

# **STATE BUDGET HISTORY AND UPDATE**



**Gary S. Olson, Director  
SENATE FISCAL AGENCY**

**October 13, 2004**

**Table 1**

<b>Adjusted Gross Appropriation History (millions of dollars)</b>			
<b>Fiscal Year</b>	<b>Appropriations</b>	<b>Dollar Change</b>	<b>Percent Change</b>
1997-98	\$31,472.8	\$1,816.3	6.1%
1998-99	33,160.3	1,687.5	5.4
1999-2000	35,417.7	2,257.4	6.8
2000-01	36,915.0	1,497.3	4.2
2001-02	38,751.3	1,836.3	5.0
2002-03	39,553.1	801.8	2.1
2003-04	39,078.4	(474.7)	(1.2)
2004-05	39,185.0	106.6	0.3

Appropriations have increased by \$2.27 billion or 6.1% from FY 2000-01 to FY 2004-05; adjusted for inflation, appropriations have declined by \$1.0 billion or 2.8%.

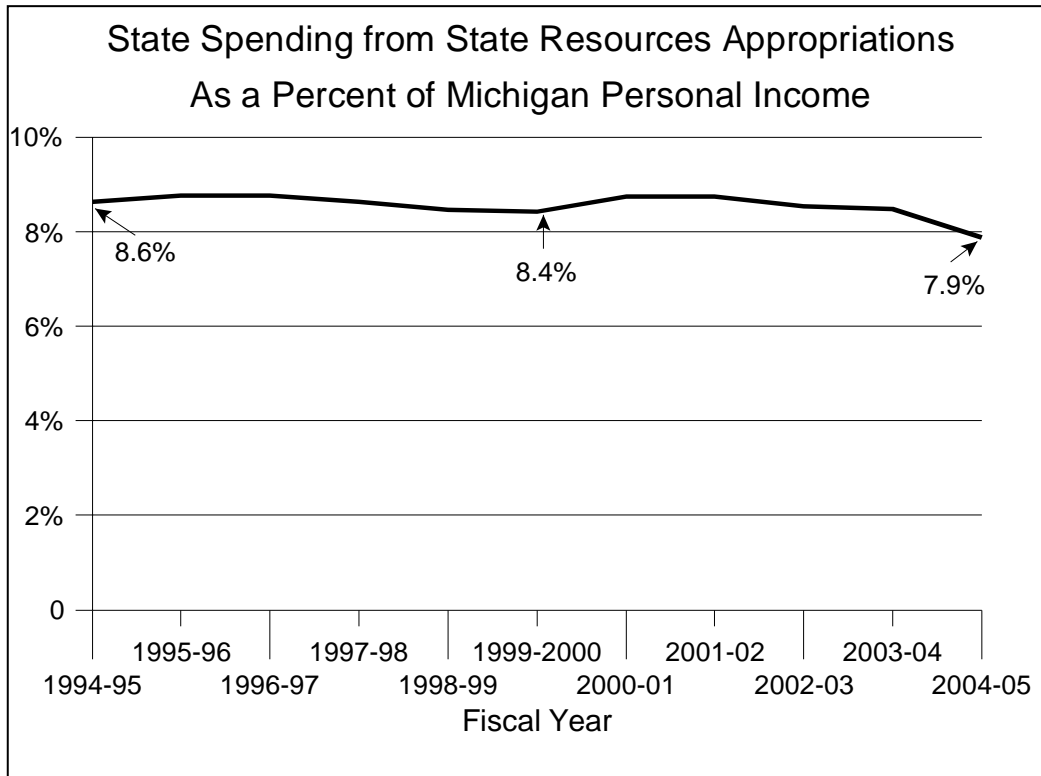
<b>State Spending from State Resources Appropriation History (millions of dollars)</b>			
<b>Fiscal Year</b>	<b>Appropriations</b>	<b>Dollar Change</b>	<b>Percent Change</b>
1997-98	\$22,493.6	\$ 941.3	4.4%
1998-99	23,276.8	783.2	3.5
1999-2000	24,579.0	1,302.2	5.6
2000-01	25,723.3	1,144.3	4.6
2001-02	26,086.8	363.5	1.4
2002-03	26,020.5	(66.3)	(0.3)
2003-04	25,765.0	(255.5)	(1.0)
2004-05	26,105.2	340.2	1.3

Appropriations have increased by \$382.0 million or 1.5% from FY 2000-01 to FY 2004-05; adjusted for inflation, appropriations have declined by \$1.8 billion or 7.1%.

