RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
EXECUTIVE OFFICE
LANSING

BRIAN CALLEY
LT. GOVERNOR

MEMORANDUM

To: Members of the Delta Joint Government Committee

From: Dave Nyberg, Director
Northern Michigan Office

Date: Wednesday, February 13, 2013

Subject: Summary of FY 2014-15 Budget Proposal Delivered to the Michigan Legislature

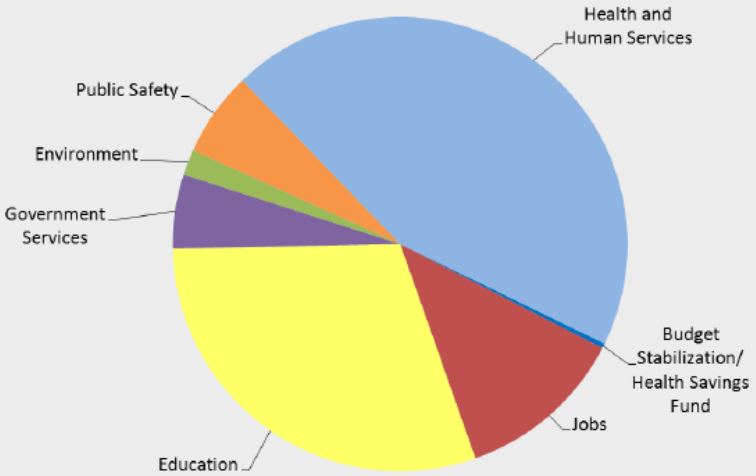
- Governor Rick Snyder, CPA
- Lt. Governor Brian Calley
- Budget Director John Nixon, CPA

Continuing Michigan's move as the comeback state – Key points

- Putting the budget in structural balance for the long term has helped Michigan turn the corner to become the comeback state in the nation:
  - Unemployment is down
  - Home sales are up
  - Personal income growth is 9th best in the nation
  - The state GDP growth is 6th best in the country
  - Our state's population is growing again
  - Michigan economy is at a 10-year high.
  - Bloomberg has ranked Michigan 2nd in the nation in economic health in their State of the States report.
- This budget continues the same sound financial principles as the past two budgets which successfully eliminated Michigan's perpetual $1.5 billion deficit – It is the third in a row that establishes a fiscally responsible trend of spending within our means, while making the right, strategic investments for our future and quality of life.
  - Governor Snyder is focusing on key items that will lead to continued growth, strengthen our economy, create more and better jobs, ensure a strong future for our kids, and that make a real difference for Michiganders.
- FY 2014 priorities include roads/infrastructure, education, human services, job growth, public safety and access to health care for low-income residents.
- Importantly, the state is also paying off its debt, reducing its long term liabilities (not just paying the interest on the credit card, but paying off the principal).
- Spending is again tied to measured outcomes through the use of performance metrics, continuing the strong focus on value for money.

- The Rainy Day Fund continues to grow with this budget – the state is being responsible by saving for the future. When Gov. Snyder took office, the balance in the Rainy Day Fund was only $2.2 million or enough to run state government for a mere 30 minutes. We have continued to make deposits, and this budget proposes another $75 million deposit, bringing the 2014 Rainy Day Fund balance to $580 million. With the proposal of a newly created health savings fund for Medicaid expansion and a proposed deposit of $100 million, the overall total in the state's savings account would total $680 million.
- Total FY 14 Adjusted Gross Spending=$50.9 Billion (75% to Education & Health/Human Services)

Health and Human Services	$22.6 Billion
Education	$15.3 Billion
Jobs	$6.1 Billion
Public Safety	$3.1 Billion
Government Services	$2.7 Billion
Environment	$922 Million
Budget Stabilization / Health Savings Fund	$178 Million
FY 2014 Total	$50.9 Billion



