

**SENATE FISCAL AGENCY  
 MEMORANDUM**

**DATE:** April 17, 2017

**TO:** Members of the Senate Appropriations Committee

**FROM:** John Maxwell, Fiscal Analyst

**RE:** Federal Funds in Michigan's Budget: Matching Funds and Maintenance of Effort for Fiscal Year 2016-17

Each year the State of Michigan receives funding from the Federal government. These Federal funds are provided to Michigan through different mechanisms: grants directly awarded to the State, local governments, individuals, and organizations, as well as matching revenue supporting the Medicaid program. In Michigan's budget, only grants awarded to the State and the matching funds for Medicaid, are appropriated as a source of Federal funding.

In Fiscal Year (FY) 2016-17, the initial appropriations, Public Acts 268 and 249 of 2016, included \$22.7 billion of Federal dollars. As of April 2017, the total year-to-date Federal funding authorization remained at \$22.7 billion. The total year-to-date Adjusted Gross appropriation is \$54.3 billion with Federal funds composing 41.9% of the budget. The Governor's FY 2017-18 appropriation recommendation is \$55.4 billion in Adjusted Gross appropriations with \$23.1 billion in Federal funding for a decrease in the percent of Federal funding of 0.2% to 41.7% of the budget.

Federal revenue is often contingent on the State providing matching funds from State resources and/or the State maintaining a certain level of state funding for programming, known as a maintenance of effort (MOE). For FY 2016-17, approximately 70% of all of Federal revenue received by the State of Michigan requires a match or MOE.

As Table 1 illustrates, in FY 2016-17, of the \$22.7 billion of Federal revenue appropriated in Michigan's budget, \$15.3 billion is required to have matching State funds. The estimated State Spending from State Resources (the combination of State Restricted and State General Fund/General Purpose revenue) to draw down the match is \$2.7 billion in General Fund/General Purpose (GF/GP) and \$2.3 billion in State Restricted funds for a total of \$5.0 billion. The estimated MOE from State funds is \$901.6 million of GF/GP and \$1.1 billion State Restricted funds for a total of \$2.0 billion from State resources<sup>1</sup>. The total year-to-date appropriation for State Spending from State Resources for FY 2016-17 is \$31.1 billion. Therefore, 16.0% of State spending is used to support Federal matching funds, while 6.5% of State spending is used to support Federal MOE requirements. A total of 22.5% in State spending is used to support Federal matching or MOE requirements.

<sup>1</sup> The School Aid and Transportation information used for this analysis is an estimate based on FY 2015-16 expenditures and projected Federal funds provided to the State. Additionally, the information provided by the Department of Health and Human Services regarding matching or MOE requirements is not exhaustive. Therefore the \$2.0 billion should be taken as an approximation of the extent of State resources used for matching or MOE purposes.

Federal grants have various match rates. The effective overall match rate for FY 2016-17 is 32.6%. A simple interpretation of this would be that for every 33 cents the State spends, it receives 67 cents from the Federal government for total Gross spending of \$1.00 in appropriations. The effective MOE requirement is \$2.0 billion in State spending for \$844.7 million in Federal funds.

In FY 2016-17, matching and MOE dollars are comingled. The effect of this commingling means that it is not possible to directly determine the amount of Federal funding foregone by reducing or eliminating State funding for matching purposes. Since services are delivered through State agencies and departments, any State funding reduction in a given program could affect the eligibility of other Federal grants. Federal MOE requirements mean that the State must maintain a certain level of funding to receive those funds and if there was an effort undertaken to reduce State spending, both the Federal matching and MOE funds could be reduced or eliminated.

Any effort to reduce or eliminate State spending for match or MOE purposes would in and of itself decrease the Federal authorization to the State, but this action would not change the eligibility for other States to draw down those Federal funds.

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Attachment

c: Ellen Jeffries, Director  
Steve Angelotti, Associate Director

**Table 1**  
**FY 2016-17 Estimated Matching/Maintenance of Effort (MOE) State Resources for Federal Appropriations in the State Budget**

Depart/Budget Area	Year-To-Date Total Federal Appropriations	Federal Funds Requiring State Match	State Match			Federal Funds Requiring State MOE	State MOE		
			GF/GP	State Restricted	Total State Match		GF/GP	State Restricted	Total State MOE
Agriculture and Rural Development	\$10,471,200	\$299,200	\$501,900	\$461,100	\$963,000	\$0	\$0	\$0	\$0
Attorney General	9,476,700	0	0	0	0	0	0	0	0
Civil Rights	2,763,000	0	0	0	0	0	0	0	0
Community Colleges	0	0	0	0	0	0	0	0	0
Corrections	5,523,700	250,200	83,400	0	83,400	0	0	0	0
Education	239,821,900	243,429,100	25,613,900	7,819,100	33,433,000	254,487,300	59,760,700	71,751,800	131,512,500
Environmental Quality	139,022,800	91,465,100	7,282,400	15,790,300	23,072,700	24,870,300	225,000	9,383,100	9,608,100
Executive	0	0	0	0	0	0	0	0	0
Health and Human Services	17,966,627,100	13,861,465,100	2,646,146,000	2,074,732,900	4,720,878,900	105,331,587	832,612,800	1,784,200	834,397,000
Higher Education	101,526,400	0	0	0	0	0	0	0	0
Insurance and Financial Services	2,000,000	0	0	0	0	0	0	0	0
Judiciary	6,433,500	1,185,000	3,000	50,000	53,000	0	0	0	0
Licensing and Regulatory Affairs	64,441,800	1,014,500	125,100	306,100	431,200	0	0	0	0
Military and Veterans Affairs	91,793,600	60,025,300	8,978,000	1,583,400	10,561,400	60,025,300	8,978,000	1,583,400	10,561,400
Natural Resources	72,765,400	72,765,400	0	14,703,900	14,703,900	0	0	0	0
School Aid	1,818,632,700	0	0	0	0	384,968,423	0	1,031,564,200	1,031,564,200
State	1,460,000	0	0	0	0	0	0	0	0
State Police	87,967,800	35,270,900	2,930,100	8,596,300	11,526,400	15,001,817	0	3,382,200	3,382,200
Talent and Economic Development	768,144,800	1,232,500	1,270,600	0	1,270,600	0	0	0	0
Technology, Management, and Budget	4,958,200	0	0	0	0	0	0	0	0
Transportation	1,314,744,000	915,000,000	0	164,500,000	164,500,000	0	0	0	0
Treasury-Operations	39,920,800	0	0	0	0	0	0	0	0
<b>TOTAL APPROPRIATIONS</b>	<b>\$22,748,495,400</b>	<b>\$15,283,402,300</b>	<b>\$2,692,934,400</b>	<b>\$2,288,543,100</b>	<b>\$4,981,477,500</b>	<b>\$844,684,727</b>	<b>\$901,576,500</b>	<b>\$1,119,448,900</b>	<b>\$2,021,025,400</b>

Note: The FY 2016-17 School Aid and Transportation match and MOE numbers are estimated from available FY 2015-16 data.