Michigan at a Crossroads

Michigan Budget Policy for the Incoming 2019 Gubernatorial Administration

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All errors are the sole responsibility of the author.

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Introduction

State government will experience a significant turnover as a result of the 2018 election cycle, ushering in a new Governor, Attorney General, Secretary of State and many new legislators. All state representatives and senators will face re-election this year and among these are 24 term-limited house members and 26 term-limited state representatives. Newly elected officials will face their first significant task early in 2019 as they participate in passage of a state budget.

Executive and legislative officials alike have a significant responsibility as it relates to their role in the development, debate and ultimate passage of a state budget. Budgets are a reflection of our government's priorities; providing a roadmap as to where the state is headed and an indicator of whether and where it's gotten, of course.

In recent years, there has been an increased focus in Michigan on the budget. Emerging from the dire financial situation that dogged the state following the Great Recession required difficult choices by public officials. While the state's current budget would appear to be more stable than it was 10 years ago, much work remains to be done and incoming elected officials can similarly anticipate difficult decisions ahead.

This paper is intended to provide a general overview of key budgetary issues that incoming elected officials can expect to and should be prepared to tackle in the coming years.

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Long Term Revenue and Spending Trends

Michigan went into recession in 2001 with the rest of the nation. Unfortunately, unlike the rest of the nation, Michigan did not recover in 2002. Instead, Michigan remained in what has been characterized as a single-state recession until the end of the Great Recession in 2009, due in large part to dramatic reorganization of the state auto sector. Former State Demographer Ken Darga noted that: "A decade ago, in 2001, the United States experienced an economic downturn. Then, while the rest of the nation recovered and prospered, Michigan spent several more years in a one-state recession of its own. That was followed by an even more severe national downturn."[1]

The "Big-Three automakers" (Ford, GM, and Chrysler) market share declined from over 70% to about 44% in 2009, and the light vehicle market declined from 17.4 million in 2000 to 10.4 million in 2009. Approximately 850k jobs were lost from March 2000 through the trough of the great recession in July 2009. From the trough of the great recession in July 2009 through November 2017, the state has gained back about 584k jobs. Since March of 2000, the state was still down about 353k jobs.[2] As one might expect, the impact of dramatic job losses combined with tax cuts led to a reduction of state resources as well as major budget reductions in the first part of the 21st century. "Available revenues determine how much the state can spend on state and local services such as infrastructure, education, and public safety." (Bean, 2017, p. 312)

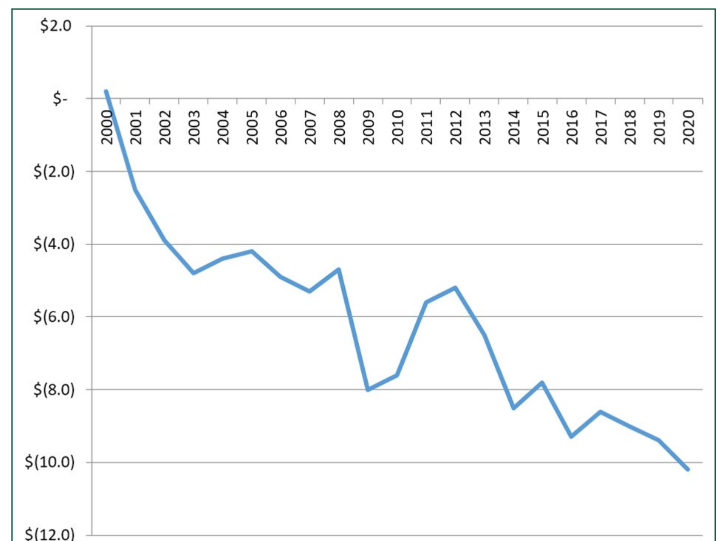
With the exception of certain areas of the state budget supported by federal resources, long term spending trends could be characterized by spending reductions as state government takes less state resources from the state economy each year. This is most clearly seen by examining changes in the constitutional state revenue limit.

Constitutional State Revenue Limit

"Michigan has a revenue limit that it may not exceed. Article IX, section 26, of the 1963 Michigan Constitution provides a specific calculation for the limit on state-source revenues that may be collected and spent each year. The limit works out to be 9.49% of state personal income." (Bean, 2017, p. 312)

"Personal income is a good measure of economic activity. As economic growth expands or declines, personal income growth will increase or decline as well. In FY00, state revenue collections

State Constitutional Revenue Limit



1 Is Michigan's Economic Recovery Real? Re-Thinking the One-State Recession: Michigan Department of Technology, Management, and Budget, DargaK@michigan.gov -1-May 16, 2011.