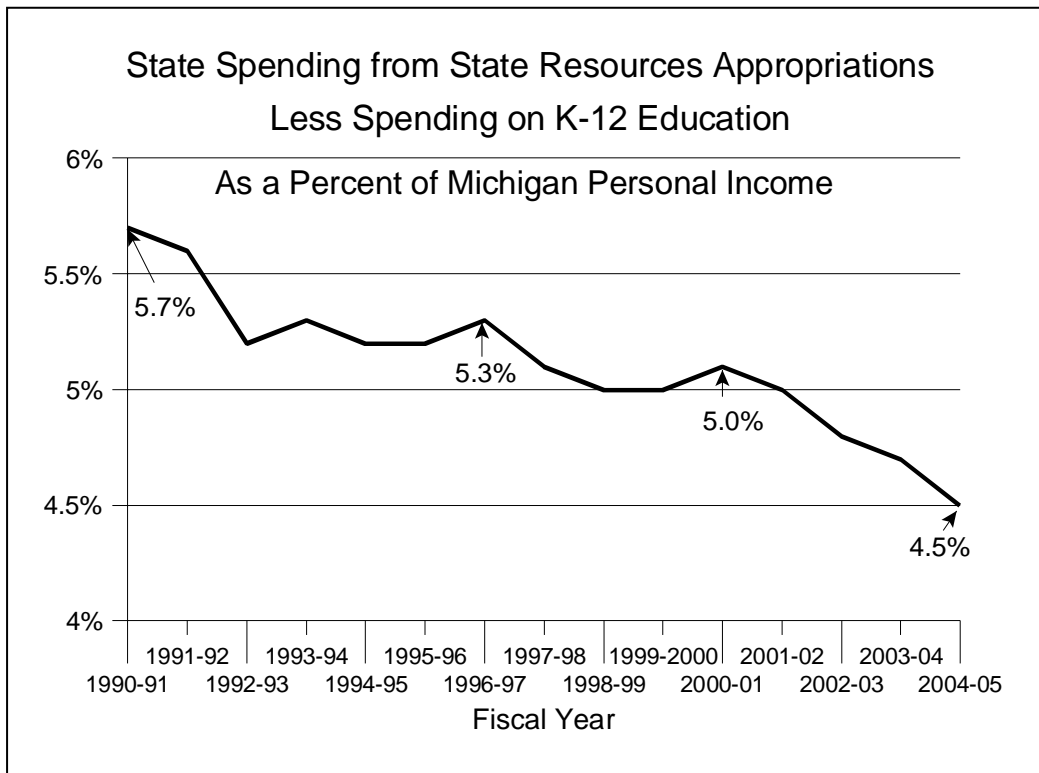
<b>General Fund/General Purpose Appropriation History (millions of dollars)</b>			
<b>Fiscal Year</b>	<b>Appropriations</b>	<b>Dollar Change</b>	<b>Percent Change</b>
1997-98	\$8,735.1	\$366.0	4.4%
1998-99	9,415.0	679.9	7.8
1999-2000	9,607.7	192.7	2.0
2000-01	9,744.4	136.7	1.4
2001-02	9,189.3	(555.1)	(5.7)
2002-03	8,830.9	(358.4)	(3.9)
2003-04	8,822.4	(8.5)	(0.1)
2004-05	8,699.4	(123.0)	(1.4)

Appropriations have declined by \$1.04 billion or 10.7% from FY 2000-01 to FY 2004-05; adjusted for inflation, appropriations have declined by \$1.8 billion or 18.2%.

**Figure 1**



**Figure 2**



**Table 2**

<b>State Spending from State Resources Appropriations Total Compared to Selected Budget Areas FY 2000-01 to FY 2004-05</b>		
<b>Department/Budget Area</b>	<b>Four-Year Dollar Change</b>	<b>Four-Year Percent Change</b>
Community Health.....	\$ 943,438,700	30.6%
Corrections.....	103,771,900	6.2
K-12 School Aid .....	441,615,000	4.1
Community Colleges .....	\$ (39,264,719)	(12.1)%
Higher Education.....	(221,000,408)	(11.6)
Revenue Sharing .....	(428,719,700)	(27.6)
<b>Total State Spending.....</b>	<b>\$381,915,723</b>	<b>1.5%</b>

**Table 3****General Fund/General Purpose Budget History  
(millions of dollars)**

<b>Fiscal Year</b>	<b>On-Going Revenue</b>	<b>Dollar Change</b>	<b>Percent Change</b>
1997-98	\$8,810.5	\$444.0	5.3%
1998-99	9,580.0	769.5	8.7
1999-2000	9,799.3	219.3	2.3
2000-01	8,989.5	(809.8)	(8.3)
2001-02	8,368.0	(621.5)	(6.9)
2002-03	8,073.9	(294.1)	(3.5)
2003-04	8,250.1	176.2	2.2
2004-05	8,627.4	377.3	4.6

Revenues have declined by \$1.2 billion or 12.0% from FY 1999-2000 to FY 2004-05.

