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Governor Rick Snyder's Fiscal Year 2012–13 State Budget Recommendation:

Relative Calm Following Controversial First Budget

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On Thursday, February 9, 2012, Governor Rick Snyder presented his fiscal year (FY) 2012–13 Michigan State Budget recommendations to the Michigan Legislature. Compared to the FY 2011–12 Michigan State Budget recommendations of the governor—highlighted by large reductions in the level of taxes paid by Michigan businesses, large increases in individual income tax paid by certain Michigan families, and significant reductions in the level of state funding for K–12 education, higher education, community colleges, units of local government, and certain human services programs—the FY 2012–13 budget recommendations are much less dramatic. The FY 2012–13 governor's budget recommendation can best be characterized as a continuation of the budget policies implemented during FY 2011–12.

Compared to the FY 2011–12 Michigan State Budget recommendations of the governor, the FY 2012–13 budget recommendations are much less dramatic.

On the revenue side of the FY 2012–13 budget, the governor does not include any recommended changes in state tax policy currently under discussion in the legislature. The budget does not include additional transportation funding from proposed increases in motor fuel taxes and vehicle registration fees, nor does it address potential reductions in the level of personal property taxes paid by businesses.

On the spending side of the FY 2012–13 budget, Governor Snyder recommends that the spending policies in place during the current fiscal year continue in the coming fiscal year. The budget recommendation does include modest spending increases in education programs, aid to units of local government, and numerous other state programs.

The most anticipated issue surrounding the FY 2012–13 budget may have been the governor's recommendation as to the expenditure of surplus funds that accumulated in the FY 2010–11 and FY 2011–12 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) budgets. The budget estimated the amount of these GF/GP and SAF surplus funds at $695[1] million, split between $545 million in the GF/GP budget and $150 million in the SAF budget. Based on the FY

[1] For ease of reading, all figures in this paper have been rounded.

2012–13 budget recommendation, all of these surplus funds will be spent on one-time programs. The major one-time expenditures recommended in the budget include:

- A $181 million temporary increase in the level of GF/GP funding in the K–12 School Aid budget (+1.7 percent)
- A $130 million deposit into the Budget Stabilization Fund
- A $119 million GF/GP grant to the transportation budget (+5.8 percent) to ensure that Michigan has sufficient State matching funds to draw down all available federal transportation funds
- A $17 million increase in funding for maintenance and consolidation of State-owned buildings
- A $25 million funding increase for lump sum payments to State employees as part of negotiated employee contracts
- A $25 million grant to continue funding of the film incentive program
- A $20 million competitive grant program for units of local government based on local governmental policy changes
- A total of $150 million of competitive funding for local school districts based on performance measures and policy changes

The budget recommendation also includes numerous increases in the level of ongoing State appropriations, defined in the budget message as programs that will continue beyond the FY 2012–13 budget. The major ongoing GF/GP expenditure increases in the budget include the following:

- $50 million increase for State of Michigan information technology projects
- $50 million increase for the economic development activities of the Michigan Economic Development Corporation
- $36 million or an average 3.0 percent funding increase for university operations
- $9 million or an average 3.0 percent funding increase for community college operations
- $15 million increase for the Michigan talent fund
- $15 million increase for maintenance of State office buildings
- $15 million increase in the Department of State Police to target crime in distressed cities
- $5 million increase to fund summer youth employment in distressed cities
- $10 million increase in the Department of Community Health to expand Medicaid coverage to include autism disorders
- $8 million increase in the Department of Community Health to expand dental coverage for low-income children
- $30 million increase for competitive grants to units of local government through the State revenue sharing program

The governor's budget recommendation also continues the practice that started during FY 2011–12 of providing measures of success and dedicating funds based on these measures. This is most notable in the appropriation increases recommended for K–12 school districts, community colleges, public universities, and units of local government. Instead of simply providing for State funding increases to these institutions, the budget ties the funding increases to conditions and goals established in the budget. This growing use of performance measures in the budget is a significant policy change.

