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Overview and Analysis of the Governor's Recommended Budget for Michigan, Fiscal Year 1991–92

by Robert Kleine and Frances Spring

The 1991–92 executive budget follows through on John Engler's pledges to downsize state government, reduce property taxes, and make education the highest budget priority. The general fund/general purpose (GF/GP) recommendation for FY 1991–92 is $8,056.7 million, 4.4 percent above projected spending for the current fiscal year. The budget, however, includes $525 million for property tax relief; excluding this amount, expenditures are 2.6 percent below FY 1990–91. Excluding education, recommended expenditures are 6.8 percent below the projected FY 1990–91 level. In reality, comparisons with the previous fiscal year are meaningless because the FY 1990–91 budget is far from complete. The legislature and the governor still need to reach agreement on actions to eliminate a potential deficit that Public Sector Consultants estimates will reach at least $900 million (of which $310 million is a carryover from FY 1989–90).

The Engler budget assumes that his recommendations to balance the FY 1990–91 budget, including the January 14 executive order (EO) that was rejected by the legislature, will be approved. The budget also assumes that the remaining budget gap will be closed by a one-time revenue gain of $398 million and the transfer of $213 million from the Budget Stabilization Fund (BSF) (see explanation below).

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 economic and political feasibility of the budget. Following are the major issues facing the governor and the legislature:

- Property tax relief: What form should it take and how should it be funded?
- Social programs: How deep should the cuts be and, in particular, should the General Assistance program be eliminated?
- State employee pay increase: The governor has recommended the rollback of the 4-percent increase approved by the Civil Service Commission.
- The FY 1990–91 budget: What actions should be taken to eliminate the large deficit?
- Arts and economic development programs: How deep should the cuts be?

This is an education and property tax relief budget. As shown in Exhibit 1, education is allocated an additional $296.4 million (64 percent of the new money in the budget), and $525 million is allocated for property tax relief ($278 million after reductions in homestead property tax credits). The only other general budget areas receiving increases are capital outlay and debt service, law enforcement, and health. The large increases for education and property tax relief are financed by a $335 million reduction in spending on social services and a $47.8 million decline in regulatory spending.

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EXHIBIT 1

Proposed Executive Budget, General Fund/General Purpose and School Aid Fund Budget Changes, FY 1990–91 to FY 1991–92 (dollars in millions)

Program Category	Dollar Change	Percent Change (adjusted)
Property Tax Relief	$525.0[a]	NA
Education	296.4	6.3%
Law Enforcement[b]	13.8	1.3
Capital Outlay and Debt Service	12.6	6.0
Health[c]	11.9	1.2
General Government	–2.2	–0.7
Environmental Protection[d]	–11.3	–8.3
Regulatory[e]	–47.8	–50.3
Social Services	–335.0	–13.7
TOTAL	$463.4	–0.8%[f]

SOURCE: Calculated by Public Sector Consultants, Inc., from data in *The Michigan Executive Budget, 1991–92 Fiscal Year.*

NA: not applicable.

[a]Net cost.
[b]Includes corrections, state police, judiciary, attorney general, and military affairs budgets.
[c]Exclusive of social services.
[d]Includes natural resources and agriculture budgets.
[e]Includes commerce, labor, and licensing and regulation budgets.
[f]Excludes property tax relief.

As shown in Exhibit 2, the largest recommended departmental increases (adjusted for transfers, in percentage terms) are: Treasury, 15.5 percent; Library of Michigan, 9.3 percent; capital outlay, 6.3 percent; and community colleges, 4.9 percent. The largest recommended reductions are: Commerce, 50.6 percent; Labor, 50.0 percent; Civil Rights, 20.5 percent; Agriculture, 13.9 percent; and Social Services, 13.7 percent. Exhibit 2 also summarizes the GF/GP budgets for FY 1989–90, FY 1990–91, and FY 1991–92. The discussion in this paper focuses primarily on GF/GP and school aid fund (SAF) revenues and expenditures.

In recent years there have been a number of upward and downward adjustments as well as program transfers and financing shifts, and this budget includes more than ever before. These are shown in Exhibit 3. The largest financing shift is the result of the governor's proposal for property tax relief: $525 million in local funding in the school aid budget would be shifted to the state. The Public School Employees Retirement (PSER) health and insurance plan will no longer be prefunded; this shift reduces costs by $86.2 million ($75.9 million in state-funded K-12/ISD requirements, $7.3 million in higher education requirements, and $3 million in federally funded K-12/ISD requirements).

Total recommended state spending for FY 1991–92 is $19,365 million, 6.9 percent above the projected spending level for FY 1990–91. Excluding property tax relief, the recommended increase is 4 percent. Federal aid is estimated at $4.68 billion, a 4.6 percent increase.

ECONOMIC AND REVENUE ASSUMPTIONS

The FY 1991–92 budget is based on the assumption that the current recession will be mild and short lived, with the recovery beginning in the second quarter of 1991. The forecast assumes lower interest rates and slightly lower inflation in 1991 than in 1990. Real GNP is forecast to decline 0.2 percent in 1991, with all of the decline in the first half of the year, and to increase 2.9 percent in 1992. Motor vehicle sales are projected to slump about 8.5 percent in 1991 and rise 7.8 percent in 1992.

The Michigan economy is expected to mirror the national economy but to be a little weaker in both 1991 and 1992. Michigan personal income, adjusted for inflation, is projected to decline 1.6 percent in 1991 and increase 1.5 percent in 1992. Employment is forecast to dip 1.7 percent in 1991 and rise 1.2 percent in 1992, with the unemployment rate averaging 8.5 percent in 1991 and 8.3 percent in 1992 (compared to 7.5 percent in 1990).

EXHIBIT 2

General Fund/General Purpose Executive Budget Summary, FYs 1989–90, 1990–91, and 1991–92 (dollars in millions)

Department or Program	FY 1989–90 Expenditures	FY 1990–91 Initial Appropriations (less vetoes)	FY 1990–91 Projected Expenditures	FY 1990–91 Expenditures (adjusted for program transfers)	FY 1991–92 Recommendations	Dollar Change from FY 1990–91 (projected expenditures)	Percent Change from FY 1990–91 (projected expenditures)	Percent Change from FY 1990–91 (adjusted)
Human Services								
Social Services	$2,603.8	$1,269.1	$2,455.0	$2,451.9	$2,116.9	($338.1)	–13.8%	–13.7%
Mental Health	900.4	915.5	$885.1	$876.1	$889.8	$4.7	0.5	1.6
Public Health	147.7	143.3	146.4	135.4	133.6	(12.8)	–8.7	–1.3
Education								
State Universities	1,193.5	1,261.2	1,248.6	1,256.2	1,306.5	57.9	4.6	4.0
Operations	1,104.6	1,167.2	1,155.5	1,160.0	1,206.7	51.2	4.4	4.0
Financial Aid	88.9	94.0	93.1	96.2	99.8	6.7	7.2	3.7
School Aid	652.3	711.5	868.3	888.8	1,526.3	658.0	75.8	71.7
Community Colleges	212.5	225.5	223.2	230.7	242.0	18.8	8.4	4.9
Education	50.8	53.2	50.3	48.0	43.2	(7.1)	–14.1	–10.0
Retirement	12.5	0.0	0.0	0.0	0.0	0.0		
Library of Michigan	26.5	27.1	24.6	24.6	26.9	2.3	9.3	9.3
Safety and Defense								
Corrections	702.5	739.9	808.1	789.3	817.0	8.9	1.1	3.5
State Police	185.3	197.6	189.5	189.5	176.4	(13.1)	–6.9	–6.9
Military Affairs	12.3	15.8	26.1	26.1	25.2	(0.9)	–3.4	–3.4
Regulatory								
Commerce	110.2	113.7	56.4	57.3	28.3	(28.1)	–49.8	–50.6
Labor	75.7	76.6	38.1	37.6	18.8	(19.3)	–50.7	–50.0
Licensing and Regulation	11.1	11.8	0.0	0.0	0.0	0.0		

