



Michigan Growing Stronger

February 11, 2015

Governor Rick Snyder, CPA

Lt. Governor Brian Calley

Budget Director John Roberts



Michigan Economy Coming Back Strong

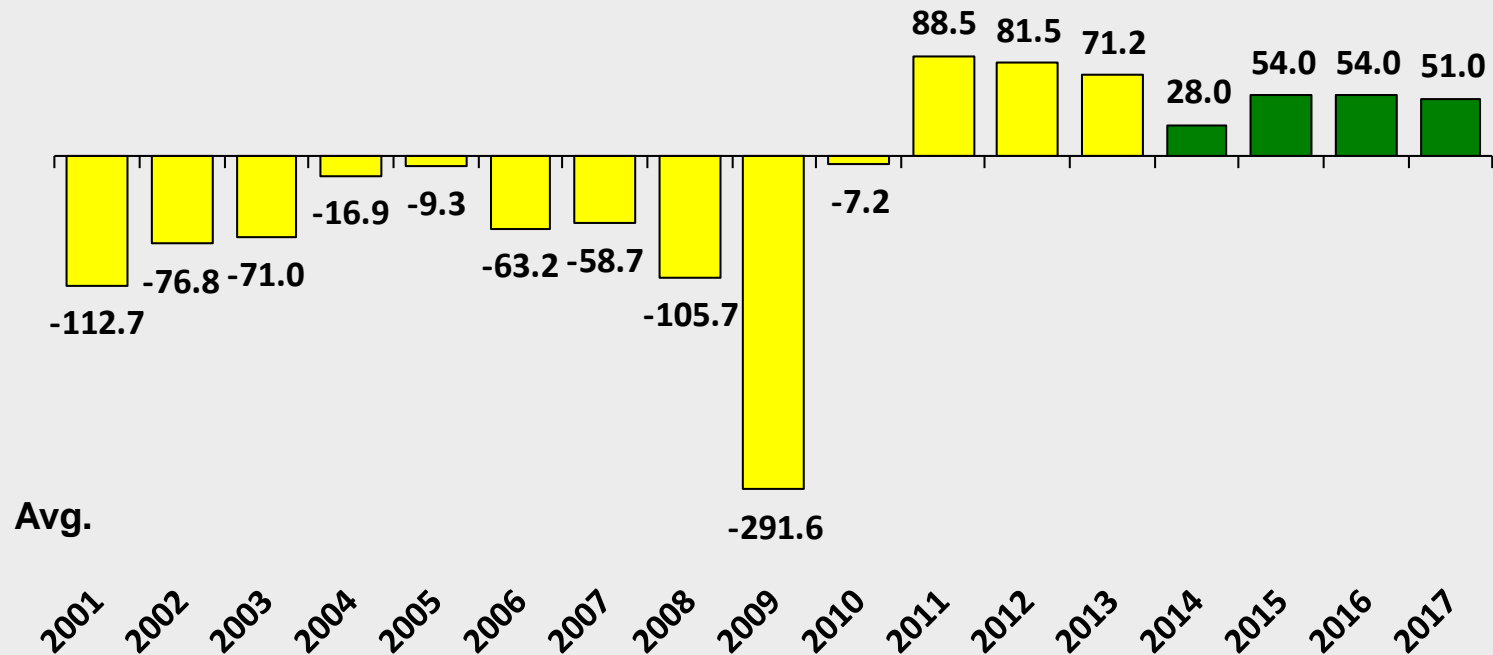
- More than 300,000 new private sector jobs since December 2010
- Unemployment lowest since 2002; lowest unemployed since 2001
- Home sales and values on the rise



Creating More and Better Jobs



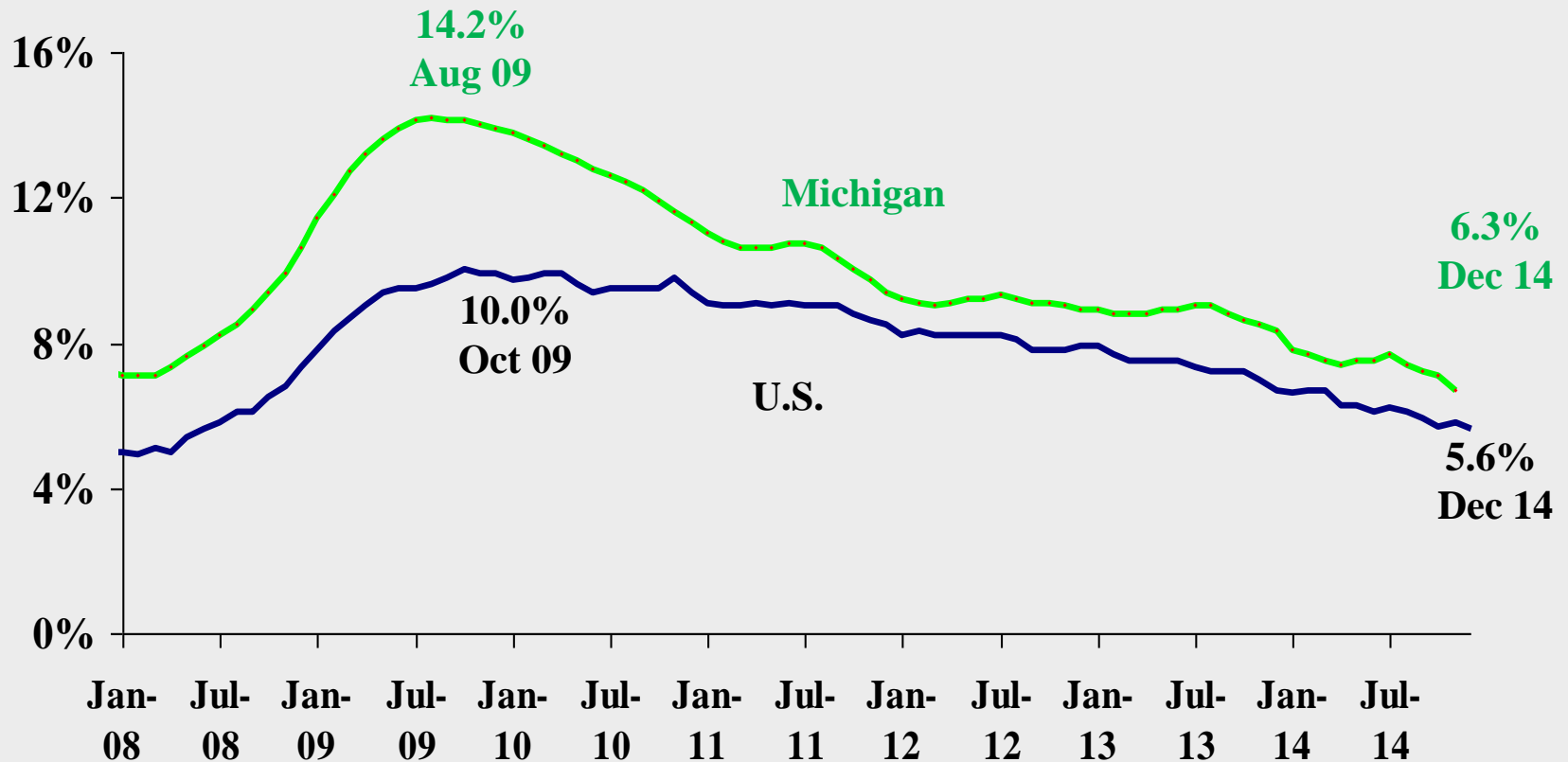
Change in Michigan Wage and Salary Employment from Previous Year
(thousands of jobs)



Note: U.S. Bureau of Labor Statistics. 2014-2017 estimates are 1/16/15 Consensus Forecast. 1/20/15.