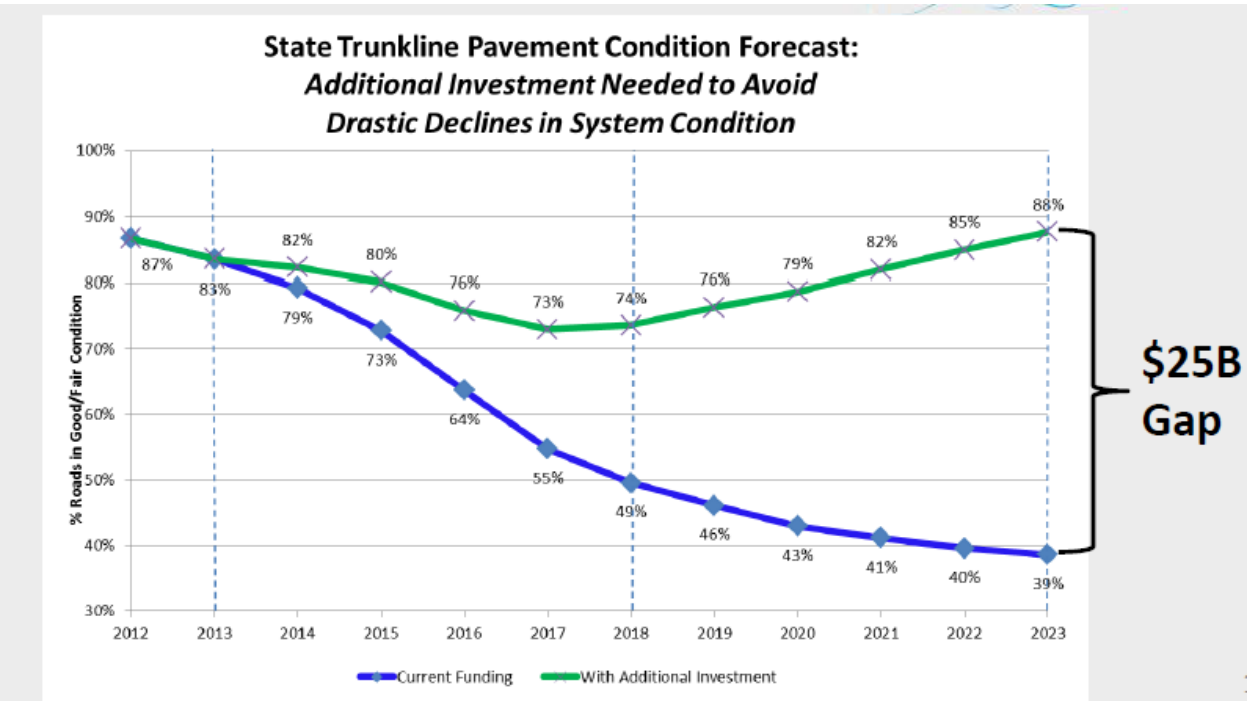
Total FY 2014 Adjusted Gross Spending: $50.9 Billion

Investing in Infrastructure

- The Governor's proposed FY 14-15 Budget represents an investment in the future, particularly in our state's crumbling infrastructure (Roads, bridges, public transit, rail, harbors). Without adequate funding, they will continue deteriorate at an accelerated pace.
- A modern, well-maintained infrastructure is vital to Michigan's future. From roads to airports, waterways to rail lines, these transportation links are Michigan's lifeblood.
- Four layers to a common sense outcome:
  - Make regular payments to avoid a huge bill further down the road
  - Save on vehicle repair costs
  - Grow the economy by creating jobs
  - Save nearly 100 lives per year
- The governor's proposal not only generates badly needed revenue to invest in state and local transportation needs, but also modernizes the collection and distribution of the revenue.
- Details - Governor's strategy generates $1.2 billion a year by:
  - Increasing motor fuel taxes to a flat rate of 33 cents per gallon while eliminating the disparity between gasoline and diesel fuels. This new per-gallon rate will raise $728 million in FY14 and stay in effect for two years.

