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# Overview and Analysis of Michigan Budget Appropriations, Fiscal Year 1990–91

Governor Blanchard has presented another tight budget to the legislature. The general fund/general purpose (GF/GP) recommendation for FY 1990–91 is $7,623.2 million, 3.8 percent above the projected spending level for the current year. The budget is even tighter than it appears because funding for the 4 percent pay raise for state employees is not provided; this will require about $75 million in cuts in other areas. Also, as discussed below, the FY 1989–90 budget is underfunded by $150–200 million, which will necessitate cuts in the current year. The budget document reflects a 2.5 percent reduction in all FY 1989–90 GF/GP appropriations, except for school aid, state universities, community colleges, and financial aid.

The Blanchard administration has followed a policy of underestimating expenditures and revenues. In most years the revenues to finance the required supplementals have materialized, but that is not likely to happen this year.

This paper outlines the governor's major recommendations and the economic and revenue assumptions underlying the budget, compares recommended FY 1990–91 spending with current-year spending, and comments on the political and economic feasibility of the budget. The major issues facing the legislature and the governor are (1) how to cut about $200 million out of the current budget (the governor's proposed 2.5 percent across-the-board cut, excluding education, will be difficult to sell) and (2) how to increase funding for education without shortchanging other programs.

The FY 1990–91 and last year's budgets could be characterized as education budgets, with the governor proposing to spend 70.5 percent of new money in this year's budget and 65.5 percent of new money in the FY 1990–91 budget on education. The only other large allocations of new money are for law enforcement (mainly Corrections) and health. The recommendation for capital outlay is about $50 million below the FY 1989–90 level. The allocations recommended for the various program categories are shown in Exhibit 1.

The largest recommended increases (in percentage terms) are: Military Affairs, 29.8 percent; school aid, 14.3 percent; Department of Management and Budget (DMB), 12 percent; Department of State, 8.7 percent; Agriculture, 8.3 percent; and Corrections, 7.9 percent. (The large increases for Military Affairs and Management and Budget are due to proposed transfers of programs from other departments.) Recommended for reduction are capital outlay and the Department of Treasury. The reduction in Treasury is the result of a financing shift to restricted revenues that reduces the GF/GP contribution. The recommended increase for the Department of Social Services is only 0.7 percent.

As in recent years, there are a number of upward and downward adjustments in the budget. These are shown in Exhibit 2. For example, the budget for the Department of Social Services proposes $124 million in program reductions, $131 million in program increases, $11.3 million in economic increases (to cover higher costs), a $5.7 million reduction due to program transfers, and a $4.1 million increase due to financing shifts (largely replacement of lost federal revenue) and technical and other adjustments.

Total state spending for FY 1990–91 is recommended at $17,919 million, 3 percent above the projected spending level for FY 1989–90. Federal aid is estimated at $4.3 billion, a 3.8 percent increase.

Exhibit 3 summarizes the GF/GP budgets for FY 1988–89, FY 1989–90, and FY 1990–91. The discussion in this paper focuses primarily on GF/GP expenditures.

## ECONOMIC AND REVENUE ASSUMPTIONS

Historically, DMB estimates of broad economic measures and state receipts have been somewhat conservative, but the Blanchard administration seems to have broken gradually with that tradition by forecasting revenue collections and economic growth rates that are

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**EXHIBIT 1**

**General Fund/General Purpose and School Aid Fund**
**Budget Changes, FY 1990–91**

| Program Category | Dollar Change (millions) | Percent of Total Increase |
|---|---|---|
| Education | $218.7 | 65.5% |
| Law Enforcement (Corrections, State Police, Judiciary, Attorney General) | 73.9 | 22.1 |
| Health | 48.2 | 14.4 |
| Social Services | 16.7 | 5.0 |
| General Government | 12.3 | 3.7 |
| Environmental Protection (Natural Resources and Agriculture) | 8.0 | 2.4 |
| Regulatory (Commerce, Labor, Licensing and Regulation) | 5.9 | 1.8 |
| Capital Outlay and Debt Service | –49.8 | –14.9 |
| TOTAL | $333.9 | 100% |

SOURCE: Calculated by Public Sector Consultants, Inc., from data in *Michigan Executive Budget, 1990–91 Fiscal Year.*

closer to reality. In FY 1987–88, the administration underestimated growth of the gross national product (GNP) by about one percent and Michigan personal income by nearly 3 percent. In the FY 1989–90 budget, however, the 2.5 percent GNP growth rate predicted for calendar year (CY) 1989 was only slightly below the 2.9 percent actual rate, and growth of Michigan personal income likely will be less than 0.1 percent off the DMB's original estimate. In the FY 1990–91 budget, the administration is forecasting GNP growth of 2.1 percent for CY 1990, which, while slightly above the 1.8 percent general consensus rate, is far lower than the optimistic 2.7 percent rate forecast by the University of Michigan and very much in line with what is likely to occur this year. Some of the economic assumptions on which the FY 1990–91 budget is based are summarized in Exhibit 4.

Conservative estimates of the economy's strength have resulted in underestimations of revenue collections. In FY 1987–88 GF/GP revenues were underestimated by $252 million (although the DMB estimate was ultimately more on target than others), and in FY 1988–89 total revenues, including the school aid fund (SAF) were once again underestimated, by $296 million or 3.2 percent. Preliminary estimates of actual FY 1988–89 revenue collections from personal income taxes were $149 million more than originally predicted, nontax revenues were $61.7 million higher, and SAF funds were $44.6 million above last year's estimates; these were partially offset by a $19.9 million overestimation of consumption tax revenues.

FY 1989–90 revenue estimates by the DMB, which call for 3 percent growth in total GF/GP and SAF revenues, do not appear to follow past conservative estimates for state revenue growth. GF/GP funds are expected to rise by 2.5 percent (to $7,244.8 million), led by a 5.1 percent rise in consumption taxes and a 4 percent increase in other tax revenues, while SAF revenues are estimated to grow by 4.6 percent (to $2,269.5 million). For FY 1990–91, revenues are predicted to expand along with the pace of the economy; GF/GP revenues are expected to rise by 5.3 percent (to $7,630 million), which includes a 6.5 percent rise in personal income tax collections and a 6 percent increase in other tax revenues; SAF revenues are predicted to expand by 4.5 percent (to $2,371.7 million). Adjusted for noneconomic factors such as tax policy changes and one-time revenues, total revenues are expected to increase 3.5 percent in FY 1989–90 and 5.5 percent for FY 1990–91. The tax policy changes affecting the budget are summarized in Exhibit 5.

As mentioned above, the FY 1990–91 budget assumes steady growth of the economy in CY 1990 and continued expansion in CY 1991, with real GNP expected to rise by 2.1 percent and 2.3 percent in the two years, respectively. U.S. passenger car sales are estimated at 9.6 million units in 1990 and 9.9 million units in 1991, down from 10.1 million units in 1989.