Consensus Forecast

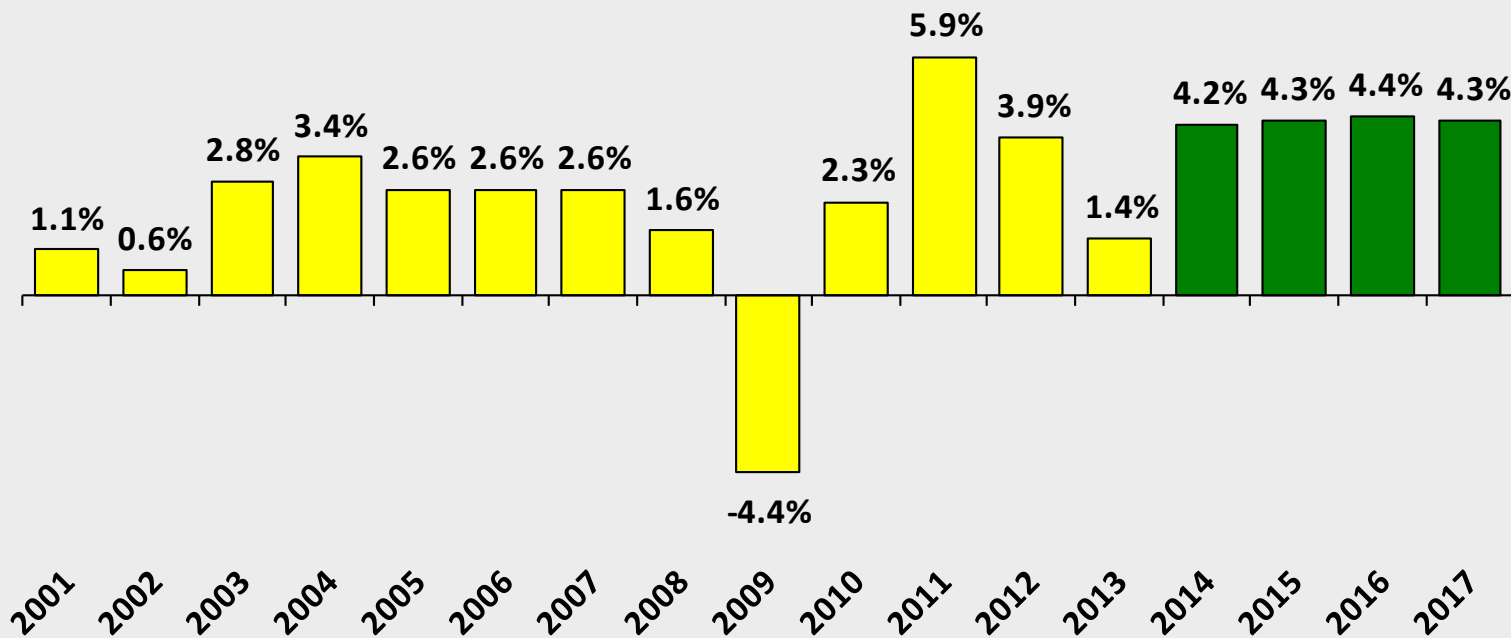
Dropping Unemployment Rate



Rising Personal Incomes



Michigan Personal Income Year-Over-Year % Change



Note: U.S. Bureau of Economic Analysis. 2014-2017 estimates are 1/16/15 Consensus Forecast. 1/20/15.

Consensus Forecast

Budget Responsibly Like a Family

- Identify special challenges
- Pay our debts
- Manage our expenses
 - Tightening our belt
 - Regular expenses
 - Proper maintenance
 - Needed improvements
- Save for the future
- Return any extra resources





Two Major Budget Challenges

- Changes in revenue estimates
 - Legacy tax credits
- May ballot proposal



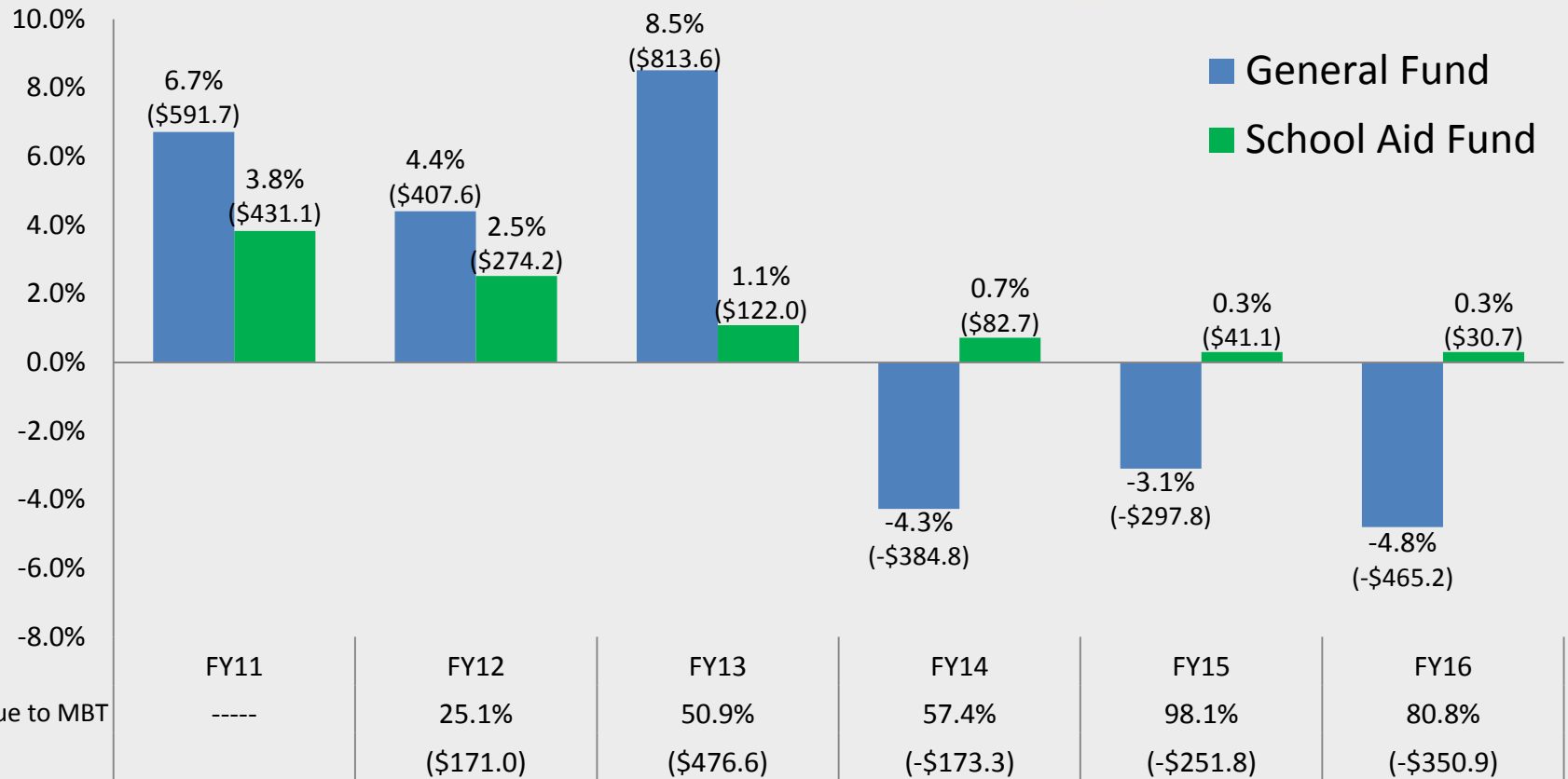


Legacy Tax Credits

- Huge awards made in last decade; impact thru 2032
- Clear lack of transparency on benefits and timing
- Replaced with transparent program in 2011
- Action steps:
 - Better visibility
 - Understanding long-term impact

GF & SAF Revenue Estimate Error Rates

(\$ in millions)



Negative = Actual < Estimate When Budget Enacted (FY15 & FY16: Jan '15 Est. < May '14 Est.)

Positive = Actual > Estimate When Budget Enacted (FY15 & FY16: Jan '15 Est. > May '14 Est.)

MEGA vs Business Development Program



MEGA

- Averaged \$1.8 billion in awards each year from 2008-2010
- Impact on General Fund very difficult to forecast
- Funded via “credit card” to be paid in future years
- Variable effectiveness: in certain years far fewer jobs realized than forecasted
- \$14,310 per job¹ (job creation)
- \$74,661 per job¹ (retention)

BDP

- Averaged less than \$100 million in awards each year from 2012-2014
- Impact on General Fund known with certainty
- Funded via “checkbook”; appropriated and paid for up front
- Strong effectiveness: approximately 100% of jobs forecasted are realized
- \$6,818 per job² (job creation)

1. Present value at a 2% discount rate. Data set contains all MEGA liabilities from 2010-2031.

2. Data set contains all approved MBDP deals from FY2011-FY15 (as of January 5, 2015).

Paying Our Debts

- 2011 Reforms
 - MPSERS
 - SERS
- Payment plans in place
- Better for:
 - Our kids
 - Our retirees
 - All of us