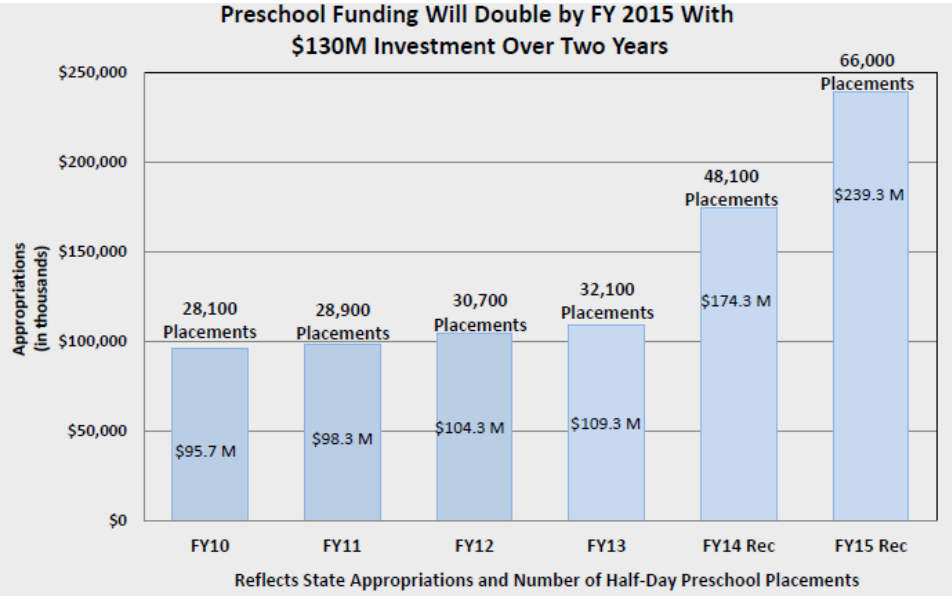
- Beginning in FY16, the per-gallon rate will be adjusted through a dynamic new formula that modernizes the collection of motor fuel taxes and better responds to market conditions.
- Increasing heavy-vehicle truck and trailer registration fees by 25%, and light-vehicle registration fees by 60%, raising an additional $508 million.
    - This proposal will increase state-administered user fees an average of $120 per vehicle, but since these are basic user fees, they will fluctuate based on the amount of use and the vehicle's value.
- Giving counties the option of raising an additional $280 million annually for locally directed investment.
- Updating Michigan's archaic road funding distribution formula (Public Act 51 of 1951). For perspective, PA 51 predates congressional approval of construction of the nation's interstate freeway system by five years (Federal Highway Act of 1956).

- <u>Key Statistics</u>
    - Michigan has 120,000 miles of roads. Revenues spent on roads are divided between MDOT, 83 counties and 533 municipalities.
    - Michigan's system of roads is the 8th largest in the nation. We also have the 24th largest highway system in the country.
    - Michigan's local roads are the nation's 6th largest city street system and the 4th largest county road system.
    - About 96 billion annual vehicle miles a year are traveled on Michigan's roads (48.7 billion on trunkline roads, 47.2 billion on nontrunkline roads).
    - The trunklines over which MDOT has jurisdiction carry 51% of passenger traffic and 64% of commercial traffic in the state.
    - ***Michigan faces an annual shortfall of about $1.2 billion a year just to maintain state and local roads. We've had no new investment in our roads since 1997***. Despite these challenges, MDOT was able to maintain its goal of keeping 90 percent of its trunkline pavement in good or fair condition from 2007 to 2011.
        - Unless the revenue shortfall is addressed, though, the significant progress made over the past several years in improving pavement service life will be lost.
        - If we fail to act: The number of state trunklines in good/fair condition will fall from 83% in 2013 to a potentially debilitating 49% in five years and to 39% in 10 years.

