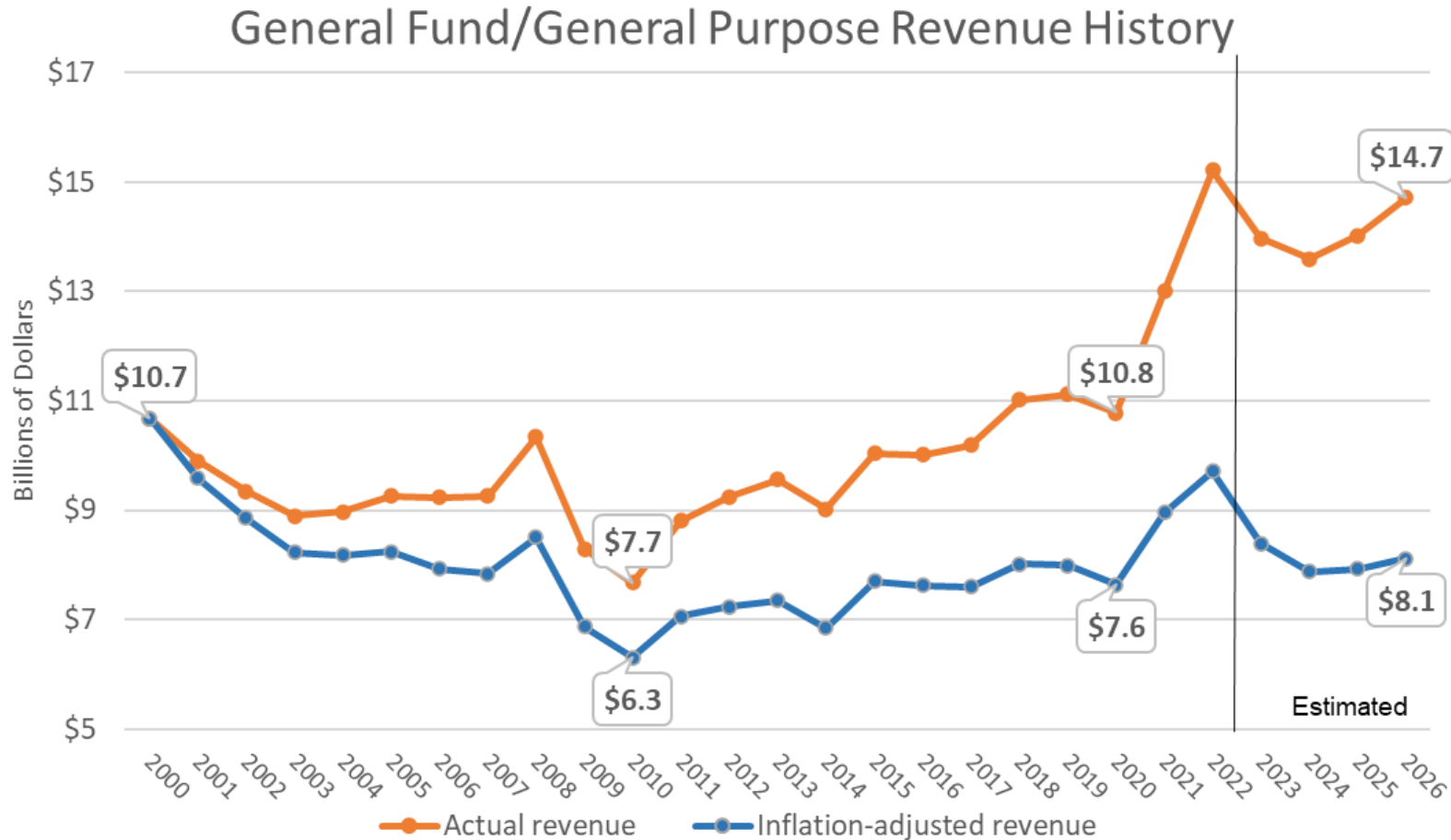


Both GF/GP and SAF projected year-end balances are down from the unprecedented levels realized over the previous four fiscal years.

