

*** Governor's budget projects General Fund revenue will increase \$513 million in FY 1984 *** Federal funding to rise by more than \$300 million *** State funding increases targeted for education, health programs, and social services *** Average monthly AFDC caseloads estimated to rise by 10,365 cases and average GA caseloads by 16,657 cases ***

THE EXECUTIVE BUDGET

In the three-year period 1980-82, revenue shortfalls and state budget reductions became the norm rather than the exception. Because almost 80% of Michigan's General Fund-General Purpose budget is expended on education, health care services, and welfare programming, the vast majority of budget cutbacks were distributed across these areas. Governor Blanchard's proposed \$5,322.4 million fiscal year 1983-84 General Fund budget seeks to address and reverse this trend.

Of the proposed \$512.3 million increase from the projected \$4,810.1 million fiscal year 1982-83 expenditure level, the governor's budget would concentrate 78.9% in the areas of education, health, and social services. While these areas would still comprise approximately 80% of the 1983-84 General Fund budget, the distribution of funds among the three areas would be altered. In the current fiscal year, colleges and universities received \$80 million more than their basic 1982-83 funding level due to one-time repayment of state aid deferred in fiscal year 1981-82. Education consequently would gain \$75.5 million but make up only 26.5% of the General Fund budget, down from 27.8% in the current year. Public and mental health expenditures would increase by \$86.5 million, rising from 12.7% to 13.1% in fiscal year 1983-84. Social services would have an additional \$242.1 million in General Fund dollars next year and would comprise 39.7% of General Fund expenditures compared to 38.9% in fiscal 1982-83.

Approximately three-quarters of the remaining \$108.2 million increase would be used for economic development and for prison construction and programs. The rest would be distributed as economic increases among the other 16 state department budgets.

The governor's budget proposal anticipates that the state would collect about \$300 million more in federal funds next fiscal year. Of this increase, \$181 million would be available through the Job Training and Partnership Act (JTPA), the federal jobs program slated to replace CETA in fiscal 1984. An additional \$49 million would be channeled to transportation. Almost all the rest would be obtained as a match for increased Aid to Families with Dependent Children (AFDC) and to compensate for inflation in Medicaid outlays.

HIGHLIGHTS OF THE BUDGET

Major changes in the proposed fiscal year 1983-84 budget are listed below:

- * Education: Local districts would realize an increase of \$85.1 million in school aid funding. Community colleges would collect an additional \$8.2 million in state support. Elimination of a one-time repayment of \$80 million deferred in fiscal year 1981-82 would leave state support of higher education with \$19.4 million less in state funds in fiscal 1983-84 despite a 7.5% to 9% increase over 1982-83 funding level bases.

- * Health: Mental health programs would receive \$74.3 million more in funding during the next fiscal year. Of this increase, \$39.5 million would be directed to community mental health programs. Public health funding would rise by \$12.2 million. Crippled children services would receive \$1 million in increased funding. The remainder of the increase reflects higher service costs and would be distributed fairly evenly across the various public health programs.
- * Social Services: Funding would increase by \$242.1 million. Of this increase, \$102 million would be slated for Medicaid cost reimbursement, \$93.5 million for anticipated caseload increases, and \$43 million for a 5% increase in public assistance grant levels.
- * Corrections: Rising populations and inadequate prison facilities have forced use of the Emergency Prison Overcrowding Act five times this past year. The proposed budget would provide \$63.5 million for construction (630 new beds), increased custody staffing, and inmate health care.
- * Economic Development: The budget would provide an additional \$16.6 million for investment capital, business assistance programs, policy development, and the "Say Yes to Michigan" campaign in an attempt to strengthen and stimulate Michigan's business climate.

BUDGET ASSUMPTIONS

The proposed budget assumes total U.S. auto sales will total 9.0 million units in fiscal 1984, up from projected sales of only 8.2 million units this fiscal year. Anticipated employment would rise less than 2% to 3.24 million workers, while the unemployment rate would decline from a 1983 fiscal year average of 16.1% to 14.2%. High unemployment, combined with a lengthening duration of unemployment and higher rates of exhaustion of unemployment insurance benefits, is anticipated to raise average monthly AFDC caseloads to 247,000 from the to-date average of 236,635 and increase average monthly General Assistance caseloads to 141,000 from the 124,343 averaged so far this fiscal year. The projected 8.5% gain in workers' wage and salary income, combined with a higher rate of inflation and increased transfer payments, is projected to result in a comparatively small 1.8% gain in inflation-adjusted personal income.

