

Executive Budget Recommendation

FY 2020 – FY 2021

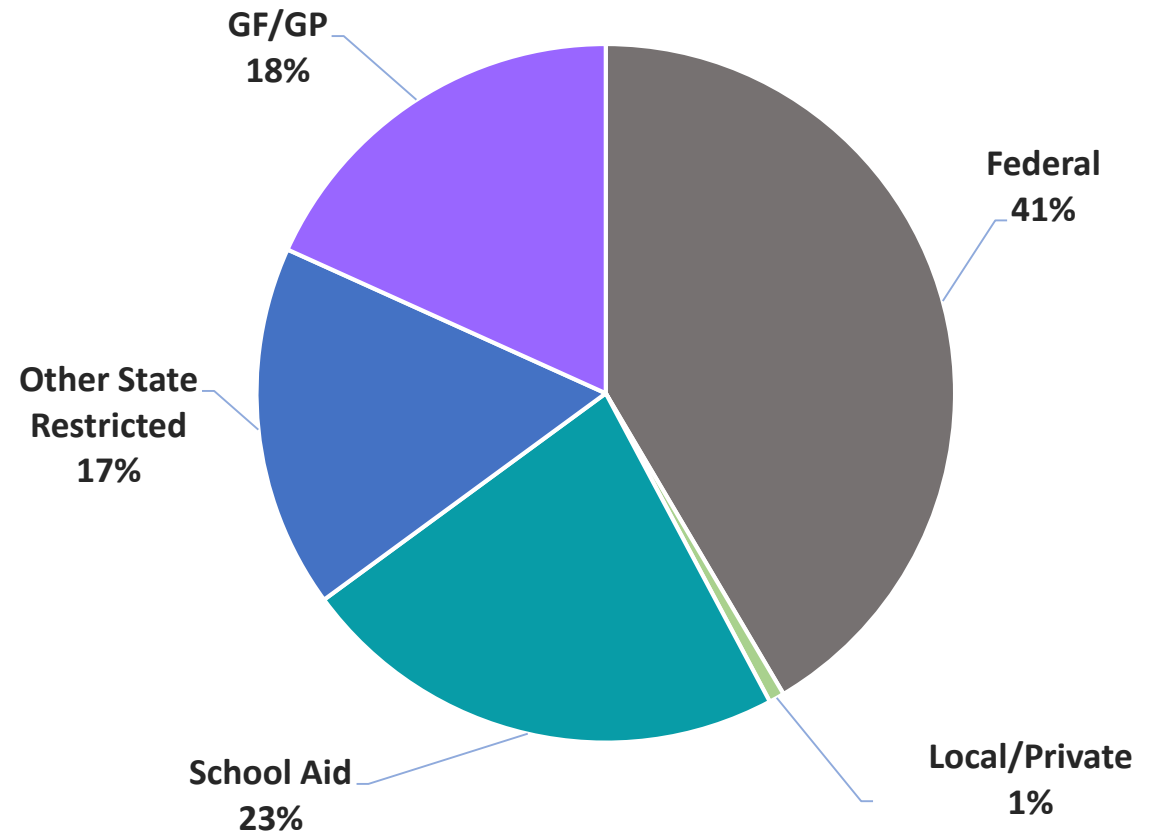
Governor Gretchen Whitmer
State Budget Director Chris Kolb



