MICHIGAN STATE UNIVERSITY | Extension

Michigan at a Crossroads

Michigan's Post-Recession Spending

A Comparison of State Spending from FY 2010-11 to FY 2017-18

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September 2018

All errors are the sole responsibility of the author.

This is one in a series of white papers being prepared at the direction of the Michigan State University Extension Center for Local Government Finance and Policy for a series entitled "Michigan at the Crossroads" funded by the C.S. Mott Foundation.

Introduction and Purpose

Leaders throughout Michigan are heralding its status as the "Comeback State", citing better than projected private-sector job growth, increased per-capita income and an unemployment rate that is the lowest the state has seen in more than a decade. This is a far different position than the state found itself in during fiscal year 2010-11.

Coming off a national recession largely precipitated by the burst of the housing bubble and a lack of available credit for businesses, the Michigan economy was in a perilous condition. In October of 2010, the unemployment rate was 12.8%.[1] The labor force was shrinking. Michigan housing values had fallen, on average, by 20% across the state.[2] Michigan's average median household income fell to just over $45,000 in 2010, 4% below pre-recession levels.[3] Jobs were scarce and the state's poverty rate was climbing, topping out at 17.5% in 2011[4].

As one might expect, the beleaguered economy had a substantial impact on the state's budget. Decreased revenues resulted in cuts to state spending of more than $3 billion from FY 2009 to FY 2011.[5] As a result of the American Recovery and Reinvestment Act (ARRA), federal spending in the Michigan budget grew during that time. Increased federal funds were provided in an effort to meet the increased demand for social support programs and spur economic growth. However, increased funding that resulted from ARRA was temporary and targeted at specific social programs and economic stimulus strategies, rather than supplanting lost revenue.

Over the past 8 years, the state's economy has seen significant improvements. Policymakers have enjoyed rebounding revenues and, as a result, have made sizeable increases in state appropriations. While the increases have not been equally disbursed across the state budget, most departments have seen meaningful increases, many nearing pre-recession levels of state spending.

Even with these increases, there remain significant concerns regarding funding for key public policy priorities in the state. Issues that often receive attention, as it relates to funding needs, include public infrastructure, outstanding debts at all levels of government, K-12 education, higher education, and numerous social safety net programs. This list is not exhaustive but demonstrates the broad scope of perceived or demonstrated funding needs.

As the state moves rapidly toward fall elections for both legislative and executive branches, opposing parties are advancing competing narratives about the state's budget. Many of those aligned on the political left claim there has been a significant and damaging disinvestment in state government. Meanwhile, many on the political right claim that the improved economy is producing growing revenue, which is not needed by the state and should be returned to taxpayers. This paper will examine these claims and show that neither is one hundred percent accurate.

Whether the current claims are a byproduct of political rhetoric or genuine policy disagreement is unclear. However, what remains clear is that regardless of who wins, the next Governor and Legislature will be faced with some difficult financial decisions. This paper is intended to help inform those decisions and provide needed context for incoming state officials as they navigate the critical tasks of developing, debating and passing the state's budget.

1 Michigan Economic Update. Michigan Department of Treasury, Office of Revenue and Tax Analysis October 2010 Summary at https://www.michigan.gov/documents/treasury/October_2010_340696_7.pdf.

2 Hoogterp, E., & Booth News Service. (2011, October 23). Great Recession leaves Michigan poorer, Census numbers show. Retrieved from https://www.mlive.com/news/index.ssf/2011/10/great_recession_leaves_michiga.html.

3 Ibid.

4 United States Census Bureau, 2010 and 2011 American Community Survey.

5 Olson, G. S., & Wycoff, S. E. (2010, October). Michigan's Budget and Total State Spending: A 10-Year History (FY 1999-2000 - FY 2009-10). Publication. Michigan Senate Fiscal Agency, Issue Paper at http://www.senate.michigan.gov/sfa/publications/issues/budgethistory/budgethistory.pdf.

Methodology

In order to compare state spending over time, this analysis adjusts for three key factors.

First, it is important to account for significant fluctuations in federal dollars. Given that the timeline of this assessment begins during a year in which federal stimulus dollars continued to play a significant role in Michigan's budget, this analysis has been limited specifically and only to state spending of state dollars or total state spending (TSS). In other words, expenditures assessed in this paper are limited to general fund general purpose and state restricted dollars. Not only does this allow us to limit the influence of federal funding on our analysis but also it is arguably a better measurement of funding preferences. State spending is reflective of how officials choose to allocate Michigan's most flexible funding sources and is a good indicator of prevailing policy priorities.[6]

6 We acknowledge that while this is the best possible way to demonstrate state policy priorities and spending preferences, it may fail to fully capture the impetus for decisions about state spending that are driven by changes in federal spending or policy.

In addition to limiting our scope to state spending, a true comparison requires that adjustments be made to reflect the reorganization of state government by executive order. The Governor of the State of Michigan has the authority to create, abolish, or transfer departments through powers granted by Article 5, Section 2 of the Michigan Constitution and through the Executive Organization Act of 1965. To accurately compare state spending over time, this analysis has adjusted state spending in FY 2010-11 to reflect executive reorganizations and program transfers that have occurred since that time.

There have been numerous and significant changes during this time period, including but not limited to the consolidation of the Department of Community Health with the Department of Human Services, the split of the Department of Natural Resources and Environment into two separate departments, the creation of the Department of Insurance and Financial Services, the elimination of the Department of Labor, Energy, and Economic Growth and subsequent creation of the Department of Licensing and Regulatory Affairs, the creation of the Department of Talent and Economic Development (TED) and transfer of numerous economic and workforce development agencies into TED. These changes and others are reflected in Table 1, recreating the FY 2010-11 budget using the same organizational structure as the current FY 2017-18 budget.

Table 1. Total State Spending Fiscal Year 2010-2011

Department/Budget Areas	FY 2010 - 11 (Original)	FY 2010-11 (Adjusted)	Dollar Change
Agriculture	$60,976,500	$60,976,500	$-
Attorney General	$43,547,100	$43,547,100	$-
Capital Outlay	$-	$-	$-
Civil Rights	$11,028,700	$11,735,400	$706,700
Community Colleges	$295,880,500	$295,880,500	$-
Community Health	$4,272,830,800	$-	$(4,272,830,800)
Corrections	$1,998,206,600	$1,998,206,600	$-
Education	$28,863,900	$70,908,950	$42,045,050
Energy, Labor & Economic Growth	$397,534,000	$-	$(397,534,000)
Environmental Quality	$-	$202,572,400	$202,572,400
Executive	$4,630,800	$4,630,800	$-
Health and Human Services	$-	$5,173,009,750	$5,173,009,750
Higher Education	$1,573,778,500	$1,573,778,500	$-
Human Services	$984,451,600	$-	$(984,451,600)
Insurance and Financial Services	$-	$52,091,200	$52,091,200
Judiciary	$244,151,100	$244,151,100	$-
Licensing and Regulatory Affairs	$-	$376,218,500.00	$376,218,500.00
Legislative Auditor General	$12,694,900	$12,694,900	$-
Legislature	$101,684,100	$101,684,100	$-
Military and Veterans Affairs	$64,658,100	$64,658,100	$-
Natural Resources	$-	$236,934,700	$236,934,700
Natural Resources & Environment	$440,322,200	$-	$(440,322,200)
Natural Resources (Trust Fund)	$-	$-	$-
School Aid	$10,955,902,900	$10,955,902,900	$-
State	$191,710,300	$191,710,300	$-
State Police	$394,626,100	$394,626,100	$-
Talent and Economic Development	$-	$214,392,700.00	$214,392,700.00
Technology, Mgt. and Budget	$383,576,100	$382,927,000	$(649,100)
Transportation	$1,950,974,400	$1,950,974,400	$-

(Table continues on next page.)

Table 1. Total State Spending Fiscal Year 2010-2011 (continued)			
Department/Budget Areas	**FY 2010 - 11 (Original)**	**FY 2010-11 (Adjusted)**	**Dollar Change**
Treasury (Debt Service)	$57,632,800	$57,632,800	$-
Treasury (Operations)	$434,387,300	$377,537,300	$(56,850,000)
Treasury (Revenue Sharing)	$1,055,284,200	$1,055,284,200	$-
Treasury (Strategic Fund)	$98,354,500	$-	$(98,354,500)
Total	**$26,057,688,000**	**$26,057,688,000**	**$-**

In addition to limiting the scope and making organizational adjustments to the budget, this assessment also adjusts for and includes executive vetoes and supplemental appropriations. For FY 2010-11, all supplemental appropriations have been included. For FY 2017-18, supplemental appropriations made through PA 82 of 2018 (May 2018) have been included.[7]

Further, this assessment solely compares total state spending in FY 2010-11 and FY 2017-18. It does not attempt to reconcile all of these changes in each fiscal year within the period. Rather it assesses significant changes in budgeting habits, spending priorities and other factors that contributed to the overall change. As a result, we acknowledge that this analysis provides a high-level analysis and not a "to the penny" accounting of all state spending during this time.