2 Bureau of Labor Statistics (BLS) data and author's calculations.

exceeded the limit by about $160 million, which the state could not spend. However, by FY01, collections were over $2.4 billion below the limit and, by FY14, collections were about $8 billion below. The current consensus estimate for FY18 is state revenue collections will reach $9.0 billion, and $10 billion below the limit in FY 20." (Bean, 2017, p. 312)

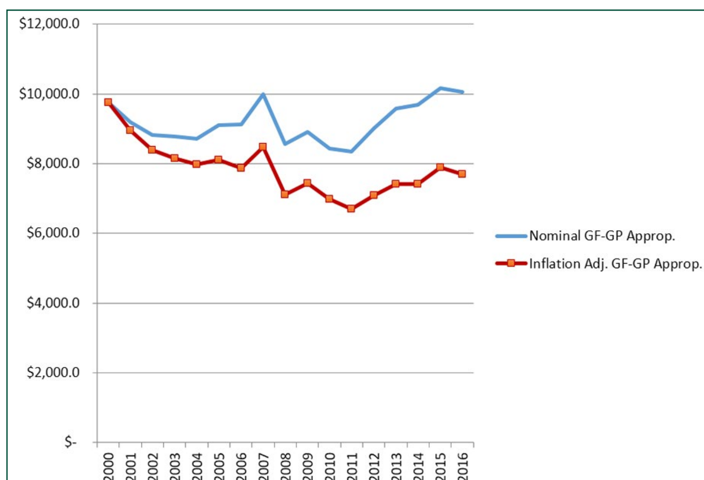
"The measure of where state government revenue collections stand in relation to the revenue limit is a good measure of the slice of the economic pie that funds state government each year. It also measures the size of state government and whether state government relative to the state economy is expanding or contracting." (Bean, 2017, p. 312-313) The implication of falling further and further below the limit is that relative to the size of the state economy, state government is shrinking. "A portion of the growing gap between the revenue limit and revenue collections is due to tax cuts and part to the structure of our state tax system and its inability to adequately capture state economic growth." (Bean, 2017, p. 313)

Key State Spending Categories

A similar story could be told about the changing size and investment in state government based on other critical state funds. The average yearly nominal growth rate of the combined School Aid Fund (SAF) and the General Fund (GF/GP) was over 6.5% per year from FY93 to FY00. However, total nominal GF/GP and SAF revenues declined about $30 million from FY00 to FY10. Also, FY01 to FY10, the yearly growth rate of total GF/GP plus SAF revenues was negative three times, and less than 1% in other years. More recently, even during a strong economic recovery, state resources and appropriations supported by state resources have grown at a modest pace at best.

State Source Appropriations include all appropriations funded by state-level revenues including State Restricted Funds and General Fund – General Purpose funds. Actual (Nominal) appropriations grew 22.8% from FY00 to FY16 however inflation as measured by the Detroit-CPI-U grew 27.8% over the same period. Therefore inflation-adjusted growth was negative at approximately - 4.6%.

DET-CPI up 28.8%: Actual GF/GP Appropriations Up 6.0% - Inflation Adjusted Down 17.7% since FY 00

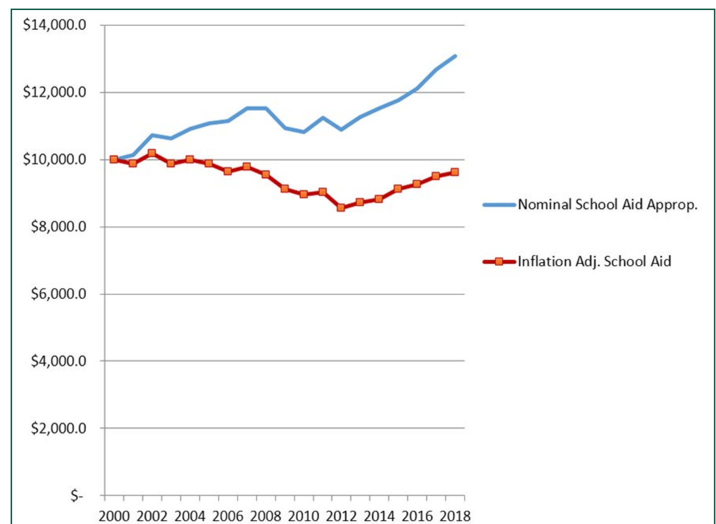


General Fund (GF/GP) appropriations are unrestricted state funds available to fund basic programs and for other purposes as determined by the Legislature and the Administration. As shown in the figure below, actual appropriations grew a mere 6% from FY00 to FY16. However, inflation adjusted growth was also negative at approximately - 17.7%.