EXHIBIT 2—Continued

Department or Program	FY 1989–90 Expenditures	FY 1990–91 Initial Appropriations (less vetoes)	FY 1990–91 Projected Expenditures	FY 1990–91 Expenditures (adjusted for program transfers)	FY 1991–92 Recommendations	Dollar Change from FY 1990–91 (projected expenditures)	Percent Change from FY 1990–91 (projected expenditures)	Percent Change from FY 1990–91 (adjusted)
Natural Resources and Recreation								
Natural Resources	135.1	118.1	105.4	105.5	98.4	(7.0)	–6.6	–6.7
Agriculture	30.8	34.6	31.5	30.4	26.2	(5.3)	–16.8	–13.8
General Government								
Management and Budget	74.0	79.0	65.3	59.1	53.6	(11.7)	–17.9	–9.3
Legislature	85.4	86.3	79.0	79.0	79.0	0.0	0.0	0.0
Judiciary	111.8	113.6	108.3	108.3	108.3	0.0	0.0	0.0
Treasury	51.7	37.7	42.7	46.4	53.6	10.9	25.5	15.5
Attorney General	23.6	24.9	22.7	22.7	22.7	0.0	0.0	0.0
State	13.8	18.2	17.5	16.5	14.9	(2.6)	–14.9	–9.7
Civil Service	13.5	14.4	16.9	13.0	13.0	(3.9)	–23.1	0.0
Civil Rights	10.9	11.5	10.5	11.7	9.3	(1.2)	–11.4	–20.5
Executive Office	3.9	4.3	3.9	3.9	3.9	0.0	0.0	0.0
Other								
Capital Outlay	183.7	185.5	185.5	185.5	197.2	11.7	6.3	6.3
Debt Service	48.8	24.8	28.6	24.8	25.7	(2.9)	–10.1	3.6
Total	$7,684.1	$6,480.1	$7,737.5	$7,718.3	$8,056.7	$319.2	4.1%	4.4%

SOURCE: State of Michigan Executive Budget, 1991–92 Fiscal Year. Calculations by Public Sector Consultants, Inc.

NOTE: Adjusted percentage changes for FY 1991–92 differ slightly from figures in budget document due to rounding.

EXHIBIT 3

Fiscal Adjustments by Department or Program, FY 1991–92 Executive Budget (dollars in thousands)

Department or Program	Reduction Net of Increases, from FY 1991[a]	Program/ Grant Reductions and Efficiencies	Program Transfers	Financing Shifts	Economic Increases	Program Increases	Technical and Other Adjustments	Total Change
Agriculture	($179)	($4,438)	($1,072)	$0	$640	$0	($246)	($5,296)
Attorney General	137	0	0	0	0	0	(137)	0
Civil Rights	(1,032)	(1,603)	1,151	0	273	0	(31)	(1,241)
Civil Service	2,263	0	0	0	0	0	(2,263)	0
Commerce	(23,549)	(2,420)	877	(3,591)	787	0	(131)	(28,027)
Corrections	8,446	(11,663)	0	(18,014)	17,972	8,863	3,300	8,905
Education	113	(5,771)	(3,255)	0	618	1,000	98	(7,196)
Executive	0	0	0	0	0	0	0	0
Higher Education	(297)	(2,535)	18,431	0	60,843	260	0	76,701
Community Colleges	0	(2,065)	9,877	0	10,963	30	0	18,806
Colleges & Universities	(297)	(248)	5,454	0	46,234	0	0	51,143
Financial Aid	0	(223)	3,100	0	3,647	229	0	6,753
Judiciary	0	0	0	0	0	0	0	0
Labor	(12,749)	(6,127)	(500)	0	332	0	(316)	(19,361)
Legislature	0	0	0	0	0	0	0	0
Library of Michigan	0	0	0	0	0	0	2,310	2,310
Licensing & Regulation[b]	0	0	0	0	0	0	0	0
Management & Budget	(3,069)	(7,992)	(13,074)	6,910	353	0	5,163	(11,709)
Mental Health	2,719	(29,117)	(9,000)	(208)	14,178	10,452	15,742	4,764
Military Affairs	(297)	(987)	0	0	143	0	234	(907)
Natural Resources	(956)	(11,438)	0	0	1,482	0	3,998	(6,914)
Public Health	(6,432)	(5,390)	(11,010)	550	1,688	0	7,764	(12,830)
School Aid[c]	0	(5,791)	17,102	438,811	0	207,873	0	657,995
Social Services	(91,646)	(227,984)	(2,720)	(40,762)	13,719	11,316	0	(338,077)
State	(1,005)	(298)	0	0	754	0	(1,516)	(2,064)
State Police	2,700	(6,959)	0	(15,321)	4,632	0	1,930	(13,019)
Treasury	4,708	(3,019)	10,710	0	1,239	0	5,168	18,807
Capital Outlay	13,849	0	0	(2,161)	0	0	0	11,688
TOTAL GF/GP	($106,275)	($344,930)	$7,640	$377,612	$119,651	$239,763	$41,068	$334,530

SOURCE: State of Michigan Executive Budget, 1991–92 Fiscal Year.

[a]Full-year savings net of costs savings in FY 1991–92 associated with the FY 1990–91 implementation of programs recommended by the governor; these amounts are added to the FY 1990–91 adjusted baseline to obtain the FY 1991–92 policy baseline. For example, full-year costs associated with additions to programs recommended in the DSS total $45.4 million for FY 1991–92, while full-year savings associated with program cuts/eliminations amount to $281.8 million; net savings therefore total $241.4 million for FY 1991–92.

[b]Assumes a FY 1990–91 transfer of functions ($9,654,400) to the Department of Commerce.

[c]Financing shifts include property tax reimbursement costs and discontinuation of the prefunding employee health insurance.

The downside risks to the forecast are higher oil prices, additional failures in the financial system, and a continued shake-out in the auto industry due to overcapacity. On the positive side are lower interest rates and a rebound in consumer confidence and spending due to the end of the war in the Gulf. A summary of some of the economic assumptions on which the FY 1991–92 budget is based appears in Exhibit 4.

When the FY 1990–91 budget was released a year ago GF/GP and SAF revenue were estimated at $10,001 million. Several downward revisions have occurred since then, and the FY 1990–91 budget now estimates revenue at $9,560.1 million, about $440 million less than the year-ago estimate. In order to balance the current year's budget, the administration is proposing several changes that will provide one-time increases in revenues; these include:

- treating tax refunds exceeding tax liabilities as a grant (an expenditure) rather than as a tax credit (a deduction from revenues), an accounting change that will reduce FY 1990–91 liabilities by an estimated $366 million;
- a $32-million reduction in income tax refunds due to the decline in homestead property tax credits resulting from the governor's proposed property tax relief plan; and
- a transfer of $213 million from the Budget Stabilization Fund (BSF).

The budget assumes that GF/GP and SAF revenues for FY 1991–92 will increase 4.9 percent to $10,033 million. In addition, revenue will be increased by (1) accruing an additional $63 million in inheritance tax revenue, (2) reducing restricted expenditures from horse racing and liquor revenues by $13.8 million, which increases GF/GP revenue, and (3) changing the treatment of tax credits, as described above, which adds $526 million to the revenue side of the budget and increases expenditures by $507.5 million, for a net gain of $18.5 million, (4) changing the formula for apportioning the capital acquisition deduction for the 1990 tax year, which increases revenue by an estimated $50 million, and (5) a reduction of $247 million in homestead property tax credits due to the proposed reduction in property tax assessments (see Exhibit 5). Including these adjustments, GF/GP and SAF revenue for FY 1991–92 is estimated at $10,918 million.

