



PUBLIC POLICY ADVISOR

THE GOVERNOR'S FY 1987-88 BUDGET RECOMMENDATIONS

Summary

The FY 1987-88 executive budget was released yesterday; as expected, it recommends a modest increase in spending. The general fund/general purpose (GF-GP) recommendation is \$6,456.9 million, an increase over the current year of \$174.5 million or 2.8 percent. (If the FY 1986-87 projected supplemental of \$114.1 million is excluded, the increase is 4.7 percent.) The GF-GP recommendation for school aid is \$577.4 million, an increase of only 1.1 percent. When other state funds, such as sales tax and lottery revenues are included, total school aid would be \$2,738.7 million, a 3.8 percent increase. Total state spending is recommended at \$15,181.0 million, an increase of 3 percent above projected appropriations for FY 1986-87.

As he has since he took office, Governor Blanchard emphasizes corrections, education, health, and economic development in his budget recommendations. Excluding capital outlay and debt service, about 83 percent of the recommended increase in spending is allocated to corrections, education, and health. (See table.) Highlights of some key program areas follow.

Higher Education. An increase of \$51.6 million or 5.3 percent is recommended for state colleges and universities. Also included is \$15 million to implement a funding model based on a comparison of Michigan institutions with their peers across the country. A 5 percent increase is recommended for community colleges. An \$8.3 million increase is recommended for financial aid, of which \$7 million will go for full-year support of the college work-study and part-time independent student grant programs.

School Aid. The basic membership formula recommends a gross per-pupil allocation of \$301 plus \$75.10 for each levied operating mill. Special education would receive an additional \$4.8 million. The budget also recommends \$7.5 million for a new statewide preschool program. Eligible districts would receive about \$1,000 per child to provide preschool readiness programs for educationally disadvantaged children.

Social Services. An increase of only 1.4 percent is recommended for the Department of Social Services. This small increase reflects projections of continued caseload declines and Medicaid cost containment. The budget recommends funds for a \$7-per-month (average) increase in food and clothing and shelter benefits.

Corrections. The budget recommends a 10.9 percent increase for the Department of Corrections, the largest for any area. By the end of 1989, there are expected to be 17 permanent new prisons and over 10,000 additional cells.

Health. Above-average increases were recommended for the departments of Mental Health (7.7 percent) and Public Health (7.5 percent), including an additional \$11.6 million for infant health care.

Other. The only recommended reductions are in capital outlay (-\$46 million), Labor (-\$13.7 million), debt service (-\$12.5 million), Commerce (-\$4.6 million), and Treasury (-\$3.7 million). For the most part, the reductions are not in programs, but in expirations of one-time revenues and charges or the elimination of special program grants.

January 29, 1987

The budget assumes continued moderate economic growth; it forecasts a GNP increase of 2.7 percent in FY 1986-87 and 2.9 percent in FY 1987-88. Auto sales are forecast to decline 8.6 percent in the current fiscal year and increase only 1.4 percent in FY 1987-88. Employment growth is expected to be exceedingly modest in the next two years, rising about 1.7 percent in FY 1986-87 and 1 percent in FY 1987-88.

Comment

The budget appears to be based on reasonable economic assumptions and follows prudent spending policies. However, we do not agree with the governor's recommendation to reduce the income tax rate from 4.6 percent to 4.4 percent. Given that any changes in the economy are likely to be on the downside rather than on the upside, we continue to believe that a tax reduction is not prudent at this time.

We are pleased to see the recommendation for increased bonding for prison construction; this will allow reimbursement of funding previously assumed by the budget stabilization and general funds. (See our comments in the "Overview of Michigan Budget Appropriations FY 1985-86," September 1985.)

We will provide a more detailed analysis of the budget in about three weeks.

GENERAL FUND/GENERAL PURPOSE BUDGET SUMMARY,
FISCAL YEARS 1986-87 AND 1987-88 (MILLIONS)

<u>Department or Program</u>	<u>Projected FY 1986-87 Appropriations</u>	<u>FY 1987-88 Executive Recommendation</u>	<u>Dollar Change From FY 1986-87</u>	<u>% Change From FY 1986-87^a</u>
Social Services	\$1,976.1	\$2,003.1	\$27.0	1.4%
Mental Health	707.7	762.4	54.7	7.7
Public Health	130.1	139.8	25.0	7.5
Corrections	484.3	537.0	52.7	10.9
Education	37.3	37.4	0.1	0.2
School Aid	571.4	577.4	6.0	1.1
Community Colleges	186.7	196.1	9.4	5.0
Colleges and Universities	966.1	1,017.6	51.5	5.3
Financial Aid	74.2	82.4	8.2	11.1
Library of Michigan	20.7	21.4	0.7	3.4
Executive Office	3.6	4.0	0.4	9.2
Legislature	68.9	71.6	2.7	4.0
Judiciary	91.5	99.0	7.5	8.2
Attorney General	21.3	23.0	1.7	8.3
State	15.1	15.4	0.3	1.7
Management and Budget	141.7	148.0	6.3	4.5
Treasury	60.4	56.7	-3.7	-6.1
Civil Rights	10.4	11.2	0.8	8.4
Civil Service	10.9	11.8	0.9	8.6
Commerce	102.2	97.7	-4.5	-4.5
Labor	102.0	88.3	-13.7	-13.5
Licensing & Regulation	15.3	16.1	0.8	4.9
State Police	158.6	161.6	3.0	1.9
Military Affairs	11.7	12.2	0.5	3.9
Agriculture	25.4	27.1	1.7	6.7
Natural Resources	114.8	123.1	8.3	7.2
Capital Outlay	128.9	82.9	-46.0	-35.7
Debt Service	45.0	32.6	-12.4	-27.6
TOTAL GF-GP	\$6,282.4	\$6,456.9	\$174.5	2.8%

SOURCE: State of Michigan Executive Budget, 1987-88 Fiscal Year.

^aBased on unrounded numbers.

January 29, 1987