The budget also assumes slow and steady growth for the Michigan economy. Personal income (adjusted for inflation) is projected to increase by a moderate 1.5 percent in 1990 and by 2.3 percent in 1991. Wage and salary employment is estimated to increase by only 0.4 percent in 1990 (compared to 1.7 percent in 1989) and to rebound slightly in 1991, growing by 1.5 percent. The state's total labor force is expected to grow slightly

**EXHIBIT 2**

**Fiscal Adjustments by Department or Program, FY 1990–91 Executive Budget (dollars in thousands)**

| Program/Department | Program/Grant Reductions and Efficiencies | Program Transfers | Financing Shifts | Economic Increases | Program Increases | Technical and Other Adjustments | Total Change |
|---|---|---|---|---|---|---|---|
| Agriculture | –$1,291 | $1,170 | –$754 | $613 | $2,138 | $680 | $2,556 |
| Attorney General | 0 | 0 | 0 | 483 | 694 | 105 | 1,282 |
| Civil Rights | 0 | 0 | 0 | 183 | 723 | –657 | 249 |
| Civil Service | –155 | 0 | 0 | 238 | 299 | 728 | 1,110 |
| Commerce | –7,437 | –3,673 | 0 | 464 | 10,450 | 1,947 | 1,752 |
| Corrections | –32,879 | 0 | –11,437 | 18,299 | 76,732 | 5,670 | 56,385 |
| Education | –3,581 | 244 | –291 | 603 | 5,690 | 326 | 2,991 |
| Executive | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Higher Education | | | | | | | |
| Community Colleges | 0 | 0 | 0 | 0 | 10,625 | 0 | 10,625 |
| Universities | 0 | 0 | 0 | 0 | 59,776 | 0 | 59,776 |
| Judiciary | –198 | 0 | 0 | 1,326 | 976 | 1,728 | 3,832 |
| Labor | –2,158 | 367 | –117 | 1,072 | 4,434 | 386 | 3,984 |
| Legislature | 0 | 0 | 0 | 0 | 0 | 4 | 4 |
| Library of Michigan | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Licensing and Regulation | 0 | 0 | –340 | 345 | 0 | 133 | 134 |
| Management and Budget | –5,097 | 9,021 | –1,595 | 1,242 | 5,552 | –733 | 8,390 |
| Mental Health | –29,752 | 0 | –13,787 | 14,019 | 72,160 | 40 | 42,280 |
| Military Affairs | 0 | 1,420 | 0 | 224 | 1,947 | 32 | 3,623 |
| Natural Resources | 2,271 | 0 | 416 | 1,870 | 4,925 | 505 | 5,445 |
| Public Health | 2,216 | 0 | –1,124 | 2,144 | 4,983 | –80 | 5,955 |
| School Aid | 0 | 0 | 0 | 0 | 87,500 | 0 | 87,500 |
| Social Services | –123,983 | –5,675 | 1,316 | 11,285 | 130,998 | 2,780 | 16,721 |
| State | 683 | 0 | 0 | 631 | 505 | 1,031 | 1,484 |
| State Police | 0 | 0 | –825 | 4,846 | 5,528 | 2,731 | 12,280 |
| Treasury | 0 | 0 | –3,415 | 688 | 0 | 300 | –2,427 |
| Debt Service | –5,828 | 0 | 0 | 0 | 6,000 | 0 | 172 |
| Capital Outlay | 0 | 0 | 0 | 0 | –50,020 | 0 | –50,020 |
| Total GF-GP | –$217,529 | $2,874 | –$31,953 | $60,575 | $442,615 | $17,656 | $276,487 |

SOURCE: Calculated by Public Sector Consultants, Inc., from data in *State of Michigan Executive Budget, 1990–91 Fiscal Year.*

faster than employment, resulting in unemployment rates of 8.3 percent in 1990 and 8.5 percent in 1991; national unemployment rates are forecast to be 5.6 percent and 5.9 percent in 1990 and 1991, respectively. Michigan consumer prices are estimated to increase by 3.6 percent in 1990 and 4.3 percent in 1991 compared to national inflation rates of 4.2 percent in 1990 and 4.7 percent in 1991.

Once again, the main threat to the administration's forecast is that inflation will accelerate, causing the Federal Reserve Board to restrict credit further and push interest rates higher. This likely would result in a mild recession and reduced revenue growth. Given that this year's revenue estimates do not appear to be underestimated, a decline in state collections probably would mean cuts in spending in what appears to be an already underfunded budget.

## REVENUE SOURCES AND EXPENDITURE ALLOCATIONS

Exhibits 6 and 7 illustrate the funding sources and allocations of the recommended FY 1990–91 budget.

**EXHIBIT 3**

**General Fund-General Purpose Budget Summary, Fiscal Years 1988–89, 1989–90, and 1990–91 (dollars in millions)**

| Department or Program | FY 1988–89 Expenditures | Projected FY 1989–90 Appropriations | FY 1990–91 Recommendations[a] | Dollar Change from FY 1989–90 | Percent Change from FY 1989–90 | Percent Change Adjusted for Financing Shifts and Program Transfers[b] |
|---|---|---|---|---|---|---|
| Human Services | | | | | | |
| Social Services | $2,324.8 | $2,338.7 | $2,355.5 | $16.8 | 0.7% | 0.9% |
| Mental Health | 863.9 | 873.2 | 915.5 | 42.3 | 4.8 | 6.4 |
| Public Health | 135.7 | 137.4 | 143.3 | 5.9 | 4.3 | 3.5 |
| Education | | | | | | |
| State Universities | | | | | | |
| —Operations | 1,052.2 | 1,106.5 | 1,161.8 | 55.3 | 5.0 | 5.0 |
| —Financial Aid | 90.6 | 89.0 | 93.5 | 4.5 | 5.1 | 5.1 |
| School Aid | 477.3 | 600.0 | 685.7 | 85.7 | 14.3 | 14.3 |
| Community Colleges | 205.4 | 212.5 | 223.1 | 10.6 | 5.0 | 5.0 |
| Education | 42.7 | 51.4 | 54.4 | 3.0 | 5.8 | 5.9 |
| Retirement | 0.0 | 12.5 | 14.3 | 1.8 | 14.4 | 14.4 |
| Library of Michigan | 25.5 | 26.1 | 26.1 | 0.0 | 0.0 | 0.0 |
| Safety and Defense | | | | | | |
| Corrections | 657.8 | 713.9 | 770.3 | 56.4 | 7.9 | 9.5 |
| State Police | 166.9 | 185.3 | 197.6 | 12.3 | 6.6 | 7.1 |
| Military Affairs | 11.8 | 12.2 | 15.8 | 3.6 | 29.5 | 18.1 |
| Regulatory | | | | | | |
| Commerce | 98.0 | 104.7 | 106.4 | 1.7 | 1.6 | 5.2 |
| Labor | 79.1 | 79.0 | 83.0 | 4.0 | 5.1 | 3.3 |
| Licensing and Regulation | 12.9 | 11.8 | 11.9 | 0.1 | 0.8 | 4.0 |
| Natural Resources and Recreation | | | | | | |
| Natural Resources | 138.7 | 112.3 | 117.7 | 5.4 | 4.8 | 4.5 |
| Agriculture | 27.4 | 30.7 | 33.2 | 2.5 | 8.1 | 7.0 |
| General Government | | | | | | |
| Management and Budget | 97.2 | 70.6 | 79.0 | 8.4 | 11.9 | 1.3 |
| Legislature | 76.0 | 80.2 | 80.2 | 0.0 | 0.0 | 0.0 |
| Judiciary | 105.9 | 107.5 | 111.4 | 3.9 | 3.6 | 3.6 |
| Treasury | 65.1 | 41.7 | 39.1 | –2.6 | –6.2 | 2.0 |
| Attorney General | 22.6 | 23.1 | 24.4 | 1.3 | 5.6 | 5.6 |
| State | 16.9 | 17.0 | 18.5 | 1.5 | 8.8 | 8.8 |
| Civil Service | 13.8 | 14.2 | 15.3 | 1.1 | 7.7 | 7.7 |
| Civil Rights | 10.7 | 10.7 | 11.0 | 0.3 | 2.8 | 2.8 |
| Executive Office | 3.7 | 4.1 | 4.1 | 0.0 | 0.0 | 0.0 |
| Other | | | | | | |
| Capital Outlay | 200.7 | 253.0 | 203.0 | –50.0 | –19.8 | –19.8 |
| Debt Service | 24.8 | 27.9 | 28.1 | 0.2 | 0.7 | 7.0 |
| Total | $7,048.1 | $7,347.2 | $7,623.2 | $276.0 | 3.8% | 4.2% |