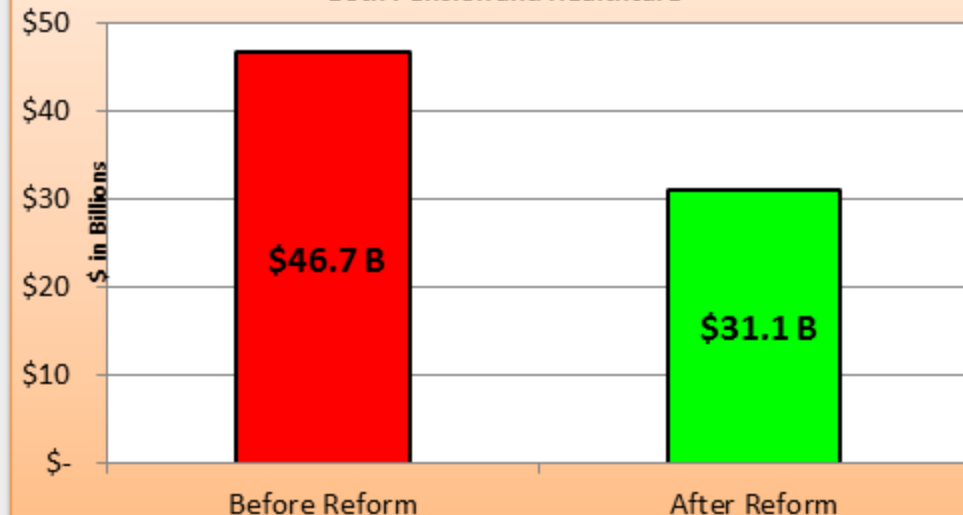


Reforms Result in Savings



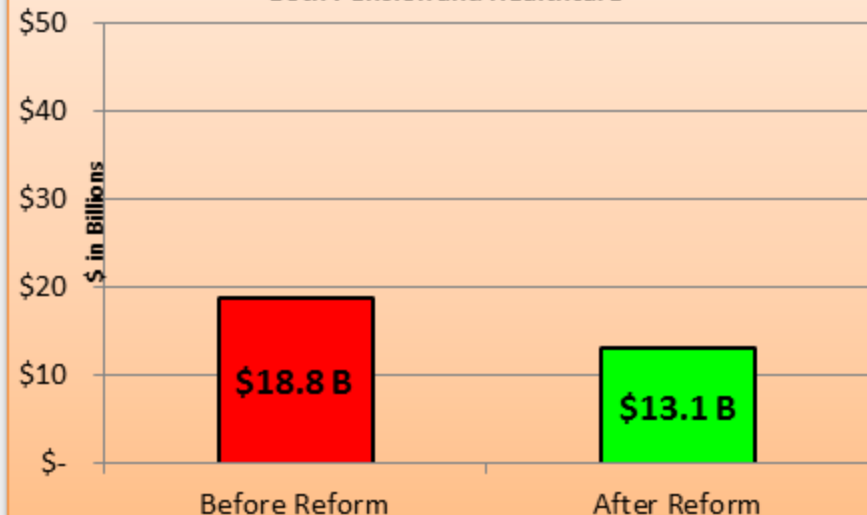
Total Estimated Liabilities for MPSERS

Both Pension and Healthcare



Total Estimated Liabilities for SERS

Both Pension and Healthcare



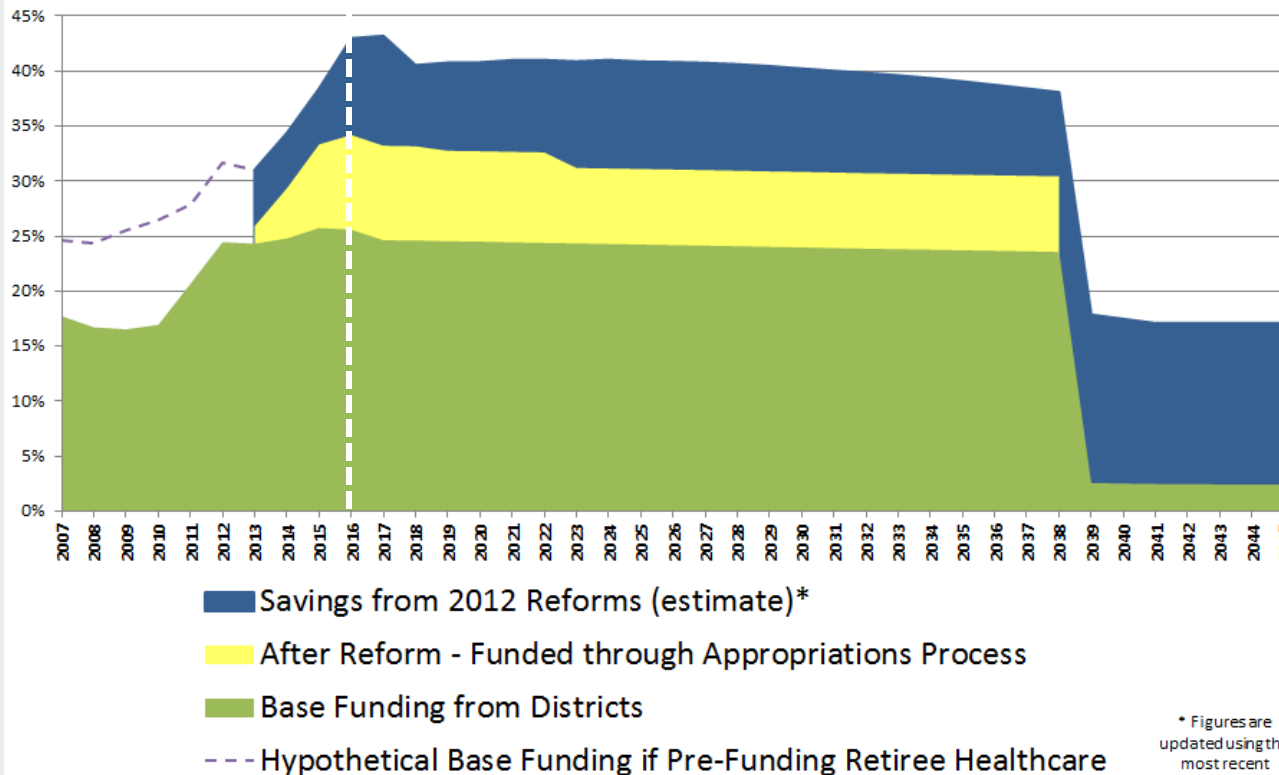
* When reforms passed in 2011 (SERS) and 2012 (MPSERS)

More than \$20B reduction in liabilities

Reforms Result in Savings



**Projected MPSERS Total Contribution Rates
(2013-2044)**
Pension and Retiree Healthcare

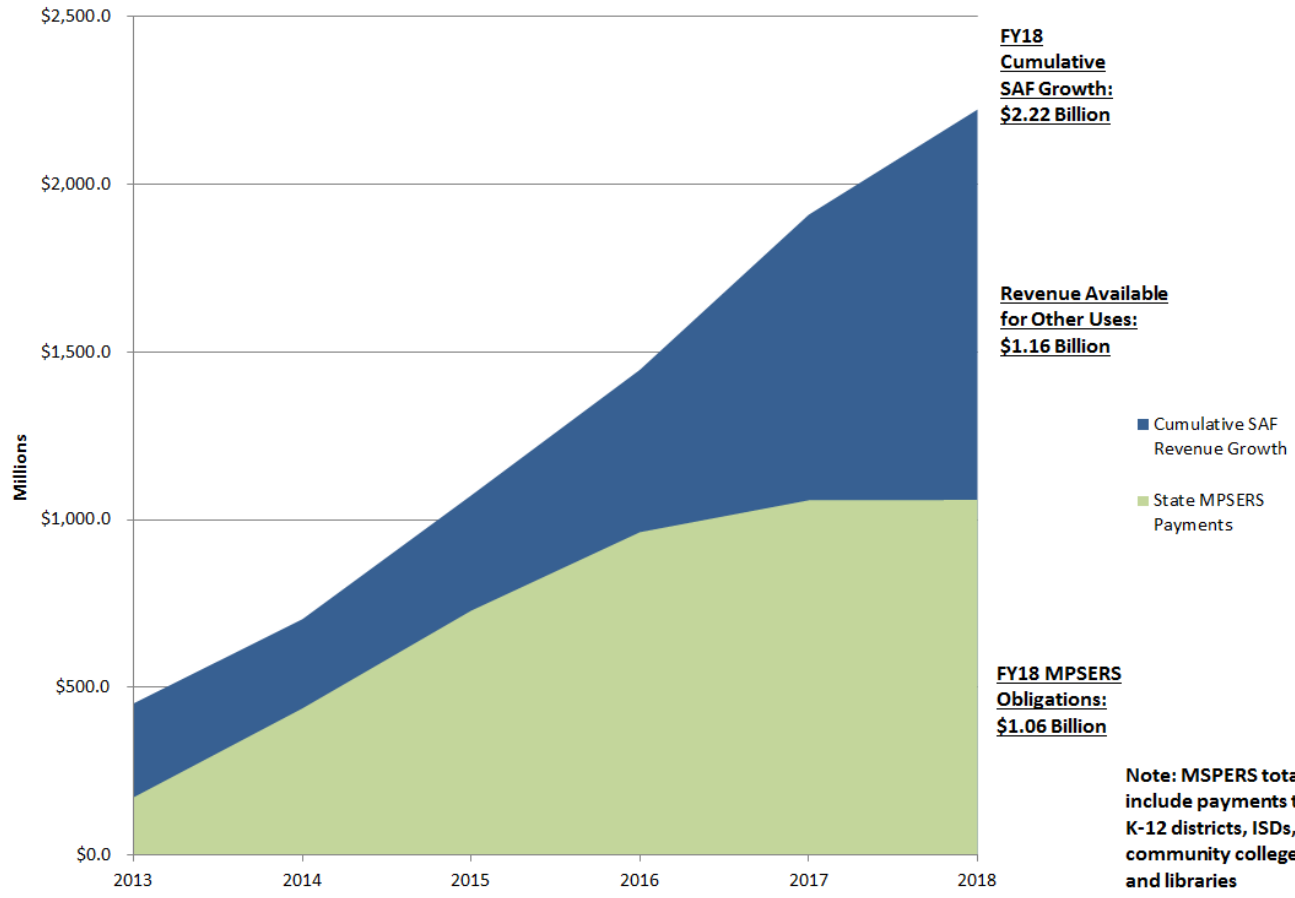


- Savings from reforms equals **\$644M** or **\$475** per K-12 student in FY 16
- FY 16 funding recommendation is **\$815M** or **\$600** per K-12 student
- These two actions translate into **\$1.46B** or **\$1,075** per K-12 student in MPSERS districts in FY 16

