

FY 2011-12 SUPPLEMENTAL APPROPRIATIONS

Summary: As Reported by the House Appropriations Committee Senate Bill 683 (H-2)



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OVERVIEW

In a letter dated October 27 (request 2012-6), the State Budget Office (SBO) requested FY 2011-12 supplemental appropriations totaling \$297.1 million Gross (\$135.4 million GF/GP), accounting for subsequent technical adjustments. These appropriations would implement a piece of the FY 2011-12 budget agreement, to set aside funds for prefunding of Other Post-Employment Benefits (OPEB) for state employees.

Senate Bill 683 (H-2) contains the entirety of this request, as well as \$9.1 million GF/GP for retirement-related adjustments in the Legislature budget. The (H-2) substitute is identical to the Senate-passed version of the bill, with the exception of minor technical corrections.

In total, the Senate Bill 683 (H-2) contains \$306.3 million in Gross appropriations, of which \$144.5 million is GF/GP appropriations. Boilerplate provisions include standard sections reporting state spending to locals and subjecting appropriations to the Management and Budget Act, as well as language stating that the "schedules of programs" in the budgets for the Departments of Military & Veterans Affairs and State Police are not legally binding.

An attached table shows specific appropriation amounts by department and fund source. Generally, adjustments are made to all line items in the state budget from which expenditures are made for state employee compensation costs, offsetting amounts that are being billed to departments as payroll-related costs, as current pension prefunding and OPEB pay-as-you-go costs are.

BACKGROUND INFORMATION

As part of its employee compensation plan, the State of Michigan provides certain health, dental, and vision benefits to retired state employees, referred to as "Other Post-Employment Benefits" or "OPEB," through the State Employees Retirement System (SERS). These benefits are received by employees enrolled in both the defined benefit (pension) and defined contribution (401(k)) retirement plans administered by the State. The benefits provide health insurance coverage to employees between the point of their retirement and the age at which they become Medicare eligible (generally 65) and then supplement Medicare coverage beyond that point. Eligible retirees currently contribute 10% of health benefit premium amounts; this contribution will increase to 20% as of October 1, 2012. (Under Public Act 264 of 2011, state employees hired after January 1, 2012 are now receiving an additional defined contribution retirement match, rather than being receiving future retiree health benefits.)

Historically, the state has funded the costs of retiree health benefits on a pay-as-you-go basis, in contrast to pension benefits, which the state has generally prefunded. That is, for pension benefits, the state has made contributions to the retirement system as future liabilities are accrued due to the employee's service with the state. In the case of OPEB, the state has not made contributions until the costs of the benefits are actually realized post-retirement.

In FY 2010-11, a total of 55,648 retirees were eligible for health benefits under SERS, and 49,171 retirees actually received benefits (with a slightly higher number receiving dental or vision benefits). Total contributions by the state to provide those benefits were \$388.2 million.

FISCAL INFORMATION

As part of the state budget agreement for FY 2011-12, the Governor and the Legislature agreed to begin prefunding OPEB benefits in FY 2011-12 in order to reduce future unfunded liabilities associated with the benefits. Based on the September 30, 2010 SERS valuation, the actuarially required contribution (ARC) needed to prefund OPEB is \$743.0 million. This amount is expected to be reduced slightly by the changes to OPEB for current and future state employees contained in Public Act 264 of 2011 (House Bill 4701 as enacted).

An estimated \$420.0 million is already built into the FY 2011-12 budget for current retiree OPEB costs. The supplemental appropriations in Senate Bill 683 would allocate an additional \$297.1 million, resulting in total funding of approximately \$717.1 million for OPEB-related costs.

The \$297.1 million in requested supplemental appropriations are funded as follows:

- \$135.4 million funded from new GF/GP appropriations. These funds (originally estimated at \$140.0 million) were built into the overall budget agreement but adjustments were not made in the initially-enacted FY 2011-12 state budget because detailed information on specific line item adjustments was not yet available.
- \$41.7 million in interdepartmental grant (IDG) revenue funded from a one-time \$60.0 million GF/GP appropriation already included in the enacted FY 2011-12 General Government budget article. This appropriation was included in the budget to offset the costs across the entire state budget that would otherwise be billed against certain state restricted funds or federal funding sources that pay state employees and had already been fully appropriated for FY 2011-12 (transportation-related funds being a major example). The amount of funding needed ended up being lower (by \$18.3 million) than the original appropriation amounts of \$60.0 million. In FY 2012-13 and subsequent budget years, reductions to other appropriations funded from the associated restricted and federal sources will need to be made, or further GF/GP funding provided, to accommodate the OPEB prefunding costs. Appropriations funded through the IDGs from the one-time GF/GP appropriation are shown by department in the final column of the attached table.
- \$120.0 million funded from federal, restricted, and other funding sources that fund state employee-related costs.