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

	FY2024	FY2025	\$ Chg	% Chg
<b>Total Appropriations</b>	<b>\$80.7B</b>	<b>\$80.7B</b>	<b>\$36M</b>	<b>0.1%</b>
<b>General Fund/General Purpose</b>				
Ongoing Appropriations	\$12.8B	\$13.6B	\$885M	6.9%
One-Time/Supplementals	\$2.4B	\$669M	-\$1.8B	-72.5%
<b>School Aid Fund</b>				
Ongoing Appropriations	\$17.8B	\$18.2B	\$459M	2.6%
One-Time/Supplementals	\$1.6B	\$708M	-\$921M	-56.6%

# K-12 Budget Highlights

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

# School Employee Retirement System Proposal

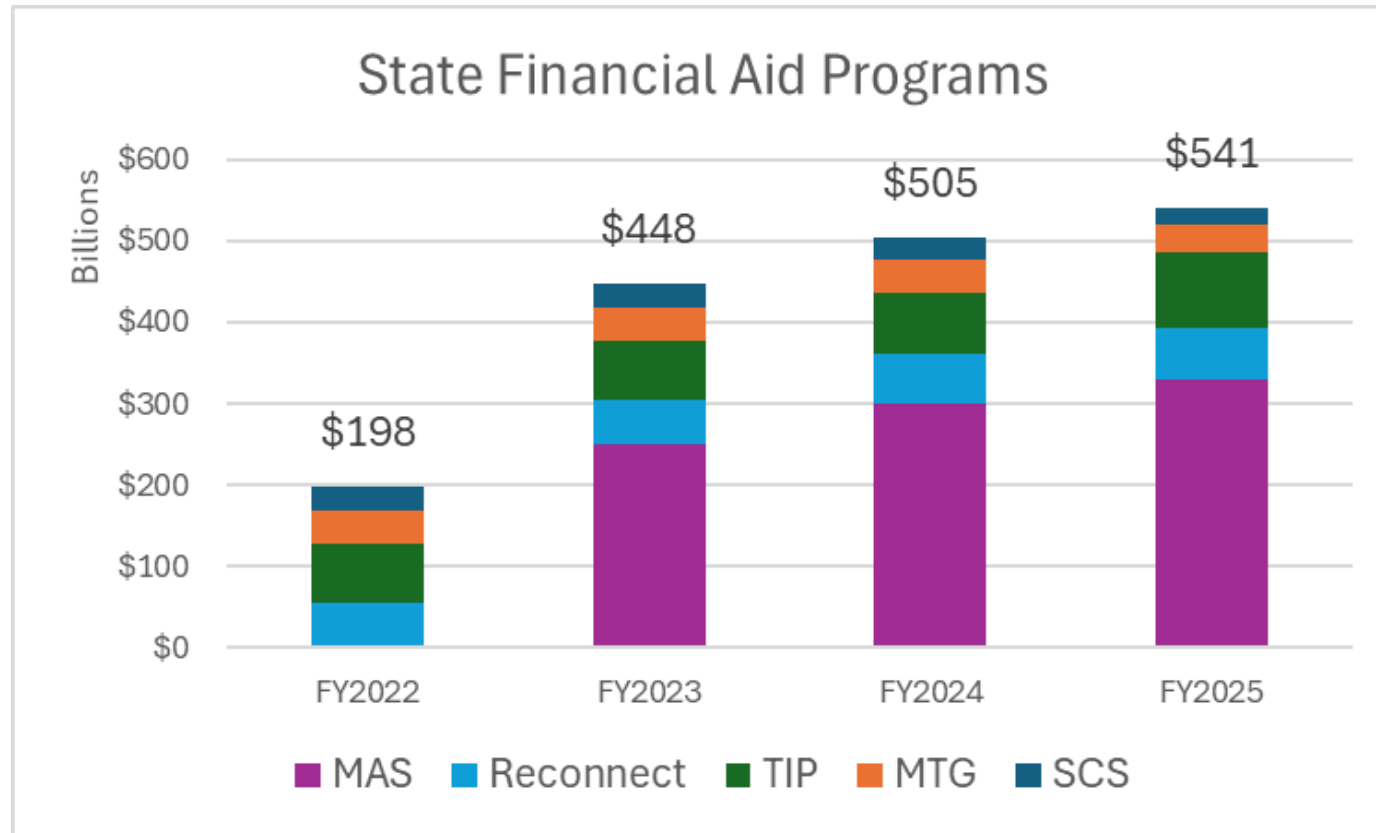
- Two Components of Michigan Public School Employees Retirement System (MPERS)
  - Pension – \$35B unfunded liabilities (64% funded) as of 9/30/22
    - Scheduled to be fully funded by 2038
  - Retiree Health - \$89M unfunded liabilities (99% funded) as of 9/30/22
    - Projection: 100% funded by FY2025,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