Paying for Our Legacy Costs – Schools



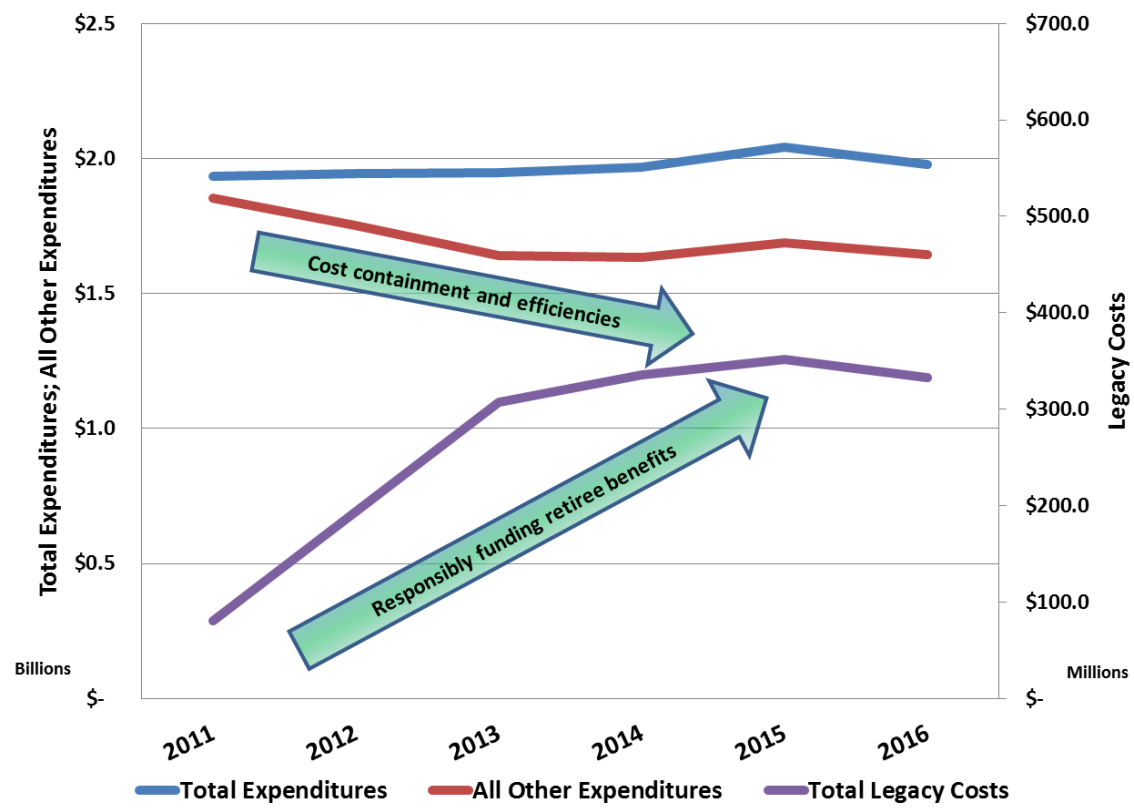
After 2017, MPSERS Contributions Should Begin Leveling Off





Paying for Our Legacy Costs – Corrections

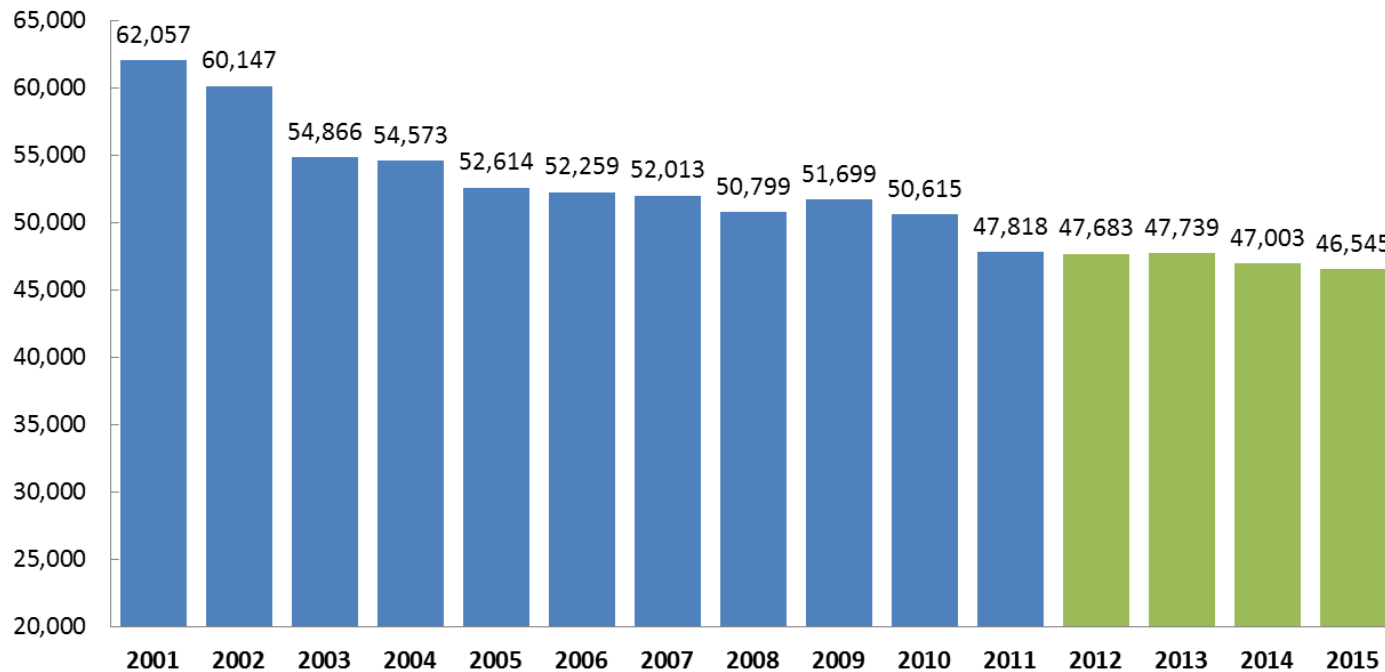
Significant Cost Reductions Have Happened



More Efficient Government



State Employee Workforce



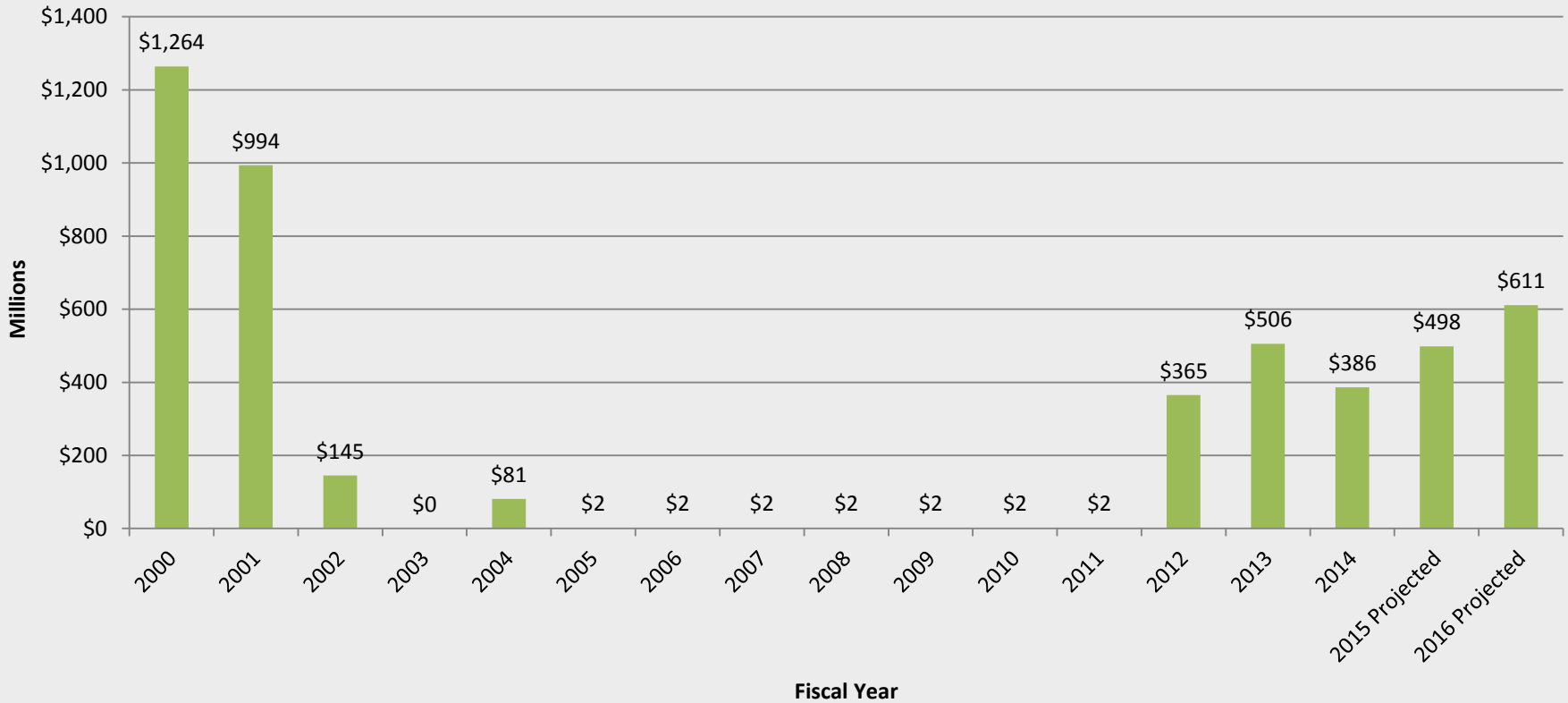
- State workforce down more than 15,000 since 2001

2015 as of Jan. 3, 2015

Saving for a Rainy Day



The Budget Stabilization Fund (BSF) Peaked at \$1.3 Billion in FY 2000, but Had to be Rebuilt. FY16 Deposit of \$95M One-time and \$17.5 Million Ongoing.