EXHIBIT 4

Economic Assumptions, FY 1991–92 Budget

	CY 1990 (actual)	CY 1991 (estimate)	CY 1992 (estimate)
United States			
GNP (% change from previous year)	0.9%	–0.2%	2.9%
Passenger car sales (millions of units)	9.5	9.0	9.5
Truck sales (millions of units)	4.6	3.9	4.4
Import share	27.4%	27.7%	26.8%
Federal budget deficit (billions)[a]	–$157.5	–$162.4	–$154.5
Michigan			
Wage and salary employment (% change from previous year)	–0.2%	–1.7%	1.2%
Unemployment rate	7.5%	8.5%	8.3%
Real personal income in 1982–84 dollars (% change from previous year)	–0.6%	–1.6%	1.5%
Detroit CPI (1982–84 = 100%) (% change from previous year)	5.2%	5.0%	4.6%

CY = calendar year
[a]National Income and Product Account basis for fiscal year.

EXHIBIT 5

Tax Policy and Other Changes Affecting FY 1991–92 General Fund/General Purpose Budget (dollars in millions)

	FY 1991 Effect	FY 1992 Effect
Income Tax		
Change in treatment of tax credits, to grants	$303.0	$18.3
Reduction in property tax credits due to proposed cut in property tax assessments	32.0	247.0
Reduced revenue sharing payments to local governments	10.7	10.7
Single Business Tax		
Change in formula for apportioning capital acquisition deduction	—	50.0
Inheritance Tax		
One-time accrual	63.0	—
Horse Racing Revenues		
Reduction in restricted expenditures	—	5.2
Liquor Revenues		
Reduction in restricted expenditures	—	8.6
TOTAL	$408.7	$339.8

SOURCE: Calculated by Public Sector Consultants, Inc. from data in *The State of Michigan Executive Budget, 1991–92 Fiscal Year*.

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, transportation, 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, sales, and use. (Federal aid is the state's largest single revenue source, contributing $4.6 billion.)

Exhibit 7 shows the governor's recommended distribution of state own-source revenue among state program areas for FY 1991–92. Education, social services, transportation, health, and local revenue sharing account for 80.4 percent of state spending from state sources, as compared to 80.8 percent recommended by the governor for FY 1990–91. (Changing the definition of income tax credits to grants resulted in an additional $507.7 million in state revenues allotted to the Department of Treasury for FY 1991–92; this amount is excluded from the revenue total.)

FY 1991–92 SPENDING POLICIES

The following section details the budget recommendations for most departments and programs. For comparison purposes, exhibits 8 and 9 present the percentage growth in selected departments and programs from FY 1984–85 to FY 1991–92 for both GF/GP and state-own source expenditures. Spending growth was greatest in the corrections (166.5), capital outlay (95.1 percent), and school aid (84.1 percent) budgets, and lowest for debt service (–72.4 percent) and social services (2.7 percent).

The comparisons with the previous fiscal year are complicated by the lack of agreement on the FY 1990–91 budget as well as by the budget adjustments that have already been agreed to for the current fiscal

EXHIBIT 6

FY 1991–92 State Funding From State Sources

$13,392.1 (millions)

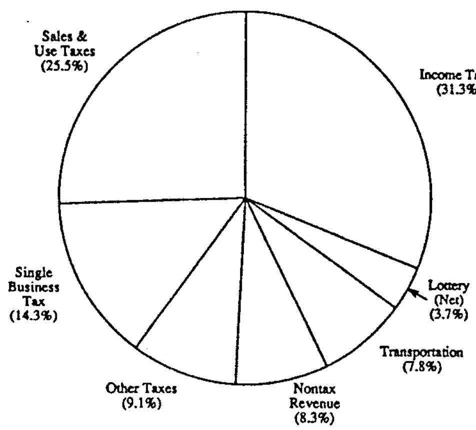


EXHIBIT 7

FY 1991–92 State Spending From State Revenue Sources

$13,731.3 (millions)

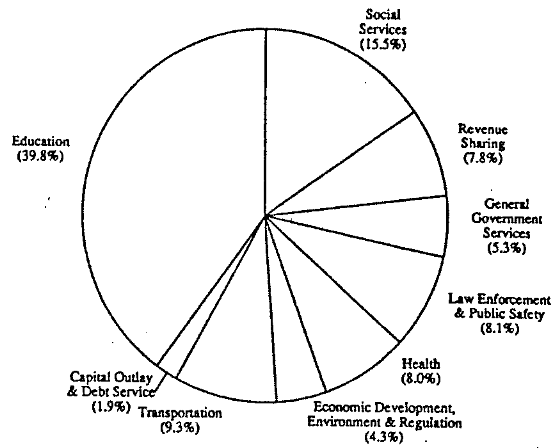
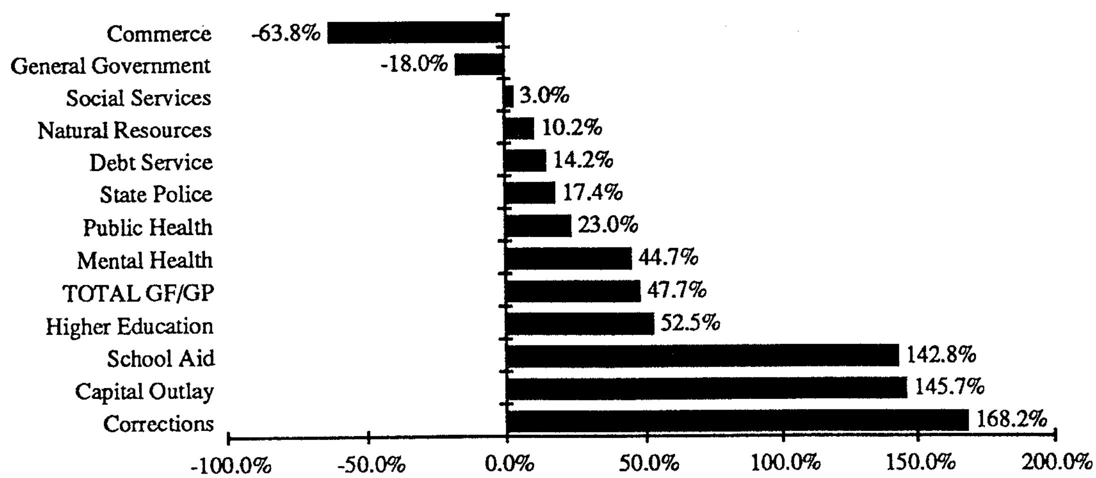


EXHIBIT 8

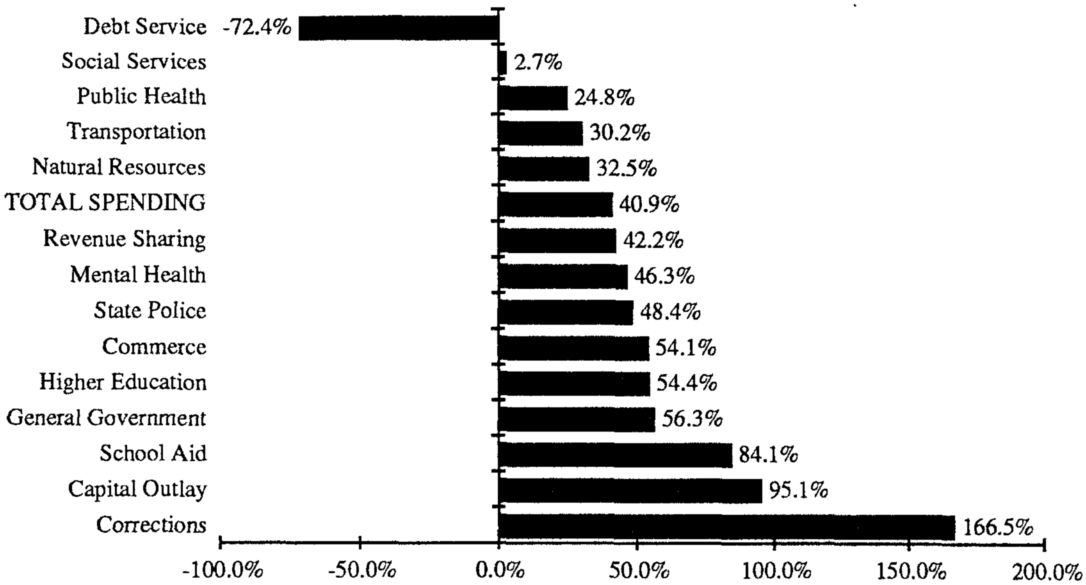
Percentage Change in General Fund/General Purpose Expenditures, Selected Programs, FY 1984–85 to FY 1991–92