FAS COMMENT

The Michigan and U.S. economies are undisputedly experiencing a modest economic recovery which will extend through fiscal 1984. However, the economic assumptions on which the proposed executive budget are based are deliberately conservative and reflect a greater degree of pessimism than that advanced by cynics. The assumptions also run counter to previous recovery experiences. While re-entry of discouraged job-seekers into the labor force will keep unemployment rates high, it is important to note that more people will be working. Employment typically rises almost 4% during this phase of recovery, double the assumed 2% increase. Higher employment helps reduce dependence on entitlement programs such as AFDC. Gains in productivity moderate prices during recovery, leading to lower inflation rates and larger increases in inflation-adjusted personal income. This last effect contributes to higher expenditure levels for consumer durables, and this in turn helps perpetuate the recovery.

However, since few features of the 1980-82 recession have corresponded to those of previous post-war recessions, a more cautious assessment of recovery increases may be warranted. If the recovery shows surprising strength, both

employment and personal income should increase. More rapid economic recovery would affect the budget in two ways. Higher employment would phase out the recently enacted income tax increase more rapidly, while stronger increases in personal income would restrain potential gains in General Fund revenue and expenditures by requiring a transfer from the General Fund to the Budget Stabilization Fund. (See March 23, 1983 issue.) These factors will also maintain 1985 revenue at approximately the same level as 1984. Even under the most favorable assumptions, state government will be incapable of sustaining the growth and employment increases of the late 1970s.

A comparison of the funding levels, in millions of dollars, and composition of the state's 1982-83 and 1983-84 fiscal year budgets is displayed in the table below:

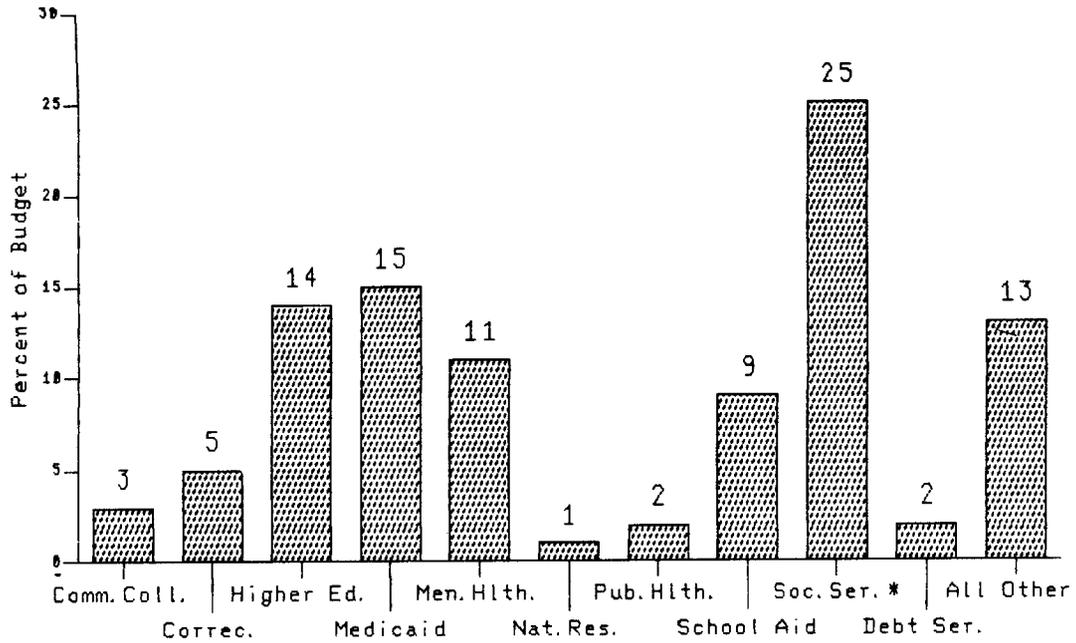
<u>Appropriation Unit</u>	<u>1982-83 Projected Expenditures</u>	<u>Recommended 1983-84 Appropriation</u>	<u>% Increase (Decrease) From 1982-83</u>	<u>1983-84 Share of General Fund Budget</u>
Executive Office	\$ 2.53	\$ 2.83	11.86%	0.05%
Judiciary	56.86	64.01	12.57	1.20
Legislature	53.34	56.86	6.60	1.07
Agriculture	17.87	19.58	9.57	0.37
Attorney General	14.07	16.14	14.71	0.30
Civil Rights	7.82	8.65	10.61	0.16
Civil Service	6.39	8.50	33.02	0.16
Commerce	61.60	80.01	29.89	1.50
Community Colleges	135.00	143.17	6.05	2.69
Corrections	225.90	261.05	15.56	4.90
Education	24.77	26.38	6.50	0.50
Higher Education	780.50 ^a	761.07	8.65 ^b	14.30
Labor	53.50	54.53	1.92	1.02
Licensing & Regulation	12.87	13.21	2.64	0.25
Management & Budget	77.60	86.55	11.53	1.62
Mental Health	522.00	596.32	14.24	11.20
Military Affairs	8.79	9.36	6.48	0.17
Natural Resources	42.20	49.61	17.56	0.93
Public Health	88.00	100.20	13.86	1.88
School Aid	397.30	482.41	21.42	9.06
Social Services	1,872.20	2,114.28	12.93	39.72
State	8.47	9.45	11.57	0.18
State Police	119.40	127.53	6.81	2.40
Transportation	9.20	9.20	0.00	0.17
Treasury	47.80	52.45	9.73	0.98
Debt Service	112.47	118.37	5.24	2.22
Capital Outlay	51.40	50.68	-1.40	0.95
Total	\$4,810.15	\$5,322.40	10.65%	99.95%^c