FY15 and FY16 Budget Recommendations

Solving the Shortfall



SPENDING COMPARISON

(amounts in millions)

	Fiscal 2016 Executive Recommendation			Fiscal 2015 Current Law			Change from Fiscal 2015 Current Law		
	GF/GP	School Aid	Total	GF/GP	School Aid	Total	GF/GP	School Aid	Total
Ongoing Spending	\$9,294.3	\$12,454.5	\$21,748.8	\$9,599.3	\$11,969.1	\$21,568.4	(\$305.0)	\$485.4	\$180.4
One-Time Spending	\$311.2	\$114.7	\$425.9	\$611.5	\$380.2	\$991.7	(\$300.3)	(\$265.5)	(\$565.8)
Fund Shifts	(\$30.0)	\$30.0	\$0.0	\$0.0	\$0.0	\$0.0	(\$30.0)	\$30.0	\$0.0
TOTAL	\$9,575.5	\$12,599.2	\$22,174.7	\$10,210.8	\$12,349.3	\$22,560.1	(\$635.3)	\$249.9	(\$385.4)

2015 Executive Order

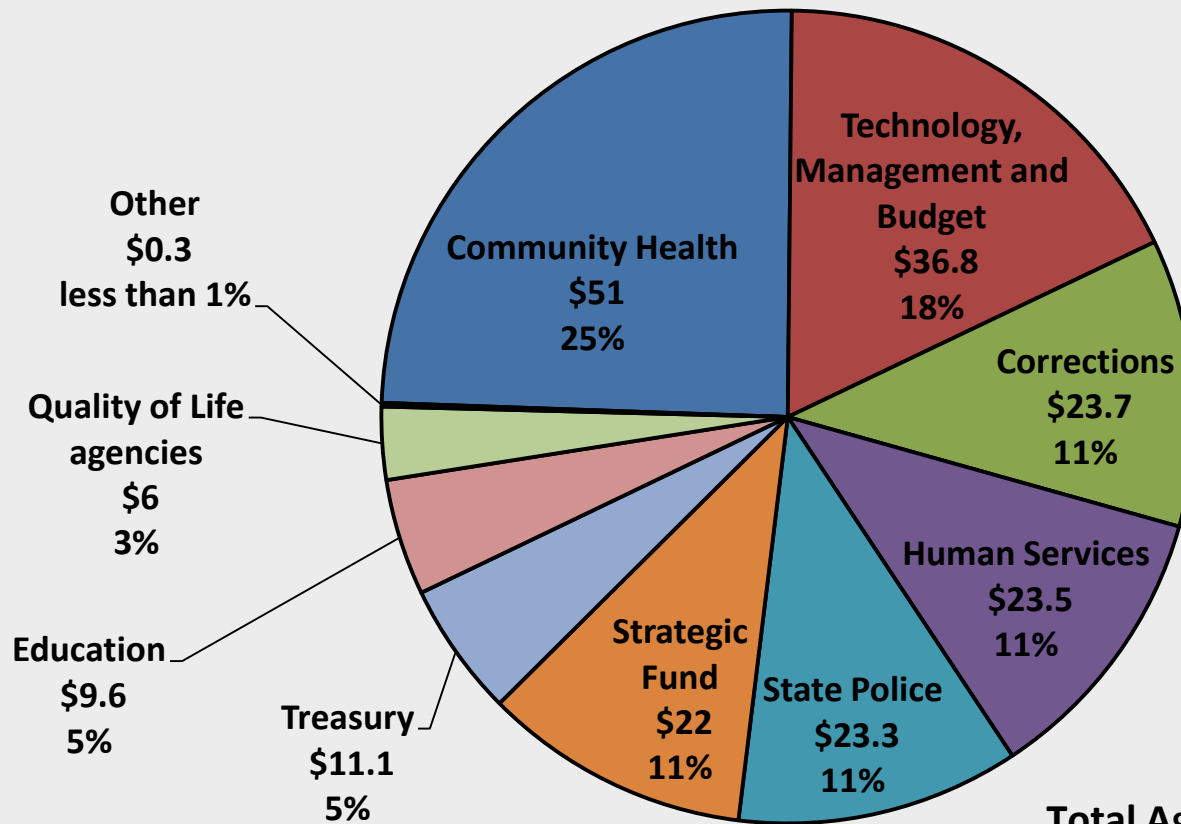


- Protects:
 - Students
 - K-12
 - Higher education
 - Community colleges
 - Revenue sharing