SOURCE: *State of Michigan Executive Budget, 1990–91 Fiscal Year*. Calculations by Public Sector Consultants, Inc.

[a]Includes supplementals of: Social Services, $114.3 million; Corrections, $46.3 million; Mental Health, $17 million; State Police, $6.5 million; and Public Health, $5.9 million.
[b]See Exhibit 2 for a list of interdepartmental transfers and financing shifts.

**EXHIBIT 4**

**Economic Assumptions, FY 1990–91 Budget**

| | CY 1989 (actual) | CY 1990 (estimate) | CY 1991 (estimate) |
|---|---|---|---|
| United States | | | |
| GNP (% change from previous year) | 2.9% | 2.1% | 2.3% |
| Passenger car sales (millions of units) | 9.9 | 9.6 | 9.9 |
| Import share | 28.0% | 28.0% | 28.2% |
| Federal budget deficit (billions)[a] | –$152.0[b] | –$141.4 | –125.5 |
| Michigan | | | |
| Motor vehicle production (millions of units) | 3.3 | 2.9 | 3.0 |
| Wage and salary employment (% change from previous year) | 1.7% | 0.4% | 1.5% |
| Unemployment rate | 7.1% | 8.3% | 8.5% |
| Real personal income in 1982–84 dollars (% change from previous year) | 1.0% | 1.5% | 2.3% |
| Detroit CPI (1982–84=100) (% change from previous year) | 5.3% | 3.6% | 4.3% |

CY=calendar year
[a]National Income and Product Account basis for fiscal year.
[b]Congressional Budget Office estimate.

Exhibit 6 shows the origins of state own-source revenue (which excludes federal aid and local and private revenue sources). This is the most meaningful way to look at the state budget, because it includes revenue earmarked for the school aid fund, transportation, and revenue sharing but excludes federal aid, which is largely outside the influence of the governor and the legislature. About 72 percent of state revenue is generated by just four of the state's taxes—individual income, single business, sales, and use. (Federal aid is the state's largest revenue source—contributing an estimated $4.3 billion.)

Exhibit 7 shows the governor's recommended distribution of state own-source revenue among state program areas for FY 1990–91. Education, social services, transportation, health, and local revenue sharing account for 80 cents of every budget dollar.

## FY 1990–91 SPENDING POLICIES

The following section details the budget recommendations for most departments and programs. For comparison purposes, exhibits 8 and 9 show the percentage growth in selected departments and programs from FY 1983–84 to FY 1990–91 for both GF/GP spending and spending from state revenue sources. Capital outlay and corrections spending increased at well above average rates, and debt service and social services at well below average rates. Spending on education also increased faster than spending for all programs.

### Social Services and Health

The governor has recommended a GF/GP allocation for the **Department of Social Services** (DSS) of $2,355.5 million for FY 1990–91, an increase of $16.7 million, or 0.7 percent, from FY 1989–90 appropriations. Recommended funding from all sources totals $4,853.6 million, an increase of $61.5 million, or 1.3 percent, from last year's total appropriation level; a $45.7 million increase in federal dollars accounts for a majority of the gain. The rate of increase in GF/GP spending is contingent upon $115.7 million in supplemental appropriations and $58.5 million in savings (resulting from a 2.5 percent, across-the-board cut) for the FY 1989–90 budget.

Total GF/GP reductions in the FY 1990–91 DSS budget amount to $129.6 million ($124 million in program cuts and efficiencies and $5.7 million in interdepartmental transfers), while spending increases total $146.4 million ($131 million from program expansions, $1.3 million in financing shifts, $11.3 million in economic increases, and $2.8 million in technical adjustments).

Reductions include savings of $38.2 million in Medicaid cost containment initiatives, $7.5 million from previously legislated base adjustments for foster care, and the elimination of the $21.1 million contingency fund appropriated in the FY 1990 budget (to fund shortfalls within the department). Cost containment measures include capping Medicaid payments to hospi-

**EXHIBIT 5**

**Tax Policy and Other Changes Affecting FY 1990–91 GP-GP Budget**
**(dollars in millions)**

| **Income Tax** | **FY 1989 Effect** | **FY 1990 Effect** | **FY 1991 Effect** |
|---|---|---|---|
| Higher personal exemption, partial exemption for working dependents, and other changes[a] | –$127.3 | –$172.2 | –$180.1 |
| Senior citizens prescription drug credit | 0 | –19.5 | –19.5 |
| Farmland tax credit adjustment | NA | NA | NA |
| **Single Business Tax** | | | |
| Alternative profits tax for small business | –7.0 | –8.0 | –8.0 |
| **Use Tax** | | | |
| Tax on construction contracts | 2.0 | 20.0[b] | 20.0[b] |
| **Intangibles Tax** | | | |
| Prefential treatment for "Chapter S" corporations (P.A. 465 of 1988) | 0 | NA | NA |
| One-time windfall | 15.0 | 0 | 0 |
| **Liquor Purchase Revolving Fund** | | | |
| Modernize liquor distribution system | 0 | 19.0 | 0 |
| **Nontax Revenue** | | | |
| Medicaid accounts receivable | 17.7 | 0 | 0 |
| TOTAL | –$99.6 | –$160.7 | –$187.1 |

SOURCE: Calculated by Public Sector Consultants from data in *The State of Michigan Executive Budget, 1990–91, Fiscal Year.*

NA=not available
[a]The personal income tax exemption is $2,000 for 1989, and $2,100 for 1990 and subsequent years.
[b]This is the official DMB estimate, but it is likely overstated.

tals that are currently based on indigent patient populations (saving $7.8 million GF/GP) and on capital expenditures (saving $4.2 million GF/GP), saving $4.6 million in GF/GP monies by requiring hospitals to bid competitively for the right to serve Medicaid patients (currently all hospitals may do so), and a $4.6 million cut resulting from deferral of a previously mandated fee increase for physicians.