The change in accounting method allowed by the budget increases to begin OPEB prefunding will, according to Office of Retirement Services (ORS), reduce the calculated future unfunded liabilities for retiree health benefits from \$14.7 billion to \$9.1 billion. The accounting change relates to the discount rate applied to estimated future health benefit costs. Under governmental accounting rules, the discount rate can be increased from 4% to 8% given that assets are available to be invested on an ongoing basis.

ADDITIONAL APPROPRIATIONS

In addition to SERS OPEB prefunding, the bill contains \$9.1 million GF/GP in other funding adjustments in the Legislature budget, to account for the following retirement-related adjustments:

- \$5.4 million for recent SERS retirement rate increases not yet built into the budget.
- \$3.8 million to begin prefunding of OPEB benefits through the Legislative Retirement System, comparable to OPEB prefunding in SERS. (Under Public 200 of 2011, only legislators who have served for six year prior to January 1, 2013 will be eligible to receive retiree health benefits.)

Summary: Senate Bill 683 (H-2)

FY 2011-12 Supplemental Appropriations

Department	Gross	IDG/IDT	Adjusted Gross	Federal	Local	Private	Restricted	GF/GP	IDG from One-Time GF/GP
Agriculture & Rural Development	\$2,463,700	\$140,100	\$2,323,600	\$403,000	\$0	\$7,100	\$737,500	\$1,176,000	\$128,900
Attorney General	3,835,400	1,122,000	2,713,400	451,100	0	0	793,600	1,468,700	162,100
Civil Rights	652,600	144,500	508,100	0	0	0	0	508,100	144,500
Community Health	27,862,000	671,800	27,190,200	5,850,000	7,245,100	4,500	837,800	13,252,800	608,500
Corrections	77,925,600	30,900	77,894,700	264,400	8,500	0	1,518,900	76,102,900	0
Education	2,961,000	0	2,961,000	1,993,500	110,000	0	272,600	584,900	0
Environmental Quality	8,467,100	3,572,000	4,895,100	1,055,900	0	14,000	2,938,500	886,700	3,522,600
Human Services	61,242,900	3,965,000	57,277,900	33,521,000	731,000	250,300	84,500	22,691,100	3,943,500
Judiciary	2,814,000	29,200	2,784,800	155,300	218,000	27,200	178,300	2,206,000	0
Legislature	3,841,400	0	3,841,400	0	0	0	0	3,841,400	0
Legislative Auditor General	934,100	266,000	668,100	0	0	0	34,900	633,200	100,100
Licensing & Regulatory Affairs	24,327,600	1,496,600	22,831,000	11,787,300	0	0	10,092,400	951,300	884,000
Military & Veterans Affairs	4,061,400	1,629,800	2,431,600	1,380,600	20,800	24,700	66,700	938,800	1,625,500
Natural Resources	9,945,300	4,652,500	5,292,800	36,400	0	89,200	4,671,700	495,500	4,590,100
State	7,873,100	6,312,700	1,560,400	0	0	0	1,096,000	464,400	6,312,700
State Police	8,657,600	2,564,900	6,092,700	20,600	243,100	4,800	1,134,200	4,690,000	2,318,000
Technology, Management, & Budget	17,326,200	11,948,700	5,377,500	307,700	64,200	6,200	2,554,100	2,445,300	725,000
Transportation	16,666,500	16,466,300	200,200	0	0	0	200,200	0	16,330,700
Treasury - Operations	13,108,500	397,100	12,711,400	274,500	56,000	0	11,060,700	1,320,200	302,800
Treasury - Strategic Fund	2,167,800	0	2,167,800	1,300,800	0	0	134,400	732,600	0
Subtotal: OPEB Prefunding	\$297,133,800	\$55,410,100	\$241,723,700	\$58,802,100	\$8,696,700	\$428,000	\$38,407,000	\$135,389,900	\$41,699,000
Additional Appropriations: Legislature	\$9,138,100	\$0	\$9,138,100	\$0	\$0	\$0	\$0	\$9,138,100	
TOTAL	\$306,271,900	\$55,410,100	\$250,861,800	\$58,802,100	\$8,696,700	\$428,000	\$38,407,000	\$144,528,000	