School Aid appropriations are spending from state funds restricted by the state constitution and statute and are only available to fund education. As shown below actual appropriations grew 18.7% from FY00 to FY16. However, inflation adjusted growth was negative at approximately - 7.8%.

SAF Revenue in Millions

Inflation Adjusted SAF Revenue Down 7.8% ($517 million) Since FY 2000

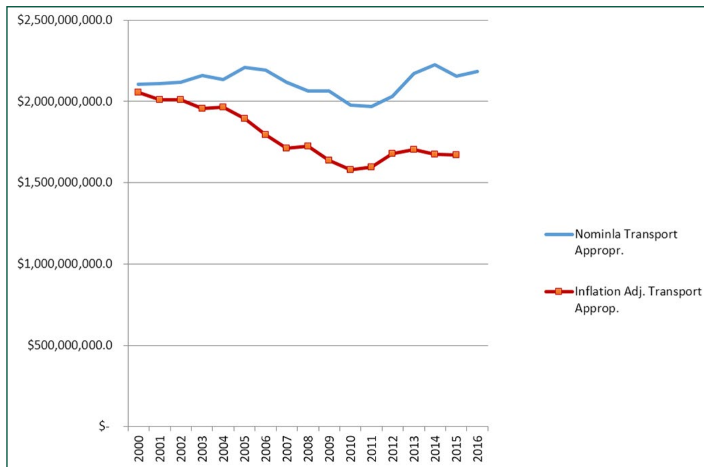


Transportation appropriations are spending from state funds restricted by the constitution (primarily fuel taxes and registration fees) and are only available to fund transportation. These sources do not include federal revenue. Actual appropriations grew 10.1% from FY00 to FY16. However, inflation adjusted growth was negative at approximately - 14.5%.

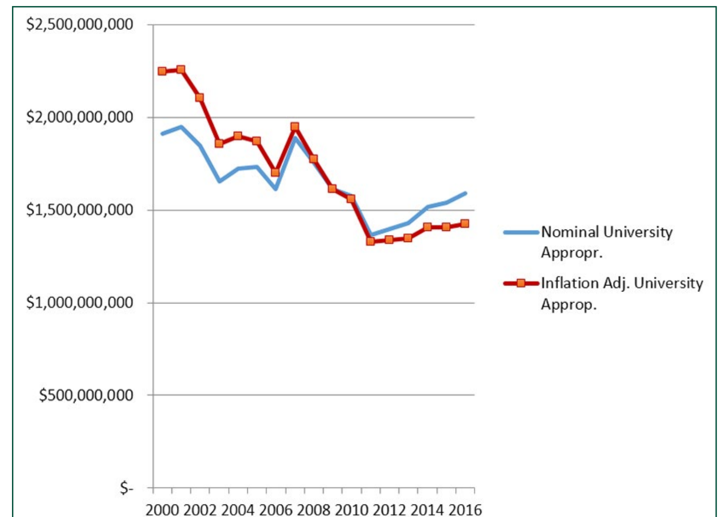
Federal Funds are appropriations from federal grants such as Temporary Assistance for Needy Families (TANF) block grants or matching fund that appear in many areas of the state budget but primarily fund food assistance programs, Medicaid, Transportation, and Special Education. Actual Federal appropriations increased 133.7% and inflation adjusted Federal appropriations increased 84.1%.