Increases in GF/GP appropriations include $18.9 million for the aid to families with dependent children (AFDC) program, for an estimated 6,800 gross caseload increase,[1] $12.7 million for a 4,800 general assistance (GA) caseload increase, $13.1 million to initiate the Healthy Start program, and $40.1 million for other increased expenses within the Medicaid budget (including the costs associated with the repeal of the Medicaid Catastrophic Coverage Act, other federally mandated programs, and inflationary increases).

The recommended GF/GP appropriation to the **Department of Mental Health** (DMH) is $915.5 million, an increase of $42.3 million (4.8 percent) from FY 1989–90. After financing shifts, recommended GF/GP spending is 6.4 percent above last year's level and includes $72.2 million in program increases, $29.8 million in program reductions, and $14 million in economic increases. DMH spending from all sources totals $1,300.8 million, a 5.3 percent rise from the FY 1989–90 level.

Recommended increases in gross GF/GP appropriations include a $27.4 million base adjustment for community mental health programs, $23.2 million for the state to comply with federal nursing home requirements, $17.8 million for cost adjustments to the community residential services for the developmentally disabled in the community inpatient/residential alternatives budget, and a $4.1 million increase in salary base adjustments at the state psychiatric hospitals for men-

[1]Within AFDC, there is also a projected 200 caseload increase due to the repeal of Medicaid funded abortions and a 1,270 caseload decline due to a decrease in GA families, for a net caseload increase of 5,730.

**EXHIBIT 6**

**FY 1990–91 Budget Funding: From State Sources**

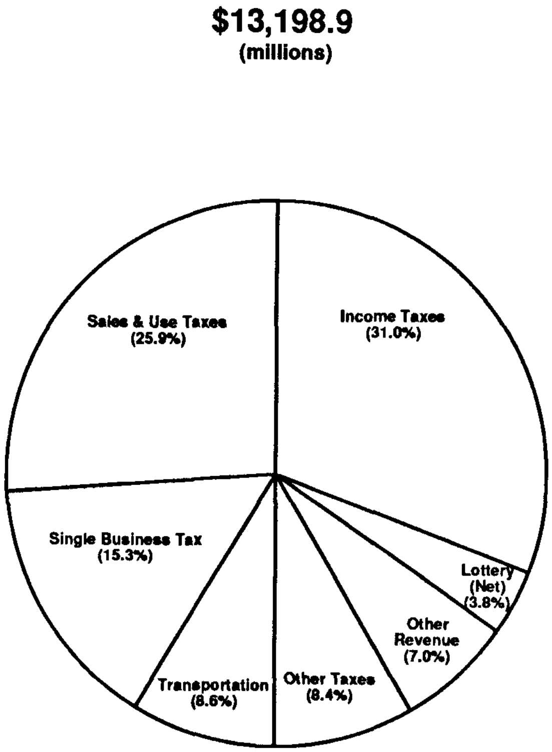
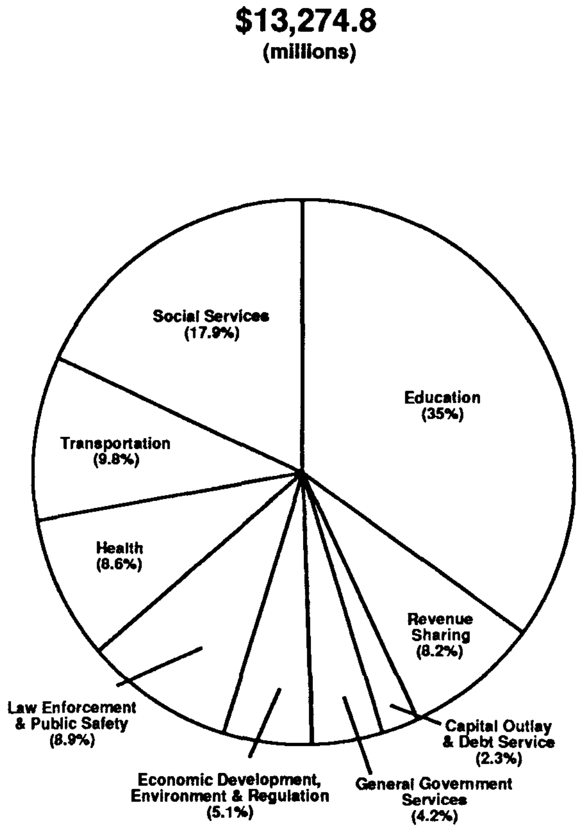



**EXHIBIT 7**

**FY 1990–91 Budget Allocations: From State Revenue Sources**



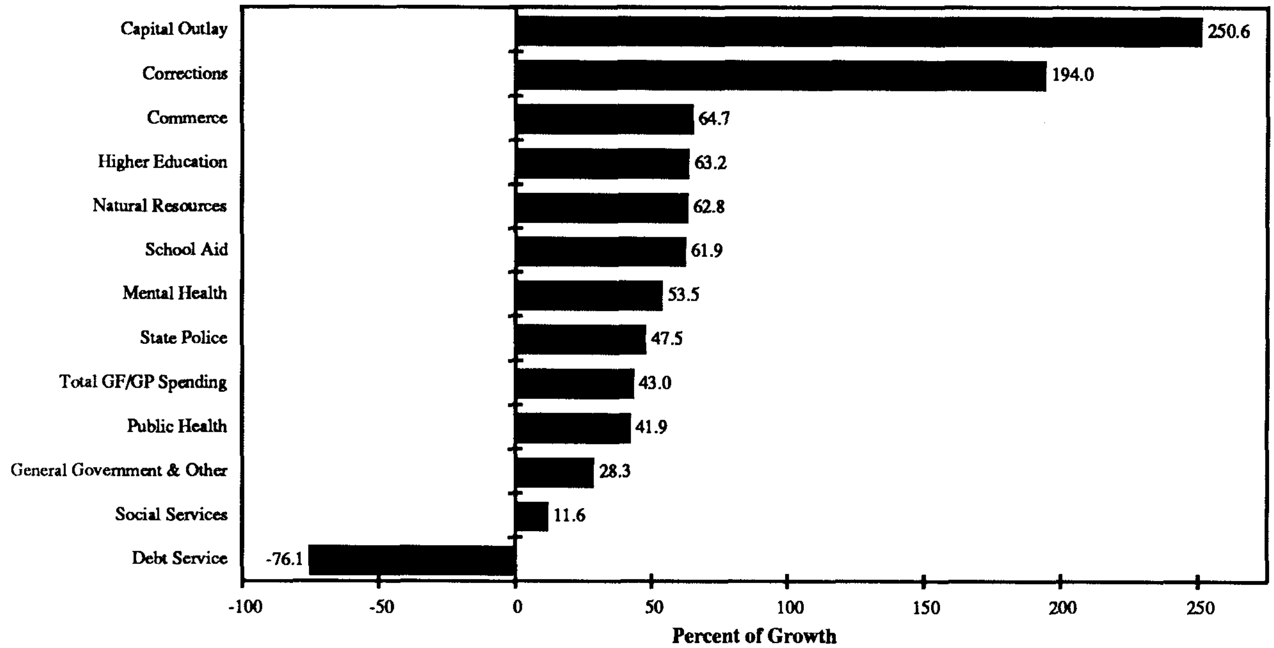

tally impaired adults. Recommended decreases in GF/GP appropriations include $12.2 million from projected net population declines at the state centers for the developmentally disabled (of which $10.7 million is from projected patient reductions at the Oakdale facility), $4.2 million in net funding to special projects (including $1.1 million for the elimination of the dental program for the developmentally disabled), $4.3 million from the institutional services budget (which includes savings of $3.6 million from the closure of the Oakdale facility), and $2.9 million from community mental health programs.