FY 2015 State Agency Reductions

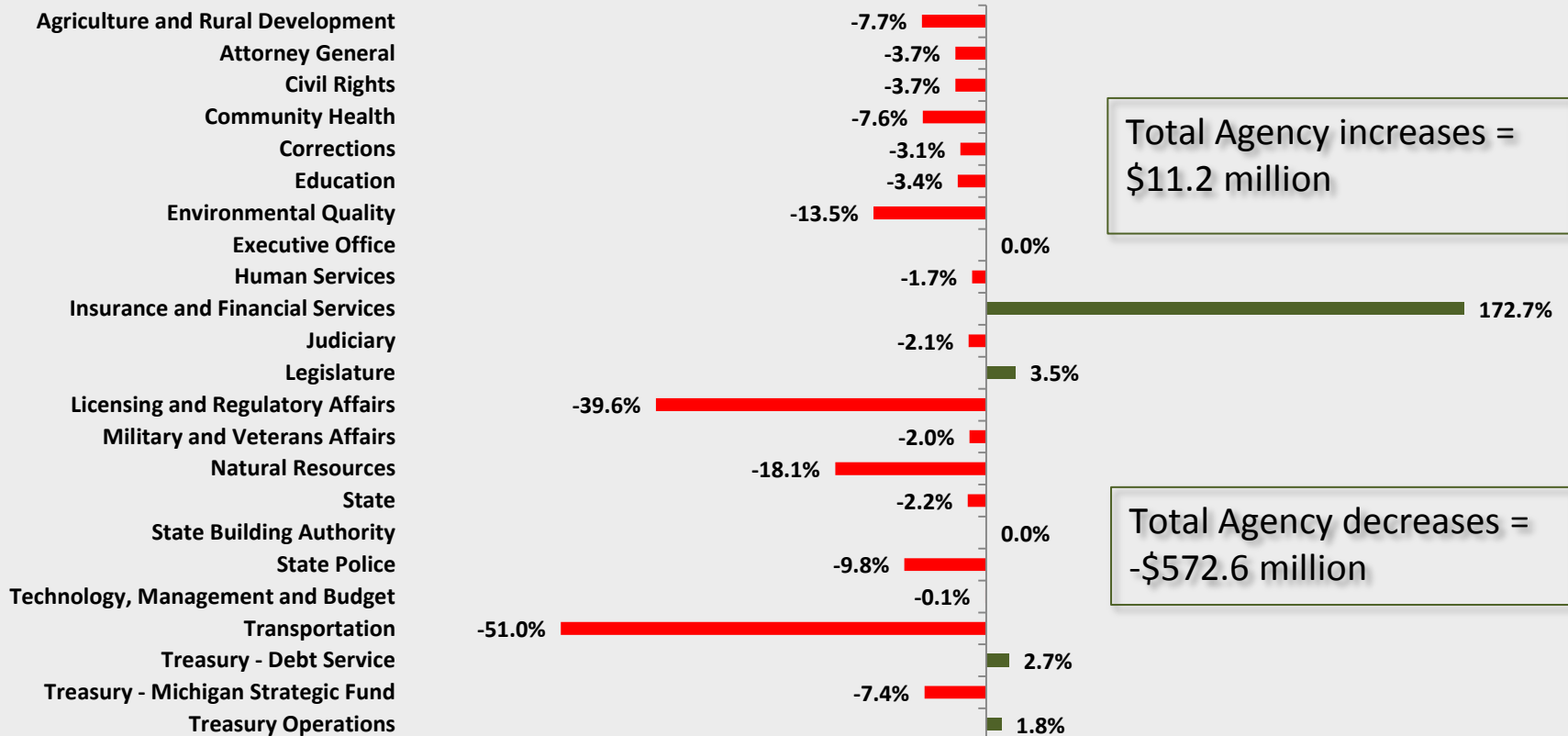
\$ in millions



Total Agency Reductions: \$207.3M



State Agency GF Spending Down 6.5% from 2015



2016 Strategic Investments

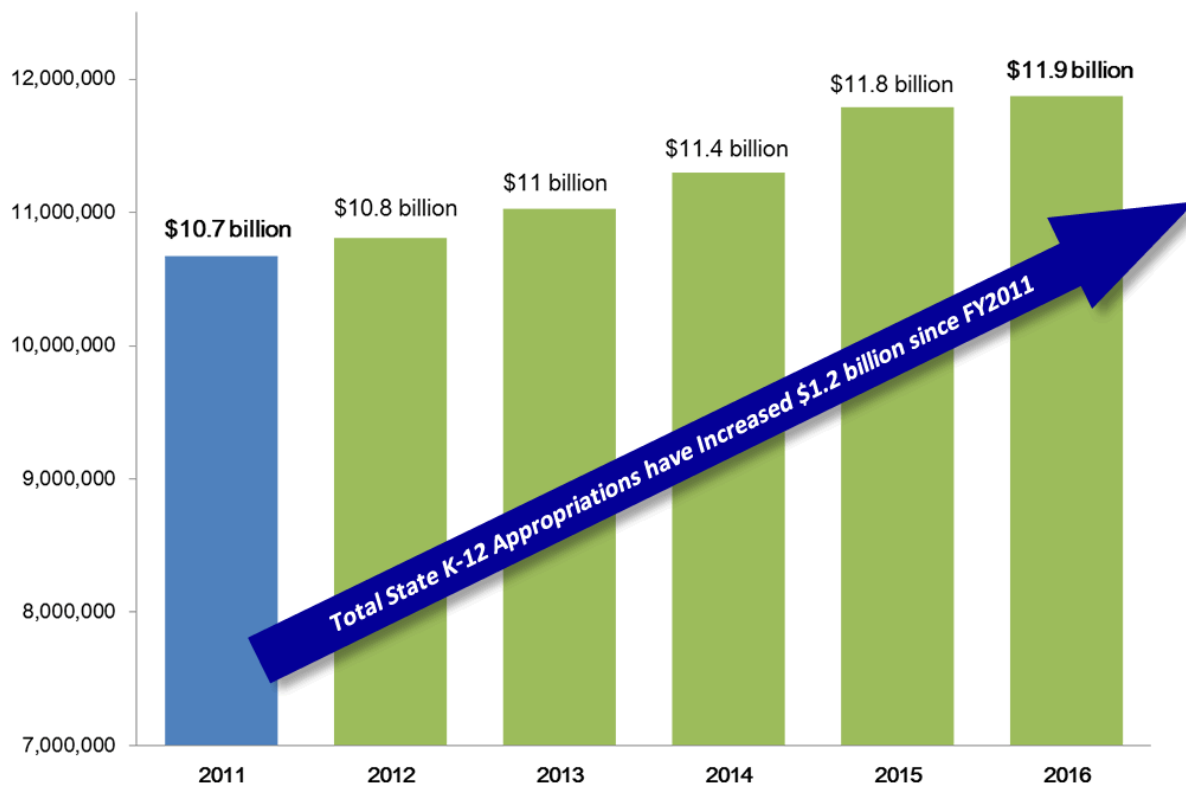
- Education
 - Pre to 3
- Skilled trades
- Public safety
- Health and human services





Continuing Education as a Priority

State K-12 Appropriations Continue to Increase
(in thousands)



$$\begin{array}{r} \$10.7B \\ + \$1.2B \\ \hline = \$11.9B \end{array}$$

* Does not include federal funding, adult education funding or preschool funding



Education: Focus on Student Growth

- Foundation allowance: \$108M (\$75 per-pupil)
- At risk funding increase: \$100M
- Distressed district rehabilitation: \$75M
- Technology infrastructure grants: \$25M
- Third grade reading initiative: \$25M



Building Blocks for Success: Pre to 3

- Previous early childhood investments are paying off
- Additional investments to do more
 - Create commission outside of state government
 - Home visits
 - Parental involvement
 - Diagnostic testing
 - Teacher training
 - Measure for success





Strengthening Higher Education

- Community colleges
 - Operations: \$4.3M, 1.4 percent increase
 - MPSERS: \$17.2M increase
 - Adult part-time student grants: \$6M
- Universities/student financial aid
 - Operations: \$28M, 2 percent increase
 - MPSERS: \$2.7M increase
 - Tuition restraint at 2.8 percent



Prioritizing Skilled Trades

- FY16 Investments: \$35.6M, including:
 - Career and Technical Education Early/Middle College programs: \$17.8M
 - Skilled Trades: \$10M increase; \$20M total
 - Student outreach, career planning and dual enrollment enhancements: \$4.3M
- Existing related programs: \$47.6M

Total investment: \$83M

Prioritizing Public Safety

- \$7.7M to train 75 MSP troopers
- \$1M to train 10 motor carrier officers
- \$3.4M to resolve sexual assault cases
 - \$1.7M to process DNA
 - \$1.7M for prosecution
- \$500,000 to help prevent sexual assaults on campuses
- \$1.5M related to drug policy initiative



Improving Access to Health and Human Services



- Expand Healthy Kids Dental program to three remaining counties based on age (0–8 year olds): \$21.8M
 - Will cover an additional 210,000 children in Wayne, Oakland and Kent counties
 - Total coverage: 822,000 Michigan children
- Adult dental: \$23M
 - Increases access to dental care for all existing adult Medicaid recipients, pending timely rebid
- Mental Health Commission recommendation for residential treatment for youth: \$1.9M



Ensuring A Healthier Michigan

- Enrollment in Healthy Michigan Plan (HMP) has exceeded projections in both FY14 and FY15
- Currently, 536,000 Michigan residents have health coverage through HMP
 - Helping 1 out of 20 Michiganders
 - Nearly 350,000 primary and preventive care visits
- Since April 2014 Michigan providers have received an additional \$1.4B in federal Medicaid reimbursement



Supporting Our Local Communities

- Constitutional revenue sharing: \$23.8M increase
- Ongoing statutory funding for eligible municipalities that meet accountability/transparency requirements
- County revenue sharing and incentive programs, added two counties: \$3.5M increase



Tackling the Tough Choices

- Health Insurance Claims Assessment (HICA) is a tax on paid health insurance claims made by third party administrators, health insurance carriers and self-insured entities
 - Medicare and Medicaid fee-for-service are exempt
- HICA was enacted to ensure federal match dollars for Medicaid and was designed to produce \$400M in revenue
- HICA is not producing the needed revenue to guarantee our full Medicaid match, requiring action on our part
- To ensure receipt of all federal dollars, the recommendation moves HICA from 0.75 percent to 1.3 percent



Efficient State Government Saving Taxpayer Dollars

- Technology
 - \$70M in IT Investment Fund Portfolio
 - Includes \$7M to strengthen cybersecurity efforts
- State infrastructure: \$31M for building maintenance
 - More than \$108M GF has been invested over the last three years for state agency facilities and the Capitol complex

Investing in Cybersecurity

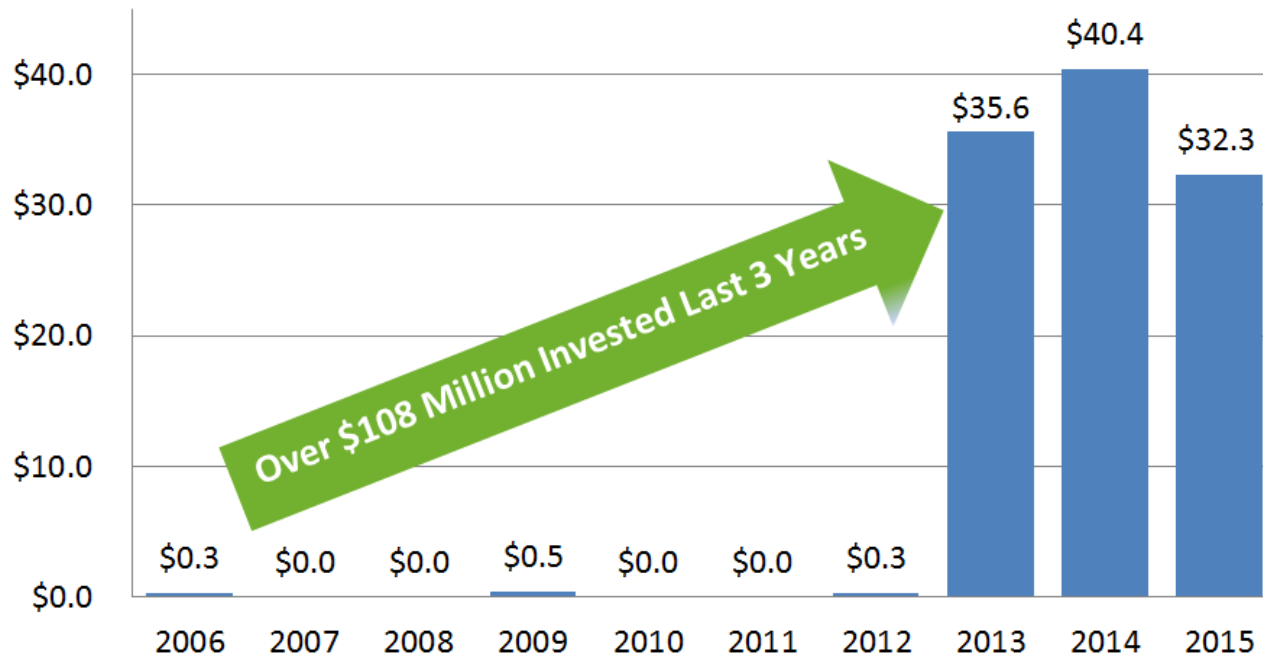
- The cyber threat is real
 - Over 730,000 attacks per day
- Problem is only getting worse
 - Multiple states falling victim to large data breaches
 - Attacks increasing on a daily basis
- \$7M increase recommended to proactively protect our computer systems, networks, and sensitive citizen data