7 Publication for this paper fell prior to the close of the fiscal year, only making it possible to include year-to-date supplemental appropriations as opposed to year-end.

Finally, because this paper only examines appropriations, it does not capture deposits in to the budget stabilization fund (BSF). The BSF is a cash reserve fund, established by law in 1977, which is often referred to as the "rainy day fund."[8]

8 In FY 2010-11, the BSF's fund balance was merely $2.2m. onsiderable efforts have been since that time to deposit additional funds. As a result, the Senate Fiscal Agency projects a closing fund balance of $886.1M for FY 2017-18, which equates to approximately 3.8% of TSS for FY 2017-18. Budget Stabilization Fund Background and Appropriations. Michigan Senate Fiscal Agency, available at http://www.senate.michigan.gov/sfa/RevenueData/RevenueData.html.

Overview of Michigan State Spending: FY 2010-11 – FY 2017-18

During the time period in question, total state spending for the State of Michigan increased by over $6b dollars or 24%. The vast majority of state departments have seen a double-digit percentage increase in total state spending with many state departments achieving state spending levels nearing or surpassing pre-recession funding.

The levels of increased funding are remarkable for several reasons. First, the total dollar amount of the increase, more than $6b, makes it notable. Second, increased state spending has occurred at a time when there has been some public angst regarding the lack of available funding for large, public investments in education, infrastructure and other key items. Finally, it is significant that state spending surpassed levels of inflationary adjustment during this time period. Cumulative inflation, based on the Detroit Consumer Price Index (CPI), from 2010-2017 was 8.8%.[9] If 2010 state spending levels had increased only in accordance with inflation, it is projected that total state spending would have increased by approximately $2.3b, or $4b less than it did. In other words, state spending increased far faster than inflation during the past eight years.

9 Consumer Price Index, Detroit-Warren-Dearborn - June 2018: Midwest Information Office. (2018, July 12) at https://www.bls.gov/regions/midwest/news-release/consumerpriceindex_detroit.htm.

As we assess the key factors that make this increased spending noteworthy, however, it is important to note that our findings are impacted significantly by our chosen period of analysis. As is previously stated, this analysis is strictly limited to the period between FY 2010-11 and FY 2017-18. By beginning in 2010, this analysis captures the state's climb out of the depths of the recession. Therefore, it is not surprising that as the economy improved so did state revenue, which resulted in increased state spending. It is to be expected that state officials would make at least some effort to rebuild government system that were diminished due to the recession.

This point is further supported by the acknowledgment that state spending levels from FY 2000 -10 not only failed to keep pace with inflation but also experienced meaningful cuts.[10] In fact, using FY 2000-01 spending levels and adjusting for cumulative inflation through 2017 (Detroit cumulative CPI was 30.7% during that period[11]), we see that state spending has not kept pace with overall inflation during that time and instead lags by approximately $2b.

10 Olson, G. S., & Wycoff, S. E. (2010, October). Michigan's Budget and Total State Spending: A 10-Year History (FY 1999-2000 - FY 2009-10). Publication. Michigan Senate Fiscal Agency, Issue Paper at http://www.senate.michigan.gov/sfa/publications/issues/budgethistory/budgethistory.pdf.

11 Consumer Price Index, Detroit-Warren-Dearborn - June 2018: Midwest Information Office. (2018, July 12) at https://www.bls.gov/regions/midwest/news-release/consumerpriceindex_detroit.htm.

In other words, while increases in state spending have far surpassed inflationary adjustments for the period of analysis this paper examines, Michigan state spending failed to keep pace with inflationary adjustments for the preceding decade. Some will argue that spending has grown too quickly during the past eight years while others will argue that the state was simply playing catch-up from a decade of contraction. Both arguments can reasonably be made. Neither is definitive nor must they be mutually exclusive explanations.

To further understand the drivers of increased state spending, this paper will examine key changes and factors that have contributed to the overall increase in state spending.

Employee Economics

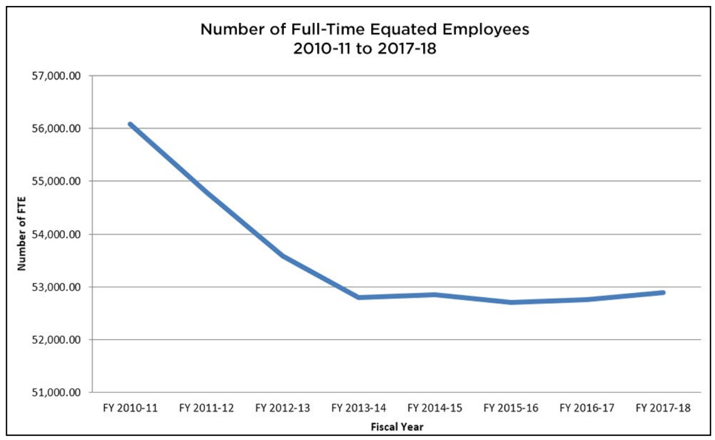
As with most large enterprises, employee economics play a significant role in the State of Michigan's budget. Despite a declining number of employees, costs have continued to rise.

The total number of state employees has declined significantly since FY 2010-11. In fact, total full-time equated employees (FTEs) have declined by more than 5%, or 3,000 employees. The most significant drop in employees occurred between 2010-11 and 2013-14. Thereafter, FTEs remained relatively steady at approximately 53,000, though there has been a very slight increase in the last year as seen in Chart 1.

While overall state FTEs have declined, the impact on state departments has varied significantly. By far, the biggest decline of total state employees in a given department can be found at the Michigan Department of Corrections (MDOC), which accounts for more than 2,000, or 2/3 of the total decline. This is the result of the closure of more than ten MDOC facilities.

The greatest percentage loss experienced by a department, however, is that of the Talent and Economic Development (TED) department, which has seen a nearly 30% decline in FTEs during the period in question. Much of this is attributable to the improving economy and subsequent declining need for staff at the Unemployment Insurance Agency.

Chart 1



By far the department experiencing the largest increase in FTEs is the Michigan State Police (MSP), at a growth of 675 FTEs, or 24%, since FY 2010-11. State police leadership have advocated strongly for funding for trooper schools in recent years, in an effort to replace retiring or soon to be retiring employees.

Further details on the impact of changing FTEs can be examined by department in Table 2 below.

Table 2

Department/Budget Areas	FTE FY 2010-11 (Adjusted)	FTE FY 2017-18	Change in FTE	% Change in FTE
Agriculture	458.50	499.50	41.00	8.9%
Attorney General	520.00	536.00	16.00	3.1%
Civil Rights	125.00	116.00	(9.00)	-7.2%
Corrections	15,877.50	13,819.90	(2,057.60)	-13.0%

(Table continues on next page.)

Table 2 (continued)				
Department/Budget Areas	**FTE FY 2010-11 (Adjusted)**	**FTE FY 2017-18**	**Change in FTE**	**% Change in FTE**
Education	563.50	609.50	46.00	8.2%
Environmental Quality	1,475.10	1,245.00	(230.10)	-15.6%
Executive	84.20	89.20	5.00	5.9%
Health and Human Services	16,163.20	15,617.50	(545.70)	-3.4%
Higher Education	1.00	-	(1.00)	-100.0%
Insurance and Financial Services	370.00	342.50	(27.50)	-7.4%
Judiciary	491.00	501.00	10.00	2.0%
Licensing and Regulatory Affairs	2,491.40	2,379.80	(111.60)	-4.5%
Military and Veterans Affairs	977.00	913.50	(63.50)	-6.5%
Natural Resources	2,192.40	2,267.80	75.40	3.4%
State	1,815.00	1,592.00	(223.00)	-12.3%
State Police	2,765.00	3,440.00	675.00	24.4%
Talent and Economic Development	2,059.70	1,453.00	(606.70)	-29.5%
Technology, Mgt. and Budget	3,020.50	2,943.00	(77.50)	-2.6%
Transportation	3,022.30	2,826.30	(196.00)	-6.5%
Treasury (Operations)	1,753.50	1,862.50	109.00	6.2%
Total	**56,225.80**	**53,054.00**	**(3,171.80)**	**-5.6%**

Despite a significant decline in FTEs, total costs associated with state employees have continued to grow. Because the 2017-18 fiscal year has not yet come to an end, the most recent data on employee economics available from the Michigan Civil Service Commission is for FY 2016-17. A comparison between employee costs for FY 2010-11 and FY 2016-17 demonstrates a 20%, or an approximately $880m annual increase.