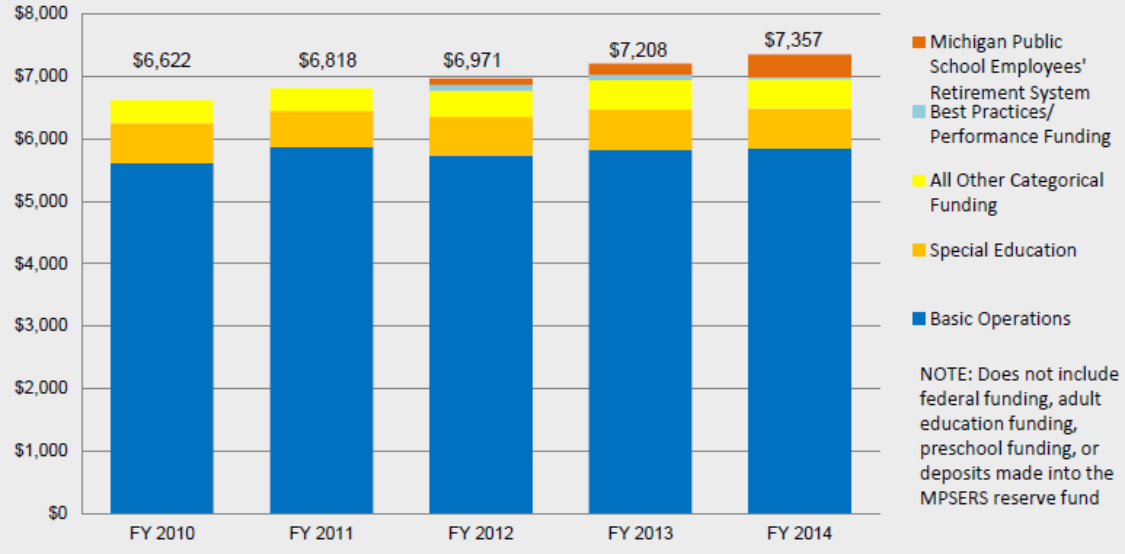


Creating a P-20 Educational System

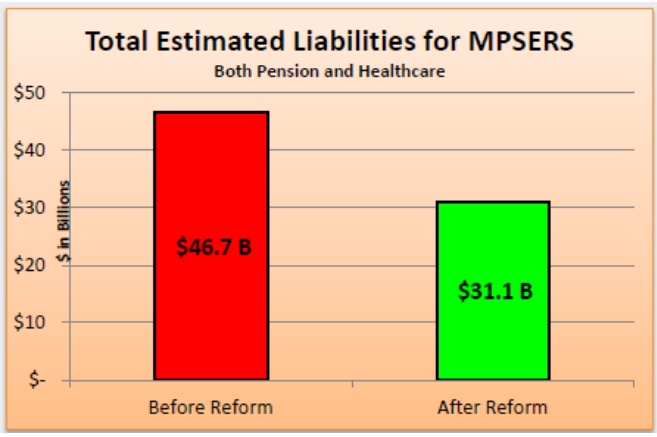
- Total investment = $15 Billion ($13.1 B from State)
- **Early Childhood – Investing in our children early**
  - $130M investment over the next two years (More than double the 2011 investment)
  - 2014 Investment - $65M total
    - Creating 16,000 new placements
    - Increased funding per slot from $3,400 to $3,625
  - 2015 Investment – adding another $65M
    - Creating an additional 18,000 placements

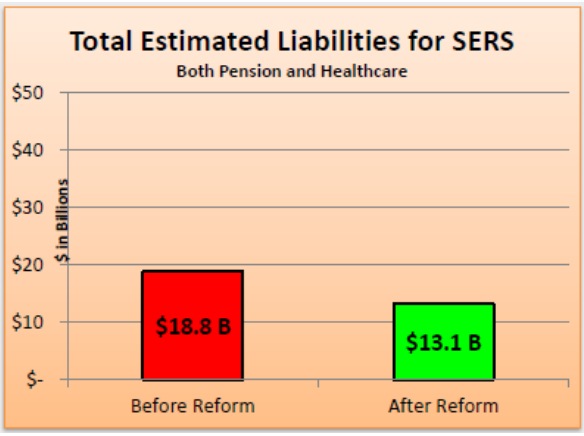


- **K-12 – Continuing focus on student growth**
  - $13.2B total investment, including $11.5B in state funds (increase of $227M)
  - This budget recommends an increase in funding for education of 2 percent at all levels, including K-12, community colleges, and higher educations.
  - Includes an equity payment to further close the foundation allowance funding gap ($24M to raise the lowest funded districts to $7,000 per pupil)
  - Continues performance and best practices funding, as well as technology grants
  - Supports online courses
  - K-12 Per Pupil School Aid Appropriations – FY 2010 to FY 2014:



- Retirement Reforms made in 2012 ensure long-term savings of $2,200 per citizen and more than $10,000 per student
- The state is providing fiscal relief to districts by paying for the unfunded accrued liability in the school retirement system over and above the statutory cap of 20.96 percent. This $403 million cost being picked up by the state translates to an average of $250 per pupil (per-pupil may vary by district).