<b>Fiscal Year</b>	<b>Appropriations</b>	<b>Dollar Change</b>	<b>Percent Change</b>
1997-98	\$8,735.1	\$366.0	4.4%
1998-99	9,415.0	679.9	7.8
1999-2000	9,607.7	192.7	2.0
2000-01	9,744.4	136.7	1.4
2001-02	9,189.3	(555.1)	(5.7)
2002-03	8,830.9	(358.4)	(3.9)
2003-04	8,822.4	(8.5)	(0.1)
2004-05	8,699.4	(123.0)	(1.4)

Appropriations have declined by \$908.3 million or 9.4% from FY 1999-2000 to FY 2004-05

**Comparison of On-Going GF/GP Revenues with GF/GP Appropriations  
(millions of dollars)**

<b>Fiscal Year</b>	<b>On-Going Revenue</b>	<b>Appropriations</b>	<b>Structural Imbalance</b>
1997-98	\$8,810.5	\$8,735.1	\$ 75.4
1998-99	9,580.0	9,415.0	165.0
1999-2000	9,799.3	9,607.7	191.6
2000-01	8,989.5	9,744.4	(754.9)
2001-02	8,368.0	9,189.3	(821.3)
2002-03	8,073.9	8,830.9	(757.0)
2003-04	8,250.1	8,822.4	(572.3)
2004-05	8,627.4	8,699.4	(72.0)

**Table 4**

<b>Historical K-12 Funding</b>			
<b><u>Basic Foundation Allowance</u></b>			
<b>Fiscal Year</b>	<b>Enacted Per Pupil</b>	<b>After Proration</b>	<b>Percent Change</b>
1999-2000	\$5,700	\$5,700	N/A
2000-01	6,000	6,000	5.26%
2001-02	6,500	6,500	8.33%
2002-03	6,700 <sup>a)</sup>	6,626	1.94%
2003-04	6,700 <sup>b)</sup>	6,626	0.00%
2004-05	6,700	6,700	1.12%
Five-Year Dollar Change	\$1,000	\$1,000	
Five-Year Percent Change	17.54%	17.54%	
<p>a) Proration occurred in this year, with a total shortfall of \$126.9 million. This shortfall was applied to district's payments by reducing their unprotected funding by 3.8%. If you were to simply calculate a per-pupil reduction, the shortfall was equivalent to \$74 per pupil.</p> <p>b) Proration to date in this fiscal year is estimated at \$74 per pupil, which takes into account the pupils and revenue agreed upon at the January 2004 Consensus Revenue Estimating Conference. Districts choose where to reduce funding to absorb the proration.</p>			
<p><b>Note:</b> The proration did NOT statutorily reduce the foundation allowance in either year; what is shown here is for comparison purposes only.</p>			

<b><u>Total State Spending for K-12</u></b>		
<b>Fiscal Year</b>	<b>State Spending</b>	<b>Percent Change</b>
1999-2000	\$ 9,957,608,600	N/A
2000-01	10,732,285,000	7.78%
2001-02	11,220,561,700	4.55%
2002-03	11,334,551,600	1.02%
2003-04	11,056,500,000	(2.45)%
2004-05	11,173,800,000	1.06%
Five-Year Dollar Change	\$1,216,192,400	
Five Year Percent Change	12.21%	

## **FY 2004-05 Enacted Budget Highlights**

### **I. Tax Increases**

- A. Tobacco Tax - \$313.6 Million
  - 1. Healthy Michigan Fund - \$29.9 Million
  - 2. Medicaid Funding - \$283.7 Million
- B. Detroit Casino Tax - \$49.0 Million
  - 1. GF/GP - \$42.9 Million
  - 2. Horse Racing - \$6.1 Million

### **II. Other Revenue Items**

- A. Sale of Surplus Property - \$31.4 Million (one-time)
- B. Escheats Law Changes - \$25.0 Million (one-time)
- C. Restricted Fund Transfers - \$22.0 Million (one-time)
- D. MUSTFA Fund Transfers - \$37.5 Million
- E. Elimination of County Revenue Sharing Payments - \$182.3 Million (savings last from 4 to 22 years)