Table 3. Change In Employee Economics FY 2010-2011 to FY 2016-17				
	FY 2010-11	**FY 2016-17**	**Dollar Change**	**% Change**
State Employee Base Payroll	$2,870,685,987.14	$3,063,335,424.98	$192,649,437.84	7%
State Employee Retirement Contributions	$869,921,922.79	$1,582,130,332.88	$712,208,410.09	82%
State Employee Insurance Costs	$666,977,508.41	$644,512,801.55	$(22,464,706.86)	-3%
Total State Employee Costs	$4,407,585,418.34	$5,289,978,559.41	$882,393,141.07	20%
Total Average Cost Per Employee	$78,390.80	$99,709.33	$21,318.53	27%
Source: Michigan Civil Service Commission, Certified Aggregate Payroll Reports, FY 2010-11 and FY 2016-17. Average Cost calculated using the provided figures and those in Table 2.				
Note: The FY 2017-18 year has not concluded at the time of this publication, meaning that FY 2016-17 figures are the most up to date available.				

The vast majority of the increased spending is driven by retirement contributions. When Governor Snyder took office he made it a priority to pay down outstanding obligations for employee retirement costs. Michigan has long underfunded its retirement system, leading many to be concerned about the obligations coming due as a growing number of state employees move toward retirement.[12]
However, it should also be noted that the Michigan Civil Service Commission (MCSC) approved a 3% wage increase for all state employees beginning in 2017 and a 2% increase beginning in 2018. Those raises are not yet reflected in Table 3, as the fiscal year has not yet closed. However, they are reflected in the total state spending budget analysis, which is the primary focus of this report. This is the first such increase that state workers have seen since 2010, when a 3% across the board increase was also approved by the MCSC. [13]

12 According to the state's 2017 Employee Engagement Survey, more than 10,000 or 20% of current state employees are over the age of 55. State of Michigan 2017 Employee Survey available at https://www.michigan.gov/documents/ogg/SoM_2017_Overall_Report_4.6.17_FINAL_560049_7.pdf.

13 Hinkley, J. A. (2016, December 12). State workers about to get another raise, but don't knock 'em, yet. Lansing State Journal at https://www.lansingstatejournal.com/story/news/local/capitol/2016/12/12/state-workers-get-another-raise-but-dont-knock-em-yet/95198598/.

Key Factors in State Spending

State spending is up measurably in nearly every department. The exceptions are the Department of Licensing and Regulatory Affairs (LARA), which experienced a moderate cut, and the Michigan Department of Corrections (MDOC) and Higher Education budgets, which maintained relatively flat spending levels.

The size of spending increases varies significantly by department, with several seeing an increase in state spending of 50% or more. More details regarding changes in total state spending by department are outlined in Table 4.

Table 4. Changes In Total State Spending By Department FY 2010-11 to FY 2017-18

Department/ Budget Areas	FY 2010 - 11 (Adjusted)	FY 2017-18 (Adjusted)	$ Change	% Change
Agriculture	$59,661,800	$102,912,800	$43,251,000	72%
Attorney General	$41,881,900	$63,365,500	$21,483,600	51%
Civil Rights	$10,937,900	$13,158,500	$2,220,600	20%
Community Colleges	$295,880,500	$399,326,500	$103,446,000	35%
Corrections	$1,980,405,500	$1,987,783,000	$7,377,500	0.4%
Education	$70,364,750	$90,245,000	$19,880,250	28%
Environmental Quality	$271,546,450	$375,606,800	$104,060,350	38%
Executive	$4,630,800	$6,848,500	$2,217,700	48%
Health and Human Services	$5,328,207,950	$6,814,971,200	$1,486,763,250	28%
Higher Education	$1,486,352,100	$1,517,698,000	$31,345,900	2%
Insurance and Financial Services	$52,091,200	$64,019,100	$11,927,900	23%
Judiciary	$242,812,600	$285,103,400	$42,290,800	17%
Licensing and Regulatory Affairs	$376,218,500	$321,454,200	$(54,764,300)	-15%
Legislative Auditor General	$12,694,900	$18,577,000	$5,882,100	46%
Legislature	$101,684,100	$155,874,800	$54,190,700	53%
Military and Veterans Affairs	$64,218,900	$84,900,100	$20,681,200	32%
Natural Resources	$237,608,850	$332,219,600	$94,610,750	40%
Natural Resources (Trust Fund)	$102,098,400	$47,610,900	$(54,487,500)	-53%
School Aid	$10,756,636,700	$12,857,370,400	$2,100,733,700	20%

(Table continues on next page.)

Table 4. Changes In Total State Spending By Department FY 2010-11 to FY 2017-18 (continued)				
Department/ Budget Areas	FY 2010 - 11 (Adjusted)	FY 2017-18 (Adjusted)	$ Change	% Change
State	$190,891,100	$232,848,400	$41,957,300	22%
State Police	$393,517,000	$581,425,400	$187,908,400	48%
Talent and Economic Development	$214,392,700.00	$411,156,100	$196,763,400	92%
Technology, Mgt. and Budget	$378,719,700	$691,254,500	$312,534,800	83%
Transportation	$1,969,724,400	$3,129,470,500	$1,159,746,100	59%
Treasury (Debt Service)	$57,632,800	$107,580,000	$49,947,200	87%
Treasury (Operations)	$420,715,700	$459,750,100	$39,034,400	9%
Treasury (Revenue Sharing)	$1,088,414,400	$1,278,215,000	$189,800,600	17%
Total	$26,209,941,700	$32,430,746,100	$6,220,804,400	24%

Table 4 outlines the overall increase in the state budget and how that increase has been disbursed across departments. As previously mentioned, employee economics played a significant role in the increased spending across state departments. Additionally, many departments saw significant increases in spending on programs and services. Some of these investments were intended to restore programs that were negatively impacted by the recession. However, much of the spending can also be attributed to new policy priorities or programs. The sections that follow will provide a brief synopsis of those changes in state spending as examined by department or agency.

Agriculture

MDARD Fast Facts	
Change in FTE	41
$ Change	$43,251,000
% Change TSS	72%

The Michigan Department of Agriculture and Rural Development (MDARD) is tasked with promoting and safeguarding Michigan's agricultural economy, making matters like food quality, animal, and plant health a priority. MDARD's budget derives 90% of its funding from state sources.

The department has benefited from consistent increases in spending, resulting in an overall increase of 72% or just over $60m. It is also one of the few departments that have seen an increase in staff capacity, growing by 41 FTEs since FY 10-11.

Unlike some departments that have seen increased spending concentrated in one or two areas, most divisions of MDARD have benefited from the increase. New dollars have been dedicated to Food and Dairy inspections and quality assurance[14], pesticide and plant management, environmental stewardship (specifically the MAEAP program[15]), agricultural and rural development efforts, laboratory services and other one-time funding priorities.

In FY 17-18, nearly $12m of one-time funding was dedicated to grant programs and other local and special interests. Additional growth is attributable to increased staffing levels, employee economics and economic adjustments.

Attorney General

Attorney General Fast Facts	
Change in FTE	16
$ Change	$21,483,600
% TSS Change	51%

The Office of the Attorney General is responsible for enforcement of the laws and acts as legal counsel for the State of Michigan, its departments and officers. The Attorney General's budget receives approximately 60% of its funding from state sources. Since FY 10-11, the office has experienced an increase of 51% or approximately $21M in total state spending.

This increase has been largely driven by pre-funding of retiree health care, expanded enforcement responsibilities, increased caseloads, and one-time appropriations related to the Flint water crisis. The expanded enforcement responsibilities appear to primarily be attributable to legal action related to an effort to test and prosecute offenders connected to a backlog of rape kits from Wayne County. The AG's office has also been involved with increased prosecutions as a result of a relatively new emphasis on the opioid epidemic. Finally, legal matters resulting from the Flint water crisis have resulted in the appointment of a special prosecutor and a dedication of additional staff and resources toward its resolution.

14 Food and Dairy inspections are one of the largest responsibilities of the department. In 2013, an audit found inspections were not happening as regularly as policy or law would require. The department agreed, stating it was not possible as a result of staffing and budget cuts. Michigan Radio Newsroom. (2013, May 30). Audit of Michigan food and dairy showed insufficient inspections. Michigan Radio at http://michiganradio.org/post/audit-michigan-food-and-dairy-showed-insufficient-inspections.