"Federal funds flowing into Michigan increased from 27.3% (about $10 billion of $36.9 total) of total state appropriations in FY01 to about 43% ($23.1 billion of $55.8 billion) in the FY18 budget. Federal funds are used primarily for human services

DET-CPI up 28.8%: State Transportation Actual Appropriations up 10.1% - Inflation Adjusted down 14.5% since FY 00



Total Appropriations for State University Operations Millions



($18.4 billion), School Aid ($1.7 billion) and transportation ($1.3 billion)." (Bean, 2017, p. 306)

"The large increase of Federal Funds during the first part of the 21st century is primarily due to expanding Medicaid and food assistance rolls as job losses increased during Michigan's 10-year recession. More recently a large increase is due to enhanced Medicaid payments that are part of the Affordable Care Act (ACA), which has seen Medicaid rolls expand in Michigan and, as a result, more federal dollars flowing to the state." (Bean, 2017, p. 306)

"Federal funds come with numerous restrictions in terms of what they may be used for. Also, federal funds usually have some sort of matching requirement (e.g., transportation funds, TANF block grant funding, and Medicaid funding), meaning that, in order to receive federal funds, a certain amount of state-source revenue must be spent in a particular way." (Bean, 2017, p. 306)

"For instance, in order for the state to receive all federal money allocated to the state for Medicaid (which provides health care for the poor) and Temporary Assistance for Needy Families (a program that primarily delivers food assistance), the state must spend about $3.1 billion of state-source dollars in qualifying matching funds." (Bean, 2017, p. 306)

State Response to Falling Funds

With the exception of those areas supported by Federal Funds, every area of the state budget has faced funding shortfalls. The response of policymakers, however, was not uniform or across-the-board cuts. Instead, policymakers chose to significantly cut selected budget areas in order to maintain funding for other areas.

Higher Education Funding

"Higher education is one example of a particularly hard hit area of the state budget. Total appropriations for state university operations fell 17% between FY00 and FY16. Adjusted for inflation, university funding fell about 37%." (Bean, 2017, p. 305)

"In FY16, state university operations were funded at about 16.4% below FY00 funding levels, adjusted for inflation. Part of the decline in higher education funding can be traced back to a 15% across-the-board cut to all state universities in Governor Snyder's budget agreement with the Legislature in FY12. Governor Snyder determined that these cuts would help stabilize the state's budget picture. Since that cut, the state has started to restore funding to state universities, but as of FY16, funding was still not back to FY00 levels." (Bean, 2017, p. 305)

"Costs related to student instruction at public universities are funded by both state appropriations and the tuition and fees paid by students. However, the significant decline of state support for Michigan's 15 public universities has shifted their revenue reliance from state support to student tuition and fees." (Bean, 2017, p. 305-306)

"State appropriations provided about 45% of operating revenues for all 15 public universities in FY01 and tuition and fees provided 44.6% of funding for operations. By FY14, state funding fell to about 21.5% of funding for university operations while tuition and fees increased to 71.3% of the total. Between FY01 and FY14, average tuition and fees charged to full-time in-state undergraduate students increased 150.6%."[3] (Bean, 2017, p. 306). "Some universities have large endowments from private donations and attract research grants from federal sources like the National Science Foundation and the National Institutes

3 Fiscal Focus: State Appropriations, Tuition, and Public University Operation Costs. House Fiscal Agency: December 2013.

of Health as well as private companies and philanthropic organizations. However, these funds are generally restricted to specific purposes and unavailable to support general operating costs." (Bean, 2017, p. 306).

Local Revenue Sharing

A second area of the budget that has been hit particularly hard is local revenue sharing. "As of 2010, the state of Michigan had over 2,800 separate local governments. This ranked Michigan 13th in the U.S. in terms of the number of its local governments. Included in the state's system of local governments are 83 counties, 1,240 townships, 275 cities and 258 villages (CVT's and Counties)." (Bean, 2017, p. 308)

"CVT's and Counties receive resources from property taxes; twenty-one cities levy a city income tax, and most local units collect various fees. A large portion of the revenue these local governments have at their disposal, however, comes in the form of revenue sharing from the state. Revenue sharing payments go to CVT's and Counties." (Bean, 2017, p. 308)

"State revenue sharing consists of two parts: constitutional payments and what is commonly referred to as statutory revenue sharing payments. Both are based on sales tax collections. The constitutional formula for revenue sharing is defined in the state Constitution (Article IX §10), which states that 'Fifteen percent of all taxes imposed on retailers on taxable sales at retail of tangible personal property at a rate of not more than 4% shall be used exclusively for assistance to townships, cities and villages, on a population basis as provided by law.' These constitutional revenue sharing payments are guaranteed and made every two months based on actual sales tax collections." (Bean, 2017, p. 308)