SOURCE: Calculated by Public Sector Consultants from data in *The State of Michigan Executive Budget, 1991–92 Fiscal Year*, and Senate Fiscal Agency, *1985 Statistical Report.*

EXHIBIT 9

Percentage Change in State Spending from State Sources, Selected Programs, FY 1984–85 to FY 1991–92



SOURCE: Calculated by Public Sector Consultants from data in *The State of Michigan Executive Budget, 1991–92 Fiscal Year*, and Senate Fiscal Agency, *Summary of Governor's FY 1991–92 Budget Recommendations*, and *1985 Statistical Report.*

year. In most cases comparisons are made with the initial appropriation for FY 1990–91 as well as with a baseline amount based on current policy, which reflects changes made in FY 1990–91 that will be carried into FY 1991–92; the latter include program transfers and the full-year saving of the 9.2 percent reductions (P.A. 357 of 1990).[1]

Human Services

The **Department of Social Services** (DSS) is recommended to receive $2,116.9 million in GF/GP funding in FY 1991–92, a decrease of 13.8 percent from the FY 1990–91 projected spending level; after adjustments for financing shifts and program transfers, the decline is 12.2 percent (refer to Exhibit 3). The change in expenditures can be misleading, however, as the governor's budget assumes spending on programs and supplementals that have not yet been approved by the legislature, including the elimination of the General Assistance (GA) program. Adding to the confusion is the fact that some of the savings listed in the governor's FY 1991–92 DSS budget are based on the implementation of programs in FY 1990–91 that also have not yet been enacted.

1 Last December, the legislature passed and Governor Blanchard signed P.A. 357, one component of which was a 9.2 percent across-the-board reduction in FY 1990–91 state spending. (Exceptions to the cuts included school aid, which was not cut, and higher education, the legislature, and the judiciary, which were reduced by lesser amounts.) The legislation was enacted to deal, in part, with the FY 1990–91 budget deficit and was intended as a "quick fix" that could be modified after the legislature reconvened in January. Spending reductions totaled $536 million, and supplementals, $340 million.

A proposed change in the Medicaid funding process would result in savings of $70 million in GF/GP funding. The change would allow hospitals to contribute funds voluntarily at the beginning of the fiscal year, and the money received then would be used by the state to obtain federal Medicaid matching funds. The details of the proposal are not certain; it is unclear whether hospitals would be reimbursed for the total donation or something above or below that amount.

Recommended reductions in FY 1991–92 also include $62.8 million in combined cuts in County Emergency and Medical Care block grants. This savings assumes the FY 1990–91 elimination of the GA Medical and the Emergency Needs and Resident County Hospitalization (RCH) programs, which would be replaced by block grants to counties to cover emergency and medical costs. In FY 1991–92, the Wayne County Patient Medical Care program also would be eliminated and associated services covered by block grants as well.

Savings of $31.6 million are expected from combined program changes relating to long-term health care: $10 million from deeming the assets of adult children available for the long-term care of their parents (this would require passage of enabling legislation), $10.7 million from the recovery of Medicaid costs from the estates of deceased recipients, and $10.9 million from reducing state payments to hospitals and county health facilities for long-term care to the average level charged by private nursing homes.

A $40-million reduction would result from lowering AFDC payments to the federally allowed minimum level and eliminating special energy allowances. An additional savings of $1 million (with more significant savings expected in the long term) is estimated will result from the implementation of the Learnfare program, which will eliminate AFDC grants that support students who do not meet minimum school attendance requirements.

The two-year (FYs 1990–91 and 1991–92) recommended cuts in AFDC grants appear significant. In a recently issued report, the House Fiscal Agency estimates that the maximum AFDC grant in Wayne County will decline from 55.2 percent of the federal poverty threshold in FY 1989–90 to 47.6 percent of the poverty level in FY 1990–91 and 45.2 percent in FY 1991–92. This compares with a maximum AFDC grant at 77.7 percent of the poverty threshold in FY 1979–80.[2] During those years, the gap between the maximum grant and the poverty level rose from $1,465 (in 1980) to $6,354 (estimated for 1992), an increase of 333 percent.

Recommended spending increases include $11.3 million to restore field support staff and automate some departmental operations. The administration also proposes to earmark $39.5 million for vendored shelter payments of those who had been GA-eligible and are currently participating in an adult education program.

The recommended GF/GP budget for the **Department of Mental Health** (DMH) is $889.8 million, $4.8 million or 0.5 percent above the FY 1990–91 projected spending level; after adjusting for financing shifts and program transfers, the increase is 1.6 percent. The FY 1990–91 budget assumes net cuts (total cuts less supplementals) of $30.4 million resulting from P.A.s 357 and 1. Recommended spending for FY 1991–92 is 2.8 percent lower than the department's original FY 1990–91 appropriation.

The DMH budget reflects the governor's objective to downsize state government. Recommendations include the FY 1991–92 closure of three state facilities (the Newberry Regional Mental Health Center, the Coldwater Mental Health Center, and the Muskegon Regional Health Center for Developmental Disabilities),

2 House Fiscal Agency, *An Analysis of Governor Engler's Economic and Fiscal Strategy* (Lansing, Mich.: the Agency, March 1991).

with patients transferred to either community-based programs or other state institutions. First-year savings from these closures and associated administrative efficiencies are projected to be $10.5 million [to be spent on additional community mental health (CMH) programs]; a one-time revenue gain of $5 million is estimated from the sale of the associated state properties. Total CMH funding is recommended to rise by $49.1 million.

The **Department of Public Health** (DPH) is recommended to receive GF/GP funding totaling $133.6 million in FY 1991–92, a decline of 8.6 percent from the projected FY 1990–91 spending level; the decline is 1.6 percent after accounting for financing shifts and program transfers. Reductions include the elimination of $2.8 million in worksite wellness block grants. Savings of $1 million are expected from reduced costs associated with a new financing method for non-Medicaid children's special health care services patients.

Education

In recent years, education has been the number one priority in the budget. However, education receives even more favorable treatment in the FY 1991–92 budget than in recent budgets. The recommended appropriation for education is up $296 million, while the appropriation for all other programs (excluding property tax relief) is down $338 million. The share of GF/GP and SAF revenue allocated to education is 52 percent, up from 42 percent a decade ago and an estimated 48 percent in the current fiscal year.

The GF/GP recommendation for **school aid** is $1,526.3 million; however, this includes $525 million for property tax relief. The increase is 13.3 percent excluding this amount and adjusted for several program transfers. Total school aid, including restricted revenue (sales tax and lottery revenue, for example) is $3,941.5 million (including $418 million for the school employees retirement fund), an adjusted increase of 6.9 percent above projected FY 1990–91 expenditures. Expenditures per pupil also will increase about 7 percent, as enrollments are expected to be stable. The basic membership formula recommends a gross allocation per pupil of $345 plus $94.38 per mill per pupil, resulting in additional funds of $60.2 million. (The current-year formula is $345 plus $89.71.)

One new proposal relates to the state funding formula guarantee. Currently, school districts are guaranteed a minimum level of support based on the funding formula; if K-12 spending exceeds GF/GP and SAF funding, the school aid budget automatically receives a supplemental appropriation. The FY 1991–92 budget proposes that the formula will be reduced if spending exceeds budgeted funds or if actual lottery revenues fall short of estimated revenues (a shortfall in sales tax revenues is not included as a part of the proposal). For every $450,000 in overspending, one cent will be take off the back end (the $94.38 portion) of the formula, which implies that the funding formula is no longer 100 percent guaranteed.