15 The Michigan Agriculture Environmental Assurance Program (MAEAP) is a voluntary program that helps farms voluntarily prevent or minimize agricultural pollution risks.

Civil Rights

MDCR Fast Facts	
Change in FTE	(9)
$ Change	$2,220,600
% TSS Change	20%

The Michigan Department of Civil Rights (MDCR) serves as the administrative arm of the Michigan Civil Rights Commission, an appointed body tasked with investigating, deterring, and combating discrimination. Approximately 80% of the department's budget is supported by state sources, with an emphasis on general fund dollars.

MDCR has experienced a small total dollar increase of just over $2m. However, given the size of the department, this actually accounts for a 20% increase in total state spending. Economic adjustments related to operations and employee costs drove a meaningful portion of the increase. Additional expenses can be attributed to one-time costs for technology upgrades.

Community Colleges

Community Colleges Fast Facts	
Change in FTE	N/A
$ Change	$103,446,000
% TSS Change	35%

The Community College budget supports Michigan's 28 public community colleges. State funds for Community College operations are derived nearly 100% from general fund or state restricted dollars. Previously, general fund made up the bulk of this appropriation. However, in recent years, there has been a shift away from GFGP dollars in favor of supplanting those funds with School Aid dollars. During that time, the Community College budget has seen an increase of more than 30% or just over $100m.

Of the $100m increase, approximately 25% is attributable to an increase in funds for Community College Operations. Meanwhile, the remaining increase of approximately $75m reflects the state's increased commitment to paying down underfunded liabilities for MPSERS (Michigan Public School Employment Retirement System) contributions.

State law places a maximum cap on the contribution local employers must pay toward MSPERS liabilities. That cap is 20.96%. The State of Michigan has made an increasing commitment since FY 2012-13 through state appropriations to make up the difference between employer contributions and the actuarial contribution needed to pay for underfunded MPSERS liabilities. [16]

16 It is worth noting that the number of fiscal-year equated (FYE) students enrolled in Michigan's community colleges peaked in 2010 and has been declining since. It is not uncommon for enrollment to increase during tough economic times and decline as economies improve.

Corrections

The Michigan Depart-ment of Corrections (MDOC) is tasked with operating the state's prisons, providing parole/probation services, and preparing convicted offenders to successfully return to their communities. The department is almost entirely funded by state general fund dollars. In fact, it represents 20% of the state's total $10B annual general fund spending and employs nearly 25% of the State of Michigan's workforce. For this reason, there has long been a focus on trying to cut costs in corrections in order to free up more flexible dollars for other pressing policy priorities.

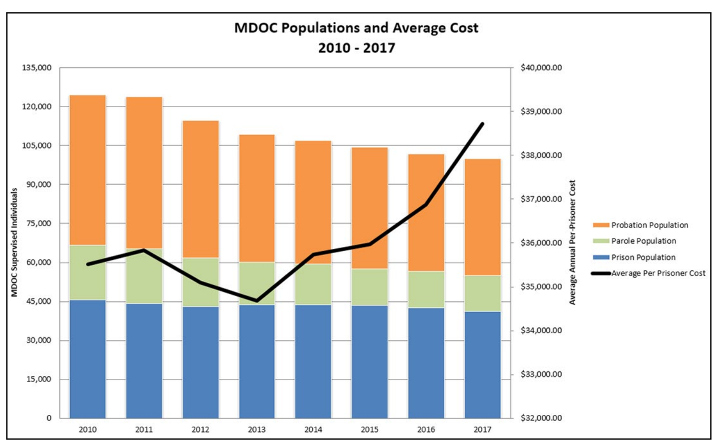
Unfortunately, despite a significant reduction in department FTE's, the closure of 13 camps and prisons[17] since 2010, and a declining prison population the MDOC budget has remained flat. In other words, no net savings have been realized as a result of these changes. This should not discount, however, the importance of the reform measures taken. Certainly, absent the closure of prisons and associated decline in populations, the state could not have contained costs for corrections at current levels.

MDOC Fast Facts	
Change in FTE	(2,057.60)
$ Change	$7,377,500.00
% TSS Change	0.04%

As Chart 2 demonstrates, despite declining populations in every category of supervision (prisoner, parolee, probationer) average costs within the MDOC system continue to rise. According to the House Fiscal Agency, contributing factors include the rising cost of health care, which increased from $7,322 per prisoner in 2010 to $7,871 per prisoner by 2017 and the aging of the state's prison population. In 2010, 17.5% of Michigan's prison population was over the age of 50. By 2017, that population had grown to represent 23.4% of the total prison population.

17 Email correspondence between Sara McCauley and Russ Marlan, Michigan Department of Corrections (June 29, 2018).

Chart 2



Education

MDE Fast Facts	
Change in FTE	46
$ Change	$19,880,250
$ TSS Change	28%

The Michigan Department of Education (MDE) is the administrative entity serving on behalf of the Michigan State Board of Education. It is responsible for ensuring the state complies with state and federal education policy. It also provides myriad types of support and resources to students, educators and administrators through technical assistance, provision of state aid and other mechanisms. Since FY 2010-11, MDE has seen a $19M increase in total state spending, or 28%. The increase can largely be attributed to the state's recent emphasis on early childhood education.

Executive Order 2011-8 created the Office of Great Start Readiness. This included the transfer of the Child Development and Care Program from the Department of Health and Human Services (Department of Human Services) as well as substantive policy and budget changes that allowed for an increase in available childcare slots, reimbursement rates and the number of hours of care families could access. These changes and others have been further supported by an increase of 46 FTE, which is also a cost driver for this budget.

Apart from the increased funding for early childhood, the state has also increased state aid to libraries by approximately $5m. State aid to libraries was cut significantly during the recession. As the economy rebounded, payments were increased on a pro-rated basis. However, they have still not returned to pre-recession levels. The House Fiscal Agency reports that fully funding the state's obligation under current formulas for state-aid-eligible public libraries would require funding of nearly $15m annually.

Environmental Quality

MDEQ Fast Facts	
Change in FTE	(230)
$ Change	$104,060,350
% TSS Change	38%

The Department of Environmental Quality (DEQ) is tasked with managing environmental regulatory programs as well as protection and restoration of the Great Lakes. The department was briefly merged with the Department of Natural Resources for FY 09-10, but swiftly separated again in FY 10-11. Since FY 10-11, DEQ has seen just over a $100m increase in total state spending. The bulk of this is attributable to an increase in additional revenue for the Strategic Water Quality Initiative Fund (SWQIF), which is a restricted revenue source for the department

The passage of the $1 billion Great Lakes Water Quality Bond referendum in November 2002 created the SWQIF. Upon its inception, revenues from the bond were distributed 90% to the State Revolving Fund (SRF) (also known as the Michigan's Water Pollution Control Revolving Fund) and 10% to the SWQIF.[18] That changed in 2012 when the revenue distribution was amended, providing 29% of revenue to the SRF and the remaining 61% to the SQWIF. This change was made with the intent of increasing grant opportunities for local governments. The change in allocation has resulted in a net increase to the SQWIF and an increase in the overall state restricted funds for the Department.

Through PA 201 of 2018, a sizeable supplemental appropriation was also appropriated to the DEQ to address PFAS (per- and polyfluoroalkyl substances), a chemical contamination in the water of various Michigan communities across the state. In addition, the supplemental also awarded more than $10m of funds for water infrastructure efforts, which received increased attention on the heels of the Flint water crisis.

Executive

Executive Office Fast Facts	
Change in FTE	5
$ Change	$2,217,700
% TSS Change	48%

The Executive Office, or the Office of the Governor, houses the staff of the Governor and Lt. Governor. It has seen a significant, or nearly 50% increase in total state spending, more than $2m, since FY 2010-11. The Office also grew in staff size, adding approximately 5 FTE during the period in question. The increased spending is attributable to program changes, an increase in staff size, and wage increases.

Approximately $1m, or half of the current increase, can be attributed to a transfer of the Office of Urban Initiatives from the Department of Technology Management and Budget (DTMB) to the Executive Office in 2017. The Office of Urban Initiatives has been an arm of the Executive Branch since early in Governor Snyder's first term, placing an emphasis on urban policy issues and locating staff in Detroit, Kalamazoo, Flint and Grand Rapids. Initially, the Office was primarily funded through philanthropic donations from Michigan-based foundations. Lacking that support in more recent years, the state has supported it with state resources. The remaining increase is attributable to economic adjustments and increased wages, as approved by the MCSC.

