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Overview and Analysis of the Governor's Recommended Budget for Michigan, Fiscal Year 1992–93

by Robert Kleine and Frances Spring

On the surface Governor Engler's FY 1992–93 budget appears to be a continuation budget, with an ongoing commitment to downsizing state government. For example, the budget recommends reduction of 4,700 positions, although many of these will be cut through attrition and the elimination of unfunded vacancies. The budget, however, does include significant new initiatives in K–12 education and substantial increases in funds for human services, corrections, and state police. These are achieved by reducing capital outlay and providing no increases in the higher education budget and few in general government budgets. Before this spending plan can be considered, however, the governor and the legislature need to reach agreement on a plan to eliminate a potential deficit in the current year budget that we estimate at about $800 million (including $90 million carried over from FY 1990–91).

The general fund/general purpose (GF/GP) recommendation for FY 1992–93 is $7,928 million, a 3.8-percent increase above projected spending for the current fiscal year. This compares with an estimated decline of 1.5 percent in the FY 1991–92 budget. Total spending is recommended at $21,191.3 million, a 3-percent increase.

We characterized last year's budget as an education and tax relief budget. This one is more difficult to categorize. It is to some degree a hold-the-line budget, driven largely by increases in costs for Medicaid, retirement, health care, and new prisons. As shown in Exhibit 1, about 40 percent of the increase in GF/GP and school aid fund expenditures is allocated to education, but little of this is for new programs. The other large allocations are for increases of nearly 25 percent for law enforcement (mainly the Department of Corrections), 17 percent for health (mainly the Department of Mental Health), and 28 percent for social services. Environmental protection (gross expenditures will increase due to proposed fee increases), capital outlay, and debt service (for capital outlay) are recommended for reductions.

As shown in Exhibit 2, the largest GF/GP increases (adjusted for transfers) are: Treasury, 14 percent; school aid, 8.8 percent; Corrections, 8.1 percent; and State Police, 6.1 percent. The largest recommended GF/GP reductions are: capital outlay, -24.1 percent; State, -14.2 percent; Management and Budget, -5.7 percent; Natural Resources, -5.6 percent; and Education, -5 percent. The increase in the Treasury budget is due to a large one-time repayment to the Veterans Trust Fund. The increase in school aid is misleading, as most in-formula districts will end up with a very small net increase over the current fiscal year, and out-of-formula school districts will face as much as a 5-percent reduction.

Every year there are a number of upward and downward adjustments in the budget as well as program transfers and financing shifts. This year is no exception, but there are fewer than in recent years. As shown in Exhibit 3 there are only $18 million in new programs, excluding school aid, an unusually low number. The large increase in school aid is an internal transfer and does not represent new money. Almost all the new

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EXHIBIT 1

Proposed Executive Budget, General Fund/General Purpose and School Aid Fund Budget Changes, FY 1991–92 to FY 1992–93 (dollars in millions)

Program Category	Dollar Change	Percent Change (adjusted)	Percent of Total Increase
Education	$134.3	2.7%	39.9%
Law enforcement[a]	82.8	6.8	24.6
Health[b]	57.2	5.5	17.0
Social Services	95.2	4.4	28.3
Regulatory[c]	3.8	4.2	1.1
General government	2.1	0.9	0.6
Environmental Protection[d]	-5.5	-4.4	-1.6
Capital Outlay and Debt Service	-33.7	-15.4	-10.0
TOTAL	$336.2		100.0%

SOURCE: Calculated by Public Sector Consultants, Inc., from data in the *State of Michigan Executive Budget, 1992–93 Fiscal Year.*

NA = not applicable.

[a]Includes corrections, state police, judiciary, attorney general, and military affiars.
[b]Excludes social services (Medicaid and Medicare).
[c]Includes commerce and labor budgets.
[d]Includes natural resources and agriculture budgets.

money in the budget is for economic increases and increased costs of existing programs (current policy). These increases have been partially offset by program reductions and efficiencies of $277.7 million.

ECONOMIC AND REVENUE ASSUMPTIONS

The FY 1992–93 budget is based on the assumption that a mild economic recovery will begin this summer, due mainly to lower interest rates. Real GNP is projected to increase 1.8 percent in 1992 and 2.7 percent in 1993. Motor vehicle sales are estimated to increase 3.7 percent to 13.2 million units in 1992 and 9.1 percent to 14.4 million units in 1993. Inflation is estimated at only 3.6 percent in 1992 and 1993.

The recovery in Michigan is expected to be slow. Employment is expected to increase only 0.2 percent (10,000 jobs) in 1992, and 1.5 percent in 1993. The unemployment rate is projected to fall from 9.2 percent in 1991 to 9 percent in 1992 and 8.6 percent in 1993. Real Michigan personal income, which declined an estimated 1.3 percent in 1991, is projected to increase 1.4 percent in 1992 and 2 percent in 1993. (These are Department of Treasury estimates.)

The major risk to the forecast is that the recovery will begin later and be weaker than expected. As discussed elsewhere, the budget is based on revenue estimates that we believe are at least $200 million too high for both FY 1991–92 and FY 1992–93. (See Exhibit 4 for a forecast of key economic variables.)

