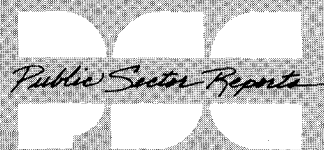


July 28, 1987



PUBLIC POLICY ADVISOR

FY 1987-88 STATE APPROPRIATIONS

Summary

Prior to the summer recess, the legislature adopted all FY 1987-88 appropriations bills except for the Department of Corrections budget. Before the governor's vetoes and partial reductions announced on July 22, the total FY 1987-88 general fund-general purpose (GF-GP) budget (assuming the governor's recommendation for Corrections is adopted) was \$6,585.5 million, a 3.3 percent increase over the FY 1986-87 total appropriation. The adopted budget before vetoes was \$128.6 million higher than recommended by the governor, who proposed only a 1.2 percent increase in GF-GP spending.

The governor acknowledged the serious fiscal problems facing the state and took the first steps to balance the FY 1987-88 budget by announcing the following actions on July 22:

- Vetoes and partial reductions totaling \$132.1 from FY 1987-88 appropriations
- Vetoes and partial reductions totaling \$27.8 million from FY 1986-87 supplemental appropriations
- Proposed departmental reductions of \$45 million in FY 1987-88
- Delay of the proposed income tax rollback until October 1, 1987

The vetoes and partial reductions reduce the FY 1987-88 GF-GP budget to \$6,453.9 million, a 1.6 percent increase over FY 1986-87. The vetoes of \$27.8 million in FY 1986-87 supplemental appropriations and the nine-month delay in the income tax rollback will turn a projected \$50 million deficit into a \$75 million surplus for FY 1986-87.

The vetoes announced by Governor Blanchard are the largest in memory. The major items are

- Community colleges--lump-sum maintenance, \$3.7 million;
- Colleges and universities--lump-sum maintenance, \$20.1 million;
- Commerce--resource recovery, \$4 million;
- Management and Budget--revenue sharing, \$10.8 million (this does not affect GF-GP spending but will increase GF-GP revenue);
- Social Services--Medicaid, \$7.4 million; and
- School Aid, \$20 million. The governor vetoed most categoricals and asked the legislature to restore all but \$20 million.

Following are some highlights of key budget appropriations.

Higher Education

Before the governor's reductions, the FY 1987-88 budget included an increase over last year of \$71.6 million, or 6.9 percent, for state colleges and universities. After the governor's partial reduction in financial aid, the state college and university appropriation is 6.7 percent more than in FY 1986-87, compared to the governor's recommended increase of 5.4 percent. Vetoes in the Capital Outlay budget also affect colleges and universities, which lose \$20.1 million in lump-sum maintenance funds. This loss will have to be made up out of operating funds.

The governor's proposed budget would have allocated \$15 million to state colleges and universities to develop and fund a formula based on a comparison of Michigan institutions with their peers across the country. The legislature did not adopt the funding plan. The adopted budget allocates \$5 million to colleges and universities that had enrollment increases between fall 1984 and fall 1986. Each institution also will receive more operating funds than recommended by the governor.

The community college appropriations bill was not directly affected by the July 22 vetoes, but community colleges also lost lump-sum maintenance funding in capital outlay vetoes. This \$3.7 million will have to be made up out of operating funds. Aside from the capital outlay loss, community colleges will receive an increase of 6.1 percent over last year, \$2 million more than recommended by the governor. The community college budget allocates \$500,000 more than recommended to the Job Training and Retraining Investment Fund and set the minimum grant level for this fund at \$60,000, rather than at \$50,000 as proposed by the governor.

School Aid

The FY 1987-88 appropriation of \$610 million for K-12 school aid before vetoes was 5.8 percent above the FY 1986-87 level and \$32.6 million more than proposed by the governor. The governor's vetoes are expected to result in a loss of \$20 million in categorical grants. After these reductions, the school aid appropriation is only 2.3 percent higher than in FY 1986-87 and \$12.6 million more than recommended by the governor. The FY 1987-88 general school aid formula provides \$350 per pupil plus \$75.10 for each levied operating mill. This is slightly higher than the governor's recommendation of \$345 per pupil plus \$75.10 per mill. The budget also allocates \$10 million to preschool programs for the educationally disadvantaged. Much of the increase over the governor's recommendation is needed to make up¹ for lower-than-expected school aid revenue from sales taxes and the lottery.