Health and Human Services

DHHS Fast Facts	
Change in FTE	(545)
$ Change	$1,486,763,250
% TSS Change	28%

The Department of Health and Human Services (DHHS) is a consolidation of the former Departments of Community Health and Human Services. As a result of this merger, it has been tasked

18 The SRF provides financing assistance to local governments for the construction of needed water pollution control facilities. Meanwhile the SQWIF is available to assistance with financing for two types of projects; the on-site upgrade-replacement of septic systems and the removal of ground water or storm water from sewer leads.

with both former departments' responsibilities; administering Medicaid and other public assistance programs, delivering behavioral health services, promoting public health, and protecting seniors and children.

With such a large portfolio, it is no surprise that DHHS is the largest single department driving the state's budget. It accounts for 46% of all state expenditures and more than 20% of all spending from state resources. Further, it is home to the largest number of employees, at approximately 28% of the state's current workforce.

Since FY 2010-11, the Department of Health and Human Services has experienced a $1.5B, 28%, increase in total state spending. The majority of this has been driven by health-related programming, specifically an increased dedication of state dollars for Medicaid match funds as a result of both the state's changing economic situation and the implementation of Medicaid expansion, more commonly referred to as Healthy Michigan.

Medicaid programming is paid for by a combination of state and federal dollars. A state's required contribution is determined annually and is referred to as the Federal Medical Assistance Percentage (FMAP) rate. The federal government adjusts the rate annually for each state by comparing a state's residents' average personal income over a three-year period to their peers nationally. In the event that a state's economy is performing poorly, compared to the national average, the formula precipitates an increase in the federal match rate to alleviate some of the state's financial burden.

This was the case for Michigan in FY 2010-11 when it received a temporary FMAP increase as well as ARRA funding to support the state match requirements.[19] However, with the recent improvements in Michigan's economy, the state's FMAP rate has declined. In FY 10-11, the state's FMAP rate, including ARRA support, was 71.24%. As of FY 17-18, the FMAP rate had declined to 64.78%. If the FMAP rate in FY17-18 were the same as it was in FY 10-11, the state would have needed $835 million less in state matching funds.[20]

The state has also experienced an increase in caseload for traditional Medicaid recipients and a growing cost per case (see Chart 3), which can be attributed in part to economic adjustments as well as costly advances in medicine and pharmaceuticals.

In addition to increases in the traditional Medicaid program, Michigan chose to further expand Medicaid eligibility and programming. It did this through Public Act 107 of 2013, ultimately creating the *Healthy Michigan Plan*. Healthy Michigan aims to provide an affordable health insurance option for Michiganders whose annual household incomes fall between 100% and 133% of the federal poverty level. Enrollment in Healthy Michigan began in 2014. Presently, the plan has more than 700,000 recipients.[21] Initially, federal funds covered 100% of the program, but federal match rates have declined over time, as they were scheduled to do. Based on current policy, match rates will level off at 90% in 2020. The phase out of these match funds is a driving factor to the increase in state spending at DHHS.

Other, notable though less impactful increases in spending are a result of statewide expansion of Healthy Kids Dental, increased funding to reduce waitlists for Meals on Wheels, and one-time investments in local health services to address health needs related to the Flint Water crisis.

Human service divisions of DHHS experienced a mix of funding cuts and increases during this time period. However, given their relative size within the department and reliance on federal funding for programs, these changes have had a lesser impact on overall spending trends. State spending in this area is concentrated on costs related to child welfare, foster care, juvenile justice and field operations. Public assistance, more commonly thought of as cash assistance and food stamps, are primarily federally-funded portions of the budget and, thus, not largely reflected in this analysis.

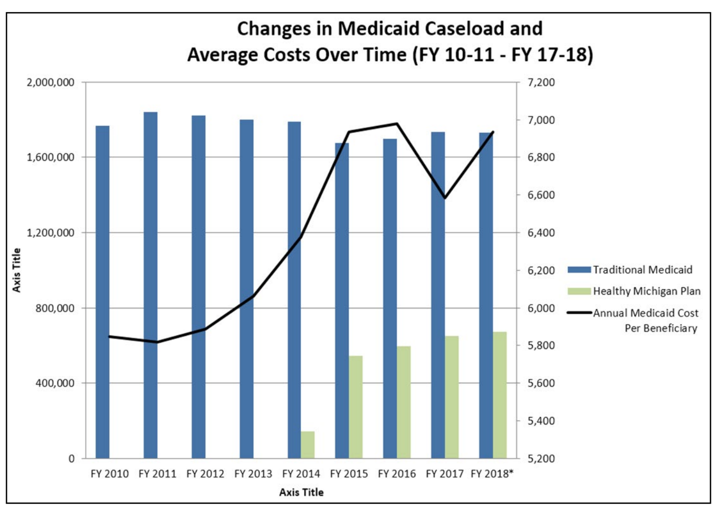
Child welfare and foster care related programs have experienced an increase in spending since FY 10-11. Much of the increased spending is attributable to a legal settlement, which is often referred to as the "Children's Rights" agreement. The settlement came about as the result of an advocacy organization suing the State of Michigan in the early 2000's for maltreatment of children in foster care and the child welfare system, including excessive lengths of stay in custody and frequent and detrimental moves between placements. The case was settled and a modified settlement agreement remains in place today.

19 While we are not examining federal dollars in this study, it is important to acknowledge the significant role it played in artificially decreasing the state cost for Medicaid in FY 2010-11.

20 Email correspondence with Kevin Koorstra, House Fiscal Agency (July 17, 2018).

21 It should be noted, however, that the Michigan legislature recently passed a new law assigning work requirements to recipients of the Healthy Michigan Plan, which many experts believe will result in a decline in the number of eligible and participating recipients over time.

Chart 3



*Note that 2018 dollars are appropriated amounts, rather than year end.

The agreement requires Michigan to make significant reforms to its system and puts a court-appointed monitor in place to ensure progress is occurring. As a result, the Child Care Fund, a source that reimburses counties for services for youth in the child welfare and juvenile justice system at a 50% rate, has seen an increase in GFGP funds of more than $50m dollars since FY 10-11. This funding has been used to make policy changes that decrease lengths of stay, avoid unnecessary placement changes and promote a recommended caseload ratio for DHHS staff.

Of course these changes and other economic conditions have contributed to an increase in employee economic costs of nearly $100m. Much of this increased funding has been used to prepay obligations for retiree health care and other post-employment benefits since FY 11-12.

Spending levels have fallen in several other areas of the DHHS budget, counteracting some of the overall increases. For example, state juvenile justice services, specifically those provided directly by the State of Michigan, such as the provision of residential treatment for youthful offenders, have been cut by more than 50% which has largely been driven by closure of two of the state's secure residential treatment facilities and related staffing, program and maintenance cuts.

In addition, precipitous declines in public assistance programs have also resulted in some savings to state spending sources. Significant declines have been seen across nearly every public assistance program since FY 2010-11, with the most prominent programs being cash and food assistance.

Two key factors have driven these declines. First, the caseloads were atypically high in FY 2010-11 due to the state's beleaguered economy and its impact on household incomes. Thus, the improving economy has contributed to declining caseloads. Second, in FY 2011, the state passed a law creating a 48-month lifetime limit on cash welfare benefits for Michigan residents. At the time of passage, cash assistance caseloads were at approximately 10,000 and have since dropped below 4,000. In addition, new state policies implemented during this time placed more stringent asset and income tests requirements on public assistance seekers, contributing to a further decline in caseloads.

While these programs are majority federally funded, the state is required to provide match funds, often referred to as maintenance of effort (MOE). During the recession, the federal government made additional dollars available to beleaguered states, specifically those demonstrating increased match. Those opportunities are no longer available and, when coupled with declining caseloads, have contributed to declining state spending in these areas.

Higher Education

Higher Education Fast Facts	
Change in FTE	(1)
$ Change	$31,345,900
% TSS Change	2%

There have been very minimal increases in the higher education budget over this period. However, in examining the budget from FY 10-11 to FY 17-18, it becomes clear that the state has spent the last 7 years restoring funding from an earlier, significant cut.