The governor's budget estimates that GF/GP and school aid fund revenues will increase 4.4 percent in FY 1991–92 and 5.7 percent in FY 1992–93. This compares with a 1.1 percent increase in FY 1989–90 and a 1.9 percent decline in FY 1990–91. **Our view is that the FY 1992–93 projected growth rate is reasonable, but that revenues will increase only 2 percent in the current fiscal year.**

EXHIBIT 2

General Fund/General Purpose Executive Budget Summary, FYs 1990–91, 1991–92, and 1992–93 (dollars in millions)

Program/ Department	FY 1990–91 Expenditures	FY 1991–92 Projected Expenditures	FY 1992–93 Budget Recommendations	Dollar Change, from FY 1991–92 (Proj. Exp.)[a]	Percent Change from FY 1991–92 (Adjusted)
Human Services					
Social Services	$2,390.1	$2,140.8	$2,235.5	$94.7	4.4%
Mental Health	888.0	909.7	959.0	49.3	5.4
Public Health	147.5	137.6	146.0	8.4	5.7
Education					
State universities	1,248.6	1,295.6	1,299.0	3.4	0.3
-Operations[b]	1,154.7	1,199.4	1,202.7	3.3	0.3
-Financial aid	93.9	96.2	100.9	4.7	1.7
School aid	929.7	948.7	1,032.6	83.9	8.8
Community colleges	223.2	241.1	238.0	-3.1	0.0
Education	50.3	41.0	38.9	-2.1	-5.1
Safety and Defense					
Corrections	808.1	866.6	937.1	70.5	8.1
State Police	189.5	191.3	203.1	11.8	6.2
Military Affairs	14.4	27.3	27.8	0.5	1.8
Regulatory					
Commerce	97.4	57.5	62.1	4.6	4.2
Labor	42.7	31.0	32.3	1.3	4.2
Natural Resources and Recreation					
Natural Resources	107.9	98.6	93.1	-5.5	-5.6
Agriculture	31.5	27.0	27.0	0.0	0.0
General Government					
Management and Budget	65.7	50.8	47.9	-2.9	-5.7
Legislature	79.0	89.7	89.7	0.0	0.0
Judiciary	108.3	114.7	114.7	0.0	0.0
Treasury	34.8	53.0	60.4	7.4	14.0
Attorney General	22.7	24.0	24.0	0.0	0.0
State	17.1	19.6	15.1	-4.5	-14.2
Civil Service	13.0	12.4	12.3	-0.1	-0.8
Civil Rights	10.6	10.9	11.1	0.2	1.8
Executive Office	3.9	4.3	4.3	0.0	0.0
Library of Michigan	24.6	27.5	27.4	-0.1	-0.4
Other					
Capital outlay	180.9	194.2	147.4	-46.8	-24.1
Debt service	24.8	24.6	37.6	13.0	52.8
TOTAL	$7,754.3	$7,639.4	$7,928.0	$288.6	3.8%

SOURCE: *State of Michigan Executive Budget, 1992–93 Fiscal Year.* Calculations by Public Sector Consultants, Inc.
NOTE: Dollar and percent changes for FY 1992–93 differ slightly from figures in budget document due to rounding.

[a]Adjusted for transfer of $2 million Grand Rapids Museum grant from the Department of State to the Department of Commerce, transfer of EPSDT administration from the Department of Social Services to the Department of Public Health, and transfer of the $3.1 million Tuition Incentive Program from the community colleges to the financial aid budget.
[b]Includes $4 million for restoration of retirement monies vetoed in FY 1991–92 budget.

EXHIBIT 3

Fiscal Adjustments by Department or Program, FY 1992–93 Executive Budget
(dollars in thousands)

Program/Department	Program/Grant Reductions and Efficiencies	Program Transfers	Financing Shifts	Economic Increases	Program Increases: New	Program Increases: Current Policy	Technical and Other Adjusts.	Total Change
Agriculture	-$606	$0	-$902	$1,359	$140	$0	$0	-$9
Attorney General	0	0	0	0	0	0	0	0
Civil Rights	-557	0	0	540	0	202	0	185
Civil Service	-97	0	0	0	0	0	0	-97
Commerce	-636	2,494	-140	867	1,935	0	0	4,520
Corrections	-32,533	0	0	45,460	0	56,235	1,326	70,488
Education	-2,366	0	0	0	1	552	-244	-2,057
Executive	0	0	0	0	0	0	0	0
Higher education	0	0	0	0	0	0	0	
Community colleges	0	-3,100	0	0	0	0	0	-3,100
Colleges and universities	-591	0	0	0	0	3,896	0	3,305
Financial Aid	0	4,300	0	0	0	335	0	4,635
Judiciary	0	0	0	0	0	0	0	0
Labor	-1,176	0	0	1,668	800	0	0	1,292
Legislature	0	0	0	0	0	0	0	0
Library of Michigan	0	0	0	0	0	0	0	0
Management and Budget	-3,644	-505	0	1,153	61	0	0	-2,935
Office of Services to the Aging	-453	-362	0	54	816	0	0	55
Mental Health	-159,829	0	-2,500	18,415	0	128,141	65,123	49,350
Military Affairs	-1,211	0	0	1,003	100	590	0	482
Natural Resources	-5,968	0	0	2,674	382	2,031	-4,624.2	-5,505
Public Health	-1,009	460	0	2,893	1	6,050	0	8,395
School Aid	-1,799	0	-501,000	0	501,000	0	85,750	83,951
Social Services	-36,917	-460	-4,325	14,924	8,449	113,046	0	94,717
State	-2,499	-2,000	0	0	0	0	0	-4,499
State Police	-2,496	0	-1,500	6,272	2,496	7,172	-74	11,870
Treasury	-5,496	0	-800	1,319	0	12,423	0	7,446
Debt service	-293	0	0	0	0	13,300	0	13,007
Capital outlay	-12,885	0	-36,590	0	2,740	0	0	-46,735
TOTAL GF-GP	-$273,061	$827	-$547,757	$98,601	$519,921	$343,973	$147,257	$288,761
Less: School Aid	-$271,262	$827	-$46,757	$98,601	$17,921	$343,973	$61,507	$204,810

SOURCE: Calculated by Public Sector Consultants, Inc., from data in *State of Michigan Executive Budget* (detail), *1992–93 Fiscal Year*.