¹The restricted revenue estimate was reduced by \$75 million, but this was partially offset by a \$48 million reduction in the contribution to school employees pension funds due to revaluation.

Social Services

Before the governor's vetoes and partial reductions, the FY 1987-88 Department of Social Services budget was \$19 million, or 1.0 percent, above the current year. The governor recommended an increase of only \$2.3 million, based on projected decreases in welfare caseloads. After vetoes and partial reductions totaling \$22.6 million and a \$2.8 million reduction in the FY 1986-87 supplemental, the appropriation is .03 percent less than in FY 1986-87. The budget still includes Aid to Families with Dependent Children and General Assistance increases of \$4 per recipient per month (also included in the governor's proposed budget), but the governor's reductions eliminated approximately one-third of the 3 percent increase in rates of payment to medical service providers passed by the legislature.

Health

The departments of Mental Health and Public Health will both receive above-average increases in FY 1987-88.

Before vetoes, the Mental Health appropriation was \$57.2 million higher than in FY 1986-87 and \$9.8 million higher than the governor's recommendation. The adopted budget allocated \$12.3 million more than the governor recommended for community mental health programs and special projects and less money for many of Michigan's mental health facilities. After vetoes and partial reductions, the mental health appropriation is only \$50 million higher than in FY 1986-87 and \$2.9 million higher than the governor's recommendation.

Before vetoes, the public health appropriation was \$10 million higher than in the current fiscal year and \$1.6 million higher than the governor's recommendation. The governor's recommended budget and the adopted bill both add more than \$10 million to combat the state's high rate of infant mortality. Vetoes reduced the Department of Public Health FY 1986-87 supplemental and FY 1987-88 appropriation only slightly.

Other

The FY 1987-88 budget includes an increase in revenue sharing payments to local governments of \$72.7 million, \$5 million more than proposed by the governor. The Michigan equity program grant was reduced from \$43.8 million in FY 1986-87 to \$40.8 million in FY 1987-88. The enrolled budget included pay raises for department directors and other staff; the governor reduced these by one-third.

Comment

The FY 1987-88 budget adopted by the legislature is seriously out of balance. Before the governor's July 22 actions, the Senate Fiscal Agency was projecting a \$95 million deficit, but we believe that the budget would have been in deficit by \$400-450 million. If the University of Michigan June economic and revenue forecast is accurate, the budget shortfall could have approached \$600 million. The governor's vetoes and partial reductions of \$132.1 million for FY 1987-88 and the delay of the income tax rollback represent a first step toward correcting this imbalance, but there could still be a shortfall of \$250-350 million.

Aside from the vetoes and the delay in the rollback in the personal income tax rate proposed by the governor, a portion of this projected shortfall could be covered by fiscal adjustments such as revaluation of the school and state employees pension funds. (This adjustment is being used to offset \$95 million of the projected deficit for FY 1986-87.) Withdrawals from the Budget Stabilization Fund (BSF) are also possible. Current economic projections by the University of Michigan indicate that real Michigan personal income less transfer payments will increase about 0.6 percent in 1987 and decline 3.5 percent in 1988, allowing no BSF transfers to the general fund in FY 1987-88 and about \$230 million in FY 1988-89. The legislature could still transfer money from the BSF to the general fund in FY 1987-88 by changing the law or by making an emergency appropriation by a two-thirds vote of both houses. Even with the governor's recent budget reduction actions and some other fiscal adjustments, there is a strong likelihood that executive order budget cuts of as much as \$200 million will be required. The governor has already announced he will direct department heads to reduce spending voluntarily by \$45 million next year.

By refusing to face reality during the budget process, the legislature and the governor have simply delayed the inevitable hard decisions necessary to meet the constitution's requirement for a balanced budget. Without a carryover surplus of \$153 million, several one-time fiscal adjustments, and the governor's July 22 actions, FY 1986-87 GF-GP expenditures would have exceeded available revenues by about \$350 million. While these budget-balancing actions are legitimate, they reflect the type of response that created serious financial problems during the Milliken administration. The legislature and the governor must face budget problems by cutting expenditures or raising taxes. Taking the easy way out often leads one into a fiscal maze from which there is no easy exit.

A detailed analysis of the FY 1987-88 state budget will be issued in September.