# MPERS Proposal - Budget Impacts

- Governor requesting statutory change to apply funding floor provision to **each separate component** of MPERS 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)

Summary of Change (in millions)								
	Pension UAAL Contribution	OPEB UAAL Contribution	Total UAAL Contribution	Employer Payroll	Capped Employer Share	State Share	Sec. 147c (K-12 and Libraries)	Sec. 201(5) (Community Colleges)
FY25, <u>without</u> statutory change	\$3,273.2	<b>\$679.8</b>	<b>\$3,953.0</b>	\$10,410.9	\$2,182.1	<b>\$1,770.9</b>	\$1,671.1	\$99.8
FY25 Executive Budget	\$3,273.2	<b>\$10.4</b>	<b>\$3,283.6</b>	\$10,410.9	\$2,182.1	<b>\$1,101.5</b>	\$1,039.4	\$62.1
<b>Difference</b>	<b>\$0.0</b>	<b>\$ (669.4)</b>	<b>\$ (669.4)</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$ (669.4)</b>	<b>\$ (631.7)</b>	<b>\$ (37.7)</b>

# Increased Support for Financial Aid Programs



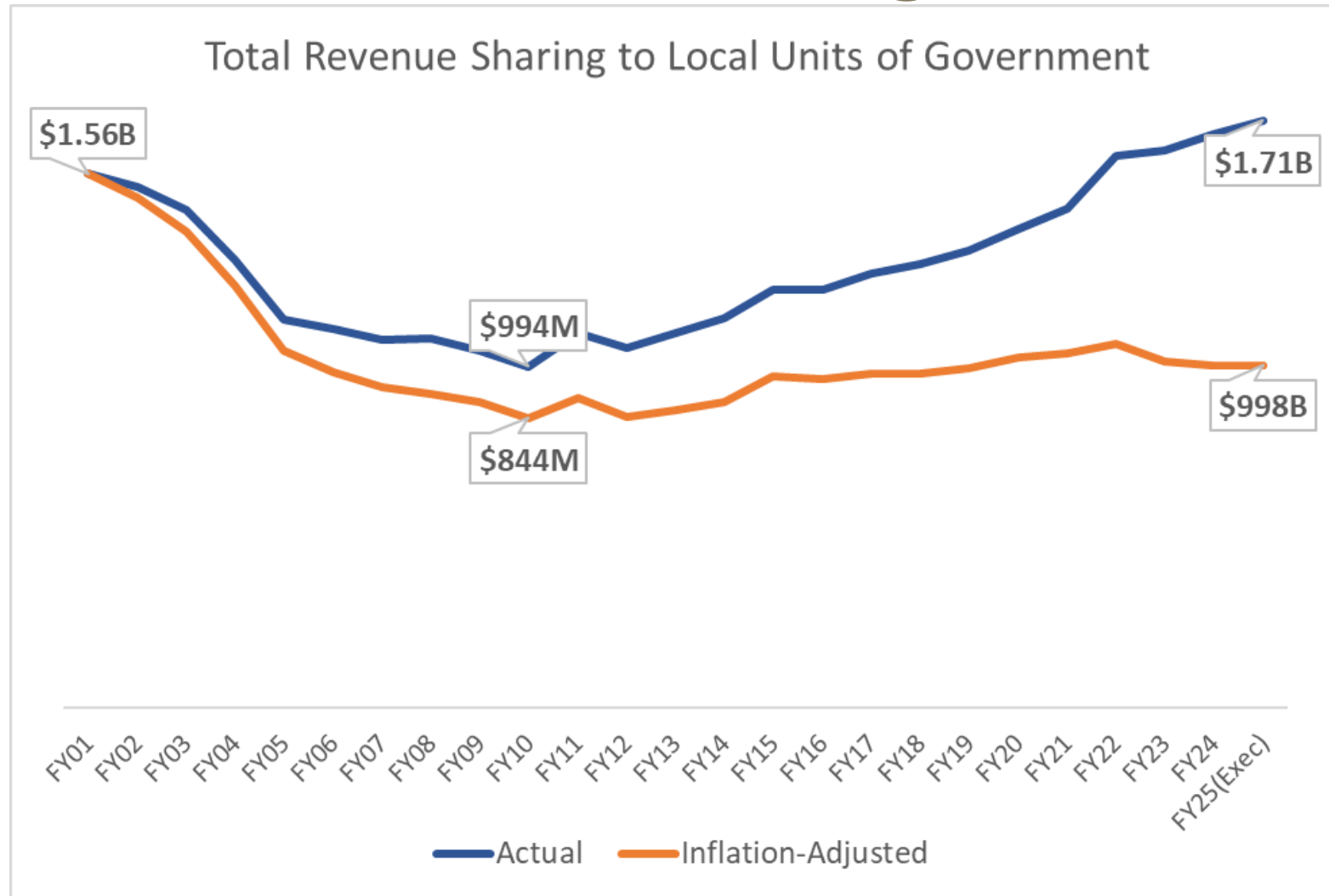
\$30M increase for Michigan Achievement Scholarships

- 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

# Local Revenue Sharing



Statutory (discretionary) revenue sharing:

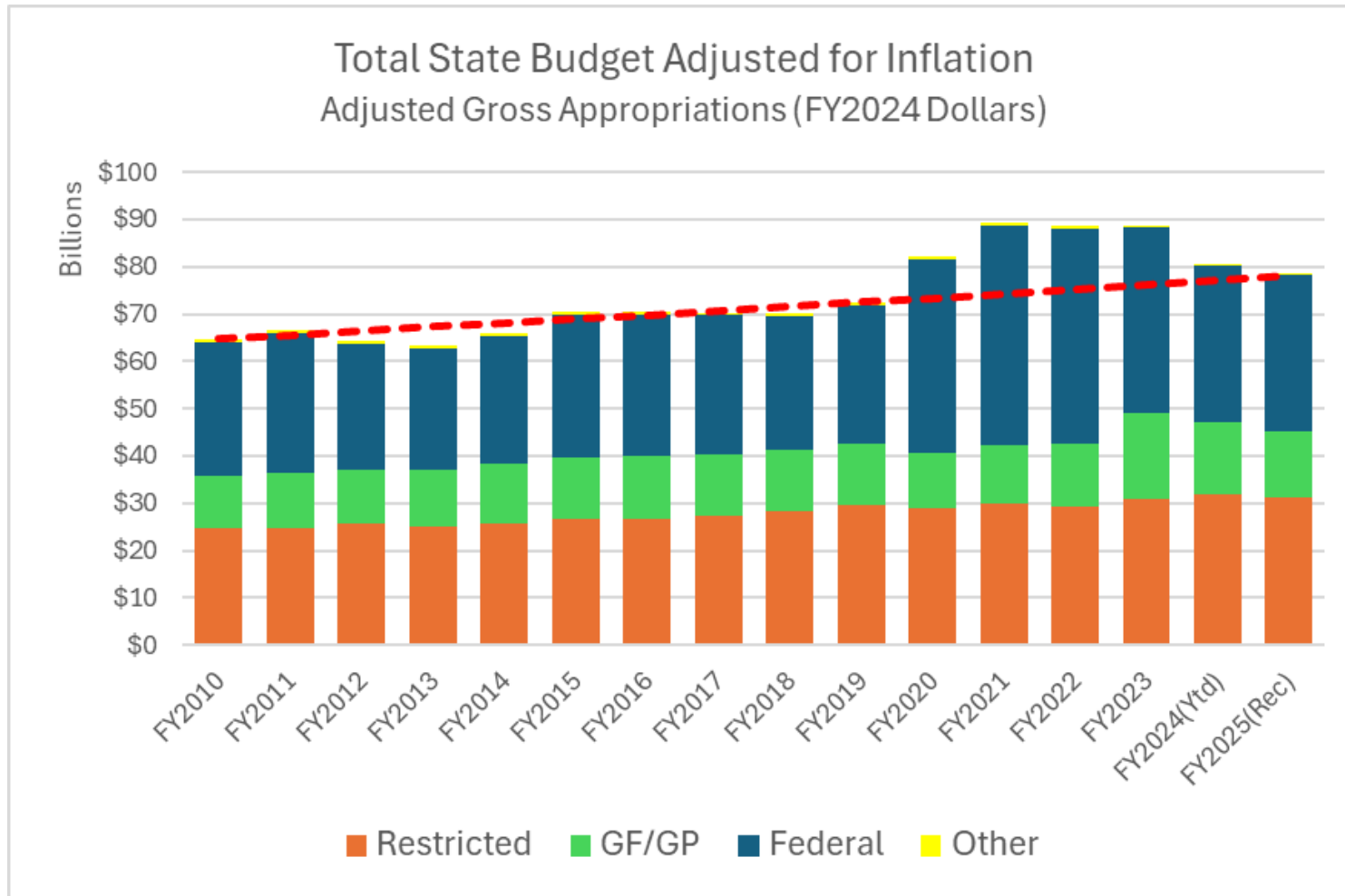
- 5% ongoing increase for all local units of government (\$27.5M)
- One-time increase equivalent to 5% growth (\$27.5)
  - 2% for public safety
  - 3% local fiscal recovery fund incentive