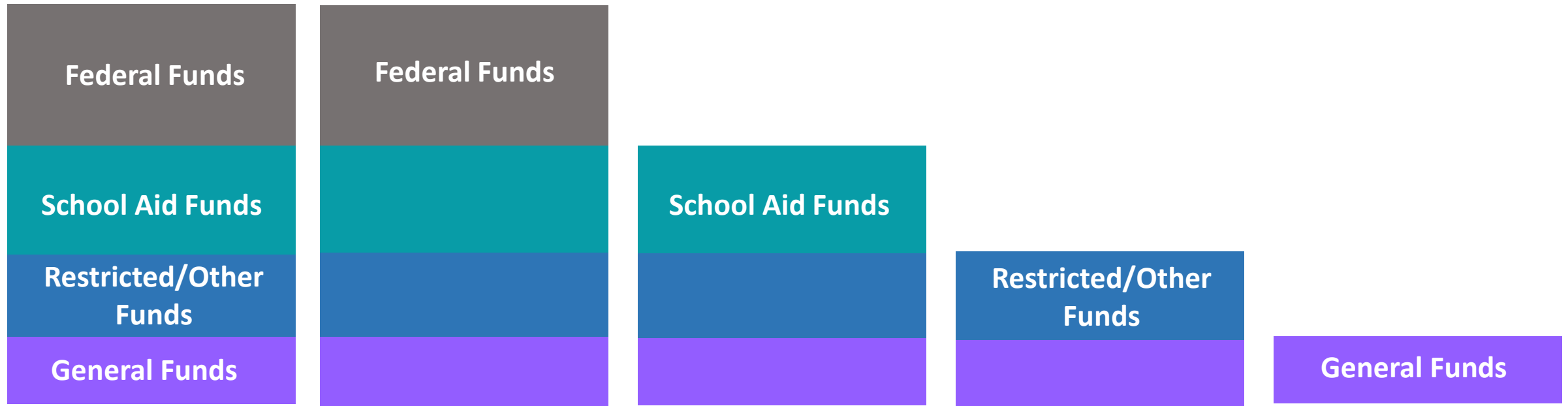
FY 2020 Budget

- Total budget \$60.2B, up 3.6 percent (2.5 percent excluding transportation)
- General Fund \$10.7B, up 2.3 percent
- Projected inflation rate for 2020 is 2.2 percent

Total Budget by Source



Breaking Down the Budget



Total Budget:
\$60.2 billion

Federal Funds:
\$23.1 billion
(Medicaid, special
education, grants, etc.)

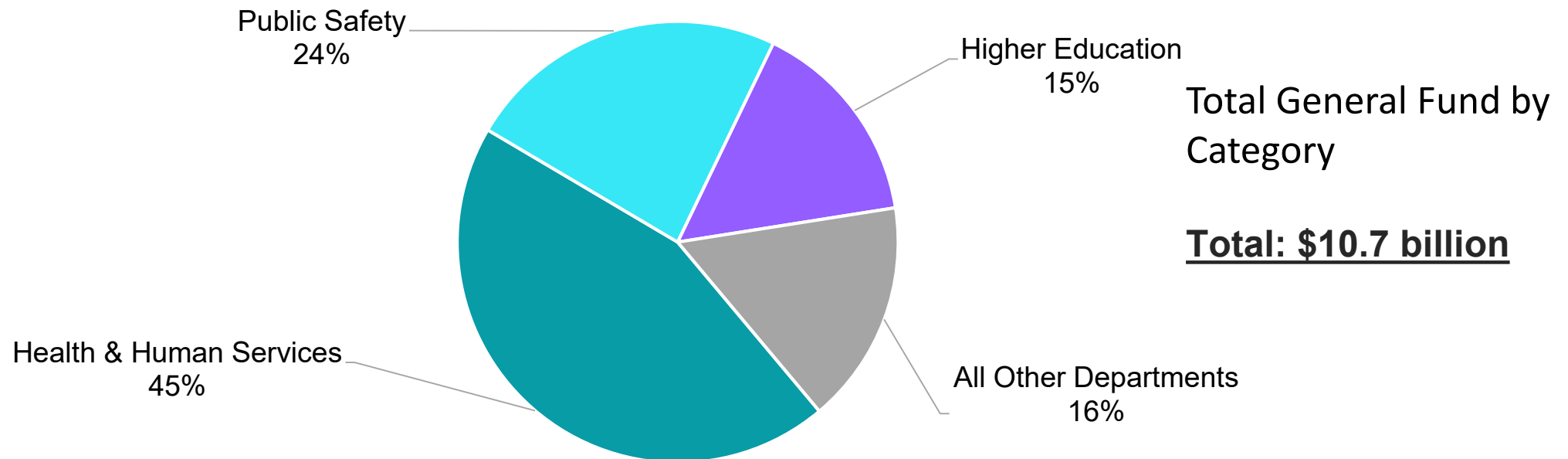
School Aid Fund:
\$14 billion

Restricted/Other Funds:
\$12.4 billion
(licenses, roads, etc.)

Total General Fund:
\$10.7 billion

Breaking Down the Budget

- General Fund: Over 80% of GF/GP appropriations are for health care, protecting vulnerable children and adults, public safety, and education.
- The General Fund remains the same as 20 years ago, despite inflation.





Michigan Roads and Infrastructure

Michigan Roads

- After nearly 40 years of disinvestment, Michigan has some of the worst roads in the nation.
 - The 2018 American Society of Civil Engineers reports gave Michigan a D- on the condition of its roads.
- Michigan ranked 46 out of all 50 states in per capita spending on roads according to a 2015 Tax Policy Center/Brookings Institution study.
- State roads are currently at 78% good or fair condition, but are forecasted to get worse quickly.
- Every day the problem is left unaddressed the transportation network deteriorates further and the costs to rebuild grows.