Recommended appropriations to the **Department of Public Health** (DPH) total $143.3 million in GF/GP funds and $403.5 million from all sources. This is a $5.9 million (4.3 percent) increase in GF/GP funding and a $17.2 million (4.4 percent) rise in total appropriations from FY 1989–90 levels. Federal funding is expected to increase by $10.8 million, or 5.5 percent. After financing shifts are considered, the GF/GP funding level is 5.2 percent higher than the previous year's appropriation and includes $5 million in program expansions, $2.1 million in economic increases, and $2.2 million in program reductions and savings.

Increases recommended in GF/GP spending include $1.7 million (32 FTE positions) to fund the 50-bed addition to the J.D. Jacobetti Veteran's Facility slated to open during FY 1991 and $1.2 million for grants and education in the Breast Cancer Mortality Reduction program. Another recommended increase ($1.4 million total, $1.0 million GF/GP, and 22 FTE positions) would fund a Nuclear Regulatory Commission (NRC) Full Agreement, which would shift regulatory authority (including inspection and enforcement powers) over the use and disposal of low-level radioactive waste as well as waste generated by such entities as hospitals and physicians from the NRC to Michigan. Increases in recommended federal expenditures include $7.6 million

**EXHIBIT 8**

**Growth in General Fund/General Purpose Expenditures, Selected Programs, FY 1983–84 to FY 1990–91**




SOURCE: Calculated by Public Sector Consultants from data in *State of Michigan Executive Budget, 1990 Fiscal Year* and Senate Fiscal Agency, *1984 Statistical Report.*

in substance abuse grants that include a $4.5 million appropriation for prevention and treatment programs for crack/cocaine and intravenous drug users. Reductions include a $2.2 million net decline in the Michigan health initiatives line item to reflect available financing and a $1 million decline in funds from state/local cost sharing agreements within the community service grants line item.

## Education

Education is the number one priority in the budget, with about two-thirds of all new money, $218.7 million, allocated to this area (refer to Exhibit 1). As was the case last year, the budget includes a number of new programs, most designed to improve the quality of K–12 education.

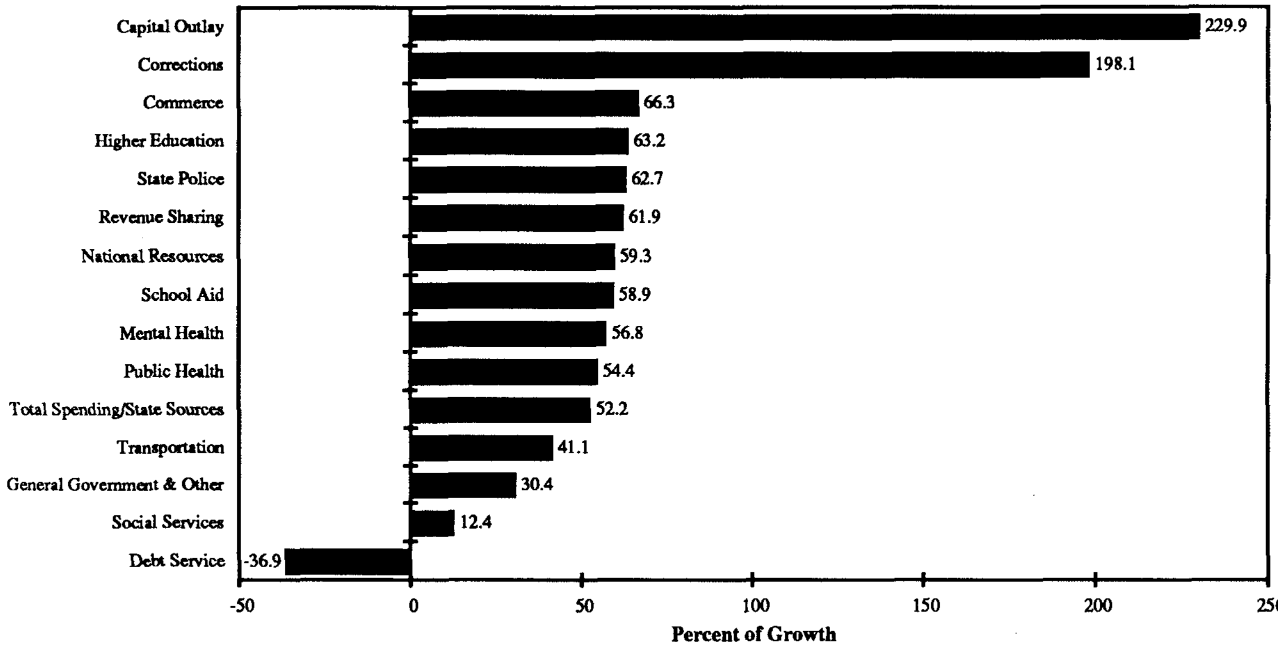
The GF/GP recommendation for **school aid** is $700 million, $85.7 million above projected spending for FY 1989–90. The budget also includes $14.3 million for retirement, $1.8 million more than is allocated in the current year. Total school aid, including restricted revenue (sales tax and lottery revenue, for example) is recommended at $3,139 million (including $392 million for school employees retirement), 4.9 percent above the projected FY 1989–90 level. Expenditures per pupil also will increase 4.9 percent, as enrollments are expected to remain unchanged. The basic membership formula recommends a gross allocation per pupil of $310 plus $88.55 per operating mill.[2] (The current year formula is $310 plus $83.66.) As was the case last year, the formula includes $44 per pupil in incentives for offering a minimum curriculum, graduation requirements, and class size reductions. The average district (levying 34 mills) will receive $3,320 per pupil in state aid, a 5.3 percent increase.

The budget provides funding for one new program and expansion of several others. Of particular interest is a program to limit increases in school property taxes. The governor has recommended $39.5 million to reimburse schools for the first-year cost of limiting increases in residential property assessments to no more than the rate of inflation. (This will be discussed in more detail the Comment section.) The low-income categorical, which provides aid to school districts with average adjusted gross income per pupil of less than 75 percent of the state average, is increased by $10 million, to $27

[2]A school district levying 32 mills would be out of formula (receive no membership aid) if the district's state equalized valuation (SEV) per pupil exceeded $98,238.

**EXHIBIT 9**

**Growth in State Spending from State Sources, Selected Programs, FY 1983–84 to FY 1990–91**




SOURCE: Calculated by Public Sector Consultants from data in *State of Michigan Executive Budget, 1990 Fiscal Year* and Senate Fiscal Agency, *1984 Statistical Report.*

million. The recommended appropriation for the preschool readiness program is increased by $7.6 million, to $24.8 million, and the intermediate school district special education membership program is increased by $6.4 million, to $50.9 million. The largest increase is $48.3 million for school employees retirement, a 14.1 percent increase. About one-half of this increase is related to the rising costs of health benefits.