# Long-Term Budget Outlook

Michigan Budget Looks “Normal” Again



# Perspective on Recent Budget Growth



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

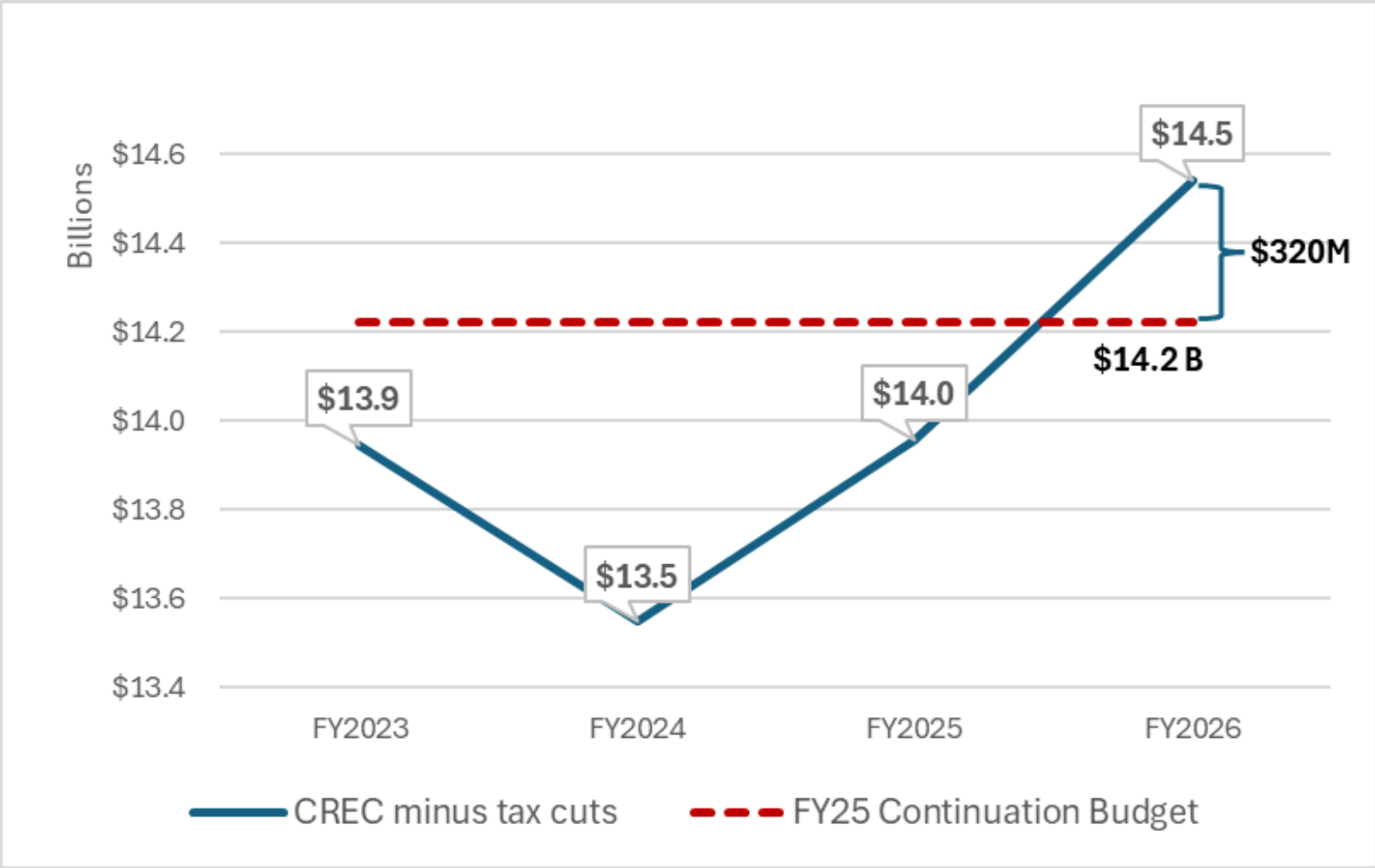
- In actual dollars, FY19 budget \$58B; by FY23 the budget grew to over \$85B
- Growth was largely driven by huge influx of federal revenue as well as one-time spending out of state fund balances
- Proposed FY25 budget returns to pre-COVID trend

# 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

<b>GF/GP Revenue Foregone</b>	<b>FY2024</b>	<b>FY2025</b>	<b>FY2026</b>
R&D Tax Credit			\$100M
Caregivers Tax Credit	\$22.5M	\$37.5M	\$37.5M
<b>Total Revenue Loss</b>	<b>\$22.5M</b>	<b>\$37.5M</b>	<b>\$137.5M</b>