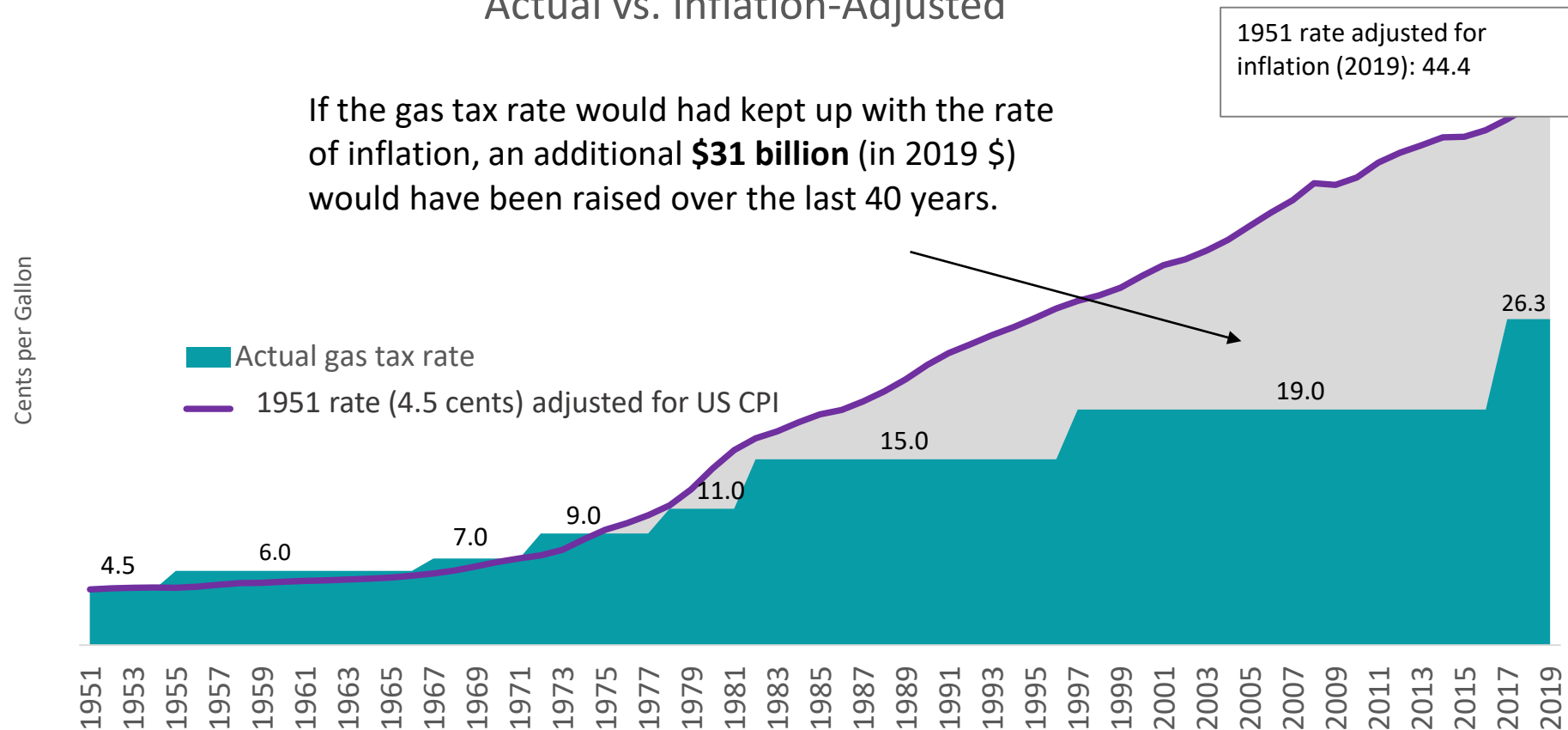
Michigan Roads

- The roads package adopted in 2015 has only slowed the decline in road conditions, not improved them.
- The annual cost to fix our roads is \$2.2b to \$2.7b dollars according to the following organizations:
 - Michigan Infrastructure Council
 - Business Leaders of Michigan
 - Senate Fiscal Agency
 - Citizens Research Council
- MDOT requires \$1.5b annually to improve state roads only to 90% fair/good condition.
- With over 600 local roads agencies, the need for local roads is harder to quantify, but we know it is sizable.