"The other aspect of local revenue sharing is usually called statutory revenue sharing payments. Even though statute still dedicates 21.3% of sales tax collections levied at a 4% rate to statutory revenue sharing payments, the state Constitution specifies that "No money shall be paid out of the state treasury except in pursuance of appropriations made by law."[4] (Bean, 2017, p. 309)

4 Section 17, Article IX, Constitution of the State of Michigan.

Total Revenue Sharing Payments to Cities, Villages, and Townships

"The Constitution takes precedence over statute – and actual annual appropriations for statutory revenue sharing payments have fallen far below the statutory earmark. Cumulative cuts to local revenue sharing to CVT's between FY01 and FY16 exceeded $5.5 billion. In FY16 alone the local revenue sharing was about $580 million less than full-funding. If cuts to Counties are included the cumulative cuts to statutory revenue sharing from FY01 to FY15 exceed $7 billion." (Bean, 2017, p. 309)

"One of the effects of cuts to local units has been a reduction in public safety personnel. In addition to significant reductions in local government services, the Michigan Municipal League reported that budget constraints led to the loss of 2,315 police officers and more than 1,800 firefighters from FY01 to FY10."[5] (Bean, 2017, p. 309)

5 *Revenue Sharing Fact Sheet*, Michigan Municipal League, 2015.

Ongoing Budgetary Pressures

In coming years, state government will face numerous budgetary issues including funding for local governments, transportation, and the impact of federal changes to the ACA and how that affects health care in Michigan.

Budgetary Issues Affecting Transportation and Infrastructure

Michigan has under-invested in roads, bridges, and other infrastructure for a long time. The American Society of Civil Engineers (ASCE) notes that:

> *"Michigan faces infrastructure challenges of its own. For example, driving on roads in need of repair in Michigan costs each driver $540 per year, and 11.1% of bridges are rated structurally deficient. Drinking water infrastructure needs in Michigan are an estimated $13.8 billion, and wastewater needs total $2.07 billion. 88 dams are considered to be high-hazard potential. The state's schools have an estimated capital expenditure gap of $1.3 billion. This deteriorating infrastructure impedes Michigan's ability to compete in an increasingly global marketplace. Success in a 21st century economy requires serious, sustained leadership on infrastructure investment at all levels of government. Delaying these investments only escalates the cost and risks of an aging infrastructure system, an option that the country, Michigan, and families can no longer afford." (ASCE, "Infrastructure Report Card", 2017)*

According to ASCE estimates:

- 11.1% of Bridges in Michigan are structurally deficient.
- There are $13.8 billion worth of investment needs for drinking water infrastructure over the next 20 years.
- There are $300 million of unmet investment needs for state parks.
- There is a $1.3 billion estimated investment need in school infrastructure.
- Over 21% of public roads are in poor condition.
- Driving on bad roads costs the typical motorist $540 per year.
- There is a $2.07 billion investment need for wastewater infrastructure over the next 20 years.

Recent studies, including a December 2016 study issued by Gov. Rick Snyder's 21st Century Infrastructure Commission and a study issued in January 2017 by Business Leaders for Michigan, concluded that Michigan must invest $4 billion more per year for many years to fix the state's aging and failing infrastructure systems.

Michigan recently passed major legislation aimed at fixing bad roads, but it falls far short of the needed funding and puts further stress on the state's general fund over the long term.

Long-term Impact of the Transportation Package

The major changes included in the transportation package enacted in November 2015 do not affect either the General Fund or the School Aid Fund through FY17-18, but the earmark of income tax revenue to the Michigan Transportation Fund and the increase in the homestead property tax credit will reduce General Fund revenue each year beginning in FY18-19.

The package earmarks a portion of income tax revenue currently allocated as General Fund/General Purpose (GF/GP) revenue to the Michigan Transportation Fund (MTF) for distribution to the State Trunk-line Fund and to local road agencies: $150 million for FY18-19; $325 million for FY19-20; and $600 million for FY20-21 and subsequent fiscal years.

When fully phased in for FY20-21, the package will reduce annual state GF/GP revenues by an estimated $806 million – or about 7% of total expected GF/GP.

The package also amended the Income Tax Act of 1967 to create a mechanism that will automatically reduce the individual income tax rate if the increase from one year to the next in total GF/GP revenues exceeded 1.425 times inflation. This determination would begin with tax year 2023 and continue indefinitely on an annual basis.