- **Higher Education**
    - Total funding of $1.4B for universities, a $31.4M increase

Expanding Medicaid

- This was a decision that was studied closely and thoroughly. Ultimately, the governor believes moving forward to expand Medicaid under the Affordable Care Act makes sense for Michigan. It's a fiscally sound decision with appropriate safeguards that will be good for our citizens and good for our economy.
- Increasing the eligibility for Medicaid recipients to 133% of the Federal Poverty Level will provide health care for 322,000 uninsured Michigan citizens in the first year and more activity in the state, reduce prison recidivism and decrease the state's long-term health care liabilities.
- Additional benefits to Michiganders:
    - Creating access to primary care providers and preventive care will reduce more costly emergency room visits and decrease uncompensated care costs, which lead to increased costs for everyone.
    - As a result of the Affordable Care Act employers face financial penalties if their workers do not have access to affordable health insurance beginning in 2014. This action will lessen the cost/burden on businesses in Michigan by reducing the amount of uninsured by 46% and ensuring our small and medium businesses can focus on retaining and creating more and better jobs.
    - While this is a federal program and not necessarily one that Michigan would have created, it is critical that the state be in the driver's seat as much as possible, as we are in a much better position to understand and meet the needs of Michiganders than the federal government.
    - If coverage was not expanded, Michigan would be leaving money on the table and sending those resources to other states.
    - This move also greatly reduces uncompensated care costs caused by those who are unable to pay emergency room bills. These costs end up being passed on to citizens in the form of higher insurance prices.
        - The Kaiser Commission on Medicaid and the Uninsured issued a report in November that estimated that Michigan's savings from decreasing uncompensated care through Medicaid expansion is expected to reach $351 million through 2022.
    - Reducing Prison Costs/Recidivism
        - A large portion of the prison population suffers from serious mental illness and substance abuse and creating access to behavioral health services will reduce both the amount of prisoners as well as recidivism.
        - Even a modest reduction in recidivism would save over $100 million in the next 10 years.
- Leveraging federal funds for Michigan

- The Federal Government will cover 100% of the expansion for the first three years then 90% beginning in 2020. Michigan will ultimately be responsible for 10% of the cost to insure an additional 470,000 citizens.
- More than $20 billion in federal funding will flow to Michigan from 2013-2023.
- The State General Fund will experience savings of $1.2 billion from 2013-2020 as a result of expansion. The change is GF neutral beyond 2020.
- If not expanded, tax dollars from Michigan would be sent to cover health care for residents of other states that choose to participate.

Emergency Dredging

- The Issue:
  - Current water levels of Lake Michigan and Lake Huron are at an all-time low, 16 inches lower than levels from one year ago. Lake Superior is one inch lower than its level from one year ago. These levels are expected to continue dropping.
  - As lake levels continue to decrease, dredging needs to increase in order to allow boats to access harbors. If dredging needs are not addressed, some harbors will close.
- To estimate the cost of emergency dredging, a survey of all 83 public harbors (63 communities, 19 state, and one federal harbor) was conducted in January, of which 82 responded.
- Based on these surveys, the following investments are needed to dredge public harbor channels and basins:
  - $5,550,000 Federal areas of responsibility (Army Corps of Engineers)
  - $749,700 State areas of responsibility
  - $14,661,320 Local areas of responsibility
- In his budget proposal, Governor Snyder announced that the State of Michigan would seek to implement an Emergency Dredging Plan
  - DNR Parks and Recreation Division will redirect nearly $8.8 million of Waterways funding from existing appropriations and allocate $0.7 million of uncommitted Waterways funding.
  - Governor Snyder has proposed an additional $11.5 million from the FY 2013 General Fund, bringing a total of $21 million for the purpose of emergency dredging to keep Michigan's waterways operational.
- In total, 49 sites would be dredged with 70% of the investment directed to local communities in the form of grants.
- To streamline the grant-funding process, the State will:
  - Waive the regular local-match requirement for 2013 emergency dredging projects
  - Immediately contact communities that have been identified to receive zero-match Waterways grant emergency-dredging moneys (Letter was sent 2/11/13)
  - Not accept 2013 grant applications because of the decision to redirect funding
  - Facilitate coordination and involvement with the U.S. Army Corps of Engineers

Honoring our Veterans

- The Governor's proposed budget includes $8.6 million for a new innovative Veterans' Service Delivery Initiative. Michigan is currently ranked 53 in the Nation (behind Guam and Puerto Rico) for utilization of existing veteran benefits. The Governor's new Veterans' Service Delivery Initiative will ensure that our veterans have the tools they need to fully receive the benefits that they deserve.