The formula also includes $10 per pupil for a foreign language education incentive program. As a condition of receiving state aid, districts will be required to report average daily attendance (ADA) during FY 1991–92 for the purpose of implementing an ADA-based formula aid program. The membership formula guarantee per pupil will increase 4.7 percent from $3,395 in FY 1990–91 to $3,554 in FY 1991–92 (at 34 mills). The formula assumes a 6.25 percent increase in property values (SEV).

There are a large number of adjustments in the school aid budget. The *increases* in the budget are

- $166.2 million in increased contributions to the PSER system;
- $39.5 million (shifted from other programs) to fund shelter payments for participants in adult education programs who meet income and eligibility requirements for State Disability Assistance (in the DSS) but do not qualify because they are not disabled;

- $21 million for the increase in the cost of Social Security for school district employees;
- $13 million for the foreign language incentive included in the membership formula;
- $10.4 million for basic special education;
- a transfer of $31.4 million in GF/GP funding for certain education programs in the departments of Corrections and Mental Health and for the school bus licensing activities of the State Police.

The major *reductions* in the budget are

- a savings of $86.2 million from discontinuing the prefunding of PSER health insurance (EO 1991–5);
- the transfer of $14.3 million in funding for higher education employees covered by the PSER system to the four-year universities budget;
- the phaseout of the college remedial age 18–20 categorical, for a savings of $5.8 million.

The budget also includes a Job Opportunities and Basic Skills (JOBS)/ Michigan Opportunity and Skills Training (MOST) adult training proposal under which the DSS will contract with school districts to run these programs. The state also expects to gain an estimated $40 million in additional federal JOBS funds through contracts for training services in FY 1991–92, without any shift of existing state adult education support.

The recommended FY 1991–92 GF/GP appropriation for the **Department of Education** is $43.2 million, 14.1 percent below projected expenditures for FY 1990–91. Adjusted for program transfers the decline is 10.1 percent. The budget recommends the transfer of math and science and early childhood development grants and foreign language studies ($3.8 million and $2.3 million GF/GP, respectively) to the SAF. The governor is recommending $6.7 million in program reductions and $1.4 million in program increases. The major reduction is the elimination of $4.7 million in discretionary state-funded grants. The increases are $1 million for the Michigan Partnership for New Education and $0.4 million to coordinate the implementation of P.A. 25 of 1990, which requires a number of school quality measures including the preparation of an annual educational report by every school district.

The recommended FY 1991–92 budget for the **Library of Michigan** is $26.9 million, $2.3 million or 9.3 percent above projected expenditures for FY 1990–91. The entire increase is allocated to property management to cover the increased costs of operating the state library and museum.

The FY 1991–92 GF/GP budget recommendation for **four-year universities** operations is $1,206.7 million, 4 percent higher (adjusted for program transfers) than projected expenditures for FY 1990–91. Each university receives a 4-percent increase. The governor is recommending the transfer of $1 million in grants for the Agricultural Experiment Station and the Cooperative Extension Service to the higher education budget from the Department of Agriculture, and of the PSER system subsidy ($4.4 million) from the SAF to the seven state universities that have participating faculty and staff. Another major recommendation is to transfer the $26.8 million in the Research Excellence Fund (appropriated to participants on a separate line item) to the operating budgets of those universities taking part in the program.

Spending for higher education has increased 52.5 percent from FY 1984–85 to FY 1991–92, compared with an increase of 47.7 percent in overall spending. However, because of the budget reductions in the early 1980s, higher education funding is still 4 percent below the FY 1978–79 level (after adjusting for inflation). As a consequence, Michigan fares poorly compared with other states. Appropriations per student in Michigan were $4,016 in FY 1990, 7 percent below the national average and 29th highest among the states. This below-average support from the state has pushed Michigan tuition for public four-year universities to among the highest in the country. Nationally, 24.1 percent of higher education costs are covered by tuition. In Michigan this figure is 38.7 percent; only 6 states are higher. Clearly, higher education will have to remain a high budget priority if tuitions are to be kept from escalating even more.

The recommended GF/GP appropriation for **financial aid** is $99.8 million, 7.2 million above the projected current-year level. The increase is 3.7 percent adjusted for the recommended transfer of the $3.1-million Tuition Incentive Program from the Department of Social Services. All financial aid programs received a 4-percent increase, except the Shiga Scholarship program ($0.2 million), which is recommended for elimination because of its high cost per student.

The FY 1991–92 budget recommends a 4.9-percent increase (after adjusting for financing shifts and transfers) for **community colleges,** to $242 million. As in the FY 1990–91 budget, each community college is guaranteed a 2-percent increase from the previous year, with the remaining funds distributed on a formula basis. The increases range from 9.9 percent for Bay De Noc and Kalamazoo to 2 percent for Gogebic, Highland Park, and Jackson. For the second year in a row Lansing Community College received the largest dollar increase, $1.7 million, or an 8-percent increase. The budget also recommends the transfer of the appropriation for community colleges retirement ($9.9 million) from the PSER system to the community college budget, and the phase-out over five years of the Wayne County Community College tax grant ($10.3 million); the FY 1991–92 savings are $2.1 million.

Safety and Defense

The recommended FY 1991–92 GF/GP appropriation for the **Department of Corrections** is $817 million, 1.1 percent above projected expenditures for FY 1990–91; adjusted for financing shifts the increase is 3.4 percent. In the past nine years (FY 1982–83 to FY 1991–92) the Corrections budget has increased 261.5 percent, the largest increase for any major program area except capital outlay. The FY 1991–92 increase is the smallest since FY 1982–83, and future increases are likely to be moderate as alternatives to incarceration are implemented. The FY 1991–92 budget recommends three alternative programs; (1) creation of a State Assistance for Local Corrections program, which will reimburse counties for capital outlay and operating costs for housing state prisoners; (2) development of separate boot camp facilities for selected prisoners, allowing release under intensive parole supervision; and (3) a $0.5 million expansion of the electronic tether system.

The FY 1990–91 budget also includes reductions of $70.8 million and supplementals of $139.1 million. The FY 1991–92 budget includes (1) $36.2 million in savings from the continuance of current-year reductions, (2) an $18-million shift in financing for academic and vocational programs to the SAF, (3) $11.7 million in additional program reductions ($7.4 million and 200 positions come from adjusting shift schedules to maximize the number of officers at peak periods), (4) a $2.5-million increase in probation/parole fees, which reduces GF/GP requirements; and (5) $74.8 million in program increases.

The major increases include (1) $11.3 million to operate institutions opened in FY 1990–91, (2) $14.1 million for partial-year funding of two new maximum security prisons at Baraga and Manistee, (3) $13.7 million to expand double bunking to 2,743 cells, (4) $18 million in economic increases, and (5) restoration of $12.9 million to fund fully the retirement premium for institutional employees covered under the supplemental retirement plan.

The two new facilities will add 856 beds, helping to offset a projected population increase of 1,700. The remainder of the increase in prisoners will be dealt with by means of double bunking. This will cost $27.7 million but will save $33.2 million compared to the cost of operating regional prisons at capacity.

The recommended FY 1991–92 GF/GP appropriation for the **Department of State Police** is $176.4 million, 6.9 percent below projected expenditures for FY 1990–91, and 10.7 percent below the initial appropriation for FY 1990–91. The current-year budget includes a reduction of $18.2 million for the 9.2-percent reduction plan, and a supplemental of $10 million. The FY 1991–92 recommendation includes reductions of $22.3 million; however, $15.3 million of this amount is a financing shift to new restricted revenue sources (refer to Exhibit 3). Proposed are

- a one dollar surcharge on vehicle owners' insurance to support secondary roads patrol grants ($7.6 million replacing $6.6 million in GF/GP funding);
- a surcharge of one percent on commercial fire insurance and homeowners' insurance to support the Fire Marshall Division, which will raise an estimated $10.3 million in fee revenue and result in a $5.8 million reduction in GF/GP funding;
- a $3 surcharge on civil infractions to support the Law Enforcement Officers Training Council and components of the Training Division ($2.6 million); and
- financing of $0.7 million from the SAF to support school bus inspections.