### **III. GF/GP Appropriation Change**

- A. FY 2004-05 GF/GP Appropriations are \$123.0 Million under FY 2003-04

**Table 5**

<b>Major Changes in FY 2004-05 GF/GP Appropriations                      From Enacted FY 2003-04 GF/GP Appropriations                      (millions of dollars)</b>	
FY 2003-04 GF/GP Appropriations .....	\$8,822.4
FY 2004-05 GF/GP Appropriations .....	<u>8,699.4</u>
Dollar Difference .....	\$(123.0)
<b>Major Appropriation Increases:</b>	
Debt Service on State Bonds .....	\$ 47.3
Medicaid Caseload and Base Funding.....	156.5
Corrections Base Funding.....	40.7
Family Independence Agency Base Funding .....	13.0
Life Science Corridor Funding.....	15.0
State Employee Economic Adjustments.....	<u>228.3</u>
Subtotal Appropriation Increases .....	\$ 500.8
<b>Major Appropriation Reductions:</b>	
Medicaid Cost Containment Measures.....	\$( 58.4)
Corrections Program Reductions .....	(50.9)
Reduce GF/GP Grant to School Aid Fund.....	(212.6)
Statewide Employee Concessions .....	(76.2)
Statewide Information Technology Funding .....	<u>(15.0)</u>
Subtotal Appropriation Reductions .....	\$(413.1)
<b>Major Appropriation Fund Shifts:</b>	
Shift Medicaid to Tobacco Tax Increase .....	\$(304.3)
Shift Medicaid to Tobacco Tax from BSF .....	(154.2)
Shift Medicaid to Tobacco Settlement Revenues .....	(83.3)
Shift Medicaid to GF/GP for Federal Match Rate Change.....	101.5
Shift Medicaid to GF/GP for Federal Special Financing Change.....	145.6
Shift State Debt Service from GF/GP to State Restricted.....	(38.1)
Shift Youth Prison Funding from Federal to GF/GP .....	18.0
Shift Family Independence Agency Funding from Federal to GF/GP.....	<u>14.1</u>
Subtotal Fund Shifts.....	\$(300.7)
All Other Appropriation Adjustments .....	\$ 90.0
<b>Total Change in FY 2004-05 GF/GP Appropriations .....</b>	<b><u>\$(123.0)</u></b>

**Table 6**  
**FY 2004-05**  
**General Fund/General Purpose**  
**Revenues, Expenditures and Year-End Balance**  
**(millions of dollars)**

	<b>Target Agreement</b>
<b>Revenues:</b>	
Beginning Balance .....	\$ 0.0
<b>Ongoing Revenues:</b>	
Consensus Revenue Estimate .....	7,856.3
Enhanced Tax Enforcement Revenue.....	85.1
Driver Responsibility Legislation .....	73.1
Driver License Fee Legislation .....	25.0
Casino Tax Increase .....	42.9
Revenue Sharing Freeze .....	339.4
Suspend County Revenue Sharing Payments .....	182.3
Adjust Interfund Borrowing Costs .....	20.0
Non-Use of SBT Pharmaceutical Credit .....	10.0
Employment Services Tax Policy Change.....	5.0
Jobs Package Revenue Impact.....	(2.7)
Tobacco Tax Increase Revenue Impact.....	(9.0)
Subtotal On-Going Revenues .....	<u>\$8,627.4</u>
<b>Non-ongoing Revenues:</b>	
Escheats Law Changes.....	25.0
Sale of Surplus Public Agency Forest Lands .....	18.0
Sale of Fairlawn Surplus Property .....	2.6
Sale of Maxey Center Surplus Property .....	2.9
Sale of Macomb/Oakland Center .....	1.9
Sale of Detroit Plaza Building .....	6.0
Comprehensive Transportation Fund Reduction.....	10.0
Juror Compensation Fund Balance Transfer.....	4.0
General Tobacco Settlement Transfer .....	7.0
Judicial Technology Improvement Fund Transfer .....	1.0
Subtotal Non On-Going Revenues.....	<u>\$ 78.4</u>
<b>Total GF/GP Revenues.....</b>	<b><u>\$8,705.8</u></b>
<b>Expenditures:</b>	
Enrolled GF/GP Appropriations .....	\$8,456.7
Capital Outlay Debt Service .....	243.0
Vetoed .....	(0.3)
Total GF/GP Appropriations .....	<u>\$8,699.4</u>
Capital Outlay Target .....	6.0
Lapse for Building Occupancy Charges .....	(0.7)
<b>Total GF/GP Expenditures.....</b>	<b><u>\$8,704.7</u></b>
<b>Projected Year-End Balance .....</b>	<b><u>\$ 1.1</u></b>