# GF/GP: Room for Only Inflationary Growth

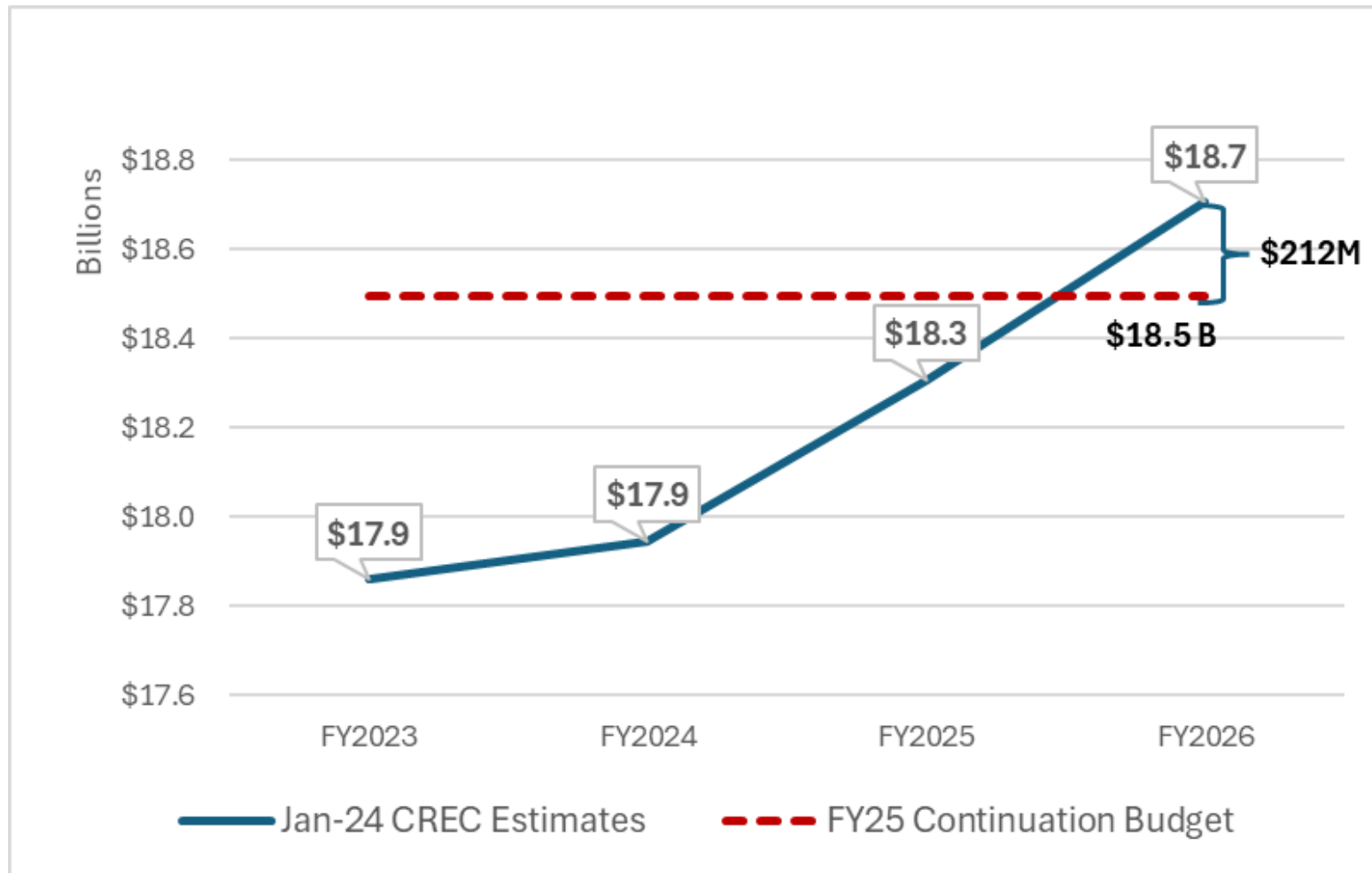


Room for only 2.3 percent GF/GP ongoing budget growth in FY26

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