Michigan Gas Tax Rate

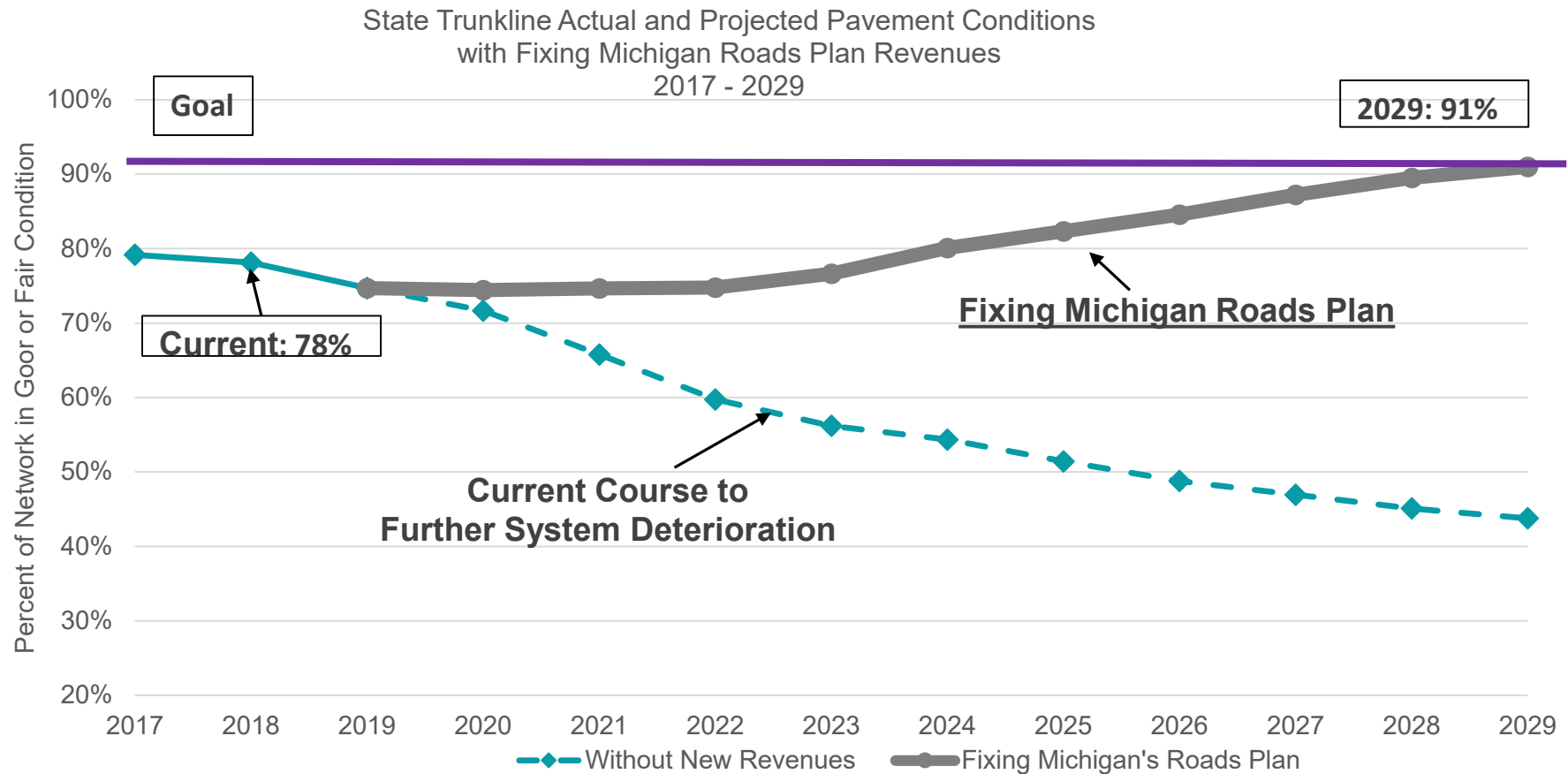
Michigan Gas Tax Rate Actual vs. Inflation-Adjusted

If the gas tax rate would had kept up with the rate of inflation, an additional **\$31 billion** (in 2019 \$) would have been raised over the last 40 years.



Fixing Michigan Roads Plan

10-year plan: Get 90% of roads in good/fair condition by 2029



Funding for Roads

Funding 10-Year Plan

- Return to predictable, constitutionally dedicated road funding model:
 - Phase in gas and diesel tax increase of 15 cents per gallon every six months through Oct. 1, 2020.
 - Eliminate less reliable Individual Income Tax earmark for roads.

Gas and Diesel Tax Phase In	
Oct 1, 2019	15 cents
April 1, 2020	15 cents
October 1, 2020	15 cents

Fixing Michigan Roads Fund

- When fully implemented the Governor's Plan will raise \$2.5b in new annual revenue.
 - Current PA 51 formula distributions to locals will be maintained.
 - New revenue will go to a new Fixing Michigan Roads Fund.

Distribution Formula

- New distribution formula targets new revenues to most heavily travelled and most economically significant roads, regardless of state or local ownership.

New Revenue Distribution		
	<i>Funding Category</i>	<i>Examples in Category</i>
47%	Interstates and other freeways	I-496 in Lansing
30%	Principal Arterials	MLK Blvd, Cedar St., Waverly in Lansing
14%	Minor Arterials/Major Collectors	Capitol Ave., Kalamazoo St. in Lansing
4%	Local Bridges	Targets bridges on local roads
3%	Transit, Rail, Autonomous Vehicles	Transit, rail, and mobility projects across state
2%	Local Rural Economic Corridors	Roads that play key role in rural commercial areas

Transparency and Accountability

- The Fixing Michigan Roads Plan is both transparent and accountable.
- MDOT and local road agencies will develop five-year plans that target the investment of these funds using sound asset management principals.
- The public will be able to find and track the progress of each project on an easily accessible website.
- An independent Fixing Michigan Roads Review Committee will review progress at the midpoint of the ten-year plan and recommend any appropriate actions to adjust for future trends.