MAJOR AREAS OF DEBATE IN THE BUDGET RECOMMENDATION

Governor Snyder has met his constitutional obligation and delivered a state budget recommendation to the legislature that is balanced between estimated revenues and recommended appropriations. It is now up to the Michigan Legislature to begin the debate and enact a balanced State budget before the beginning of the fiscal year on October 1, 2012. Based on my experience working on the budget for more than 30 years, I see three areas that will likely be the focus of significant debate in the legislature: (1) the overall distribution of appropriations as recommended by the governor, (2) the growing use of performance measures to make funding decisions, and (3) the absence of any tax policy changes, most notably, transportation tax proposals.

Overall Distribution of Appropriations

The governor's FY 2012–13 budget includes appropriations from all fund sources equal to $48 billion. This represents a $1 billion (2.2 percent) increase from the current level of FY 2011–12 appropriations. State spending from state resources appropriations[2] are recommended at $28 billion, a $610 million (2.3 percent) increase from the current level of FY 2011–12 appropriations. General Fund/General Purpose appropriations are recommended at $9 billion, a $524 million (6.1 percent) increase from the current level of FY 2011–12 appropriations.

The legislative debate is likely to focus on the level of increases recommended for K–12 education, community colleges, universities, and revenue sharing payments to cities, villages, townships, and counties. For example, the governor's FY 2012–13 budget recommendation for K–12 education totals $11 billion of State funding. This represents a $96 million funding reduction (0.9 percent) in the estimated level of total State funding for K–12 education in the current fiscal year. The rationale for the reduction is an estimated decline in the number of pupils in the K–12 system combined with policy changes (such as changing the methodology of calculating payments for students in kindergarten programs that do not cover the full school day). It is almost certain that K–12 advocates in the legislature will push for more overall State funding in the budget.

In terms of the governor's recommended 3.0 percent funding increases for university and community college operations, the debate will center on the distribution of the increased operational funds. For both universities and community colleges, the governor's budget recommends that distribution of these increased funds be tied to historical data, including the awarding of certain types of degrees and the number of students receiving financial aid through the Federal Pell Grant program. While the average funding increase for universities is recommended to be 3.0 percent, the recommended individual increases for each university range from a low of 0.9 percent for Wayne State University to a high of 7.6 percent for Grand Valley State University. These increases do not include $9 million of additional funding that will be distributed after the universities establish tuition rates for the 2012–13 academic year. Likewise, the distribution of the 3.0 percent funding increase for community colleges based on the completion of specified degree programs and the number of students receiving federal aid leads to recommended individual increases from a low of 1.3 percent at Northwestern Michigan College to a high of 8.4 percent at Washtenaw Community College.

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The major point of debate in terms of revenue sharing payments to cities, villages, townships, and counties is likely to center around payments to counties. Revenue sharing

[2] State spending from State resources appropriations include all of the State appropriations funded by state taxes, fees, permits and other State-generated revenue sources. This measure of the State budget does not include State appropriations funded with federal funds and funds included in the budget funded with local and private funds.

payments to counties were temporarily eliminated during FY 2004–05 due to an acceleration of the due date of county property tax payments. This timing change in county property tax payments allowed the State to benefit from the temporary elimination of county statutory revenue sharing payments and the counties offset this by utilizing the one-time change funds the county received from the acceleration of county property tax payments. During FY 2012–13, however, more counties will deplete the temporary revenues from the acceleration of property tax payments, and the understanding in FY 2004–05 was that these payments would be restored by statutory county revenue sharing payments. The governor's budget calls for $126 million of statutory revenue sharing payments to counties in FY 2012–13, which is $42 million less than what counties would have received under the agreement reached in FY 2004–05.

Performance Measures in the State Budget

Following his election in 2010, Governor Snyder promised to change the way State appropriations are distributed. In lieu of the traditional method of appropriating State funds on an incremental change basis compared to the prior fiscal year, the governor promised that the distribution of State funds in the future would be based on the ability to meet performance goals. This idea led to the creation of dashboard measurements in state government, local government, school districts, universities, and community colleges.