EXHIBIT 4

Economic Assumptions, FY 1992–93 Budget

	CY 1991 (actual)	CY 1992 (estimate)	CY 1993 (estimate)
United States			
GNP (% change from previous year)	-0.5%	1.8%	2.7%
Passenger car sales (millions of units)	8.5	8.7	9.6
Truck sales (millions of units)	4.2	4.4	4.9
Import share	26.9%	25.7%	26.6%
3-month Treasury bills (percent)	5.4%	4.7%	4.9%
Michigan			
Wage and salary employment (% change from previous year)	-1.9%	-0.2%	1.5%
Unemployment rate	9.2%	9.0%	8.6%
Real personal income in 1982–84 dollars (% change from previous year)	-1.3%	1.4%	2.0%
Detroit CPI (1982–84 = 100) (% change from previous year)	3.5%	3.2%	3.4%

CY = calendar year

The revenue estimates reflect a number of legislated and proposed policy changes. Those with the largest potential effect in FY 1992–93 are (1) a $54-million savings in property tax credits due to the 1992 assessment freeze, (2) a $45.5-million increase in revenues due to a proposed freeze of revenue sharing at the FY 1991–92 level (before the proposed cut), and (3) a $38.8-million increase as a result of proposed privatization of the state liquor distribution system. (See Exhibit 5 for a complete list.)

EXHIBIT 5

Tax Policy and Other Changes Affecting FY 1992–93 General Fund/General Purpose Budget (dollars in millions)

	FY 1992 Effect	FY 1993 Effect
Income Tax		
Change in treatment of tax credits, to grants	$18.3	$20.0
Reduction in property tax credits due to property tax freeze	21.0	54.0
Reduced revenue sharing to local governments	34.4	45.5
Single Business Tax		
Revisions in capital acquisition deduction[a]	30.0	34.0
Refund adjustment[a]	-25.5	5.0
Change in accounting for insurance collections[a]	-20.0	0
Job creation tax credit[a]	0	-3.0
Interest exemption—car dealers[a]	-10.0	0
Inheritance Tax: One-time accrual	63.0	0
Horse Racing Revenues: Reduction in restricted expenditures	0	4.8
Liquor Revenues: Privatization	0	38.8
Other		
Increased federal money for low income heating credits	14.6	19.0
TOTAL	$105.8	$219.1

SOURCE: Calculated by Public Sector Consultants, Inc., from data provided by the Michigan Department of Treasury.

[a]Reflected in revenue estimate, not shown on balance sheet.

REVENUE SOURCES AND EXPENDITURE ALLOCATIONS

Exhibits 6 and 7 illustrate the funding sources and expenditure allocations of the recommended FY 1991–92 budget. Exhibit 6 shows the origin 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 budget, because it includes revenue earmarked for the school aid fund, restricted transportation revenues, and revenue sharing but excludes federal aid, which is largely outside the influence of the governor and the legislature. About 71 percent of state revenue is generated by just four of the state's taxes—individual income, single business (including the insurance premium tax), sales, and use. (Federal aid is the state's largest single revenue source, contributing $5.8 billion.)

Exhibit 7 shows the governor's recommended distribution of state own-source revenue among state program areas for FY 1992–93. Education, social services, transportation, and revenue sharing (aid to locals) account for 79.4 percent of state spending from state resources.

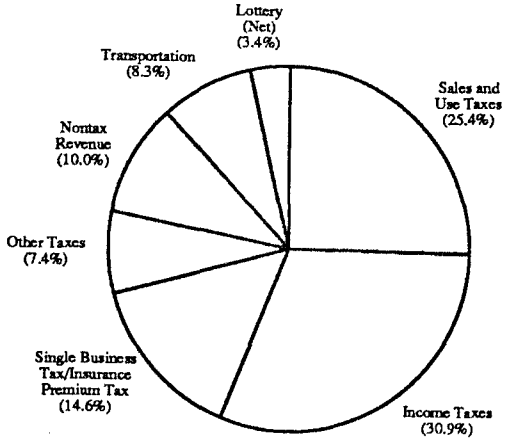
FY 1992–93 SPENDING POLICIES

The following section details the budget recommendations for most departments and programs. For comparison purposes, Exhibit 8 presents the percentage growth in selected departments and programs from FY 1989–90 to FY 1992–93 for state-own source expenditures. This shows the effect of the "Engler Revolution." Spending growth was greatest in debt service (41.3 percent), Corrections (28.2 percent), State

EXHIBIT 6

FY 1992–93 State Funding From State Sources

$13,785.7 (millions)