Earned Income Tax Credit

- Double the Earned Income Tax Credit as a tax offset for low-income working families from 6% to 12%.

Earned Income Tax Credit Phase-In Proposal			
	Proposed State ETIC Increase	Increase on Max EITC <i>(for two child households)</i>	Total State EITC percent of Federal
FY 2019	4%	\$229	10%
FY 2020	2%	\$114	12%

Eliminating the Retirement Tax

- Repeal the Retirement Tax on our seniors by retracting the expanded taxation of pension benefits.
 - More than 400,000 Michigan households will save an average of \$800.
-
- Replace funding by creating tax parity between traditional corporations and business pass-through entities.
 - Provide offsets to affected taxpayers:
 - Includes deduction of \$50,000 to protect small businesses
 - Pass-throughs can fully deduct state tax on their federal tax returns

Other Options

- Options to Generate \$2.5 Billion Annually.
 - Michigan has six other tax sources that currently generate a billion or more. Rate changes that generate \$2.5 billion are limited.

Tax Change	Current Rate Required	Rate Required to Generate \$2.5 Billion
Individual Income Tax Rate	4.25%	5.3%
Corporate Income Tax Rate	6%	19.5%
Sales and Use Tax Rate	6%	7.4%
New Statewide Property Tax	NA	7 mills
Motor Vehicle Registration Taxes	Variable	180% increase in current rates

Drinking Water Infrastructure

- Drinking water grant/innovation, \$120M
 - Increased funding for Lead and Copper Rule implementation
 - PFAS & emerging contaminate identification, treatment, and clean up
 - 1.9 million people have PFAS in their drinking water
 - DWRF 30% Loan Forgiveness
 - Watershed planning, integrated asset management, affordable rate design identity, and evaluation of best practices
 - Funding for research and innovation of water resources
 - Optimize water distribution systems
 - Enhance data analysis capacity

Drinking Water Infrastructure

- Drinking Water Compliance Assistance Unit, \$1.9M
 - Provides for technical expertise to better safeguard Michigan residents from lead in their drinking water.
- School hydration stations, \$60M
 - To be installed in school buildings that still have lead plumbing and fixtures.
 - Will provide clean, filtered drinking water to students across state.