While this concept of performance-based budgeting is not new to Michigan, it has been taken to a higher level under Governor Snyder. For example, the entire 3.0 percent increase in funding recommended for universities and community colleges in FY 2012–13 will be distributed based on performance measures outlined in the governor's budget. This means 97.0 percent of the university and community college operational funding is based on the prior year funding levels and 3.0 percent will be distributed via the performance funding mechanism. Similar proposals exist for funding increases for K–12 school districts and revenue sharing payments to cities, villages, townships, and counties.

This means **97%** of the university and community college operational funding is based on the prior year funding levels and 3% will be distributed via the performance funding mechanism. Similar proposals exist for funding increases for K–12 school districts and revenue sharing payments to cities, villages, townships, and counties.

The fact that the proposed executive budget is expanding the use of performance funding in the distribution of State funds creates an interesting public policy debate regarding local control of these public institutions. Historically, the State of Michigan has provided State funds to these entities and then allowed the locally elected or appointed governing bodies to determine the best use of these funds. The movement toward distributing State funds based on criteria determined by the State and mandating these criteria on the local governing bodies reverses longstanding precedent.

Michigan and other states argue that the federal government should provide funds to the states and then give states the flexibility to best spend these funds, based on certain general guidelines. The movement toward performance-based distribution of State funds to local entities seems to be at odds with the similar type of agreement that states are making with the federal government regarding federal funds. The debate regarding the use of performance measures in the State budget needs to be carefully considered by the legislature in the long-term context of local control over local programs.

Absence of Tax Policy Changes in the State Budget

Governor Snyder has supported a package of bills, currently in the legislature, to increase annual funding for the state's transportation needs by approximately $1 billion. The FY 2012–13 budget message does not assume these additional funds in the transportation budget. The fact that these additional funds are not assumed in the budget—and instead an additional $119 million of GF/GP support is provided in the transportation budget to ensure adequate funds exist to draw down all available federal transportation funds—likely means that the legislature will not deal with the transportation funding issue in the near future. By using General Fund dollars to ensure access to the maximum amount of federal transportation funds, the governor has taken pressure off members of the legislature to resolve transportation funding during an election year for the Michigan House of Representatives.

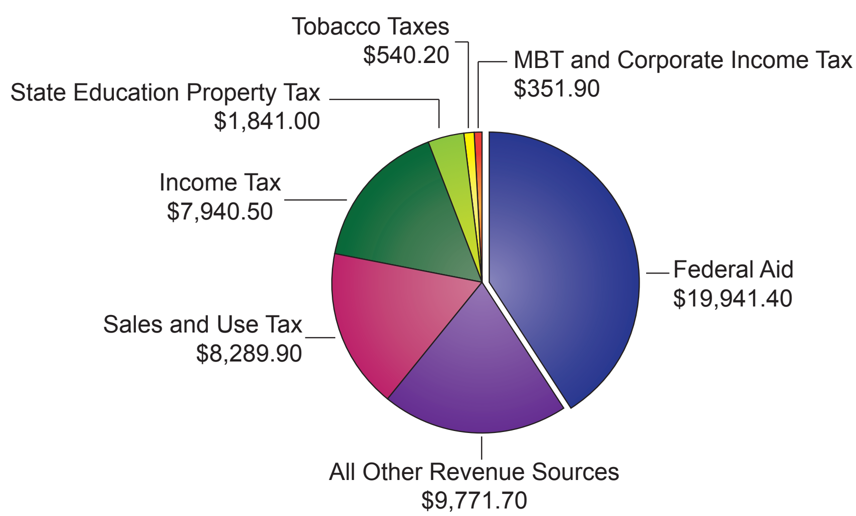
Conclusion

We can be hopeful that with the general economic "good news"—and the resulting slight increase (+2.2 percent) in the State budget—that Michigan's economy has truly turned the corner. While the projections for job growth are positive, the current pace of the economic recovery means that Michigan will only very slowly return to "normal." Whether that normal means the state regains above-average personal income, or whether we rise to merely "average" in the nation, remains to be seen.