The income tax rate (currently 4.25%) would be reduced proportionally based on the amount by which GF/GP revenue exceeded FY20-21 GF/GP revenue adjusted for inflation times 1.425, divided by total income tax revenue. This would result in permanent rate reductions during periods of even modest economic growth.

To put the impact of this provision in perspective, fiscal agency analysis of the enacted bill showed that if these provisions had gone into effect in FY13-14, the income tax rate for tax year 2016 would have dropped from the current level of 4.25% to approximately 3.96%, resulting in a permanent revenue reduction of $593 million in FY15-16 and each year thereafter. This provision does not provide for rate increases – only permanent rate cuts.

Michigan Department of Transportation projects future pavement conditions for state trunk-line freeways and non-freeways. Recent legislation notwithstanding, the Department estimates that the percent in good condition declined from 80% in 2016 to 74% in 2017 – and projections thru 2025 show road conditions decline each year to 46% in 2025.

Budgetary Issues Affecting Health Care/ Medicaid

Recent efforts in Congress to repeal and replace the Affordable Care Act (ACA) have resulted in a repeal of the individual mandate. However, there is still a great deal of interest among Members of the House and Senate majority in "repeal and replace". One of the stated goals is to block-grant Medicaid and to give states more flexibility in order to achieve savings. Block-granting is a practice by which states receive a set dollar amount, regardless of changes to the population their program, in this case Medicaid, serves. This would be a significant departure from current practice as Medicaid is an entitlement program and dollars are allocated to states primarily based on the number of individuals qualifying for and receiving the entitlement. Historically, block grants have been appealing to states because funding becomes far less rigid. However, such practices have also typically meant long-term reductions in state funding from federal resources as dollar amounts remain static and inflation erodes their value. Were this to occur, Michigan would likely need to spend more money over the long term to maintain current service levels or reduce services.

Since specific legislation to repeal and replace the ACA has not been enacted, specific costs estimates are not available. However, we can get an idea of what the magnitude of repeal might look like by examining one of the proposals that has been put forth. Consider the proposed Better Care Reconciliation Act (BCRA). In its simplest terms, (BCRA) would reduce federal health care costs, in part, by increasing the state's health care costs.[6] A number of requirements and optional provisions included in the proposal could lessen the state's health care costs. However, it's unlikely they would offset the impact of the federal match rate reduction to the Healthy Michigan Plan (i.e. Medicaid expansion). Reductions in federal matching rates would increase annual GF/GP costs by nearly $1.0 billion.

Under the BCRA proposal, assuming state statute were amended so that Healthy Michigan Plan can continue past FY20-21 – the projected tipping point (when state costs will exceed state savings) is estimated to be FY20-21. The actual net state fiscal impact would depend on how the state chooses to implement the other health care revisions within BCRA (both the Medicaid revisions and the other proposed health care revisions).

The most significant revision to Medicaid under BCRA would be the reduction to the federal match rate for the Healthy Michigan Plan – which currently provides health care coverage to more than 670,000 individuals. So, under BCRA, if the state wanted to continue to provide access to health care for the more than 670,000 individuals currently covered under Healthy Michigan, it would require state funding beginning in FY21, and an additional $1 billion GF/GP per year by FY26.

6 State Impact of the Federal Better Care Reconciliation Act, Kevin Koorstra, Associate Director HFA, July 25, 2017, Memorandum.

Estimated GF/GP Cost Increases Under BCRA. $ in Millions

FY 21	$133.6
FY 22	$318.0
FY 23	$509.6
FY 24	$856.9
FY 25	$97.5
FY 26	$992.0

What state policymakers often fail to consider is the dramatic economic impact of Medicaid expansion on the state economy. Researchers have noted three important aspects of the economic impact of Medicaid expansion:

> *"The substantial federal funding for Medicaid expansion delivers three types of economic benefit to state budgets. First, states may experience a fiscal benefit through reduced state spending on services covered by the expanded Medicaid program, such as state mental health and correctional health programs for adults who were previously ineligible for Medicaid. Annual state spending for such programs in Michigan has been reduced by $235 million because of the Healthy Michigan Plan." (Ayanian, 2017)*

Experts also note that states experience macroeconomic benefits through increased economic activity from new federal funding since Medicaid expansion does not simply shift spending by state governments or residents to the federal government, but increases total spending in the state without a commensurate tax increase for state residents. State residents benefit directly through increased employment in health care and a multiplier effect of related spending and employment in other sectors of the state economy, such as construction and retail services, which produce corresponding increases in tax revenue. (Ayanian, 2017)

A third aspect of the state economic impact of Medicaid expansion is that low-income adults who paid directly for health care services or private insurance premiums before the expansion can redirect this personal spending to other household needs — such as housing, transportation, and food — after they gain Medicaid coverage. This redirected economic activity can also increase state income and sales tax revenues.