Making Michigan Safer – investments to keep Michigan safe

- The Governor's proposed budget continues his commitment to improving the strength of Michigan State Police ranks
    - 78 new troopers were trained in 2012
    - Anticipation of an additional 152 trained troopers in FY 2013
- $2M for mental health courts
- $3M for treatment courts

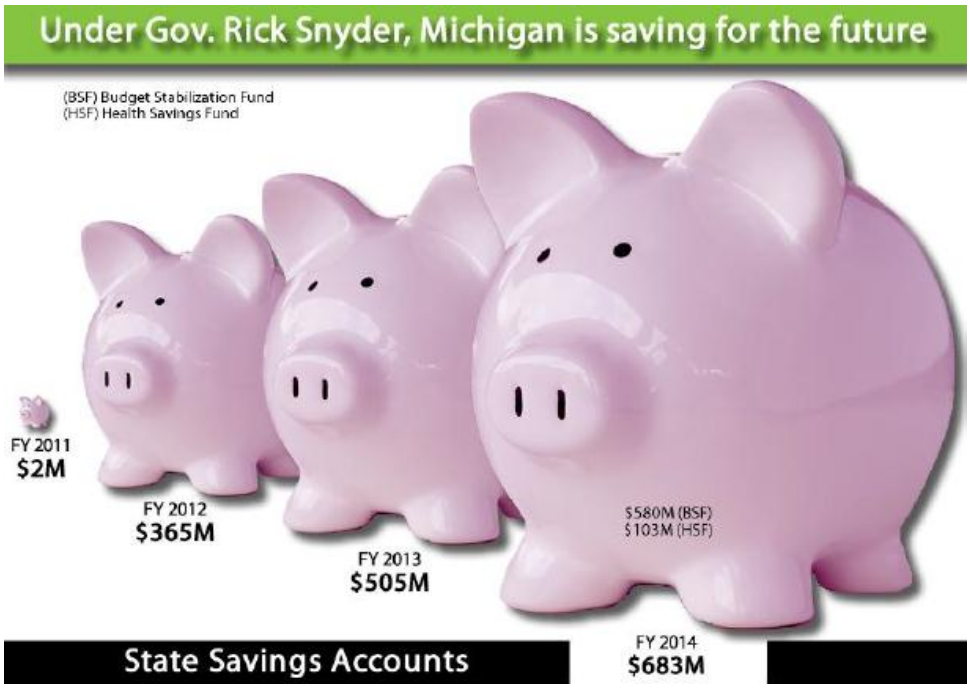
Revenue Sharing

- The state's revenue sharing program distributes sales tax revenue collected by the State of Michigan to local units of government, allowing communities to determine how best to fund local services. A constitutionally-dedicated portion of sales tax revenue is distributed to cities, villages, and townships; the remainder is subject to annual appropriation.
- Funding for fiscal year 2014 is recommended at $1.1 billion:
    - $742.6 million for constitutionally-required revenue sharing payments
        - Increased by $29.4 million (4.1 percent) to $742.6 million, based on estimated sales tax collections.
    - $225 million for the Economic Vitality Incentive Program (EVIP)
        - Provides funding for qualified cities, villages, and townships that adopt best practices. Criteria is related to accountability and transparency requirements and consolidation of services remain unchanged.
        - For employee compensation reforms, all requirements for retirement and health provisions must be met, including compliance with the Publicly Funded Health Insurance Contribution Act (P. A.152 of 2011).
    - $112.5 million for County Revenue Sharing
        - Eligible counties will receive a combination of revenue sharing payments and incentive-based payments, provided they adopt best practices and meet criteria consistent with EVIP. The FY 2014 budget recommends $112.5 million for County Revenue Sharing payments.
    - $28.1 million for the County Incentive Program
        - As an incentive to combine government operations, local units of government may apply for grant assistance to help defray expenses related to consolidation of services or programs.
    - $15 million maintained for the Competitive Grant Assistance Program.

- One-half of the funding is earmarked for the consolidation of public safety operations.

- Anticipated funding for fiscal year 2015 is recommended at $1.1 billion, which includes $768.5 million for constitutionally-required revenue sharing payments.

Saving for the Future



For more information: www.michigan.gov/snyder

Questions/Comments/Concerns? Please do not hesitate to contact me:

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