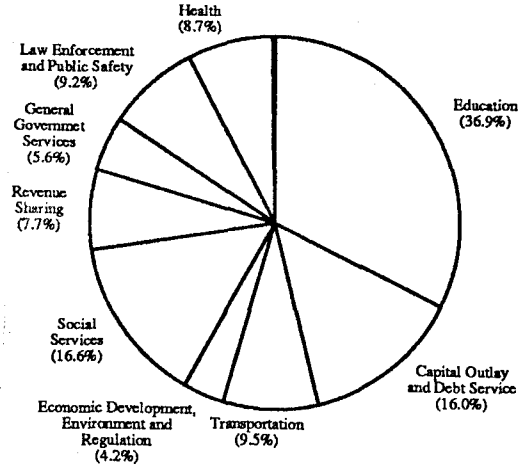


SOURCE: *State of Michigan Executive Budget, 1992–93 Fiscal Year.*

EXHIBIT 7

FY 1992–93 State Spending From State Revenue Sources

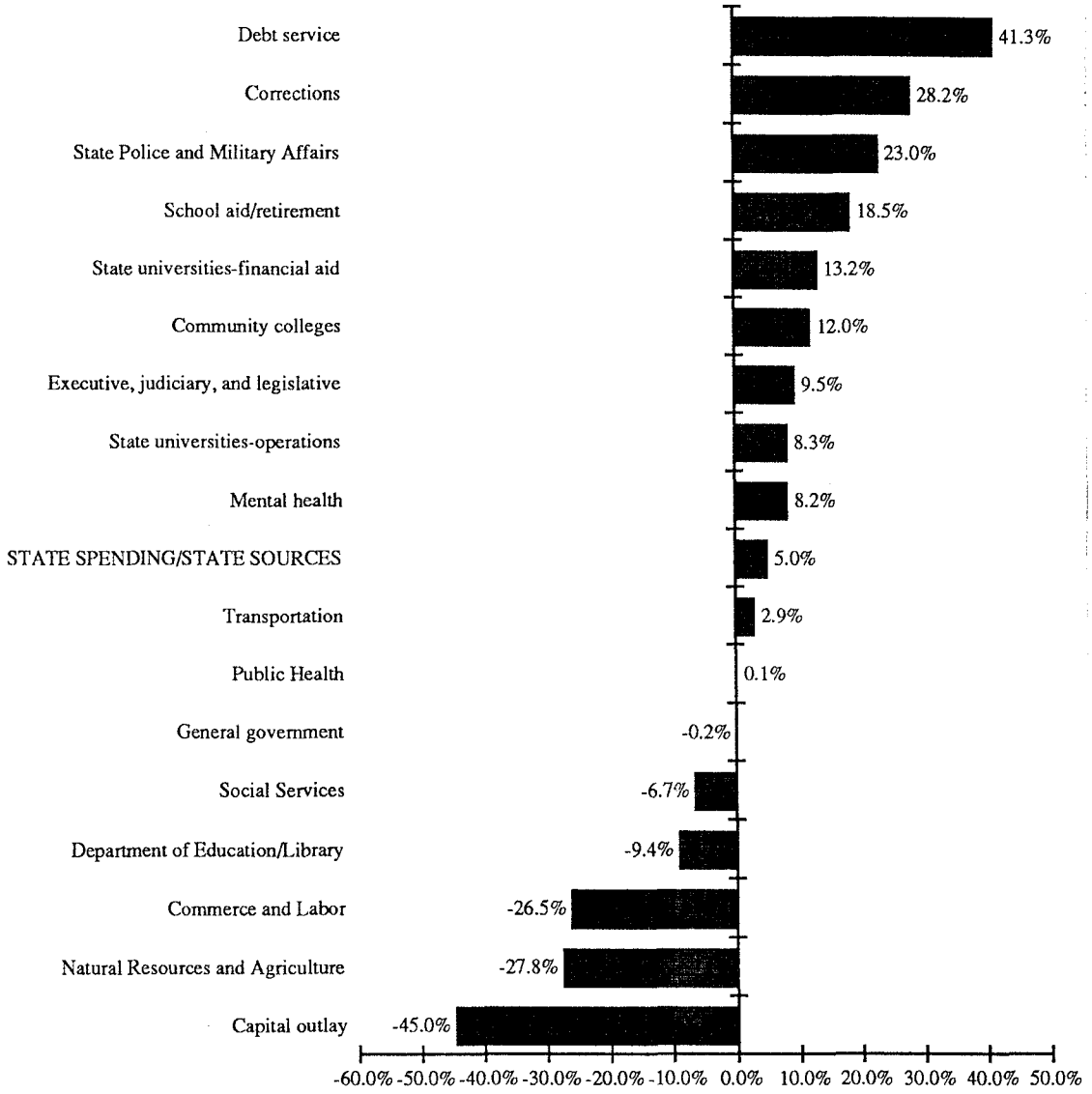
$13,595.9 (millions)



SOURCE: *State of Michigan Executive Budget, 1992–93 Fiscal Year.*

EXHIBIT 8

Percentage Change in Appropriations in Selected Budget Categories, State State Spending from State Sources, FY 1989–90 to FY 1992–93



Other Categories	Percent Change in Appropriations, FY 1990–FY 1993
Michigan personal income	17.0%
TOTAL STATE BUDGET	15.2
State-local price deflator (U.S.)	12.5
GF/GP EXPENDITURES	8.3
General revenue sharing	2.4

SOURCE: Calculated by Public Sector Consultants, Inc., from data in *State of Michigan Executive Budget, 1992–93 Fiscal Year*, and Senate Fiscal Agency, *1990 Statistical Report*.

Police and Military Affairs (23 percent), and school aid (18.5 percent); it was lowest for capital outlay (-45 percent), Natural Resources and Agriculture (-27.8 percent), Commerce and Labor (-26.5 percent), Education (-9.4 percent), and Social Services (-6.7 percent.) Total state spending from state sources increased only 5 percent over the three-year period, well below the projected growth in inflation (12.5 percent) and Michigan personal income (17 percent). Total state spending increased at a considerably faster rate (15.3 percent) due to the sharp increase in federal aid, particularly in the departments of Social Services (DSS) and Education. Federal aid received by the DSS increased by about $1 billion, or 44.7 percent, from FY 1989–90 to FY 1992–93. A significant proportion of this increase was due to the voluntary contributions made by hospitals, which resulted in the receipt of increased federal aid for the Medicaid program.

Human Services

The governor has recommended that the **Department of Social Services** (DSS) receive GF/GP funding totaling $2,235.5 million, an increase of $97.4 million, or 4.4 percent, from the FY 1992 spending level. The increase from the previous year's spending level, however, includes recommended supplemental funding, as well as an additional $4.5 million in GF/GP funding resulting from financing shifts, primarily from reduced federal funds.