To help fund the proposed increases in the school aid budget, the categorical recapture for the wealthiest out-of-formula districts is increased by $22.4 million to $45 million, and payments to school districts in municipalities with high taxes are reduced by $5 million. One additional recommendation is the creation of a modified block grant program, which will give districts the flexibility to shift resources among programs.

The GF/GP appropriation for the **Department of Education** is recommended at $54.4 million, $3 million, or 5.8 percent, above the projected spending level for the current fiscal year. The total budget is up $36.6 million to $617.4 million, due mainly to a $33 million increase in federal aid. The governor is recommending $5.7 million in program increases and $3.6 million in reductions. The largest increases are $1.9 million for early childhood development programs; $.75 million for vocational rehabilitation; $.75 million for schools of choice challenge grants, to encourage creation of distinctive schools; $0.5 million to expand the school accreditation program; and $.45 million for an employability skills test (to determine if tenth graders have skills needed by employers).

The major budget reductions are $2.1 million from elimination of foreign language challenge grants, reflecting a recommendation that foreign language training be included in core curriculum requirements, and $0.9 million from elimination of the Metropolitan Detroit Youth Foundation suspended student program.

The FY 1990–91 GF/GP budget recommendation for **four-year universities** operations is $1,161.8 million, 5 percent higher than projected expenditures for FY 1989–90. This increase is relatively generous compared to recent years and to other programs but well below the average annual spending increase of 7.8 percent from FY 1982–83 to FY 1989–90. The largest dollar increases are $12 million for the University of Michigan and $10.2 million for Michigan State University. MSU also received a $2.9 million increase for the Agricultural Experiment Station and the Cooperative Extension Service. Percentage increases ranged from 6.6 percent at Saginaw Valley and 5.8 percent at the University of Michigan-Dearborn to 4.6 percent at Michigan Tech. Also included in the budget is $2.8 million to open new buildings.

The recommended appropriation for **financial aid** is $93.5 million, a 5 percent increase above the projected current-year level. These aid programs assisted about 67,000 students in FY 1989–90, an increase of 111 percent since FY 1982–83.

The governor also recommended a 5 percent increase for **community colleges**, to $223.1 million. Each community college is guaranteed a 2 percent increase above the FY 1989–90 level, with the remaining funds distributed on a formula basis (the fairness in funding formula). The increases range from 9.1 percent at Bay de Noc and 8.7 percent at Kalamazoo Valley to 2 percent at five colleges including Jackson and Wayne County. (When their tax credit is included, Wayne County received a 2.9 percent increase.) Lansing Community College received the largest dollar increase, $1.6 million—an 8.1 percent increase.

### Safety and Defense

The recommended FY 1990–91 appropriation for the **Department of Corrections** is $770.3 million, a 7.9 percent increase; adjusted for financing shifts, the increase is 9.5 percent. In the past seven years the Corrections budget has jumped 194 percent, the largest increase for any major program area except capital outlay (refer to Exhibit 8.) This rapid growth may soon end, however, as the governor has announced that no new prisons will be built after those under construction are completed next year, and that alternatives to incarceration will be sought. Prison capacity will reach about 31,000 by the end of FY 1990–91, and the governor has stated that the goal is to ensure that the 31,000 most dangerous criminals are safely off the streets.

The Corrections budget includes $95 million in economic and program increases and $32.9 million in program reductions and efficiencies. Also included is $11.4 million in new revenue that will reduce the general fund contribution. Program expansions include $41.7 million to fund prisons and camps opening in FY 1989–90 and about $31 million to develop alternatives to prison incarceration. These alternatives include: $10.3 million for a state/local partnership program to assist counties to construct minimum security correctional facilities; $8.3 million for more staff to handle rising probation/parole workloads; $6 million to expand boot camps to 720 beds by end of FY 1990–91 (annual capacity will be 2,160 beds due to a 120-day limit on sentences); $8.6 million for the Office of Community Corrections, including $5.8 million in grants for community based programs; and $0.5 million for expansion of the electronic tether program. Major program reductions include: $25.6 million to reflect the effect of alternative incarceration programs on overcrowding; $3.8 from elimination of vocational education programs; and $2.9 million from elimination of the community college program.

The GF/GP appropriation for the **Department of State Police** is recommended at $197.6 million, $12.3 million, or 6.6 percent, above projected spending for the current fiscal year. The budget includes $4.8 million in economic increases and $5.5 million in program increases, with $2.1 million going to bolster trooper strength to 1,265 positions (the highest level in a decade), $2 million to fund 16 positions for the Metro North/Metro South expressway patrol, and $0.6 million for antidrug programs. The budget is reduced by a $.85 million shift in funding from GF/GP monies to grants from other departments for the traffic safety records program.

The budget recommends a 29.5 percent increase for the **Department of Military Affairs**, the largest for any department, to $15.8 million. However, included is the $1.4 million transfer of the military retirement program from the Department of Management and Budget; adjusted for this transfer the increase is 18.1 percent (refer to Exhibit 2). The budget includes $1.75 million in new money to fund the demolition of drug houses by National Guard troops.

### Natural Resources and Recreation

The FY 1990–91 recommended appropriation to the **Department of Natural Resources** is $293.8 million, of which $117.7 million is in GF/GP funds. This represents an increase of $23.7 million (8.8 percent) in funding from all sources, and a $5.4 million (4.8 percent) rise in GF/GP expenditures over FY 1989–90 appropriations. Improvements include $7.8 million in new program initiatives for natural resources, water quality, and waste management (to be paid for from yet-to-be-legislated fee increases), $1.5 million (from bond proceeds) for various treatment and reforestation projects aimed at increasing timber output on currently forested acreage, $1.3 million (from state restricted funds) for cost increases and to complete current projects and extend service at state parks, and $1 million (GF/GP) for the Youth Environmental Services program. Reductions include $1.9 million (GF/GP) for one-time grants for land and water conservation projects and $1.4 million (25.5 FTE positions) to reflect a decline in federal funding to the surface water quality program.

The **Department of Agriculture** is recommended to receive a GF/GP appropriation of $33.2 million ($62 million from all sources), $2.6 million (8.3 percent) above the FY 1989–90 appropriation level. Recommended expenditure increases include $1.9 million for the food safety program (currently funded with monies carried forward from FY 1988–89). Recommended decreases are $0.6 million for food and consumer protection (now to be funded by increased licensing fees) and $0.4 million in pesticide plant management (for reductions within the Apiary program and one-time program and equipment purchases). Also included in the budget is the transfer of $1.2 million agriculture promotion funds from the Department of Commerce.

**Regulatory**

The FY 1990–91 GF/GP appropriation for the **Department of Commerce** is recommended at $106.4 million, $1.8 million above projected spending for the current year. Adjusted for the transfer of several programs, including the Senior Citizens' Cooperative Housing Tax Exemption program ($9.2 million) to the Department of Management and Budget and the Neighborhood Corps from the Department of Social Services, the appropriation is $4.2 million, or 3.9 percent, above the FY 1989–90 level. The total budget is recommended to increase $13.5 million to $326 million, due primarily to an $11 million increase in federal aid, mainly for rent subsidies administered by the Michigan State Housing Development Authority.