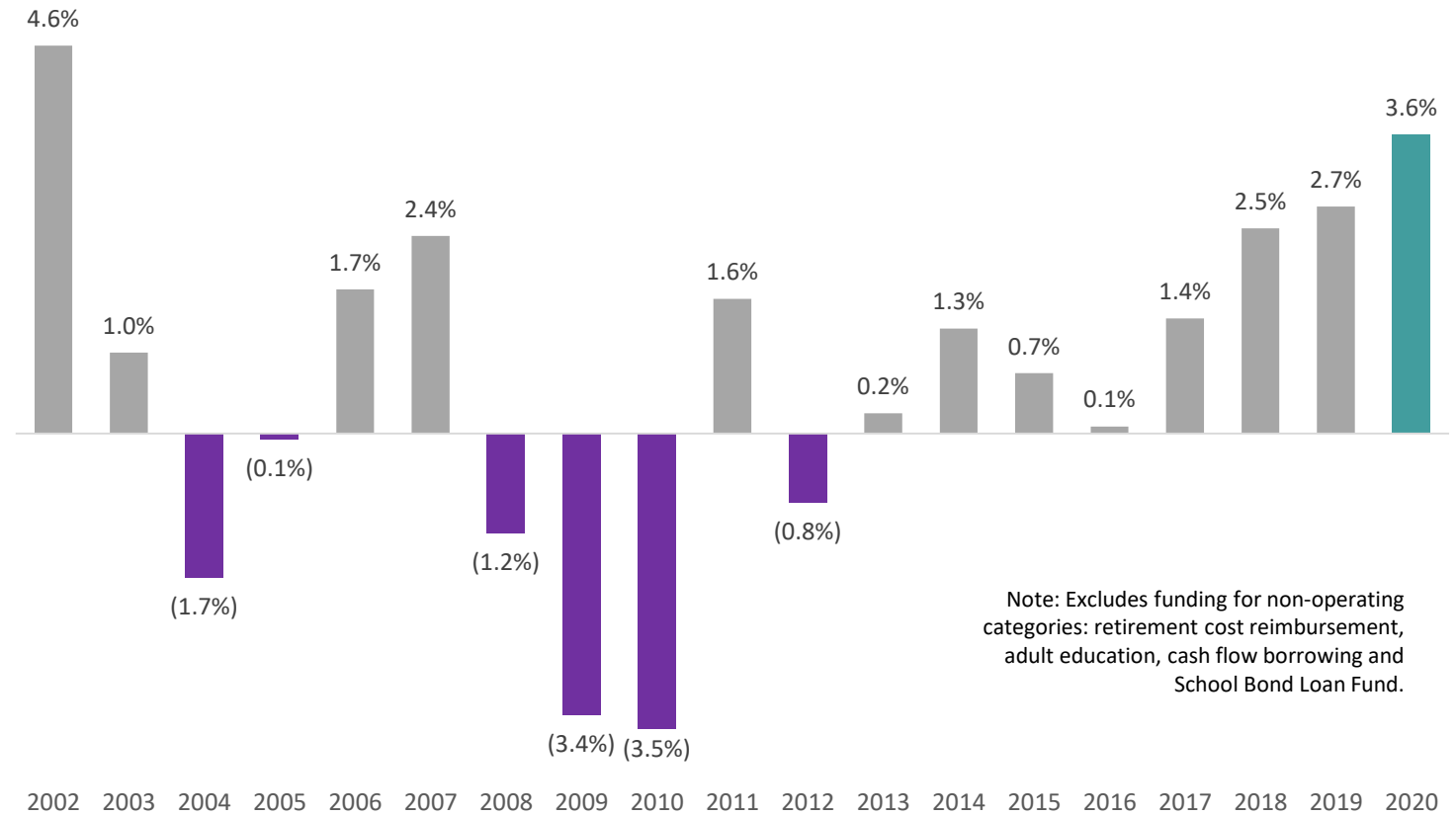


Education

Education Funding 2020

Largest increase for school operations in a generation of students

Year-over-Year % Increase in State Funding for School Operations

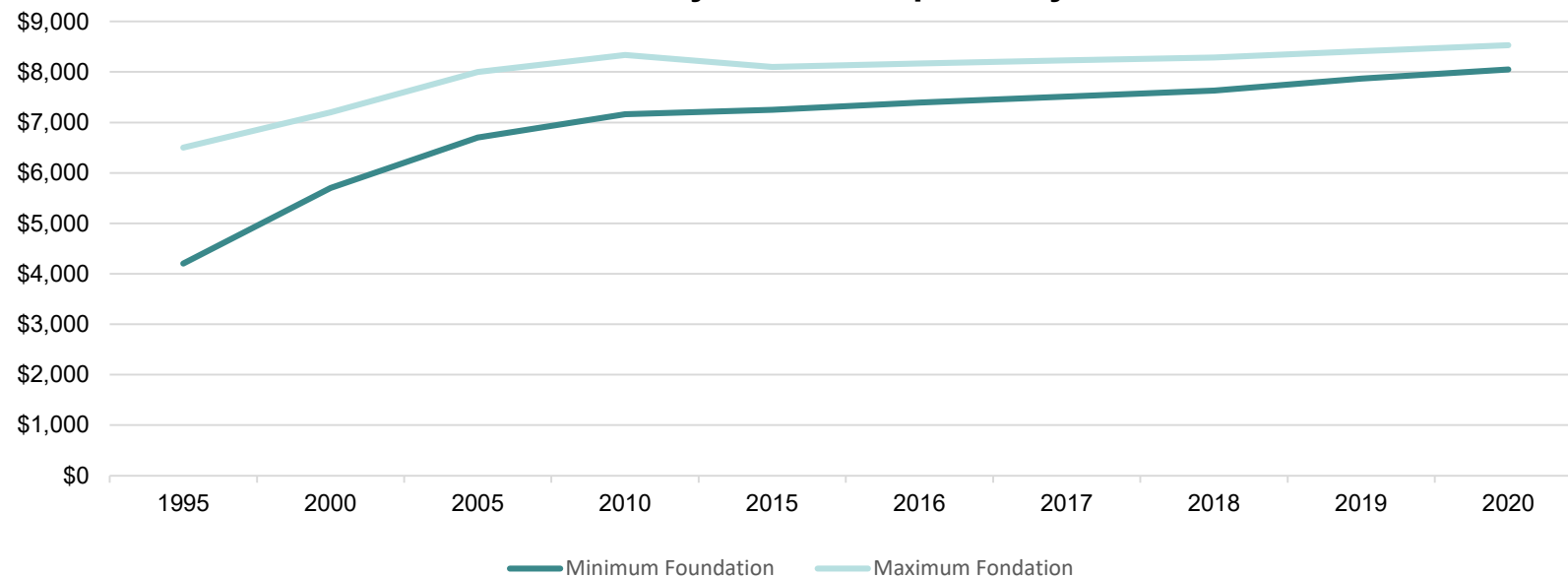


Note: Excludes funding for non-operating categories: retirement cost reimbursement, adult education, cash flow borrowing and School Bond Loan Fund.

Foundation Allowance

- Increase for foundation allowance of \$235m on a 1.5X basis: \$180 per pupil for districts at minimum and \$120 for districts at maximum.
- Closes gap between schools at the minimum and maximum by \$60, to less than \$500, and moves all districts toward the \$9,590 target established by the recent School Finance Resource Collaboration study.