Furthermore, research has found that from 2014 through 2021, estimated additional employment associated with increased Medicaid spending peaked at over 39,000 jobs in 2016 and is projected to decline to approximately 30,000 jobs in 2021, with about two thirds of these jobs are outside the health care sector, because of two factors.

> *"First, about one third of Healthy Michigan Plan spending represents pre-existing spending by the state, employers, and individuals for which the federal government is assuming responsibility, thus freeing state and private*

resources to be spent in other ways. Second, about half the jobs created by the macroeconomic stimulus arise from the multiplier effect as new spending spreads through the economy." (Ayanian, 2017)

During the period of 2016 -2021, the increased personal income associated with new employment is expected to be relatively stable, at $2.2 billion to $2.4 billion per year, and added economic activity is projected to yield approximately $145 million to $153 million annually in new state tax revenue. Additional state tax revenue offsets nearly all of the state's projected new spending for Medicaid expansion in 2017 and about 37% of these costs in 2021. In addition, they project $235 million in annual state budget savings for mental health and other programs arising from Medicaid expansion and up to $200 million annually in state taxes and contributions from health plans and hospitals.

It is not clear at this time what the final outcome of "Repeal and Replace" efforts in Congress will be. However, the stated goal is to reduce federal Medicaid expenditures. The outcome is likely to significantly increase state costs and significantly reduce the state economic benefits of Medicaid expansion.

Budgetary Challenges through 2022

In addition to budgetary challenges already discussed, recent policy changes, some of which are phasing in, will significantly restrict budgets through 2022. A good rule of thumb is that 1.5% to 2.0% GF/GP growth is required to maintain a current services budget. Some growth is needed to fund growth in employee costs such as wage increases and increases in health care costs. Some inflationary cost increases are also inherent in many state programs, other cost increases are already known. We know for example that state Medicaid cost increases are coming and the cost increases are likely to be substantial – but we don't yet know enough to generate good estimates.

Consensus Revenue Estimates: January 11, 2018

	FY 2019	FY2020	FY 2021	FY 2022
Net GF/GP	$10,339.6	$10,413.5	$10,514.0	$10,914.9
% Growth	0.3%	0.7%	1.0%	3.8%
$ Growth	$31.9	$73.9	$100.5	$400.9
Net SAF	$13,464.0	$13,822.7	$14,223.9	$14,639.4
% Growth	2.9%	2.7%	2.9%	2.9%
$ Growth	$379.5	$358.7	$401.2	$415.5

January 2018 consensus revenue estimates[7] demonstrate that there is not expected to be enough GF/GP growth to fund current services budgets through 2022, and clearly not enough growth to begin to fund transportation, local governments, education, or health care shortfalls.

Policymakers could reverse increased GF/GP being transferred to transportation, but that would exacerbate transportation shortfalls. Policymakers could use SAF resources to supplant GF/GP resources being used to fund Higher Education and Community Colleges, but that would lead to potential shortfalls in K-12. The only viable option is increasing resources through tax increases or through borrowing.

Short-Term and Long-Term State Debt

"Another potential source of revenue for the state budget is borrowing. Generally speaking, the state government is forbidden from running a deficit (i.e., expenditures are more than revenues; this is different than the federal government that has incurred a deficit in each fiscal year between FY01 and FY16). However, in some special circumstances, the state government may take on debt. The state Constitution grants the state government authority to issue short-term debt to manage cash flow and long term debt for other purposes. Long-term debt can be general obligation debt backed by the full-faith and credit of the state, or it can be backed by a stream of tax revenue and is called a revenue bond." (Bean, 2017, p. 306-307)