Increases in DSS funding include $50.2 million in GF/GP appropriations ($114.3 million total) for adjustments to the Medicaid cost base; $10.4 million GF/GP ($23.3 million total) for improvements for data processing; restoration of the Medicaid adult dental program at $7.9 million GF/GP ($18 million total); and $6.7 million GF/GP ($16.7 million total) for various program caseload adjustments. The only new initiative in the department is the Communities First program, which is recommended to receive initial GF/GP funding of $500,000 for pilot programs around the state. The governor's proposed reductions include $13.9 million in GF/GP funding ($31.5 million total) to hospitals as the result of a reconfiguration in hospital voluntary contributions benefit payments and $5.5 million GF/GP ($12.5 million total) from a delay (to January 1, 1993) in the 5-percent inflationary cost increase. In addition, nursing homes would be paid at the same annual inflationary rate as hospitals. This limits their increase to $17.3 million (gross), rather than the $27.9 million (gross) they would otherwise receive. The department also has estimated that many AFDC clients are eligible for SSI payments, the federal match for which exceeds the match for AFDC. Shifting benefits for these clients from AFDC to SSI will save an estimated $8.5 million GF/GP ($22.9 million total).

The DSS budget reflects departmental reorganization and consolidation of functions. The Office of Children and Youth Services and the Field Policy Operations unit have been replaced with the offices of Child and Family Services (OCFS) and Family Services Administration (OFSA). Some of the functions of the field policy unit have been transferred to the Assistance Payment Administration unit as well. Some administrative evaluation and licensing functions have been transferred to executive operations, with operational staff there transferred to the relevant field units.

The **Department of Mental Health** (DMH) has been recommended to receive GF/GP funding of $959 million, $49.3 million (5.4 percent) above last year's spending level. Funding within the DMH reflects a continuation of the administration policy of shifting clients from institutional settings to community or residentially based ones; included in the budget are transfers of funds from the closure of the Coldwater, Muskegon, and Newberry facilities primarily to community based programs.

Included among the governor's GF/GP recommendations are

- an $8.7-million increase in funding (net of transfers) for community mental health projects;

- a $12.1-million decrease in funding for community residential services, primarily to reflect full-year cost savings through the use of private nursing homes and alternative settings; and
- a $7.1-million cut (net of transfers) for institutional services, the bulk of which result from census reductions.

Recommended GF/GP appropriations in the **Department of Public Health** total $146 million, an $8.4-million (6.1 percent) rise over last year. Total spending is recommended at $465.5 million, $1.9 million (0.4 percent) less than the FY 1991–92 appropriation level. The decline in total spending was primarily the result of the transfer of Early and Periodic Screening, Diagnosis, and Treatment services to the DSS; net of this transfer, total recommended departmental spending is 1.8 percent above FY 1992. Administration of this program, however, is recommended to be transferred from the DSS to the DPH; excluding this transfer results in GF/GP spending that is 5.8 percent above last year's appropriation. There are not many changes in overall spending, although the budget reflects restructuring of the department into five offices, four bureaus, and two centers.

Increases in GF/GP spending include an additional $5 million ($8.6 million total) for medical care and treatment within the Crippled Children Program; $2.9 million ($3.6 million total) in economic increases; and $1 million for start-up costs associated with the operation of the joint DPH/DNR laboratory. An $3.4-million increase in restricted funding (from fee revenues) in environmental and occupational health is recommended to pay for increased regulatory requirements associated with the federal Safe Drinking Water Act. Cuts include a $750,000 GF/GP ($1.7 million total) reduction in funding for the crippled children's managed care initiative and a $2.7-million net cut in federal funding within biologic products associated with the production of anthrax vaccine.

Education

The GF/GP recommendation for **school aid** is $1,032.6 million, an 8.8 percent increase. Total school aid, including restricted revenue (sales tax and lottery revenue, for example) is recommended at $3,469.5 million, a 3.9 percent increase.

There are major and controversial policy changes in the school aid budget. The most significant change is the elimination of two categoricals[1]—$466 million for social security and $20 million for municipal overburden[2]—and a $15-million reduction in the $20-million low-income categorical.[3] These funds are shifted to the membership formula. The shift allows an increase in the formula to $350 + $102.35 per mill per student from $335 + $94.38 per mill per student in the current fiscal year. The change will increase the guarantee for a district levying 34 mills from $3,543 per pupil in FY 1991–92 to $3,815 per pupil, a 7.7 percent increase. However, a major portion of this increase will be needed to make up the loss of the social security payments (which average $250 per pupil). One effect of the policy change will be to bring an additional thirteen school districts into formula.

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1 Payments that must be used for specific purposes.

2 A special payment to districts with high nonschool taxes; Detroit, for example.

3 Special payments to out-of-formula districts where residents have below-average incomes.

This new policy will be controversial because, if approved, it will transfer about $160 million from out-of-formula school districts to in-formula school districts. To soften the blow, the out-of-formula recapture[4] ($60.2 million) is recommended for elimination (which increases payments to out-of-formula districts), and the loss for any district will be limited to 5 percent. The governor also has indicated a willingness to consider elimination of the tax base sharing program enacted last year; the program currently is tied up in the courts. This change also will cause problems for in-formula districts with declining enrollments, as they will lose funds but still be required to pick up social security costs for employees.

Another change is a restructuring of the front end of the formula (the dollar amount per pupil). It is increased from $335 to $350 per pupil; of that amount $85 per pupil is tied to quality incentives: $40 for core curriculum, $28 for school improvement plans, $12 for annual education reports and accreditation, and $5 for instructional/professional development. Also recommended is $20 for K–3 class size of 25 or fewer, $20 for a combination of the low-income and municipal overburden categoricals or no less than 75 percent of the amount received in FY 1991–92, and $10 per pupil for administrative efficiency (provided to districts with administrative expenditures less than 95 percent of the state average). Many districts would not qualify for the last incentive.

The budget also recommends funding for several new programs:

- $20 million for transportation costs for the schools of choice program
- $10 million for school achievement incentives based on MEAP scores
- $7.5 million for extended day kindergarten for at-risk children
- $6 million for planning and pilot programs for extended school year programs
- $3.5 million for tutoring services for K–2 pupils
- $2 million for charter schools

The largest increase in the school aid budget is $80.3 million for increased retirement and health insurance costs for retirees.