The state made cuts in Higher Education funding in FY 11-12 of approximately $200m in total and $400m in general fund.[22] (The impact of general fund cuts was lessened by an increased use of School Aid fund.) Since that time, the funding has been gradually restored, though it's been subject to greater scrutiny and schools have been required to adhere to state-mandated performance metrics. Since FY 11-12, state support for university operations has increased by over $221M, thought it still more than $1B below its peak in FY 01-02, according to the House Fiscal Agency.[23]

Additionally, the state has increased its share of payments to the Michigan Public School Employee Retirement System (MPSERS) on behalf of seven impacted universities, which accounts for an annual increase of approximately of $5m.[24][25]

Insurance and Financial Services

DIFS Fast Facts	
Change in FTE	(27)
$ Change	$11,927,900
% TSS Change	23%

The Department of Insurance and Financial Services (DIFS) was created by Executive Order in 2013. The department is tasked with providing oversight to state-licensed insurers and financial institutions. Its relatively new status as a cabinet-level department as well as an increase in scope of work led to an increase in state spending of approximately $11M, or 23%.

Upon creation of the Department, the Office of Insurance and Financial Regulation was transferred from the Department of Licensing and Regulatory Affairs to DIFS. The creation of the new department also resulted in increased administration, operations and information technology costs. In addition, implementation of the *Healthy Michigan Plan* increased the department's scope of work, driving some of the additional spending.

22 The state began to more aggressively use School Aid dollars to supplant GF/GP in FY 11-12 and built upon the practice of using federal (Temporary Assistance for Need Families or TANF) dollars to fund student financial aid.

23 Zielak, P. (2018, January). Budget Briefing: Higher Education. House Fiscal Agency, at https://www.house.mi.gov/hfa/PDF/Briefings/HigherEd_BudgetBriefing_fy17-18.pdf.

24 The 7 impacted universities' contributions have been capped at 25.73% as a result of 2016 PA 136.

25 It should be noted that fiscal-year equivalent (FYE) student enrollment in undergraduate programming is about the same as it was in FY 10-11, but has showed declining trends since FY 12-13 and is projected to continue to decline.

Judiciary

Judiciary Fast Facts	
Change in FTE	10
$ Change	$42,290,800
% TSS Change	17%

The Judiciary budget is responsible for supporting the state's court systems at every level, their administration and other special programs. Since FY 10-11, it has experienced a 17%, or an approximately $40m increase. This is primarily driven by increased investments in criminal justice reforms including mental health courts and diversion, swift and sure sanctions programs, new technology-driven case management systems, and more. In addition, the judiciary has seen an increase of 10 FTE to support these changes and associated increases in employee economics.

Licensing and Regulatory Affairs

LARA Fast Facts	
Change in FTE	(111.60)
$ Change	$(54,764,300)
% TSS Change	(15%)

The Department of Licensing and Regulatory Affairs (LARA) was created by Executive Order 2011-4 and received the majority of programs from the former (and since disbanded) Department of Energy, Labor and Economic Growth. Since that time, LARA has undergone numerous, significant executive reorganizations, which have primarily transferred unemployment, workforce and other related programs out of the department. The department and its remaining divisions remain focused on licensing and regulation of occupations, as its name would suggest.

Between FY 10-11 and FY 17-18, LARA saw a decline of approximately $55m, or 15%, state spending in its budget. The bulk of the decline in state spending is a result of the state ending the Low Income Energy Efficiency Fund (LIEEF) grant program. The LIEEF program, administered by the Michigan Public Service Commission (MPSC), provided utility shut-off avoidance to low-income residents and promoted energy efficiency assistance throughout the state. Initially, the LIEEF was funded through securitization savings that exceeded the amount needed to achieve a five percent electric rate reduction for residential and business customers.[26] Additional funding came from rate case settlements and other actions order by the MPSC. However, due to changes in legislation and a legal challenge, the Court of Appeals ruled in FY 2011-12 that the MPSC no longer had the authority to collect or disburse the funds, which had totaled $95m in FY 2010-11. Some of this funding was supplanted by federal funds intended to assist low-income families but the department ultimately sustained a significant net loss in revenues from state sources.[27]

In recent years, some of those losses have been offset by increased dedication of state funds to regulation and oversight of medical marijuana licenses and establishments in Michigan, which became legal based on a ballot proposal approved by the voters in the fall of 2008.

The Michigan Administrative Hearing System (MAHS) has also experienced an increase in state spending. MAHS is responsible for providing administrative hearings when a decision made by a state department is contested. These hearings cover a broad array of complaints from Medicaid eligibility to employee benefits. Given the expansion of Medicaid during this time period as well as the numerous changes to public benefit laws, it is unsurprising that MAHS would experience increased demand on its services and as a result require an increase in state spending.

Legislative Auditor General

Auditor General Fast Facts	
Change in FTE	N/A
$ Change	$5,882,100
% TSS Change	46%

The Office of the Auditor General, created by the Michigan Constitution, is responsible for providing financial and performance oversight for all branches of state government, including but not limited to state departments and their associated boards, commissions, authorities and the like. The office has seen an increase in TSS of 46% since FY 2010-11, which equates to just over $5m.

The growth in funding has happened steadily since FY 2010-11 and has resulted in a recent high of spending for the Auditor General's office. This increase in funding can largely be attributed to pre-funding of retiree health care as well as increased audit oversight spurred by the state's significant increased investment in information technology (see Department of Technology, Management, and Budget section below).

Military and Veterans Affairs

DMVA Fast Facts	
Change in FTE	(63.50)
$ Change	$20,681,200.00
% TSS Change	32%

The Department of Military and Veterans Affairs (DMVA) is responsible for the state's armed forces (Army and Air National Guard) as well as services to Michigan's veterans. Since FY 2010-11, the Military and Veterans Affairs budget has grown by approximately 30%.

Nearly all of the growth in this budget is attributable to the creation of the Military and Veterans Affairs Agency (MVAA), a type-one agency within the department, created by Executive Order 2013-2. The newly formed agency focuses on the management of state programs and services, advocacy on behalf of veterans as it relates to public policy and legislation, and outreach and assistance intended to encourage veterans to access their federal benefits.

26 Michigan Energy Assistance Program Low-income Energy Assistance. Michigan Department of Licensing and Regulatory Affairs, Public Service Commission at https://www.michigan.gov/mpsc/0,4639,7-159-52493---,00.html.

27 State PBF/USF History, Legislation, Implementation. LIHEAP Clearinghouse, at https://liheapch.acf.hhs.gov/dereg/states/michigan.htm.

Natural Resources

MDNR Fast Facts	
Change in FTE	75
$ Change	$94,610,750
% TSS Change	40%

As previously mentioned, the Department of Natural Resources (DNR) was merged with the Department of Environmental Quality for a short period during FY 10-11. The DNR was reconstituted as a stand-alone agency in FY 11-12 and given responsibility for Michigan's state parks, fishing and hunting licenses, forest management, and the Michigan historical program.

Since FY 10-11, the DNR's total state spending has grown by approximately $95m dollars or 40%. Approximately one-third of the increase in spending is dedicated to increased spending in the Parks and Recreation division and is largely derived from funds collected as part of the state's "Recreation Passport Program" and changes in licensing fees for sportsmen.

Other notable areas of growth include an increase in spending of approximately $10m annually on DNR law enforcement and $18m in FY 17-18 of one-time funding for state parks repairs and maintenance, trail development and other local projects. Additional increases in spending for capital outlay, wildlife management, administration, grants and special projects have also contributed to the increase in spending.

School Aid

School Aid Fast Facts	
Change in FTE	n/a
$ Change	$2,100,733,700
% TSS Change	20%

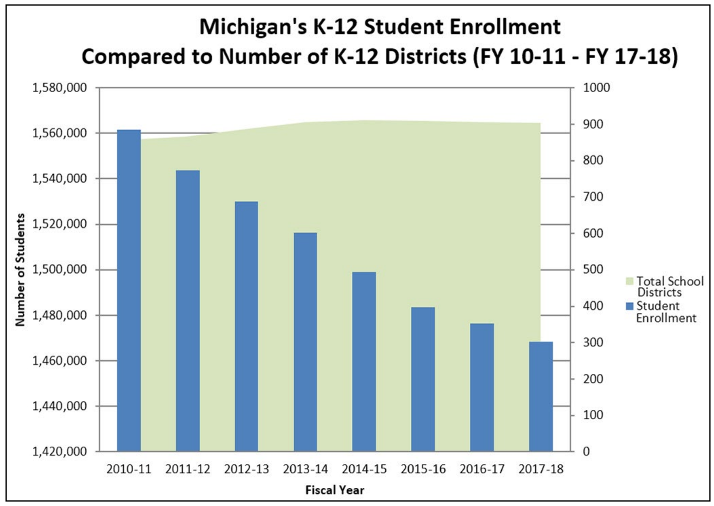
The School Aid fund, which is the primary source of revenue for Michigan's K-12 school districts, has increased by approximately $2b since FY 10-11.[28] The majority of this funding has been dedicated to MSPERS payments on behalf of local school districts. In FY 10-11, the state estimated that outstanding retirement obligations for MSPERS were more than $40b. As of FY 17-18, annual contributions of $1.3b were made to MSPERS payments on behalf of local districts to ensure increasing liability did not unduly harm schools.