Investing in Infrastructure



State Facility Maintenance Projects
(In Millions)



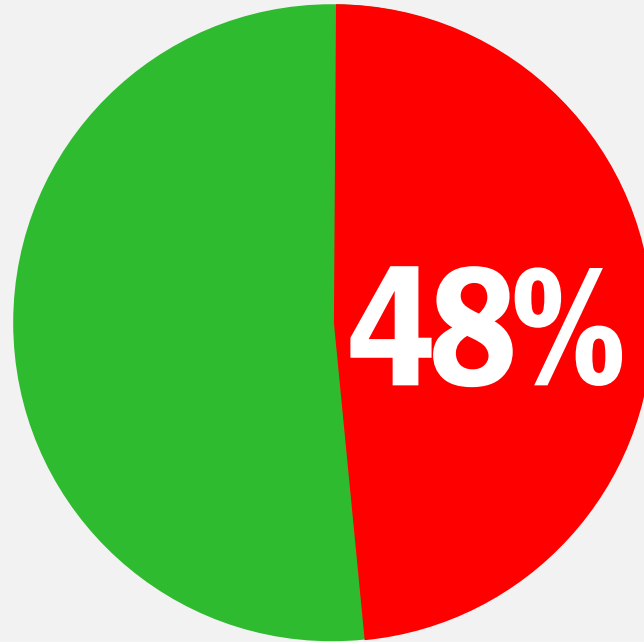
- Replaced collapsed roof
- Capitol dome restoration
- HVAC upgrades
- Fire suppression, smoke detectors, carbon monoxide detectors in hospital patient rooms
- Upgrades at various armories



**Years of neglect has created a
transportation safety crisis**



OF BRIDGES ARE IN NEED OF REPAIR, IMPROVEMENT OR REPLACEMENT



48% of major roads in Michigan's largest cities are in poor or mediocre condition



The Costs

The Cost of Crashes



\$ 8.1 Billion



The Cost of Bad Roads

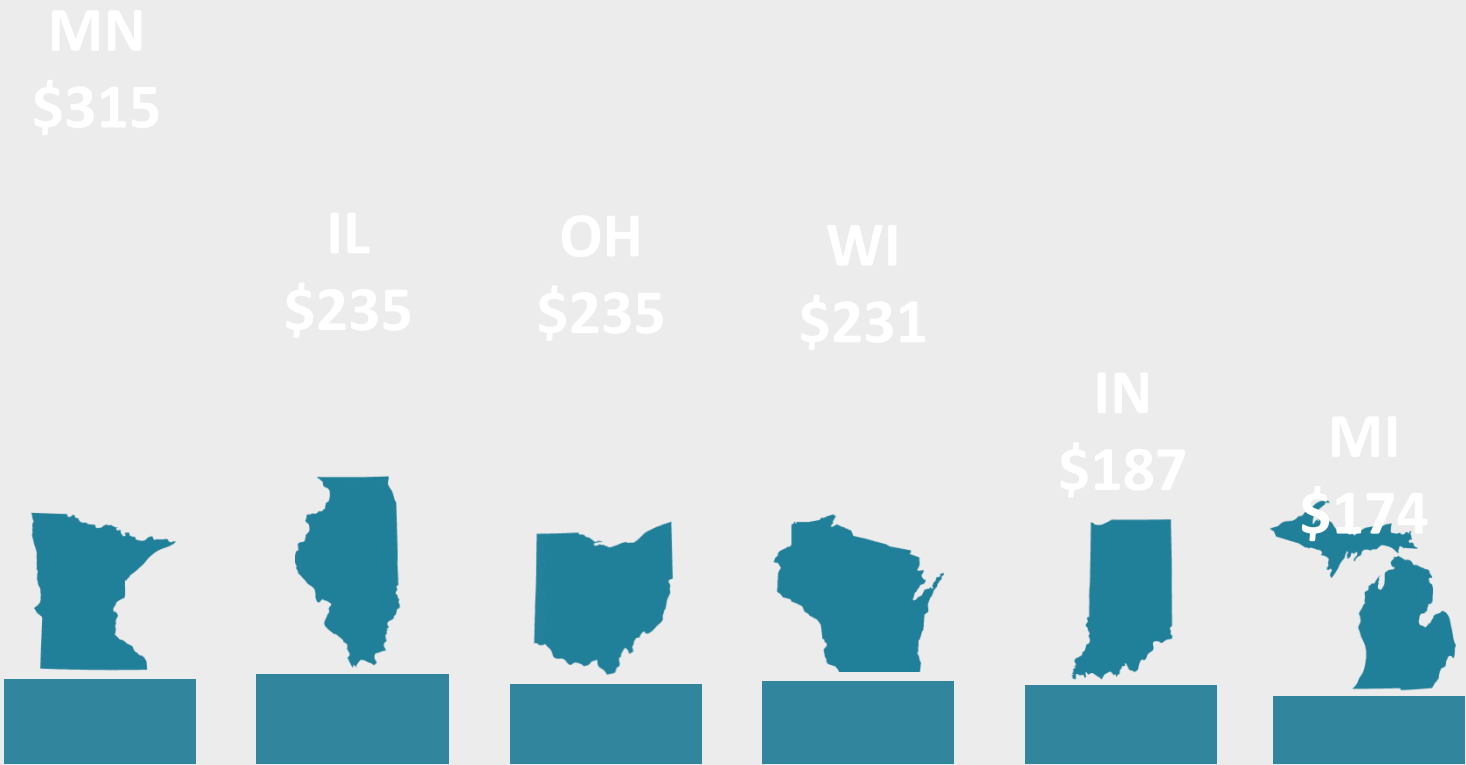
- Michiganders pay **\$2.5 Billion** per year in vehicle operation costs - **\$357 per driver**
- Roadway conditions are a significant factor in approximately **1/3 of traffic fatalities**



How Things Got So Bad

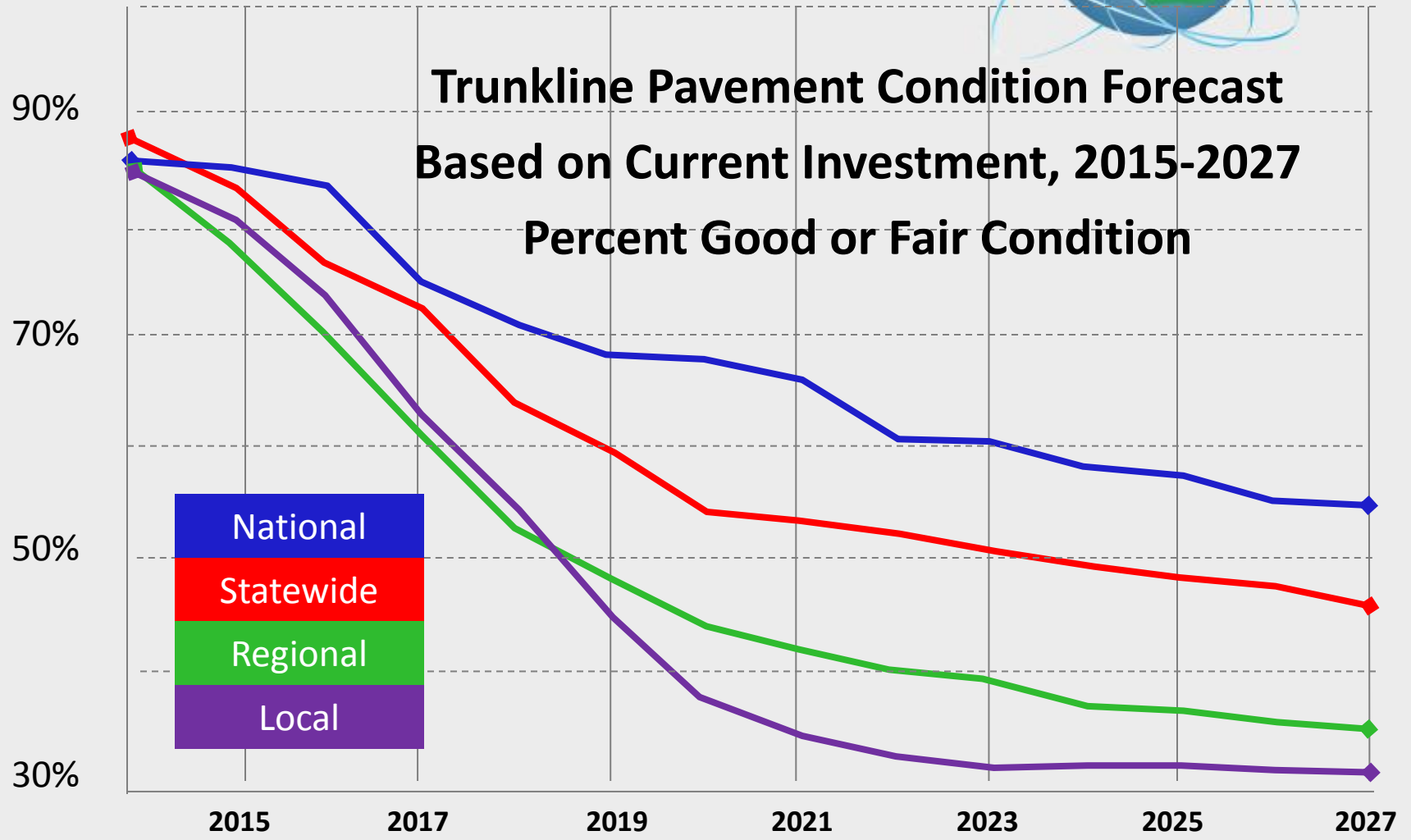
- Brutal Michigan winters
- Poor approach to repair
- Industry and heavy trucks
- Lack of investment