**Table 7**  
**FY 2004-05**  
**School Aid Fund Budget**  
**Revenues, Expenditures and Year-End Balance**  
**(millions of dollars)**

	<b>Target Agreement</b>
<b>Revenues:</b>	
Beginning Balance .....	\$ 0.0
On-Going Estimated Restricted Revenues.....	10,960.4
<b>Other Revenue Adjustments:</b>	
GF/GP Grant .....	165.2
Federal Aid.....	1,353.6
Enhanced Tax Enforcement Revenue.....	35.5
Lottery Advertising Revenue .....	11.0
Tobacco Tax Increase Revenue Impact.....	3.8
Payment in Lieu of Taxes.....	<u>(2.0)</u>
Subtotal Other Revenue Adjustments .....	\$ 1,567.1
<b>Total Estimated Revenue.....</b>	<b>\$12,527.5</b>
<b>Expenditures:</b>	
Enrolled Appropriations .....	\$12,527.4
Projected Appropriation Lapses .....	<u>0.0</u>
<b>Total Estimated Expenditures.....</b>	<b>\$12,527.4</b>
<b>Projected Year-End Balance .....</b>	<b>\$ 0.1</b>

**Table 8**  
**FY 2004-05 General Fund/General Purpose Appropriations**  
**(millions of dollars)**

Total GF/GP Appropriations.....	\$8,705.8
<b>Major Program Areas</b>	
Debt Service Payments .....	\$ 313.6
Human Service Programs.....	3,658.4
Higher Education Programs.....	1,822.4
Corrections .....	<u>1,728.4</u>
Subtotal.....	\$7,522.8
Major Programs Areas as % of Total .....	86.4%

## Fiscal Year 2005-06 Potential State Budget Issues

- I. **Employee Economics:** A Civil Service negotiated pay package for FY 2005-06 has not been finalized. If it is assumed that a pay adjustment similar to the 4.0% pay increase in FY 2004-05, the net GF/GP budget impact would be approximately \$150.0 million. This includes salary adjustments, retirement contributions, and employee health care costs.
- II. **Debt Service:** Debt service obligations on bonds issued by the State Building Authority and General Obligation bonds should increase between \$40 million and \$60 million. The actual cost depends on the amount of debt issued and the future of interest rates.
- III. **Medicaid Funding:** Four primary issues will affect the level of Medicaid funding during the coming fiscal year. These issues include:
  - A. **Caseloads:** Assuming continuing modest improvements in the State's economy we can anticipate that Medicaid caseloads will stabilize in FY 2005-06.
  - B. **Special Financing Adjustments:** The Federal government is phasing out the use of intergovernmental transfers in the Medicaid funding program. This change will require the State to appropriate an additional \$130.0 million in State funds to offset the loss of Federal funds in FY 2005-06.
  - C. **Medicaid Match Rate:** The Federal Medicaid match rate will improve for Michigan during FY 2005-06. This match rate increase will result in a \$130 million reduction in State GF/GP appropriations.
  - D. **Medicaid Reimbursement Rates:** The State is implementing a two-year phased-in increase in Medicaid reimbursement rates for HMOs and Community Mental Health to meet Federal actuarial soundness standards. The FY 2005-06 impacts of these required rate adjustments is \$72 million.
- IV. **K-12 Basic Foundation Allowance:** The basic foundation allowance has been appropriated at \$6,700 for the past three fiscal years. If the basic foundation allowance is increased by 5.0% to \$7,035, the estimated cost to the State would be \$500 million.
- V. **K-12 Retirement Contribution Rates:** Local K-12 School Districts and Community Colleges are required to contribute to the Public School Employees Retirement System on the behalf of its employees. While the final contribution rates for FY 2005-06 have not yet been set, the anticipated increase in contribution rates will range between two and three percentage points of payroll.

- VI. Higher Education Funding:** State appropriations for universities and community colleges have dropped by 8.0% since FY 2002-03. Significant pressure will exist for a State funding increase in FY 2005-06. Each 1.0% increase in funding results in an \$18.9 million increase in GF/GP appropriations.
- VII. Revenue Sharing Funding:** Cities, villages, townships, and counties have had their overall revenue sharing payments frozen over the past two fiscal years. Significant pressure will exist for a State funding increase in FY 2005-06. Each 1.0% increase in funding results in an \$11.2 million increase in State appropriations.