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## The 1983-84 General Fund Budget

The fiscal year 1983-84 state budget enacted by the Michigan legislature sets general fund-general purpose (GF-GP) spending at 10.5% above the 1982-83 expenditure level of \$4,806 million. At \$5,310 million the approved budget is virtually unchanged from the governor's \$5,347 million budget request.

The 1984 budget is based on the assumption that the economic recovery now under way will continue throughout the 1984 fiscal year. Despite the automatic income tax rate reduction from 6.35% to 6.10% on January 1, 1984, the budget anticipates that total general fund revenues will increase to \$5,354 million from \$4,695 million in fiscal 1983. This would provide a fiscal year 1984 budget surplus of approximately \$43.5 million (1% of GF-GP revenues). Although well below the 2%-3% surplus most state governments consider to be financially prudent, this 1% surplus would be Michigan's first since 1979.

The approved budget is essentially a continuation of the 1983 budget and provides for no major new state programs and for no significant programmatic increases. Temporary funding provisions, such as the special summer jobs program for youths and restoration of \$80 million of deferred funds to institutions of higher education, were eliminated from the budget base for 1984. In recognition of the 1983 budget cuts imposed upon school districts, community colleges, and state colleges and universities, the 1984 budget provides partial restoration of the eliminated funds and stipulates that this additional aid be paid during the first nine months of the state fiscal year. In this way, most of the affected institutions would receive a larger share of state funds during their current fiscal year.

The only areas in which the approved budget materially differed from the governor's proposal were social services and education. Governor Blanchard proposed a 5% grant increase for both AFDC and general assistance recipients; anticipated cost to the state was \$43 million. Fearing that their constituents would view the recent income tax increase as a subsidy to the indigent, the House of Representatives voted to dedicate an equivalent amount for heating assistance. The Senate proposed instead that the funds be reserved for job training and employment programs for welfare recipients. The compromise agreement approved by the legislature reserves \$42.6 million for use in energy and job training, contingent upon creation and implementation of a suitable program. Expenditure of this \$42.6 million would all but eliminate the projected budget surplus.

Several other changes were made in the approval process. The 1984 budget passed by the legislature eliminated Medicaid funding of abortions except to save the life of the mother. The AFDC average monthly caseload projection was reduced to 244,000 from 247,000 and the \$21.450 million from reduced payouts was set aside in a contingency fund for use only if actual caseloads exceed budgeted levels. The authorized appropriations also increased grants to state colleges and universities by \$2.745 million and reduced financial aid grants, for a net increase in higher education funding of only \$92,000 over the governor's recommendation.

Detail on the 1983 general fund budget, the governor's 1984 budget request and the approved 1984 general fund budget is provided in the table on the following page.

## **PUBLIC SECTOR CONSULTANTS, inc.**

Budget Summary, Fiscal Years 1983 and 1984

Department or Program	1983 Budget	1984 Executive Recommendation	1984 Appropriation	Increase/(Decrease) Over 1983
Social Services	\$1,874,239,700	\$2,114,275,792	\$2,071,506,301 <sup>a</sup>	\$197,266,601
Mental Health	521,974,300	596,316,895	596,317,000	74,342,700
Public Health	87,974,700	100,199,600	100,214,600	12,239,900
Corrections	225,899,200	261,049,800	260,975,600	35,076,400
Education	24,728,624	26,415,700	26,603,000	1,874,376
School Aid	357,362,000	502,345,000	503,627,000	146,265,000
Community Colleges	135,000,000	144,708,800	144,708,800	9,708,800
Higher Education	780,497,239 <sup>b</sup>	761,074,400	761,166,400	(19,330,839) <sup>b</sup>
Public School Em- ployees Retirement	-0-	-0-	1,500,000	1,500,000
Executive Office	2,601,357	2,831,045	2,922,700	321,343
Legislature	51,539,900	55,310,200	54,039,800	2,499,900
Library of Michigan	15,041,600	16,447,600	17,761,000	2,719,400
Judiciary	56,998,900	64,009,300	64,895,100	7,896,200
Attorney General	14,067,600	16,137,300	16,162,300	2,094,700
State	8,170,400	9,455,600	9,529,400	1,359,000
Management & Budget	106,792,636 <sup>c</sup>	86,554,500	87,154,100	(19,638,536) <sup>c</sup>
Treasury	47,762,900	52,453,700	52,553,700	4,790,800
Civil Service	6,528,400	8,504,300	8,504,300	1,975,900
Civil Rights	7,821,800	8,651,723	8,496,300	674,500
Commerce	49,331,800	65,110,800	64,576,500	15,244,700
Labor	56,724,300	55,023,000	56,034,200	(690,100)
Licensing & Regu- lation	12,994,700	13,213,700	13,258,500	263,800
State Police	120,352,400	128,460,200	128,782,900	8,430,500
Military Affairs	8,891,100	9,355,672	9,897,200	1,006,100
Agriculture	17,752,100	19,582,300	19,957,300	2,205,200
Natural Resources	42,823,500	51,312,100	52,045,300	9,221,800
Transportation	9,200,000	9,200,000	9,200,000	-0-
Capital Outlay	50,425,000	50,679,000	50,679,000	254,000
Debt Service	112,472,000	118,369,800	117,482,800	5,010,800
TOTAL GF-GP	\$4,805,968,156	\$5,347,047,827	\$5,310,551,101 <sup>d</sup>	\$504,582,945

<sup>a</sup>Excludes \$42.6 million reserved for funding of an energy and job training program to be administered by the Department of Social Services if authorizing legislation is enacted.

<sup>b</sup>Includes \$80 million restoration of funds withheld during the 1982 state fiscal year. If this amount is excluded from the base, the 1984 budget provides a \$60,669,161 increase over 1983.

<sup>c</sup>Includes funding for the 1983 summer jobs program for youths. If this amount is excluded from the base, the 1984 budget provides an \$8,361,464 increase over 1983.

<sup>d</sup>Inclusion of the \$42,594,900 reserved for an energy and job training program would increase 1984 general fund appropriations to \$5,353,146,001.

## FAS Comment

We agree that the economy will continue to improve over the next 18 months. Despite the lower state income tax rate, sustained improvement in employment levels will increase wage and salary income and contribute to growth in state income, sales, and user tax receipts. The approved budget is appropriate for the level of general fund revenue that can be reasonably expected in 1984.

Fiscal year 1984 marks the state's first postrecession experience with the Budget Stabilization Fund (BSF) since its creation in 1977. If the year-to-year increase in deflated state personal income net of transfer payments exceeds 2%, state law mandates a transfer from the General Fund to the Budget Stabilization Fund, thereby reducing the amount of revenue available for expenditure on state programs. Depending on the timing and strength of a recovery, this requirement could potentially frustrate attempts to restore program funding to prerecession levels. The higher level of economic activity in the current fiscal year reduces the chances that the BSF contribution requirement will be triggered in 1984, thereby allowing the state greater financial flexibility than it would have otherwise.

Michigan's debt and cash flow positions have improved greatly this year and should continue to improve in 1984. Despite this improvement, the state will still lack sufficient funds in 1984 to restore Medicaid and income tax refund accounting to an accrual from a cash flow basis. This will require at least one more year of an improved economy and conscientious fiscal discipline. Full fiscal health will continue to elude Michigan until this restoration is accomplished.

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