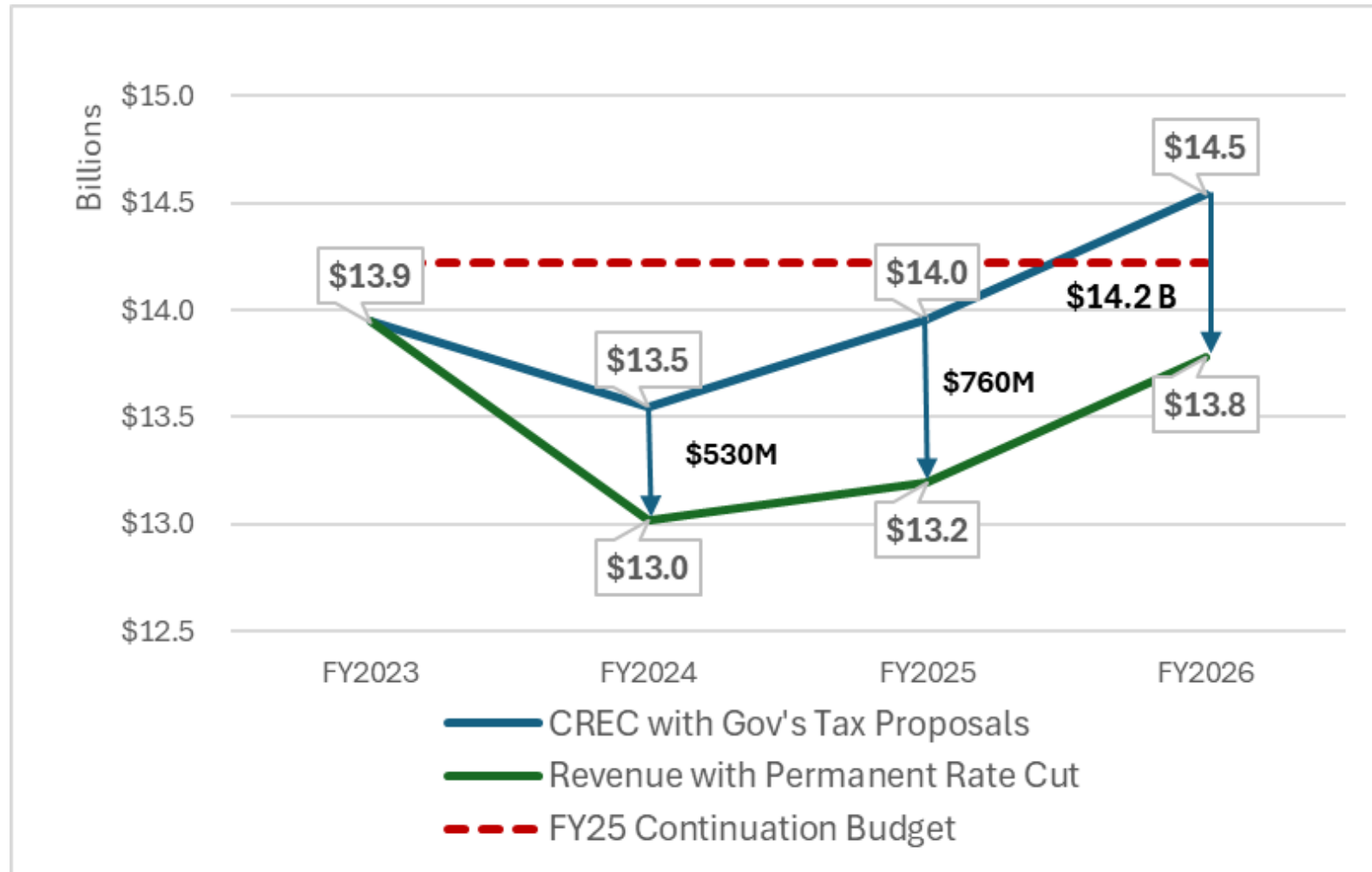


Room for very modest budget growth in FY26 of around \$212M (just over 1 percent)

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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