According to the House Fiscal Agency's FY 17-18 briefing document on school aid, "Total unfunded liabilities for the public school employee retirement system (MPSERS) had declined by $12 billion since FY 2010-11, due primarily to the decision to begin prefunding retiree health benefits, but increased by $2.6 billion in FY 2015-16 due to the reduction in the long-term investment rate of return assumption from 8.0% to 7.5%."[29]

28 This is not only a reflection of increased spending but also of increased School Aid revenue, made possible by the rebounding economy.

29 Wicksall, B. & Samuel, S. (2018, January). Budget Briefing: School Aid. House Fiscal Agency, at https://www.house.mi.gov/hfa/PDF/Briefings/School_Aid_BudgetBriefing_fy17-18.pdf.

Chart 4



Increases in per pupil funding have occurred during this time as well. The increases have, in part, been funded by new spending but have also been made possible by a steadily declining student population.

Despite increases, there is often a dispute as to whether or not current school aid funding is sufficient. This may be partially because; despite a significant decline in the state's K-12 enrollment, the number of school districts receiving public school aid dollars has increased. In other words, the cost of funding additional educational infrastructure, in the face of declining populations, has lessened the potential impact of funding increases.

The state has also taken a keen interest in the equity gap between school districts and made specific efforts to ensure that increased spending for the foundation allowance (per pupil funding) is rising faster for low-income districts than it is for wealthier districts. Even so, there remain significant equity gaps in education funding throughout the state.

State

SOS Fast Facts	
Change in FTE	(223)
$ Change	$41,957,300
% TSS Change	22%

The Department of State is the operational and administrative arm of Michigan's Secretary of State. The Secretary is tasked with oversight of local and state elections, management of driver registrations and licenses, and certifies and maintains state and local government records.

The department's budget has grown by approximately $42m in state spending since FY 10-11, which equates to a 22% increase. The largest component of this increase is a deliberate investment in IT projects, intended to modernize the SOS system. In addition to IT investments, additional expenditures have been dedicated to branch operations and employee economics.

State Police

MSP Fast Facts	
Change in FTE	675
$ Change	$187,908,400
% TSS Change	22%

The Michigan State Police (MSP) Department is a statewide, full-time police force tasked with protecting the public safety of Michiganders through enforcement of state laws. It also houses the state's crime laboratory, which is a resource for all law enforcement officials statewide. MSP has benefited from an increase in state spending of nearly 50% or $187m, since FY 10-11. For a department that derives the majority of its funding from state sources, this is a meaningful increase.

The driving force behind the increase in expenditures at MSP is the addition of 675 FTE, many of which are new state troopers. The department has made the case for several years now that new trooper schools were warranted to manage the declining trooper population and ensure long-term force strength and readiness. As a result, the legislature funded new trooper schools in FY 2012-13, 2013-14, 2014-15, and 2017-18.

One specific intention of increased trooper levels was to address high violent crime rates in a handful of Michigan cities. The success of these efforts varies by community but, overall, the violent crime rate and property theft rate in Michigan has declined.[30] However, it should be noted that it is difficult to say that an increase in police was the cause of this decline as several other factors including the improving economy and various criminal justice reforms have undoubtedly played a role as well.

In addition to new trooper schools, the legislature appropriated funds for laboratory services, new equipment purchases, IT projects, and funding from the Disaster and Emergency Contingency Fund for the Flint Water Crisis.

Talent and Economic Development

TED Fast Facts	
Change in FTE	(606.70)
$ Change	$61,583,200
% TSS Change	18%

The Department of Talent and Economic Development (TED) was newly formed through Executive Order 2014-12. TED is the lead state agency for economic, talent and community development in Michigan. It is comprised of the Michigan Strategic Fund, the Talent Investment Agency (inclusive of the Unemployment insurance Agency and Workforce Development Agency), the Land Bank Fast Track Authority and the Michigan State Housing Development Authority.

Appropriations for TED from TSS grew by approximately $61m from FY 2010-11 to FY 2017-18. Unsurprisingly, the bulk of this growth is attributable to state-funded talent and economic development programs that have recently been championed as part of the state's economic comeback strategy.

New programs like the Skilled Trades Training Fund and other programs (funded by the same appropriation of $30.9m) contributed meaningfully to the increase. Meanwhile, the state has also doubled down in some existing program areas, such as the *Pure Michigan* advertising program that has seen expenditures grow by nearly $20m during the period in question. The Arts and Cultural Program, which experienced significant cuts during the recession, has seen climbing appropriations since FY 10-11, ultimately plateauing around $10m annually, an $8m increase from FY 10-11.

While the department has seen meaningful increases in TSS, some of its agencies have also experienced big declines in staffing. Most notably, the Talent Investment Agency (TIA) and the Unemployment Insurance Agency (UIA) have experienced significant declines in FTE, contributing to the overall loss of FTE at TED since FY 10-11 of more than 600 FTE. Because these two agencies are overwhelmingly funded with federal dollars, the impact is not reflected as obviously in state spending as other staff changes might be.

Department of Technology Management and Budget

DTMB Fast Facts	
Change in FTE	(77.50)
$ Change	$312,534,800
% in TSS Change	83%

The Department of Technology Management and Budget (DTMB) has a large portfolio of programs and services. It is responsible for including civil service or human resources for all state departments, IT services for state departments, management of state properties and rental agreements, the state budget, the Office of the Children's Ombudsman and various other programs. It also provides budget support to the Executive Office.

Since FY 10-11, DTMB has experienced an increase of more than $300M of state spending, or 83%. Approximately $125m of the increase is attributable to a growing budget at DTMB for technology services, which is responsible for administration of the state's information technology (IT) programs, updates and more. Some of this funding has been dedicated to modernizing outdated state IT infrastructure, an area that received little investment during lean economic times. In addition, funds have also been dedicated to new IT efforts to create citizen-centric webpages and real-time access to government information for Michigan residents.

Additional increases in TSS are due to approximately $90m of one-time spending in FY 17-18, increased expenses in capital outlay and, to a lesser degree, spending related to special programs, information technology, state building authority rent, and other economic adjustments.

30 Joel, K. (2018, January 23). Michigan pays 18% less per citizen than nat'l average for public safety. Bridge Magazine, at https://www.bridgemi.com/special-report/michigan-pays-18-less-citizen-natl-average-public-safety.

Transportation

MDOT Fast Facts	
Change in FTE	(196)
$ Change	$1,159,746,100
% TSS Change	59%

The Michigan Department of Transportation (MDOT) is responsible for oversight of the state's transportation infrastructure, including roads, bridges, public transportation systems and airports. Approximately two-thirds of the department's budget comes from state restricted revenue with the remaining one-third of expenses being funded by federal revenue. More than 85% of all MDOT funding is dedicated to spending on roads and bridges, which includes disbursements to local road agencies.

Between FY 2010-11 and FY 2017-18, state restricted spending on transportation has increased by more than $1.1 billion, or nearly 60%. In 2011, Governor Snyder and MDOT officials made efforts to secure increased funding for transportation. The administration said that many state roads were in poor condition and would require an additional investment of $1.4b annually[31] to simply prevent further deterioration. Political leaders were not able to come to an agreement on increased road funding until 2015. In the interim, state officials found ways to increase transportation through direct and indirect dedication of general fund dollars. Notably in the last two fiscal years, this has been achieved through supplemental appropriations.

In 2015, Michigan passed legislation intended to provide additional funding to MDOT for the expressed purpose of fixing the roads. The legislation increased motor fuel and vehicle registration taxes at the beginning of 2017. Beginning in FY 18-19, the legislation also dictates that approximately $600m of general fund dollars be redirected from other places in the state budget toward transportation funding. Once the legislation funding mechanisms are fully in place, it is expected they will generate additional annual revenue of $1.2b.[32]

Unfortunately, the additional funding is still not enough to maintain Michigan's current roads, many of which are in need of repair. Projections from the Michigan Department of Transportation's Bureau of Planning indicate that the roads will continue to deteriorate. As of December 2016, 83% of Michigan's roads were believed to be in "good" condition. Even with the additional road package funding, MDOT predicts that that number will fall to 54% by 2020.