The gap between the minimum and maximum foundation allowance has been reduced by 80% in the past 25 years.



Education Funding 2020

- Michigan serves a diverse population of students, with some children needing additional assistance or resources to help them thrive.
- Based on the recommendations of a recent report from the Michigan School Finance Research Collaborative (SFRC), this budget includes a weighted funding system that will recognize the higher costs of educating these students:
 - Special Education
 - Students need a range of assistance from academic supports to one-on-one specialists.
 - At-risk factors such as being economically disadvantaged
 - Students tend to have lower academic success rates but benefit from supports like tutoring and counseling to improve academic outcomes.
 - Career and technical education (CTE) to make sure they are career ready
 - Students have higher costs for materials, equipment, and staff.

Education Funding 2020

- Special Education reimbursements, \$120m
- Economically disadvantaged/at-risk students, \$102m
- Career and technical training (CTE), \$50m

	Additional Weighted Foundation Payment Per Pupil		
	Special Education*	Economically Disadvantaged and Other At Risk	Career and Technical Education (CTE)
Current	\$4,875	\$720	\$50
Increase	\$2,571	\$174	\$437
Total Per Pupil	\$7,446	\$894	\$487

* Statewide estimated equivalent. Actual payments reimbursed on cost.

Literacy and Preschool Programs

- Early Literacy initiatives, increases from \$30.9M to \$55.4M
 - Funding will triple the number of state-funded literacy coaches in schools to address early literacy.
- Expansion of Great Start Readiness Program, increases from \$245M to \$329M
 - Make preschool programs available to more students across the state and improve the programs in place today.

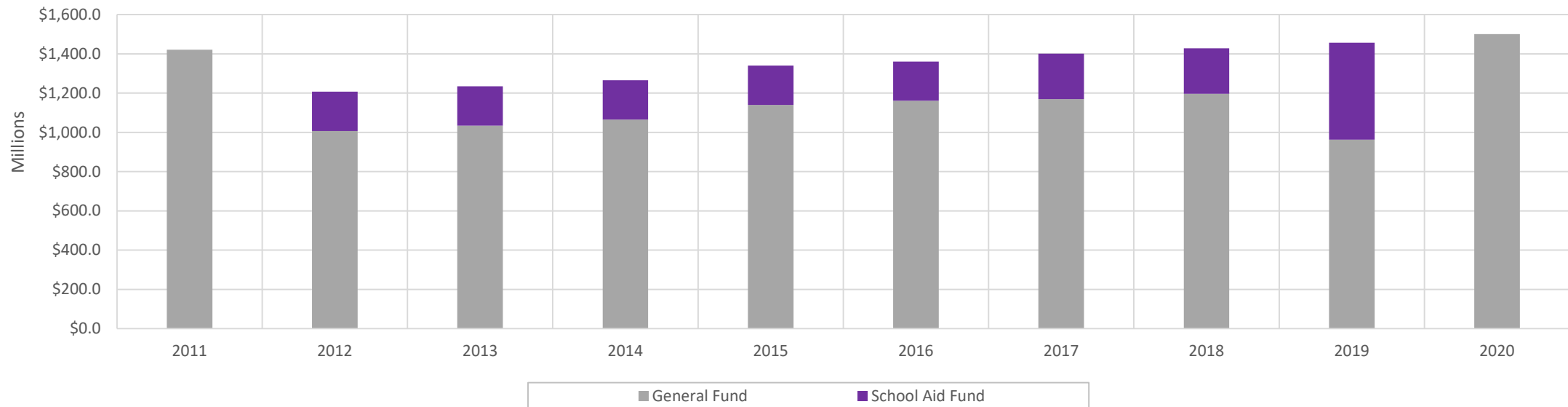
Higher Education

- University operations, 3 percent increase
 - Community College operations, 3 percent increase
 - To be eligible for the increases, universities and colleges must hold tuition increases to no more than inflation plus one percent (3.2%)
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- **Creation of Michigan Reconnect Program**
 - Provides opportunities for adults past traditional college age to seek training, certification, or associate's degree in specialized careers.
 - Eligible participants will receive tuition-free training towards their certification.
 - Funded from Talent Investment Fund -- \$110M made available to fund first two years of the program.
 - **MI Opportunity initiative: 2-year/4-year. Will take effect for FY21**

University Funding

- University funding will go back to 100 percent General Fund, returning \$500m School Aid Fund to K-12 schools.

University Operations Funding by Source FY 2011 - 2020



A scenic view of the Mackinac Island Bridge, a large steel arch bridge spanning a body of water. In the foreground, a statue of a man in a uniform stands on a pedestal, surrounded by yellow flowers. The bridge's structure is prominent, with its arches and supports visible against a blue sky with light clouds. A paved walkway with benches and a railing runs along the water's edge.