^aIncludes \$80 million restoration for FY 1982.

^bIncluding the FY 1982 restoration, effective decrease is 2.49%.

^cDoes not sum to 100.00% because of rounding.

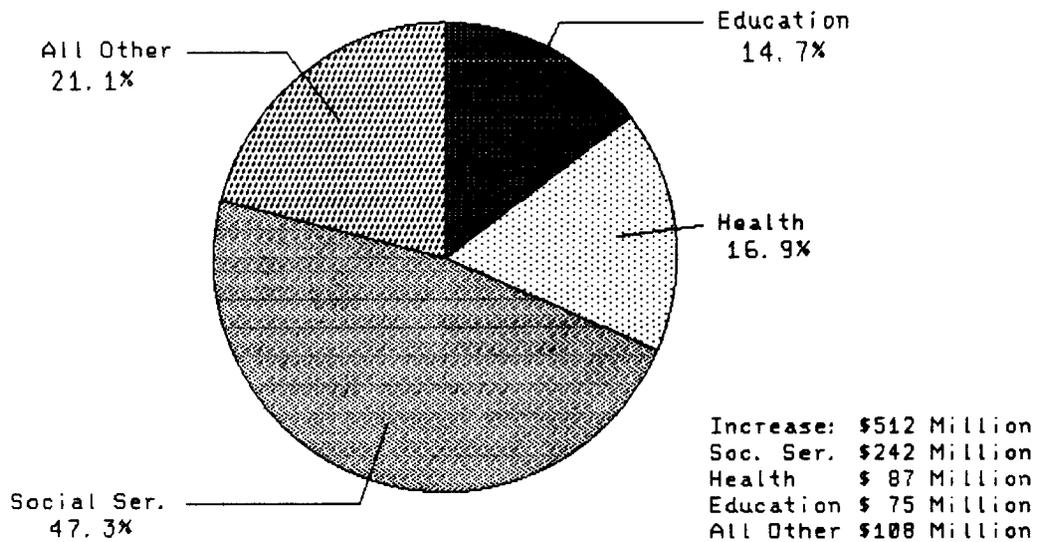
COMPOSITION OF PROPOSED
FY 1984 GENERAL FUND BUDGET



*excl. Medicaid

Public Sector Consultants, Inc.

DISTRIBUTION OF PROPOSED
FY 1984 GENERAL FUND
EXPENDITURE INCREASE



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