Major program improvements in the department budget include $3 million for the Rural Renaissance Fund, $2.5 million for the Michigan promotion program to expand travel advertising, $2 million to create the Child Care Partnership program to build business support for child care in the workplace, $1 million for industrial alliance grants to trade associations for assistance in helping their members compete in world markets, $1 million to expand state support for housing for the homeless, and $1.3 million to support foreign trade efforts, including locating Canadian trade offices in Detroit, Port Huron, and Sault Ste. Marie, expanding efforts in Taiwan and Bonn, and establishing a community export alliance program to help make local communities more aware of trade opportunities.

Major budget reductions include elimination of a $2.6 million grant to Detroit for the moderate and low income housing program, a $2.3 million reduction in a grant for the Grand Rapids Public Museum, and $2.2 million in other program reductions.

The recommended FY 1990–91 GF/GP budget appropriation for the **Department of Labor** is $83 million, $4 million, or 5 percent, above projected spending for the current year. The total budget is recommended to decline $45 million to $423.5 million, due mainly to reductions in the Michigan Employment Security Commission budget for one-time costs authorized by Public Act 240 of 1989.

The Labor budget includes program increases of $2.5 million for the Michigan Youth Corps to meet new federal minimum wage requirements and $3.8 million in job training grants to support Chrysler job training requirements. Major reductions include $1.8 million in job training grants and $0.8 million as result of elimination of the Workers' Compensation Appeal Board as of June 30, 1991.

**General Government**

This category includes six departments, plus the judiciary, the executive office, and the legislature. The recommended GF/GP appropriation for FY 1990–91 is $382.8 million, 3.7 percent above projected spending for FY 1989–90. Adjusted for program transfers and financing shifts, the increase is only 2.5 percent.

The largest recommended increase is 11.9 percent for the **Department of Management and Budget (DMB)**. Most of this increase, however, is due to the recommended transfer of the $9.2 million Senior Citizens' Cooperative Housing Tax Exemption program from the Department of Commerce. Adjusting for this and another small transfer and financing shifts, the increase is only 1.3 percent. The total recommended budget is $1,338.7 million, $145.2 million above the projected level for the current year. This large increase is the result of an estimated $64.8 million in revenue sharing grants (from growth in restricted taxes) and $47 million for grants and administrative support to implement the Underground Storage Tank Financial Assurance program (P.A. 518 of 1988); financing comes, in part, from fees on underground storage tanks.

The major GF/GP program increase is $2.7 million for property management costs, including costs associated with opening the Olds Plaza building (scheduled for FY 1990–91). The major budget reductions are elimination of $4 million of special census revenue-sharing payments (which will not be required until mid-1990s) and $1.1 million in one-time grants.

The recommended GF/GP appropriation for the **Department of Treasury** is $39.1 million (excluding debt service), $2.6 million below the projected FY 1989–90 level. This decline is due to shifting $3.4 million for auditors from GF/GP to restricted funding.

The FY 1990–91 appropriation for the **judiciary** is recommended at $11.4 million, $3.8 million above the projected spending level for FY 1989–90. The budget includes $1.9 million for increased judges salaries, and $1.3 million in economic increases. The total budget also includes a $1.2 million increase in federal funds to help courts handle drug cases.

The recommended appropriation of $18.5 million for the **Department of State** includes third largest adjusted increase for any department, 8.8 percent. The major increases are $0.6 million for economic increases, $0.3 million for continued phase-in of the statewide voter registration program, and $0.3 million for the traffic accident records program. The budget is reduced $0.4 million by cutting historical site preservation grants.

### Other

The **Department of Transportation** is funded by restricted revenues, mainly gas and weight taxes and federal revenues. The budget recommends appropriations of $1,622 million, 2.3 percent above the projected spending level for the current year, and includes $3.6 million in program improvements and $5.7 million in economic increases.

The recommended **capital outlay** appropriation of $203 million is $50 million below the projected spending level for FY 1989–90 but up slightly from the FY 1988–89 level due to the large increase in spending in the current year. The budget includes $164.7 million for State Building Authority (SBA) rent and a $25 million increase that will be used for higher insurance costs, new correctional facilities, and initial payments for previously authorized projects. The budget also includes $33 million for lump-sum projects, mainly for special maintenance, remodeling, and planning; of this amount $2.2 million is allocated to community colleges and $16.4 million to universities. Also included is $17.9 million for SBA construction project costs not covered by bonds and $12.4 million to complete and continue construction on projects for state agencies, community colleges, and universities. The budget also recommends a $25 million reduction, which represents an adjustment of unspent balances appropriated for capital purposes, in effect the return to the general fund of monies that will be available to finance future capital outlay projects.

The recommended GF/GP appropriation for **debt service** is $28.1 million, $0.2 million more than the FY 1989–90 appropriation. Included in the budget are an additional $4 million for debt service requirements for Quality of Life bonds and $2 million for education technology bonds to buy computers for classrooms. Offsetting this increase is a $5 million reduction due to elimination of debt service requirements for Vietnam veterans bonds.

The budget assumes that no pay-in or withdrawal from the **Budget Stabilization Fund** will be required in FY 1990–91. However, the FY 1989–90 budget includes a $68.9 million payment from the BSF to cover the school aid costs of millage increases in Detroit and Lansing. The balance in the BSF at the end of FY 1990–91 is estimated at $422.6 million.

**General revenue sharing** grants to local units (from sales, income, single business, and intangibles taxes) are estimated at $1,086.2 million for FY 1990–91, a 4.2 percent increase. The budget includes no other significant increases in support for general purpose local government. Article IX, section 30 of the Michigan Constitution requires that 41.6 percent of state spending (excluding federal aid) be allocated to local governments. The FY 1990–91 budget returns an estimated 43.6 percent, about $343 million more than required. (The budget document overstates this percentage by including Social Security payments to school districts, which previously have not been included. It is interesting, however, that these payments may be eligible to be included as local payments, as they are now made directly to school districts, whereas previously they were made to the Social Security Administration.) This excess may be needed, as the Michigan Court of Appeals has ruled that it is unconstitutional to count payments to county mental health boards as local spending; these payments amounted to about $450 million in FY 1990–91. The ruling is being appealed.

Article IX, section 26 of the state constitution restricts the amount of revenue the state may collect in any fiscal year to 9.44 percent of Michigan personal income. The limit for FY 1990–91 is estimated at $15.3 billion (9.44 percent of 1989 Michigan personal income). Total state revenue (less federal aid and general obligation debt plus specified tax credits) is projected to fall about $1.9 billion below the limit.

## COMMENT

Tight budgets are becoming a way of life in Michigan, despite seven consecutive years of good economic growth, because of the governor's and the legislature's unwillingness or inability to match spending expectations with revenue reality. Each year the governor recommends a constrained budget, and then $200–300 million in supplementals are added to reflect real spending requirements. The pattern continues, but with one difference—revenues have not been underestimated this year, and real cuts will be required to cover the additional spending. The governor recommended a GF/GP budget increase of 3.8 percent; however, if expected supplementals (including the BSF contribution to the school aid fund) are added to the FY 1989–90 base, the increase is only 1.7 percent. In addition, the 4 percent pay raise for state employees is not included in the budget, which will require about $75 million in reductions, through attrition or other measures.