Actual program reductions of about $7 million are proposed, including $2.7 million from attrition and reorganization in the Uniform Services Division and cancellation of two schools for recruits, and $0.8 million due to privatization of toxicology services for state and local law enforcement. Also included in the budget recommendation is $6.6 million in additional funds, mainly for economic increases and costs of schools for recruits.

The FY 1991–92 budget recommends a 75.5 percent increase for the **Department of Military Affairs** to $25.2 million. The entire increase is due to the transfer of the veterans' facilities ($11.7 million) from the Department of Public Health (EO 1991–7). Adjusted for this transfer the budget is $0.9 million or 3.5 percent below projected spending for FY 1990–91. In addition to continuing of the cuts enacted in the current fiscal year, $1 million in reductions are proposed for FY 1991–92, including $.34 million in savings at veterans' facilities by contracting out certain services.

Natural Resources and Environment

The FY 1991–92 recommended appropriation for the **Department of Natural Resources** is $98.4 million, 6.7 percent below projected spending in FY 1990–91 and 18.8 percent less than the department's original appropriation. Spending reductions total $11.4 million GF/GP, which will be partially offset by $1.8 million in additional estimated fee and federal revenue. Reductions include $1.3 million in funding cutbacks for state parks resulting from program reductions, the closure of four parks, and associated administrative efficiencies (an estimated $700,000 increase in park fee revenues will offset declining GF/GP support); $1.2 million from the discontinuation of support for Act 641 (the Solid Waste Management Act) personnel and planning grants; and $598,200 from the discontinuation of support for the Northern Michigan Olympic Training Center. There are no recommended increases in GF/GP spending, although recommendations for additional federal and restricted fund support total $16.6 million.

The **Department of Agriculture** has FY 1991–92 recommended funding of $26.2 million, a 16.9-percent decline from expected spending in FY 1990–91 and a 24.4-percent reduction from the department's original FY 1990–91 appropriation. After adjusting for financing shifts and transfers, recommended spending is 13.9 percent below expected spending in FY 1990–91 and 21.6 percent below the original appropriation level. Spending reductions result from a combination of decreased spending and the transfer (to the Department of Commerce) of the World Trade Services program ($1.7 million), and cuts to the Center for Agricultural Innovation and Development ($654,600). No increases in GF/GP spending are recommended for FY 1991–92, although an additional $1.4 million in restricted and federal revenues are proposed to fund pesticide and plant management programs.

Regulatory

The FY 1991–92 GF/GP appropriation for the **Department of Commerce** is $28.3 million, 39.2 percent below projected expenditures for the current fiscal year and 75 percent below the initial appropriation for FY 1990–91. Adjusted for the transfer of the Department of Licensing and Regulation ($9.7 million) and several smaller programs ($1 million), expenditures will be 50.6 percent below FY 1990–91. The budget proposes only $2.4 million in new reductions for FY 1991–92, the remaining reductions are a continuation of the cuts proposed in the FY 1990–91 budget. The largest of these are (1) the Michigan Equity program, which provides funds to municipalities for cultural programs and improvements, $32 million; (2) the Neighborhood Initiatives program and Neighborhood Corps, $10 million; (3) Community Growth Alliance grants, $4.1 million; and (4) Arson Control and Prevention grants, $3.5 million. As shown in Exhibit 10, the budget proposes $1.3 million in fee increases.

There is no new GF/GP money in the Commerce budget, but one major new initiative is the Michigan Affordable Housing Fund. The budget recommends $23 million in federal funds and matching funds from fees and charges from the Michigan Housing Development Authority. Also the Homeless program is continued at the FY 1990–91 level of $4.95 million, with $2.95 million allocated from restricted sources.

The budget recommends an increase of 481 positions for FY 1991–92, which includes the transfer of 388 jobs from the Department of Licensing and Regulation.

The **Department of Labor** also is slated for sharp reductions. The FY 1991–92 recommendation of $18.8 million is 75.5 percent below the initial FY 1990–91 appropriation and 50.1 percent below projected expenditures for the current fiscal year. Proposed and enacted cuts for FY 1990–91 total $38.4 million, with the largest being $16 million from the Michigan Youth Corps and $12.3 million from reduced job training grants.

The FY 1991–92 budget recommends $12.9 million in full-year cost savings associated with the FY 1990–91 original appropriation just mentioned, and a $5.5 million reduction in workers' compensation programs by shifting support to restricted revenue. An as yet undetermined fee on claims and settlements will be the source of this revenue. The major reductions include another $5.7-million cut in job training grants, $2.6 million for the elimination of the Workers' Compensation Appeal Board and a shift of workers' compensation costs to restricted funding, and a $1.6-million reduction in community action agencies funding. A particularly controversial recommendation is the transfer of authority over the state's safety regulatory programs to the federal government. The number of funded full-time positions is recommended at 159 fewer than in FY 1990–91.

The governor has issued an executive order (EO 1991–9) to transfer the **Department of Licensing and Regulation** to the Department of Commerce. The recommended appropriation for the functions of the

EXHIBIT 10

Governor's FY 1991–92 Budget
Proposed Fee Increases
(actual dollars)

Department/Issue	Effect on GF/GP Appropriation
Social Services	
Day care/foster care license fees	$1,012,300
Hospital contributions for Medicaid	70,000,000
Total Social Services	$71,012,300
Mental Health	
Mental health user fees	$3,000,000
Public Health	
Vital record search fees	$400,000
Laboratory fees	600,000
X-ray machine registration fees	300,000
Food service establishment registration fees	180,000
Total Public Health	$1,480,000
Corrections	
Probation/parole fees	$2,500,000
Education	
Michigan Occupational Information System fees	$550,000
Civil Rights	
Contract compliance user charges	$477,000
Commerce	
Property development fees	$210,700
Financial Institution Bureau fees/urban investment	400,000
Financial Institution Bureau fees/banks	661,500
Total Commerce	$1,272,200
Labor	
Workers' compensation fees	$5,461,700
State Police	
Motor vehicle insurance, $1 surcharge	$6,573,500
Homeowners/commercial insurance, 1% surcharge	5,771,300
Civil infractions, $3 surcharge	2,575,800
Total State Police	$ 14,920,600
Natural Resources	
Nonmotorized trail fees	$167,200
Farmland open space fees	457,700
Total Natural Resources	$624,900
Total fee increase	$101,298,700

SOURCE: Senate Fiscal Agency

department is $9.7 million, $2.2 million or 18.5 percent below the initial FY 1990–91 appropriation. These reductions have been implemented in the current fiscal year and no new reductions are proposed for FY 1991–92.

General Government

This category includes six departments, plus the judiciary, executive office, and legislature. The recommended GF/GP appropriation for FY 1990–91 is $358.1 million, 0.4 percent above projected spending for FY 1990–91. Adjusted for program transfers and financing shifts, spending will decline 2.3 percent. The budget proposes a reduction of 676 full-time positions, an 8.2-percent decline. The majority of these are in the Department of Management and Budget (DMB), but, as explained below, most are not actual staff cuts.

The largest recommended increase in the budget is 15.5 percent for the **Department of Treasury** (operations). This is adjusted for the recommended transfer of both the $10.7-million Senior Citizens Cooperative Housing Tax Exemption program and the $0.5-million Office of Revenue and Tax Analysis from the DMB. The governor also has recommended that the Bureau of State Lottery be transferred from the DMB to Treasury; $38.4 million is involved, but none of this is GF/GP money. Including these transfers the increase in the Treasury operations budget is 50.2 percent (excluding debt service). The total recommended budget is $53.6 million (excluding debt service), an adjusted $7.2 million above the projected FY 1990–91 level. The increase is accounted for by recommended spending of $5.4 million to cover anticipated presidential primary costs in 1992 and $3.9 million for a scheduled repayment to the Veterans Trust Fund. Also included in the budget are program reductions of about $3 million, including the elimination of the tax tribunal ($0.6 million) and tax administration programs ($0.8 million).