Another major policy recommendation is to change the automatic appropriation feature of the school aid fund. Currently, if restricted revenue falls short of the appropriated amount, the general fund automatically makes up the difference. The governor is recommending that if there is a shortfall (from the consensus revenue estimate) in the future, the administration and the legislature would have to propose and authorize a supplemental appropriation, as is done with other budgets. If revenues exceed the estimate, the additional monies would be distributed through the school aid formula rather than used to reduce the general fund contribution, as is the current practice.

One final note is that, with no change in policy, the 1992 property tax freeze would have increased the costs of the school aid formula by about $100 million, which would have been difficult to fund given the increase in retirement and health insurance costs. This was one factor in the governor's recommendation to move funds from categoricals into the formula.

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4 Monies deducted from categorical payments to out-of-formula school districts; the higher their revenue per pupil, the larger the deductions.

The recommended FY 1992–93 GF/GP appropriation for the **Department of Education** is $38.9 million, 5 percent below the FY 1991–92 appropriation. This decline is due mainly to the elimination of funded vacancies and a reduction of about 125 full-time employees (FTEs), which results from a 15-percent reduction in central administrative staff. The total appropriation for the department is $755.5 million, a 6.3-percent increase due to an additional $37 million in federal flow-through grants. The department distributes about $551 million to local school districts.

The recommended FY 1992–93 budget for the **Library of Michigan** is $27.4 million, unchanged from the current-year appropriation.

The FY 1992–93 GF/GP budget recommendation for **four-year universities** operations is $1,202.7 million. The only recommended increase is $3.9 million to restore retirement funds for seven universities vetoed in the FY 1991–92 budget. Each university is recommended to receive the same appropriation as in FY 1991–92. The budget also recommends the elimination of $0.6 million for the Grand Rapids Applied Technology Consortium.

The recommended GF/GP appropriation for **financial aid** is $100.9 million, $4.7 million above projected expenditures for FY 1991–92. The increase is only 1.7 percent, adjusted for the recommended transfer of the $3.1-million Tuition Incentive Program from the community colleges budget, with a recommended increase to $4.3 million. The only other increase is $.335 million for the Indian Tuition Waiver Program.

The FY 1992–93 recommendation for **community colleges** is $238 million, a 1.3 percent reduction from FY 1991–92 projected expenditures. The decline is due to the above-mentioned transfer of the Tuition Incentive Program to the financial aid budget. Adjusted for this transfer there is no increase from the FY 1991–92 level. However, each community college received a 1.4 percent increase due to a $3.1 million reduction in the Wayne County Community College tax credit.

Safety and Defense

The **Department of Corrections** is recommended to receive an FY 1992–93 appropriation of $937.1 million, up about $71 million, or 8.1 percent from the current fiscal year. More than half of this increase, $45 million, is for economic increases, primarily employee health insurance and retirement costs. The budget also includes about $66 million (gross) to open new prisons in Detroit, Macomb County, Saginaw, Baraga, and Manistee. The GF/GP cost is less, in part, because the state will receive federal revenues from leasing beds for federal prisoners in the new facilities. The state plans to lease about 1,750 beds out of 3,000 in three regional prisons, which will raise an estimated $38.5 million, reducing the cost of these prisons to $17.4 million GF/GP ($55.9 million gross). As a partial offset to this increase the budget assumes $30.2 million in savings from the closure of unspecified facilities that are less efficient and the increased use of prisoner boot camps. The budget also assumes no growth in the prison population, which is to be accomplished by increasing diversion programs such as boot camps, community-based programs, and electronic tethers. The prison population increased 121 percent from FY 1984–85 to FY 1991–92.

The budget also recommends $8.5 million for full-year funding of community alternatives included in the current year budget, and $5.9 million to fund programs that are underfunded in FY 1991–92. The FY 1992–93 budget funds 15,058 FTEs, down 596 positions from the FY 1991–92 appropriation. Recommended is the elimination of 112 FTEs from privatization of health care at eight prisons; no GF/GP dollar savings are assumed. The number of employees has doubled since FY 1985–86.

The governor has recommended an FY 1992–93 appropriation of $203.1 million for the **Department of State Police**. This is 6.1 percent above the FY 1991–92 appropriation, one of the larger increases in the budget. The major increase are: (1) $6.3 million for economic increases, (2) $2.8 million to cover increases in fleet leasing rates, (3) $2 million to expand the Automated Fingerprint Identification system, (4) $2 million to hire 75 civilian dispatchers to free up uniformed officers for patrol duty, and (5) $1.4 million for increased retirement and leave costs.

The budget (GF/GP) also proposes several major reductions: (1) a $1.5-million shift in funding for secondary road patrol, (2) a $2 million savings from trooper attrition and a one-time equipment sale, and (3) a savings of $0.5 million from consolidation and reassignment of five state police posts.

The recommended FY 1992–93 appropriation for the **Department of Military Affairs** is $27.8 million, 1.8 percent above the FY 1991–92 appropriation. The budget includes $1 million for economic increases and $0.4 million for increased vehicle liability insurance costs. Also recommended are about $1 million in savings in the veterans' facilities due to economies and efficiencies.

Natural Resources and Agriculture

The recommended GF/GP appropriation for the **Department of Natural Resources** (DNR) is $93.1 million, $5.5 million or 5.6 percent below the FY 1992 spending level. Total DNR spending (adjusted for interdepartmental grants and transfers), however, is $15.2 million, or 2.9 percent higher than the current year appropriation, primarily due to $11.1 million in proposed air permit fees to pay for increased regulatory responsibilities under the federal Clean Air Act. The fee increase, along with a $0.6-million increase in EPA grants, replaces $4.7 million in GF/GP monies.

