

1982-83 Executive Budget Revised Downward \$307.4 Million

The 1983 fiscal year budget recommended by the governor in January proposed a general fund expenditure level of \$4.98 billion. The governor's new recommendation sets the general fund budget at \$4.68 billion, a 10.2% increase over anticipated 1982 general fund revenues of \$4.24 billion, exclusive of the temporary income tax increase. This revised estimate is based upon the following assumptions: (1) an economic recovery starting in the second half of calendar 1982 and extending through 1983; (2) stimulation of Michigan's economy due to the July federal income tax rate cut; (3) a 6% annual inflation rate and lower interest rates; (4) a 10% increase in total personal income; (5) a decline in unemployment from the expected 14.5% rate of 1982 to 12.3% in 1983, (6) a 24% increase in U. S. auto sales. As of June, state officials projected 1982 auto sales at 8.2 million units, and 1983 sales at 10.1 million. The budget also assumes rollback of the 5% pay increase for state employees or employee layoffs to generate equivalent savings.

Line item detail on changes within departmental programs is not yet available. However, school aid and social service programs gained additional funds under the revised executive proposal, while community colleges, state colleges and universities, the Departments of Education, Public Health, Mental Health and State Police lost most of the earlier slated increases for 1983. The attached table shows the 1982 funding level, original and revised executive budget recommendations, and Senate approved 1983 appropriation levels.

Expenditures for education were set at 26.9% of the general fund budget under the revised executive recommendation, but 27.9% under the Senate version, a dollar difference of \$48.1 million. However, Senate approved outlays for social service programs were \$51.4 million below the revised executive recommendation. This disparity sets the stage for a fall battle between education and human service interests.

The executive and Senate budgets project a 2.9% spending increase for fiscal 1983, but adjusted for a 6% inflation rate, this yields a decline in buying power of 2.9%. This figure excludes transportation, since the general fund-special purpose revenues formerly used for transportation will be deposited into and paid from the general fund in 1983.

FAS Comment

While we agree the economy will improve during the second half of calendar 1982, we are not optimistic about either the strength or duration of improvement. We anticipate somewhat lower interest rates by late fall, but do not believe they will decline appreciably. A sustained recovery requires lower interest rates to revive business investment, housing and auto sales. We project 1983 auto sales will increase 13.5% over the extremely depressed 1982 level, yielding total U.S. sales of 9.3 million units. This would match the level attained in 1963, but exceed the sales records of the 1974-75 and 1980-82 recessions.

We concur with the revised executive revenue estimate of \$4.7 billion. However, stern discipline must be maintained to prevent expenditures from outstripping revenues. Unless state revenues increase dramatically to eliminate need for significant borrowing, Michigan's reduced bond rating will increase interest payments. Interest payments on borrowing are expected to reach \$147.5 million in fiscal 1982. The situation is fragile and does not permit program expansion or enhancement in fiscal 1983, but we do not believe it will require budget reductions. Potential pitfalls facing state budget framers

include pressure on the general fund to assist in meeting the huge unemployment compensation debt, liberalized credits for economic development, tax reduction proposals, and the critical finances of at least 32 school districts. State assumption of any new obligations can be achieved only at the expense of other programs or by tax increases.

1982 General Fund Expenditures, 1983 Executive Recommendations,
and Senate Approved Appropriations for 1983 (millions of dollars)

| Department or Program | 1982 Budget Level | Original Executive Rec. | Revised Executive Rec. | Senate Version | % Change in Exec. Rec. |
|-------------------------------|-------------------------|-------------------------------|------------------------------|-------------------|---------------------------|
| Executive Office | \$ 2.4 | \$ 2.9 | \$ 2.4 | \$ 2.4 | -17.2% |
| Legislature | 48.3 | 51.2 | 46.7 | 46.6 | -8.8 |
| Judicial | 57.1 | 60.0 | 57.0 | 53.3 | -5.0 |
| Attorney General | 13.5 | 17.2 | 14.5 | 13.5 | -15.7 |
| State | 9.7 | 11.3 | 10.6 | 10.5 | -6.2 |
| Treasury | 47.8 | 52.1 | 48.2 ¹ | 44.4 | -7.5 ² |
| Management & Budget | 58.8 | 144.0 | 83.8 ¹ | 71.9 | -10.9 ² |
| Civil Service | 7.2 | 8.3 | 8.3 | 6.7 | 0.0 |
| Civil Rights | 7.5 | 9.4 | 8.1 | 7.5 | -14.4 |
| Education | 26.5 | 35.7 | 26.3 | 24.2 | -26.3 |
| School Aid | 432.6 | 250.0 | 286.0 | 378.5 | +14.4 |
| Community Colleges | 130.5 | 174.7 | 137.0 | 134.4 | -21.6 |
| State Colleges & Universities | 608.1 | 913.5 | 808.0 | 768.3 | -11.5 |
| Public Health | 88.1 | 115.1 | 98.0 | 90.4 | -14.8 |
| Mental Health | 514.9 | 583.8 | 534.0 | 528.6 | -8.5 |
| Social Services | 1,751.6 | 1,744.8 | 1,772.0 | 1,720.6 | +1.6 |
| Corrections | 215.8 | 251.9 | 230.1 | 222.6 | -8.6 |
| State Police | 121.1 | 154.0 | 127.0 | 113.5 | -17.5 |
| Military Affairs | 6.2 | 7.8 | 6.9 | 6.2 | -11.5 |
| Natural Resources | 49.5 | 53.4 | 48.0 | 47.2 | -10.1 |
| Agriculture | 15.1 | 20.3 | 18.2 | 17.3 | -10.3 |
| Labor | 38.9 | 55.8 | 51.5 | 49.3 | -7.7 |
| Licensing & Regulation | 12.6 | 17.3 | 14.8 | 12.6 | -14.4 |
| Commerce | 71.0 | 69.5 | 71.3 | 70.4 | +2.6 |
| Transportation | --- | 31.7 | 25.0 | 28.1 | -21.1 |
| Debt Service | 147.5 | 109.1 | 117.5 | 133.3 | +7.7 |
| Capital Outlay | 63.0 ³ | 38.8 | 25.0 | 36.0 | -35.6 |
| Data Processing | 34.5 ³ | N.A. ³ | N.A. ³ | 34.1 | -- |
| Total | \$4,545.3 | \$4,983.6 | \$4,676.2 | \$4,678.4 | -5.9% |

¹In January 1982 the governor proposed deferring \$50 million in aid to cities until fiscal 1983. As these funds were not deferred, their reinstatement was eliminated in the revised executive recommendation.

²Adjusted to eliminate \$50 million from original recommendation.

³Included as a line item in departmental budgets.