The recommended GF/GP appropriation for the **Department of Management and Budget** is $53.6 million. This is $11.7 million or 17.9 percent below projected expenditures for FY 1990–91. The executive budget reports a $5.5 million or 9.4 percent decline, as the figures are adjusted for the governor's FY 1990–91 budget balancing recommendations. In addition to the programs transferred to the Department of Treasury described above, the budget also recommends the transfer of the Commission on Indian Affairs, Commission on Spanish Speaking Affairs, and Women's Commission to the Department of Civil Rights; the Council for the Arts to the Department of Commerce, and the Office of Health Planning to the Department of Public Health. These transfers total $2.4 million. Also proposed are program reductions of $8 million, with the largest being $3.2 million for the Office of Services to the Aging. Another recommendation removes all funds associated with state facility rent from each department's budget and the corresponding rent deduction from the DMB budget. A proposed reduction of 562 positions is included in the GF/GP budget. However, most of these positions are not eliminated. Rather their associated costs are shifted from the general fund budget to a Property Management Revolving Fund, which in turn will be supported with building occupancy charges and assessments for property management services, paid by each department.

The recommended FY 1991–92 appropriation for the **Department of State** is $14.9 million, 9.7 percent below projected spending (adjusted) for the current fiscal year. Reductions include $1 million for full-year saving for historical grants, which were sharply reduced in the current-year budget, and $3.1 for elimination of rent charges. This was partially offset by a $1.6 million charge for building occupancy and property management services (paid to the DMB revolving fund).

The FY 1991–92 appropriation for the **Department of Civil Service** is $13 million, unchanged from the adjusted FY 1990–91 appropriation base, but 9.7 percent below the original appropriation. The budget is reduced by $2.3 million, which represents the full-year costs of the 9.2-percent reduction enacted in the current fiscal year.

The recommended appropriation for the **Department of Civil Rights** is $9.3 million, 20.5 percent below projected FY 1990–91 expenditures (adjusted for transfers) and 11.8 percent below the adjusted FY 1990–91 appropriation base. The budget is increased by about $1.2 million due to the proposed transfer of three commissions from the DMB (see above). The budget also recommends savings of $1.6 million and 40 positions in Executive and Field Operations to be achieved by improved administrative operations.

The FY 1991–92 budget proposes no change in funding for the **executive office, legislature, judiciary,** and **Office of Attorney General.**

Other

The **Department of Transportation** is funded by restricted revenues, mainly gas and weight (registration) taxes and federal revenues. The recommended appropriation for FY 1991–92 is $2,157.8 million, 5.1 percent below the adjusted base for the current fiscal year. The decrease is the result of a projected decline in gas and weight taxes.

The recommended GF/GP **capital outlay** appropriation of $197.2 million is $11.7 million or 6.3 percent above the proposed FY 1990–91 level. The increase is due mainly to an additional $33.1 million in State Building Authority rent for projects being completed in FY 1991–92, including ten correctional facilities. This increase is partially offset by a reduction of about $22 million for grants payments and projects that have been completed. Special maintenance funds are recommended at the same level as in FY 1990–91. No new construction projects are funded in the budget.

The recommended GF/GP **debt service** appropriation is $25.7 million, a 3.6-percent increase. Included in the budget is $1.7 million to meet Quality of Life Bond debt service requirements.

The budget assumes a withdrawal of $213 million from the **Budget Stabilization Fund** (BSF) in FY 1990–91 and no withdrawal or payment in FY 1991–92. The balance in the BSF at the end of FY 1991–92 is estimated (by Public Sector Consultants) at $210 million.

General revenue sharing grants to local units (from sales, income, single business, and intangibles taxes) are estimated at $1,075 million, a 3.5-percent increase. The budget recommends the elimination of an estimated $100 million in grants to local units, with the largest being about $41 million for the Michigan Equity program (in the Department of Commerce), $24 million for the Michigan Youth Corps, and about $14 million for various grants in the Department of Education. 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 1991–92 budget recommends the return of an estimated 44.25 percent, $376 million more than required. This includes $525 million in reimbursements to local units for the governor's proposed property tax relief program. If this amount is not included, payments to locals amount to 42.1 percent, $71 million above the required amount. Also, the Michigan Court of Appeals has recently ruled that it is unconstitutional to count payments to community mental health boards as local spending; these payments amount to about $410 million. The ruling is being appealed. There are options available to comply with the constitutional requirement if the appeal is lost.

Article IX, Section 26 of the state 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 1991–92 is estimated at $16 billion (9.49 percent of 1990 Michigan personal income). Total state revenue (less federal aid and general obligation debt plus specified tax credits) is projected to fall about $2.4 billion below the limit, despite the inclusion of $866 million in new and accrued revenue in the FY 1991–92 budget.

COMMENT

One question often asked about the current administration is whether it is using the current fiscal crisis as an excuse to reduce government spending or doing what it has to do. The answer is that John Engler is committed to downsizing state government and that if the economy were stronger the additional revenues would most likely be used to provide more property tax relief and more money to education, although the cuts in some areas probably would not be as deep.

Governor Engler clearly believes that government in Michigan has taken on too many responsibilities over the past few decades and that a much more limited role for government is appropriate. He also believes that high taxes and spending are holding back the Michigan economy and less state government means a healthier economy and more jobs for Michigan workers. This claim has been challenged by the Democrats, who assert in the House Fiscal Agency study referred to above that the Engler budget (including the effects of property tax relief) will result in a minimum job loss of 11,000 by 1993 and a 0.6 percent decline in Michigan real per capita income. The analysis indicates that a 4,000 job gain from property tax reductions will be offset by a 14,400 job loss due to welfare reductions and layoffs of state employees.

Does this make John Engler mean spirited and callous? We think not, no more than Ronald Reagan was mean spirited. Reagan and Engler hold similar views, but Reagan was perceived by the majority of Americans as genial and concerned and as doing what he believed was best for the country (although some believed he was doing what he thought was best for the rich). It is also true that Reagan's success in downsizing the federal government was very limited. John Engler is likely to be more successful in that regard. However, as we have stated before, the governor runs the risk of earning a hard to shake reputation of being unconcerned about the plight of the less fortunate in our society. The problem, as we see it, is that he is attempting to move too fast to dismantle programs that have been in place for years. A slower approach and a better articulation of his goals likely would assure more public support and success in the legislature. As we stated in our March 14 *Michigan Commentary*, "Grasping the Future Wisely,"

> The Democratic budget response to the Engler administration seems to indicate concurrence in the belief that the scope and size of Michigan government has to decline. If in fact there is agreement on this philosophical principle, it is only a matter of negotiation to identify those targets which can win majority legislative support. The nature, degree, and timing of downsizing can be dealt with as a tactical issues inside the budget process.
>
> However, we need to be careful not to blur and confuse the issues. The polity of Michigan's social institutions for half a century has been based on a shared vision of social equality and justice for our most disadvantaged and advantaged citizens. If Michigan wishes to abrogate or rewrite this social contract, it should not do so in the guise of dealing with fiscal emergency or government downsizing; if this be the issue, let it be discussed plainly, as part of the real agenda of the future.

John Engler faces the prospect of spending his political capital too quickly and having his agenda for the next four years lost in the current budget quagmire. There is no reason why everything must be done in the first 100 days. The Engler administration, however, appears to believe that it must strike while the iron is hot; our view is that there is no pressing date by which the governor must put into effect his mandate.