"Short-term debt to manage cash-flow is authorized by Article IX, Sec. 14 of the state Constitution, which allows the legislature to authorize the state to issue its full faith and credit notes backed by GF/GP revenue. Notes for short-term cash-flow cannot exceed 15% of GF/GP revenues received by the state during the preceding fiscal year, and must be repaid no later than the end of the same fiscal year. Over the last 15 years, the state has borrowed from about $1 billion to $1.3 billion per year to manage cash flow. The need to take on short-term debt can occur when disbursements (i.e., payments from the state treasury) are scheduled to be made before all the revenue to support them is received. In these instances the state has a cash-flow problem. For example, annual collections for the state income tax and the state's business tax are not due until mid-to-late April, or seven months after the fiscal year begins. However, many required disbursements that are supported by tax revenue go out monthly, which means the state needs short-term financing to manage cash-flow." (Bean, 2017, p. 307)

"Long-term general obligation debt is authorized by Article IX, Sec. 15 of the state constitution. Long term general obligation debt must be for a specific purpose. The process for taking on this kind of debt is also different from short-term debt. To take on general obligation debt requires a vote of two-thirds of the members elected to and serving in each legislative chamber to put the question on a state-wide ballot; taking on this debt must be approved by a majority of voters in any general election." (Bean, 2017, p. 307)

7 Consensus Revenue Agreement Executive Summary January 11, 2018 Economic and Revenue Forecasts Fiscal Years 2018, 2019 and 2020.

"A third option for taking on debt is a revenue bond. These are bonds issued by the state and backed by a specific stream of revenue and it is important to note that revenue bonds do not require a vote of the people. An example of a revenue bond that has constitutional and statutory authorization and limits is transportation bonding. Article IX, Section 9 of Michigan's 1963 Constitution states that, "The legislature may authorize the incurrence of indebtedness and the issuance of obligations pledging the taxes allocated or authorized to be allocated under this section, which obligations shall not be construed to be evidence of state indebtedness under this constitution." This language gives constitutional authorization for debt secured by constitutionally-restricted transportation revenue, and indicates that transportation notes and bonds are not considered general obligation debt of the state." (Bean, 2017, p. 307)

"This constitutional authority is put into effect by a 1951 statute, which authorizes the State Transportation Commission to issue notes or bonds by pledging as payment constitutionally-restricted transportation revenue and anticipated federal revenue. State law limits transportation-related debt service to 50% of the previous year's constitutionally-restricted transportation revenue." (Bean, 2017, p. 307-308)

"Another example is The School Bond Qualification and Loan program, which was established by the 1963 Michigan Constitution and amended by a 2005 law to provide a state credit enhancement and loan mechanism for school district bond issues. To meet the legal requirements in this instance, the bonds must be qualified by the State Treasurer and the bond proceeds must be used for capital expenditure purposes." (Bean, 2017, p. 308)

Conclusion

With the exception of certain areas of the state budget supported by federal resources, long term spending trends could be characterized by spending reductions as state government takes less state resources from the state economy each year. As demonstrated by the state revenue limit, relative to the size of the state economy, state government is shrinking. A portion of the growing gap between the revenue limit and revenue collections is due to tax cuts and part to the structure of our state tax system and its inability to adequately capture state economic growth.

From FY01 to FY10, the yearly growth rate of total GF/GP plus SAF revenues was negative three times, and less than 1% in other years. More recently, even during a strong economic recovery, state resources and appropriations supported by state resources have grown at a modest pace at best.

Nominal appropriations from state sources grew 22.8% from FY00 to FY16 however inflation grew about 27.8% over the same period. Therefore inflation-adjusted growth was negative at approximately - 4.6%.

With the exception of those areas supported by Federal Funds, every area of the state budget has faced funding shortfalls. Higher education is one example of a particularly hard hit area of the state budget. Total appropriations for state university operations fell 25.2% between FY00 and FY12. Adjusted for inflation, university funding fell about 37%.

"Cumulative cuts to local revenue sharing to CVT's between FY01 and FY16 exceeded $5.5 billion. In FY16 alone the local revenue sharing was about $580 million less than full-funding. If cuts to Counties are included the cumulative cuts to statutory revenue sharing from FY01 to FY15 exceed $7 billion." (Bean, 2017, p. 308)

In coming years, state government will face numerous budgetary issues including funding for local governments, transportation, and the impact of federal changes to the ACA and how that affects health care in Michigan.

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