Other funding changes proposed for the DNR include savings of $3.9 million GF/GP from administrative efficiencies and a reduction of unfunded positions within the department and a $1.1 million increase in GF/GP funding for payments to local units of government (primarily for payments in lieu of taxes on land formerly owned by locals and now held by the state). Departmentwide increases for economic adjustments total $2.5 million GF/GP.

The recommended appropriation to the **Department of Agriculture** is virtually unchanged from FY 1992; GF/GP funding is recommended at $26.9 million, $9,200 (.03 percent) less than last year's spending level. Reductions would result from the replacement of $835,000 GF/GP with fee revenues (from food establishment inspection fees and fruit and vegetable grading fees) and $606,000 GF/GP in operational efficiencies. Increases include a $1.3-million economic adjustment.

Regulatory

The recommended GF/GP FY 1992–93 appropriation for the **Department of Commerce** is $62.1 million, a 7.9-percent increase. Much of this increase is due to the proposed transfer of the grant for the Grand Rapids Museum ($2.5 million, up from $2 million in FY 1991–92) from the Department of State. Excluding this transfer, the increase is only 3.6 percent. The budget includes (1) $0.9 million for economic increases (increased cost of fringe benefits, supplies, and so forth), (2) $1 million for travel advertising and promotion, (3) $0.7 million for the International Services program to assist Michigan business's develop export markets, and (4) $0.2 million to help convert Wurtsmith Air Base to civilian use. The total Commerce budget (including restricted and federal funds) is $313.5 million, a 10.7-percent decline from the FY 1991–92 appropriation. This decline is due mainly to proposals to privatize the state Accident Fund ($36.1 million) and the liquor

distribution system ($13.8 million). Privatizing the Accident Fund would reduce department employment by 550 positions.

The FY 1992–93 **Department of Labor** appropriation is recommended at $32.3 million, 4.2 percent above the FY 1991–92 appropriation. The major increases are $1.7 million for economic increases and $0.8 million to support state-assisted, employer-specific job training programs. The gross appropriation of $396.6 million is down 3.4 percent due mainly to a loss of federal job training funds.

General Government

This category includes six departments, plus the judiciary, executive office, and legislature. The recommended GF/GP appropriation for FY 1992–93 is $379.4 million, almost unchanged from projected expenditures for FY 1991–92.

The only significant increase is in the **Department of Treasury** budget, which is recommended at $60.4 million (excluding debt service), up 14 percent from FY 1991–92. This increase is due to the inclusion of $10.4 million for a final payment on the loan from the Veterans Trust Fund. Excluding this amount, the appropriation for the department is down 5.7 percent. The total budget for the department is $1.315 billion, which is up sharply due to the transfer of $1.1 billion in general revenue sharing and health and public safety grants from the Department of Management and Budget.

The recommended GF/GP appropriation for the **Department of Management and Budget** is $47.9 million, down $2.7 million or 5.7 percent below FY 1991–92 spending. The reduction is due mainly to a recommended $1.9 million in operational savings. The budget includes $17.5 million for the Office of Services to the Aging, about the same amount as appropriated in FY 1991–92. Included in the budget, however, is $.815 million for improvements in the Nutrition Services program for homebound senior citizens. This increase is offset by an equal reduction from administrative savings and funding transfers. The total recommended budget for the department is $211.5 million, down from $1.3 billion in FY 1991–92, due to the transfer to the Department of Treasury of several large grants (see above).

The recommended FY 1992–93 GF/GP appropriation for the **Department of State** is $15.1 million. This is $2.5 million below FY 1991–92 spending due the transfer of the $2-million grant for the Grand Rapids Museum to the Department of Commerce and completion of the Statewide Voter Registration Project ($0.7 million).

The FY 1992–93 budget proposes no significant changes in funding for the **judiciary, legislature, executive office, departments of Civil Rights** and **Civil Service**, and **Office of Attorney General.**

Other

The **Department of Transportation** is funded by restricted funds, mainly gas and weight (registration) taxes and federal revenues. The recommended appropriation for FY 1992–93 is $2,354.5 million, a 9.3-percent increase from the current fiscal year. The large increase is due to (1) increased federal funds from the 1991 transportation act, which the state is able to match by issuing bonds and restructuring current debt, and (2) increased gas tax collections due to elimination of the gas evaporation allowance and a shift in the collection point. Because of these new revenues and department efficiencies, the budget includes $78 million in new grants for local transportation programs. The budget also includes a recommendation to commit Mackinac Bridge toll revenue ($55 million over three years) to support critical bridge needs at the local level.

The recommended GF/GP **capital outlay** appropriation of $147.4 million is $46.8 million or 24.1 percent below the FY 1991–92 appropriation. Several major reductions are proposed: (1) a $36.6-million reduction in State Building Authority (SBA) rent due to a restructuring of debt, (2) elimination of the $5.15-million lump-sum appropriation for maintenance at universities and $0.9 million for maintenance at community colleges, (3) $2.4 million due to completion of Executive Plaza Building, and (4) $2 million for SBA construction projects. The only significant increase in the budget is $2.7 million for environmental cleanup at state facilities.

The recommended GF/GP **debt service** appropriation for FY 1992–93 is $37.6 million, $13 million above from the current fiscal year appropriation. These new monies are allocated to pay the debt service costs for additional Quality of Life bonds.

The budget assumes no withdrawal from or payment to the **Budget Stabilization Fund (BSF)** in FY 1992–93. No payment or withdrawal is scheduled in FY 1991–92. However, because the unemployment rate is expected to remain above 8 percent through FY 1992–93, an estimated $4.5 million per quarter would be available if the legislature wished to appropriate this money. The BSF will have a balance of about $195 million at the end of FY 1991–92.