Another way to illustrate the tightness of the budget is to compare the FY 1990–91 recommendations with the continuation budget estimates prepared by the Senate Fiscal Agency. Exhibit 10 indicates that the FY 1990–91 budget is about $539 million short of maintaining the status quo, taking into account inflation, increased federal mandates, higher caseloads, and current budget policies. The budget shortfalls include: $123.1

**EXHIBIT 10**

**Comparison of FY 1990–91 GF/GP Budget Recommendations with Senate Fiscal Agency Continuation Budget, FY 1990–91**

| Program or Department | FY 1990–91 Recommendation | Senate Fiscal Agency Continuation Budget, FY 1990–91 | Budget Recommendation Adjusted for Financing Shifts and Program Transfers | Excess or Shortfall (–) |
|---|---|---|---|---|
| Human Services | | | | |
| Social Services | $2,355.5 | $2,482.7 | $2,359.6 | –$123.1 |
| Mental Health | 915.5 | 1,029.2 | 929.3 | –99.9 |
| Public Health | 143.3 | 159.9 | 144.4 | –15.5 |
| Education | | | | |
| State Universities | 1,259.5 | 1,259.1 | 1,161.8 | –0.4 |
| —Operations | 1,161.8 | — | — | — |
| —Financial Aid | 97.7 | — | — | — |
| School Aid | 700.0 | 763.2 | 700.0 | –63.2 |
| Community Colleges | 223.1 | 223.8 | 223.1 | –0.7 |
| Education | 54.4 | 56.9 | 54.5 | –2.4 |
| Library of Michigan | 26.1 | 28.1 | 26.1 | –2.0 |
| Safety and Defense | | | | |
| Corrections | 770.3 | 874.7 | 781.7 | –93.0 |
| State Police | 197.6 | 201.5 | 198.4 | 0.8 |
| Military Affairs | 15.8 | 13.1 | 14.4 | 1.3 |
| Regulatory | | | | |
| Commerce | 106.4 | 109.5 | 110.1 | 0.6 |
| Labor | 83.0 | 84.8 | 82.8 | –2.0 |
| Licensing and Regulation | 11.9 | 12.7 | 12.2 | –0.5 |
| Natural Resources and Recreation | | | | |
| Natural Resources | 117.7 | 124.4 | 117.3 | –7.1 |
| Agriculture | 33.2 | 33.2 | 32.8 | –0.4 |
| General Government | | | | |
| Management and Budget | 79.0 | 77.9 | 71.6 | –6.3 |
| Legislature | 80.2 | 86.6 | 80.2 | –6.4 |
| Judiciary | 111.4 | 119.1 | 111.4 | –7.7 |
| Treasury | 39.1 | 45.0 | 42.5 | –2.5 |
| Attorney General | 24.4 | 25.0 | 24.4 | –0.6 |
| State | 18.5 | 18.4 | 18.5 | 0.1 |
| Civil Service | 15.3 | 15.3 | 15.3 | 0.0 |
| Civil Rights | 11.0 | 11.7 | 11.0 | –0.7 |
| Executive Office | 4.1 | 4.4 | 4.1 | –0.3 |
| Other | | | | |
| Capital Outlay | 203.0 | 269.8 | 203.0 | –66.5 |
| Debt Service | 28.0 | 32.5 | 28.0 | –4.5 |
| TOTAL | $7,623.1 | $8,162.4 | $7,652.1 | –$539.3 |

SOURCES: Calculated by Public Sector Consultants from data in *The State of Michigan Executive Budget, 1990–91 Fiscal Year* and Senate Fiscal Agency, *Baseline Budget Estimates, FY 1990–91 and FY 1991–92*, February 1990.

million in Social Services, $99.9 million in Mental Health, and $93 million in Corrections. The large shortfall in school aid ($63.3 million) occurs because the FY 1989–90 base was increased by $64 million to reflect the cost of increased millages in Detroit and Lansing, although this cost will be funded from the Budget Stabilization Fund. The total projected shortfall jumped from $293 million in FY 1989–90 because of the need for about $200 million in supplementals in FY 1989–90 and because spending continues to outstrip revenue growth.

The budget is tight, but it still includes $443 million in program increases (up from $288 million in FY 1989–90) and $61 million in economic increases. To pay for these the budget proposes $218 million in reductions and $32 million in financing shifts. Some of these reductions will be difficult to achieve, such as $38.2 million from Medicaid cost containment, $22 million from increasing categorical recapture from out-of-formula school districts, and $25 million from reduced overcrowding in prisons.

Much of the new money in the budget is required to pay for federal mandates (such as nursing home requirements), replace federal aid cuts, implement policies in place (such as funds to run new prisons), and offset higher costs. There are, however, several new programs in the budget that are particularly noteworthy. These include:

- About $32 million to develop alternatives to prison incarceration, which should result in substantial future cost savings
- $13 million for Healthy Start, a program to provide health insurance for children in modest income families that do not qualify for Medicaid
- About $12 million to promote quality in K–12 education
- $2 million to build business support for child care in the workplace
- $1 million to expand state support for shelter for the homeless

The budget also provides relatively generous increases in funding for mental health and education—areas of high priority. The increase for K–12 education is not as generous as it appears, however, as $40 million is allocated to property tax relief and about $48 million goes for higher school employees retirement costs. Funding for the membership formula is only 2.7 percent above the current fiscal year formula.

We would have preferred that the money earmarked for property tax relief be used to sweeten the membership formula. The governor's plan will provide relief if a homeowner's assessment or statewide residential SEV, whichever is greater, increases faster than the rate of inflation. The plan applies to the first $50,000 of SEV, and the credit is phased out at incomes from $73,650 to $83,650 (the same income limit that applies to the current homestead property tax credit).

Our view is that the property tax relief plan is complex, redundant, and insufficient to make much difference. First, much of the relief will go to taxpayers in affluent districts in places like Oakland County where residential values are rising rapidly, while those in cities such as Detroit, Flint, and Lansing where millage rates are high likely will receive a smaller benefit. Also, the benefit will be larger for persons in higher value homes. For example, if inflation goes up 4 percent and residential property assessments rise 7 percent a person in a home assessed at $25,000 will receive $30 in relief and a person in a home assessed at $50,000 will receive $60.

Second, the constitution already contains a provision that requires millage rates to be reduced if assessments rise faster than the rate of inflation. The governor's proposal is more generous, as it applies to residential property only, the value of which has been increasing faster than that of other property; however it is not clear how the two programs will work together.

Third, for many taxpayers the amount of relief will be insignificant, in most cases much less than is provided by the Homestead Property Tax Credit program. The cost of the proposed program is estimated at $40 million gross, and $28 million after subtracting the loss of homestead property tax credits. This is on top of an estimated increase of $123 million for property tax credits from FY 1988–89 to FY 1990–91. We agree that property taxes are overutilized in Michigan, but we would like to see a program that gradually reduces school millage rates over a number of years. Such a program would be simpler, more visible, and provide relief where it is really needed.

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