Health, Safety, and Local Government

Health and Safety

- Increase the purchasing power of residents receiving food assistance by investing \$4m into the Double Up Food Bucks program.
 - Program provides a dollar-to-dollar match to buy fresh fruits and vegetables at participating grocery stores and farmer's market.
- Protect our most vulnerable children and keep them together with their parents where possible by investing in foster care and child welfare, \$8.7m general fund.
- Enhance monitoring of and response to environmental and public health hazards, \$13.9m.
- Support for 50 new recruits to graduate from the State Police trooper school, \$8.6m.
- Enhance operation of the secure communications network utilized by the state's first responders at both the state and local levels, \$14.1m.

Local Government Revenue Sharing

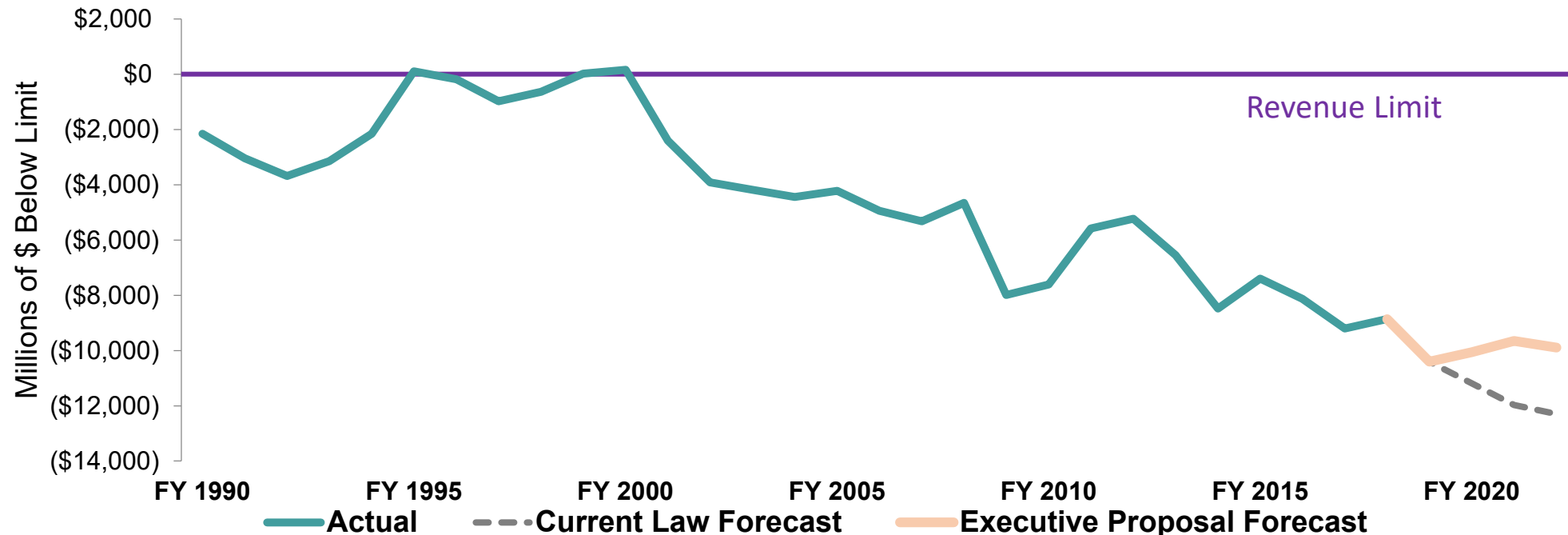
- Constitutional payments projected to increase by 3.2 percent, \$27.5m
- Increase statutory total payments to cities, villages, and townships and counties by 3 percent, \$14.3m
- Total FY 2020 increase, \$41.8m



Fiscal Balance

Constitutional Revenue Limit

- Michigan's constitutional revenue limit was created in 1978, setting a cap on the total level of revenue collected from all state taxes and fees as a percentage of total personal income in the state.
- In the year 2000, the state was right at the limit. With the tax changes proposed in this budget, the state will be \$10 billion below the limit.



Long-Term Balance

- Budget is structurally balanced: Ongoing costs are limited to ongoing revenue.
- Includes \$100 million in budget reductions, reprioritizing those funds to more critical needs.
- One-time revenue to be used for fiscally responsible deposits:
 - \$150m for Rainy Day Fund
 - \$40m for School Employees Retirement reserve fund
 - \$15m for Flint Reserve Fund

Long-Term Stability

- Returns funding to intended purposes:
 - Roads funded by constitutionally dedicated restricted funds
 - Public universities funded 100% by General Fund
 - \$500m School Aid Fund returned to K-12 students

Budget Checklist



Roads

Sustainable roads funding plan



Water

Improve drinking water and infrastructure
Environmental contaminants being addressed



Schools

Largest increase in school operations in a generation of students
Invest in early education and childhood literacy
Provide tuition free access to qualifying students



Retirement

Repeal of the Retirement Tax on our seniors



Stability

Funding sources to appropriate uses

Questions