A better approach would be first to reach agreement on the FY 1990–91 budget by agreeing to spread cuts over a longer period and adopting some of the short-term strategies proposed by the House Democrats or eliminating selected tax expenditures to raise $100–200 million (on a full-year basis). The second step would be to agree to take the remaining $200 million out of the BSF in FY 1991–92 to close the gap caused by one-time adjustments in the previous fiscal year or to soften the effect of cuts in the human services area.

The third step would be to lay out a four-year budget plan, identifying the level of spending and the composition of government that the Engler administration desires at the end of that period. This plan should present clearly alternatives to programs slated for elimination or reduction, such as General Assistance, arts grants, job training, and economic development programs. For example, the legislature may agree to end funding for the arts if it is done over several years and alternative programs such as increased tax credits for private support for the arts are put in place.

Clearly, there is little support for a tax increase in this state, but this has not been the case in many states. According to the National Association of State Budget Officers, about 35 stated are facing imbalances in their FY 1990–91 budgets. Exhibits 11 and 12 show that last year a number of states approved tax increases that in total will raise $10.3 billion in FY 1990–91, the largest one-year increase in history. In recent months, however, the ardor for tax increases has cooled. As shown in Exhibit 13, most states are now opting for budget reductions to bring their budgets into balance.

Should Michigan raise taxes to deal with the current fiscal crisis? A moderate tax increase seems justified. Michigan has a reputation as a high tax state, but, as shown in Exhibit 14, our taxes are 18th highest among the states and only slightly above the national average. What is the most logical source of revenue? Certainly not the income tax, and the sales tax rate is limited by the constitution. Cigarette and liquor taxes are candidates as are certain tax expenditures, such as property tax abatements. The best source in our view, however, would be to extend the sales tax to certain services. The sales tax burden in Michigan is among the lowest in the

EXHIBIT 11

Percentage Increases in State Taxes, 1990 Legislation

State	Percent	State	Percent	State	Percent
New Jersey	21.2	Florida	8.7%	New Mexico	3.2%
Kentucky	14.5	Oklahoma	6.1	Louisiana	2.7
Nebraska	13.1	Arizona	5.3	**United States**	2.6
Massachusetts	12.8	Vermont	4.4	Virginia	2.1
New Hampshire	9.5	Texas	3.5	Washington	2.0
Rhode Island	9.0	New York	3.3		

SOURCE: *State Policy Reports*, State Policy Research, Inc., vol. 8, issue 20, October 1990.

EXHIBIT 12

Summary of FY 1991 Tax Increases by Source (dollars in billions)

Type of Tax Increase	Amount	Percent of Total
Personal income	$2.9	28%
Sales	2.5	24
Other (e.g., petroleum products)	1.4	14
Motor fuels	1.4	14
Corporate income	1.4	13
Tobacco	0.5	5
Alcoholic beverages	0.2	2
TOTAL	$10.3	100.0%

SOURCE: *State Policy Reports*, State Policy Research, Inc., vol. 8, issue 20, October 1990.

EXHIBIT 13

State Strategies to Close FY 1991 Budget Gaps

Gap-Closing Strategy	Number of States
Hiring and travel freezes	26
Selective reductions of particular programs	22
Across-the-board cuts	16
Deferred spending	15
Layoffs	14
Rainy day funds	12
Internal borrowing or fund shifts	12
Furloughs	9
Reduced or delayed pension contributions	6
Revenue or tax increases	4
External borrowing or bonding	4

SOURCE: *State Policy Reports*, State Policy Research, Inc., vol. 9, issue 3, February 1991.

nation and about 25 percent below the national average. Also, a survey by the Federation of Tax Administrators found that of 172 services that could be taxed, Michigan taxes only 18, ranking the state 38th among the 50 states (see Exhibit 15).

Clearly, tax increases should be minimized during a period of economic weakness, but a modest extension in the coverage of the sales tax would provide some badly needed revenue, improve the fairness of the tax structure, and impose a significant burden on no one. Instead the administration is continuing the policy of relying on one-time revenue sources (see above), a practice that has contributed to the large structural budget deficit.

As a final comment, it is worth noting two changes in the budget process proposed by the Engler administration with which we agree. The first proposal would establish a consensus revenue estimating process that would allow the legislature and the executive to agree on a revenue estimate on which to base budget recommendations, possibly with the assistance of an outside revenue estimating board. The purpose is to take politics, as much as is possible, out of this process. Under the current process the numbers are often

EXHIBIT 14

State and Local Taxes as a Percentage of Personal Income, FY 1990

Rank	State	Percent	Rank	State	Percent	Rank	State	Percent
1	Alaska	18.30%	**18**	**Michigan**	**11.79%**	34	Indiana	10.69%
2	New York	15.40	19	North Dakota	11.64	35	Illinois	10.67
3	Wyoming	14.20	20	Nebraska	11.48	36	Kentucky	10.65
4	Hawaii	13.91	21	Idaho	11.41	37	Massachusetts	10.65
5	Minnesota	13.06		United States	11.37	38	Pennsylvania	10.59
6	Montana	12.68	22	South Carolina	11.32	39	Nevada	10.58
7	Arizona	12.53	23	Rhode Island	11.29	40	Texas	10.50
8	New Mexico	12.47	24	North Carolina	11.24	41	New Jersey	10.50
9	Wisconsin	12.42	25	Maryland	11.13	42	Mississippi	10.41
10	Iowa	12.31	26	Georgia	11.13	43	South Dakota	10.19
11	Oregon	12.30	27	California	11.12	44	Virginia	10.03
12	Utah	12.25	28	Delaware	11.03	45	Florida	10.02
13	Maine	12.19	29	Kansas	11.02	46	Arkansas	9.62
14	Washington	12.19	30	Ohio	10.97	47	Missouri	9.49
15	West Virginia	12.04	31	Connecticut	10.91	48	Alabama	9.41
16	Vermont	11.97	32	Oklahoma	10.81	49	Tennessee	9.40
17	Louisiana	11.81	33	Colorado	10.76	50	New Hampshire	8.22

SOURCE: *State Policy Reports*, State Policy Research, Inc., vol. 9, issue 4, February 1991.

EXHIBIT 15

Extent of State Taxation of Services, 1990

Rank	State	Points	Rank	State	Points	Rank	State	Points
1	Delaware	158	18	Florida	53	34	Kentucky	23
2	Hawaii	154	19	Louisiana	48	34	Maine	23
2	New Mexico	154	20	Arkansas	47	36	North Dakota	19
4	Washington	151	20	Utah	47	36	Vermont	19
5	South Dakota	131	22	Nebraska	40	**38**	**Michigan**	**18**
6	West Virginia	111	23	Pennsylvania	37	39	Indiana	17
7	Iowa	83	24	New Jersey	35	40	South Carolina	16
8	Connecticut	76	25	Ohio	34	41	California	15
8	Texas	76	26	Idaho	33	41	Illinois	15
10	Mississippi	67	26	Oklahoma	33	41	Oregon	15
11	Tennessee	66	28	Alabama	31	41	Virginia	15
11	Wisconsin	66	28	Georgia	31	45	Montana	14
13	Kansas	64	30	North Carolina	26	46	Colorado	12
14	Minnesota	60	31	Maryland	25	46	Nevada	12
15	New York	58	32	Missouri	24	48	New Hampshire	11
16	Wyoming	56	32	Rhode Island	24	49	Massachusetts	4
17	Arizona	54				50	Alaska	2

SOURCE: *State Policy Reports*, State Policy Research, Inc., vol. 9, issue 4, February 1991.

manipulated to support the agenda of the governor or the legislature. The second proposal is to penalize department managers who allow overspending in their department. Overspending the appropriation and deliberately underestimating spending requirements has been a chronic problem in this state for a number of years, as shown in Exhibit 16. This has contributed to the current fiscal crisis, and reform is long overdue.

EXHIBIT 16

General Fund/General Purpose and School Aid Fund Net Supplemental and Overexpenditures, FY 1980–FY 1991 (dollars in millions)