FY 2013 BUDGET RECOMMENDATIONS

FY 2012–13 State Budget

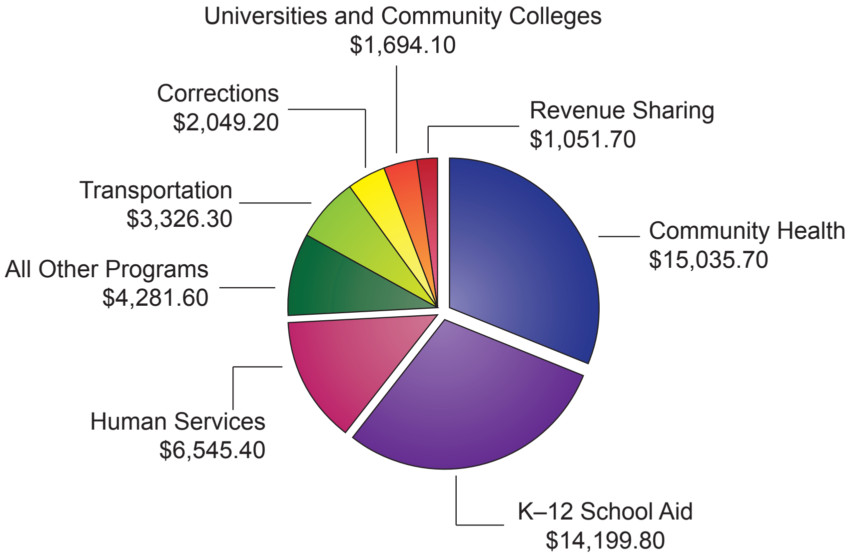
Major Sources of Revenue (millions of dollars)



Total Revenue from All Sources
$48,676.60
(millions)

SOURCE: Governor's Budget Message, February 2012.

Categories of Expenditures (millions of dollars)

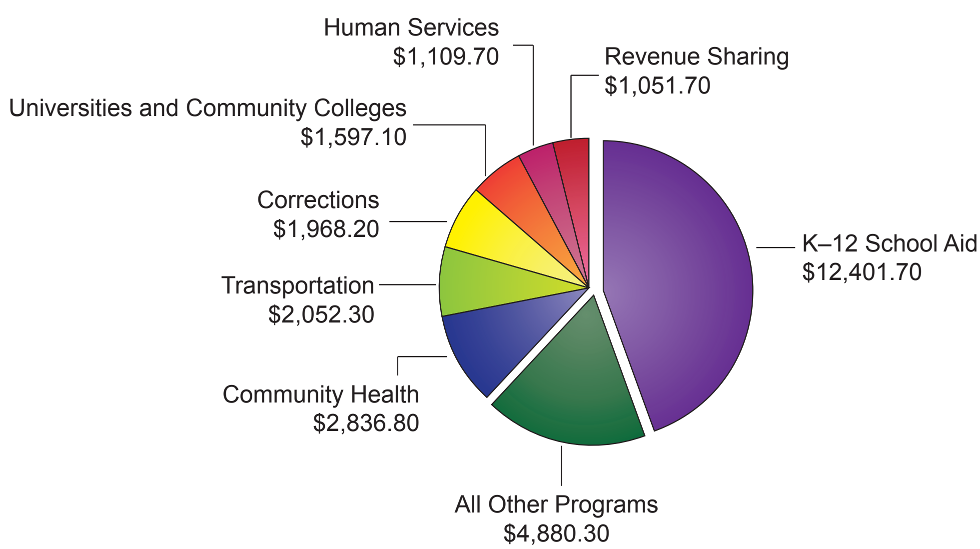


Total Adjusted Gross Appropriations
$48,183.80
(millions)

SOURCE: Governor's Budget Message, February 2012.

FY 2012–13 State Budget

State Spending from State Resources (millions of dollars)



Total Adjusted Gross Appropriations
$27,897.80
(millions)

SOURCE: Governor's Budget Message, February 2012.

FY 2012–13 State Budget