General revenue sharing grants to local units of government (from sales, income, single business, and intangibles taxes) are recommended at $1,050 billion for FY 1992–93. This is the same level as for FY 1991–92 (after restoration of a recommended reduction of $34.4 million), which represents a cut of about $45 million from the locals' legislated share of state taxes. (The FY 1991–92 reduction has been approved by the Senate but is being held up in the House.) The Michigan Equity Program is recommended to receive an appropriation of $28.2 million, but the distribution of the funds now will be decided by the new Council for Arts and Cultural Affairs rather than the legislature. One possible result is a reduction in payments to the City of Detroit.

Article IX, **Section 30** of the Michigan Constitution requires that 41.6 percent of state spending (excluding federal aid) be allocated to local governments. Last year the state settled out of court a suit brought by Oakland County (initiated by supporters of Richard Headlee), claiming that the state was shortchanging local governments by improperly counting certain Department of Mental Health expenditures as local payments. The state agreed to no longer count as spending to locals $434 million that is spent annually on mental health institutions. This required the state either to allocate more money to local governments or to find current expenditures that could be reclassified as local spending. Both methods were used.

First, the state counted as local spending for the first time $443 million in categorical programs, mainly payments made to school districts to cover social security costs for school employees. Second, the closure of state mental health facilities and the redirection of state dollars to community mental health boards will provide $100.3 million in additional local spending. Third, a careful review of state spending identified about $110 million in payments to locals that had been overlooked. Fourth, programmatic changes in the Department of Transportation (see above) will redirect about $78 million from state programs to local programs. The result of these changes is that local governments actually receive little new money. This new accounting results in 45.25 percent of state spending being allocated to local governments, $495.5 million more than required by the constitution.

Article IX, Section 26 **(state tax limit)** of the constitution restricts the amount of revenue the state may collect in any fiscal year to 9.49 percent of Michigan personal income. The limit for FY 1992–93 is estimated at $16.7 billion (9.49 percent of 1991 Michigan personal income). Total state revenue (less federal aid and general obligation debt plus specified tax credits) is projected to fall about $3 billion below the limit.

COMMENT

The budget presented by Governor Engler appears to be a well-crafted, creative effort to advance his policies. Although we do not agree with a number of those policies, the governor should be given credit for making every effort to keep his political promises to downsize government, resist tax increases, and reduce property taxes. Unfortunately, the recession, with the accompanying sharp falloff in revenues, has made it very difficult to fund existing programs let alone institute creative new programs. Our view is that it would be appropriate to increase taxes, at least on a temporary basis, and look hard at eliminating certain tax expenditures, such as property tax abatements and sales tax exemptions. However, in an era when we have become cynical about politicians promising one thing and doing just the opposite, it is hypocritical to criticize the governor for keeping his promises.

Our view is that there has been entirely too much rancor over the state budget. The governor and the legislature have a responsibility to do what is best for Michigan. We believe both sides have lost sight of this and have become involved in partisan bickering that makes everyone look bad and does little to foster the interests of the state. We strongly urge both sides to extend the olive branch and try to forge compromises that will address the pressing problems we face in this state.

Clearly, there is room for agreement on a long-term downsizing of government; maintaining programs (and creating new, innovative programs) to help the disadvantaged; augmenting state revenues, where needs and benefits are clear (i.e., increasing gas and cigarette taxes and eliminating some tax expenditures); reducing property taxes (three ballot proposal are unnecessary); delivering government services more efficiently; finding alternatives to costly incarceration in prison; and improving our education system, including a fairer distribution of resources among K–12 districts and slowing increases in tuition.

The federal government has been irresponsible and bears the blame for the current recession. We can hope for a little more sanity at the state level.

As for the specific recommendations in the FY 1992–93 budget, there is little that is new, except in school aid. The governor's recommendation to eliminate several categoricals (principally social security) and allocate these monies to the membership formula is good public policy in our view, although the decision appears to have been driven by more practical considerations, such as the Headlee amendment to increase the local share of the budget and the need to cover the $100 million cost to the school aid formula of the 1992 property assessment freeze. The result of this recommendation is about a one percent net increase for most in-formula school districts and losses of up to 5 percent for out-of-formula school districts. This proposal will cause a war in the legislature and has only a small chance of being adopted. If this proposal is rejected, however, the legislature will have to come up with $100 million in new money to keep in-formula districts from suffering a decline in resources from the FY 1991–92 level, and these funds are not available. We also support the governor's proposal to eliminate the automatic appropriation feature of the school aid fund. However, this is likely to be rejected by the legislature.

Another controversial area is higher education, where colleges and universities receive little or no increase. This surely will put upward pressure on tuition rates and on legislators to come up with more money. The writing is on the wall, however; colleges and universities must become more efficient, just as state government must become more efficient. The discussion that no one wants also must begin; we need to ask whether the state needs 15 universities and 29 community colleges.

The recommendations for human services appear to be more reasonable than last year, and more in line with traditional recommendations for these departments. An unimpeachable source assures us that this is the most realistic social services budget in years, in terms of adequate funding for the recommended policies.

The recommended freeze in revenue sharing payments, which will cost local governments about $45 million (assuming the estimate of a 5.7-percent increase in state revenue is correct), seems harsh in light of the property tax freeze that will sharply limit growth in local revenues this year. We would like to see some adjustment in the formula that would protect localities in fiscal distress and possibly reduce aid to richer localities. Another option would be to delay the $10.4-million repayment to the Veterans Trust Fund and reduce the cut in revenue sharing, or distribute the money on a different basis to communities suffering fiscal distress.

Finally, we disagree with the governor's argument that now is not the time to raise the gas tax. With gas prices down sharply from a year ago, an increase would impose little hardship. A compromise would be to raise the tax two cents this year and three cents next year. The governor's bonding proposal makes sense, but it needs a permanent revenue source to pay principal and interest costs. A gas tax increase would cover these costs and provide additional monies to rebuild the state's infrastructure.

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