Highway Investment Per Capita





Trunkline Pavement Condition Forecast Based on Current Investment, 2015-2027 Percent Good or Fair Condition





Cost of Doing Nothing

- Increasingly dangerous conditions
- Massive cost of road reconstruction

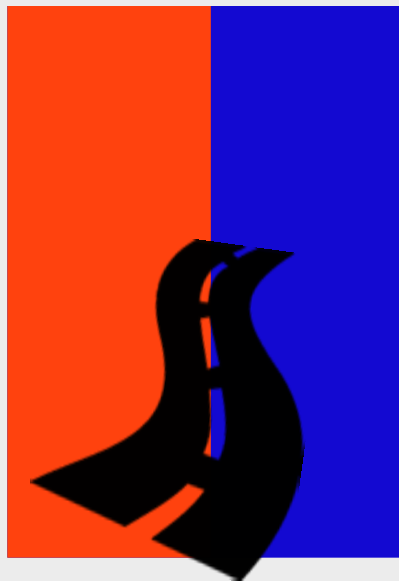


Ballot Proposal Impact

- Fixes Michigan's crumbling roads
- Protects schools and local government
- Provides tax relief for low income residents
- Competitive fuel prices

State Tax Cuts to be Used for Transportation Purposes

+ \$1.3 B
For Transportation

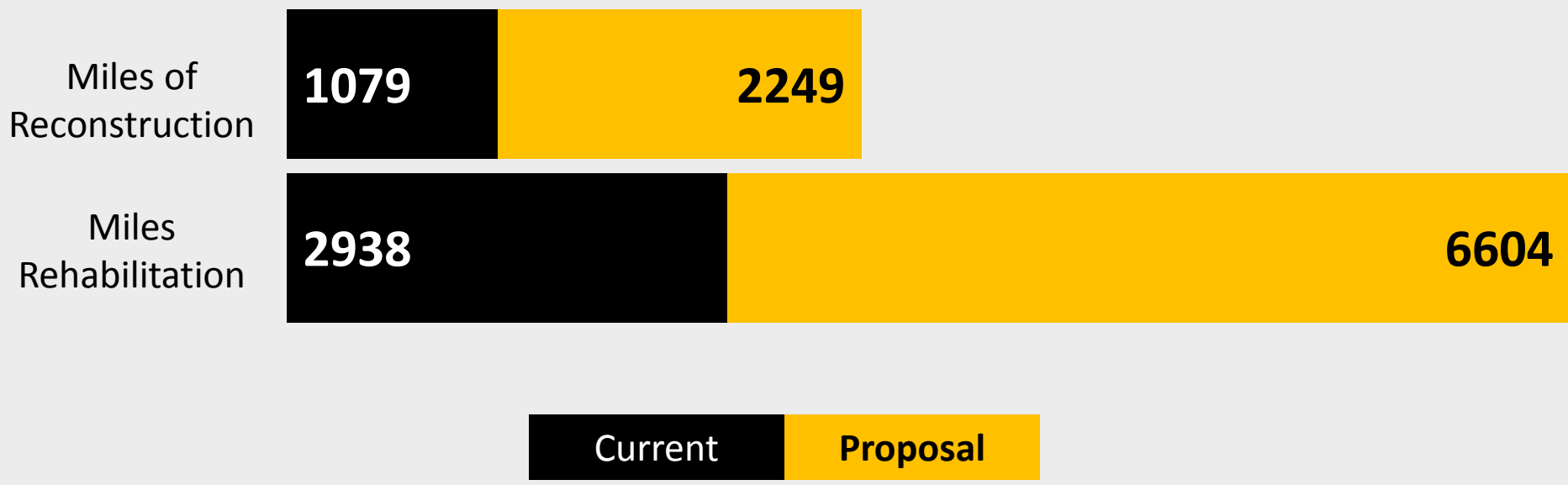


+ \$300 M
For Schools

+ \$94 M
For Local Governments

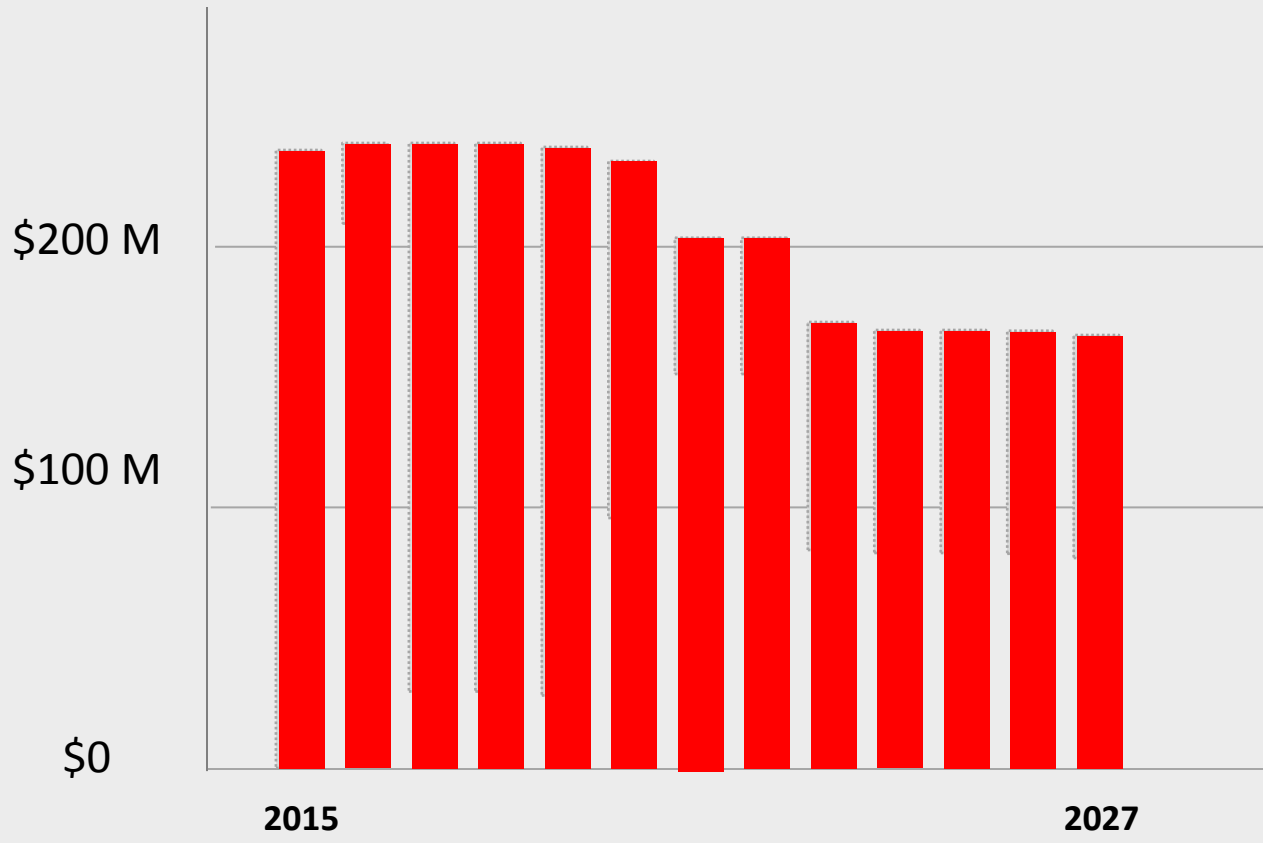


Ballot Proposal Impact Reconstruction and Rehabilitation 2015-2027





Ballot Proposal Impact on Debt Service 2015-2027



Current
Proposal



Accelerating the Comeback

- Ongoing
 - Transportation: Comprehensive funding solution ✓ **Ballot proposal**
 - Healthy Kids Dental ✓ **Expanding to three remaining counties**
 - Education
 - K-12: School retirement system ✓ **Funding retirement obligations**
 - Universities/Community Colleges/Skilled Trades ✓ **Increased investment**
 - Public safety ✓ **Running another recruit school**
 - Local government funding ✓ **Added funding for new counties**
- One-time
 - Grow reserves ✓ **Growing to more than \$600M**



Questions?

Thank you.