31 Stanton, R. J. (2012, January 18). Top 6: Issues for Michigan from Rick Snyder's State of the State address. The Ann Arbor News, at http://www.annarbor.com/news/6-points-to-take-away-from-rick-snyders-state-of-the-state-address/.

32 Hamilton, W. (2018, January). Budget Briefing: Transportation. House Fiscal Agency, at https://www.house.mi.gov/hfa/PDF/Briefings/MDOT_BudgetBriefing_fy17-18.pdf.

Treasury Debt Service

Treasury Debt Service Fast Facts	
Change in FTE	N/A
$ Change	$49,947,200
% TSS Change	87%

The Michigan Department of Treasury houses debt service payments and programs for Michigan's general obligation debt. Since FY 10-11, state spending on Treasury debt service has risen by 87% or nearly $50m annually. FY 10-11 marked a recent low in state spending dedicated to paying down Michigan's general obligation debt. The state took advantage of short-term restructuring in FY 10-11 in order to lessen the pressure on an already strained budget.

Since that time, the state has made more deliberate efforts to pay down debts, which are driven by the Quality of Life Bond ($800m bond issuance), the Clean Michigan Initiative ($675m bond issuance), and the Great Lakes Water Quality Bond ($1b bond issuance). Together, these three voter-approved measures make up the bulk of the responsibility and spending obligations through the Treasury debt service programs.

Treasury Operations

Treasury Operations Fast Facts	
Change in FTE	109
$% Change	$39,034,400
% TSS Change	9%

The Department of Treasury's operations divisions focus on local government programs, tax programs and city income tax administration among other things. Treasury also houses the state lottery bureau. Since FY 10-11, state spending for Treasury operations has increased by nearly $40M, or 9%.

Beginning in 2016, Treasury opted to exercise its ability to process city taxes for Michigan municipalities who choose to participate. More than $10m of the increase in spending is a result of the department taking on this role.

Additional increases in spending are attributable to a growth in local government programs, tax administration and litigation and increased staffing levels. First, the local government division focuses on the fiscal health of Michigan municipalities. Given the underfunding of long term liabilities and declines in state revenue sharing, as compared to pre-recession levels, many local governments find themselves in perilous positions. As a result, the state has developed a team to assist these locales with technical assistance and other interventions.

The department is also responsible for administration, collection and assessment and litigation related to state taxes. Michigan's tax code has undergone numerous, significant changes since FY10-11, not the least of which includes the repeal of the Michigan Business Tax in favor of a Corporate Income Tax. These changes tend to result in increased administrative costs for oversight and litigation, as outdated tax documents, structures and assessments are phased out.

Finally, the department grew by 109 FTE during this time period. This growth and the accompanying employee economics changes across state government have also contributed to increased state spending in the department's budget.

Treasury Revenue Sharing

Treasury Revenue Sharing Fast Facts	
Change in FTE	N/A
Dollar Change	$189,800,600
% in TSS Change	17%

The Department of Treasury is also responsible for distributing state support to local governments through revenue sharing payment and related grant programs. Since FY 10-11 state payments to counties, villages and townships increased by $189M, or 17%. Revenue sharing is divided into two types, constitutional revenue sharing and statutory revenue sharing.

Constitutional revenue sharing requires a distribution of 15% of sales tax revenues at a 4% rate to cities, villages and townships (CVT) on a per capita basis. As the state's economy has improved, so have sales tax revenues. The entirety of growth in revenue sharing has occurred in constitutional revenue sharing as a result. Revenue sharing was at a recent low in FY 2010-11, making the growth in constitutional revenue sharing appear even more impactful.

The last year for statutory revenue sharing for CVTS occurred in FY 2010-11. Though, even when it did exist it was consistently underfunded. In FY 2011-12, the Economic Vitality Incentive Program (EVIP) took the place of statutory revenue sharing, though it was never codified in law (outside of annual budget boilerplate language). EVIP funding was distributed based on requirements related to accountability and transparency, consolidation and collaboration among CVTs, employee compensation and efforts to reduce unfunded liabilities. The requirements for accessing EVIP funding were essentially eliminated in FY 14-15 and the funding redirected toward a program referred to as CVT revenue sharing in the state budget. CVT revenue sharing has been increasing very slowly and is still well below full funding levels, according to analysis by the House Fiscal Agency.

Conclusion

An honest assessment of the facts calls into question both of the predominant narratives being espoused this election season related to state spending. State spending from state resources is up by over $6B or 24% since FY 10-11. However, significant needs remain and spending has still not caught up to increases in inflation when compared to FY 00-01.

Michigan is Investing, Despite How it Feels

Contrary to some claims, the state as a whole has not experienced a disinvestment in government since FY 10-11. However, the investments that have been made are: 1) Not felt directly by many citizens as a result of their emphasis on existing debts and liabilities, 2) In many cases, not buying anything new but rather paying an increased cost for existing programs or services, and 3) Making incremental rather than transformative changes that can be easily seen by the everyday Michigander.

For example, it is clear that this administration has made a committed effort to pay down outstanding debts and obligations for state government, local government and various public education employers. However, these efforts are often disregarded as many local governments and schools still struggle to address financial shortfalls and face demands for increased services and better performance.

This is not the only area where some taxpayers may not feel the impact of increased spending. For example, the state's workforce has declined significantly yet costs continue to rise. Again, this is not out of step with what private sector employers are experiencing, but can be frustrating for state administrators and taxpayers all the same. Similarly, the state has felt an increasing burden of cost related to Medicaid. While some of that is attributable to expanding eligibility for the program, much of it is because of increased state match obligations as a result of Michigan's improved economy.

Finally, even when investments have been made in areas that broadly impact Michigan residents, rarely have the investments been enough to quickly and definitively demonstrate results to taxpayers. The recently passed road package provides a prototypical example of this. While spending has risen significantly to address infrastructure needs, the amount of state spending currently dedicated is still falling short. Thus, taxpayers are frustrated.

Simply acknowledging that the state is investing does not guarantee that investments are sufficient, optimal or in alignment with the priorities of Michiganders. Further, it does not presume to answer the question of whether or not current revenues are sufficient to support those priorities. However, any conversation should begin with an acknowledgment of the fact that state spending is markedly up.

Spending Needs Remain, Scrutiny is Warranted

In contrast to claims of excess spending; there is little evidence to demonstrate that the state budget, as a whole, demonstrates excess and unnecessary spending. However, it is clear that some spending is 1) Better substantiated as a public need through data than others, 2) Appears less strained than it actually is due to policy and demographic changes, and 3) Feels excessive because, as mentioned above, it is not purchasing any additional value for the state but rather addressing legacy or increased costs.

The need or desire for state spending is prioritized first by the Executive Branch and then affirmed, amended of challenged by the state legislature. Michiganders are not privy to all of those discussions but may feel that some spending needs are far better substantiated than others. For example, at a time when Michigan's population is on the decline and most of the other state departments experienced declines in their workforce, is an increase in appropriated FTE of nearly 700 at the Michigan State Police warranted? What data support this? Or, for example, have the many re-organizations of state government since FY 10-11 helped the state to achieve greater outcomes or efficiencies or simply increased administrative costs? Rational individuals can and should explore these questions and others like them. In addition, much of the flexible funding that has been made available during this time period is a result of declining state employee, corrections, K-12 pupil and other public benefit populations. The funds saved as a result of this decline have been made available for investments elsewhere, sometimes in non-related programs or departments. This is a risky practice that, when consistently done, assumes ongoing declines in demand for state services. Were these trends to stabilize or reverse, spending practices would be severely impacted.[33]

33 While not part of this assessment, declining federal funds also contribute to the challenges posed by this practice and the danger of further constraining available state funding.

Finally, despite significant investments in the state's long-term liabilities, many, sizeable obligations remain and have been a driving force in this budget. Limiting spending or revenues would likely impact these investments first. Those liabilities, had they not been neglected previously, would be a more manageable size than they are today. Should the economy falter again, lawmakers will be likely tempted to pursue short-term deferral of these debts in order to protect programmatic increases. They should be wary of the strain that has put on current policy priorities and view the previous decade as a cautionary tale.

State spending is up but much of the available data would demonstrate that spending is still not sufficient to address the state's debts or demonstrated need for investment in things like public infrastructure. Increased spending, unto itself, is not evidence of efficient or well-prioritized spending. Nor, can we say with certainty, that pre-recession spending levels are the optimal amount of state investment. What does appear clear, however, is that current, demonstrated state need for investment in several areas are not being met through existing state spending resources.

09:2018-WEB-JL WCAG 2.0 AA